Globalization and the State in Central and Eastern Europe

The politics of foreign direct investment

Jan Drahokoupil

BASEES/Routledge Series on Russian and East European Studies

Globalization and the State in Central and Eastern Europe

This book examines the transformation of the state in Central and Eastern Europe since the end of communism and adoption of market-oriented reform in the early 1990s, exploring the impact of globalization and economic liberalization on the region's states, societies and political economy. It compares the different policies and national strategies adopted by key Central and Eastern European states, including the Czech Republic, Poland, Hungary and Slovakia, showing how initial internally oriented strategies of market reform, privileging domestic sources of investment, had by the late 1990s given way to externally oriented strategies emphasizing the promotion of competitiveness by attracting foreign investment. It explores the reasons behind this convergence, considering the influence of internal and external forces, and the roles of interests, institutions and ideas. It argues that internationalization of the state is forged in the processes through which domestic groups linked to transnational capital attain domestic influence necessary to shape state policy and strategy. These groups – the comprador service sector in particular – constitute and organize political, social and institutional support of the competition state in the region. Overall, this book provides a detailed account not only of the political economy of post-communist transformation in Central and Eastern Europe, but of the processes by which states adapt to the forces of globalization.

Jan Drahokoupil is a research fellow at the Max Planck Institute for the Study of Societies in Cologne. He obtained a Ph.D. at the Central European University in Budapest. His recent publications include *Contradictions and Limits of Neoliberal European Governance: From Lisbon to Lisbon* (co-edited with Bastiaan van Apeldoorn and Laura Horn).

‘This book develops a very coherent and rich analysis of the much-discussed process of transition from state socialism to market economies in Central and Eastern Europe. The author more than meets the challenge of finding something new to say about this topic, developing a novel approach based on a sophisticated account of structure, agency, and discourse; providing a new periodization of the steps in the transition in different societies; showing the interaction of economic and political forces in changing institutional and conjunctural contexts; identifying the key actors and forces that shape the transition and their crucial mediating role between foreign capital and states and domestic economic and political interests; and providing some insightful comments on varieties of transition. I recommend this book most warmly.’

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‘The real innovation of Drahokoupil’s approach lies in going beyond the opposition of national versus transnational explanations. His focus on the comprador sector as the site linking the two perspectives is very effective and helps to set an agenda for future studies, including on other world regions.’

Don Kalb, *Professor, Central European University, Budapest & Utrecht University*

‘Drahokoupil’s book constitutes an advance in the understanding of the internationalization of states, societies and political economies. The book is well written and it provides provocative ideas on the forces of convergence in the international political economy and on the evolution of the competition state based on the insightful analysis of the Central and Eastern European countries.’

László Bruszt, *Professor, European University Institute, Florence*

‘Students of Eastern Europe’s transformation and transnational integration will read this book with great interest. The book offers rich empirical data and a convincing and sophisticated argument on how the interaction among state reformers, domestic interest groups and transnational corporations shaped the emergence of the region’s new transnational capitalism.’

Béla Greskovits, *Professor, Central European University, Budapest*

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For Alice

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Abbreviations

AFI	Association of Foreign Investors (Czech Republic)
Amcham	American Chamber of Commerce
CAP	Common Agricultural Policy (European Union)
CC	Constitutional Court (used in reference to the Constitutional Court of the Czech Republic)
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CICR	Confederation of Industry (Svaz průmyslu a dopravy ČR, Czech Republic)
Comecon	Council for Mutual Economic Assistance (also known as CMEA/CAME)
ČSOB	Československá obchodní banka (Czechoslovak Commercial Bank)
CSS	Comprador service sector
ČSSD	Česká strana sociálně demokratická (Czech Social Democratic Party)
CZK	Czech currency, koruna
EBRD	European Bank for Reconstruction and Development
EIA	Environmental impact assessment
ELS	Ekologický právní servis (Environmental Law Service)
ERT	European Roundtable of Industrialists
EU	European Union
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service (Washington, DC)
Fidesz	Young Democrats (Hungary)
FNM	Fund for National Property (Fond národního majetku, Czechoslovakia)
GDP	Gross domestic product
GM	General Motors
HEBC	Hungarian European Business Council
HZDS	Hnutie za Demokratické Slovensko (Movement for a Democratic Slovakia)
IFTZs	Industrial free trade zones
IMF	International Monetary Fund

IPB	Investiční a Poštovní Banka (Czech Republic)
IPE	International political economy
ITDH	Hungarian Investment and Trade Development Agency (Magyar Befektetési és Kereskedelemfejlesztési)
JVA	Joint Venture Association (Hungary)
KWNS	Klausian welfare national state
ČMKOS	Českomoravská konfederace odborových svazů (Czech-Moravian Confederation of Trade Unions
MGYOSZ	National Alliance of Employers and Industrialists (Hungary)
MOL	Magyar Olaj- és Gázipari Részvénytársaság (Hungarian Oil and Gas Company)
NATO	North Atlantic Treaty Organization
NGOs	Non-governmental organizations
ODS	Občansko demokratická strana (Civic Democratic Party, Czech Republic)
OECD	Organisation for Economic Co-operation and Development
PAIiIZ	Polska Agencja Informacji i Inwestycji Zagranicznych (Polish Information and Foreign Investment Agency)
PHARE	Poland and Hungary: Assistance for Restructuring their Economies (programme of the EU)
PM	Prime Minister
PPP	Public–private partnership
PR	Public relations
PWPR	Porterian workfare postnational regime
R&D	Research and development
SAO	Nejvyšší kontrolní úřad (Supreme Audit Office, Czech Republic)
SARIO	Slovenská agentúra pre rozvoj investícií a obchodu (Slovak Investment and Trade Development Agency)
SMEs	Small and medium enterprises
SNAZIR	Slovenská národná agentúra pre zahraničné investície a rozvoj (Slovak National Agency for Foreign Investment and Development)
TNCs	Transnational corporations
TPCA	Toyota Peugeot Citroën Automobile Czech
UCFIP	Ukrainian Centre for Foreign Investment Promotion
UNCTAD	United Nations Conference on Trade and Development
US	United States
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
V4	Visegrád Four
VAT	Value-added tax
VSŽ	Východoslovenské Železiarne (Eastern Slovakia Steelworks)
WB	World Bank

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Jan Drahokoupil
Cologne, 27 December, 2007

Introduction

Central and Eastern Europe (CEE) in the early 2000s looked very much as many had expected it to in the early 1990s. After the collapse of the Eastern Bloc, a lot of emphasis was put on the crucial role of foreign investors in the transition. Little of that had materialized, but around 2000 the dreams started to come true. Foreign-led economies crystallized in the region, with foreign control of leading export industries and most of the public utilities, and unprecedented levels of foreign dominance in the banking sector. Now the states have converged towards distinctive models of the competition state. The dominant state strategies aim to promote competitiveness by attracting foreign direct investment. The states are thus increasingly internationalized, forging economic globalization by facilitating capital accumulation for transnational investors. So why did the state strategies converge towards the competition state only around 2000? What does this tell us about the processes in which the states adapt to the environment of economic globalization, on the one hand, and help to reproduce it, on the other? What are the political and social preconditions for the rise of the competition state and what are its implications?

This book makes three claims that explain the lag in the convergence to the externally oriented strategy. First, the internally oriented strategies were exhausted by the end of the nineties. Second, it took some time before the foreign investors became really active in the region. Both of these developments could have been predicted as they were determined by the structural setting of 'transition', both internal and external. The third could not. The processes of state internationalization could work only when both the structural opportunities and political possibilities of the moment allowed domestic groups linked to transnational capital to come to the fore and translate the structural power of transnational capital into tactical forms of power within national social formations. Using a case-guided comparison of the Visegrád Four (V4) countries, [1] with a driving analytical focus on the Czech Republic, I investigate the politics of the internationalization of the states, societies, and political economies in the region and identify the carriers and mechanisms for internationalization. I analyse and explain recent transformations of the state and politics in CEE, as shaped by the environment of globalization.

In 1989, there were good reasons to expect the states in the region to focus on creating foreign-investment-friendly, competitive environments and to accommodate the preferences of foreign investors. In the mid-1980s, the international financial institutions, most notably the World Bank, had embarked on the mission of promoting economic governance that reflected the dominant neoliberal economic ideas and economic interests of the US (Babb, 2007). With the fall of the Soviet Bloc, Eastern Europe and Russia have become primary objects of their efforts. What is more, the early nineties was a period of globalist hype. Authors like Ohmae (1990), O'Brien (1992), and Reich (1991), proclaiming the 'end of geography' and the rise of 'the borderless world', were popular in airport-lounge bookshops. Their bold claims were not entirely without foundation. The late eighties saw an unprecedented surge of foreign direct investment (FDI). Between 1986 and 1990, the stock of outward FDI grew at an annual rate of 19.8 per cent (UNCTAD, 1995). Transnational corporations have become the central organizers of production on the world scale (UNCTAD, 1993). Strange (1989) and Cerny (1990) brought the ideas popular among business schools, government offices, and think-tanks since the 1980s right into the social scientific mainstream. Accordingly, the state policies, if successful, had to adapt to the new environment and comply with the imperative of promoting international competitiveness.[2]

In this context, FDI and its promotion were expected to play a major role in CEE among politicians, policy-makers, and academics. While some feared FDI would buy out the commanding heights of respective economies, destroy the viable economic structures in the East, and thus effectively preclude domestic strategies of development, the global policy mainstream considered FDI as a developmental panacea for the region. According to many, the task was to create an open and investment-friendly economy in order to allow the flows of global capitalism to modernize the economic structures (e.g., Lloyd, 1994). As the US Ambassador Donald Blinken put it at the Collegium Budapest in 1995, private foreign investment was 'a new Marshall Plan to help Central and Eastern Europe'.[3] These ideas were prominent among policy advisers who flooded the region, some of them with the explicit mission to promote FDI in transition strategies.

However, contrary to expectations, the amount of FDI actually attracted by CEE in the early nineties was very small (Pavlínek, 2004a). The V4 states did attract some foreign investment into industries such as machine building, cars, and electronics (Sadler and Swain, 1994). Nevertheless, with the exception of Hungary and isolated, though important, cases such as the acquisition of Škoda by Volkswagen in the Czech Republic and Fiat's investment in Poland, the FDI inflow into CEE was too small to speed up or deepen industrial restructuring (Pavlínek, 1998; Domański, 2003) or to have a significant impact on the social structures and politics in the region. In Slovakia in the mid-1990s, foreign direct investment was de facto absent (Smith, 1998, p. 234). What is more, in stark contrast to the globalist spirit of the time, most states in CEE pursued distinct national, inward-oriented strategies. Often explicitly avoiding FDI, CEE states aimed at producing national capitalism and national capitalists. Hungary was the only exception in this respect. It pursued externally oriented, FDI-reliant strategies from the early nineties onward. Nevertheless, even in Hungary there were attempts to stimulate domestic accumulation of capital and create a domestic ownership class. Why then did the states in CEE nevertheless converge to the externally oriented strategy in the late nineties?

I argue that the belief in the importance of the international political-economic environment for transition strategies, which led initially to false predictions about the prominence of FDI in the post-communist transition, was ultimately not mistaken. The international environment in which transition and post-transition policy-making took place had indeed a crucial role in explaining final outcomes. But there is a missing link. The pressures of the transnational environment had first to be translated, embodied, and expressed by domestic carriers of transnationalization. I claim that domestic politics plays a crucial role in the process of states adapting to economic globalization. Domestic politics, however, cannot be understood as completely internally determined. It must be treated as an instantiation of locally materializing transnational processes. This materialization, however, can be neither reduced to an external determination providing just limits and opportunities, nor to the external determination itself.

Transnationally constituted domestic politics explains both the initial inward-oriented outcomes and later shifts towards the competition state. I demonstrate that the emergence of externally oriented competition states has been conditioned upon the unfolding hegemonic role of what I call the *comprador service sector* in domestic politics. Political position and agency of this sector, however, do not explain the policy as such. They work as a linking factor that influences when, in which way, and in what form such a shift towards the competition state takes place. International political economic environment and the neoliberal transition strategies created a field of force that allowed this sector to come to the fore as its interests became increasingly 'universal'. The comprador service sector helped to translate the structural power of transnational capital into tactical forms of power that enabled agential power to work in sync with the interests of the multinationals.[4] Thus, in order to understand the transformation of state strategies, this analysis identifies social, political, and institutional support of the externally oriented strategies in the V4 and beyond.

While state strategies in CEE converged towards the competition state, there is a variation in the actual outcomes. At the general level, there was a convergence in the underlying logic of state intervention towards the competition state in CEE. State economic and social policies became subordinated to national competitiveness within the global economic space in order to generate growth and raise living standards. The specific solutions to this aim differ. It is possible to identify three types of competition states aiming to attract investors in order to upgrade national industrial bases in the V4, Slovenia, and the Baltic States, respectively. At the level of the individual states, and even regions, these strategies vary further. Moreover, since the actual policies and their general strategy are not designed and implemented into a coherent policy package by a purposeful subject ('the state'), but rather produced in the interaction of multiple actors with different aims – which is further mediated by institutional constraints and legacies – the extent to which the competitiveness agenda is hegemonic throughout the state varies. Finally, the processes in which the states reoriented their policies and apparatuses followed different paths, having different institutional set-ups as a consequence.

In particular, the Czech Republic and Slovakia introduced internally oriented strategies hostile to FDI in the early nineties. After the period of national regimes, these countries took a very abrupt u-turn in their approach to FDI and put the aim of investment attraction on the top of their agendas. Poland, in contrast, took a much more gradual path. The internally oriented project was dominant in Poland throughout the nineties. After, 2000, the hegemony of the externally oriented project there was more uneven and less solid than elsewhere. Finally, Hungary embarked on the externally oriented path in the early nineties and it has been dominant there, though far from unchallenged, ever since. In what follows, I explain both the differences in the actual outcomes and the variation in the form of transformation.

The convergence/divergence and the external/internal dilemmas

The problem of convergence towards the competition state in CEE is central to contemporary international political economy and to comparative (East) European politics. As far as the former is concerned, this book contributes to our understanding of the processes in which the states adapt to the environment of contemporary capitalism. In particular, it provides a political understanding of forces of convergence and mechanisms for internationalization in the international political economy. Thus, it follows Hay's call to repoliticize major understandings of the contemporary character of the state, which provide essentially functionalist accounts of (multiple) convergence (Hay, 2004b).

This book tackles previously unaddressed issues in the politics and political economy of Central and Eastern Europe. First, it characterizes the recent evolution of state strategies in the region. The shift towards the competition state constitutes a part of what many call 'second-generation reforms' (O'Dwyer and Kovalčík, 2007). It contributes to our understanding of the implications of these reforms for the transformation of the state. Second, it provides explanations of recent developments in the institutional and political underpinnings of state strategies pursued in the region. There is a need for such an analysis, as many accounts of the second-generation reforms take their major aspect – concern with competitiveness – for granted and/or frame their understanding in a teleological fashion, perceiving this as an eventual materialization of actual transition goals. This account provides a comparative as well as multi-scalar analysis that takes into account the relational constitution of regional and national politics within a wider international field and through various historical trajectories.

Existing scholarship offers a number of insights to help understand the question of convergence in the V4. Two debates are particularly relevant here. They concern the relative importance of various mechanisms of convergence and divergence, respectively. First, there is a debate on the adaptation of state strategies to the globalization process. On the one hand, one group of scholars emphasizes homogenizing pressures and the convergence of state strategies and institutions

(Strange, 1996; Cerny, 1997; Jessop, 2002; van Apeldoorn, 2002). On the other hand, there is an immense body of literature that puts emphasis on divergence of outcomes in adapting to manifold and uneven globalization processes (Hall and Soskice, 2001; Weiss, 2003b; Hay, 2004a). Second, a similar division is present among scholars studying the transformations in CEE. The 'transitology' literature that dominated the academic mainstream in the aftermath of 1989 has attributed analytic primacy to path dependency and internal determination of post-communist transformation (Stark and Bruszt, 1998; Dobry, 2000; see Bohle, 2000). By implication, this argument leads us to expect divergence of state transformation. This literature has been later criticized by neo-Gramscian scholars who emphasize the centrality of the global context of transition and underscore the external determination of transition (Bohle, 2002; Holman, 1998, 2004b; Shields, 2003, 2004a; van der Pijl, 2001).

It may seem that the divergence approaches are appropriate for explaining divergence of the early nineties, while the late nineties provides support for the convergence approaches. This would, however, lead us into a trap of circular explanation in which divergence is explained by divergence and vice versa. Even if this were true, we need to identify what explains the shift from one explanation to another. Alternatively, it can be argued that both perspectives offer a plausible explanation for the puzzle of the lack of interest in FDI in the context of the hyper-globalist wave of the early nineties and later regulatory convergence. On the one hand, investigating the external context and determination, it may be concluded that the globalist hype did not reflect real pressures and determinations. Thus, transition strategies corresponded to what the 'international community' was interested in and was capable of achieving, and what the structure of the international political-economy environment allowed for. The macroeconomic transition policies of the early nineties embraced the developmental panacea of the Washington Consensus (liberalization, stabilization, and deregulation). As far as the approach to FDI was concerned, in the context of the economic downturn of the early nineties, international investors were not that interested in investing in the region, or preferred low-involvement strategies. In the case of Hungary, with substantial FDI penetration and external dependence through debt to private lenders, the investors and international organizations did exert pressure, and Hungary indeed followed the externally oriented path. The situation changed in the late nineties when the international investors became increasingly interested in high-commitment engagement in the region. At the same time, the CEE states were exposed to hard policy constraints in the process of EU enlargement. Thus, FDI-friendly policies could have been easily transferred into the region. However, the internal strategies did not simply reflect external constraints. The case of industrial restructuring in the Czech Republic demonstrates this particularly well: Czech strategy cannot be attributed to a lack of interest on the part of foreign investors. The latter were interested in taking over most of the commanding heights of the national economy. Surprisingly, however, Czechs turned down most of these would-be strategic investors. On the other hand, from the perspective prioritizing internal factors, the national pathways of the early nineties convincingly show that the local preconditions for implementing the externally oriented strategies were not met. The shift in the late nineties then can be interpreted as a process of learning and adjustment in which the national decision-makers decided to implement what they found to be appropriate policies. Such an account, however, would not take for granted the external imperatives making some policies 'appropriate' and fails to understand how they are produced. What is more, it would disguise the political process of learning and its transnational constitution.

Analytic strategy

A relational understanding of *transnationally constituted domestic politics* makes it possible to integrate various mechanisms of convergence and divergence, including the 'external' and 'internal' determinations, into my explanation of the process of convergence of state strategies. This notion also opens the way for introducing a necessary linking variable: the gradual emergence of a hegemonic comprador service sector. This helps to resolve the illusory shift from one theoretical framework to another. Thus, while fully acknowledging local constraints and agency, my argument confirms the importance of the transnational environment. However, neither the 'external' or 'internal' approach alone nor their additive combination provides a satisfactory understanding of the process in which state strategies adapt to the environment in general, and of the moment of convergence in the V4 in particular. Local outcomes are determined neither externally nor internally. They are produced transnationally within domestic politics. Internationalization of the state is not just externally imposed; it is also produced in local politics by local social forces with locally specific political and institutional constraints. These forces, however, are constituted, and constitute themselves, transnationally in their deepening linkages with transnational forces of increasing importance. In order to understand the transnational production of local outcomes, we need a relational understanding of the economic policy-making process as a part of the reproduction, reconstitution, and transformation of hegemony on the regional, national, and global scales.

Theoretically, my approach draws on the strategic-relational approach to state theory and neo-Gramscian international political economy; at the same time, it borrows heavily from insights generated by new institutionalism, most notably by its historical and rational choice streams. Ontologically, the critical realist position I subscribe to allows integrating these perspectives without falling into the traps of eclecticism (Sayer, 2000). Accordingly, state strategies are produced by social forces within the state in the context of a social struggle for and within hegemony. Relations of production, institutions, and ideas have major roles in constituting social forces and in mediating their relative power and ability to influence state strategies. This analysis thus starts from mapping the terrain of political struggle by focusing on the shapes of political economies in the region, including the form of their integration into the international political economy, examining major institutional forms, most notably state forms and broader structures of representation, and identifying dominant ideational structures. These structural features produce a field of force exerting pressures and setting limits on what is achievable. In the other words, they constitute a (strategically selective) environment that provides advantages to some strategies over others. Yet, the actual outcomes – state strategies in our case – are produced by strategic actors in social struggles. Only in the transnationally constituted domestic politics are some structural opportunities enacted – or some social mechanisms activated – while other are suppressed or muted. Thus, in order to understand the transformation of state strategies in CEE, this analysis investigates major actors and political struggles in which their strategies took shape and were translated into actual outcomes.

Methodologically, I employ a multi-scalar, case-guided and incorporated comparison (see McMichael, 1990). I start with an in-depth analysis of the Czech case, which is then related to, and compared with, other cases. While focusing primarily on the V4 region, I also introduce Slovenia into this comparison. Its role is to demonstrate the non-inevitability of some of the outcomes in the V4. However, the purpose is not to generalize my findings to the Slovenian case.

There are a number of reasons why I put the Czech case in the centre of my analytic strategy. First, the Czech Republic started the race for greenfield investors among the V4 in the late nineties. Its 1998 rolling out of the most generous investment scheme yet seen among transition countries was followed by the introduction of similar investment schemes in Slovakia and Poland, and reinvention of the investment subsidies in Hungary (Mallya, Kukulka, and Jensen, 2004; UNCTAD, 2002). Second, like Slovakia, the Czech Republic is an extreme case of discontinuity in state strategy. It at once experienced a u-turn in which the dominance of a national, internally oriented strategy was replaced by the hegemony of the externally oriented competition state. The crisis-induced restructuring made the social arrangements most visible (Wolf, 1990). What is more, the internally oriented project became particularly entrenched. In order to forge state internationalization, the domestic forces linked to foreign capital – the comprador service sector – had to become especially active and organized as they faced the hostile environment within the state. The Czech case thus provides an opportunity for exemplifying theory (Eisenhardt, 1989; Yin, 1989). Third, the Czech case provides unique material for investigating the dialectics of 'external' and 'internal' determination. In contrast to Slovakia and Poland, foreign investors showed serious interest in high-commitment involvement in the industrial core of the Czech economy. Yet, most of them were turned down by Czech policy-makers who could have sold the state-controlled enterprises to foreigners (unlike in Poland). In Hungary, where the state also controlled enterprises, the autonomy of reformers was limited by the enormous indebtedness of the country. Finally, the Czech Republic, as a 'least-likely case', is ideal for challenging the hypothesis on the importance of party politics in the shift towards the competition strategy. In the Czech case, the lack of party alteration hindered policy adjustment to past errors and allowed beneficiaries of the status quo, or the 'partial-reform winners' (Hellman, 1998), to seize the state through their links to the ruling party (see Orenstein, 2001). The u-turn in the Czech Republic coincided with the first alteration of the ruling party after the reforms producing the Czech Way had been launched. However, this analysis shows that the policy turn was independent of party alteration. It identifies deeper determinants of policy change, going beyond party politics.

This analytical strategy reaps the comparative advantages of single-case and comparative, small-N approaches in both discovery/theory generalization and theory testing in explaining outcomes. The single-case approach allows not only for theory generalization but for testing theoretical propositions in iterative dialogue with data (Rueschemeyer, 2003). The comparison then makes it possible not only to test the impacts of individual factors/mechanisms and explain differences in outcomes but to discover new causal regularities that were not directly visible in the single-case study (Kalb and Tak, 2005). In other words, the central case, in a dialogue with theoretical frameworks, generates theoretical questions with which the other cases are approached. The comparison then deals with these questions and establishes what is specific and general. This then makes it possible to understand both the central case and the regional experience in a new light. The aim of the comparison is thus to understand, on the one hand, the general mechanisms of convergence and, on the other hand, the specificities of individual countries, and to account for differences between them.

In general, it is problematic to determine boundaries of a case and thus 'the N' (see Ragin and Becker, 1992). The strategy of incorporated comparison rejects the idea of *cases* as a priori units of analysis, be they national states or cases of investment attraction; it views social phenomena as 'differentiated *outcomes* or *moments* of historically integrated processes' (McMichael, 1990, p. 392). While challenging the external/internal distinction theoretically, this study also employs a multi-scalar research strategy that avoids the traps of the formal construction of analytical units, including methodological nationalism. This makes it possible to analyse politics and hegemony as constituting outcomes of processes unfolding on multiple scales, transnationally, cross-nationally, and cross-regionally within the nation states. It helps to understand the ways in which scale is crucial for production of social processes.

The multi-scalar, case-led structured comparison, together with the critical realist standpoint, allows us to bridge the external/internal and convergence/divergence dilemmas by understanding, and being able to analyse, the 'contingent necessity', or 'contingent structuration', of social phenomena. Accordingly, definite outcomes (events) are the product of non-necessary, or contingent, interaction of different causal chains or mechanisms; at the same time, events are necessarily caused by (a combination of) mechanism(s). Neither these mechanisms nor the actual events are unproblematically accessible through empirical observation (Bhaskar, 1986, 1994; Jessop, 1990, pp. 10–13; Steinmetz, 1998; Sayer, 2000). The rise of the competition state, therefore, cannot be analysed purely deductively as a teleology determined by the structural context. Instead, it is produced in a contingent structuration, forging the field of force in which the comprador services sector becomes hegemonic as other structured alternatives are either exhausted or closed. The point is to identify contextualized relational mechanisms explaining the actual outcomes (see Tilly and Goodin, 2006). A particular (contingent) configuration of such mechanisms, both cultural and material, constitutes a field of force that 'exerts pressures and sets limits on the motivations and actions of people' (Kalb, 1997, p. 20). These forces facilitate certain practices and prevent others; they regulate certain social spaces and induce disorder in others. The dialectical premise is that, on the one hand, social agents create these structures and institutions (or fields of forces); on the other hand, such creation takes place within a constraining framework of action constituted by a cumulative structural legacy.

Structure of the argument

Chapter 1 counterposes convergence approaches that emphasize the external determination of state strategies with the internally oriented, divergence accounts. Drawing on the comparative advantages of these insights and learning from their blind spots, I construct a framework to study the evolution of state strategies. I claim that both the 'external' and 'internal' determinations can be brought together by understanding the moment of convergence as the process of the internationalization of the state through transnationally constituted domestic politics. Chapter 2 analyses the transformation of state strategies in the region along with the evolution of the economic structures and dynamics in CEE. It deals with what can be considered as the 'dependent variable' of this study. In particular, it investigates distinct national pathways within the broader neoliberal framework of the early nineties and the convergence towards competition states accompanied by the rise of foreign-led economies in the late nineties. I introduce the argument that the states in the V4 developed what I call the 'Porterian competition state'.

Chapters 3 and 4 identify sources of internally oriented strategies that emerged in the early nineties and analyse the transnational production of neoliberal transition policies, which installed political-economic structures that made the region structurally dependent on foreign investors. Chapter 3 shows that the internally oriented strategy in the Czech Republic, or what was then the Czech part of Czechoslovakia, was a contingent outcome of a domestic struggle between two groups of reformers. The chapters also identify dominant social forces and structures of representations that emerged as a result of the transition strategies. These then shaped the form of transformation towards the competition state. Chapter 4 shows that there was a strong drive to promote domestic accumulation at the expense of foreign investors in all V4 countries, the neoliberal transition framework notwithstanding. It explains why the policy-makers often preferred FDI-incompatible and/or anti-FDI strategies. Nevertheless, both the FDI-reliant strategy in Hungary and the internally oriented outcomes in Poland and Slovakia were largely predetermined by structural constraints, both domestic and international.

Chapter 5 investigates the Czech u-turn in the country's approach towards foreign investors. It reveals the important role of the comprador service sector in organizing the u-turn, which ignited the competition for foreign investors in the V4 region. The comparative analysis of the political and institutional underpinning of the competition state in Chapter 6 shows that the role of the comprador service sector in the Czech Republic was somewhat extraordinary, yet not exceptional.

The Czech experience in a way magnifies processes through which state internationalization is forged and sustained in the region. It also analyses how the political-economic transformations changed the composition and outlooks of major social forces in the V4. Domestic capital and labour were thus integrated into – or subordinated to – power blocs centred on multinational investors and organized by the comprador service sector.

Chapter 7 analyses the dynamic, continuous, and contentious process in which the competition state and its political underpinning are reproduced. It investigates the formation of, and resistance to, what I call the 'investment promotion machines'. These temporary articulations of the power bloc are mobilized when a locality is promoted to lure an investor in the investment-location bidding. Among others, the chapter underscores the importance of the scalar organization of the state in providing advantages to the externally oriented project.

Finally, the conclusion takes a step back to point out major mechanisms of convergence and divergence and shows how they were brought together to forge the internationalization of the state, leading to the convergence towards the Porterian competition state in the V4.

1 Understanding convergence towards the competition state

The transnational constitution of domestic politics

How can we understand the emergence of the competition state in the Visegrád region? Why did the state strategies converge to a particular type of the competition state? In order to answer these questions, this chapter discusses relevant theories and constructs an analytical framework for understanding the transformations of state strategies in CEE.

Convergence is conventionally, and uncontroversially, understood as a tendency to become more alike and to develop similarities (Kerr, 1984, pp. 126–134). Nevertheless, the understanding of convergence is far from straightforward.[1] At least two caveats apply. First, there is a difference between common trend or trajectory, on the one hand, and cross-national convergence, on the other. Two countries can follow the same trend (e.g. welfare state retrenchment) without becoming alike (Iversen and Pontusson, 2000; Hay, 2004a). Second, there are a number of potential referents of convergence (e.g., Bennett, 1991, pp. 218–219). It is possible to distinguish between convergence in the pressures and challenges to state strategies (input convergence); convergence in the *policy paradigms* and cognitive filters through which these challenges are interpreted; convergence in *policies* pursued; convergence in *legitimatory rhetoric*; convergence in policy *outcomes*; and convergence in the *process* in and through which challenges are translated into policy outcomes (Hay, 2004a, pp. 245–246). The V4 region, as the next chapter will show, has seen some degree of convergence in all of these referents. I maintain that we can observe both common trajectories and convergence in the V4.[2] Nevertheless, had the transformations of state strategies followed common trajectories only, the puzzle of this analysis would in fact not change.

Understanding the process in which the states adapt to the processes of globalization has been a major agenda across social scientific disciplines. The post-1970 restructuring of global political economy – including its ideational structures – transformed constraints and opportunities for formulation of state strategies on national scales. A number of scholars observed the rise of the competition state from the ashes of 'embedded liberalism' (Ruggie, 1982). According to Strange (1991), both state and firms were forced to compete for world market share. The structural change has driven (developing) countries into the arms of the TNCs, and the same structural change has driven the TNCs into the arms of (developing) countries' governments (Stopford and Strange, 1991). While transnational firms have what the states need – command of technology, global source of capital, access to markets – states dispose of territory-specific assets. For Cerny (1995, 1997), economic, political, and cultural globalization give rise to the competition state, characterized by its residual nature, microeconomic mode of economic intervention, macroeconomic monetarism, and indirect welfare promotion through positive externalities of enterprise, innovation, and profitability. From the regulationist perspective, a shift from the Fordist regime of accumulation to a post-Fordist one entailed transformation of the state. Within this tradition, Jessop (1994, 2002) identifies a shift of state strategies to alternative forms of the Schumpeterian competition state.

While the above approaches have understood the transformation of state strategies in the globalizing environment essentially in an agentless, functionalist manner (see Hay, 2004b), neo-Gramscians analysed political agency in the context of changing structures of interests in IPE. Accordingly, the post-1970s restructuring gave rise to the neoliberal project, which articulates interests of the leading sectors in globalizing capitalism, the political coalition of the transnational capitalist class and its allies (van der Pijl, 1998; van Apeldoorn, 2004). This project was materialized in institutional structures, both within the EU and beyond, that imposed constraints on state strategies and effectively forced them to adapt strategies within the confines of the neoliberal hegemony (Gill, 1998; Holman, 2004a; see also Scharpf, 2002). In CEE, the structural setting of the IPE and the strategy of major powers set limits on possible 'transition' strategies. Peripheral integration of the region into the flows of global capitalism operated as a mechanism promoting economic dominance, control, and interests of transnational capital in the region (e.g., Shields, 2004b). It forced states to adopt FDI-friendly policies and put downward pressure on wages and taxation (e.g., Holman, 2004b; see also Appel, 2006).

Neither the initial reaction to the economic crisis in the 1970s nor the post-communist transformations provided much support for the idea of convergence. There were distinct strategies of economic recovery as a reaction to the crisis, leading to further divergence of the national models of capitalism (Gourevitch, 1986; Hollingsworth, Schmitter, and Streeck, 1994). In CEE, a variety of paths of institutional evolution and transition policies emerged after 1989 (Róna-Tas, 1998; Stark and Bruszt, 1998; Dobry, 2000). In fact, there is a consensus in recent scholarship that common pressures and challenges have very different effects in different national social systems and political economies (e.g., Berger and Dore, 1996; Keohane and Milner, 1996; Kitschelt, Lange, Marks, and Stephens, 1999; Hall and Soskice, 2001). A number of scholars showed that while some aspects of globalization indeed constrain state strategies (globalization of finance in particular), other aspects, such as globalization of production and technological change, enable new forms of state intervention (Weiss, 2003b).

In what follows, I first discuss various reasons or social mechanisms which make convergence of state strategies unlikely, and relate them to the experience of CEE countries. Here, I will identify mechanisms that led to divergence of outcomes in CEE both on the level of regions and among individual countries. Second, I discuss mechanisms of convergence in general and explanation of convergence in state strategies in CEE in particular. I largely focus on neo-Gramscian accounts of CEE. These are invaluable as they fill in the missing link of 'external' determination of developments in the region. Moreover, in contrast to Europeanization scholarship, which provided analysis on the level of institutional forms, neo-Gramscians analysed on the substantial dimension of political authority, which Ruggie (1992) characterized as 'social purpose'.[3] This is crucial for understanding the convergence of state strategies and the political and social dimension of the rise of the competition state. Finally, I deconstruct the internal/external dichotomy in order to forge a relational understanding of state transformations in the V4. I provide a strategic-relational framework for analysing transformation of state strategies, which brings together the politics of adjustment and political-economical and institutional constraints. My notion of transnationally constituted domestic politics allows investigation of how the interplay of various mechanisms of convergence/divergence in a concrete historical context gets translated into actual outcomes.

Adjustment in global political economy: comparative advantage, domestic institutions, politics, and the unlikely convergence of outcomes

Even the 'strongest' formulations of the convergence thesis, like those of Strange, Cerny, and Jessop, did not predict convergence or homogeneity of actual outcomes. Rather, they emphasized different solutions to common problems. Thus, Strange (1991) emphasized that the goal of promoting competitiveness can be achieved through different means, Cerny (1997, pp. 263–268) spoke about competing forms of the competition state, and Jessop (2002, pp. 259–267) described alternative strategies of the Schumpeterian state. Various streams of new institutionalism have produced many important insights accounting for diversity of state strategies in the global economy. These provide important mechanisms complementing – and, indeed, sometimes contradicting – the convergence thesis. In order to understand the process in which the external pressures are translated into (divergent) outcomes, it is useful to follow Hay's (2004a, p. 246) model of five stages in adaptation, each introducing contingency and thus divergence into adjustment.

Common pressures, different impacts

Political economies are exposed differentially to globalization pressures. Even if common pressures exist, they have different implications for national social systems and political economies. Domestic institutions and political-economic structures play major roles in mediating the impact and shaping the nature of international exposure. They influence macroeconomic outcomes as they produce *comparative institutional and structural advantages*, which in turn shape the nature of international exposure and integration of a given economic space (see, e.g., Kurth, 1979; Amable, 2000). In CEE, the Visegrád group, given its initial institutional congruence with Western market democracies, disposed of institutional competitive advantages over other states in the region in the early nineties.[4] As the V4 states went through comparatively milder recessions, they were also equipped with more congruent demand structures. The institutional advantages of the V4 had disappeared by the mid-nineties. Yet, as shown by Greskovits (2005), the initial differences put the V4 region on different tracks of incorporation into transnational systems of production through subcontracting and FDI. This led to divergence in terms of different supply structures, such as factor endowment. As a result, the V4 states entered the late 1990s with significant comparative structural advantages over other countries. The point is that the V4 countries have been endowed by similar comparative institutional and structural advantages throughout the nineties and early 2000s. Thus, they are the most similar cases in terms of their international exposure and the nature of integration into the transnational economic space. The nature of international exposure, as will be discussed below, structures competition for foreign investors in CEE.

Common impacts, different interpretations

Even when social systems and political economies face similar challenges, the reaction to them will be based on the actors' interpretation of such challenges and their implications. Such interpretation will be based on prevailing policy paradigms, social norms, values and traditions (e.g., Putnam, 1993; Rothstein, 1996). These ideational structures shape the 'structural literacy' of the policy-makers and policy-shaping social actors (see Gramsci, 1971, p. 113; Drainville, 1994, p. 109). The chapters that follow, and the Czech case in particular, will show the importance of dominant beliefs, or elite 'structural literacy', in mediating the translation of structural constraints into actual policy outcomes.

Common interpretation, different policy outcomes

Even if actors arrive at similar understandings of challenges they face and their implications, the policy-making process may prevent realization of some goals and steer outcomes in particular ways. The structure of representation inscribed in a given institutional order will privilege some actors, strategies, and outcomes over others (Jessop, 1990; Hall and Taylor, 1996). The institutional framework will structure incentives for policy-makers and shape the way they react to changes in the environment, including shifting the balance of interests in society. Rational choice institutionalists have proposed that the more institutions privilege allies of the government, or its basis of support, the stronger is the incentive to keep the institutions in place (Garrett and Lange, 1996). For historical institutionalists, change in the environment represents a major challenge only when a response requires reversal of 'policy legacies' – that is, past ways of dealing with and interpreting the environment (Weir and Skocpol, 1985).

Institutions thus condition the ability of social groups to articulate their interests and policy demands. According to rational-choice institutionalists, economic internationalization is translated into national policy outcomes through its effects on domestic interests (see Garrett and Lange, 1996). Yet the ability of social groups to claim their demands is conditional upon various institutional arrangements (Frieden and Rogowski, 1996). Other institutionalist approaches have discussed 'second-order' effects of institutions (Swank, 2002). Institutions, including past policies, shape the relative political capacities of collective actors. They structure incentives and promote a prevailing cluster of values, norms, and behaviour that condition construction of identities, interests, and alliances (Weiss, 2003a; Campbell, 2004; Prasad, 2006). In the V4, the structure of domestic interests, as mediated by domestic institutional environment, was indeed crucial in shaping the variety of processes in which the states adjusted to the international political economic environment. What is more, domestic interests were among the driving forces of internationalization.

Political regime type will influence the responsiveness of state managers to the changing balance of forces within society. Some have pointed out that state managers will be more responsive to the changing balance of forces within society when it is easier for opponents to challenge the policies that are being pursued. By implication, political change is expected to be faster and smoother in stable democracies than in more authoritarian regimes (Garrett and Lange, 1996). Others have analysed the implications of illiberal democracies for the structure of representation. Illiberal democracies – that is, regimes without arrangements constraining executive power between elections – shorten time horizons of state managers and provide incentives not to take into account interests outside of their social allies, or constituency (O'Donnell, 1996; Linz and Stepan, 1996b; J. Gould, 2003). In the V4, structures of representation that crystallized in the early nineties later shaped the transformation towards the competition state. The differences between these institutional structures explain different trajectories of state restructuring: while Poland went through a gradual transformation, the Czech Republic and Slovakia went through two distinct phases of relative continuity with short periods of rapid transformation.

The effect of implementation; and the path dependency of institutional change

Finally, even when similar policies are decided upon, they will lead to different outcomes depending on the implementation process. These outcomes will be contingent upon different institutional and cultural contexts. Institutionalists have emphasized continuities in institutional change and claimed that policy outcomes will be mediated by the path dependency of a given institutional environment (North, 1990; Nelson, 1994). This mechanism is often underspecified. Pierson (1994, 2000) has argued that path dependence is a product of several feedback mechanisms through which actors gain increasing returns for behaving in ways that are consistent with their past actions (see also Thelen, 1999; Campbell, 2004).

'Transitology', or the scholarship on 'transition' in CEE, has been dominated by institutionalist path-dependency approaches, which put analytical primacy on domestic determinations. They have pointed to the role of historical legacies in transformation, to the evolutionary potential of inherited bank-industry networks, and to the national diversity of emerging capitalisms (see Róna-Tas, 1998; Dobry, 2000). In this spirit, Stark and Bruszt (1998, p. 7) have analysed incongruities among multiple processes in post-socialist transformations and 'rearrangements, reconfigurations, and recombinations that yield new interweavings of the multiple social logics'. Similarly, others have described these transformations as building from the ruins of the old system (Elster, Offe, and Boenker, 1998).[5]

Like other accounts of contingency-producing mechanisms discussed above, the path-dependence theories cannot provide analytical and theoretical tools for explaining convergence of state strategies.[6] In addition, the 'methodological nationalism' of 'transitology' prevented it from seeing the importance of international political economic context and wider power relations in shaping domestic restructuring, setting its limits, and providing advantages to some domestic strategies over others (Bohle, 2000). What is important, however, is that these accounts point to manifold sources of contingency adapting to common pressures, which are likely to translate 'external' pressures into different outcomes. This not only makes the convergence of state strategies puzzling but calls for introducing domestic politics of adjustment into the analytical framework. This allows for accounting for the uneven process of that state internationalization and transnational class formation, which unfolded differently around the region. Before introducing such a framework, I turn to the accounts of common pressures that provide reasons to expect convergence in outcomes.

Towards the competition state: globalization, neoliberalization, and the mechanisms of convergence

What are the social mechanisms that translate the constraints and possibilities of the structural and political environment into outcomes within the states? I discuss the mechanisms of convergence along a conventional typology differentiating between competition, coercion, learning, and emulation.[7] Along this typology, I will present the mechanisms of convergence identified in the scholarship on CEE. Here, the neo-Gramscian scholars identified the following mechanisms in operation: competition for FDI, imposition by the EU and other international bodies, transnational class formation, political agency of multinationals within the CEE states, and, finally, absence of domestic social forces other then Westernized state managers in the early nineties.

At the mercy of investors: convergence through competition

For scholars like Strange, Stopford, and Cerny, competition is a major mechanism of convergence. It is a major aspect of 'structural power' (as in Strange) or the 'systemic power' of TNCs (as in, e.g., Pontusson, 1992), which underpins the extension of political infrastructure for expansion of transnational capital: it makes the governments want what dominant actors want (Strange, 1988, 1991; see also Nye, 1990). States, developing countries in particular, are dependent on multinational investors who control the means to create wealth within their territory. Territorial non-correspondence between the states and economic activities allows investors to choose among multiple investment locations (Strange, 1987; Stopford and Strange, 1991). By definition, the concept of the competition state underscores that state strategies are subordinated to the imperative of competition. States not only compete to attract investment but implement policies that are likely to retain investors within the locality (i.e., prevent investment flight). The theory of competition emphasizes differential attractiveness of individual policies to investors (see Jensen, 2003). Accordingly, state competition strategies will be feasible only if they constitute relatively efficient modes of adaptation to economic and political globalization, and the homogenization pressures will erode them where they prove to be unattractive to market and other (international) state actors (Cerny, 1995, 1997). In the extreme version of the competition argument, states in the environment of capital mobility effectively lose sovereignty over domestic policy-making (e.g., Andrews, 1994).[8]

As noticed by neo-Gramscian scholars, peripheral integration of the region into the flows of global capitalism operated as a mechanism promoting economic dominance, control, and the interests of transnational capital in CEE (e.g., Shields, 2004b). The early nineties was the era when the Washington consensus was at its height. Accordingly, the 'appropriate' transition strategy included rapid privatization, macroeconomic stabilization, and the liberalization of prices and trade. The 'international community', represented by the policies of the US and the EU, took what Gowan called the 'American approach' to international political-economic organization in the region. The approach saw no future for any regional economic bloc to replace the Council for Mutual Economic Assistance (Comecon) or any developmentalist policies. Instead, it promoted abolishment of economic ties between the CEE states and the USSR and absorption of the region into the Western sphere through liberalization of trade and investment. Trade with the West was to compensate for the collapse of demand after abolishment of Comecon. As a result, regional economic relations would be based on a hub-and-spokes structure between the West and the CEE, so that each state in the region would relate to the others principally via its relationship with the Western hub (Gowan, 1995, 1996; see also van der Pijl, 2006, pp. 237–247). Any developmental strategy – other than that of relying on comparative advantage in low costs – was difficult to implement in such an environment (Amsden, Kochanowicz, and Taylor, 1994; Boer-Ashworth, 2000; Ivanova, 2007). More complex and value-added sectors in CEE lost their markets within Comecon. At the same time, they were not competitive in the Western markets. Moreover, the sectors that could compete, such as steel, were denied access to Western markets. This effectively destroyed the potential of these sectors and encouraged specialization in labour intensive, low-tech industries. At the same time, lowering of trade barriers immediately caused a huge influx of imported finished products from the West, mostly from the European Union. Such a structural position led CEE into competition for subcontracting arrangements with and direct investment of foreign investors. This forced states to adopt FDI-friendly policies and put downward pressure on wages and taxation (e.g., Holman, 2004b; see also Appel, 2006). Gowan concludes that the US managed to create such international rules and institutions that leaders of the CEE societies would 'want what the US wanted', including the freedom of operation for transnationals

(Gowan, 1996). Given the neoliberal developmental strategy, attracting FDI was the only way to bring in more complex, value-added activities. Multinationals also provided access to distribution and production networks. This minimized the policy autonomy of national governments. For instance, Holman (2004b, p. 226) concludes that 'the governments of Central Europe had no autonomy whatsoever to "restructure social safety nets"'.

Competition among countries is likely to be limited to those with role-equivalent positions in the international division of labour (Winship and Mandel, 1984): that is, to those countries that trade similar types of products (Polillo and Guillén, 2005; Henisz, Zelner, and Guillén, 2005; Elkins, Guzman, and Simmons, 2006). As mentioned above and further discussed in Chapter 2, the states in the V4 region have been integrated into the transnational economic space in a very similar way. Thus, the structural precondition for competition, role equivalence, has been fulfilled. The reorientation of state strategies and even their content very much reflected the changing structural position of the region and the approach of investors. At the beginning of the nineties, foreign investors pursued low-commitment strategies in CEE. The region was thus integrated more through subcontracting relations than through FDI. This changed in the mid-1990s, when direct investment by (mainly European) corporations into more complex industries took off.

Yet, the structural features, however important, cannot be linked to policy outcomes too quickly. In general, the problem of the competition thesis is that it does not explain the very (non-)existence of competition for capital (or other collective goods). Competition is often taken for granted and treated as an independent variable. This is problematic. The experience of CEE countries shows that 'globalization pressures' or the objective distribution of structural power in the international political economy does not automatically lead to competition. In particular, the Czech case reveals that the political economy of investors' involvement in the early nineties was shaped by state strategies hostile to FDI. The structural environment thus does not determine state strategies directly. Therefore, it is necessary to identify conditions under which the competition for foreign investment will take place. What is more, the processes in which the structural conditions are translated into policy outcomes have to be identified. I will show that it is possible to trace the processes in which the structural factors, such as the structural power of transnational capital, translate into particular policy outcomes. These mechanisms include investors' missions, their liaisons with governmental officials, critical cases of investment attraction that make the structural power of capital apparent to policy-makers, and – not the least – the formation of what can be called comprador elites through transnational class formation.

Do what you've got to do: convergence through coercion and Europeanization pressures

Another prominent explanation for the spread of foreign-investment-friendly policies in general involves external imposition of policies that the states under consideration would not otherwise have adopted. According to DiMaggio and

Powell (1983/1991, p. 67) ‘coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent’. An external actor that controls critical resources can impose preferred patterns of behaviour on dependent countries. This mechanism can also involve the threat or use of physical force. It is possible to differentiate between ‘hard’ and ‘soft’ coercion.

As far as hard coercion is concerned, Dolowitz and Marsh (2000, p. 9) differentiate between ‘direct imposition’ and ‘conditionality’. While they find direct imposition rare, others find a number of instances in which both the US and the EU have employed such mechanisms (Simmons, Dobbin, and Garrett, 2006, 36 ff.). Indeed, supranational institutions have become notorious for spreading policies through various forms of conditionality (e.g., Buira, 2003; Polillo and Guillén, 2005; Elkins, Guzman, and Simmons, 2006).[9] The 1979 interest rates hike provided great leverage to the IMF and the WB as it made many indebted countries dependent on conditional refinancing of their loans. Lall (1987) argued that this forced many countries to reorient their industrial policies towards accommodating foreign capital. Private lenders, often in alliance with the IMF, may also play an important role in this type of coercion (E. R. Gould, 2003; Edwards, 1997). In CEE, the structural conditions for hard coercion were fulfilled in Hungary and Poland. Both of these countries faced substantial debt by 1989. All of the countries in the region required additional stand-by loans to implement their transition policies.

Policy choices may also be imposed on states through ‘convergence by penetration’ in which ‘externally based’ actors participate in the ‘selection of goals, the allocation of costs, and the mobilization of resources and capabilities’ in the domestic policy process (Siegel and Weinberg, 1977, p. 67; Rosenau, 1969; Bennett, 1991, pp. 227–229). Many transnational corporations pushed for policy harmonization through political agency within host states, which often led to regulatory convergence (Brickman, Jasanoff, and lIgen, 1985; Feldman and Milch, 1982; Hills, 1986). In CEE, foreign investors themselves gradually established direct political influence through lobbying and bilateral negotiations with the governments. In the chapters that follow, I analyse their political strategies in detail. I will show how their concerns, strategies, and sites of political action transformed over time.

‘Soft’ coercion may be associated with ideas, theories, and information that guide particular policy transformations, such as opening to FDI. Policy networks developed by and around various international institutions provide such ideational channels to frame policy discussions and ultimately exert influence across borders (de Vries, 1997; Polak, 1997; Hira, 1998). Within a Gramscian understanding, ideas are seen as produced by human agency in the context of power relations. Thus, they are linked to strategic action of social actors. Dominant actors are able to influence others through their position in the structures of ideational production. In CEE, the influx of foreign advisers played an important role in shaping transition policies in the early nineties. The advisers pushed in the FDI-friendly, neoliberal direction (Meaney, 1995). In order to spread neoliberal ideas, Western governments, foreign universities, and international agencies organized numerous conferences, sent out legions of policy advisers, generated many publications, and financed educational activities (Campbell and Pedersen, 1996). International financial institutions, the EBRD, the EU, and Western think-tanks such as the Harvard Institute for International Development situated CEE states in relation to perceived endpoints and outcomes that were theoretically expected to accrue from the 'correct' implementation of capitalist transitions (Smith, 2002).

The European Union that played a major role in shaping domestic regulatory frameworks in CEE. Europeanization had a greater impact on the transformation of CEE than in the older member states for several reasons (Grabbe, 2006). Most importantly, there was an asymmetric power relation between the EU and the accession states. Further, the CEE states had to adjust to EU requirements much more quickly than the old member states, and they were expected to be more open to EU influence as their institutions were in transformation and weak. In transferring EU regulations, the Commission used its maximalist interpretation and introduced reform requirements that were not part of the *aquis communautaire*. It did not acknowledge the constantly debated distinctions between the EU and national competences (Grabbe, 2006, pp. 23–25, 33–34). As a result, CEE applicants converged on a common set of economic regulations and consolidated their democracies. Thus, the influence of the EU is seen as a main factor contributing to convergence in the region (e.g., Schimmelfennig and Sedelmeier, 2005; Kopecký and Mudde, 2000).[10]

No explicit rationale was presented for the agenda; it was presented as if it were self-evident (Grabbe, 2006, p. 24; see also Bohle, 2006). Yet, it is widely argued that the aim of the EU's strategy has been to promote neoliberal reform and the influence of European transnational capital (Holman, 1998; Bieler, 2002; Shields, 2004b; Bohle, 2004; Grabbe, 2006).[11] At the beginning of the nineties, the EU focused on liberalization of trade and capital movements between itself and CEE states. Trade and cooperation agreements, which were concluded with most CEE countries and the Soviet Union between 1988 and 1990, bound CEE countries to progressive abolition of restrictions on import of EU goods, yet these were already being liberalized within the GATT framework (Grabbe, 2006). While granting some symbolic concessions in the form of preferential market access (Sedelmeier and Wallace, 1996), the EU would retain selective protection of sectors in which CEE had a competitive advantage: steel, textile, apparel, chemicals, and agricultural products (Gowan, 1995, pp. 25–28). By the mid-nineties, the EU had embarked on the process of active export of European regulation. It focused on securing liberalization and deregulation of political economies in the region. Promotion of foreign investment both in industry and finance was one of its major concerns (Vliegenthart and Horn, 2007).

Establishing whether coercion, hard or soft, actually explains policy outcomes is far from straightforward. First, it needs to be demonstrated that the states would prefer to resist were it not for the external influence (see Simmons, Dobbin, and Garrett, 2006). To make it more complicated, policy-makers may justify their choices in terms of external coercion.[12] Some argue, for instance, that governments often accept IMF loans because they want conditions externally imposed (Drazen, 2002; Vreeland, 2003). The interpretations of CEE transformations focusing on external determination tend to 'throw out the baby with the bathwater' – the baby being the domestic strategy. In Gowan's (1995, 1996) account, for instance, all key, path-shaping actors are international. The local actors, 'many East European intellectuals', are mentioned in the context of an alternative path they allegedly sought: that is, a 'Swedish-style social-democratic capitalism'. This alternative could have been possible if an alternative to the american approach, what Gowan calls the 'French proposal', were enforced on the global level. Interestingly, however, Gowan does not deal with the counter-factual in order to establish actual imposition. Had the international environment been favourable to more socially inclusive, gradual, or statist strategies, would it change the position of the social-democratic-leaning intellectuals? This study shows that the external factors do not explain the marginal position of those people within their societies. There are good grounds to surmise that the social-democratic-leaning intellectuals would have probably lost the struggle with market-oriented technocrats at the national level for more domestic reasons anyway.[13]

Second, it is necessary to specify the particular mechanisms of influence of the EU, international organizations, and transnational capital. A closer analysis of mechanisms of direct influence shows that there is a tendency to overestimate the influence of foreign advisers and international organizations. Despite their heavy presence and vivid activity within various state agencies, the independent agency of foreign advisers has not been very influential, especially in the early years of transition (Appel, 2004, ch. 2; Meaney, 1995, p. 298; McDermott, 2002, p. 91).[14] This study Focuses on these mechanisms. I will show in the following chapters that the EU and other international organizations, such as the WB, provided important financial support for actors promoting FDI within the state. This assistance, however, was demand driven and also included support of the internally oriented strategy (see Appel, 2004; Grabbe, 2006).

Finally, coercive pressure by a dominant power may be an underlying impulse for regulatory convergence, yet subordinate actors may have decisive influence on actual outcomes that may accommodate their interests rather than those of the hegemon (Abdelal, 2006). Therefore, intervening variables need to be taken into account. The Europeanization literature has shown that the influence of the EU in general 'depended on a certain tension between confidence that membership would be secured and fear of rejection owing to inadequate reforms' (Grabbe, 2006, p. 53). These conditions, however, were not fulfilled in the Czech Republic and Slovakia until the late 1990s (Vachudova, 2001; Bútorová, 1998).[15]

According to Europeanization scholars, the dominant policy paradigms in the EU, rather than dominant social interests, affected the way the EU approached CEE and its standards for compliance with its demands; to say the least, they were a crucial mediating factor underpinning EU policy in different areas (Sedelmeier, 2001). In contrast, the neo-Gramscian scholars explained the approach of the EU towards CEE and the neoliberal design of enlargement with reference to: structural change in the European political economy that has changed the preferences, structure, and relative power of major social forces within the EU; increasing engagement of European investors in CEE; and the agency of major social actors, most notably European transnationals, in relation to and through EU institutions. The preferences of transnational capital probably did not have a significant role in the initial decision to offer the prospect of membership to CEE. However, the later course of integration and its shape has very much reflected the changing priorities of European capital.[16] This was very much reflected in the agency of the European Roundtable of Industrialists (ERT) towards the Commission (see Holman, 2001). The terms of enlargement thus accommodated the interests of both investors – who could exploit differences in terms of wages and fiscal, social, and environmental standards – and West European producers, who could engage with CEE through trade and thus benefit from competition regulation and standard harmonization in the enlarged EU (van der Pijl, 2001; Holman, 2001; Bohle, 2006, p. 73).

Trial and error: convergence through learning

Learning is the main mechanism linking (external) structural constraints with social agency, producing policy processes in the (implicit) models of functionalist and derivationist accounts of state transformation (Cerny, 1997, p. 258; Jessop, 2002, p. 259; see also Jessop, 1990, p. 155).[17] Learning refers to change in beliefs, preferences, goals, or routines, or a change in one's confidence in one of those, which can result from exposure to knowledge about consequences of one's action or from exposure to new evidence, theories, or behavioural repertoires.[18] Institutionalists have emphasized that policy-makers do not adjust their ideas, goals, and preferences to social and economic conditions, but rather to the consequences of past policy, however understood (Sacks, 1980, p. 356; Weir and Skocpol, 1985, p. 119; Garrett and Lange, 1996, p. 53). The social learning perspective in political science emphasized the autonomy of the state to reformulate policy autonomously from societal pressures (Sacks, 1980, p. 19; Skocpol, 1985). They underscore the role of expert networks, 'epistemic communities', in producing social knowledge. Policy innovation spreads through these (transnational) networks which intersubjectively define what is effective. The experts can influence governments to adopt new policies simply by making an argument for them (Haas, 1992). In contrast, this study, along with neo-Gramscian scholarship, brings wider politics into the learning process. It insists that intellectual activities addressing social explanations are directly or indirectly linked to political strategies (see Gill, 1993, p. 24). Moreover, constraints and opportunities to which the policy is adjusted are usually outcomes of such strategies.

Learning can take different forms, depending on the types of change in the policy that are involved. Peter Hall (1993) differentiated between: first-order change of incremental policy adjustment; second-order change in which new policy instruments are developed; and, finally, third-order changes when one policy paradigm is replaced by another. Policy paradigm is an interpretative framework of ideas and standards within which policy-makers customarily work. It specifies the goals of policy, instruments that can be used to attain them, and also the nature of the problems that the policies are meant to be addressing. While learning based on reasoned argumentation and judgement governs learning within paradigms (first-and second-order changes), the movement from one paradigm to another is more political and sociological. Thus, the outcome will not depend on the persuasiveness of an argument, but rather on ability to mobilize political resources. Finally, the authority of a paradigm is likely to be undermined by accumulation of anomalies, policy failures, or by a major crisis. This can lead to a search for an alternative.

The shift from internally oriented strategies towards the competition state in the Visegrád Four region represents a third-order change, a switch in the dominant policy paradigm. It changes not only goals and means of economic policy but the underlying belief and values that govern policy rationale. The chapters that follow analyse the politics of learning. They show different ways in which this transformation took place in individual countries and explain why the paradigm shift happened in an abrupt manner – reminiscent of the Kuhnian scientific revolution – in the Czech Republic and Slovakia, while it unfolded in a much more gradual fashion in Poland. The Slovak case will show that, under specific conditions, the dominant paradigm can be left not only for accumulation of policy failures but for political reasons. In contrast to the agent-centred, epistemic-communities analyses of policy change in the region (e.g., Fisher, Gould, and Haughton, 2007), this study relates the emergence and political success of respective 'epistemic communities' not only to their strategy but to wider political-economic context that allows some strategies to become successful and disadvantages others.

Doing what's best: convergence through emulation and the process of transnational class formation

Many conceptualizations of social learning, such as the epistemic-communities approach, largely overlap with the mechanisms identified here as emulation. Accordingly, actors embedded in a social structure may adopt similar behaviours as they seek to conform to shared norms (DiMaggio and Powell, 1983/1991). The emulation approaches investigate the importance of (international) social ties and communications in spreading norms, beliefs, and patterns of behaviour (DiMaggio and Powell, 1983/1991; Wapner, 1995; Meyer, Boli, Thomas, and Ramirez, 1997). Similarly, neo-Gramscian approaches emphasize social construction of interests and strategies. They also underscore the importance of socialization in (transnational) class formation and strategy formulation (van der Pijl, 1989; Gill, 1990; van Apeldoorn, 2002). Accordingly, the policy-makers in CEE, without necessarily being forced to do so, have actively promoted strategies that have corresponded to the preferences and interests of the EU, and social forces, such as European transnational capital, acting through it (Shields, 2004a). The new power elites have 'internalized' the international political economy environment, in general, and the pre-accession strategy of the European Commission, in particular (Holman, 2001, p. 178). Thus, the external factors did not operate only as a straitjacket limiting local agency or as a local 'foreign-force' influence.

In order to explain such internalization, the neo-Gramscian scholars put emphasis on the process of transnational class formation. Importantly, this took place when the domestic capitalist classes where apparently absent (Shields, 2004a;

Holman, 2004b; Bieler, 2002). What is more, other societal actors – most notably labour – were very weak. Thus, intellectuals and political elites within the states – rather than societal actors – took charge of the reforms. Weak social embeddedness and weak transformational states, according to Bohle (2006), made the reformers eager to secure external assistance. In the absence of domestic capitalist classes, various social forces that are linked to foreign capital were found to have prominent roles. The reformers could either directly benefit from alliance with investors or be dependent on the investment decisions of TNCs. The new elites within CEE became integrated, albeit in a junior position, into the wider transnational capitalist class, which constitutes an organic base for recent restructuring of capitalism on the world scale (Shields, 2004a; Bohle, 2006; Holman, 2001). This operated as a mechanism translating structural dependence on foreign capital into concrete political processes within CEE states (Holman, 2004b, p. 223; Shields, 2003).

However, the implications of the processes of transnational class formation and/or elite socialization have to be unpacked through a careful historical exploration. In order to understand the impact of the structural dependence on foreign capital, it is necessary to provide an account of the process of comprador elite formation, interest articulation, and its channels of dominance rather than simply assuming their existence from structural features, as indicated by, for example, FDI statistics (e.g., van der Pijl, 2001) or by linking outcomes to interests (e.g., Shields, 2004a). An organic unity of global elites cannot be assumed, but must be established (see Drainville, 1994). Transnational class affiliation, indicated by participation in transnational networks or socialization at different fora associated with the class, cannot account for the fact that some CEE elites promoted interests of transnational capital while others did not (as implied in Shields, 2001, 2004a; van der Pijl, 1998). There may be contradicting preferences among the members of the transnational class even in this respect. They could be found among supporters of both more nationally oriented policies and foreign-capital-friendly, externally oriented policies.[19]

What is more, the neo-Gramscian scholars tend to misinterpret the implications of the lack of societal embeddedness on the side of the political elites. They attribute to local elites too much dependence on external projects and underestimate the autonomy of these elites in developing hegemonic projects and ideas. One of the principal claims of *Making capitalism without capitalists* (Eyal, Szelenyi, and Townsley, 1998) – the book that is often referred to in order to support the lack of societal actors in CEE – is that its title refers to a transitory stage in the contested process of class formation with many candidates for a new property class. The list of active contenders included not only ‘foreign investors with their compradore intellectual allies’ but local social forces, such as a technocratic-managerial elite and new entrepreneurs (Eyal, Szelenyi, and Townsley, 1998, ch. 5). The following chapters in a way provide a follow up to Eyal *et al.*’s story. They analyse the politics of producing ‘king-making strategies’ and show that FDI has not been the only game in town, as suggested by the neo-Gramscian accounts. Local social forces and locally oriented, anti-FDI projects have been very important throughout the region. In fact, the time of 'foreign investors with their compradore allies' has only recently emerged, almost a decade after the region was fully integrated into transnational capitalism.

Beyond 'external' and 'internal': understanding state strategies in a global economy

The Eastern European story seemingly provides support to both internally oriented (divergence) and externally oriented, (convergence) approaches. At the same time, it may be used to argue against both. I claim that the external and internal determinations can be brought together by understanding the moment of convergence as the process of the internationalization of the state.[20] In this process, crucial institutions of the state apparatus became 'increasingly oriented towards facilitating capital accumulation for the most internationalized investors, regardless of their nationality' (Glassman, 1999, p. 673; see also Cox, 1992; Panitch, 1996). The section that follows will insist on a continuing importance of national scale and domestic politics in the process of state internationalization. At the same time, as I will claim in the next section, domestic politics has to be understood as transnationally constituted. Finally, I will introduce my state theory for understanding policy-making and the transformation of the state as part of the reproduction, reconstitution, and transformation of hegemony on the regional, national, and global scales. I will introduce central conceptual blocs of my analysis: in particular, the notion of the state as a form-determined social relation, and the concepts of the hegemonic project and the power bloc.

Internationalization of the state and the centrality of the 'national'

Most research on internationalization – including neo-Marxist studies of the peripheral development (Cardoso and Faletto, 1970/1979; Evans, 1982), the rational-choice institutionalist second-image reversed approach (Gourevitch, 1978; Keohane and Milner, 1996), and historical institutionalist and 'varieties of capitalism' approaches (Hall and Soskice, 2001; Kitschelt, Lange, Marks, and Stephens, 1999) – locates central carriers and mechanisms for internationalization on the national scale. Contrary to the Hobsonian idea that foreign capital is a social agent of peripheral internationalization (Hobson, 1902), students of the peripheral industrialization in South America observed that it is the interaction of local social classes with their international environment that drives internationalization in the region (Cardoso and Faletto, 1970/1979; Evans, 1982). In particular, O'Donnell (1978) has emphasized that a 'dual alliance' of state managers and transnational investors is not politically feasible. It can hardly present itself as the political and ideological expression of the general interest as it lacks 'the national and private' component that only local social forces can contribute. Finally, drawing on the comparative institutionalist works and the second image reversed approach, Thatcher (2007, pp. 3–4) showed that while 'even sweeping technological and economic forms of internationalisation were usually met with institutional inertia

. . . policy forms of internationalisation operated by influencing the strategies of powerful domestic actors, notably governments and domestic firms'.

I argue that the operation of these central carriers and mechanisms for internationalization can be best understood as the process of state internationalization in which the external factors, such as the economic forms creating pressure for internationalization, are internalized on the national scale. Studying 'transition' in Southern Europe, Poulantzas (1976, p. 22) emphasized that external factors do not influence the state and national social formation directly. Rather, they are translated into national-specific outcomes in the process of internalization: 'those coordinates . . . that are "external" to a country – the global balance of forces, the role of a particular great power, etc. – only act on the country in question by way of their internalisation, i.e. by their articulation to its own specific contradictions'. Accordingly, internationalization of capital 'neither suppresses nor bypasses the nation states' (Poulantzas, 1974/1978, p. 73). State policies are not challenged by the transnational corporations and the state does not lose power in the face of them. Instead, the states take responsibility for the interest of dominant capital. In the process of state internationalization, the social base of the state cannot be located purely at the national level any more, as the state takes charge not only of the interests of the domestic bourgeoisie but of the interest of the dominant (foreign) capital.

> [I]nternationalisation . . . deeply affects the politics and institutional forms of [nation] states by including them in a system of interconnections which is in no way confined to the play of external and mutual pressures between juxtaposed states and capitals. These states themselves take charge of the interest of the dominant imperialist capital in its development within the 'national' social formation, i.e., in its complex relation of internalization to the domestic bourgeoisie that it dominates.
>
> (Poulantzas, 1974/1978, p. 73)

Poulantzas insisted that the internationalization of the state does not mechanically reflect the economic or class transformations. Instead, economic developments and class transformation have to be understood in the context of a continuing central role of the nation state. Due to 'uneven development and the concrete specificity of each social formation', it is the national form that prevails in social struggles, even if the respective actors are international in their essence (Poulantzas, 1974/1978, p. 78). The interests of foreign capital are articulated within national social formations in the process of internationalization of certain fractions of national capital (p. 76). Thus, these are domestic actors who actively promote internationalization processes within a nation state (pp. 70–88).

In sum, the process of state internationalization is determined by struggles of social forces located within each social formation. Even though the local or domestic forces are constituted by the factors that are 'external' to national social formation, and although these struggles develop on a scale that goes beyond the nation state, it is the specific national form that prevails (Panitch, 1996). I will show that the structural power of foreign capital, in order to be effective within the nation states, needs to be translated into what Eric Wolf calls 'tactical power': that is, power that controls settings of interaction, 'power to monopolize or share out liens and claims, to channel action into certain pathways while interdicting the flow of action into others' (Wolf, 1990, p. 590). In the process of translation, the multinational capital becomes embroiled with local social actors embedded in different languages and jurisdictions. In the V4, the agency of the domestic social force, which I call the comprador service sector, had a crucial role in translating the structural power of multinationals into the tactical power of power blocs centred on the foreign investors.

Transnationally constituted domestic politics

Global and transnational social relations are intimately interconnected and interwoven with the national level; they extend across, link, and transcend different scales (see van Apeldoorn, 2004). State strategies promoting internationalization are produced in domestic politics that cannot be understood merely as adjustments to external constraints and opportunities: domestic politics is always already transnational. In the real world, it is impossible to distinguish between local and transnational or internal and external factors. On the level of concrete-complex, transnational is local and local is also transnational. 'The local turns out not only to be influenced by the transnational but to be a specific site of the materialization of transnational processes. That is to say, the local is not only transnational, but also, there is no transnational that does not have specific and particular local enactments' (Glick Schiller, 2006, p. 9). Yet, the concepts like local/transnational and domestic/external cannot be avoided. Instead, a different meaning should be forged for them: the transnational/local distinction can be dissolved into locally enacted transnational environment, on the one hand, and transnationally constituted local action, on the other.

Accordingly, in order to understand the transnational process in which local outcomes are forged, I introduce the notion of *transnationally constituted domestic politics*, a relational understanding of economic policy-making process as part of the reproduction, reconstitution, and transformation of hegemony on the regional, national, and global scales. While it may also be externally imposed, internationalization of the state is produced in local politics by local social actors with locally specific political and institutional constraints. These actors, however, are constituted, and constitute themselves, transnationally in their deepening linkages with transnational actors. The latter, however, are not external to states as often understood by neo-realist international relations. Instead, these 'actors by definition operate simultaneously inside different "national states" rather than "confronting" those states from the outside' (van Apeldoorn, 2004, p. 146). What is more, I will show below that, contrary to the state-centric understanding of state–multinationals bargaining, implementation of the competition state is not just an outcome of unequal distribution of power between foreign investors and governments. The former are often represented within the states by allied domestic social forces. Thus, in order to understand the translation of the processes in which structural pressures are translated into domestic outcomes, we need a linking variable: the gradual emergence of a hegemonic comprador service sector. The linking variable influences when, in which way, and in what form the transnationalization of the state unfolds.

Beyond ideas, interest, institutions: the strategic-relational approach and the struggle for and within hegemony

Having deconstructed ‘the international’ by bringing it into ‘the domestic’, the remainder of this chapter introduces my analytical framework by discussing competing understandings of (economic) policy-making and transformation of the state. A conventional distinction would identify three explanatory logics: social interests or domestic coalitions, institutions and the state, and dominant ideas. Particular accounts usually construct explanatory frameworks by combining individual theories. In fact, there is considerable convergence in the ‘actually employed’ explanatory logics – as opposed to self-proclaimed theoretical assumptions – among various Weberian, neo-classical, and Marxist approaches to the political economy of state strategy.[21] My understanding of policy-making draws on strategic-relational state theory, which provides conceptual apparatus to combine these theoretical logics into a coherent understanding of policy-making in the process of globally constituted domestic politics.

The interest-based or coalition approaches focus on distributional consequences of policies around which interests mobilize. Politicians are assumed to exchange policies for political support. At the same time, dominant social groups are able to exert influence on politicians and bureaucrats through various channels, including provision of material support, fraud, corruption, clientalistic relations, and other personal ties. The state is thus understood as an arena through which social struggle is waged. In effect, state strategy is likely to reflect interests and preferences of the dominant coalition. Both rational choice and neo-Marxist approaches link dominant social interest to their position in the economic system, or in the relations of production. The rational-choice approaches emphasize the relations of production as it is the site in which value is produced and then distributed in the form of material benefits. For neo-Marxist scholarship, relations of production play major role as the material reproduction of society, including the state, is structurally dependent on ‘the economy’.

There are two ways to investigate the influence of social interests. First, the deductive approach, such as that of rational-choice institutionalism, starts from identifying groups that are likely to be favoured by a particular policy (e.g., Frieden and Rogowski, 1996). Yet, this is problematic as there is no guarantee that political beneficiaries are the cause, rather than a consequence, of policy reform. Second, the inductive approach, such as that of pluralism, instrumental Marxism, or the radical tradition in American political science, would analyse particular channels of influence through which coalitions of social actors exert influence (e.g., Miliband, 1969; Domhoff, 1996; Thacker, 2000). This approach, too, has problems.

Policies can represent social interests in the absence of direct influence. Social structure can operate as a constraint on government action through the 'law of anticipated consequences' (Haggard, 1990). What is more, the structural power may make governments' wishes coincide with those of the dominant actors (Strange, 1988; Nye, 1990). Thus, the state should be understood as a *social relation* that reflects the changing balance of forces in a determinate conjuncture (see Jessop, 1990; Poulantzas, 1978). The mechanisms that 'condense' or 'reflect' such a balance include not only direct influence or relational power but indirect pressures and constraints, or structural power.

The institutionalist and state-centric theories emphasize that the state elite – the executive branch in particular – enjoys considerable autonomy from societal interests in designing and implementing policies and in organizing political support for them (Evans, Rueschemeyer, and Skocpol, 1985). Others argue that, while social interests may play an important role in the period of institutional reproduction, they are less likely to be important for explaining change. Distributional and political benefits of institutional change are uncertain, and the prospective beneficiaries may not be important political players at the time of change; neither are they likely to emerge early enough to provide political support for constitution-seeking politicians (Drazen and Grilli, 1993; Fernandez and Rodrik, 1991). Further, institutional change can be explained with reference to rulers rather than constituents since the latter will always face the free-rider problem (North, 1981). Particularly during times of economic crisis, state actors are likely to enjoy considerable autonomy from societal interests, and their strategy is likely to construct, rather than reflect, interests and coalitions (Haggard, 1990).

The question of the autonomy of state managers has been a victim of severe misrepresentations of competing theories. Both Weberian institutionalism and structural Marxism emphasize autonomy of state managers from societal pressures. The Weberian idea of 'corporate coherence', especially as 'embedded' by Evans (1995), and the Poulantzasian notion of 'classwide rationality' are very similar and refer to the same feature of the bureaucratic (as in Weber) or the capitalist (as in Poulantzas) state: the separation of the political from the economic. This does provide state managers with considerable autonomy. Yet, the seeming contradiction between this formulation and understanding the state as social relations can be resolved by insisting on considering state managers as social forces, or as another social interest. The very institutional position that gives them autonomy – within the *capitalist state* that is structurally separated and thus dependent on 'the economy' and on seeking social legitimation (to varying degrees, though) – structures their interests and provides state managers with important incentives to ally with other social forces. Most notably, since state actors are dependent, both economically and politically, on (capitalist) economy, they are structurally dependent on those who control the production process – respective growth segments, in particular. Thus, the (capitalist) state has inherent form-determined bias that makes it more open to capitalist influences and more likely to be mobilized for capitalist policies. It is also important to note that state personnel can by no means be considered as socially isolated: these spheres – often misleadingly separated as 'state', on the one hand, and 'society', on the other – are interlinked or embedded through flows of information, people, money, social ties, and common social aspirations and identifications (see Jessop, 1990).

Institutionalist theories, and the strategic-relational approach alike, claim that institutions are constitutive of interests. Moreover, they provide advantages to some groups in pursuing their political goals while imposing constraints on others. The state as the terrain of social struggle is considerably uneven, which has independent influence on the balance of forces in society. Institutions will also shape the degree of autonomy from other forces the state managers enjoy. State autonomy thus cannot be assumed, but must be investigated and explained. The degree and nature of state autonomy thus can be understood as a part of institutional mediation of the balance of forces in society. This can be summarized by characterizing the state as *form-determined* social relation (Jessop, 1990). An analysis of public policy thus starts from identifying the 'unequal structure of representation' that links particular policy instance to the balance of forces in a given conjuncture (Mahon, 1977).

Institutionalists have claimed that state autonomy and capacity are dependent upon organizational resources available to state managers, and on the coherence of state apparatus in particular (e.g., Haggard, 1990). Jessop (1990) pointed out that the coherence of a state apparatus is an emergent phenomenon to be explained. To achieve such coherence, state managers must articulate the complex, incoherent, and often contradictory ensemble of state institutions by developing a 'state project', which may give some operational unity to the state as an apparatus. As lack of coherence and unity of interest within a state apparatus is a norm, there may be competing state projects attempting to impose contradictory institutional unities.

The ideational perspectives emphasize the importance of ideas in constituting interests and determining ranges of (imaginable) policy options and goals. They insist on the importance of experts, professional analysts, and international organizations producing and disseminating ideas. While neo-Gramscian and relational perspectives also insist on discursive constitution of reality, they point out that ideas 'do not float in an endless universe of meaning, but are seen as produced by human agency in the context of social power relations, and as such are also linked with strategic action of social (class) actors' (van Apeldoorn, 2002, p. 19). Ideas or knowledge is shaped within these power relations (Kalb, 2006). Ideas are essential for constituting political coalitions. They constitute or define interests of social groups. At the same time, they may also seek to legitimate these interests vis-à-vis other social groups (Eagleton, 1991). Thus, ideational practice is an important element of constituting social leadership.

Gramsci identified various forms of leadership or dominance that can help to secure a social order and function as mechanisms of social integration. These include rule by force, fraud, and corruption. Hegemony is a form of rule based on a combination of consent and coercion, with the former being the primary mechanism and the latter 'always looming in the background' (Gramsci, 1971, pp. 169–170). Strategically, hegemony is contingent upon developing a 'hegemonic project' (Jessop, 1990), or what other neo-Gramscian scholars call 'comprehensive concepts of control' (Overbeek and van der Pijl, 1993; see also Bode, 1979).

> This involves the mobilization of support behind a concrete, national-popular program of action which asserts a general interest in the pursuit of objectives that explicitly or implicitly advance the long-term interests of the hegemonic class (fraction) and which also privileges particular 'economic-corporate' interests compatible with this program. Conversely, those particular interests which are inconsistent with the project are deemed immoral and/or irrational and, in so far as they are still pursued by groups outside the consensus, they are also liable to sanction.
>
> (Jessop, 1990, p. 208)

Thus, hegemony includes not only presenting the interests of the hegemonic group as general interest but incorporating other (opposing) interests into the hegemonic worldview and thus transcending the narrow self-interest of the leading group. In this way, various discourses are articulated into a single hegemonic discourse and some of the social antagonisms are neutralized (Laclau and Mouffe, 1984). The notion of *power bloc* refers to a relatively stable coalition of forces that is brought together by a hegemonic project. Its unity depends on the self-sacrifice of immediate interest of at least some of its members and on members' commitment to a common world outlook (Jessop, 1990). However stable, a power bloc is not a static coalition, but rather a dynamic process of coalition-building that brings together various actors by promoting the hegemonic project in particular places and times.

Ideas, to be effective, have to articulate other (material) elements of social practice. Hegemonic projects, to be successful, have to be organically related to material and ideational constraints and opportunities of the conjuncture. Hegemony does not work as an imposition or negotiation of a consensus. It is a relational moment forging a field of force that shapes social relations in a way that exerts pressures and sets limits on achievable social forms. This field of force, or historic bloc, not only shapes production of ideas and the way of thinking but makes some ideas and projects more 'comprehensive' and appealing than others (Williams, 1977; Roseberry, 1994; Kalb, 1997; Smith, 2004).

In the field of economic policy, a political project to get hegemonic must articulate a feasible 'accumulation strategy'. A (successful) accumulation strategy is constitutive of growth dynamics. At the same time, it must articulate the structural precondition for such dynamics to emerge. Jessop (1990, p. 159) summarizes the links between the hegemonic project and accumulation strategy as follows: the collective interests of capital are not reducible to the various interests that individual capitals happen to have in common. Far from these collective interests comprising the lowest common denominator of shared interests in the reproduction of the general external conditions of the circuit of capital (such as money and law), they are not wholly pre-given and must be articulated in, and through, specific accumulation strategies which establish a contingent community of interest among particular capitals.

State actors and the state as a site of social struggles have major roles in formulating and implementing hegemonic projects and accumulation strategies and thus in reshaping the balance of interests in society. The state not only may enjoy considerable autonomy from social interests; it is also a site where collectively binding decisions are made. The neo-Gramscian approaches have emphasized the role of 'organic intellectuals' and 'cadres', located both within and beyond the state apparatus, in formulating hegemonic projects, shaping social interests and reworking 'common sense'. Both intellectuals and state actors constitute autonomous social groups. Yet, the structural imperative to respect material constraints in formulating strategies, *inter alia*, links them to other social (class) forces.

In sum, state strategies are produced by social forces within the state in the context of a social struggle for hegemony. Ideas, institutions (most notably the state form), and the relations of production are constitutive of social forces and mediate their relative power and ability to influence state strategies. The notion of the hegemonic project, or comprehensive concepts of control, denotes a temporary synthesis between the perspective generated by an ascendant trend in the economy and the capacity of a set of social forces operating in the context of the state (or a number of states) to translate this perspective into a general (comprehensive) programme for society as a whole. This programme, however, does not merely reflect economic dynamic; it is rather its constitutive element (van der Pijl, 1984; Jessop, 1990). Such projects thus integrate the reproductive needs of social formations. 'This makes "hegemony" even less of a magical trick, even though deception and fraud may be part of what the population at large is being told about these reproductive and security needs' (van der Pijl, 2004, p. 184). In the analysis that follows, I will argue that the competition state should be understood as a hegemonic project linked to broad power blocs, organized by the comprador service sector.

This chapter outlined a framework for comparative historical analysis. It dealt with competing understandings of constraints and opportunities for pursuing state strategies in the global economy in general, and for state restructuring in CEE in the 1990s and early 2000s in particular. I argued that the moment of convergence should be understood as a process of state internationalization, which brings together 'external' and 'internal' determinations. I outlined my conceptual framework for analysing globally constituted domestic politics in which state strategies are transformed. This framework makes it possible to investigate the operation of various mechanisms of convergence/divergence and their translation into actual outcomes in a historical context. The purpose of the chapter was twofold: first, to establish the 'puzzle' of this analysis in the light of competing understandings of state internationalization in general and developments in CEE in particular; second, to identify mechanisms that can explain actual outcomes. The analysis that follows will investigate their operation.

2 The rise of the competition state

Towards the Porterian workfare postnational regime

What kind of competition state actually emerged in the region? How did the state strategies evolve in the individual states? To what extent can we speak about convergence? Is the transformation region-specific? These questions need to be addressed in order to establish the *explanandum*, or the 'dependent variable', of this study dealing with convergence in state strategies in the V4. This chapter analyses the transformations of dominant state projects and strategies in the region. Employing the regulationist perspective, state intervention is analysed in relation to economic dynamics, or to its effects on the production and reproduction of the process of accumulation. Thus, I propose a periodization of dominant state and accumulation strategies with respect to their functional adequacy in relation to the dynamic of capitalist accumulation in the V4. This is important for understanding not only the constraints and opportunities policy-makers and other social actors faced but the structural transformation of major social forces.

I argue that the history of economic policy-making in the V4 after 1989 can be understood in terms of the transformation from the distinct national pathways of the early nineties towards a specific model of the competition state, which I call the Porterian workfare postnational regime (PWPR). Slovenia developed a specific state strategy: the neo-corporatist competition state. The Baltic States converged towards a macroeconomic stability-driven competition state. With the exception of Hungary, this shift can be characterized as a transformation from internally oriented frameworks towards the externally oriented state strategy. The Porterian competition state, peculiar to the V4, aims to attract high-quality investment to upgrade the industrial base through targeted subsidies. The reorientation of economic policy has been accompanied by a shift in social policy. I also analyse transformations of the spatial organization of the state and its spatial effects, and deal with the dominant mode of supplementing market governance.

Obviously, a periodization can occur only when the relative continuity in the concrete-complex flow of events alternates with relative discontinuity. The histories of the Czech and Slovak cases allow for this. In the Polish case, the transformation is much more gradual and the periodization characterizes two ideal-typical state strategies that were present within the state. I claim, however, that the Porterian framework became gradually dominant in Poland. Indeed, there was a degree of continuity on the level of policy change in Poland as there were a number of attempts to promote foreign investment throughout the nineties. However, the economic function of such policies changed significantly with the emergence of strong foreign-led economic sectors in the late nineties. In the early nineties, the actual economic effects of the attempts to promote FDI were limited. This periodization, however, does not apply to Hungary as it had already embarked on the externally oriented strategy in the early nineties. The model of the Porterian state thus characterizes the state strategy that became dominant throughout the V4 in the late 1990s.

Even when emphasizing discontinuity in the Czech and Slovak cases, I do not claim that the transformations of the state captured by this periodization represent a simple, unilinear transition from one form of the state to another. They entail, rather, a path-dependent, contradictory process full of tensions and dilemmas, in which different state projects and strategies of various social forces, both within and in relation to the state, interact conflictually within different bodies of state apparatus and at various spatial scales. I claim, however, that it is possible to discern periods when one of the projects becomes dominant and acquires an important role in 'regulating' the economy. My periodization attempts to identify these conjunctures and turning points, and characterizes respective state projects.

Rather than providing a competing account to the existing ones, this chapter complements the existing scholarship both temporally and thematically. It integrates many of the recent single-issue approaches, such as studies on different policy fields, the state, and economic dynamics. The regulationist, state-theoretical perspective provides appropriate analytical tools for such an enterprise (Jessop, 2002). It aims at identifying key social relations and institutions 'regulating' or 'governing' the economy. The underlying concern of such an enquiry is how the reproduction of capital accumulation, which includes the reproduction of labour-power as a fictitious commodity, can be achieved. The regulationist perspective not only allows me to analyse the mutual constitution of the economic and the extra-economic but brings to the fore the links between the economic, political, and social dimensions of the state and its policies. Thus, it aims to enhance the understanding of the nature of the state in CEE.

While theoretically and methodologically drawing on the regulationist state-theory and the strategic-relational approach, the chapter does not apply such form-analytic framework mechanically.[1] Instead, it employs a conceptual apparatus suitable for the study of post-socialism in particular and social formations in fundamental transformations in general. Thus, it analyses the role of the state in securing conditions for the continuation of private business (realm of economic policy) and in the reproduction of labour-power (realm of social policy).[2] Moreover, it is concerned with the scalar organization of state intervention and its implication for structural coherence and compatibility of economic and social intervention. Finally, it investigates the primary mechanism of coordination for supplementing market forces (the question of the means of governance) (see Jessop, 2002, pp. 11–54). Analysis of the state in post-socialism has to deal explicitly with the taken-for-granted dimension of such analysis: that is, the question of the role of the state in securing generic conditions of capitalist relations.[3] Given the fact that the states in CEE have experienced the transformation from state socialism to capitalism only recently, I focus not only on the *re*production but on the *production* of capitalist relations and forms. Thus, I investigate a state regime that enabled *generic* forms capitalist social relations, including the capitalist type of state, to institutionalize in CEE. These generic features include the institutional separation of the 'political' and the 'economic', the development of markets and formalization of the free exchange of workers' labour for wages, and an existence of a formally sovereign state with tax capacity and bureaucratic administration apparatus based on the rule of law. However, my primary concern is to describe *particular* state projects that co-constituted specific economic dynamics in the V4 from the early nineties to the mid-2000s. On this level, I speak about the emergence of the competition state. Finally, dealing with social formations in fundamental transformation, I analyse the *functional adequacy* of existing state projects and strategies in respect to the particular dynamics of accumulation that these forms co-constitute (rather than a formal adequacy on the abstract, simple level, as in a standard form analytical approach; see Drahokoupil, 2007a).

There are a few caveats I wish to raise in order to make clear what this chapter is (not) about. First, this is not an explanatory account. Instead, it is a meso-level characterization of a descriptive nature. The chapter provides an understanding of the nature of the state and its transformation, which is then explained in the remaining chapters. This thick description is theoretically rich as it helps to understand the economic dynamics that the state co-constitutes. It identifies institutional forces which guide, sustain, and transform the process of accumulation (see Dunford, 1990). Emphasizing the reciprocal dialectic of structure and agency, I am concerned here with mapping strategic possibilities for social action that any period gives for different actors, identities, interests, coalition possibilities, horizons of action, strategies, and tactics. Second, this is not an exhaustive description of state policies or of the 'existing states'. Rather, it is a stylized account of dominant policy orientations, state projects, and strategies. The periodization brings out the distinctiveness of the conjuncture by abstracting features relevant for this analysis from the complex flow of events.[4] This characterization of the state is selective as it is concerned with its role in 'regulating' – that is, sustaining and/or transforming – the economy. Finally, this is not a 'history of events'. A more conjunctural account of the politics of state transformation is provided in the chapters that follow.

This chapter proceeds as follows. In the following section, I describe a state regime that enabled *generic* forms of capitalist relations to institutionalize in CEE. I call this regime the neoliberal transformational state. Then, I characterize national state strategies in the V4 in the early nineties, which co-constituted *particular* economic dynamics in the respective states. Finally, I describe the Porterian workfare postnational regime, which is a specific type of competition state emerging in the V4 states. I also characterize the rise of foreign-led capitalism, which accompanied the convergence towards the competition states throughout CEE.

Introducing capitalism into CEE: the neoliberal transformational state

The transition of post-communist regimes to capitalism started at a time when the global hegemony of neoliberalism was at its height (see Bryant and Mokrzycki, 1994). Thus, the neoliberal premises of the Washington consensus and respective advisers shaped the policies aimed at radical systemic transformation from non-capitalist to capitalist regimes (see Williamson, 1993). The transition to capitalism was designed to be essentially market-led. The policies were based on the assumption that it is sufficient to introduce the most basic, and narrowly economic, preconditions for a market economy. This would give rise to the invisible hand of the market, which would discipline social actors on the way to capitalism. The policies also included the International Monetary Fund's one-size-fits-all monetarist panacea of anti-inflationary policy based on fiscal and monetary restraint. Moreover, for various reasons, it was considered crucial to introduce the conditions for emergence of the market at once and as soon as possible. Thus, most of the policies implemented in post-socialist states included anti-inflationary measures of budgetary and monetary restraint, shock price liberalization, privatization, and trade liberalization. Importantly, there was a lack of positive industrial policy.[5] Thus, the technologically backward economies were assumed to upgrade their industrial bases either by the virtue of exposure to hard budget constraints or through attracting foreign investors. Alternatively, the economies were expected to compete by relying on their comparative advantage in low factor costs. Similar policies were implemented in all countries of CEE and in many other post-communist states.

In order to characterize the role of the state in introducing *generic* conditions of capitalist accumulation in the V4, I speak about the *neoliberal transformational state* (see Table 2.1). The transformational state employed policy rationale of local economists and foreign advisers such as Jeffrey Sachs, which can be characterized as roll-back neoliberalism (Peck and Tickell, 2002). Its aims reflected the underlying goals of the neoliberal project: extension of market-like rule and creation of a local capitalist class. However, it is necessary to use the word 'neoliberal' with caution. Neoliberalism is a 'slippery policy space' (Peck, 2001a). The transition policies – as ever – diverged from the ideal-typical neoliberal model to a considerable extent (King, 2001a, 2002). The original neoliberal enthusiasm of reformers for austerity measures was not fully realized in the Visegrád countries. The neoliberal consensus never extended to the privatization of enterprises. Governments in the V4 adopted approaches that involved the extension of subsidies and credits to enterprises. The transition policies also included an implicit policy of ad hoc intervention to prevent strategic enterprises from going bankrupt. Moreover, some form of social compensation and compromise soon emerged to preserve social cohesion as an important element of public policy. For instance, Poland experienced huge political backlash against the downturn caused by shock therapy.

The Olszewski government 'forfeited shock therapy' as early as 1991 and attempted to create social compromise through a more cohesion-oriented strategy

Table 2.1 Neoliberal transformational state in CEE

- Shock stabilization
- Shock price liberalization
- Shock trade liberalization (+ reorientation)
- Privatization
- Some form of compensation and compromise to preserve social peace

(Orenstein, 2001, ch. 2). Slovenia, meanwhile, implemented policies that significantly departed from the global policy orthodoxy. It pursued a much more gradualist strategy, including significant state involvement and elements of economic and social protectionism (Mencinger, 1996; Stanojevic, 2003; Pezdir, 2006; Lindstrom and Piroska, 2007).

As far as the introduction of generic forms of capitalist relation is concerned, the neoliberal transformational state was relatively functional in the CEE states. They acquired basic generic features and fulfilled basic functions of the capitalist state, such as institutional separation between state and economy, monopoly of coercion, tax capacity, and the rule of law. However, the neoliberal transformational state failed in these respects in the post-Soviet states, leading to what Burawoy (1996) calls 'involution' to a non-capitalist social formation (see also King, 2007). In CEE the basic measures of property-rights provision, institutionalization of the market and wage form, and tax-raising capacity of the state became comparable to those of the advanced capitalist countries in the early nineties (WB, 2003, 2005; WB and EBRD, 2005). As a proxy for institutionalization of the capitalist state World Bank indicators of governance cluster CEE states close to the advanced capitalist states; in contrast, the post-Soviet states are at the bottom (Kaufmann, Kraay, and Mastruzzi, 2003). The relative success in CEE can be explained by the initial level of development, inherited institutional frameworks, favourable location, and the presence of foreign direct investment (King, 2007; Myant, 2004; Boer-Ashworth, 2000). It is important to note that the criteria for success employed here are rather formal (i.e., successful introduction of general capitalist forms) and extremely generous (i.e., avoidance of the collapse of the social and economic fabric of society). If more ambitious criteria were introduced, such as providing for most efficient enterprise restructuring and avoiding social hardship, the neoliberal transformational state would not fare very well even in CEE (see, e.g., Myant, 2003; King, 2007; Gowan, 1995).

The neoliberal transformational state, by cutting ties with Comecon, liberalizing trade relations, and reorienting them to the West, reintegrated the region into a peripheral position in the international political economy. Having lost their traditional markets in the East and in the region, most of the enterprises were able to compete with low factor costs only, and they adjusted their export products accordingly (Gowan, 1995; Boer-Ashworth, 2000; Myant, 2003; Ivanova, 2007). This, as discussed in Chapter 1, created preconditions for the mechanism of convergence through competition to operate and pushed states towards the competitive model. Such strategy of economic intervention, however, was initially exceptional.

National pathways of the early nineties

A variety of state strategies emerged in the region in the early nineties (see Table 2.2). The distinctive national solutions, however, shared some common features. In the realm of economic policy, an inward-oriented framework aimed at stimulating domestic accumulation and national capitalist class formation prevailed in the V4 and Slovenia. Only Hungary embarked on the externally oriented framework. As far as social policy is concerned, all state strategies involved relatively generous measures of social compensation. The national state was a dominant means of non-market governance.

The realm of economic policy

The economic policies in the Czech Republic (Czechoslovakia) in the early nineties were based on a peculiar mix of monetarism, economic nationalism, minimal regulation of the financial sector, and so-called bank socialism. I call this policy mix Klausian as it very much reflected the strategy of the emblematic figure of Czech transformation, Václav Klaus. Klausian strategy was monetarist as it did not fear a fall in output, but was fixated on avoiding inflation and trade deficits (Myant, 2003, pp. 22–26). The Klausian strategy also entailed elements of economic nationalism. The Czechoslovak (subsequently the Czech) economy was approached as a distinct entity, and internal solutions, including domestic ownership, were preferred (Myant, 2003, pp. 13–15; Orenstein, 2001, pp. 76–79). Economic intervention sought to create a local bourgeoisie, which would subsequently provide organic support for the new regime. In the rationale of 'nationalist monetarism', there was no need for a positive industrial policy. Economic actors were assumed to 'know how' and, if they did not, they would be taught by the market. Moreover, the economic subjects (though yet to be constructed as capitalist) did have a nationality, which was important.

The transition therapy started with a macroeconomic shock of price liberalisation and fiscal and monetary restraint (Myant, 2003). Most medium and large enterprises were included into the process of 'large privatization' which was centred on the voucher method (launched in February 1992) (Shafik, 1995).[6] As I will show in the next chapter, the idea was not only to denationalize industry (of which more than 80 per cent was state owned) but to 'educate' citizens, inculcate in them capitalist reasoning, and gain political support for the transformation strategy. Moreover, it aimed to prevent foreign investors from buying out the disorganized and undervalued Czech economy. Thus, most of the shares of the companies were distributed among the population (of which 80 per cent participated) virtually for free. However, a bulk of these shares soon ended up in the privatization funds that were led by state-owned banks. This produced a structure of corporate governance involving multiple conflicts of interest. The four largest state-owned banks owned six of the largest investment privatization funds, which in turn owned enterprises which were indebted to the state-owned banks. The ownership structure, bank socialism, guaranteed an environment of soft credit. The state-owned banks would

Table 2.2 State strategies in the early nineties

Distinctive set of economic policies	*Distinctive set of social policies*	*Primary scale (if any)*	*Primary means to compensate market failure*
	Czech Republic		
Promotion of national capitalism in an open economy; Monetarism; Bank socialism	'Silent' welfare provision; 'Illusory' collective bargaining; Low-wage, low-unemployment policy	Primacy of national scale (monetarist reasoning of national aggregates); Centralized national administration	State, favouring market-reliant restructuring
Klausian	*Welfare*	*National*	*State*
	Slovakia		
Nationalism with economic means; Debt-financed demand stimula tion; Tight monetary policy	Employment-keeping subsidies to private sector; Welfare state; Consumer-prices regulation	Project of national resurrection; Centralized national administration	State
Mečiarist	*Welfare*	*National*	*State*
	Poland		
Shock therapy, considerably 'forfeited'; Gradual privatization; Post-1993 attempt to build national capitalism	Strategically targeted pensions and benefits; 'Blurred' collective bargaining; Wage indexation; Workers' councils	Centralized national administration	State-led restructuring and deliberative governance structures
	Hungary		
Externally oriented; Gradual reform; Case-by-case, cash-based privatization	Initially generous welfare measures; Strategically targeted pensions and benefits; Tripartite collective bargaining; Wage indexation	Centralized national administration	State
	Slovenia		
Social-democratic, export-oriented developmentalism	Generous welfare measures; Strong tripartite collective bargaining	Centralized national administration	State

support inefficient firms in their portfolios (see Kudrna *et al.,* 2002). There was no determination to privatize banks because of the fear of chain insolvency that would have followed (Gould, 2001; Havrda, 2003). The government opposed regulating and/or introducing any control mechanisms into the financial market and corporate governance, which enabled the management of enterprises and investment funds to 'tunnel' out the assets for their private gain (e.g., Cull, Matesová, and Shirley, 2002). Moreover, in spite of rejecting any effort to develop positive policies of industrial development, Klausian strategy included the explicit industrial policy of a weak bankruptcy framework, implicit industrial policies of ad hoc interventions to help strategic enterprises threatened by bankruptcy, and protectionism through currency devaluation (Myant, 2003, pp. 183–193).

After the split of Czechoslovakia in 1993, the Slovak part substantially slowed the implementation of market reform. However, it maintained the orthodox macroeconomic policy stance pursued under the Czechoslovak federation (Marcincin and Beblavý, 2000). Thus, the monetary policy was kept tight. Mečiar's government subordinated economic policy to its nationalistic project of Slovak resurrection. '[It] justified its privatisation policy in terms of the need to create a "nationally conscious" entrepreneurial class capable of sustaining Slovak independence' (EIU, 1998, p. 20). Most state-owned enterprises were privatized by direct sales while keeping the sale terms, ownership structure, and identity of the new owners out of public control. The government stimulated domestic demand by large debt-financed public investments in highway construction and other infrastructure. The specificity of this policy mix and the enormous influence of then Prime Minister Vladimír Mečiar make me call this strategy *Mečiarist*.

The initial strategy of economic reform in Poland was in a way the least 'distorted' translation of the developmental panacea of the neoliberal Washington consensus in CEE. Its shock therapy was based on the monetarist reasoning of credit squeeze, fiscal consolidation, limiting wage growth, and trade and prize liberalization (EBRD, 1996). Between 1990 and 1994, wages were controlled by the 'Popiwek tax' for state enterprises (EBRD, 1996, p. 166). However, shortly after the introduction of shock therapy in 1990, fiscal and monetary policies were considerably loosened; moreover, the state reintroduced provision of credit to enterprises and endorsed selective protectionism (Murrell, 1993). In addition, the government engaged in economic intervention, including a number of industrial policies (King, 2007). The shock therapy did not include shock privatization. Instead, Poland embarked on internally oriented gradualism, with employee–management buy-outs or leases being the main method (Nuti, 1999; Greskovits and Bohle, 2001). Privatization proceeded very slowly. In 1994, almost four-fifths of the 500 largest industrial companies in Poland were still state owned; only 64 were private Polish-owned enterprises and 39 were foreign owned (E. Balcerowicz, 1995, in Orenstein, 2001). By 1995, most of the privatized enterprises were small companies employing fewer than 200 employees (King, 2007). The mass privatization through direct sales of enterprises to investors was gradually implemented in 1995–1996 only. In theory, all forms of privatization were open to foreigners, though some of them only in a subordinate position.[7] In fact, there was a 'practical preference for insider privatization': that is, management and employee buy-outs (Williams and Baláz, 1999; Domański, 2005). Privatization after 1993 turned largely into an attempt to promote national capitalism and a national business class (Greskovits and Bohle, 2001). The performance of FDI in privatizations was indeed rather sluggish. It is estimated that only 6 to 10 per cent of total FDI coming to Poland was directed to the privatization process in 1994–1998 (see Kalotay and Hunya, 2000).

Hungary's reform strategy was more gradualist, with substantial reforms undertaken already under state socialism. In 1989–1991, Hungary eliminated control of prices and foreign trade and marketized the banking system (EBRD, 1996). Its economic policy was very much externally oriented. A case-by-case approach based on direct sales for cash was the main method of privatization. Starting in March 1990, the transfer of control over most of the formerly state-owned large companies to the private sector had been completed by the end of 1995 (EBRD, 1996, p. 153). The privatization of the banking sector was virtually accomplished by the end of the following year (EIU, 2004a). Hungary's method of privatization explicitly favoured TNCs (Uminski, 2001, p. 63). The policies were accommodating towards foreign investors from the beginning of the transition. In the early nineties, no other country was prepared to sell major stakes in sensitive or strategic sectors such as banking or energy to foreign capital. Hungary offered generous incentives for foreign investors, including tax and custom exemptions. It also guaranteed free repatriation of after-tax profit and capital (EIU, 2004a). However, not all privatization took the form of FDI. In 1993–1994, there was a short intermezzo in which the government promoted domestic accumulation by subsidizing the sale of enterprises to domestic owners (EBRD, 1999, p. 32; Hanley, King, and Janos, 2002).

The transition policies in Slovenia differed substantially from the neoliberal common sense of the time. Having undergone IMF-led price and trade liberalization as early as the eighties, Slovenia adopted the most gradualist and protectionist approach to enterprise restructuring. Transition policies were aimed at protecting domestic accumulation and were very cautious in relation to FDI. The privatization followed a decentralized model involving vouchers. A number of measures were introduced to limit FDI and protect national accumulation. Every FDI transaction required a registration at the district court. Most of the deals were subject to the approval by the Slovenian Privatization Agency. It was required that company directors be Slovenian citizens and that a majority of any board of directors must be too. In some sectors, such as transport, communications, insurance, and mass media, wholly foreign-owned companies were not permitted (Mencinger, 1996; Bandelj, 2004).

The realm of social policy

The Visegrád Four countries followed similar paths of social policy transformation after the fall of state socialism. Tripartite systems of collective bargaining were introduced throughout the region (see Cox and Mason, 2000). These, however, were corporatist only in form and not in content. Thus, David Ost (2000) described tripartism in CEE as an 'illusory corporatism'. Tripartism was not sought by labour, but rather by the elites to share the burden of transition policies and guarantee support for, or acceptance of, these policies. In Poland, industrial relations were complicated by the fact that the main trade union actually functioned as a (ruling) political party, which resulted in a 'blurred' system of collective bargaining (Orenstein, 2001). Throughout the V4, tripartite institutions were use to depress wages below inflation (Frydman, Murphy, and Rapaczynski, 1998; Myant and Smith, 1999).

At the same time, the V4 countries established relatively generous welfarist systems in the first years of transformation (Orenstein, 2001; Orenstein and Haas, 2005). An elaborate and relatively generous system of welfare provision was introduced in order to guarantee social peace during the process of post-socialist transformation. Polish and Hungarian social policies strategically reduced the collective capacity of labour and the collective protest potential of the population by shifting a large section of the workerforce into 'abnormal' pensions and special unemployment benefits (Vanhuysse, 2006). Czechs and Slovaks then implemented policies that maintained employment by providing soft credit or subsidies to enterprises. As a result, they enjoyed the lowest unemployment levels in Europe until 1996.

The share of social spending in GDP in the V4 was close to the EU15 average throughout the nineties. By 1995, Hungary's share of social spending was even higher than that of the EU (see Table 2.3). The Visegrád Four states all set up very generous unemployment systems in the early years of transition. Yet, many of those benefits had already been reduced in all V4 countries by 1993 (Godfrey and Richards, 1997). Minimum-wage regulations were introduced in all countries. They, however, provided very little protection for low-income workers (Standing and Vaughan-Whitehead, 1995). All countries introduced social assistance systems. These, however, varied substantially. In the Polish 'concentrated system', a small percentage of households received assistance, but this assistance was relatively important for them. The Hungarian 'dispersed system' covered a high percentage of households, but this assistance often constituted only a small proportion of household budgets (Braithwaite, Grootaert, and Milanovic, 1999). Overall, Hungary initially introduced probably the most generous welfare system in the former Soviet Bloc (UNICEF, 1997; Baxandall, 2002). However, in conjunction with other transition policies and problems, the Hungarian welfare state failed to

Table 2.3 Public social expenditure as a percentage of GDP

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
CZE	17.0	18.3	18.7	19.2	19.2	18.9	18.8	19.7	19.5	19.8	20.3	20.1
HU	–	–	–	–	–	28.6*	–	–	–	20.8	20.0	20.1
PL	15.5	22.1	26.2	25.6	24.4	23.8	23.9	23.3	22.0	22.2	21.9	23.0
SK	–	–	–	–	–	19.2	19.1	18.7	19.0	18.9	18.3	17.9
EU15	23.3	24.3	25.5	26.3	26.0	25.4	25.4	24.7	24.2	24.0	23.6	23.9

Sources: OECD (2006); * Orenstein and Haas (2005) translate social spending into general welfare of its citizens and was substantially scaled back – with the exception of pension-related benefits – in the mid-nineties (OECD, 1997; Boer-Ashworth, 2000; Baxandall, 2002). Czech and Slovak systems would fall somewhere between the concentrated and dispersed types (Večerník, 1997, 1998a, 1998b; Orenstein and Haas, 2005). Social policies also included 'soft approaches', including subsidies, towards large enterprises to keep them from failing (especially in Poland, the Czech Republic, and Slovakia). Slovakia also continued to regulate a substantial portion of consumer prices (EIU, 1998).

Primary scale

For most of the nineties, the national scale was a primary scale of intervention in the V4. Policy-making in general was centralized: regional governance bodies were either non-existent or lacked substantial autonomy and/or activity; there was a lack of regional policies and/or regional development strategies (Ferry and McMaster, 2005; Kulcsar and Domokos, 2005). During the 'large-scale' privatizations in Hungary and Czechoslovakia, a few colleagues and friends made momentous decisions about the destiny of the majority of medium and large enterprises (Husák, 1997; Uminski, 2001). The primacy of the national scale was very much in line with monetarist reasoning of national aggregates and economic nationalism to which many reformers subscribed. Industrial relations were negotiated on the national tripartite platform.

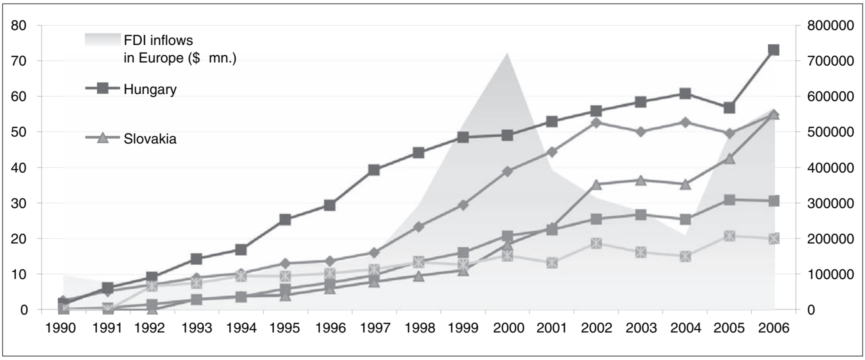
Primary means to compensate for market failure (governance)

The state has been the main means of supplementing the market mechanism in CEE. Even though the market had a primary and superior role in the discursive construction of a desirable governance mechanism in the early nineties, both direct state intervention and indirect steering through personal networks had important roles in economic governance at that time. The compensatory state actively took care of both moderating and compensating for the social cost of economic transformation (Greskovits, 1998; Vanhuysse, 2006). There was some variation in the governance of privatization that had profound implications on policy outcomes. The particularly striking contrast is between Poland and the Czech Republic: while the latter relied primarily on state-induced market organization of privatization and industrial restructuring resulting in frequent market failures, the former relied on active state engagement in enterprise restructuring and constructed 'deliberative governance structures' that helped public and private actors learn from and monitor one another (Ekiert, 2001; McDermott, 2002, 2004).

On functionality: relation to accumulation

The state strategies of the early nineties had some degree of functional adequacy to the growth requirements in post-socialism. At least temporarily, they provided sufficient regulatory and governance mechanisms for expansion of accumulation in CEE. Thus, the economic output slump of 1993–1994 was followed by economic recovery throughout the region. In the Czech Republic, the Klausian welfare national state (KWNS) co-constituted a specific growth dynamic that Myant (2003) named 'Czech capitalism'. After 1993, the Czech Republic experienced accelerating, low-wage, low-inflation growth and an economic boom. KWNS compensated for limited adjustment in some enterprises by securing conditions of soft credit. Investment projects (such as rebuilding of infrastructure) and social spending also played important roles in stimulating demand. Further, KWNS secured a low-wage, low-currency-value, and low-inflation environment. This environment enabled quick adaptation of existing enterprises. This often happened, however, by regressing to exporting products associated with a lower level of development (Myant, 2003, p. 42). Moreover, KWNS played a crucial role in securing social reproduction by socializing the costs of transformation. However, the Klausian project could not institutionalize as a relatively stable mode of regulation. Indeed, in the mid-term, Czech capitalism was not able to reproduce itself. The functional adequacy of KWNS had narrow limits and the factors that caused the downturn were largely produced by the very forces driving Czech capitalism. In 1996, the Czech Republic experienced an economic downturn which was accompanied by a serious current account deficit. The years 1996 and 1997 saw a series of bank failures and frauds in the financial sector. These failures were clearly caused by lack of regulation in the banking sector and equity market. In April 1997, the government reacted by introducing two 'little packages' of restrictive economic measures. These were unable to avert the crisis, and instead undermined one of the driving forces of the economy. 'The downturn reflected partly the exhaustion of specific sources of growth, partly the effects of a changed approach from commercial banks following an over-extension of credit and partly the effects of the "packages" of mid 1997 which had a strong impact on household spending' (Myant, 2003, p. 52). The collapse of the Klausian project marked the end of an attempt to produce national capitalism. What is more important, the experience of Czech capitalism destroyed much of country's potential for indigenous development and paved the way for dependence on inward investment (Myant, 2007a).

The Mečiarist project in Slovakia produced a period of rapid growth. In 1994–1998, GDP growth oscillated between 4.1 and 6.7 per cent. This growth, led by foreign and later domestic demand, was underpinned by a stable macroeconomic framework of restrictive fiscal and neutral monetary policies, by pro-export policies (devaluation and pro-export measures), and by 'a demand-oriented economic policy that included stimulation of demand through expansion of public expenditures, realization of extensive public infrastructure investments, deficit-generating management in the interest of the stimulation of so-called developmental stimuli' (Marcinčin and Beblavý, 2000, p. 43). Yet, by 1996, partial privatization of banks, politicized lending, and expensive industrial policy for the politically connected created fiscal deficits that destabilized the Slovak crown and crowded out domestic investment (Appel, 2000). The 1998 elections pushed Mečiar out of power and led to an abandonment of his project to promote national capitalism and to radical reorientation of economic and social policies. In contrast to the Czech Republic,



Source: UNCTAD

Figure 2.1 FDI stocks as percentage of GDP in the context of European FDI inflows

however, the Mečiarist project was not abandoned primarily for its economic failure, but rather for political reasons.

In terms of its growth record, Poland proved to be the biggest success story of the region (Paci, Sasin, and Verbeek, 2004). After the initial output collapse, it experienced unbroken growth throughout the 1990s. Polish deliberative governance structures performed much better than the Czech Republic bank-enterprise networks in adapting state-owned enterprises to the new environment and in their productive restructuring (McDermott, 2002, 2004). The Polish growth record can largely be attributed to its relatively superior performance in enterprise restructuring and in creation of new firms (Blaszczyk and Woodward, 1999; Klich and Lipiec, 2000). Poland has integrated into the global economy primarily through the 'logic of trade' (Martin, 1998). Its international economic integration and openness, however, were the shallowest of the CEE countries (Greskovits and Bohle, 2001). Throughout the nineties, neither foreign-oriented privatization nor other types of FDI changed the structure of the economy substantially (Boer-Ashworth, 2000, p. 93). As is shown in Figure 2.1, FDI penetration in the Polish economy, as well as the Slovak one, was very low throughout the nineties.

In contrast, Hungary became fully integrated into global – and specifically to West European – capitalism through debt, trade, foreign direct investment, and banking (EBRD, 1998, 1999). It is estimated that only 20–25 per cent of indigenous firms survived the transition, and the gross fixed capital formation of the survivors was moderate (Barta, 2002). The disappearing indigenous firms provided room for foreign-owned companies to expand (Sass, 2004). Hungary established itself as a leading capital importer, with privatization providing a major impetus for FDI entry.[8] The foreign dominance in the banking sector was exceptional in both East and West European terms (Claessens, Demirguc-Kunt, and Huizinga, 1998). It oriented its trade almost exclusively in the West–EU direction. It established itself as an export leader in Europe, with foreign dominance of its leading sector. While low-cost labour was a major motivation of investors in the early nineties, Hungary also managed to attract investors who were not concerned primarily with cheap labour, and some upgrading took place (OECD, 1999). While the economic recovery in the early nineties was relatively slow and not without social costs, the Hungarian strategy proved to be functional in creating foreign-led capitalism and underpinning foreign-led growth and development.

Convergence of the late nineties: towards the Porterian workfare postnational regime

The late nineties witnessed a process of convergence towards competition states in CEE. The underlying aim of state intervention has become the management of the insertion of local/national economy into the flows of 'global' capitalism. Other social and economic polices were (to different extents) subordinated or integrated into the competitiveness agenda. Investment attraction is not an isolated sectoral policy: it frames other policies and strategies. Policies targeting FDI are considered as a means of achieving other goals, such as job creation, industrial and regional development, and the promotion of research and development.[9] We can observe a similar type of statehood to what has been described as a 'competition state' in advanced capitalism and in the EU in particular (Jessop, 2002; see also Cerny, 2000; Brenner, 2004). However, the competition states in CEE are distinct.[10] They can be classified according to how they rank three core agendas: industry upgrading, macroeconomic stability, and social inclusion.[11]

The competition states in the Visegrád Four can be called *Porterian* since the industrial policies in the V4 are very much based on the notion of competitiveness promoted by the emblematic thinker and management guru Michael Porter. In the Porterian logic, competitiveness is achieved from high and rising levels of labour productivity associated with high-tech production processes and highly qualified, labour-intensive activities (Porter, 1990)[12] (see Table 2.4).[13] The Porterian strategy in the V4 is driven primarily by industrial upgrading, with transnationally oriented industrial policy and related institutions playing a crucial role. The Porterian states

Table 2.4 Porterian workfare postnational regime (accentuation of trends)

Distinctive set of economic policies	*Distinctive set of social policies*	*Primary scale (if any)*	*Primary means to compensate market failure*
Manages insertion of the locality into 'global' economy; Supply-side intervention: FDI attraction through targeted subsidies; Emphasis on skill-intensive, technology-rich activities	Subordinates social policy to economic competitiveness; Emphasis on flexibility and employability; Attempts to reduce unemployment through investment attraction	Shift of power upwards, downwards, and sideways; New role of the national scale; Equalizing/compensating spatial project	(Shift to governance)
Porterian	*Workfare*	*Postnational*	*Regime*

engage in supply-side intervention to manage the insertion of the locality into the 'global' economy by discriminating among investors upon their potential contribution to the local economy. In order to upgrade their industrial bases, they attract 'appropriate' FDI and attempt to cluster it in the regions. As shown in Tables 2.5 and 2.6, the main means of Porterian intervention in the V4 are different *targeted investment subsidies*, including tax breaks, employee-training grants, and subsidies for infrastructure development.[14] The structure of these incentives in the V4 is similar (see also OECD, 2000, Box 4). After bringing an investor into a locality, state policies attempt to embed it in the local economy and thus create potential for spill-over effects and industrial upgrading, and reduce the risk of its departure by making it more locality dependent and thus less mobile.[15] The understanding of desirable investment, which is also likely to be attracted into the region, is changing over time. In the late nineties and early 2000s, greenfield investors establishing large 'Fordist' industrial plants in the automobile and electronics sectors dominated the agenda. Recently, the service sector has become the focus of investment attraction.[16]

In contrast, the Baltic competition states can be called *macroeconomic stability-driven neoliberal states with monetary institutions at their core*. These states aim at attracting and keeping investment primarily by market forces and by the provision of a low-cost, flexible environment (see Table 2.5). This can have adverse consequences for social inclusion (Bohle and Greskovits, 2006a).

Table 2.5 Incentive levels and their types (estimated values)

	1994–1998	*1998–2003*	*2005*	*Types of incentive*
Czech Republic	1.93	4.06	4	A significant and wide range of incentives
Poland	3.4	3.8	3.67	Investment grants and the wide use of free zones imply an attractive range of incentives
Hungary	3.13	4.33	4.33	Considerable scope, especially the development tax incentive
Slovakia	1.47	4.2	4	The ten-year reduction and various grants represent a significant level of incentive
Slovenia	2.67	2.87	2.33	Dividend restrictions appear to limit value of relatively modest tax credits
Estonia	2	1.4	2	Limited incentives, as focus is on low tax rate
Latvia	2.33	2.93	3.33	Tax credits, grants and free zones offer a significant range of incentives which, however, seem more limited than some other EU members
Lithuania	3	3	3	The main incentive appears to be the generous regime in free zones

Source: Adapted from Cass (2006)

Table 2.6 Overview of incentives schemes

	Tax holidays or subsidies (regular basis)	*Tax rate %*	*Strategic incentives*	*Special economic zones**	*Performance requirements/ special objectives*
Bulgaria	Yes	20	No	6 zones	Tied to zones; Job creation
Czech Republic	Yes	28	Yes	13+ zones and parks	Size; Job creation; Corp. services and RandD; Partly decentralized
Hungary	Yes	16	Yes	75+ zones and parks	Size; Structurally weak areas; Environment
Poland	Yes	19	Yes	14+ zones and parks	Tied to zones; Fully decentralized
Slovak Republic	Yes	19	Yes	9+ parks	Job creation
Slovenia	Yes	25	No	8+ free zones	Job creation; Partly decentralized
Estonia	No	26	No	Ports only	No
Latvia	No	15	Yes	Ports only	Case-by-case; Hi-tech
Lithuania	No	15	Yes	3 free zones and 2 parks	Very large size; Case-by-case
Romania	Yes	25	Yes	30 zones	Size; Tied to zones

Sources: Dresdner Bank (2003) and Ernst and Young (2004) in Jensen (2006, Appendix)

Note: *In free zones (in short, zones) investors mainly benefit from lower taxes and trade duties. Industry parks (in short, parks) have objectives beyond cost-cutting, such as trying to attract particular types of industry that match existing industries in the area or the skill structure of the region.

Finally, Slovenia has developed a distinct type of competition state, which can be characterized as *balanced neo-corporatist*. Negotiated industrial relations play a crucial role in balancing the potentially contradictory tasks and institutions of Slovenian competition state (Bohle and Greskovits, 2006b).

The realm of economic policy: the (foreign) investment subsidies

There is some variation in both time and space within the group of Porterian states as far as their primary logic and means of intervention are concerned. Moreover, the degree of their prominence within the state apparatus and in societies also varies. With the exception of individual privatization deals of the early nineties (most notably Volkswagen's buy-out of Škoda), the Czech Republic was reluctant to offer incentives to foreign investors until 1998. That year's National Investment Incentives Scheme established a very generous system that included a corporate tax holiday of up to ten years, duty-free importation of machinery and equipment for newly establish companies, low-cost or virtually free transfers of land and infrastructural facilities to the investor, subsidies for training the labour force, and grants for newly created jobs.[17] Initially implemented on the basis of a government resolution and regulated by the Act on Investment Incentives of 2000 (amended in 2001, 2002, 2004, and 2007), the scheme also improved the institutional framework for investment promotion by giving the investment promotion agency CzechInvest considerable independence and establishing it as a one-stop shop for investors. The amendments to the scheme gradually lowered the limits for the minimum volume of an individual investment, reduced the duration of tax relief to five years, and retargeted the scheme to more technologically intensive investments. The investment attraction and support scheme quickly became a hegemonic developmental strategy. What is more, the investment package and the institutional organization of investment support provision became a regional benchmark in the aggressive competition for foreign investors that the Czechs ignited. As far as the quality of supported investment is concerned, the actual investment support tended to overemphasize quantity over Porterian targets (Mallya, Kukulka, and Jensen, 2004). Thus, the Czech state arguably largely engaged in promoting a kind of neo-Ricardian static comparative advantage (in contrast to the dynamic competitive one).[18]

Hungary, along with Romania, was the only country to offer a general investment incentives framework from the beginning of the transition (see OECD, 2000, Box 2).

With the aim of attracting export-oriented, high-technology FDI, Hungary introduced an industrial free trade zones (IFTZs) scheme as early as 1982. Companies operating in free trade zones were exempt from customs and indirect taxes. Even though its investment incentives scheme changed over time, Hungary offered a complex set of incentives – including fiscal incentives (tax holidays and reductions, deductions from the tax base), financial incentives (job creation, R&D, and environmental-protection grants), and other incentives (institutional support, IFTZs, and industrial parks) – throughout the 1990s and 2000s. Aiming to attract 'blue chip' companies, the government made a number of individual deals with foreign investors in the early nineties, often assuring them of monopoly positions (Sass, 2003b). In a period starting in 1996, the investment incentives scheme was overhauled with the aim of increasing the benefits of FDI for the host economy (Sass, 2004). The scheme became less generous and targeted export-oriented, large investment in manufacturing. Yet, Hungary still granted the highest tax and import duty allowances in the region (OECD, 2000; EIU, 2004a). However, targeting made only a small number of large foreign companies eligible to benefit from the scheme. The new scheme also introduced policies aimed at creating linkages with local companies. In 2003, Hungary had to restructure its incentives scheme completely in order to comply with EU competition regulation. It had to be less generous with tax allowances and effectively abolished IFTZs (Sass, 2003a, 2004). At the same time, as a reaction to incentives competition from the Czech Republic and Slovakia, the government introduced a complex and generous system of grants and subsidies for large investors (ITDH, 2007).[19]

In Poland, there was no stable policy of investment incentives on the national level throughout the 1990s; yet, there were a number of attempts to attract FDI (Domański, 2005). In December 1988, all companies with foreign participation were granted a three- or six-year tax holiday. This scheme was replaced by individual tax exemptions in June 1991. Yet, only 8 per cent of foreign firms enjoyed these exemptions (Bluszkowski and Garlicki, 1996). Some of the large investors were granted special treatment, such as market protection and a monopoly position, as an investment incentive. For instance, in 1992, Fiat was granted market protection through tariffs on imported cars. Lucent Technologies, Alcatel, and Siemens were given exclusive rights to supply the national telecom network. However, the support for FDI within the state apparatus has been very uneven and it was often overshadowed by attempts to promote national accumulation. What is more, no incentives could offset the generally negative approach of foreign investors to the crisis-struck economy (Kalotay and Hunya, 2000).

In 1996 the government introduced special economic zones, where both foreign and domestic companies could enjoy corporate tax relief and exemptions. Without being a special incentive for foreigners, these zones were much more likely to be used by foreigners rather than existing domestic producers (Domański, 2003). With most of capital coming to only a few places, most of these zones achieved little success in attracting large investors (Domański, 2005). After 1996, there was a steady increase in the privatization of already restructured SOEs to foreign capital (Kalotay and Hunya, 2000; King, 2002). At the same time, the government launched a policy of developing state-owned conglomerates or national champions in strategic sectors, such as chemicals, refining, and banking (Orenstein, 2001). The situation, however, changed quite dramatically in 1999 when the foreigners began to dominate privatization (Uminski, 2001). In 1999/2000 the country implemented a massive programme of foreign sell-off in the banking sector (Greskovits and Bohle, 2001). In general, it has only been since the late 1990s that externally oriented policies have performed significant economic functions (Domański, 2003, p. 113). FDI, however, acquired hegemonic status quite early in the developmental strategies – or what were often rather developmental *fantasies* – in many regions and cities (Young and Kaczmarek, 1999, 2000; Hardy, 1998, 2007). In the mid-1990s, Bluszkowski and Garlicki (1996) found that *Gmina* (the smallest territorial division in Poland) authorities almost universally perceived FDI as beneficial to local communities (see also Domański, 2001a). By the end of the nineties, 81 per cent of regional governments said that attracting inward investment was a key local development strategy; yet, just over half of them had established dedicated promotion or marketing units (Young and Kaczmarek, 2000). In January 1999, a national programme of incentives was introduced, including tax allowances on revenue earned, start-up investments, exports, machinery purchases, and development implementation projects. In 2005, as a reaction to the investment scheme competition in the region, the government redesigned the Polish investment scheme and introduced a 'standard' package of grants, subsidies, and tax allowances (PAIiIZ, 2007).[20]

In Slovakia, general elections brought a rightist coalition led by Mikuláš Dzurinda to power in 1998. This radically changed the country's policy orientation. The new government aimed to boost competitiveness and attract foreign capital. FDI became hegemonic in thinking about economic development in the country (Zamkovský, 1999). In 1998, Slovakia emulated the Czech investment subsidy scheme[21] and introduced tax relief, subsidies for employee training, job-creation grants, and cheap loans to investors. As analysed in Chapter 7, the Slovak government proved to be extremely accommodating in dealing with individual investors, willing to circumvent its own laws and to give up democratic accountability. In 2002–2006, Slovakia went through a neoliberal revolution. Largely motivated by encouraging foreign investment, the Dzurinda government introduced a simple 19 per cent flat tax and an employer-friendly labour code. The Income Tax Act of 2003 abolished tax holidays for new investments. In 2005, the government retargeted its investment scheme to high-value added activities and reduced the subjective discretion of ministers and bureaucrats that allowed non-transparent and aggressively generous investment deals struck in 2002–2005 (Fisher, Gould, and Haughton, 2007).

Social policies

While the state strategies of the early nineties attempted to secure social peace by targeted pensions and benefits (Hungary and Poland) or by keeping employment high by providing soft credits and other forms of subsidies (the Czech Republic and Slovakia), attracting FDI became a major strategy to fight unemployment. Thus, the states in the V4 offered higher subsidies for investments in high-unemployment regions. From the mid-nineties, CEE states began to retrench their social systems (Manning, 2004; Orenstein and Haas, 2005). This has largely reflected the neoliberal policy advice of the World Bank (e.g., WB, 1995). Initially, the retrenchment was most visible and dramatic in Hungary in 1995, when a socialist government initiated severe cuts in welfare – but not in pensions – under the so-called *Bokros* package of reforms (see Haney, 2002, pp. 183–190). Social-policy reforms in the region not only gradually dismantled and targeted welfare provisions but reoriented social systems into the *workfarist* paradigm (Peck, 2001b). Thus, social policies were increasingly aimed at motivating welfare recipients actively to look for jobs and discouraging them from passively consuming benefits. This often involves their stigmatization and pathologization (see, e.g., Haney, 2002, pp. 190–204). Furthermore, the social policy aims to promote workforce flexibility. It makes workers employable by training them according to the needs of capital (e.g., Young, 2004, p. 114).

At the moment, Slovakia is a European leader in reorienting its social system and labour code in the neoliberal workfarist direction (see Fisher, Gould, and Haughton, 2007). As a result of a comprehensive flexibilization overhaul of the labour code in 2003, employers now have enormous flexibility in hiring and firing employees. Unions were marginalized by the introduction of other forms of employee representation, such as works councils and works trustees (Majtan, 2005). In addition, Slovakia introduced a highly regressive tax system, setting a uniform 19 per cent flat rate for corporate and personal income, as well as for value-added tax (EIU, 2004b). While managing to introduce additional protection into the labour code and putting the reform of the pension system on hold, the centre-left government elected in 2006 did not reverse the neoliberal revolution in principle. Yet, Slovakian radicalism is (still) an exception. What is more, Slovakia never went as far as countries like Estonia, both in terms of aggregate state spending and in measures of social redistribution (Hanson, 2007).

The other Visegrád states – while buying into the workfarist paradigm – retain significant measures of social protection. In the Czech Republic, the Social Democratic governments (1998–2006) actually stopped the retrenchment of Klaus's era. Tending to be more generous in this respect, they brought social policy back on to the political agenda (Potůček, 2004). The competitive orientation of economic policy remains a challenge for welfarist and redistributive measures, as policy-makers at all levels remain focused on the implications of social policies on the country's competitiveness. The 2006 revision of the labour code was driven by the concern to increase flexibility of employment. The following year's election brought to power ODS, which had been mobilizing for a radically neoliberal workfarism (Páralová, 2004). When the Social Democrats were in power, the unions gained greater access and influence in policy-making.[22] However, the institutional role of tripartite negotiations remains weak (Fassmann and Čornějová, 2003). Moreover, the membership base of interest representation continues to weaken, which undermines the tripartite institutions for social dialogue (Myant, 2007a). The existence of social compensation without an institutional anchor of interest representation is typical of the V4 (Bohle and Greskovits, 2007). Only Slovenia developed institutionalized representation of interests, which provides institutional underpinning to policies of social protection.

Primary scale

The late nineties saw some degree of rescaling of the state in all four countries. The power of the national state has shifted and transformed upwards, downwards, and sideways.[23] The EU accession in 2004 and the enlargement process that preceded it represent a decisive shift of state power upwards. Most of the states in the region, most notably Hungary, had to redesign their investment incentives schemes in order to comply with EU regulations. As will be shown in the following chapters, international or transnational (non-)governmental organizations, such as the CEE Bankwatch network, play an important role in decision-making and political struggles. Moreover, CEE states engage in supranational place marketing, such as in the case of Euroregions (shift upwards and sideways) (Young, 2004). As far as the shift downwards is concerned, Hungarian regional bodies became active in 1997 (Kulcsar and Domokos, 2005), while regional self-governing in Poland and in the Czech Republic were established in 1999 and 2000, respectively. Polish *voivodships* and *gminas* have important autonomous roles in place marketing, including investment attracting; they can reduce local taxes and provide other incentives such as training labour forces (Hardy, 2004; Young, 2004; Capik, 2007). In the Czech Republic, regional units have rather limited power; however, there are some areas where their power is significant or looks set to grow. This is particularly the case in regional development and FDI promotion (Drahokoupil, 2004; Ferry and McMaster, 2005; McMaster, 2006). As will be analysed in Chapter

Table 2.7 State spatial selectivity

	State spatial project	*State spatial strategy*
Scalar dimension	Early nineties: national state	Early nineties: privileging of the national capital (Hungary exception), open economy (triadic/global)
	PWPR: new state spaces (EU, regions), primacy of the national	PWPR: focus on FDI, open economy (triadic/global)
Territorial dimension	Both early nineties and PWPR: uniform and standardized administrative coverage	Early nineties: no explicit spatial project, ad hoc intervention (actual concentration) PWPR: equalizing/spatio-compensating project, spatial contradiction, actual concentration

Source: Adapted from Brenner (2004, p. 97, Fig. 3.9)

7, these scalar transformations make the ability of social actors to ‘jump scales’ an important asset in the social struggle.

Table 2.7 characterizes spatio-social aspects of Porterian state in the V4. It aims to compensate regions that have relatively high unemployment or are otherwise ‘structurally handicapped’ by directing FDI there. The extent of state investment support varies according to the region. Attempts at compensation through FDI are successful only to a very limited extent. However, the location of supported investments, suggests that this equalizing or spatio-compensating project is trapped in its contradiction, producing uneven development. Most FDI goes into growth regions, into localities where it would probably be placed anyway, based on the ‘standard’ location decisions of corporations (OECD, 2004, pp. 32–38; Domański, 2003, pp. 106, 113; Sass, 2004, p. 84).

Primary means to compensate for market failure (governance)

Some recent trends and governmental plans indicate the trend of shifting state responsibilities sideways. Non-governmental agencies and various forms of public–private partnership have grown in importance. This is quite significant in formulating and implementing regional developmental strategies (Ferry and McMaster, 2005; McMaster, 2006) and, in particular, in the process of investment attracting in which economic, state, and non-state actors operating on different scales meet (Drahokoupil, 2004; Young, 2004; Hardy, 2004). Projects of providing public services through PPP have been mushrooming in the region, and PPP has become a growth sector. Hungary was the first to implement a large PPP scheme in the region. Its highway project turned out to be a huge failure of governance. This, however, discouraged neither Hungary nor the other V4 states from developing PPPs.[24] According to the OECD, the V4 states are among the top twenty-five locations for investment in PPPs in infrastructure in developing and transition economies (OECD, 2005, p. Table 3.2).

Relation to accumulation: the rise of foreign-led economies

The economic recovery of the late nineties has been accompanied, and largely driven, by an upsurge of FDI. The economies in the region underwent a process of rapid and thorough internationalization, with export activities increasingly focused on the EU market. From the vantage point of the early 2000s, it is a commonplace to observe that foreign-led economies crystallized in CEE, with foreign control of leading export industries and most public utilities, and unprecedented levels of foreign dominance in the banking sector. A good measure of the economic internationalization in the region from the late nineties and the importance of foreign investors in the respective economies in comparison with the rest of Europe is provided by the UNCTAD transnationality indices of home economies (see Table 2.8).[25] It shows that the Czech Republic, Hungary, and Slovakia have become as internationalized as the most open economies of the small European states, such as Sweden, the Netherlands, and Denmark. Slovenia is not as FDI dependent as the Eastern European leaders; however, its level of transnationalization is higher than that of the United Kingdom or Germany. In terms of internationalization, Poland has overtaken the other big European economies, Germany and France, by a narrow margin. By 2002, it did not, however, reach the degree of internationalization of another big European economy, Spain. As far as the Baltic States are concerned, Estonia has become the most internationalized economy in the region. Latvia and Lithuania are comparable to Slovenia.

Table 2.8 UNCTAD Transnationality index of host economies

	1999	*2002*
Czech Republic	17.6	30.9
Hungary	27.6	30.1
Slovakia	7.1	27.5
Poland	11.5	15.6
Slovenia	7.9	22.3
Estonia	23.2	39.0
Latvia	18.3	18.8
Lithuania	13.2	23.3
Ukraine	4.8	10.3
Romania	9.4	12.1
Germany	10.6	14.3
France	9.4	13.5
Spain	14.7	20.5
Sweden	33.0	28.5
Netherlands	25.2	38.4
Ireland	35.7	69.3
Belgium and Luxembourg	66.0	77.1
Denmark	17.9	35.3
United Kingdom	14.5	16.8
United States	8.2	7.7

Source: UNCTAD (2002, 2005)

These figures, however, cannot reveal that the region has been internationalized in a dependent way (Vliegenthart, 2008; Vliegenthart and Overbeek, 2007). While the inward FDI stock is soaring, there is only a little outward FDI from CEE (UNCTAD, 2005, 2006). FDI has a major role as a source of business finance in CEE (Nölke and Vliegenthart, 2006). What is more, foreign-controlled banks acquired unprecedented control of the banking sector (Table 2.9). Foreign corporations control major export industries, services, and utilities in CEE (Bohle and Greskovits, 2007; Pavlínek, 2004b, 2006). Table 2.10 shows the importance of foreign controlled activities in terms of value added and employment. While the importance of FDI in employment in CEE is comparable to that in Western Europe, in terms of value added it is much more important in CEE. A closer look at the transformation of the role of FDI in the Czech Republic in the late nineties and its sectoral breakdown is provided in Tables 2.11 and 2.12.

Table 2.9 Penetration ratios of majority-owned foreign bank affiliates in banking, 2001

*Central and Eastern Europe**	*%*	*Developed Countries**	*%*
Estonia	98.9	New Zealand	99.1
Czech Republic	90.0	United Kingdom	46.0
Hungary	88.8	United States	20.2
Slovakia	85.5	Norway	19.2
Lithuania	78.2	Portugal	17.7
Poland	68.7	Australia	17.0

Source: UNCTAD (2004, Annex table A.III.4, p. 321)

Note: *Top six in rank

Can the PWPR secure expanded reproduction in the longer term and provide a social fix to the foreign-led accumulation regime? The competition states in CEE indeed did address the key element of the renewed expansion of the late nineties, the foreign direct investment. So far, the foreign-led economies have produced impressive growth records throughout the region. However, in order to start assessing the functionality of the PWPR and the prospects of transnational capitalism in CEE, it is necessary to take a closer look at the nature of integration of individual states into transnational capitalism.

The integration of foreign-controlled sectors into, and their impact on, CEE economies is uneven, resulting in both high and low roads of regional development (Pickles and Smith, 2004; Smith and Pavlínek, 2000). There is a variety of leading export sectors among CEE states with considerable implications for host economies and societies (Greskovits, 2005).[26] The Visegrád states were transformed into major exporters of capital- and skill-intensive consumer durable and capital goods, such as cars, electrical components, and electronics. Thus, they produce products that the advanced industrial countries in the West have traditionally produced. In contrast, the Baltic and Southeast European states were dominated by transnational light industries with relatively low factor and human-capital intensity (e.g., wood, textiles, and garments).[27] These activities have traditionally been located in the developing world.

Table 2.10 Foreign-controlled enterprise in the non-financial business economy, 2003 (percentage share of total)

	Number of enterprises	*Value added*	*Number of persons employed*
Hungary (1)	–	37.3	14.5
Slovakia (2)	–	32.1	21.6
Czech Republic	1.4	31.2	18.7
Poland (3)	–	–	9.6
Estonia (4)	1.8	29.2	19.6
Latvia	4.3	24.0	12.7
Lithuania	3.1	22.1	10.2
Romania (5)	–	23.7	13.1
Bulgaria	2.1	21.3	10.7
Sweden	1.7	28.2	21.2
Netherlands	0.9	20.2	12.2
Portugal	0.3	19.6	7.9
France (6)	0.9	18.6	14.6
Austria	1.1	16.4	11.8
Finland	1.1	16.3	14.3
Spain (7)	0.2	14.7	9.6
Italy (8)	0.3	11.7	7.3

Sources: Eurostat (SBS), with the exception of (3) – Polish Central Statistical office, www.stat.gov.pl

Notes: (1) Legal units, instead of enterprises; (2) Foreign-controlled enterprises with 20 or more persons employed as a share of the total enterprise population; foreign ownership based on first-shot concept; (3) Foreign and mixed, data for 2002 (4) Foreign-controlled enterprises with 20 or more persons employed as a share of the total enterprise population; (5) Foreign-controlled enterprises with 50 or more persons employed as a share of the total enterprise population; foreign ownership based on first-shot concept; (6) Number of employees instead of number of persons employed; (7) Excluding construction; (8) 2002

Table 2.11 Percentage shares of different forms of ownership in manufacturing output and employment, Czech Republic, 1996–2003

	Public Output	*Employ-ment*	*Private Output*	*Employ-ment*	*Foreign Output*	*Employ-ment*	*Self-employed Output*	*Employ-ment*
1996	21.2	17.4	60.1	68.2	11.2	7.8	7.4	6.6
1997	16.1	11.0	62.5	72.3	13.3	8.7	8.1	8.0
1998	15.0	8.8	62.0	66.1	17.6	11.0	5.5	14.1
1999	20.4	9.8	51.6	61.1	22.7	14.0	5.3	15.1
2000	10.2	5.4	50.1	57.1	34.1	22.3	5.5	15.2
2001	7.1	3.8	50.1	54.5	37.6	25.3	5.2	16.3
2002	5.9	3.1	48.9	55.5	40.3	26.4	5.0	15.1
2003	5.8	2.8	46.1	53.2	43.4	27.7	4.7	16.2

Source: Myant's (2007a) calculation from CZSO (CZSO, 2002, Table 16-9; 2004, Table 16-10)

Note: Output is measured by total revenue

Table 2.12 Percentage shares of enterprises with majority foreign ownership share in employment and value added, Czech Republic, 2003

	Employment	*Value added*
All	14.9	19.0
Manufacturing	29.0	37.8
Trade	17.1	14.3
Transport and telecommunications	5.0	12.8
Finance	79.0	87.8
Property and business services	8.7	7.9
Others	4.5	7.6

Source: Myant's (2007b) calculation from CNB (2005, p. 60) and CZSO (2005, Tables 1 and 5-4)

Note: Employment is a percentage of total civilian employment in that sector; value added is a percentage of gross value added from national income accounts;

The fact that the Visegrád states produce the same kinds of goods as the countries of the European core, however, does not mean that they have the same position in the value chain: they do not do the same productive tasks in the transnational division of labour. There is a different degree of sophistication and skills, or human capital, in the economies of V4 and the European core.[28] Therefore, Greskovits (2005) characterized the V4 states as *semi-core*, and the Baltic and Southeast European states as *semi-periphery*.[29] The political-economic position of the former provides socioeconomic foundations – structural opportunities – for a more stable and solidaristic type of capitalism.

As suggested by Bohle and Greskovits (2007), the peripheral integration of the Baltic and Southeast European states renders limited room for manoeuvre for these states and is likely to lock them into their neoliberal pathway. Their dependence on super-mobile investors produces an unstable outcome that makes any assessment of long-term prospects of these socioeconomic regimes and the functionality of their state strategies difficult. Despite institutional instability, in the realm of social protection in particular, the situation in the V4 and Slovenia provides structural preconditions for relatively stable and sustainable regimes. Therefore, it is possible to see the PWPR as a state strategy that is functionally adequate to the integration of the economies in the V4 into transnational capitalism.

However, a thorough assessment of the potential of the PWPR to be a part of a mode of regulation would have to investigate its functional properties, such as its ability to provide 'institutional complementarities' resolving (at least partially and temporarily) crucial coordination problems and providing 'comparative advantages' to varieties of capitalism in the region (see Hall and Soskice, 2001). In addition, such analysis would have to leave the national scale. The potential object of regulation of the PWPR would be the economic spaces of the region as inserted into globalizing, European capitalism.[30] Thus, PWPR may be functional in securing growth within the national economic space. However, as a mode of regulation, PWPR has to be conceived as a part of the European triadic governance regime. This is the level on which the emergent principal contradiction and dilemma of the globalizing European capitalism can be addressed. These are important topics for future research that are beyond the scope of this book.

Questions rather than conclusion

In this chapter, I have provided a periodization of dominant state projects and accumulation strategies with respect to their functional adequacy in relation to the dynamics of capitalist accumulation in the region. I have described the crystallization of distinct national state projects of the early nineties. However, these projects failed to reproduce themselves. The late nineties in the V4 saw a convergence of state strategies towards a distinctive type of the competition state – the Porterian workfare postnational regime. Slovenia developed a distinct state strategy – the neo-corporatist competition state. Any periodization is relevant only in relation to its purpose and involves a risk of overlooking continuities in the real world. Thus, it would be misleading if used to interpret the strategies of various social forces and impose a discontinuity on it.

The transformation towards the competition state in the Czech Republic and Slovakia corresponds most to the ideal-typical periodization. It was very quick: 1998 was a year of u-turns in the approach of these states towards FDI. Hungary took the externally oriented approach from the very beginning. This project, although far from unchallenged, was dominant throughout the nineties and early 2000s and acquired hegemonic status. The Polish experience was of a more gradual, less intentional, and very uneven transformation towards the increasing predominance of the externally oriented project. While there were some attempts to implement the externally oriented project in the country throughout the nineties, it acquired important economic functions only at the end of that decade.

The emergence of the competition state was not a matter of automatic steering; on the contrary, it must be perceived as one of the possible and relatively contingent outcomes of the search for a solution to economic problems and dilemmas in the V4. How should we explain its emergence? What is the political support of this project? Was the emergence of the Porterian competition state a matter of choice, external compulsion, or objective necessity? How does that link to transformations on the world scale? The chapters that follow will provide answers to these questions. This analysis has provided grounds for such an endeavour by mapping constraints and possibilities for political action in the region through a thick description, which was necessarily selective and abstracted from the concrete-complex reality. In order to explain the political process and strategies of concrete social agents, the following chapters will move to the level of concrete-complex. The two chapters that follow focus on the formation of the national pathways of the early nineties and on the failure of national projects to reproduce themselves. This will help us to understand the process of convergence towards the Porterian competition state in the late nineties and the uneven process of state internationalization.

3 Creating national capitalism against the odds

The internally oriented project in the Czech Republic

East met West today with hat in hand, as Czechoslovakia launched one of the most ambitious privatization programs yet undertaken in Eastern Europe with a sales pitch presented, not in Prague, but in this capital of Western finance.

Washington Post, 14 June 1991

Mercedes had to outbid France's Renault S.A. and Iveco, a unit of Italy's Fiat S.p.A., to snare two major truck companies in Czechoslovakia. A third Czechoslovak truck producer, Tatra, is still being pursued by Western investors. 'If we want to defend our European leadership, then we have to do something in Eastern Europe,' Mr Werner [of Mercedes' management board] declares.

Wall Street Journal, 9 March 1992

In June 1991, the Czech Minister of Industry and Trade, Jan Vrba, announced at the London headquarters of the republic's privatization advisers, Bankers Trust International, that more than fifty leading Czech companies were available for sale to foreign investors. The London announcement followed several joint venture deals involving foreigners – most notably a $6 billion deal between car-maker Škoda and German motor group Volkswagen. 'We are only interested in long-term investors,' Vrba said at a news conference. 'It's not only money we are seeking, but markets and modern management. So we seek partners for the rest of our lives, not just for one night.'[1] There were a number of foreign 'partners' ready to bid for the commanding heights of the Czech economy. For instance, Mercedes signed letters of intent to take stakes in two major truck companies, Avia Praha and Liaz, in March 1992.[2] Yet, very unexpectedly, foreign capital was sent home with very few Czech presents in its pockets. In the end, foreign participation was more the exception than a rule in privatization outcomes. Mercedes, for instance, withdrew from both Avia and Liaz. The investors were turned down. Czech state strategy in the early nineties, as discussed in the previous chapter, was quite hostile to foreign capital. It aimed at promoting national accumulation and creating a national bourgeoisie. Why did the internally oriented project become dominant at the beginning of the early nineties? What constituted its political, institutional, and ideational support?

By answering these questions, analysis of the Czech story provides important lessons in the autonomy of national governments in implementing state strategies in the environment of globalization. The Czech story of the early nineties offers unique material for investigating the dialectics of 'external' and 'internal' determinations of state strategies in Central and Eastern Europe in the 1990s. First, apart from the Czech Republic, or the Czech part of Czechoslovakia, none of the states in the region where the internally oriented strategy became dominant reported such vivid interest on the part of investors to subscribe to high-commitment strategies in the early nineties. What is more, the control of enterprises, in contrast to Poland, was with the government. Thus, the policy-makers could transfer control to investors if they so desired. There were good reasons for doing so. To many, FDI seemed to be the only way to upgrade the comparatively backward industrial base. Indeed, the neoliberal transition strategy, including the collapse of Comecon and trade liberalization with the West, made more protectionist strategies or managed development particularly difficult, if not impossible. Yet, domestic political struggles put the Czech Republic on the internally oriented track, against the trend of the international political-economic environment. Second, the Czech story provides an opportunity for exemplifying the field of force that allowed for the emergence of internally oriented strategies. The Czech story represents an extreme case of discontinuity in transformation from the dominance of the internally oriented strategy of the early nineties towards the externally oriented competition state. The next chapter will compare the Czech experience with developments in the rest of the Visegrád Four region and in Slovenia.

This chapter, together with the one that follows, deals with a topic which is in a way over-researched: the politics of Eastern European 'transition'. However, I focus on issues that have not attracted sufficient scholarly attention: most notably on the sources of promoting domestic accumulation.[3] In order to understand the process of state internationalization, it is important to compare the social, political, and ideational bases of internally oriented projects, on the one hand, and the competition state, on the other. Moreover, understanding political coalitions and institutional settings that emerged in the early nineties is vital for comprehending the shape of transformations at the turn of the century.

Czech strategy was shaped in a struggle between two groups within the state. The exceptional autonomy of social forces within the state at the beginning of the 'transition' reflected a temporal balance of forces in society as both labour and industrial managers were marginalized politically. What is more, structurally, the control of enterprises was with the state, which further enhanced the autonomy of the actors within the state. The moment of considerable autonomy of the state actors determined the nature of political struggles: strategic intervention in the struggles within the state and the politics of popular support played important roles. Among the state actors, 'the industrialists', on the one hand, advocated a privatization programme that would find strategic owners, foreign investors, for main enterprises. On the other hand, neoliberal reformers – who were, in contrast to the industrialists, involved in designing the general transition strategy – promoted a hands-off, voucher-based privatization model. The hands-off model was incompatible with FDI entry, which demanded an active approach by the state to secure contractual commitments required by the investors. What is more, the neoliberals did not favour participation of foreign investors and preferred creation of a domestic capitalist class. The neoliberals mobilized enterprise managers – who feared losing their positions after foreign takeover of their firms – to support voucher-oriented strategies in individual enterprises. More importantly, they marginalized the industrialists within the state in a political struggle by strategic intervention, making use of anti-communist sentiment. The internally oriented strategy of the neoliberals prevented rapid internationalization of the commanding heights of the Czech economy. It produced a distinctive economic dynamic, Czech capitalism, and created a coalition of reform-winners that provided political support to the internally oriented project.

There were a number of reasons why neoliberals promoted the internally oriented project. What is more, a mix of economic nationalism and neoliberalism was not contradictory from their perspective. First, Czech neoliberals believed that Czech enterprises could compete in an open market. There was an overly optimistic notion of the general level of development and of the competitiveness of leading enterprises among Czech economists. Czech reformers also preferred domestic outcomes for nationalistic reasons. Second, the internally oriented strategy was politically and economically superior from the perspective of neoliberal reformers. In the short term, the voucher method became a flagship of the neoliberal project, and large political capital was invested in it; the internally oriented project was politically convenient as it went in line with popular fear of foreign ownership. In the long term, the voucher method was seen as the best way to secure political support for capitalism. From the economic point of view, given their anti-statist beliefs, neoliberals saw the voucher method as more efficient than its alternatives. In sum, given their considerable structural autonomy, the strategic concerns of neoliberals articulated their ideas, long-term vision, and short-term popular-political considerations.

After describing the initial economic and political conditions in Czechoslovakia that determined the relative power of individual actors and constituted (unequal) terrain for the pursuit of individual strategies in political struggles, I analyse the preference and strategy formation of the main actors, the two factions of reformers within the state. Then, I investigate how the neoliberal transition design won. This is important since the general transition policies, including the form of integration into international political economy, decisively structured options for state strategies not only in the early nineties but in the years that followed. The analysis of the neoliberal transition strategy focuses on the struggles at the national level and ignores the influence of 'external' actors and the international environment. This is legitimate since, as I show in the next chapter, international pressures and constraints did not have a decisive impact on formation of neoliberal transition strategy in the Czech Republic in the early nineties. After dealing with the general transition strategy, I focus on the struggle between the neoliberals who advanced privatization strategies aimed at promoting national accumulation and the 'industrialists' pushing for privatization to foreigners. The sections that follow deal with the political outcomes of the transition policies. They focus on the coalition of social forces that emerged in the early nineties. This power bloc constituted political support of the internally oriented Klausian project. It included bank managers, investment privatization fund operators, and a small group of industrial tycoons. I also explain mechanisms that integrated and reproduced the coalition of reform- winners and the lack of political resistance. Finally, I deal with the crises of the Klausian project and explain why its abandonment did not meet with any resistance from its supporters. This will be important for understanding the emergence of the externally oriented alternative and the formation of its political support.

Czechoslovakia on the eve of 'transition': lonely reformers, hateful communists, and a backward economy

When the old regime collapsed in 1989, Czechoslovakia was enjoying the best economic conditions of the former communist countries in CEE. Per capita GDP in 1990 was higher than in Hungary and Poland by 32 per cent and 40 per cent, respectively. It was estimated that the 1990 per capita GDP level was 52 per cent of the EU average, compared by purchasing power parity (Myant et al., 1996, pp. 96–99). In contrast to the uncontrolled inflation in Poland and huge debt burden in both Poland and Hungary, Czechoslovakia had a long record of macroeconomic balance. While shortages were quite common, the Czechoslovak economy did not suffer from excess consumer demand (Myant, 1989, pp. 214–218). Its credit situation was very manageable, if not relatively favourable (see next chapter). By 1989, its gross hard currency debt was $7.9 billion, while its currency export earnings were $5.7 billion. At the same time, Czechoslovakia suffered from a 'semi-autarkic' economic structure, with its foreign trade linked to the Soviet-dominated Comecon. While Hungary and Poland had been gradually reorienting trading relations towards Western Europe, and Slovenia had had liberal trade relations with the West since the 1970s, Czechoslovakia traded 31 per cent of exports with the Soviet Union and 54 per cent with the European countries of Comecon. This type of economic integration placed very low demand on quality. Moreover, the isolation from the advanced economies cut off Czechoslovakia from access to modern technology. Thus, the level of Czechoslovak exports was too low to be successfully exported to the Western European markets. There were hardly any products of modern industrial sectors that could compete in world markets (Myant, 2003, pp. 10–11).[4]

The absence of economic crisis and the extreme conservatism of the rigid authoritarian political structures in the 1970s and 1980s left the command economic system, including the enterprise structure, relatively unreformed (Myant, 1993, pp. 155–165). The social and economic stasis was reflected in the stagnation of economic thinking. In contrast to vivid debates on economic and political reform in Hungary, Poland, and even the Soviet Union, the discussions about economic reform in Czechoslovakia were very quiet and limited to a narrow circle of economists. In fact, prior to November 1989, no one was able to formulate a consistent reform strategy. As elsewhere in CEE, the debate about the reforms took place between reformers with social democratic inclinations, on the one hand, and neoliberals favouring radical transformation, on the other. Only the former were able to articulate some systematic ideas for transformation in 1989, when some of them published proposals for gradual economic reform (Turek, 1989; Šulc, 1990; see Myant, 1993, pp. 165–167, and 2003, pp. 12–13).

The transition policies took shape in the struggles among reformers within the state. The reformers enjoyed considerable autonomy from other social forces (see Orenstein, 2001; Myant, 2003; Appel, 2004; Gould, 2003). This made the cadres within the state major social forces and determined the nature of politics at the beginning of the nineties, confining it largely to struggles within the state apparatus and politics of popular support. Crucially, the enterprises were controlled by the state. Moreover, major societal actors – managers of state-owned enterprises and organized labour – had very weak political positions. The politics of anti-communism has played a major role in the struggles among the reformers (Appel and Gould, 2000). Since 1989, there has been a genuine desire among a significant portion of the Czech population to break with the communist past and return to the Czech Republic's original position among prosperous Western democracies. Apart from being perceived as impure, the communist system and, by implication, 'the communists' were seen as responsible for losing the country's position in the world and for the decline in the relative standard of living in comparison with the West. The (often incorrect) association with the communist past effectively delegitimized any social actors, ideas, or political programmes. It has had adverse consequences for 'the Left' in general. Opinion polls showed that a large part of the population supported left-wing policies, but voted for right-wing parties because of the association of the Left with the past (Matějů and Vlachová, 1998). Anti-communism soon became a very powerful weapon in political and economic struggles (Appel and Gould, 2000; Gould, 2001, pp. 200–205; Smith and Pickles, 1998). As will be shown in the following chapters, this discursive mechanism was institutionalized as an enduring feature of Czech politics.

Trade unions in Czechoslovakia, like elsewhere in CEE, suffered from a post-communist crisis of identity. Due to their connection with the communist regime, they were not perceived as legitimate social actors (Pollert, 2001). Despite institutional reform within the major union organization, including breaking any affiliation with political parties and replacement of its leaders, labour unions received very unfavourable media coverage, which portrayed them as essentially communist and anti-democratic (Appel, 2004, pp. 136–137). In fact, the perspective of the unions, and their members in particular, on the reforms largely overlapped with that of radical reformers in the early 1990s. In April 1990, at the constitutive meeting of the independent confederation of trade unions, later named the Czech-Moravian Confederation of Trade Unions (ČMKOS), Vladimír Petrus was elected chairman. He later became a member of Klaus's Civic Democratic Party (ODS).[5] As Martin Fassmann of ČMKOS reported, according to internal polls, most of the members of the unions supported the reforms implemented by the neoliberals and voted for the right-wing parties of the radical reformers. The members expected the unions' representatives to support their reform efforts.

This situation changed only in 1994. Thus, in the early 1990s, the union representatives agreed with many of the reform policies, including cutting real wages.[6] As far as the privatization is concerned, the unions lobbied unsuccessfully to augment the ownership share for employees in private enterprises. They even failed to acquire the amount allotted to them in the original reform programme, the Scenario for Economic Reform (approved by parliament in September 1990).

The managerial positions of state-owned enterprises were subject to direct control of the Communist Party. It was therefore believed that the managers attained their positions because of their political positions rather than professional expertise.[7] The managers were thus taken as representatives of the old regime and were largely perceived as criminals (Appel and Gould, 2000). Many of them were dismissed by employee votes in the short period when employees had the right to approve and reject top management through enterprise committees. Others were forced to resign or enter early retirement after the Czechoslovak parliament adopted the 'lustration' (purification) law.[8] This law required top bureaucratic and industrial managers to resign from certain posts for past acts of political collaboration. In addition, many managers who had been appointed at the beginning of the period of 'normalization' in the early 1970s were approaching retirement age anyway. Many of the younger top managers migrated to the emerging private sector where they often became rich by capitalizing on (frequently) parasitic ties to their former enterprises. Middle-level managers took vacated senior posts in state-owned enterprises.[9] These new managers, and those who remained, were often cautious not to resist reforms in order to avoid being discredited by being linked with the past and portrayed as an obstruction on the nation's path back to its place in Europe (Appel and Gould, 2000). As a result, their influence on the reforms was limited.[10] In addition, as will be shown below, the preferences of managers in relation to major issues like privatization to foreign investors were far from clear. A large part of this group was open to political manipulation.

The politics of anti-communism was particularly important in the Czech part of the federation. Slovakia, meanwhile, was dominated by different politics of identity – the politics of national identity and autonomy – which meant it did not turn against industrial managers but rather allowed them to retain important political positions (Appel and Gould, 2000). Sentiments against enterprise managers could have been mobilized and indeed had much resonance in Poland; however, the structure of enterprise control kept these managers in the game. Moreover, in Czechoslovakia, in contrast to rest of the region, the managers were perceived as more firmly linked to the communist regime as the centralized structure of enterprise control was left unreformed.

The political battle over the reforms was fought in two major struggles among the political elites. First, there was a struggle over the overall reform programme between the neoliberals/radicals and the gradualists. Second, there was a dispute over privatization methods between the neoliberals and 'industrialist' state managers. The neoliberals won both struggles. The state strategy that emerged, however, was not a direct translation of the radical project. Instead, the shape of state strategy reflected these struggles and incorporated competing projects accordingly. The first struggle gave birth to the transition strategy based on trade and price liberalization, rapid privatization, and social protection. The second then shaped the privatization strategy and the approach to foreign investment. The 'industrialists' and the gradualists to some extent overlapped, yet these were distinct groups mobilized in separate struggles. Before dealing with the strategic intervention through which the neoliberals became predominant, I will analyse the motivations of the main actors in the struggle over privatization and the approach to foreign investment.

The rationale of the Czech Way: against the odds

The main actors in the struggle over the approach to foreign investment were two factions of the cadre located within the state. The 'industrialists', former industrial managers, such as Jan Vrba (then Minister of Industry and Trade), Miroslav Grégr (then Czech Minister of Engineering), and Václav Valeš (then Deputy Prime Minister responsible for economic policy), advocated a programme of industrial sales that would find strategic owners for core enterprises. Vrba, in particular, believed that only foreign investors could provide access to new technologies, know-how, distribution networks, and capital investment. He planned to bring foreign investors to some thirty to thirty-five enterprises that he identified as the core of the Czech economy.[11] The privatization strategy had wider support within the ministries. It came mainly from 'business elite' bureaucrats linked to enterprise managers, not from research-institute economists. However, it is not appropriate to understand the strategy of the 'industrialists' within the state as representing a wider societal group, such as the industrial managers. This group did not constitute a class in a sociological sense. As mentioned above and as will be shown below, the industrial managers were disintegrated, their preferences were often not formed, and their strategy was largely open to political manipulation. In fact, they were mobilized to support the internally oriented project of the neoliberals. The strategies of both factions did not reflect strategic preferences of any societal actors or immediate material interests. At the beginning of transition, their strategy articulated their (class-relevant) long-term vision, beliefs and 'structural literacy', and short-term political considerations. Obviously, their strategies became quickly intertwined with interests of societal actors that benefited from them. Thus, both external and internal strategies later provided their proponents with opportunities to obtain material benefits and became intertwined with their immediate material interests.

Why were the industrialists pushing for the externally oriented solution while the neoliberals were promoting vouchers and fighting against foreign participation at the beginning of transition? According to Myant's observation,[12] which is confirmed by Greskovits' and King's analyses of the Hungarian case (Greskovits, 2000, p. 131; King, 2001a and b), those managers and bureaucrats who were doing business in Western Europe, and thus learned about the shape of Western industry and business, were much more likely to favour foreign ownership. Moreover, the influence of the links with the West on the preference formation of these groups could be explained by the process of emulation or by their socialization into ideas associated with the transnational class. But this explanation does not hold. The relation between international links and particular policy preferences is more complex and overdetermined. Thus, it has to be investigated historically. Neoliberals were equally, if not more, internationally linked and exposed to the ideas and norms of the transnational class.[13] For instance, the most prominent representative of the neoliberal, anti-FDI camp, Václav Klaus, was significantly integrated into transnational class networks, including the Mont Pelerin Society.

Myant (1993) claims that anyone comparing the shape of industry in the East with that of the advanced capitalist states was likely to find that the products of CEE firms could not compete. One would not even have to travel too far, since there were sectoral studies identifying the poor competitiveness of domestic companies on hand (Kolanda, 1989; Dittert and Kolanda, 1989; see Myant, 1993, p. 166). In order to upgrade the competitiveness of domestic companies, the only solution available – under the given conditions – was to bring in know-how, managerial skills, and technology through strategic partnerships with foreign investors.[14] However, it is important to underscore that these conditions were not actually 'given', but rather produced through the 'American strategy' on the international level and through neoliberal strategies within CEE. This created conditions in which companies in CEE lost their markets in the region and had to adjust immediately to competition with Western companies. Thus, these strategies made structural conditions under which many in CEE would (to recall Strange (1988) and Nye (1990)) 'want what the foreign investors want' – most notably, their takeover of the commanding heights of CEE economies. Why did Czech neoliberals want something completely different?

Czech neoliberals promoted a voucher-based privatization method that explicitly avoided foreign investors and/or was incompatible with their participation. The privatization strategy and its rationale were borne out of improvisations and understandably included a lot of contradictions. Yet, it is important and possible to identify some underlying rationale(s) that explain the strong preference for the voucher method. First, this method served important political functions, most notably providing political support for neoliberals and their reforms in the short term and for capitalism in the long term. Second, given their anti-statist beliefs, the neoliberals considered the voucher method economically superior to its alternatives. Third, economic nationalism, both on the popular level and among the reformers, made foreign participation undesirable. Moreover, it provided a rationale to consider it unnecessary from the economic point of view.

For the reformers, it was very important that the voucher method – a market-mediated, quick distribution of enterprise shares to the population at large – guaranteed the transfer of property with the greatest speed and certainty. As the dispute between Klaus and Ježek about the form of privatization and the role of vouchers in it demonstrates, speed was Klaus's major priority. Ježek often complained about the absurd privatization schedule Klaus was proposing, as it was hardly realistic for technical reasons. As Klaus and Tříska themselves put it, speed dominated any other concerns (see Klaus and Tříska, 1994; see also Appel, 2004, p. 113). The managerial solutions, such as that of Vrba, were considered inappropriate as they were seen as too slow.[15] Klaus even insisted on measures that he himself agreed were suboptimal, such as his proposal not to allow competition among different privatization projects because it would have entailed a delay of a mere two months. Concern with speed was common to radical reformers all around Eastern Europe. It was widely argued that the reformers must make use of what Balcerowicz (1995) called the 'period of extraordinary politics' during which great change was possible. In the revolutionary moment, the population was believed to be willing to tolerate greater social dislocation and decline in living standards in the pursuit of a radical break with the past. Moreover, reformers wanted to make use of the moment of great autonomy when the social groups were not capable of collective action and blocking the reforms. As Tříska put it, they had to implement radical privatization 'before the managers woke up'.[16]

The rapid implementation of the voucher method had important political goals. It aimed to create stable social support for capitalism both on the level of class formation and on the popular level (see Appel, 2004).[17] It was expected to change the minds of people who had no experience with the market economy, and it was assumed it would create a domestic propertied class, which would provide the social underpinning for capitalism in general and social and material support for the political parties of the reformers in particular. As Klaus put it, 'the reform is not an academic problem: it is a political affair and it is of immense importance to enlist sufficient political support for it. We realized at the very beginning that establishing a political platform was an indispensable part of reform activities.'[18] The reformers were convinced that without rapid and mass privatization, the course of reform could have been easily reversed.[19] In order to guarantee irreversibility of the reform process, the reformers intended to create a stable social base for the new capitalist order. As Frye has observed in the Russian context, mass privatization through vouchers raises the political costs of altering privatization by creating a large circle of actors with vested interests in the new regime. Any subsequent alteration of privatization's course would entail expropriation from citizens and workers. Moreover, the programme based on tradable vouchers, in contrast to the one involving individual privatization savings accounts, creates the need for investment privatization funds and fund managers.[20] These have incentives to defend the privatization process and the new capitalist order (Frye, 1997).

Privatization to foreign investors would be politically much more problematic. It would not create strong domestic groups with vested interests in the process. Moreover, there would be a risk that capitalism or reform would be perceived as something foreign. Similarly, many economists were concerned that a direct transfer of property to a lucky few local individuals would undermine public support for the reforms.[21] Václav Žák, then a member of the Committee for Voucher Privatization, reports that only about one to two million people were expected to take part in the voucher privatization. Under this condition, each participant could obtain significant property and the voucher method might create a propertied middle class which owed, its fortune to Klaus.[22] In addition, it was expected that the voucher privatization would be only the first step in the process of privatization, leading to further ownership concentration producing a new propertied class.[23] Many believe that the reformers expected the propertied class to provide social support and a material base for ODS.[24] And indeed, the actual outcome of privatization did serve this function.

The voucher privatization was also an important tool to secure political support for the reformers in the short term and popular support for capitalism in the long term on the popular level. The June 1992 elections were crucial for consolidating support for Klaus and the Civic Democratic Party, which he founded after splitting from Civic Forum. The voucher privatization was a flagship of Klaus's reforms. He invested huge political capital in the method. The book of vouchers bearing Klaus‘s signature was issued just before the elections and became part of the election campaign.[25] He wanted the citizens to start placing their bids as soon as possible so that the transfer of property would feel tangible. Apart from its role in electoral politics, the voucher method was expected to perform important long-term ideological and socializing functions. Karel Dyba, then Minister of Economic Policy and Development, explains that the Czechs, in contrast to Hungarian and Poles, had no experience with the market economy; therefore, the purpose of the reforms was to change people's minds with respect to their understanding of economics and politics.[26] As observed by Martin Kupka, then adviser to the Czech Minister of Economy, the voucher method was expected to transform ordinary people into 'small capitalists overnight' and thus 'improve their attitudes to the economic reform' (Kupka, 1992, p. 309).[27] Its aim was to get people directly involved in the reform process. 'Ordinary people' were supposed to take an active part in bidding and thus learn lessons about the capital market. Žák notes that Klaus saw the voucher method as a people's school of capitalism: 'He envisaged that the people would exchange the vouchers for shares and then sit in front of the TV and say: "Look, my dear, electricity production is going down today. What about swapping it for glass manufacturing?"'[28]

Moreover, the concern with speed and preference for the voucher method can be understood with reference to deep anti-statism and the macroeconomic fetishism of the reformers (see Bockman and Eyal, 2002, ch. 2; Boer-Ashworth, 2000). Klaus and his team believed that state ownership was the main problem in the Czechoslovak economy. The state was seen as the worst possible owner, neither able to govern enterprises nor manage their privatization and restructuring in an efficient way. For Czech neoliberals, any other arrangement – not necessarily private ownership – was much better than state control. The point was to get rid of the state control and not to question enterprise restructuring or corporate governance (Klaus and Tříska, 1994). This can be understood in the context of their bias towards macroeconomic reasoning over microeconomic concerns. They approached the economy as if these two levels were distinct entities. Systemic transformation had a clear priority over economic efficiency. Klaus made it quite clear that it did not matter whether the enterprise was restructured; it only mattered whether the economy was transformed (Appel, 2004, p. 119). This was a major complaint of the industrialists regarding the managerial reasoning.[29]

State involvement in privatization and enterprise restructuring, represented by Vrba's project, was seen by Czech neoliberals as a preservation of communism. The intervention of the state, its control over enterprises or the privatization process, was understood to poison people's minds (Appel, 2004, pp. 118–121). The reformers have seen the dismantling of state power as a purifying ritual. As Tříska explained in 1991, 'the political aspect [of privatization] is to liberate the human and enterprise from the state burden. The privatization is the absolutely necessary precondition to live and breathe freely . . . It is better if the property is stolen by the nomenklatura management than if the firms would stay under the control of the state.'[30]

Czech privatization policy, with its strong anti-statism, proved to be incompatible with the entry of FDI. Even if a privatization project allowed for the entry of a foreign investor (and most of the privatization projects initially did so), the lack of state involvement in the process put off the investor. As showed by McDermott (2002), the involvement of FDI in a privatized enterprise required contractual commitments which cannot be secured with an active state involvement. Without such involvement, many investors left negotiations with local companies (see McDermott, 2002, pp. 90–92). Moreover, because of the anti-statism and related ideological belief in the superiority of unfettered and undistorted market allocation, Czech neoliberals opposed provision of any preferential treatment, not to mention investment subsidies, to greenfield FDI. In 1992, the government decided not to provide any incentives for foreign investors because it believed that the incentives would 'deform the natural economic structure of the Czech Republic'.[31]

Pride and prejudice: Czech economic nationalism

The Czech privatization policy was not only incompatible with foreign involvement but intentionally aimed against the participation of foreign investors. This was driven not only by political calculations reacting to popular fear of foreign domination but by genuine nationalistic sentiments among the reformers. There were also strong xenophobic sentiments among the public. For historic reasons, these related particularly to Germans. At the beginning of 1992, it was estimated that 86 per cent of foreign investment came from Germany.[32] Many were afraid that the Germans would buy out the 'national treasures' or 'family silver'. The press would stoked these worries.[33] The topic was so emotional and the debate so heated that Vrba's family was a victim of harassment, involving repeated instances of throwing stones through windows, and he received a flood of anonymous letters because of his role in foreign sales.[34] This was an important concern for the government. After being accused of giving German capital preferential treatment, the federal government even considered establishing a special committee to deal with the 'problem' of German capital at a special meeting in February 1992.[35]

In pursuit of political support, Klaus and his team were ready to exploit these popular sentiments. Thus, the neoliberals started to employ the anti-FDI rhetoric of 'preventing the clearance of national treasures'.[36] This was, according to Martin Fassmann, largely instrumental: 'You could hear these ideas about the "family silver". Klaus was never into this, but, at a certain moment, he understood that it could be quite useful for him.’[37] This view is supported by Žák: ‘It was subordinated to the political calculation. The point was to win the election. That was quite impossible while having massive investment of German capital at the same time.’[38]

Vrba characterized the reaction to the arrival of foreign capital as follows:

> For obvious reasons, most of the investors were coming from Germany. This provoked criticism in the media that we would sell everything to Germans. I was even asked by the Czech government to report regularly on the share of German capital and that of other foreign investors among the investment that was coming here . . . What is more, Klaus started to play the national card, against Germany in particular. He was strongly opposing the entry of Volkswagen [into Škoda] as it represented a downright German influence. But this was just manoeuvring in election politics. Czech society was, and still is, quite responsive to it. So he started to promote the Czech Way.[39]

However, Klaus’s nationalistic rhetoric to a large extent reflected his genuine beliefs.[40] Milan Ganik, then adviser to both multinationals and the government, recalled a story that proves the anti-FDI stance of Klaus was not mere rhetoric:

> [In the early nineties] I was coordinating a visit of a group of American portfolio investors representing some trillion dollars. We went for a dinner and Klaus and Dlouhý took part as well. They both made speeches. Dlouhý said: ‘Thank you for coming. Believe me, we really do need your money, to start it up here.’ Then, it was Klaus’s turn: ‘I hope you enjoy Prague. But believe me, we do need your money.[41]

Similarly, Jan Amos Havelka, CEO of investment promotion agency CzechInvest from 1993 to 1997, illustrates Klaus’s nationalism from his experience in promoting the Czech Republic abroad:

> Klaus is a patriot in essence, a strong patriot . . . He really believes we could make it while avoiding foreign capital, simply make it on our own. For instance, we, together with Klaus, were at a promotion mission in Asia . . . We pointed out the comparatively high education level and low labour costs there. We also made the point that an investor can find cheap but unqualified labour in many places – but not in the Czech Republic. There you get a trained worker for very low cost. Klaus learned about that. He started to lecture me: ‘How can you talk like this? . . . You cannot do that. We are not bushmen or monkeys. We should be compared to Denmark or to the Netherlands.’[42]

In addition to Klaus a large number of economists and policy-makers embraced Czech nationalism, which was economic in content and limited in scope (see Orenstein, 2001, pp. 76–79). The ideas of Vrba and other industrialists were quite exceptional and rather marginal. Czech neoliberals opposed foreign ownership in principle.[43] In general, there was a wide consensus among the political elites, including those in opposition to Klaus, on creating a national capitalism.[44] This consensus was even shared by many dissidents, including Václav Havel, and major gradualists, such as Ota Šik (Gould, 2001). Historically, national emancipation and identity in the Czech lands had been closely intertwined with building the developmental projects of the Czech bourgeoisie who were trying to free themselves from German capital. Czech banks and credit unions had an important role not only in financing the development of Czech industries but in creating national identity (Rutland, 1992–1993; Teichova, 1988). It is probably not surprising that similar nationalistic sentiments emerged a century later when the region was embarking on the path to modernization dependent on foreign capital, a time reminiscent of its experience at the turn of the twentieth century (Berend and Ránki, 1974; see also Greskovits and Bohle, 2001, p. 21).

Czech economic nationalism was expressed in the belief in a relatively high level of economic development and industrial prowess (see Myant, 2003, pp. 12–15). Right until 1989, research economists were estimating per capita GDP close to the EU level. Myant remembers a conversation between Klaus and Dlouhý that showed that the reformers embraced such an estimate: Dlouhý insisted, against more 'pessimistic' estimates, that Czech GDP per capita was not much behind Austria's.[45] In this spirit, Karel Dyba, who was very close to Klaus, reacted to claims that Klaus was an economic nationalist: 'Klaus has never spoken about any "[family] silver". That's absolutely not his style. He only spoke about the fact that there was a certain group of competent people, that we have certain history, that we have certain knowledge, that we have some prowess, that we have a good economic policy . . . And this is true in fact.'[46]

These assessments fitted with the popular boast that the country contained the most industrial parts of the Austro-Hungarian Empire and was among the most advanced countries in Europe in the interwar period. Several major enterprises bore the same names as firms created and developed by Czech entrepreneurs in the nineteenth century. These included motor-vehicle manufacturer Tatra in Kopřivnice; an engineering combine in Plzeň and a car manufacturer in Mladá Boleslav, both called Škoda; Prague engineering combine ČKD; and electronics enterprise Tesla. There was pride in the tradition and belief in continuing quality. Thus, there was reluctance to accept foreign ownership of traditional Czech enterprises. Moreover, it was believed that these enterprises would prosper without any 'help' from Western manufacturers.

This lack of realism and nationalism in economic thinking were distinctively Czechoslovakian. They were not so pronounced in Poland and Hungary. Myant attributes this to the relative isolation of expert discourse in Czechoslovakia and related lack of critical analysis in relation to the shape of the national economy (Myant, 2003, pp. 13–14). The Czechoslovak (and subsequently Czech) economy was approached as a distinct entity. It gave rise to a bias towards considering purely internal factors and seeking only internal changes. Therefore, the debate centred on the necessity of tightening budget constraints and introducing market-based coordination, and it failed to recognize the problem of weak or inadequate integration into the world economy. There were few studies advocating foreign ownership in order to upgrade the level of domestic industry (e.g., Kolanda, 1989; Dittert and Kolanda, 1989; see Myant, 1993, p. 66).[47] This view, however, was not only hardly acceptable for a published work in the 1980s but scarcely considered even in private among economists (Myant, 2003, p. 13).

The prominence of nationalism in economic thinking provided justification for the neoliberal way of integrating the region into the international political economy, or, in other words, embarking on the 'American strategy', and it allowed for belief in the prospect of a high road of development for the Czechoslovak economy without foreign participation (see Myant, 2003, p. 15). First, as the international integration of the Czechoslovak economy was not seen as an issue and the key problems of the economy were related to internal factors, most notably a static coordination mechanism, there was no need to consider developmental strategies, such as those known from East Asian states. Second, as industries were believed to be reasonably mature and there was no need to protect 'infant industries', there was a readiness to open the economy to international competition.[48] Czech companies were expected to fare well in the competition with the West even without foreign technology or know-how.

Towards the transition strategy: manufacturing organic neoliberalism

The Czech transition strategy was shaped in the struggle between the neoliberals and the gradualists in 1990. During the spring, the main debate focused on the general transition strategy and the role of institutions. The debate was personalized as a dispute between the gradualist Valtr Komárek and the neoliberal Václav Klaus. Komárek, a participant in the 1968 reform movement, advocated a managerial approach to economic reform with gradual price liberalization, and argued for the restructuring of particular sectors of enterprises followed by a gradual programme of privatization (Myant, 1993, pp. 165–167). Klaus called for shock full price liberalization and rapid mass privatization. Both camps were represented within the government. Initially, the gradualists had the advantage over the radicals as they dominated the government. Komárek, who as a Deputy Prime Minister was senior to Klaus, was designated to draft a gradualist programme of economic transformation. At the same time Klaus, together with Vladimir Dlouhý worked separately on a radical strategy. Komárek, however, failed to deliver a programme (Myant, 1993, p. 169). Then, when the government was just about to discuss the competing programmes, Komárek was replaced by Václav Valeš, another veteran of the 1968 movement. Valeš therefore put together the gradualist proposal. However, Klaus and Dlouhý's radical strategy had already become the first option, so Valeš's proposal was discussed only as a secondary alternative. Klaus, though, still needed to win the support of social-democratically minded ministers in a vote of approval by the cabinet, and he was forced to compromise. Thus, the radical strategy adopted the gradualists' scenario for social policy: while it did not compromise on most of the key issues (monetary restriction, price liberalization, privatization, and currency convertibility), the social policy sections of the radical and gradualist documents became identical – unsurprisingly, because they were drafted by the same person, an adviser to Labour Minister Petr Miller (Orenstein, 2001, pp. 69–71).

The failure of gradualists to produce a coherent proposal for economic reform in the crucial moment of April 1990 and Klaus's intellectual coherence, energy for drafting, and willingness to compromise explain the victory of the neoliberals (Myant, 1993, p. 169; Orenstein, 2001, pp. 69–70). In addition, Klaus's wider political strategy was crucial for the success of the radicals. It was based on cunning exploitation of ideas that resonated among the Czech people (Appel, 2004). Klaus was able to produce a hegemonic project and actively manufactured organic links with the 'common sense'.

The debate between Klaus and Komárek received enormous attention from the public. It literally took place on the front pages of major newspapers.[49] The identities of the main protagonists and what they represented became equally, if not more, important than the content of their proposals (Mansfeldová, 1994, in Appel, 2004, p. 47). Komárek and many of his supporters had some affiliation to, or connection with, the Communist Party. Very often these were the reform economists of 1968. In contrast, Klaus's group comprised younger economists, often with some Western training.[50] Klaus was therefore able to focus the debate on anti-communism. He polarized the reform discourse and obscured the reality by representing the dispute as one between the old and the new, the communist past and a non-communist future. In his rhetoric, any alternative to his scenario would lead the country back to 'before November 1989'. The gradualists represented 'the old patterns of thinking' and 'repeating of the mistakes of the 1960s'. Any suggestion to use the instruments of the state was portrayed as an attempt to re-establish the command economy. Klaus claimed to offer a complete break with the past and the only non-communist direction. In contrast, Komárek failed to sell the gradual approach on the popular, symbolic level (Myant, 2003, pp. 21–22; Gould, 2001, pp. 187–198).

Klaus's strategy, when it became the core of the Scenario for Economic Reform proposed by the federal government, was strongly criticized or even totally rejected by all of the country's economic institutes, and it was opposed by many in the political elite (see Myant, 2003, pp. 17–18). Moreover, its privatization plan faced competition from a plan presented in the Czech parliament by František Vlasák. While Klaus envisaged mass privatization based upon the speedy distribution of enterprise shares to the population at large (voucher privatization), Vlasák's plan proposed state-led enterprise restructuring and eventual auctions and direct sales to investors. This idea enjoyed wide political support, including that of many experts, foreign advisers, members of the dissident community, and industrial elites and enterprise managers organized in Svaz průmyslu (the Union of Industry). With his support among the elites in Prague far from certain, Klaus recognized that the country's power was concentrated in the umbrella organization Civic Forum (Občanské fórum). This, however, was controlled by Prague-based dissidents, so Klaus turned to local cells for support. In the summer of 1990, he travelled the whole country to gain the confidence of these local cells. He understood which ideas would resonate with the Czech people, played on their anti-communist sentiments, and realized the potential of the old Prague–countryside divide in Czech society. Many 'countryside people' felt excluded from the Prague-centred politics of the Civic Forum. Klaus rearticulated the divide in terms of Left and Right (Prague was Left, while the countryside was Right) and presented himself as an alternative to dissidents and communists who controlled events in the capital. In contrast to them, he and his programme were not connected to the old regime, so they were untouched by the past. This strategy proved to be extremely successful. In a landslide victory over a dissident candidate, he was elected chairman of Civic Forum in October 1990. This strong political position and his public support gave the green light to his radical programme (Appel, 2004, pp. 50–54).

Towards Czech capitalism: how the externally oriented project lost

The neoliberal transition framework put important constraints on possible paths of enterprise restructuring. However, the privatization strategy and the approach to foreign investment took shape in a struggle between neoliberals and the 'industrialists'. In February 1991, parliament passed the law on large-scale privatization drafted by the neoliberals/radicals. In order to limit resistance in the parliament, the law was not very specific as far as the privatization methods were concerned. Instead, it outlined several methods for privatization. These included privatization of shares through vouchers, partial or complete sale through public auctions, public tenders, and direct sales with special approval. According to the law, the privatization method for particular enterprises would be proposed in individual privatization projects. The projects could involve any one of these techniques or a combination of several of them.

Neoliberal economists involved in formulating the large-scale privatization law – namely, Klaus, Tříska, and Ježek – supported the extensive use of vouchers. They hoped to transfer as much of the economy as possible into private hands and agreed among themselves that a voucher mechanism could serve this purpose with the greatest speed and certainty. Tříska and Klaus wanted to privatize almost all shares through vouchers. They also insisted that only the enterprise managers could submit privatization projects. Ježek preferred a mix of methods. He also favoured competition of different privatization projects so that enterprise outsiders could compete with enterprise managers.[51] Klaus rejected Ježek's ideas as they would delay the privatization process. He wanted the citizens to begin placing their bids for enterprise shares on 1 January 1992. In the end, though, Ježek won, since the Czech government postponed the deadline for the submission of alternative privatization projects (Appel, 2004, pp. 54–58).

The openness of privatization regulation led to another battle within the government. Its outcome had a decisive impact on the orientation of state strategy towards foreign capital. A key site in the selection of privatization projects, the Ministry of Industry and Trade, was controlled by the 'industrialists', who opposed voucher privatization. Their privatization strategy had wider support within the ministries. For instance, Martin Myant remembers speaking to people at the federal Ministry for Strategic Planning who wanted 'foreign ownership in some parts to revive an essentially Czech economy'.[52] The struggle over foreign direct investment greatly divided the government, with the Ministry of Industry and Trade being the centre of FDI proponents, and the Ministry of Finance (controlled by Klaus) the centre of the proponents of inward orientation. Moreover, many of the FDI proponents were social-democratically oriented. At the same time, the divide cut across both ministerial and party lines. For instance, Karel Dyba, a member of ODS and institutionally close to Klaus, provided some support to Vrba.

Due to their strategic location and power, Klaus could not ignore the industrialists. By way of compromise, Klaus and Vrba made an informal agreement according to which the shares of leading enterprises would be wholly included in voucher privatization only when the government could not find a satisfactory domestic or foreign investor willing to commit resources and new technologies (Appel, 2004, p. 139). The Ministry of Industry and Trade worked hard to attract foreign investors to the country's leading enterprises. In June 1991, Vrba announced the sale of fifty major companies at a press conference organized by the American investment bank Bankers Trust International in London.[53]

In retrospect, Czech reformers and intellectuals close to Klaus explain the relative absence of foreign investors in privatization of the early nineties in terms of the lack of interest of those investors.[54] The historical record, however, suggests that this was not the case. As Vrba reports, there was considerable interest among foreign investors to buy out Czech state-owned enterprises in the early nineties.[55] They perceived the country as a prospective production site for exports to the East. Moreover, the major engagement of Volkswagen in Škoda had a 'herd effect', dragging other investors into the region.[56] The interest of foreign investors in Czech privatization is also confirmed by various privatization records (e.g., McDermott, 2002; Myant, 1999, pp. 73–74; Pavlínek, 2002b). Vrba and his ministry arranged a number of foreign investments in state-owned companies. Among the first concluded deals were the sale of Technoplyn, an industrial and medical gas manufacturer, to Linde AG in February 1991 and the joint venture of Belgian Glaverbel SA and Czech sheet-glass manufacturer Sklo Union in March 1991. Other major investment included sales of Škoda Energo to Siemens; Čokoládovny to Nestlé (Switzerland) and BSN (France); Cement Hranice to Fabbriche Riuntie Cemento SpA (Italy); the Rakona detergent company to Procter and Gamble; Tabák Kutná Hora to Philip Morris; the Barum tyre producer to Continental; and, most notably, Škoda to Volkswagen.

So the real reason for the relative absence of foreign investors was not their lack of interest but the privatization strategy itself, which was – to say the least – unfavourable to foreign investors. Klaus and Tříska exerted enormous pressure on enterprise managers to assign shares to the voucher scheme rather than to foreign investors, and on the ministries (which were selecting privatization projects) to select those projects that included high percentages of vouchers.[57] Klaus convened the meeting of enterprise directors at Štvanice sports arena to ask them to support voucher privatization. Tříska told the managers that the widespread distribution of ownership through vouchers would give them de facto control over their enterprises. This certainly appealed to the managers. These, on the one hand, found joint ventures or buy-outs by foreign investors very attractive, not only because they would bring foreign technology, capital, and access to Western markets, but for more mundane reasons, such as the prospect of business travel to the West.[58] On the other hand, they feared they might lose their positions if a foreign investor became involved with their firm. Vrba illustrated the efforts of Klaus and Tříska to prevent privatization to foreign investors in the privatization of Czech car-maker Tatra Kopřivnice:

> I started discussions with Fiat and Mercedes about joint ventures. With Mercedes, we arrived at a general understanding about the business plan . . . Here, Tříska played the crucial role. He went there to persuade the managers [to go for vouchers]. He told them they all would be fired after Mercedes came. (He was absolutely correct about this, by the way.) So he told them that if Tatra would privatize through vouchers, the firm would have more owners than employees and [the managers] would be the kings there. They took his advice and went for vouchers. Tříska's predictions came true and, in the end, Tatra was almost bankrupt and anything of value was stripped.[59]

The conflict between Klaus and Vrba followed a familiar pattern. It was widely publicized and dramatized in the media. Apart from accusing Vrba of sabotaging voucher privatization by discouraging enterprises from joining the scheme (which was indeed true), Klaus played the anti-communist card. He could make use of the fact that Vrba was a director of an enterprise during communism and thus was on the communist nomenklatura list. Vrba was portrayed as a communist who wanted to prolong state control over the economy and govern industry. This obviously was far from the truth, but as propaganda it worked very well. The newspapers cast the dispute in terms of the struggle of capitalism against communism. Vrba's arguments that Klaus was politicizing the privatization process and disregarding the fate of core enterprises largely fell on deaf ears.

In spite of Klaus's and Tříska's enormous pressure on enterprise managers and ministries, Vrba's ministry succeeded in bringing about several important joint ventures involving foreign investors. However, it did not manage to change the general course of privatization. Moreover, after Klaus was elected Prime Minister in June 1992, Vrba lost his ministerial post and thus could no longer threaten Klaus's privatization programme. When the Klaus-led government came to power, it refused many privatization joint ventures involving foreign investors that had been negotiated in the previous government (Žák, 1997; Pavlínek, 2002b).[60] In the case of direct sales, Czech buyers were given a price advantage over foreign buyers because they were entitled to buy properties for their stated book values. In most cases, Czech buyers submitted audited estimates of value to reduce the purchasing price below the stated book value. Foreign buyers, meanwhile, had to submit a price proposal (Kotrba, 1997). [61]

Formation of social interests: the political support of the Klausian project

As discussed above, the transformation policies were conducted by reformers who enjoyed significant autonomy from other social forces. This gave them enormous power, since the control over enterprises was centralized within the state apparatus. Moreover, Czech reformers did not face major constraints in the form of foreign debt. Instead of adjusting to or anticipating preferences of major social actors, the policies were designed to manufacture social and popular support for capitalism in general and their project in particular. A major obstacle they faced in this endeavour was to prevail within the state and win the hearts and minds of the population in the electoral politics. In this context, the popular nationalism and the phobia of German capital appeared to be major concerns. This, however, fitted quite well with their own thinking. The implementation of the internally oriented project of the neoliberals gave rise to important social actors, reform-winners, who then constituted the political underpinning of the project. The reform-winners included bank managers, investment privatization fund operators, and a small group of industrial tycoons.

The greatest beneficiaries of the voucher privatization were the banks and investment privatization funds. About 60 per cent of state-controlled assets (measured by their book value) were privatized through the voucher method. Contrary to expectations, this did not produce a dispersed ownership structure; instead, more than half of the vouchers were held by just ten to fifteen investment privatization funds, and most of the enterprises were controlled by a very small number of shareholders (Vychodil, 2005). In many cases, the investment funds were not able to intervene effectively in the enterprises' management, as they were overcommitted and understaffed. Nevertheless, the enterprise managers in general were in a very weak position, and vulnerable to the whims of the new owners (Appel, 2004).

Circumventing regulation by establishing intermediary investment societies, the state-owned banks controlled the major privatization funds. In the first wave of privatization, which involved assets with an estimated value of 299 billion koruna, bank-sponsored funds got hold of 43 per cent of voucher points, while key private firms held 15 per cent; in the second wave, when property with a value of 155 billion koruna was distributed, the former held 27 per cent and the latter 31 per cent (Mejstřík, 1997).[62] The bank-sponsored funds often took control of enterprises which were indebted to the banks. The state, as an owner of the banks, had a very passive approach, which gave enormous power to bank managers. These, in effect, exercised effective control over the state-owned banks. In the two waves of privatization, shares in the commercial banks were also being privatized. For example, 37 per cent of Česká Spořitelna was privatized, as was 53 per cent of Komerční Banka. However, the banks were allowed to develop a strategy that prevented independent entrepreneurs' investment funds from gaining control. By buying out shares of their mother banks and other banks, bank-sponsored investment funds insulated the banks from other players (Rao and Hirsch, 2003).

While the major Czech banks and insurance companies came to dominate ownership of the Czech economy (see, e.g., Brom and Orenstein, 1994; Kotrba, Kočenda, and Hanousek, 1999), the lack of regulation gave the representatives of investment funds undue power within the enterprises, which did not correspond to their ownership share. This made it possible for them to engage in various forms of asset-stripping and self-dealing.[63] Many of these activities were legal, or at least not subject to prosecution. The investment fund managers and their allies were thus able to concentrate ownership in their own hands, or even to build industrial and financial empires, at the expense of other shareholders and very often also at the expense of the shareholders of the investment fund itself (Kouba, Vychodil, and Roberts, 2005). The investment funds linked to the banks had an advantageous position, as it was easier for them to get credit for various activities, leading to ownership concentration or, alternatively, to looting. Thus, the banks would use deposits to finance the expansion of ownership. In effect, the depositors would bear the risk of these highly uncertain investments, while the profits would go to the shareholders of the bank. These illicit strategies of the owners and management had important impacts on the relations between the management and the unions in many cases. The management attempted to appease the unions and pamper the workers in order not to face critical scrutiny of their activities within the firm.[64]

Both the Czech Way and the games of investment funds and banks required the active cooperation, backing, or at least complicity of politicians and bureaucrats. While it may be disputed whether Klaus and his team intentionally designed privatization policies in order to create social support for his party, strong clientalistic ties between the politicians of the ruling parties and Czech industrialists and bank and privatization fund managers developed very rapidly in the process of privatization. In particular, privatization through direct sales became notorious for corruption benefiting ruling parties and particular politicians or state officials.[65] The ruling parties would develop links with major enterprises through 'their men' on the oversight boards. These appointees would then make sure that the companies did things that the ruling coalition partners wanted, such as contributing to party financing or delaying lay-offs in politically sensitive moments. In return, companies could use their political connections to secure loans through state-controlled banks, gain an advantage in competition for privatization deals, seek tax relief and various licensing privileges, and secure other general political needs (Gould, 2001, ch. 5). An alternative channel linking industrial enterprises with political parties were the banks that were both important creditors and indirect owners of many enterprises (Kudrna *et al.,* 2002a, p. 4).

Indeed, very close clientalistic ties were developed between ruling parties and banks (not only state-owned). Thus, while the state assumed a very passive role in the banks as an owner, individual politicians had important influence on them through clientalistic networks. In turn, the bank managers had enormous influence on political parties. There were important personal links between politicians and the bank sphere. Some of them were bluntly direct and obvious. For instance, Ivan Kočárník (ODS), then Minister of Finance, led negotiations with the major independent investment fund PPF about its takeover of insurance company Česká pojištovna, which was a victim of a predatory deal. Shortly after the transfer took place, Kočárník left the government to become a member of Česká pojištovna's supervisory board and PPF's executive board. Another example is Klaus's wife, Livia Klausová, who was on the supervisory board of a major state-owned bank, Česká spořitelna, from 1993. She remained there even after Die Erste took over the bank in 2000. Numerous links between politicians and banks were most visible in the case of IPB (which was not state-owned from early on). The bank has not funded ODS or any other party directly, but it provided loans to both major parties, the governing ODS and the oppositional Social Democrats (ČSSD). In 1992, ODS obtained a loan without any collateral. Moreover, IPB supported the publication of Klaus's book in 1995. A year later, companies owned by IPB contributed 8.6 million koruna to ODS. Integra, IPB's subsidiary, published ODS's daily *Telegraph*. There was a remarkable overlap between ODS's sponsors and IPB's defaulting debtors. The bank has also been linked to major political parties personally. Jiří Weigel, Klaus's adviser, and Libuše Benešová, ODS's deputy chairman, both held senior positions in the bank. A number of people from IPB's management had direct links to both ODS and ČSSD (Kudrna *et al.,* 2002a).

The coalition of reform-winners also included a small group of industrial tycoons, who took advantage of neoliberals' predicament in the struggle for privatization strategy. When the privatization started, neoliberals were facing a number of privatization projects that involved foreign investors. This was not only incompatible with Klaus's ideas but caused outrage among a significant part of the electorate, just days before crucial elections. This provided important leverage for a number of managers, including enterprise insiders, who offered the neoliberals a solution politically superior to the FDI-based privatization projects: the so-called Czech Way. These managers, most notably Lubomír Soudek,[66] Vladimír Stehlík, and Jiří Maroušek, proposed a debt-based buy-out of some of the large industrial enterprises. The political advantage of this solution was that it did not involve foreign investors. Moreover, these would-be industrial tycoons usually proposed restructuring projects that were ambitious and involved neither social nor any direct economic costs. This was more appealing for the Klaus team than the deals concluded with foreign buyers.

> [The industrial managers] did not have much influence [on privatization]. Of course, Soudek got to Klaus and said: 'Give me Škoda [Plzeň] and everything will be all right. You won't need any Siemens.' This was a big deal for Klaus . . . Shortly after the elections, the government received Soudek's project, which was some two pages long. [On paper,] Soudek offered much more money than Siemens, who won the competition . . . So they made a new tender, which Soudek won . . . It was the time when the privatization of oil refineries was at the table . . . Then, Klaus announced that he would need someone like Soudek for the chemical industry . . . It was as if Klaus dreamed up Soudek. There was actually a strong social demand for him.[67]

These tycoons played the nationalist card explicitly. Stehlík said that the slogan

'Czech industry belongs to Czechs' led him to privatize the Poldi Kladno metallurgical factory. He continued:

> Our country is pretty small, and the foreign capital does not always come with good intentions. Our task is to keep the most for the Czech nation. We have to fight for our Czechness by hard work. This is not nationalism – actually my grandma was German. But the point is to have a balanced relationship [with the Germans]. Today, you have a herd of foreign entrepreneurs who preen as if they own everything here. But that does not impress me. They have to be taught a lesson.[68]

The Czech Way, however, often clashed with the politics of anti-communism. For instance, in the negotiations over the privatization of the Kaučuk Kralupy oil refineries between 1993 and 1995, the government preferred direct transfer of the company to Czech managers, most notably Václav Junek of Chemapol, rather than the foreign InterOil Corporation. However, it was widely publicized that the top managers of Chemapol had been working for the secret service during communism and supposedly also had links with the KGB. This forced the government to reconsider and sell the company to InterOil after all (see Appel and Gould, 2000, pp. 122–123).

Industrial managers failed to organize and act collectively in relation to the government. They formed the weakest part at the tripartite meetings with government and labour, speaking with a divided and inconsistent voice (Orenstein, 1996). At the same time, individual managers developed clientalistic links with the ruling parties. Vrba explains the situation of the managers of state-owned enterprises as follows: 'The revolution did not change much for these managers. They were appointed by a minister, who was a party member. [After the revolution,] the managers then would have to take care of the minister rather than the respective [Communist] Party secretary.'[69] In 1994, ODS would even organize a party fund-raising dinner that was attended by state-owned companies paying around $3,500 each. Thus, state companies were using their money to finance a political party.

These managers, however, did not constitute a social class; at the same time, the transformation strategy, the Czech Way in particular, gave rise to a new group of business leaders. These 'strong personalities with apparently unlimited power over "their" enterprises cemented [their] fragmentation with often aggressive hostility towards each other' (Myant, 2003, p. 8). This structure reminded Myant of an earlier phase of capitalism, before the development of complex forms of inter-firm cooperation and interlocking ownership (Myant, 2000). In many cases, the managers would ally with the unions in their negotiations with the government. This related particularly to the enterprises before or during privatization. The managers would use labour to organize protest actions in order to secure concessions for the enterprises from the government. The unions often willingly allied with Czech managers, as foreign investors often made it quite clear that they intended to restructure the enterprise, which would entail significant lay-offs. In contrast, Czech Way managers claimed to offer less painful restructuring.[70]

Mechanisms of reproduction: financing wild games of ownership concentration

Major social forces participating in, and benefiting from, the Klausian project were integrated around three main activities: privatization; provision of soft credit; and ownership concentration, which included both pure predation and more productive outcomes. The structure of the financial sector and its regulation had a major role and constituted a nodal point of the Klausian project.

Banks had a crucial role in financing transition. They financed not only the operational and investment needs of companies undertaking radical restructuralization of production, sales, inputs, and enterprise structure but property restructuring and privatization. Their own enterprise shares were usually the only collateral that the operators of the ownership concentration games following the voucher privatization and other domestic privatizers could offer. Lending on this basis was obviously extremely risky. Such collateral had very little value when the business plan failed, or when the assets were stripped. However, most of the major Czech banks were willing to face such risks. In contrast, Živnobanka, which was privatized at the very beginning of transformation, avoided such adventures. Jiří Kunert of živnobanka explained that they were ready to extend loans to Czech companies, but 'it did not work out mathematically'. He explained, 'Considering the risks involved in such loans, we would have to set such high interest rates that the owners would not be able to repay without asset-stripping the company.' He even asked the CEO of IPB, Jan Klacek, how such an extensive loan policy could pay off and suggested the danger that the debtors would not repay the money and would suck the assets out of the enterprise. 'Klacek told me with a calm face: "Yes, this will happen. It did not work out to us mathematically either,"' Kunert reported.[71]

So why were the other banks willing to take such risks?[72] The approach of major Czech banks is often attributed to 'bank socialism': the state retained control in four major banks (Havrda, 2003). Klaus made it clear in a 1998 interview that he was intentionally postponing privatization of the big banks. He found živnobanka's approach, 'too prudent to get its hands dirty with the real economy', to be a good example of the risks entailed in early bank privatization.[73] Yet, it was not only state-controlled banks that did not hesitate to get their hands dirty. The case of IPB shows that strong links between some politicians and bankers played an important role. Very often, the politicians would not hesitate to exert direct pressure either through state control of the bank or through their clientalistic ties. For instance, the then chairman of major savings bank Česká spořitelna, Jan Klapal, was told most forcefully that he would be removed if he did not finance Klaus's favoured privatization of steel (see McDermott, 2002, p. 119; Havel, 2004, p. 25).[74] What is more, the voucher privatization and the cross-shareholding strategy of the banks made the latter the indirect owners of their debtor companies. This produced conflict of interest, and the banks were likely to support inefficient firms in their portfolios with easy loans. Furthermore, as discussed above, there was a 'pervasive climate of economic optimism' in the early nineties; and the management believed the state would not let the major enterprises and banks fall (Kudrna *et al.,* 2002b).

More cynical explanations refer to widespread corruption in providing loans.[75] Others suggest that the banks were willing to go along with this policy because it allowed them to offer loans at high interest rates (Desai, 1995).

As a consequence, the environment of soft budget constraints was created, and inefficient companies were not forced to restructure (Gould, 2001, p. 295). Thus, the banks would act as 'bloodsuckers' and 'milking cows' at the same time, sucking out resources from successful companies and redistributing them to weak companies (Kudrna *et al.,* 2002b, pp. 18–19). The environment of soft credit, or actual provision of some credit to struggling enterprises, was a part of industrial policy and a measure to keep employment high. For similar reasons, the government allowed the banks' strategy of cross-shareholding. It was assumed that if a private investment fund got hold of the banks, it would call in the loans, which would result in the liquidation of insolvent firms (Rao and Hirsch, 2003, p. 262). In the same spirit, Klaus would not allow the introduction of a strong bankruptcy framework. The reformers feared it could undermine privatization since many of the enterprises would probably enter the liquidation process. Moreover, the chain of bankruptcies would undermine support for reform in general and for ODS in particular. This offered temporary relief for enterprise managers. With bankruptcy a distant threat, non-performing inter-enterprise debts and bank liabilities rose to high levels. As a result, many failing enterprises survived and unemployment remained low throughout the early nineties (McDermott, 1997; Stark and Bruszt, 1998; Gould, 2001, pp. 153–163).

It was an intentional decision of the reformers, based on ideological beliefs and strategic reasons, to leave the equity market and corporate governance with very little regulation or regulatory enforcement. Ideologically, the neoliberal reformers were suspicious of regulation by the state: they claimed they did not believe it was either possible or desirable for the state to anticipate and try to prevent illicit dealing.[76] Strategically, they were against the regulation as they wanted the enterprises to install new owners in clear and secure control of their firms as soon as possible and by any means. In addition, some of the reformers were closely linked to the most aggressive players in the wild games of ownership concentration. Most notably, Aleš Tříska, the brother of Dušan Tříska, was a top executive in Motoinvest, one of the largest financial groups that owed its success to its ability to exploit weak legislation in the mid-1990s.[77] Bank-sponsored investment funds were part of various games of ownership concentration, which gave rise to another conflict of interest in which the mother banks would then finance various property transfers organized by their daughters. The ownership concentration games obviously often led to purely predatory looting. However, they could also result in productive outcomes.

Winners, losers, and the crisis of the Klausian project: why the winners did not mind abandoning Czech capitalism

After the struggles over the reforms were won, the Klausian project was not challenged by competing social forces, or by an alternative project. This can be explained with reference to the structure of social interest in the Klausian project and to the organizational capabilities of individual social forces. First, with the exception of Slovenia, no other post-communist country had such a small coalition of transitional economic losers in heavy industry and agriculture. Klausian social and industrial policy kept unemployment low and prevented bankruptcies. At the beginning of the nineties, labour was politically aligned with the neoliberal reformers and it obtained significant material concessions.[78] Second, the losers of the Klausian project were politically weak and often lacked information about the costs of Klausian policies that they had to pay. The coalition of Klausian-project losers comprised enterprises that had to bear costs of subsidies and transfers through soft loans (these were small-scale, mostly service-sector enterprises), net creditors, individual voucher holders, actors whose livelihoods were connected to minority ownership in firms and funds, EU-oriented politicians, the outward-oriented managerial elite, and other actors linked to foreign investors (Horowitz and Petráš, 2003; Gould, 2001; Kudrna, 2004). The actors who effectively had to subsidize enterprises benefiting from banking socialism faced difficulties in organizing politically, as they were dispersed both in terms of the scale of production and their location; in contrast, the winners of banking socialism, such as the banks themselves and large industrial enterprises, were concentrated and able to link to the political actors directly.[79] Moreover, the reform-losers lacked information on the existence of subsidies and other downsides of bank socialism (Horowitz and Petráš, 2003). In contrast, net creditor and minority owners were well aware of their poor position. They even attempted to raise their voices against the lack of regulation that penalized them. Their challenge was articulated by Tomáš Ježek, member of ODS and president of the Prague Stock Exchange. However, their position was very weak and thus they were ignored both within the enterprises and by the politicians (Gould, 2001).[80]

The major factor explaining the dissolution of the Klausian project was its exhaustion. Two concurrent major crises brought it down. An economic crisis marked the exhaustion of the nodal point of the project – bank socialism. The Czech Republic had one of the highest proportions of non-performing loans among the transition countries. A string of banking failures starting in 1995 provided a clear sign that there was something wrong with the economy. In 1996, regulators revealed that Plzeňská banka and Kreditní banka were just empty shells, hollowed out by the aggressive financial group Motoinvest. Agrobanka, the fifth-largest bank, was placed under special bank administration to prevent the same development there. What is more, Motoinvest managed to sell Kreditní banka to the partially state-owned Česká pojišťovna, the largest insurance company, making it liable for all loses. In order to repay them, Česká pojišťovna was sold to another aggressive financial group, PPF. In 1997, in a transaction explicitly approved by state regulators, assets of one of the largest investment funds in the country, C.S. fond, were stripped, ripping off thousands of small shareholders. To make matters even worse, the Czech Republic was hit by a serious balance-of-payments and exchange-rate crisis in the spring of 1997. A major factor behind the run on the currency was the damage to foreign investors' confidence caused by the banking crisis.

A political crisis of 1997 provided the final blow to the government and to the Klausian project in general. An avalanche of party financing scandals showed that ODS was profiting from privatization bribes. Klaus resigned in November 1997 after more than half of the ODS parliamentary deputies left the party. The caretaker government of former central bank head Josef Tošovský launched a set of reforms dismantling the institutional support of the Klausian project. Most notably, these included tightening financial market regulation and regulation of the banking system, finalizing IPB bank privatization, and initializing privatization of three other banks. In June 1998, the Social Democrats came to power. They continued with the reforms started by the Tošovský government. Most notably, they privatized banks to foreign financial institutions. Moreover, they introduced an industrial policy based on attracting foreign investors.

Interestingly, the reform measures and regulation introduced by Tošovský, which effectively destroyed the institutional base of the Klausian project, were met with very little resistance. This can be understood with reference to the form of the coalition of winners and to the nature of the Klausian project. While being relatively concentrated and well linked to political actors, the coalition of reform-winners was loose and fragmented, and the ties had a parochial nature. The reform-winners included politicians of the ruling parties, bank and investment fund managers, and some managers of large industrial companies. The unions left the coalition with reformers in 1994 after Klaus took a more confrontational approach to labour relations and launched attacks on some elements of the welfare state (Večerník, 1996; Dangerfield, 1997; Orenstein, 2001, pp. 86–88). Banking socialism and various games of ownership concentration produced rival and cross-cutting interest groups that fought for control over economic policy and, mainly, partial concessions. They were only loosely aligned politically and often divided among themselves. They never consolidated around any single set of social or political interests (Gould, 2001, ch. 5). The Klausian project was formulated and implemented by Klaus and his team; it brought together a number of beneficiaries willing to support Klaus. However, the project as such was never actively promoted or fought for by other forces in the power bloc.

This did not mean that there were no strong and enduring links and coalitions within the power bloc. They were, though, partial and consolidated around single issues. For instance, while the regulation of the financial sector met with little resistance, the introduction of special bank administration in IPB and its subsequent sale by the Social Democratic government provoked a very heated – and emotional – reaction from the ODS (see Kudrna *et al.,* 2002a). In this context, a contrafactual speculation of Jan Mládek, Deputy Minister of Finance in 1999–2001, seems plausible. In his view, had the ODS remained in power, it would not have sold all the major banks to foreign investors as the Social Democrats did. The strong links with bank managers would have made some form of state bail-out involving Czech Way restructuring more likely in some cases.[81]

A major reason why there was not much resistance to the dissolution of the Klausian project is the fact that it had reached its economic limits. By 1997, the material base for predatory games of ownership concentration was largely exhausted. In order to accumulate, economic actors had to engage in a productive enterprise, which did not require the regulatory framework and political games of the Klausian project. Indeed, many of the aggressive players, like one of the emblems of the wild games of the third wave of privatization, PPF, transformed into standard financial operators able to do business within the rules.[82] As Milan Gánik put it, 'they got rich and did not care any more. Now, there is no difference [between old Czech financial groups and standard operators].'[83] In general, the alternatives to the Klausian project were not drastic from the perspective of the winners, and often seemed quite appealing to them (Gould, 2001, ch. 5). At the same time, some of the beneficiaries of the Klausian project who were not able to adjust were also not able or willing to defend the status quo through a political strategy. Thus, the series of bankruptcies of large industrial and financial firms was accompanied by the departure of a group of managers from elite positions in business (Machonin, Tuček, and Nekola, 2006).

In addition, the actors who were not able or willing to switch from the redistributive games to 'standard' economic operation were given room to continue their games. The Czech Consolidation Agency, established to manage bad loans that were removed from banks during their privatization, fulfilled this function. This space, however, was relatively insulated from the rest of the economy and, most importantly, from the productive enterprise. Fassmann describes the functioning of the Consolidation Agency as follows: 'by transferring the [bad] loans to the Agency, many things just got lost. There did not seem to be interest in revealing many of the cases. In fact, it ended up with a sale of debts in which many debtors bought their debts with a considerable discount through third parties. It was a kind of perpetual motion.'[84] As Kudrna evaluated, 'the Consolidation Agency was an extremely inefficient mechanism from an economic perspective. However, considering the [political] logic of looting and redistributive games, it was a smart move. It gave them a place to thrive. At the same time, they could not reach the productive part of the economy from there.'[85] Finally, as noted by Miloš Zeman, Social Democratic Prime Minister in 1998–2002, the 'Czech Way privatizers' would later develop political backing within the Social Democratic Party by creating corrupt personal networks (Zeman, 2006, pp. 104–105).

Conclusion

The political struggle in which the internally oriented project of Czech neoliberals became dominant underscores the importance of domestic politics in shaping state strategies. Despite the very active approach of foreign investors who were willing to take over leading state-owned enterprises, Czech transition policies were quite hostile to these investors and were explicitly oriented towards promoting national accumulation. Paradoxically, the internally oriented strategy was promoted by neoliberal reformers who designed and implemented transition policies that made any attempt at constructing national capitalism quite difficult by cutting Czech enterprises off from Eastern markets and forcing them to compete with Western corporations in both the domestic and the Western markets. As indicated by the terms of Volkswagen's takeover of Škoda, which included considerable protectionist measures, such conditions were not acceptable even for foreign corporations who wished to develop state-owned enterprises. The political struggles which the neoliberals won through a series of interventions indicate that the outcomes were contingent upon the specific strategies of social actors rather than merely on structural conditions. The political tactics of Klaus and his team, as well as the shortcomings of his opponents, were major shapers of policy outcomes. At the same time, the victory of neoliberals was based on articulating structural features that provided strategic advantages to the Klausian project. In particular, this involved the mobilization of anti-communist sentiments, which – as will be discussed in the next chapter – largely reflected political-economic stasis and lack of reform in the 1970s and 1980s. The strategy also drew on popular fear of foreign ownership, which corresponded to a peripheral mode of integration into global capitalism. The proponents of the externally oriented model could not use those to their advantage.

The Klausian strategy was hostile to privatization to foreign capital, with the alternative voucher-based method preferred. From the perspective of Czech neoliberals, the voucher method was politically and economically superior. It was understood to guarantee political support for the neoliberals in the short run and for the capitalist system in the long run. Czech neoliberals also considered the voucher method economically superior as it quickly 'purified' enterprises from state involvement. The hands-off approach proved to be technically incompatible with foreign participation in privatization. At the same time, many of the policy-makers, not only in the neoliberal camp, were explicitly against foreign participation for patriotic reasons. In fact, these sentiments had a crucial role to play since they gave rise not only to the preference for domestic outcomes but to support for the neoliberal transition strategy in general: Czech firms were expected to fare well in competition with the West not so much because the invisible hand of the market would teach them how to compete, but because it was widely believed they were capable of doing so without anyone teaching them. By this logic, they did not need any sunrise-sector protection or foreigners to advise them.

The outcome of the Klausian strategy matched many of the expectations of its designers. Among others, it produced a coalition of social interests, including a propertied class, providing political and financial support to the project. However, it failed to produce a viable accumulation strategy and thus exhausted itself relatively quickly. By destroying much of the viable potential of the domestic industrial base, the economic failure of the neoliberals enhanced the structural advantages of foreign investors (see Myant, 2003). The economic failure was therefore a major reason why the abandonment of the Klausian regulatory framework did not meet with strong opposition.

To what extent is the Czech story representative of the experience in the region? Which factors operating in the Czech Republic were specific to that country and which were more universal? What are the wider theoretical lessons we can draw from the promotion of internally oriented strategies? These questions will be answered in the following chapter.

4 The internally oriented pathways in the early nineties

By default or by design?

There were good reasons to expect foreign investment to dominate post-communist economic restructuring in CEE. Structurally, the neoliberal strategy of the region's integration into global capitalism, or the 'American approach', provided strategic advantages to FDI-reliant strategies. Strategically, reformers in CEE were well integrated into a transnational policy network where openness to FDI was the norm. Western politicians and many advisers have seen FDI as a 'Marshall Plan for Eastern Europe'. USAID-financed investment bankers embarked on a mission to handle the sale of state-owned enterprises to foreign investors. They had direct access to key decision-makers in Eastern Europe. This often included taking part in cabinet meetings to advise on privatization and having permanent staff at the Ministries of Privatization. However, the 'transition' strategy was open to foreign direct investment only in Hungary. Where FDI in general and privatization in particular were concerned the Czech Republic, Slovakia, and Slovenia were all quite hostile to foreign investors. In Poland, actually implemented policies generally preferred domestic actors over foreign investors. In the path-shaping moment of the beginning of the nineties, both internally oriented strategies and externally oriented projects were presented as potential strategies for transition in all the countries under consideration. The externally oriented approach prevailed only in Hungary. Elsewhere, the states promoted domestic accumulation of capital. Why was this the case? What explains the strong drive for promoting internal accumulation in the region? How should make sense of the paradox that often the same groups of reformers promoted both neoliberal transition and internal accumulation? What was the role of external pressures and the limits of the international political economic environment?

I argue that domestic politics and the structural autonomy of state managers explain both the externally oriented path in Hungary and the internally oriented outcomes elsewhere. Domestic politics, however, cannot be understood as internally determined, but rather as a product of materialized transnational processes. This materialization can be reduced neither to an external determination providing limits and opportunities nor to external imposition/coercion. In Hungary, the strategy of transnationalized segments of bureaucratic and industrial elites played an important role in putting the country on the externally oriented path. Thus, the process of transnational class formation and elite socialization was crucial in shaping outcomes.

However, the contrasting trajectories of Hungary and Slovenia – the countries that were most internationalized by 1990 – show that a high degree of transnational integration cannot predict outcomes. The interests and capabilities of domestic allies of the transnational class and/or connected cadres – as well as their structural literacy (see Gramsci, 1971, p. 113) – are relatively contingent upon the domestic context.

The internally oriented outcomes in Poland and Slovakia were determined by several factors. Importantly, there was only lukewarm interest among foreign investors to get involved in Poland, and there was almost no interest in Slovakia. Even more important in the Polish case, however, was that the structure of enterprise control did not allow pursuit of the externally oriented strategy. Thus, these countries could not embark on an FDI-reliant strategy even if they wanted to. In contrast, the structural constraints in the form of debt largely predetermined the strategy of enterprise restructuring in Hungary. There was a drive for promoting national accumulation all around the region, including Hungary. Policy-makers at times preferred FDI-incompatible and/or anti-FDI strategies since they found them politically and economically superior for dealing with the political and economic challenges of capitalist reconstruction. Nationalism and popular fear of foreign domination shaped politics all around the region. Particularly in the Czech Republic and in Slovakia, where the structural autonomy of the state made the struggle for electoral support especially important, popular nationalism became an important concern for formulating political strategies.

In what follows, I first discuss the production of neoliberal transition policies. These policies then provided limits and shaped opportunities for state economic strategies in the region. I show that neoliberal strategies were outcomes of local agency and struggles, in which external support for neoliberalism was not a decisive factor. The Slovenian case will show that the structural environment and pressures provided considerable scope for alternative strategies. It will also reveal that internal, path-dependency factors best explain 'Slovenian exceptionalism'. In the sections that follow, I identify sources of internally oriented strategies. Then, I explain the variation in national pathways and deal with developments in individual countries. I focus primarily on struggles around privatization strategies, as these shaped the approach to FDI. Privatization strategies were also a major determinant of FDI inflows in the nineties (Kalotay and Hunya, 2000; Bandelj, 2002). Given the strategies of foreign investors, greenfield investment was not a big issue in the early nineties. Finally, I analyse institutional structures and political configurations that shaped later transformations in individual countries. Each country under consideration represents a specific story with one (or more,) explanatory mechanism(s) dominant. At the same time, it is possible to observe common patterns. Tables 4.3 and 4.4, below, summarize the comparative analyses of this chapter.

The neoliberal transition: the 'American strategy' or a project of 'lonely reformers'?

The reform strategies throughout the Visegrád Four region followed the neoliberal doctrine of macroeconomic stabilization, market liberalization, and privatization in the early nineties. This reflected the 'American strategy' that materialized in the policies of Western European states and the US towards the region and in the agency of international financial institutions in CEE states. According to Gowan (1995, p. 58), the aim of such a strategy was to break the links between the V4 and the USSR and exclude the latter from a reorganized Europe while absorbing the former into the Western sphere, and it put pressure on the coordinated economies and welfare states in the EU:

> [W]hile an IMF-led restructuring programme would create exporting tigers competing on the basis of cheap labour costs, which would blast a hole in the EC's CAP [Common Agricultural Policy], would dissolve the EC's trade regime, would lead to a relocation of production from Germany eastwards, and would thereby exert pressure to reconstruct the EC's institutional order along American lines as a minimalist safety-net, neo-liberal zone.

In contrast, the French government did not propose dissolution, but transformation of Comecon, including the USSR, towards an economic bloc. Instead of bringing ex-communist 'champions' to the EC, it proposed a pan-European confederation, embracing the EC, CEE states and the USSR. The developmental policy for economic revival in the region as a whole would have been implemented by such institutions as a regional development bank (Gowan, 1995, 1996).[1]

The convergence of transition policies in CEE and on the international level cannot be explained solely with reference to domestic developments. Accordingly, many have emphasized processes in which neoliberal ideas and norms spread from Western centres of ideational production into Eastern Europe (e.g., Campbell and Pedersen, 1996); others have pointed to various coercive pressures, both soft and hard, that the reformers in CEE faced (e.g., Smith, 2002; Amsden, Kochanowicz, and Taylor, 1994; Gowan, 1995; Ost, 1992). In this environment, however, Slovenia implemented policies that significantly departed from the global policy orthodoxy, pursuing a much more gradualist strategy, including elements of economic and social protectionism (Mencinger, 1996; Stanojevic, 2003; Pezdir, 2006; Lindstrom and Piroska, 2007). Slovenian exceptionalism shows that it was possible and feasible to pursue more protectionist and gradualist strategies. Thus, the explanation of why the rest of the region jumped on the bandwagon of the Washington consensus has to go beyond the coercive pressures of international actors and the structural constraints of the international political economy environment.

Neoliberal ideas developed in Western centres of ideational production did indeed have an important influence on the thinking of East European reformers. This, however, happened in the decades preceding the actual 'transition'. In the 1980s, well before the fall of communism, Eastern European academics, policy-makers, bureaucrats, and financiers were already integrated into international intellectual, academic, and organizational networks connecting East and West. They were very familiar with Western academic literature, too. Many of them participated in exchange visits at Western universities, paid for by funding bodies such as the Ford Foundation. The degree of integration in individual countries varied, with Hungary and Poland being highly integrated and Czechoslovakia less so. For many Eastern European intellectuals, neoclassical economics and neoliberal ideology provided ideas and concepts that fitted well with their anti-statist critique of state socialism (see Szacki, 1995). 'Western' theories also gave their ideas credibility and authority.

There was more to the integration of CEE experts than a simple transfer of knowledge from the West to the East, or a spread of neoliberalism from the core to the 'frontier of extension'. As Bockman and Eyal (2002) documented, many important academics from the West and the East had participated in a transnational dialogue organized around a series of conferences, starting in the 1960s and continuing until the 1980s. The participants included not only many prominent Eastern European neoliberal reformers but Chicago-trained libertarians. The knowledge exchanged in this transnational dialogue provided both parties with lessons and important weapons for use in the struggles they were fighting. For Eastern European intellectuals, these interactions would confirm and reinforce their anti-statist critique of the economic system of state socialism, which was very much an elite version of the popular critique of state socialism. The exchanges also constituted an important episode in the development and evolution of transnational neoliberalism.

> [T]he transnational dialogue reshaped both sides. It was not so much part of a successful libertarian conspiracy to topple communism and Keynesianism in one blow, but the breeding ground for the new hybrid discourse of neoliberalism, which was being created through the process of translating, on both sides, the knowledge produced by participants and mobilizing it to travel back to the United States, to fight the wars of deregulation, and back to Eastern Europe, to fight the wars of reforming socialism.
>
> (Bockman and Eyal, 2002, p. 336)

However, not everybody in Eastern Europe was impressed by the neoliberal blueprints. Initially, it was far from clear that neoliberalism would triumph in the East. Shortly before the collapse of communism, the idea of the Third Way between capitalism and socialism was quite popular. In the discussion about the reform strategy, 'Sweden' was an important reference point as a model of capitalism and a social system for which the CEE states should strive. So how did the neoliberal reformers prevail?

The struggle for reform was limited to reformers based in the upper echelons of the state. '"Lonely" reformers [had] both the privilege and the responsibility of acting alone, beyond any political or societal control, in a sort of political vacuum.' They were able to insulate themselves from societal pressures and retain power over reform by concentrating decision-making, establishing various strategic committees, acting in secrecy, and omitting negotiation or consultation (Greskovits, 1998, p. 34, ch. 3). What is more, the societal groups were very weak both politically and structurally. In Czechoslovakia and Hungary, the structure of enterprise control gave reformers considerable autonomy from social forces. Managers of state-owned enterprises and business groups were disintegrated, politically weak, and very often did not have clear preferences on reform strategy.[2] Organized labour faced a post-communist crisis of identity and the ideological legacies that minimized its capacity to shape public policy (Crowley and Ost, 2001). In Poland, where organized labour retained power and organizational capacity, Solidarity leaders initially embraced neoliberalism and pushed through the implementation of 'unqualified' market capitalism while disregarding labour's demands and undermining its political agency (Ost, 2005). The workers were subject to ideological attacks, attributing to them a 'communist mentality' and requiring them to step down to make room for middle classes (Gurr, 2001).

Yet, there was a battle neoliberals had to fight. While they enjoyed considerable autonomy from social groups, they needed to prevail within the state and, at times, secure popular support for their reforms (see Appel, 2004, pp. 177–178). Neoliberals were challenged by the earlier reformers of the socialist system, who advocated a more gradual approach to reform and favoured a more social-democratic outcome. Neoliberals realized the potential of the popular politics of anti-communism and vulgar anti-statism. These sentiments had arisen from the experience of the political and economic pathologies of state socialism (see Böröcz, 2004). Exaggerating differences between the visions, the neoliberals launched vehement attacks on the gradualists along these lines. They claimed the gradualists' perspective was unrealistic and 'deeply statist'. Gradualists were charged with utopian thinking and 'reform romanticism'. In the end, neoliberals managed to turn market socialism into a pejorative catch phrase and connect the gradualist project to the pathologies of the old regime (Greskovits, 1998, pp. 29–34). By employing anti-communist sentiments, the neoliberals managed to achieve the discursive closure of an alternative policy (Smith and Pickles, 1998). As discussed in the previous chapter, this struggle was most pronounced in Czechoslovakia, a country where reforms were frozen for two decades. In contrast, in Hungary, where the socialist reform tradition was strong, reformers could not be as easily challenged. The neoliberal takeover was more of an evolutionary process through 'a temporary advance of the lower echelons of the bureaucratic body along with the co-optation of a handful of liberal reform economists'. In Poland, urgent economic crises helped radicals around Balcerowicz to triumph over more moderate economists (Greskovits, 1998, pp. 32–33).

This struggle should be understood in the context of the wider practices of remaking societies and identities in the process of transition. In this process, several rituals were developed to serve as tools to manage social and cultural matters of a society in transition and enable individuals to remake their identities. These involved the ritual of purification, which was cast in anti-communist terms. The communist system was impure and had to be purged. Purification emphasized the need to purge the population of non-market modes of behaviour, such as dependence on government assistance (Eyal, Szelenyi, and Townsley, 1998, ch. 4). Neoliberals exploited these transition rituals for their attack against gradualists. This strategy worked best in Czechoslovakia, which lacked a socialist reform tradition and was thus more responsive to the rituals of purification.

While neoliberals managed to prevail, they often found themselves sharing governmental positions with social-democratic-leaning gradualists. In the Czech Republic, this led to a strategic compromise that included social protection in the reform strategy from the very beginning. In Poland, reformers made similar concessions in social policies after the social and political backlash caused by the deep economic downturn of 1990–1991 (Orenstein, 2001). In general, both local radicals and their foreign advisers concentrated their efforts and personnel on what they perceived as crucial elements of transformation – that is, privatization, stabilization, and liberalization – and left social policies to the other camp. As a consequence, social policies were often left to be drafted and implemented by social-democratic-leaning individuals (Orenstein and Haas, 2005). These people – who later became local social policy experts – often disagreed with neoliberal principles and tried to steer transition towards a European social democracy (Nelson, 2001).

While neoliberalism, in both the East and the West, was produced transnationally, the political victory of neoliberal reformers was won through domestic struggles in which the external pressures did not play a decisive role. It has often been argued that the relative isolation of policy-makers from societal pressures made them open to external influences (Bohle, 2006) and accessible for social forces linked to foreign capital (Holman, 2004b). The view that neoliberalism was exported to Eastern Europe and imposed there by Western governments and international economic organizations is quite popular (e.g., Grosfeld, 1992; Murrell, 1995; Reich, 1991; Wedel, 1998). Indeed, an endless influx of foreign advisers, including academics and experts of international organizations such as the IMF and WB, flooded the region after the collapse of communism. Western advisers promoted neoliberal shock therapy and warned East Europeans against the Third Way, market socialism, public ownership, and worker self-management (e.g., Sachs, 1990). Foreign advisers seemed to be the only people with whom the reformers consulted on significant decisions. In Poland, a team led by Jeffrey Sachs was invited to advise on transition policies. Sachs and the leading Polish reformer Leszek Balcerowicz developed a special relationship (Boer-Ashworth, 2000, p. 85; Shields, 2003). Ministries of Privatization in Prague and Warsaw were populated by 'young Americans', who came through various programmes funded by USAID, PHARE, and the WB. While these were absent from Budapest, Hungarian top officials in charge of privatization were trained at a USAID course in the US (Meaney, 1995).

However, despite their heavy presence and vivid activity within various state agencies, there were very few signs of decisive influence of the international financial institutions or any other advisers on policies implemented in any of the V4 countries. The reform programmes were drafted by local experts. The reformers themselves (e.g., Balcerowicz, 1995) and many close observers of 'transition' (Meaney, 1995, p. 298; Greskovits, 1998, pp. 56–59; Appel, 2004, ch. 2; McDermott, 2002, p. 91) all agree that the reform was essentially home grown. Even the frequently quoted study of foreign experts in various privatization bodies by Meaney (1995) tells more about their activity than their impact. What is more, even Meaney concludes that many of the advisers' activities were not very effective. Soon, Eastern European reformers themselves became global, portable experts on reform. For instance, after the apparent success of Czech voucher privatization, the World Bank used Czech experts to advise on privatization elsewhere (Appel, 2004, p. 59).

It is likely that the reformers in Eastern Europe were provided with some autonomy – within the margins of the Washington consensus – since they were trusted because they were integrated into the international networks of experts and policy-makers (Greskovits, 1998). Apart from exerting soft influence through advice, the international financial institutions had substantial hard leverage through the control of credit. This was very important not only for the hugely indebted Poland and Hungary but for the states without a significant debt, since they needed standby loans to back transition policies. Thus, the lack of influence on transition can be attributed to what Frenkel and O'Donnell (1979) have described with respect to Latin America as a convergence of external and internal determinants: why use a stick when there was no need to push? It is plausible that the institutional lenders would have been willing to use their hard power if needed. Moreover, students of the Polish case have argued that the very anticipation of the IMF's position in the debt negotiations and of the negative consequences of noncompliance meant Balcerowicz's neoliberal plan was always likely to be implemented by the Solidarity government (Gomulka, 1992; Boer-Ashworth, 2000, p. 81).[3] The Slovenian exceptionalism, then, could be explained with reference to its very low indebtedness (see Table 4.1). Yet, it should be noted that Slovenia was negotiating its share in the Yugoslav foreign debt and the form of its repayment with the IMF and the Paris Club throughout the early nineties (see Piroska, 2002). Even in such a situation, though, Slovenia managed to turn down the advice of Sachs and the IMF.

The above qualifications notwithstanding, it holds that Eastern European neoliberals were able to secure domestic political support in the struggles which were largely independent from the constraints and limits of the international political economic environment. They implemented strategies that reflected their local concerns and suited local constraints and possibilities. The actual difference between Slovenian gradualism and protectionism, on the one hand, and much more neoliberal strategies in the Visegrád Four, on the other, can be explained with reference to internal, path-dependency factors (see Lindstrom and Piroska, 2007; Bohle and Greskovits, 2007). First, as will be discussed below, earlier reforms, most notably enterprise self-management, produced constraints and opportunities for the policy-makers that provided advantages to the developmentalist strategy. Second, since the Communist Party in Slovenia had been implementing relatively successful economic and political liberalization, it was not especially responsive to the rituals of purification, and anti-communism was not a viable political strategy.

In sum, rather than exerting external coercive pressure, Western influence provided some support to local neoliberals in their domestic political struggles. By granting financial and moral support and providing external legitimacy to neoliberals, the international advisers helped local neoliberals to prevail (Greskovits, 1998, pp. 65–67; Appel, 2004, ch. 2). Nevertheless, the external assistance was not the decisive factor behind their success (Appel, 2004, ch. 2). The following sections analyse the intricacies of the politics of reform and the

Table 4.1 External debt stocks (in US$ billions) and annual debt service relative to GDP (percentage)

		1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Hungary	External debt stock	17.7	21.2	22.6	21.4	24.6	28.5	31.7	27.6	26.3	27.9
	Debt-service paid/GDP	12.2	12.8	12.0	13.3	11.4	13.6	15.7	18.5	16.8	15.4
Poland	External debt stock		49.0	48.0	47.6	47.2	42.4	43.9	40.4	38.1	40.4
	Debt-service paid/GDP	1.9	1.6	1.3	1.7	2.0	3.3	3.0	1.7	1.6	2.6
Czech	External debt stock		6.0	6.7	7.1	8.5	10.7	16.5	20.8	21.4	23.5
Republic	Debt-service paid/GDP				5.8*	4.8*	6.1*	4.4	4.2	7.8	8.1
Slovakia	External debt stock					3.4	4.7	5.7	7.7	10.7	12.0
	Debt-service paid/GDP			3.7	4.9	4.8	5.4	6.5	6.0	7.9	9.6
Slovenia	External debt stock			1.9	1.7	1.9	2.3	3.0	4.0	4.1	4.5
	Debt-service paid/GDP				3.1	3.4	2.9	3.4	4.6	4.7	7.2

Note: * Estimate

Sources: The Economist Intelligence Unit – Annual Time Series (Debt service paid/GDP); Kolodko, 2002 (External debt stocks) dialectics of external and internal determination in the field of enterprise restructuring and in the general approach to foreign investors in more detail.

The sources of inwardly oriented strategies

All countries in the region aside from Hungary pursued industrial policies that promoted national accumulation rather than international integration through FDI. What is more, there was a drive to promote national accumulation everywhere, even in Hungary. This section discusses the sources of internal policies that shaped strategies throughout the region. The next section then analyses how the interplay of political strategies and structural constraints and opportunities translated into actual outcomes. There are three explanations of the support for the internally oriented project in the literature: prominence of (economic) nationalism and/or a fear of foreign domination; developmental concerns of state bureaucrats; and the political regime type. First, many have observed that nationalism and a fear of foreign domination had a significant impact on policy-making in the early nineties (Orenstein, 2001; Appel, 2004; Stark and Bruszt, 1998). In that period, the public in CEE countries was hostile to foreign influence. In particular, many were against the sale of state enterprises to foreigners. What is more, economic nationalism was quite prominent among many of the key policy-makers in the region. However, these sentiments were translated into policies only when the structural autonomy of the state allowed for it. It will be shown below that Czech experience in this respect was quite exceptional.

Second, drawing on the literature on the developmental state (Evans, 1979), Hanley, King, and Janos (2002) have argued that there tends to be a greater consensus of interest among state managers and local business elites than among the former and foreign capital. This explains the preferences of policy-makers for domestic accumulation. In developing countries, multinational corporations are likely to repatriate locally generated profits to pursue their global strategies. In contrast, local capital lacks the capacity to pursue international strategies and thus tends to invest locally. The states have a vested interest in domestic accumulation since their resources are drawn from the local economy. Therefore, they will promote local capital as it is more likely to contribute to local economic development and a more favourable form of economic integration of their country than the multinational corporations. However, the developmental motivation of state managers cannot be taken for granted. Instead, it has to be established empirically. While the developmental motivation was certainly present in Slovenia, analysis of the internally oriented strategy of Czech neoliberals showed that the developmental motivation, or a concern with state revenue, was only one of a number of reasons for a greater convergence of interests among state officials and local business. The comparative experience of CEE demonstrates that such considerations are likely to be overridden by political ones.

Third, it has been observed that 'illiberal democracies' and authoritarian regimes were more likely to employ privatization modes that benefited political and enterprise insiders (Fish, 1998; Gould, 2003). Illiberal democracies have been defined with reference to poor accountability of the executive to other centres of authority, the inconsistent and partial application of the rule of law, low access to alternative sources of information, and restricted ability to associate (Bunce, 1999). The political elites would use the control of state institutions to transform positional assets into material ones; and they would challenge liberal political institutions that blocked their efforts (Fish, 1998). Nationalism or xenophobia could be used by the elites to justify and retain the control of the state. Among the V4, this factor was relevant in Slovakia, where the Mečiar government changed the course of Prague-designed privatization to a more insider-oriented framework after the dissolution of Czechoslovakia. The comparison of Slovakia, Croatia, and Serbia of the early nineties shows that this mechanism works independently of the structure of enterprise control (Gould, 2003). However, as Gould's earlier research shows, the illiberal regime type is rather an effect than a cause of insider-oriented – that is, obviously, also internally oriented – privatization strategy (Gould, 2001). The political regime type has to be understood as a structural potential that the political actors can exploit. As will be shown below, the political regime played an important role in shaping the transformation towards the competition state.

A fear of foreign domination

Nationalism, or a fear of foreign domination, was an important phenomenon that shaped transition policies across Eastern Europe. Lack of trust and a fear of foreigners among the general public were widespread. A fear of foreign domination and nationalism both have deep historical roots in CEE states. The nature of and variation in nationalism, or approach to foreign ownership, can be related to the form of international integration of a given society. They reflect the experiences of individual states during the Habsburg Empire, the Second World War, and in the Soviet Bloc. These experiences reverberated in the hostility to German capital in the Czech Republic, Poland, and Slovenia. The nationalistic sentiments in the early nineties, and fear of foreign ownership in particular, reflected the region's peripheral integration into the global system. Very reminiscent of the region's modernization experience accompanied by national uprisings at the turn of the twentieth century (Berend and Ránki, 1974; see also Greskovits and Bohle, 2001, p. 21), the nationalism of the 1990s can be interpreted as a popular response to the neoliberal project of modernization through dependency on foreign capital.

According to an opinion poll conducted in 1993, just after a large number of enterprises had been privatized to foreigners in 1990–1992, only 24 per cent of Hungarians supported foreign ownership of state-owned enterprises *under the condition that it would improve the state of the economy*. As is shown in Table 4.2 opinion polls indicated higher support in Poland (48 per cent), the Czech Republic (50 per cent), and Slovakia (53 per cent) (Rohrschneider and Whitefield, 2004). Popular economic nationalism can thus be interpreted as a reaction to sales to foreigners.

The actual role of nationalistic sentiments in reform politics, however, differed. As discussed in the previous chapter, fear of foreigners was politically significant

Table 4.2 Support for foreign ownership in Eastern Europe in the early nineties (percentages)

	Accept foreign ownership, if it improves economy
Lithuania 1993	64
Slovakia 1994	**53**
Latvia	52
Czech Republic 1994	**50.2**
Estonia 1993	49
Belarus 1993	48
Moldava 1996	48
Poland 1993	**48**
Russia 1993	47
Ukraine 1993	43
Romania 1993	38
Bulgaria 1993	36
Hungary 1993	**24**

Source: Rohrschneider and Whitefield (2004)

Note: Distribution of choices in a closed response set, five-point, agree–disagree scale: 'Either: foreign ownership of enterprises might be accepted if it improves the state of our economy, Or: it is better that we should continue to own our enterprises even if it means more hardship in the future.'

in the Czech Republic. In Slovakia, popular nationalism was an important political resource, providing support and legitimacy for Mečiar's policies favouring allied enterprise managers (Appel and Gould, 2000). However, nationalism was much less influential in Poland and Hungary. First, the nature and degree of nationalism varied across the countries. Second, and perhaps more importantly, given the structural autonomy of the state, popular politics was much more important in shaping enterprise restructuring in Czechoslovakia. As was seen in the previous chapter, various actors then actively played 'the national card' and thus not only put foreign ownership at the top of the political agenda but arguably contributed to the reproduction of the fear of foreign involvement.

Another public opinion poll conducted in September 1992 showed that approximately 50 per cent of Poles objected to the sale of state enterprises to foreigners. It also revealed that this opposition varied according to nationality: 66 per cent were against sale to Russians, 59 per cent against sale to Jews, 54 per cent against sale to Germans, 44 per cent against sale to English and Japanese, and 40 per cent against sale to Americans (*Polityka*, 7 November 1992, p. 20, in Orenstein, 2001, p. 120). Polish nationalism, however, was less intense with respect to enterprise restructuring. While Czech negotiators with Volkswagen reported a strong publish backlash against the sale, people involved in negotiations relating to a similar Polish deal with Fiat remembered some suspicion and controversy but no resentment comparable to that which occurred in the Czech case.[4] As suggested by some of the prominent observers of FDI entry into Poland, while there was considerable disapproval of foreign ownership among the population at the beginning of the nineties, it was never particularly intense where enterprise restructuring was concerned.[5] What is more, the first success stories of foreign entry, together with disappointment about some of the internal solutions, gradually changed the general attitude towards FDI (Domański, 2005). Thus, a 1995 survey of local government representatives indicated overwhelmingly positive attitudes to FDI among both local government representatives and their constituents (Bluszkowski and Garlicki, 1996).

Popular xenophobia was picked up by some political parties and shaped Polish politics. Nevertheless, it did not have a major influence on the trajectory of enterprise restructuring. Most privatization cases were decided in individual negotiation with enterprise insiders who controlled the enterprises (Williams and Baláz, 1999). Only the 'mass privatization' scheme was a victim of the politics of popular xenophobia. In March 1993, the Christian National Union (ZChN), part of the ruling coalition, joined the oppositional forces in parliament to reject mass privatization mainly because it believed that the programme would allow excessive foreign influence in the Polish economy (Orenstein, 2001, pp. 120–121). Another iteration of the mass privatization programme came only in 1996 and it also had to grapple with the fear of foreign ownership. As Stark and Bruszt (1998, pp. 95–96) put it, the aim of the privatization initiative was an outright giveaway of Polish firms to foreign asset managers, which no Polish politician or official could propose. Thus, a solution was invented that did not – formally speaking – do that. However, it did so in substance. 'In a legal and political sense, they [would] give the *ownership to the Polish citizenry* and the *stewardship of the citizen-owned assets* to presumably competent managers.' The latter were likely to be foreign (Stark and Bruszt, 1998, p. 96).

Hungary, which, according to the survey cited above, reported the lowest level of popular approval of privatization based on foreign ownership, paradoxically pursued a privatization strategy that openly favoured foreign investors. Thus, Mihályi reported that reformers, in consequence, had to face 'suspicion and fear on the part of the electorate' (Mihályi, 2001, p. 64). The opinion polls, however, may distort the real nature of Hungarian nationalism in the economic sphere. Two of the reformers who were in charge of privatization, Péter Ákos Bod and György Csáki, do not remember any popular resentment. Instead, they suggest that attitudes to foreign ownership were quite volatile and that resistance to the participation of foreigners in privatization never became a major issue of popular politics; what is more, they observed that a positive attitude to foreigners prevailed because it was connected with the expectation of higher salaries.[6]

Popular nationalism was an important concern of politicians, and it could be used as an important weapon in political struggles. However, as was shown in the previous chapter, nationalism did not work only as an external constraint or political opportunity for policy-makers because some of the policy-makers actually shared the nationalistic sentiments. Nationalistic ideas among the elites were shaped by the degree and form of their international integration. Because of economic integration, including debt management, and Hungary's membership of international organizations such as the IMF, Hungarian bureaucrats, economists, and managerial elites were very well integrated into transnational networks; they had experience of Western markets and cooperation with foreign investors. Hungarian policy-makers and the managerial elite were thus quite open to continued cooperation with foreign investors and to foreign ownership in general (Greskovits, 2000, p. 131; King, 2001a and b).[7] Similarly, it can be suggested that Slovenian integration through trade prevented overoptimistic assessments of national competitiveness to gain prominence. As discussed in the previous chapter, this was not the case in Czechoslovakia. There, economic nationalism among the elites contributed to them embracing the neoliberal project of peripheral integration and modernization through dependence on foreign capital. The rationale of the neoliberals – according to which the role of the reformers was mainly to liberate the natural forces of the economy, civil society, and the initiative and ingenuity of responsible citizens (e.g., Balcerowicz, 1995, pp. 1–16, 341–344; Klaus and Tříska, 1994) – was based on the assumption that there was a pool of skills, knowledge, and industrial prowess that was competitive on the world market and merely needed to be liberated from the constraints of the command system.

Political and economic advantages of the internally oriented projects

Reformers around the V4 often found FDI-incompatible and/or anti-FDI strategies politically and/or economically preferable (although none of the other states matched Czechoslovakia in this respect). Everywhere in CEE, both local neoliberals and Western advisers put a lot of emphasis on the speed of reform, and ownership transformation in particular. There were both economic and political reasons for this. The neoliberals believed that they had to take advantage of the period of 'extraordinary politics' when greater change was possible because they did not face the opposition of social interests. It was believed that people were thinking in more comprehensive terms and were willing to tolerate hardship and social dislocation (Balcerowicz, 1994). Moreover, the rapid de-statization of the economy was expected to bring efficiency increases. The externally oriented strategy, however, could not satisfy the imperative of speed. Thus, the Hungarian case-by-case strategy that favoured foreign investors was often criticised by Western 'transition experts' (Mihályi, 2001). As both Czech and Polish experience showed, foreign participation in privatization often required state involvement in restructuring in order to reduce uncertainty and guarantee contract obligations (McDermott, 2002; Sznajder, 2006). It is interesting to note in this context that the relatively long gap between political change and the start of economic reform in Czechoslovakia demonstrates that the imperative of speed shared by some of the reformers was not economic, as it was in many cases of privatization in Hungary, but political.[8]

In Poland, much of the existing bias against foreigners in privatization can be explained by clientalistic relations between particular politicians and business or managerial groups (Domański, 2005; see also Schoenman, 2005). In some sectors, such as the tobacco and cement industries, these fractional interests put privatization on hold throughout the early nineties despite considerable interest from foreign investors wanting to take over the enterprises.[9] In addition, insider privatization to workers was often implemented in order to buy off union opposition and restructure labour relations by abolishing the powerful workers' councils (Williams and Baláz, 1999). In Hungary, the Antall government, in line with the programme of the Hungarian Democratic Forum, initially intended to support a strong entrepreneurial middle class through its privatization policy. This, however, did not materialize because of the structural constraints the government had to face.[10] The internally oriented intermezzo of 1993–1994 was motivated, as suggested by Hanley, King, and Janos (2002), by the developmentalist concerns of the reformers, who wanted to counterbalance the dominance of FDI in privatization.[11] In Slovenia, developmentalist concerns led the reformers to promote domestic accumulation rather than foreign-based development.

Setting the reform strategy: explaining variation in national pathways

In order to explain actual outcomes and their variation, structural factors – both domestic and international – that provided advantages to certain strategies have to be taken into account. In particular, the structure of enterprise control and international indebtedness shaped the structural autonomy of policy-makers in enterprise restructuring. In addition, the ability to pursue the externally oriented approach is conditioned upon the approach of international investors. Table 4.3 highlights the operation of individual path-shaping factors in the V4. While the policy-makers in the Czech Republic and Slovakia enjoyed considerable structural autonomy as they controlled enterprises and did not face substantial debt, the outcomes elsewhere were largely predetermined by structural constraints. As a consequence, the strategic considerations of policy-makers are key to understanding the inward-oriented strategies in the Czech Republic and, to a lesser extent, Slovakia. Moreover, the political weakness of societal actors gave the state managers additional advantages. In this situation, popular politics played an important role. In Poland and Slovenia, the structure of enterprise control provided advantages to the internally oriented projects. As has been demonstrated in the Polish case, privatization in which enterprise restructuring has to be decided in negotiation between the enterprise insiders (i.e., managers and workers) and the government is not likely to be favourable to foreign investors, at least in the short or mid-term. What is more, the prospect of bargaining over enterprise restructuring with reputedly militant unions is not very appealing to international capital.[12] At the same time, insider-oriented privatization is not incompatible with FDI entry in principle, as it allows for gradual transfer of property to foreign investors. In Hungary, debt obligations limited the structural autonomy of state managers and pushed the country towards the externally oriented outcome. In addition, the structural autonomy of state reformers was limited by economic crisis: a string of failing enterprises robbed the reformers of the time to design an alternative privatization framework, such as the one that was impemented in Czechoslovakia.[13]

The nature of international indebtedness, and its management, is the main factor explaining the divergence of the early nineties. Yet, as was shown in Table 4.1,

Table 4.3 Approach to FDI in the Visegrád Four in the early nineties

	Structural autonomy of the state			
	Debt and its management	*Structure of enterprise control*	*Reform politics*	*Approach of the investors*
Hungary	**Private lenders, bonds; later need to borrow further**	State control (reasserted)	FDI-reliant export-led developmental project; voice of foreign investors	Already active, interested in further engagement
Poland	Public institutional lenders; reduction scheme, then dropped	**Insider control**	Building national capitalist class from party allies	Some interest
Slovakia	No substantial debt	State control	**Building a national capitalist class with enterprise insiders**	Not interested
Czech Republic	No substantial debt	State control	**Struggle for popular support; creating national capitalist class**	Interest in high-engagement strategies
Slovenia	Favourable terms of restructuring Yugoslav debt negotiated	**Insider control**	**Social democratic developmentalism**	

Note: Factors that played decisive role in the respective countries in bold

Hungary was not the only country to face substantial indebtedness. While its per capita debt was initially lower, Poland was also substantially indebted. However, there was a crucial difference in the nature of indebtedness of these countries. While most of the Polish debt was owed to institutional creditors – that is, Western governments – most of the Hungarian creditors were private banks. What is more, the debt refinancing strategy of the Hungarian Central Bank switched a large part of the debt to bonds in 1985–1991. Poland was able to obtain a debt reduction scheme from the Paris Club of public lenders as early as 1991. Later, in 1994, the London Club of private lenders agreed on a 50 per cent debt cut. These reduction schemes entailed many conditions, but they did not push Poland to pursue an externally oriented strategy. In the end, after Poland fulfilled the conditions, the debt was waived. This reduction of Polish debt amounted to the biggest foreign aid to CEE (Kolodko, 2000). It relieved Poland from its biggest constraint – the imperative to obtain hard-currency cash.

Largely owing to the strategy of its Central Bank, Hungary would have found it more difficult to renegotiate its debt. Its negotiation position was particularly precarious as Hungarian policy-makers – concerned about the country's credit rating – did not want to provoke perception of being unable to service the debt.[14] This was not a concern in Poland, which defaulted on its debt anyway. It has to be also noted in this context that Hungary was far less important geopolitically for the West than Poland was. Poland was thus in a much more advantageous position to renegotiate its debt. However, while the form of Hungarian indebtedness and geopolitical importance made any attempts at debt renegotiation difficult, it was not impossible. Piroska (2002) argues that Hungary could have pursued debt renegotiation through political bargaining with commercial banks. Indeed, Slovenia was quite successful in doing this. It is thus claimed that the decision to swap debt for bonds was not imposed upon the policy-makers, but rather reflected their preference.

Hungary: FDI-led development strategy

Hungary was the only country in the region to pursue an externally oriented strategy in the early nineties. The privatization strategy was subordinated to the need of obtaining cash to repay the country's large external debt. Hungarian external imbalances then provided great leverage to international financial institutions which backed the externally oriented strategy. The FDI-oriented strategy, however, was not just externally imposed. It was largely shaped by the strategy of internationalized segments of Hungarian elites, most notably financial bureaucrats, industrial managers, and economists. Thus, foreign debt and domestic social forces were both crucial in *determining the* Hungarian strategy.

In 1989, Hungary had the highest per capita debt in the world. The external debt amounted to about $18 billion, more than 50 per cent of GDP; the annual servicing of the debt amounted to more than 10 per cent of GDP throughout the eighties and nineties (see Table 4.1). Most of this debt took the form of state debt to private banks. In 1985, the Hungarian Central Bank had started to shift the debt burden into low-cost bonds. In comparison with indebtedness to international lending agencies, indebtedness to private banks makes the debt renegotiation more difficult, but not impossible. However, bond-based refinancing made debt renegotiations unthinkable as there were no institutional means for renegotiating the debt to a multitude of private investors. Default was not perceived as an option either, as it was understood that it would effectively cut Hungary off from further credit from both institutional and private lenders. The international socialization of state bureaucrats, state financial elites in particular, had an important impact on Hungary's approach to debt management. Hungary became a member of the IMF in 1982, and its financial cadre was integrated into international networks. It internalized preferences prevailing among the international networks' financial bureaucrats (Greskovits, 2000, pp. 135–136).

Under the influence of the Hungarian Central Bank, the first post-communist government of József Antall decided against attempting to renegotiate the debt on the grounds that it would lower Hungary's credit rating and thus eliminate its chances of participating in various loan programmes (Hanley, King, and Janos, 2002; see also Greskovits, 1998, p. 63; Greskovits, 2000, pp. 135–136; Piroska, 2002). Apart from the Central Bank, the representatives of TNCs already present in Hungary, the international financial community, and foreign private banks exerted pressure on Antall's government to pursue a strategy allowing them to repay the debt in cash (Mihályi, 2001, pp. 63–64). Influential Western companies, including Girozentrale, Siemens, Adidas, Volvo, Ikea, Citibank, Societé Génerale, and Creditanstalt, had invested in Hungary before 1990 upon the invitation of Hungarian communist officials (Mihályi, 1993; Stark and Bruszt, 1998, p. 54).[15] The short-term implications on the exchange rate of default would have had negative implications for the profitability of the investments of those companies in Hungary. Moreover, privatization through restitution could have questioned the legality of these joint ventures (Diczházi, 2000; Mihályi, 2001).

The decision to repay the debt as scheduled had critical implications for the Hungarian privatization strategy. In the context of the recession after the collapse of communism and Comecon, there were not many hard-currency coffers to dip into. In January 1990, the Antall government had decided to use 85 per cent of privatization revenues to repay the state debt. Thus, the main criterion for privatization was the highest cash offer. This not only ruled out the restitution of physical assets to previous owners or their descendants but effectively disqualified Hungarian firms and individuals as they had very little cash at their disposal. It therefore implied that a significant number of state-owned enterprises would be sold to foreign companies. Importantly, previous business relationships and collaborative links not only provided foreigners with information about the Hungarian market but made many foreign partners of Hungarian enterprises interested in taking over the latter. Foreign investors were often interested in privatization in order to maintain their market position and/or their supplier linkages (Diczházi, 2000).

The privatization strategy privileging FDI was not an unintended consequence of the cash-based, case-by-case privatization model imposed by external constraints. The Antall government made it quite clear that the policy was aimed at attracting foreign capital. The goal of the government was to sell 25 to 30 per cent of state-owned enterprises to foreign investors within five years. Furthermore, the government's policy towards attracting FDI went beyond privatization strategy: it involved a number of other measures, including generous tax reductions for foreign investors (Hanley, King, and Janos, 2002).

The foreign-oriented strategy enjoyed broad domestic support. First, some Hungarian policy-makers were influenced by a theory of industrial development articulated by Hungarian expatriate economists Béla Balassa and Nicholas Kaldor. Accordingly, a successful export-led strategy was conditioned by integration into international networks of TNCs. Their advice and recommendations had been well received among Hungarian experts as far back as the 1980s (Csaba, 1997).[16] Second, the exposure to foreign markets, investment, licensing contracts, partnerships, and joint ventures of the 1980s produced a significant sector of the Hungarian managerial elite that was open to cooperation with foreign investors (Greskovits, 2000, p. 131; King, 2001a and b). Economic openness gave rise to the idea that FDI was needed for Hungarian industry to develop; it also led many managers to believe that their career prospects would be better under a foreign owner.[17]

Yet, by 1992, the FDI-oriented strategy had provoked some discontent. There was opposition in parliament from the Smallholders' Party, which objected to the fact that the policy ruled out restitution of physical property to original owners. There was also opposition to the 'sell-out' of state property to foreigners, even within the ruling Hungarian Democratic Forum (Hanley, King, and Janos, 2002, pp. 152–153). At the same time, the externally oriented privatization, which produced an enormous inflow of FDI in 1990–1992 and made Hungary the largest recipient of foreign investment in Eastern Europe in per capita terms, was not accompanied by economic growth. On the contrary, Hungary was suffering from recession and witnessed a decline in citizens' standard of living.

In 1993–1994, the government changed task: it imposed restrictions on foreign ownership in strategic sectors, such as banking, energy, and telecommunications; and it implemented several policies to promote the sale of enterprises to domestic subjects. This included effective nationalization of some large companies with the intention of maintaining long-term state control, promoting domestic ownership of productive assets through subsidized loans, and promoting the sale of state-owned enterprises to Hungarian citizens through a specific voucher programme (Voszka, 1995; Diczházi, 2000, pp. 83–84; Hanley, King, and Janos, 2002). This shift in the privatization strategy, however, cannot be understood merely as a reaction to domestic discontent. Rather, there was a consensus among the Hungarian policy-making elite that some balancing of foreign dominance was necessary.[18]

The new strategy led to a significant shift in property transfer and even managed to create a domestic bourgeoisie. In 1994, foreign investment dropped, while the majority of property transfers benefited domestic subjects (Diczházi, 2000, pp. 83–84; Hanley, King, and Janos, 2002). The IMF, EBRD, and EU, however, were not willing to tolerate this. After their criticism failed to change the approach of the government, all of these agencies cut off their assistance. The IMF and EBRD suspended their aid. As a consequence, Hungary's credit rating declined, which made it harder and more expensive for the country to obtain capital on the international financial markets. Moreover, the EU condemned Hungary's determination to protect key economic sectors from foreign penetration. Given its dependence on foreign financial assistance to manage its current account deficit, Hungary could not afford to resist the pressure of international financial organizations. Moreover, many in Hungary were afraid that the internally oriented strategy could jeopardize its prospective EU membership. In the 1994 election campaign, the Socialist Party promised to change these privatization policies and thus to put an end to Hungary's isolation within the 'international community'. Its victory marked the end of Hungary's internally oriented intermezzo of 1993–1994 (Hanley, King, and Janos, 2002).

The new government, after a period of inactivity, relaunched the privatization policy favouring foreign multinationals. This change in the approach to privatization, however, can hardly be attributed to the change in government. Party politics may have merely speeded up the policy shift. The hands of the new government were tied by the economic crisis, which made Hungary dependent on borrowing from the IMF. By 1994, Hungary faced a current account deficit amounting 10 per cent of GDP ($300 million), and the budget deficit exceeded 8 per cent of GDP. The government reached an agreement with the IMF in 1995. In exchange for a

$300 million loan, it was obliged to speed up privatization and accept strict limits on current account and budget deficits. The agreement led the EBRD to release funds and invest in Hungary. Moreover, the government signed an agreement with the EU, including a commitment to privatize banks, telecommunications and utility companies, which the previous government had resisted (OECD, 1999). The IMF, EBRD, and EU all put special emphasis on these privatizations, demanding elimination of restrictions on foreign ownership in these sectors. The EBRD took a very active approach in assisting foreign investors who wished to enter these sectors, including direct purchases of ownership stakes. As a result, multinationals were in control of all key sectors and most major enterprises by the end of the 1990s (Mihályi, 2001; Hanley, King, and Janos, 2002).

Poland: internally oriented by default

In Poland, structural constraints led to the internally oriented strategy of the early nineties. Enterprises were controlled by insiders who preferred employee–management buy-outs, and there was little interest from investors. As far as enterprise restructuring was concerned, the hands of the reformers in Poland were tied. The privatization strategy and its outcomes often did not reflect the intentions of the reformers, who faced important structural constraints. In the 1980s, economic reforms had shifted control of enterprises to insiders, both workers and managers. Elected employee councils were made the main strategic decision-making bodies in many Polish enterprises in September 1981 (Federowicz and Levitas, 1995). Moreover, the 1988 Law on Economic Activity gave state-owned enterprises the ability to create joint ventures with, or sell or lease assets to, private companies. This led to a spontaneous 'nomenklatura privatization' (Meaney, 1995, p. 280; Orenstein, 2001, pp. 115–116). While the first non-communist government (under Prime Minister Tadeusz Mazowiecki) managed to stop nomenklatura privatization in late 1989, none of the succeeding governments was able to take control of the enterprises. The government depended on the agreement of enterprise insiders when determining privatization strategy as the employee councils held vetoes over all privatization decisions. Thus, in spite of the intentions of reformers, employee ownership was the main result of privatization (Nuti, 1999). More radical property reform, however, was on the agenda of the government. In a series of large public offerings, Mazowiecki announced a privatization programme aimed at attracting foreign investors. In the end, however, the programme did not have a substantial impact on enterprise restructuring because very few foreign investors showed serious interest in taking part in it (Stark and Bruszt, 1998, p. 94). Instead of an externally oriented shock therapy based on reformers' blueprints, Poland embarked on an internally oriented gradualist programme 'by default' (Greskovits and Bohle, 2001, p. 21).

The government decided on a 'pluralism' of privatization methods in 1990. This was greatly facilitated by the pressure of the IMF and the WB, who made their structural adjustment loan conditional on adoption of the privatization bill (Shields, 2004a). The privatization legislation passed by the parliament was ambiguous regarding the decision-making and methods of privatization. In practice, employee–management buy-outs or leases were the main method. At the same time, a number of privatization deals were struck with foreigners, often at low prices in a 'nomenklatura style' (Staniszkis, 1991; see also Shields, 2004a). The share of FDI in privatization, however, was small and it did not change the structure of the economy substantially (Kalotay and Hunya, 2000; Boer-Ashworth, 2000, p. 93).

Throughout the early nineties, the government was also under pressure from Polish business to 'keep Polish business in Polish hands'. It bowed to this pressure by allowing domestic businesses that suffered from a lack of capital to defer payments after they had bid successfully in privatizations, allowing them to pay in instalments, and even barring foreigners from taking part in some privatizations. The prominence of the gradual, case-by-case approach was not welcomed by foreign advisers (Orenstein, 2001). But this would not alter the fact that the privatization process after 1993 increasingly promoted national accumulation and built a national bourgeoisie. However, Polish decision-makers were not against foreign involvement in principle. They supported internally oriented privatization only if the particular Polish capitalists benefiting from it were allied with the respective political party. If not, allowing foreign takeover may have been used as a way to punish the affiliation of the Polish bidder to the opposition (Schoenman, 2005, pp. 60–68).

The plurality of privatization methods also included mass privatization. For political reasons related to the popular fear of foreign ownership, this was not implemented until the mid-1990s. As mentioned above, part of the ruling coalition blocked it in parliament in March 1993 because of its opposition to the foreign ownership that might have been a consequence of such privatization. However, in 1995–1996, the post-communist Left gradually started to implement it. The 1996 Law on Commercialization and Privatization enabled the state to commercialize state-owned enterprises without the consent of insiders; it compensated employees with 15 per cent of enterprise shares free of charge. The preferred method of privatization however, was direct sales of enterprises to investors (Orenstein, 2001). In 1999, foreigners came to dominate privatization. This provoked strong criticism that the government was selling the national wealth to foreigners (Uminski, 2001). The participation of Polish companies, those allied with the government, in joint ventures with foreign investors was employed as one of a number of strategies to counter this criticism (Schoenman, 2005, p. 67). At the same time, the government launched a policy of developing state-owned conglomerates or national champions in strategic sectors, such as chemicals, refining, and banking (Orenstein, 2001). In the steel sector, it was only the hard pressure of the EU in accession negotiations that finally made the Poles privatize just before the enlargement took place (Sznajder, 2006).

Slovakia: creating a national industrial bourgeoisie

Slovakia became an independent state in January 1993. It inherited the Prague-designed voucher privatization programme, which – as discussed in the previous chapter – was favourable to enterprise outsiders and incompatible with the participation of foreign investors. Foreign investors, however, did not show much interest in becoming involved in Slovak economy anyway. In the 1992 election campaign, Vladimír Mečiar, three-time Slovak Prime Minister, launched vocal criticism of the federal Minister of Finance Václav Klaus's transition policy. He found the policy inappropriate for Slovakia's conditions and advocated economic reforms through a Slovak-controlled industrial policy that emphasized more state intervention and called for an end to voucher privatization.[19] This critique provided a basis for an alignment between Mečiar and many Slovak enterprise managers, who were threatened by the outsider-oriented privatization process. As mentioned in the previous chapter, such a coalition would have been very unlikely in the Czech Republic. Given the different ideological construction of enterprise managers in Czech and Slovak republics – an aspect of what Appel calls identity politics – Slovak managers were less disadvantaged by the politics of anti-communism than their Czech counterparts were (Appel and Gould, 2000).

After the federation split, Mečiar consolidated executive control over privatization. He delayed and partially reversed voucher privatization, rewarded insiders with control over key state enterprises, and allowed political allies and loyal enterprise managers to purchase state firms on favourable terms. For instance, in several instances, the sale value of companies was reduced in order to allow domestic, insider-oriented privatization. In November 1994, the government transferred decision-making power for privatization to a quasi-private corporate entity, the Fund for National Property (FNM). Over the next two years, the FNM implemented a non-transparent, quasi-legal privatization programme favouring enterprise managers (Smith, 1998; Gould, 2001, 2003, pp. 294–298; Polák, 2004). Given the weakening parliamentary position of Mečiar's HZDS and increasing opposition to the privatization programme from several centres within the state apparatus, the political forces around Mečiar had to circumvent liberal democratic institutions and employ 'illiberal measures' in order to implement their privatization policy. These included violation of the rule of law in the economic sphere, abuse of the secret service, and exerting pressure on the editors of major media outlets (Innes, 2001, pp. 242–248; Gould, 2003, pp. 294–298).

Slovenia: social-democratic developmentalism

The internally oriented strategy in Slovenia in the early nineties can be attributed to the developmentalist strategy of reformers that went in line with the interests of enterprise insiders. Developmental reformers could take advantage of the favourable legacies, both political and economic, of earlier reforms and economic development. In contrast to other cases in CEE, the transition policies were designed and implemented by social-democratic and developmentalist reformers who implemented a very gradualist and protectionist strategy of export-oriented development, which included substantial state involvement in both industry and finance. The dominance of developmentalist social democrats and the relative marginality of neoliberals in Slovenia from the early nineties onwards can be explained by the path-dependency argument, according to which the path of extrication from communism shaped the opportunities for political action and possibilities for social forces (Stark and Bruszt, 1998). The point of departure in Slovenia was a relatively successful market-based socialist economy with mixed ownership structure, which went through IMF-sponsored macro economic reforms in the 1980s (Chossudovsky, 1997; Simoneti, Rojec, and Rems, 2002; Pezdir, 2006). The Slovenian economy was well internationalized through trade links with the West, and it possessed a relatively competitive industrial base (Lindstrom and Piroska, 2007).

The gradualist ideas and projects could not be denounced by the neoliberals as easily as elsewhere in CEE. The political position of earlier reformers, of enterprise insiders, and of the Left in general was not disadvantaged by the politics of anti-communism. In fact, left-leaning coalitions, including former Yugoslav socialists, ruled Slovenia almost uninterrupted throughout the nineties. Slovenian policy went explicitly against the advice of international financial institutions. After secession from Yugoslavia, Slovenia negotiated favourable debt rehabilitation with its lenders. It could then repay the debt without any difficulties (Piroska, 2002). The policy-makers thus could afford to ignore the advice of the IMF, which they then did in various policy fields. Most notably, Sachs went to Ljubljana to promote IMF-endorsed privatization in 1992. After the government approved the IMF plan, then Deputy Prime Minister Jože Mencinger tendered his resignation. Mencinger was a prominent figure supported by many Slovenian economists, and the threat of his departure forced the Prime Minister to back away from the IMF's plan.[20]

The general approach to foreign investors was very cautious in Slovenia. Its policies were aimed at promoting and protecting domestic accumulation. As far as privatization was concerned, none of the competing proposals, apart from Sachs's, favoured foreign investors. The privatization policy that was implemented was a decentralized model involving free distribution through vouchers, internal buy-outs with discounts for employees, and commercial privatization. Internal buy-outs were the preferred method (Simoneti, Rojec, and Rems, 2002). Slovenian policy-makers were concerned about macro economic risks and the negative spill-over effects of foreign investment. In particular, they were afraid of the strain on current account balances that portfolio investment might cause. Thus, they introduced restrictive measures to discourage portfolio investors and limit the negative impacts of their departure. This also discouraged foreign direct investment.[21] Moreover, as was described in the previous chapter, the government implemented a number of measures to limit FDI. But under the coercive pressure of the EU, Slovenia had to change its approach to FDI in 1997. It had to allow domestic and foreign investors equal rights to enter and exit business and to provide equal investment protection. It also had to remove capital controls. However, despite implementing this liberal foreign investment regulation, there are still a number of cases of protectionism in the day-to-day operation of the state apparatus (Bandelj, 2004).

The politics of the national projects: power blocs, structures of representation and mechanisms of reproduction

The policy-makers in the early nineties had a unique opportunity of path-shaping strategic intervention through which they could shape the formation of major social actors and the institutional environment. This would create or reshape institutions that would then mediate political struggles and shape interests and identities. Yet, as discussed above, various constraints limited reformers' room to manoeuvre. Individual state strategies of property restructuring have produced different mechanisms of institutional and socio-economic reproduction. These mechanisms – or, to cast it in institutionalist terms, different feedback mechanisms – shaped the transformation of the dominant state strategies and the form of institutional change in general in the 1990s (see Thelen, 1999). As a result, there has been a variety of state restructuring in CEE. Hungary and Slovenia have had relatively continuous institutional reproduction; they have not seen any major changes in their dominant state strategies. In contrast, the Czech Republic and Slovakia have experienced radical reorientations of state strategy since the periods when national, internally oriented strategies were dominant and unchallenged. Finally, Poland has gradually reoriented its strategy as far as the promotion of domestic accumulation and foreign investment is concerned. In order to understand the differences in transformation/reproduction, it is important to focus on the nature of hegemonic projects and power blocs. In particular, their relation to accumulation and the nature of interest representation is crucial. The situation where state strategy was politicized and interest representation was structured along party lines together with a failure to produce a sustainable accumulation dynamic led to a transformation through u-turns (see Table 4.4). In both Slovakia and the Czech Republic, the power blocs were based on interest representation that linked core social forces, state strategies, and ruling political parties. Political and economic success allowed for a period of stability that was followed by a sea change, triggered by crisis, which was essentially political in Slovakia and essentially economic in the Czech Republic. Yet, as will be shown in the next chapter, it was not the change of ruling parties that led to the the abolition of internally oriented projects.

Polish state strategy actively encouraged formation of domestic capitalist classes with the use of various concessions and preferential treatment.[22] The success of major Polish economic players was often based on temporal monopolies, protection, and transfers that made it possible for them to grow and establish a favourable position in the market. Personal links between enterprise managers, politicians, and state officials secured preferential treatment to individual enterprises. The economy in Poland was extremely politicized, with individual enterprises forming enduring coalitions with particular political parties. However, the corrupt environment of particularistic and discretionary links between the state and societal actors did not lead to predatory asset-stripping, as in the Czech Republic. Instead, they led to a specific type of developmental state with a defacto industrial policy, which created conditions for economic recovery. What is more, despite political fluctuation, there was continuity in state economic strategy: the

Table 4.4 Power blocs and the nature of transformation/reproduction of state strategies in the 1990s

	Core of the power bloc	*Relation to accumulation*	*Articulation of interests and accumulation strategy*	*Transformation/ reproduction*
Poland	Domestic capital	Productive	Particularistic, structured along party lines, but accumulation strategy not politicized	Gradual
Czech Republic	Banks and investment privatization funds	Predatory and productive in a short term	Fragmented, partial, single-issue links to parties; strategy politicized along party lines	Leap
Slovakia	Domestic industrial capital	Relatively productive	Strong links to the ruling party; strategy politicized along party lines	Leap
Hungary	TNCs, domestic subcontractors	Productive	Accumulation strategy with broad support	Continuity
Slovenia	National bourgeoisie, management of state-owned enterprises and banks	Productive	Accumulation strategy with broad support	Gradual transformation/ continuity

overall economic policy framework was neither politicized along party lines, nor contested by societal groups. Schoenman (2005) explains the productive outcome in Poland by the heightened party fluctuation and by the structural limits on political action. Given the structural constraints, the politicians had little room for manoeuvre and the party politics mattered only to a very limited extent as far as the state strategy was concerned. Regular elections and change of government limited space for predatory behaviour. The fluctuation also provided incentives for long-term productive partnerships between the politicians and business as the parties involved could expect to be in power after a period in opposition. What is more, heightened political pluralism did not make it possible to associate state economic strategy and a dominant power bloc with one of the parties or one party coalition. Thus, its reproduction after the change of ruling party was relatively unproblematic.

In contrast, the nature of interest representation and state strategy in Slovakia was extremely politicized. The high stakes involved in staying in power gave rise to an illiberal regime type (Gould, 2001). The structure of representation was based on the clientalistic relations of Mečiar’s HZDS and major industrial enterprises privatized through the insider-oriented framework. In Slovakia, industrial capital constituted the economic core of the power bloc underpinning the Mečiarist regime. Financial actors, in contrast to in the Czech Republic, were intentionally marginalized and subordinated through changes in the privatization framework and regulation of the financial sector (Gould, 2001; Fisher, 2006). In 1997, some of the large industrial companies, most notably Slovnaft and Eastern Slovakia Steelworks (VSŽ), even gained control over several of Slovakia's largest financial institutions. In economic terms, Mečiar's strategy was relatively successful, at least initially, as it produced rapid expansion of accumulation. It was questionable whether it could be sustainable in the longer term, however (see Becker, 2004; MESA10, 1998), and it had run into difficulties by 1998 (Fisher, Gould, and Haughton, 2007). The main problem with Mečiar's project, though, was not economic but political. Its heavy-handed tactics met with public outcry. Mečiar's policies and political style also led to Slovakia's international isolation. In July 1997, the European Commission recommended it be excluded from the first wave of EU membership negotiations because of the undemocratic functioning of state institutions. Slovakia was also debarred from the first round of NATO expansion shortly afterwards. The period before the 1998 elections saw popular mobilization against the Mečiar government. The NGOs and neoliberal think-tanks campaigning against Mečiar enjoyed generous support from Western donors, and the broadly based anti-Mečiar coalition won the elections. The new government dismantled Mečiar's state strategy and reoriented its policies radically. It consolidated the financial sector, launched an outsider-accessible privatization framework aimed at foreign buyers, and implemented policies aimed at attracting foreign direct investment.

Hungary and Slovenia are cases of relative continuity and transformation through reproduction. In Hungary, transnational corporations pushed the country towards implementation of externally oriented projects in the early nineties. With privatization favouring FDI, not only this fraction of capital but its domestic subcontractors became very important. Contrary to the recombinant property thesis, capitalism with clearly identifiable owners has emerged in Hungary (Hanley, King, and Janos, 2002). The 1995 Bokros Package reinforced the importance of TNCs and their suppliers by cutting real wages and making the forint cheaper. This proved to be quite successful in economic terms. It provided a major stimulus for exports and enterprise restructuring. In particular, low labour costs and generous subsidies attracted many transnational corporations. These relocated labour-intensive production to Hungary, and many domestic firms became their subcontractors. In particular, a division of labour between major transnational corporations and domestic businesses emerged in the electrical and electronics industries, the most dynamic export sector. Foreign ownership in Hungary between 1992 and 1997 rose from 16.8 to 25.6 per cent (Szelenyi and Kovachs, 1998, in Hanley, King, and Janos, 2002). In 1996, foreign affiliates accounted for 73.9 per cent of export sales (Hunya, 2000).

What is unique in the CEE context is that these export-oriented fractions of capital did not only relate to the state with particularistic demands for concessions; they articulated a coherent accumulation strategy to provide conditions favourable to these labour-intensive export interests in the spheres of monetary and exchange-rate policies in particular (see Greskovits, 2006). Local suppliers, rather than transnational corporations, proved to be politically active in promoting the labour-intensive, export-oriented accumulation strategy. The former have been much more dependent on the labour-intensive export strategy and their ability to transform has been limited. It will be shown that neither the structure of Hungarian political economy nor its externally oriented state strategy remained unchanged; however, in comparison with other countries in CEE, Hungary has seen relative continuity in its state strategy.

Finally, the social-democratic developmentalism in Slovenia proved to be successful both economically and politically. A relatively shallow and short transition recession was followed by a period of sustained economic growth. Moreover, the coalition of transition reform-losers was probably the smallest among the post-communist countries. Thus, the nationally oriented project and associated social forces did not face any major challenges. Pressure from the EU forced Slovenia to dismantle much of its protectionism in 1997. However, throughout the 1990s, foreign investors had only a very marginal role in the country. Slovenia proceeded very slowly with privatization and retained a relatively high share of state ownership in major banks and enterprises. Moreover, it maintained a policy of subsidizing state-owned enterprises (Pezdir, 2006). Thus, the actors from the state-owned sectors managed to remain major societal players.

Concluding remarks: neoliberal transition as internationalization of the state?

The transformation of the state in CEE in the early nineties can be characterized as internationalization of the state in a broader sense. The national states have been integrated into various international bodies that can be described as parts of the transnational state apparatus (most notably, the IMF, WB, EBRD, and – broadly speaking – the EU). The reforms were implemented by people who were already socialized or became socialized into the transnational capitalist class. The dominant ideas were very much in line with dominant patterns of thinking within those organizations. Moreover, transnational functionaries flooded key institutions within the state. However, state strategies in most of the CEE states in the early nineties did not promote the interests of transnational capital. Instead, the political project of what Lane (2005) calls the alliance of a global political class and internal elites explicitly privileged the creation of local bourgeoisies over promoting the interests of foreign investors.

This, of course, was not true in Hungary, where the process of transnational class formation and elite socialization did play a major role in putting the country on the externally oriented path. Yet, as the contrasting trajectory of Slovenia demonstrates, a high degree of transnational integration cannot predict outcomes. The interests, capabilities, and structural literacy of domestic allies of the transnational class and/or connected cadres are relatively contingent upon the domestic context.

The neoliberal transition strategies in the V4 led to the peripheral integration of the region into the world economy. They also succeeded in introducing capitalist (class) relations in the region. Neoliberalism can be understood as a political project with the double goal of market creation (Tickell and Peck, 2003) and class-power restoration (Duménil and Lévy, 2004; Harvey, 2005). It can be argued, from this perspective, that the internally oriented project of local members (or allies) of the transnational class best served the political goals of neoliberalism. From the perspective of local reformers, it was more convenient and politically more feasible to ally with (would-be) a national bourgeoisie. The next chapter will show that the structural constraints of the international environment that the reformers helped to create made even relatively viable internally oriented strategies reorient towards externally oriented competition states. This process was not only mediated by the institutional configurations created in the early nineties but conditioned and shaped by the processes in which the main carrier of internationalization, the comprador service sector, became hegemonic in domestic politics.

5 The time of the comprador service sector

How Czechs ignited the competition for FDI

On 30 November 1997, Prime Minister Klaus handed in his government's resignation in the wake of a political and economic crisis. The departure of Klaus and his government marked the dissolution of the Klausian project and a profound reorientation of state strategy in relation to foreign investors. The economic programme of the caretaker government of Josef Tošovský, who was sworn in on 2 January 1998, included the aim of attracting foreign direct investment. The Social Democratic government, which took power in June 1998, would make attracting foreign investors a focal point of its economic strategy. These developments in the Czech Republic opened the race for greenfield investors in the V4. The 1998 rolling out of the most generous investment scheme yet among the transition countries was followed by the introduction of investment schemes in Poland and Slovakia and the reinvention of the investment scheme in Hungary (Mallya, Kukulka, and Jensen, 2004; UNCTAD, 2002).

I argue that the externally oriented strategy of industrial restructuring was implemented only when both the structural opportunities and the political possibilities of the moment allowed domestic groups linked to transnational capital to come to the fore. These social forces, the comprador service sector, became the nodal point and organizer of a wide coalition of forces centred on foreign investors – a power bloc promoting the competition state. This power bloc also integrated significant fractions of domestic capital, which were becoming increasingly integrated into the supply chains of international investors. Moreover, some large domestic companies joined the comprador bloc after it started to deliver direct benefits in the form of investment subsidies. What is more, the failure of Czech capitalism effectively destroyed a large part of domestic industry (Myant, 2003). Thus, the comprador power bloc did not so much replace the supporters of national strategies; rather, the latter were gradually transformed and integrated into the transnational coalition of forces underpinning the competition state.

This chapter provides an account of the sudden emergence of the competition state in the Czech Republic, which is an exemplary case of discontinuity allowing the identification of particular mechanisms of state internationalization. The crisis-induced restructuring in the Czech Republic made the social arrangements most visible (Wolf, 1990). What is more, as we have seen in the preceding chapters, the internally oriented project became particularly entrenched in the Czech Republic in the nineties. In order to forge state internationalization, the domestic forces linked to foreign capital – the comprador service sector – had to become especially active and organized as they faced a hostile environment within the state. The Czech case thus provides an example of 'exemplifying theory' of state internationalization (Eisenhardt, 1989; Yin, 1989).

There was a double policy u-turn in 1998. First, the new governments jumped on the bandwagon of attracting foreign direct investment into manufacturing and (later) services. Second, they privatized major banks into the hands of foreign financial institutions. In April 1998, the Tošovský government introduced a package of investment incentives with the aim of attracting foreign investment.[1] Moreover, the government started the privatization of state-owned banks. Both of these steps were then implemented by the Social Democrats. The terms of bank privatization were favourable to foreign buyers, and the major banks were indeed bought by foreign financial institutions. Both of the policy u-turns, however, were less related to changes of government than they may seem. Thus, the Czech Republic, provides a strong case against the party politics explanation of the shift towards the externally oriented strategy. As was analysed in Chapter 3, the lack of party alteration hindered policy adjustment to past errors and allowed beneficiaries of the status quo, or the 'partial-reform winners' (Hellman, 1998), to seize the state through their links to the ruling party (see Orenstein, 2001). The u-turn then coincided with the first alteration of the ruling party after the reforms producing the Czech Way had been launched. However, this chapter will show that both policy u-turns were independent of party alteration.

After describing the u-turn in the policies towards foreign investors in industry and the financial sector, I will point out the central role of the comprador service sector as the nodal point of the structure of representation organizing a wider power bloc in the Czech Republic. I will show that the structure of representation or the lines of force that 'condense' social relations within the state extend beyond and across individual bodies of the state apparatus and across individual political parties. The next chapter then provides a systematic comparative analysis of the structural and political underpinning of the competition state in the region.

From the Czech Way towards competition for foreign direct investment

It is often thought that the outward-oriented policies, FDI incentives in particular, came with the change of the government, when the Klaus-led coalition went into opposition (e.g., Orenstein, 2001, p. 93). The historical record, however, shows that the process of policy reorientation had a much broader determination, which was largely independent of party politics. The political change may have 'radicalized' and catalysed the pace of the policy change but it was not a decisive factor. It is often forgotten that the Klaus government, and indeed Klaus himself, provided subsidies to foreign investors in 1997. This contradicts the party-pluralist explanation. The history of the outward-oriented project goes further back in time.

The outward-oriented project was being developed within the state even when the Klausian inward-oriented strategy was dominant. There was a group within the state actively working on the promotion of FDI. These bureaucrats, in the Department of Industry and Trade, existed in a hostile environment. Nevertheless, they managed to thrive. In November 1992, they founded a foreign investment promotion agency: CzechInvest, the Czech Agency for Foreign Investment. As recalled by Vladimír Dlouhý, then Minister of Industry and Trade, a PHARE-financed Irish adviser had a crucial role in persuading him of the utility and necessity of such agency.[2] The EU's financial support was vital for the agency in the years that followed. It not only financed advisers that used their Irish experience to make the case for the existence of an investment promotion agency but provided a crucial source of funding. Ireland was perceived as the first European 'tiger' transforming itself from occupying a semi-peripheral location to becoming an export-led 'climber' within the international hierarchy (see Smith, 2005). Many within the EU apparatus and in the CEE states saw CEE as Ireland's natural successor. The region was meant to replicate the Celtic tiger experience within the EU.[3]

As is shown in Table 5.1, external resources accounted for up to 62 per cent of CzechInvest's budget in the early nineties. Moreover, some of the aid to CzechInvest was provided in kind and was not reflected in the agency's budget. Jan A. Havelka, CzechInvest's founder and CEO in 1993–1999, underscores the importance of foreign aid for the organization in the early nineties. This is reflected in his estimate that some 80 per cent of CzechInvest's budget was paid by foreign taxpayers in some years of the early nineties.[4] Havelka, who was recruited by the foreign advisers because of his experience as a project manager at the Kuwait Investment Office and adviser to the Slovakian Minister of Foreign Affairs, explains the importance of the EU in developing the agency in an environment that was very hostile to FDI:

Table 5.1 CzechInvest's budget (in Czech koruna millions)

	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
State funds	5.2	8.2	14.9	20.2	28.2	36.8	52.2	83.8	148.4	166.1
PHARE funds	2.1	13.4	22.3	30	22.9	21.7	21.5	50.9	0	0
Total	7.3	21.6	37.2	50.2	51.1	58.5	73.7	134.7	148.4	166.1
Spent on FDI	7.3	21.6	37.2	50.2	51.1	58.5	73.7	113.7	126.4	139.1
Spent on sourcing	0	0	0	0	0	0	0	20.1	21.9	26
Total staff	14	18	24	28	32	31	35	44	54	63
State funds as % of total	71	38	40	40	55	63	71	62	100	100

Source: MIGA-FIAS (2005)

Notes: It is important to note that some of the assistance received was free of charge and not reflected in the budget. Approximate annual exchange rates used are: 1 US$ = 27 CZK (1993–1996); 1 US$ = 33 CZK (1997); 1 US$ = 30 CZK (1998); 1 US$ = 34.64 CZK (1999); 1 US$ = 38.59 CZK (2000);1 US$ = 38.04 CZK (2001); 1 US$ = 33.3 CZK (2002). This table reflects some rounding of decimal places.

> [External support] was indeed important. I was supported by people from the World Bank and the European Commission. Thus, I was able to obtain massive funding from PHARE in the early years. This gave me an image of a person who knew what he wanted in the eyes of [Minister of Industry and Trade] Dlouhý. I had the confidence of people whom [Dlouhý] trusted . . . Later I persuaded Dlouhý I could afford such escapades as arranging – behind the back of the ministry – permanent representations abroad, financed by PHARE . . . As soon as they got to know about it, they made a lot of noise about it . . . But I could say: 'Look, gentlemen, it did not cost you a koruna, everything was paid for by PHARE.'[5]

In this context, it is interesting to note that while Havelka found many allies in the World Bank, the Czech branch of that organization was rather hostile to the activities of CzechInvest at the time. As reported by Havelka, it was directed by a Czech officer who shared the convictions of Klaus. This shows that international institutions, such as the WB, are also sites of political contention. As shown below, though, the Czech branch of the WB later moved to the internationalist camp.

Facing a hostile environment both within the government and among the general public, Havelka's strategy focused on changing the public's perception of foreign investment, winning the government's trust, and gaining its support. In order to change perceptions among state officials and to make allies among them, CzechInvest used its steering committee (see Table 5.2). This included representatives of other government institutions, the private sector, and banks, who were appointed by the Minister of Industry and Trade. CzechInvest used internal public relations to gain the understanding and trust of the government, especially within the Ministry of Industry and Trade. For instance, it invited government officials

Table 5.2 CzechInvest's steering committee: institutional membership

2001	*2005*
Public (7)	**Public (8)**
Ministry of Industry and Trade (2, chair)	Ministry of Industry and Trade (chair)
CzechInvest	CzechInvest (2)
Ministry for Regional Development	Ministry for Regional Development (2)
Ministry of Foreign Affairs	Ministry of Foreign Affairs
Ministry of Finance	Ministry of Finance
Czech National Bank	Ministry of Labour and Social Affairs
Private (4)	**Private (8)**
Czech Chamber of Commerce	Czech Chamber of Commerce
Confederation of Industry	Confederation of Industry
Association of Entrepreneurs	Association of Entrepreneurs
Živnostenská Bank	Association of SMEs and Self-employed Entrepreneurs Czech–Moravian Guarantee and Development Bank
	Union of Czech Production Cooperatives
	Association for Foreign Investment (2)

Source: CzechInvest's annual reports

on study tours and marked their birthdays and other personal events. To convince the public of the potential benefits of FDI, CzechInvest presented positive experiences of other countries and promoted the agency and its efforts through continual press releases. It needed to show quick results in order to demonstrate the positive impact of FDI. Greenfield projects were found suitable for these purposes. Thus, it focused on attracting greenfield manufacturing investments in automotive, electronics, and precision engineering. Such investment projects were considered to have great potential of creating good publicity through job creation. Moreover, they related to the common belief in traditional Czech strength in manufacturing, technical skills, and a trained labour force (MIGA-FIAS, 2005).

In 1996, CzechInvest established the Association of Foreign Investors (AFI) to serve as an official body representing the interests of investors to the government and to link local service providers with foreign investors. Apart from its business function, AFI proved to be an important vehicle for soliciting and channelling investors' concerns to the government, and it helped CzechInvest to finance activities aimed at promoting investment-friendly policies within the government. AFI funds represented 5–10 per cent of CzechInvest's total funding. Its activities aimed at building a 'working relationship' between the investors and the government through breakfast meetings, unofficial meetings with ministers, unofficial contacts with investors, and the AFI/CzechInvest-sponsored annual awards, including Best Investor, Most Successful Industrial Zone, and Most Successful Supplier. AFI and CzechInvest also initiated working groups on a number of issues, including labour law, tax accounting, residency issues, and real estate development.

However, the efforts of CzechInvest had only limited success throughout the mid-nineties. The government refused to provide preferential treatment to foreign investors, which CzechInvest was promoting. This had significant consequences for the locational decisions of the investors. Petr Hájek, working at CzechInvest at the time, illustrates this by recalling when a Japanese corporation asked for an import duty waiver on machinery it was going to import for its production plant. Klaus rejected the deal and the investor went to another country, where it did receive such concessions.[6] The turning point came in 1997 when Intel and General Motors (GM) were looking for investment sites in Europe and explored possibilities in the Czech Republic. According to Havelka, Klaus was interested as he favoured American investors. CzechInvest put forward their familiar line that the Czech Republic was not competitive without investment subsidies (which were provided by direct competitors, most notably Hungary). In contrast, Klaus believed in the country's natural comparative advantages. Yet, in Havelka words, 'The negotiations with the managements of Intel and GM gave him [Klaus] a lesson. They simply laughed at him.' The combination of these hard lessons, mounting economic crisis, and the fact that the Czech Republic was a regional laggard in terms of FDI inflows forced the Klaus government to reconsider its approach to foreign investors.[7] In August 1997, it offered Intel the package of subsidies the corporation had demanded.[8] And in November, just a few days before its resignation, it offered a similar package to GM.[9] As part of the small packages' of reforms reacting to the economic crisis, Klaus tasked the Minister of Industry and Trade with drafting an investment incentive scheme. Havelka recalled: ‘Klaus said: “You know I don’t agree with this. But if you wish, Minister, prepare a proposal about what should happen, including the investment incentives.”’[10] However, the political development did not allow Klaus’s team to vote on the proposal. Thus, it was Tošovský’s government that approved the investment support scheme in April 1998.[11]

Witnessing many failures of domestic enterprises privatized through the voucher method or through the Czech Way, most Czech economists had started to perceive foreign capital as a major means of stimulating economic development.[12] Moreover, by the mid-1990s, various ‘economic experts’, mostly young economists working at investment banks or in finance consulting companies, gained prominence in media discourses. They not only emphasized the need to attract foreign capital but called for the introduction of investment subsidies. At the same time, CzechInvest’s PR efforts proved to be successful, and its experts often commentated publicly on FDI-relevant issues and emphasized the need for an investment support scheme.[13] Thus, when the decision to introduce such a scheme was reported in the media, it was accompanied by praise from established commentators.[14]

Investment incentives, however, became a political issue, structured along party lines, with ODS being critical of the scheme and Social Democrats embracing investment support. This gave rise to the impression that investment support came only with the new government. The leader of ODS’s MPs, Vlastimil Tlustý, expressed strong disagreement with the investment scheme proposed by the Tošovský administration, despite the fact that the caretaker government presented the policy as a continuation of measures included in Klaus’s ‘small packages’ of reforms. In contrast, the leader of the Social Democrats, Miloš Zeman, welcomed the decision of the government, stating that it drew on the programme of the Social Democratic Party. He claimed that Social Democrats would continue and develop its policy if they won the elections.[15] The project of FDI attraction, and investment incentives in particular, came to be perceived as a Social Democratic project, and the opposition ODS would very much use this interpretative framework in its attacks on the Social Democrats and their policies. ČSSD would reinforce this interpretation to demonstrate the successes of its economic policy.

By 1997, there was indeed an implicit consensus within the Social Democrats about the desirability of foreign investment support. A group of economists around former Minister of Industry and Trade Jan Vrba, which included Jan Mládek, Pavel Mertlík, and Jiří Havel, represented major proponents of this strategy.[16] They were assigned to develop industrial policy for the party. However, in the time before the elections, there were quite vocal nationalistic statements, such as those about the ‘family silver’, coming from some Social Democrats too. It was understood that Miroslav Grégr, former manager of state-owned enterprise Desta and a major adversary of Vrba within ČSSD, was the main proponent of economic nationalism in the party.[17] Havelka recalls a situation when he was attacked by Grégr in a parliamentary committee for bringing in competitors for good Czech enterprises.[18] Grégr himself claims that he was in favour of creating Czech capital in the early nineties. He believed that a ‘national capitalism’ with limited FDI inflow would be viable if the enterprises were restructured before privatization by the state.[19]

After the elections in July 1998, the Social Democrats came to power. Foreign investment support, including the investment-incentives scheme, was the flagship of their economic and industrial policy.[20] This included not only supporting the incentives scheme but relying on foreign investors in any remaining privatization cases. The Social Democrats would use the successful cases of privatization to foreigners, such as Škoda–Volkswagen, as examples that such strategy works. Moreover, they could use the first wave of investors who had been granted investment incentives. The scheme of investment support received great interest from investors. Only one month after it was introduced, CzechInvest reported 111 applicants.[21] Zeman, the new Prime Minister, took part in the opening ceremony of the Matsushita plant, which epitomized the success of investment attraction. For investors, this was a sign of the strong commitment of the new government to the investment incentives scheme. For CzechInvest, which was thrown into uncertainty after Grégr became the Minister of Industry and Trade, it was an indication that the agency would find strong political support within the government.[22] Indeed, Grégr jumped on the bandwagon of foreign investment support. He didn't see much potential for an autonomous developmental strategy after the industrial base had been destroyed by the Czech Way of previous governments.[23]

Later, when the government was deciding about restructuring failing large enterprises, Grégr got into a dispute with Mertlík, then Deputy Prime Minister. Grégr prepared an ambitions proposal of state-led enterprise restructuring whereby 60 billion koruna, amounting to 3.3 per cent of GDP, would be made available for credits to enterprises with 200 or more employees that could come up with a credible business plan. Grégr's ideas initially found support among powerful enterprise managers. This, however, cooled considerably after it become clear that the plan entailed the managers surrendering their power over the enterprises to the government. Mertlík, meanwhile, was promoting a solution prepared by Vrba's team in close cooperation with World Bank experts. This proposal, inspired by the German Treuhand privatization agency, envisioned a politically independent agency to take control of failing enterprises, removing existing owners and management, and preparing them for privatization to foreign investors. Unlike the Grégr proposal, Mertlík's was designed to be compatible with EU competition policy. In fact, Grégr's proposal was hardly possible once EU accession was set as a priority. The Mertlík proposal was supported by foreign investors. The final outcome, the Revitalization Programme, agreed upon on 14 April 1999, was a compromise close to the Mertlík proposal. It established a Revitalization Agency, insulated from the government. However, this agency, administered by a consortium of the investment bank Lazard and Latona Associates, never played a major role in enterprise restructuring. The few cases it administered resulted in sell-offs to new owners, who lacked competence or the ambition to ensure prosperity for the enterprises.[24]

The Mertlík–Grégr dispute is often interpreted as the last attempt to implement the Czech Way. Indeed, Grégr's proposal allowed for enterprise restructuring independent of foreigners, which the Mertlík plan did not. At the same time, its importance should not be overestimated. Grégr's plan lacked not only realism (it was hardly possible to allocate the required money at a time when the state budget was already showing a substantial deficit) but wider societal support, even from its purported beneficiaries – the managers of failing enterprises. What is more, it was formulated when the Social Democrats, including Grégr, were embarking on the externally oriented path of economic development. Apart from the greenfield investment, this also included privatization of state-owned enterprises operating in the utilities and energy sectors. These enterprises were far from failing: in fact, they were performing better than those privatized into Czech or foreign ownership. Improving state revenue was arguably the main motivation behind their privatization (Myant, 2007a).

After the elections in 2006, ODS regained power. One of the most vocal critics of the investment-incentives scheme, Martin Říman, became the Minister of Industry and Trade. Based on the bold statements of ODS politicians in opposition, there were many reasons to expect a scaling down of the investment scheme.[25] Shortly after Říman took his post, he introduced an amendment to the law on investment incentives, which he presented as a major change in approach.[26] In fact, rather than changing the state strategy, this amendment simply retargeted investment support to more technology-intensive activities, as had been planned by the ministry and CzechInvest before Říman took over. Thus, ODS was implementing an adjustment of the incentives that would have been made anyway. Unsurprisingly, the Social Democrats had no problem with supporting the amendment in parliament.[27]

From banking socialism towards foreign control

While the promotion of foreign direct investment in manufacturing turned out to be a political asset that provided immediate benefits for the Social Democrats, the government still had to deal with a major problem: the crisis in the financial system, and the dismal situation of large state-owned banks in particular. Moreover, by tightening the regulatory framework, the Central Bank forced the banks to disclose the real extent of non-performing assets and to deal with the problem by using standard strategies (i.e., not by finding another way to hide them and roll them over). The Social Democrats where shocked when they learned the state of the banking sector. This led them to reconsider the position they proclaimed in one of their election slogans: ‘Not a single koruna into the banks’.[28] The government went for privatization preceded by large and costly clean-up operations and equity increases.

Jan Mládek, then Deputy Minister of Finance, illustrated the predicament of the government when dealing with failing banks:

> Obviously, the main and primary pressure to privatize banks came from inside [the banking sector]. They [the bankers] brought them to rack and ruin and, what is more, they were unbelievably arrogant. Once Klapal, then director of Ceská sporitelna, came to a governmental meeting. It was some time in November 1998, probably on the 28th. He would say: ‘Guys, you have got fourteen business days to bail us out. Otherwise, we go bust in January.’ He was telling this to the new government. Now, they did not know what to do. So they started to discuss options. In the end, they went for the bail-out.[29]

The privatization had started by March 1998, when the Tošovský government sold its minority stake in IPB to Nomura Europe. Rather than a strategic decision, this was a culmination of the spontaneous privatization of IPB by its management, which had started back in 1993. The government had little choice than to sell the bank to the coalition of Nomura and the bank's management (Kudrna *et al.,* 2002). The privatization of the remaining banks was implemented by the Social Democratic government (see Table 5.3 for an overview). In June 1999, the government sold its stakes in ČSOB to a Belgian bank, KBC, for €1.2 billion. The privatizations of Česká spořitelna and Komerční banka followed. They were supported by bail-outs amounting to over 11 billion koruna, over €346 million (see Hanousek, Němeček, and Hájková, 2002). As an outcome of the privatization process, 94.2 per cent of the total assets of the banking sector were directly or indirectly controlled by foreign capital. Thus, the Czech banking sector was fully tied into multinational financial structures. The bad assets which were removed from the banks in the process of privatization were sold at a 90 per cent discount by the Czech Consolidation Agency. The losses of these transactions were covered by Czech taxpayers.

As with the u-turn in the approach to foreign investors in industry, abandoning bank socialism cannot be attributed to political change. Again, the historical record contradicts such an understanding. The Klaus government that approved sale of the sale of the state's stake in Komerční banka and Československa obchodni banka on 5 June 1997.[30]

It is often emphasized that pressure from the EU and the process of Europeanization had a major impact on the dissolution of banking socialism and on the process of bank privatization (see, e.g., Csaba, 2005). In 1997, the Commission, in its report on the progress of the Czech Republic in the accession process, indeed recommended that privatization, preferably to foreign capital, and improvement of the regulatory framework and standards of governance would bring the country closer towards fulfilment of the Copenhagen criteria (EC, 1997). It then consistently pushed for bank privatization in successive annual assessments (EC, 1998, 1999, 2000, 2001; see also Vliegenthart and Horn, 2007). These reports aroused great interest in the Czech Republic and were quoted by various reports for investors. The Commission's insistence on improving the regulation of the banking system provided important backing for those pursuing the regulatory agenda.[31] At the same

Table 5.3 Privatization of major banks

Bank	*Date*	*Market share*	*Investor*
Investiční a poštovní banka	1998	15.4	Nomura Europe
Československa obchodni banka	1999	19.1	KBC
Česká spořitelna	2000	18.2	Erste Bank
Investiční a poštovní banka (again)	2000	–	Take over by CSOB/KBC
Komerční banka	2001	12.4	Société Générale

Source: Kudrna et al. (2002)

Note: Market shares of total assets in credit approval sheet at the end of 1999 time, there was some room to manoeuvre for policy-makers, who could interpret the EU's pressure differently and negotiate various outcomes (see Lindstrom and Piroska, 2007). For instance, in Mládek's interpretation, the EU did not insist on privatizing the banks; rather, it emphasized the need to restructure them.[32] Therefore, there were probably more possible scenarios to be pursued as a reaction to the crisis and EU pressure.

Apart from EU pressure and the exhaustion of the games of banking socialism, the major factor pushing bank restructuring was the approach of the Central Bank, which was tightening monetary policy and the regulatory framework. The EU has provided important backing for the Central Bank's efforts. The gradual introduction of international standards made many of the tricks of hiding non-performing assets illegal (see CNB, 1999). Then, in July 1998, the CNB decreed full provisioning of loss loans regardless of the value of the linked real estate collateral. This removed a major loophole in the institutional framework, forced banks to express their credit risks fully, and effectively led to a string of bank failures (see Kudrna, 2004). It is interesting to note in this context that, according to Tošovský, by then governor of the Czech National Bank, bank failures that the new regulation produced were an unintended consequence of the Central Bank's pursuit of credibility in shifting to the new monetary-policy instrument of inflation targeting.[33] This 'unintended consequence', however, led to a major crisis that hit not only the banking system but the whole economy, since the banks were not able to provide even basic operational credits (i.e., it was a credit crunch). Suddenly, the only source of money available to domestic companies was foreign capital.[34] In this situation, the government had to press forward with bank restructuring.

Political support of the competition state

The reorientation of Czech industrial policy underscores the importance of structural pressures in steering state strategies in the competition direction. The actual policy outcomes, however, are products of particular social forces mediated through structures of representation. Negotiations with investors proved to be key mechanisms translating the structural power of transnational capital into policy outcomes. At the same time, the project of the competition state was promoted within the state by a group of state managers, which I call the state fraction of the comprador service sector. It organized a coalition of forces promoting the competition state and took advantage of the powerful seduction of the Irish example and Irish consultants. Mediated by the activities of this group, the structural power of capital brought the comprador service sector to the fore. The EU provided important support to the activities of the comprador service sector in the early nineties. Later, EU regulation effectively precluded attempts to promote domestic accumulation.

Thus, the structural power of multinationals was crucial in making the policy-makers reorient the internally oriented polices towards the externally oriented framework. The agency-based strategies pursued by the comprador service sector merely facilitated the impact of structural factors.[35] This sector, however, has a crucial role in the power bloc underpinning the competition state. It is a nodal point and organizer of the transnational power bloc centred on multinational investors. The comprador service sector helps to translate the structural power of transnational capital into tactical forms of power that enable agential power to work in sync with the interests of multinationals. The comprador blocs, as will be analysed in the next chapter, also include significant fractions of domestic capital, which have become largely internationalized and/or subordinated to international investors. Moreover, some large domestic companies joined the power bloc after it started to deliver direct economic benefits in the form of investment subsidies.

As was shown above, support of the competition state cuts across party lines, political rhetoric notwithstanding. The situation of ODS illustrates how different social forces are represented within the state through channels of power that cut across various bodies of the state and even across political parties. Accordingly, ODS has been in the schizophrenic position of being a vocal critic of (foreign) investment support while taking part in, (tacitly) supporting, and even initiating the implementation of the investment-incentives scheme in parliament and when in government.[36] As Havelka noted, ‘It’s a kind of political game: today they oppose [the investment support] and tomorrow they will support it.’[37] Moreover, as will be discussed in Chapter 7, there is a centre–regions split within the ODS in its approach to FDI and investment support. Why does ODS indulge in what Havelka characterizes as ‘political games’? As an element in the structure of representation within the state, ODS reflects two lines of power; it condenses social forces in a contradictory way. On the one hand, domestic small-scale capital is an important material and political base of the party. ODS benefits from the financial support of this fraction, and the ‘petty bourgeoisie’ is an important sector of the electorate. As observed by Mládek, ‘domestic business is their material base after all. First, these entrepreneurs vote for them. Second, they are linked to the party directly. In contrast, the multinationals would rather support all parties [financially], more or less legally. National capital has a different approach.’[38] Thus, ODS in the centre has to accommodate the (mainly agency) power of the national bourgeoisie. On the other hand, the position of the party also reflects the (mainly structural) power of the multinationals.[39] As the analysis of the scalar constitution of hegemony in Chapter 7 will show, the structural power of multinationals is particularly felt in the regions. This tension within the party, as we have seen above, has been further polarized by the dynamics of party electoral competition.

The comprador service sector

The literature on (FDI-)dependent development has emphasized the crucial role of domestic actors in the political coalitions underpinning externally oriented projects. These coalitions have been understood as a ‘triple alliance’ of state, international capital, and the local bourgeoisie (O’Donnell, 1978; Evans, 1979). While the national bourgeoisie lacks the productive potential of multinationals, it has an important economic role, since multinationals shift production only if local social forces create an expectation of increased profitability. From the political and ideological perspective, O'Donnell (1978) claims that only the local bourgeoisie can contribute 'the national and private' ingredients needed for a hegemonic project. In a discussion of earlier 'transitions' in Europe incorporating the Southern periphery into the European core, Poulantzas used the term 'comprador bourgeoisie' to describe class relations in the periphery. This was defined as 'that fraction whose interests are entirely subordinated to those of foreign capital, and which functions as a kind of staging-post and direct intermediary for the implantation and reproduction of foreign capital' (Poulantzas, 1976, p. 42; see also Baran, 1957). Since the comprador fraction does not have its own base for capital accumulation, it is often taken to include the 'bureaucratic bourgeoisie' (Poulantzas, 1974/1978, p. 71).[40]

According to Holman, the new power elites in CEE are not a propertied comprador bourgeoisie, but managerial and administrative elites that have the same function as that of the comprador bourgeoisie (Holman, 2004b, p. 223). This elite translates structural dependence on foreign capital into concrete political processes within CEE states.[41] I characterize this group as the *comprador service sector*, which includes state officials from FDI-related bodies (CzechInvest and the respective section of the Ministry of Industry and Trade, in particular), local branches of global consulting and legal advisery service firms and their local competitors, and companies providing other services to foreign investors. The investment promotion agency CzechInvest became the major site of representation of this sector within the state. It has also functioned as an active organizer of the comprador service sector. While the influence and success of the comprador service sector is linked to the arrival of greenfield investors, this group is not 'greenfield specific'. As will be shown in the next chapter, FDI-based privatization in Hungary was accompanied by a rise of similar groups.

This sector is not a bourgeoisie as it constitutes neither a propertied class nor a professional managerial class, whose interests are linked to those of company owners. Structurally, the comprador service sector is much closer to what van der Pijl (2004) characterizes as a 'cadre'. In this context, it specifies structuration of corporate and state fractions in Sklair's (2001) all-encompassing understanding of the transnational capitalist class. Yet, recent trends, most notably the emergence of regional developers such as the IPEC Group,[42] indicate the processes of embourgeoisment within this sector. This group is *comprador* as it is structurally dependent on transnational capital, whose interests it represents. In 1996, Martin Jahn of CzechInvest made quite clear on the pages of a leading Czech daily what the role of the agency was: 'One could have an impression that our agency discriminates against Czech companies. However, our agency represents primarily the interests of foreign investors . . . [In addition, CzechInvest] is the National Contact Centre of OECD that conveys the demands of the multinationals to the Czech authorities.'[43]

The strategies pursued by the comprador service sector facilitated the learning process, with the negotiations between governments and investors as the main lessons, in which policy-makers realized the imperatives of the structural power of multinationals and reoriented internally oriented polices towards the externally oriented framework. The structural power of capital is derived from the dependency of the state and society at large on the investment decisions that are controlled by capital (e.g., the possibility of an investment strike and state revenue dependence).[44] Power through agency is exercised by direct participation of business within and in relation to state institutions. The notion of tactical power introduces an intermediate level between the structural and agential faces of power. It refers to the ability to control settings of interaction, or the respective field of force (Wolf, 1990), and enables structural power to work in sync with its agential counterpart.[45]

State and corporate fractions of the comprador service sector are linked by a common interest of promoting FDI. They are integrated through personal ties, institutional channels, material benefits, and recruiting patterns. First, the two fractions are integrated through the flow of people between them. The main protagonists would switch from working for the government to jobs in consulting agencies, developers, or law offices, and then often go back. For instance, Jan A. Havelka, founder of CzechInvest, left the agency in 1999 to become the director of corporate and government relations at the Prague office of the global law firm White and Case. While working there, he also chaired the AFI. In 2005, he became a crisis manager of the Slovakian investment promotion agency SARIO and an external adviser to the Ukrainian Centre for Foreign Investment Promotion (UCFIP). Quitting White and Case, he took the post of director of the international project management and property development corporation IPEC-CZ, which develops industrial sites for foreign investors. After leaving the government in 1992, Jan Vrba worked as an adviser to foreign investors. Since 1997, he has been a local partner for Procuritas, a Scandinavian private equity house. After leaving CzechInvest, Martin Jahn served as Deputy Prime Minister for Economic Policy in 2004–2005. In 2006, he joined the board of directors of Škoda–Volkswagen.

Second, the state and public fractions developed a number of institutional channels and fora of cooperation. For instance, such linkages have been established through inclusion of private sector representatives into the supervisory board structures of CzechInvest (see above and McMenamin and Hill, 2004). Moreover, the comprador service sector developed the networking and lobbying organization AFI from 1996, and CzechInvest used its steering committee to develop a close working relationship with the private sector. It brought together senior government officials and top executives of private companies and large banks. The representation of the private sector gradually expanded (see Table 5.2, above). The committee had a particularly important role in manufacturing support for the externally oriented project in the early years of the agency (Trník, 2007). Meanwhile, AFI is a joint project of CzechInvest and companies providing services for FDI. Its membership structure, including various management consultancies and other service providers, exemplifies the composition of the comprador service sector (see Box 5.1). It was established in order to serve business and political aims. Its business aim is to link foreign investors with local suppliers. Its political aim is to provide a channel between foreign investors and the government and thus to promote the interests of foreign investors. Moreover, AFI is an important source

Box 5.1 Association for Foreign Investment membership, 2007

General partner
CSOB (insurance, bank activities, business enterprise and assets valuation, corporate financing)

Main partners
Ingersoll Rand (innovation and solutions provider)
Sumitomo Corporation Europe (project and construction management, financial consultancy and services, industrial consultancy)
Takenaka Europe (project and construction management, architecture and design)

Partners
Metrostav (project and construction management, additional service activity, architecture and design)
Zátiší Catering Group

Supporting partners
Accor Hotels Prague
Česmad Bohemia (management consultancy, other professional services, insurance)
O2 (telecommunications)
Tributum Consulting (tax and legal services)
T-Systems Pragonet (information technology support)

Members
ABB Lummus Global (project and construction management, architecture and design)
ABL (security in industrial facilities)
Accord Group (professional valuation and related consulting services)
Adecco (human relations)
Advokátní kancelář Pokorný, Wagner and spol. (attorneys-at-law)
Allen and Overy, Praha Advokátní kancelář (attorneys-at-law)
Alpha Management Consultants
American Appraisal (professional valuation and related consulting services)
ARCADIS Project Management (consulting company)
ASB Prague (consulting company)
Atelier Tsunami (architecture and design)
AYS Placements and Workshops (personnel consultancy and recruitment)
BIG. (public relations and investor relations service)
BIRT Group (real estate development)
Bovis Lend Lease (project and construction management)
Bureau Veritas Certification Czech Republic (consultancy)
Investorsko inženýrská (property development)
Jones Lang LaSalle European Services Limited (real estate and investment management services)
Kocián Šolc Balaštík, advokátní kancelár (attorneys-at-law)
Kovoprojekta Brno (design and engineering activities)
KPMG Česká republika (audit, tax, and advisery services)
Linklaters (legal and tax services)
LMC s.r.o. (personnel consultancy and recruitment)
Nörr Stiefenhofer Lutz (legal and tax services)
Norton Rose (legal and tax services)
Peterka and Partners v.o.s.(law firm)
PricewaterhouseCoopers ČR (assurance, tax and advisery services)
PSG (engineering, construction and services company)
PST Ostrava (logistics, forwarding and customs services)
Raven Consulting (corporate and municipal consultancy)

(Continued)

Box 5.1 Association for Foreign Investment membership, 2007 *(continued)*

CB Richard Ellis (real estate consultancy)
CHEMING (engineering and contracting)
Chemoprag (design, engineering, consulting and management)
CTP Invest (real estate developer)
Cushman and Wakefield (real estate consultancy)
CzechInvest
Deloitte Czech Republic (management consultancy)
DELTAX Systems (business process re-engineering, IT)
Earth Tech CZ (environmental consulting and engineering)
EBO Reality
ENVIROS (environmental consultancy)
Ernst and Young Tax and Transactions (taxation consultancy and services, auditing, management consultancy)
GLEEDS Česká republika (construction consultancy)
Grafton Recruitment (personnel consultancy and recruitment)
GrECo (insurance and reinsurance broker and consulting company)
Havel and Holásek (law firm)
Hays Czech Republic (personnel consultancy and recruitment)
Red Group (real estate developers)
Renomia (insurance broker)
Skřivánek (translation, localization, interpreting and teaching)
Sophia, tlumočnické a překladatelské služby (translation and interpreting)
Synergie, s.r.o. (personnel consultancy and recruitment)
Tacoma Consulting (business enterprise and assets valuation, taxation consultancy and auditing)
Tebodin Czech Republic (planning, engineering and consulting)
Technoprojekt (consulting, design and engineering)
The Charnwood Company s.r.o. (real estate consultancy)
The Source Network (CZ) s.r.o. (management consultancy)
TMF Czech (financial consultancy and services)
Trenkwalder KAPPA people (personnel consultancy and recruitment)
Weinhold Legal (legal services)
White and Case (legal services, taxation and consultancy)

of funding for CzechInvest's activities that could not be funded from the state budget. These include activities aimed at assisting foreign investors at home and promoting the Czech Republic as an investment site abroad.[46]

The testimonies of three major figures of the comprador service sector in the Czech Republic about the early years of AFI provide an interesting record of the way in which the foundation functions. Havelka, then director of CzechInvest, recalled the situation that led him and his colleagues to launch AFI:

> There was a number of things we [CzechInvest] could not solve alone . . . First, there was a problem that investors would approach project managers and ask them to find a good lawyer, etc. . . . This was very dangerous. What is more, some of the project managers would have short lists of lawyers, auditors, and so on. This was a highway to hell. On the other hand, local consultants, including branches of multinationals, would approach me to recommend them

> [to investors]. Even quite renowned companies would offer commissions for this . . . Second, we needed to provide the investors with information about suppliers, etc.[47]

Jan Vrba, when working as a consultant for foreign investors after leaving politics, emphasized the business function of AFI and commented on the material benefits that it entailed:

> This group [AFI] was an exemplary case of insider trading. It was founded by Jahn. I consider him a product of PR agencies. He became director of CzechInvest. Milan Ganik came with this idea of AFI. It was something like a foundation. Jahn became head of the foundation. It brought together various companies, lawyers, law offices, consulting agencies. All of them had to pay some annual fee. Then, if a foreign investor appeared, CzechInvest forwarded him to this group. They would recommend a law firm or consultant. And Jahn was the head. Thus, he was receiving two salaries. One, rather low, was from CzechInvest, and another, much higher, from the foundation. In addition, not to make it too obvious, it would include a holiday in Malta and other unbelievable things that reminded me of Banana republics.[48]

Milan Ganik, then director of Squire, Sanders and Dempsey's Prague branch, and a founding member of AFI, recalled the launching of the organization and its functions:

> It was some time in 1995. I was in the US. Martin Jahn approached me and we discussed AFI . . . Well, I see it as a part of the attempt to break through Klaus's nationalist approach. It was quite difficult for foreign investors by then. [AFI] was an effort to keep the investors interested [in the Czech Republic]. It tried to introduce them to local partners like Squires, which was a founding member of the foundation . . . So it was an effort to break through [the nationalist approach] and thus to get new clients for consulting firms. Later, it got too tangled and closed . . . But at the moment, it's not very efficient as it has lost the exclusivity of a closed club.[49]

Flows of material benefits, as Vrba's account indicates, are another important mechanism of integration between state and private fractions of the comprador service sector. The externally oriented project provides above-average contracts for the sector and great potential of material benefits in the form of various commissions and fees for its state fraction. AFI facilitated not only the promotion of the project but the flow of these material benefits for both fractions.

Finally, the two fractions of the comprador service sector are integrated through recruitment patterns. The average two-year staff turnover in investment promotion agencies, whether in developing, transition, or developed countries, is about 30 per cent (UNCTAD, 2001, p. 39). Staff turnover in CzechInvest was kept at about 14 per cent in early 2006 (Trník, 2007). A position in the state fraction followed by work for the comprador service sector or direct work for multinationals often works as two logical steps in a career ladder, especially for graduates. It is a common phenomenon that young people, after gaining experience in CzechInvest or in FDI-related departments of the Ministry of Industry and Trade, get lucrative positions in the FDI-related private sector. The management of CzechInvest is aware of the fact that it cannot offer salaries comparable to those in the private sector. CzechInvest's strategy thus has been to hire young, talented recent college graduates, who are given significant responsibility in terms of project management and product development.[50] Such work provides them not only with experience that is valued in the private sector but with contacts within the top management of multinationals and the corporate fraction of the comprador service sector.

The comprador service sector and its allies have become increasingly influential within the state. They have managed to build a 'working relationship' with key politicians and officials (MIGA-FIAS, 2005, p. 14), as Havelka explained:

> [AFI] is certainly very influential. For instance, the Labour Code was very much shaped in informal discussions between [Labour] Minister Škromach [and the investors]. The ministry would reflect upon [investors'] observations about prospective consequences of problematic provisions. Actually, the ministers like to come [to AFI events]. We would even invite the opposition, including Říman and Topolánek [opponents of foreign investment support]. There are no media there; nor Czech business. When [the politicians] meet the managements of large multinationals, they know they cannot vote here directly; they would not provide party funding.
>
> Thus, they would not have any political agenda, only strategic considerations. They know that the record of the meeting will not be leaked to some opposition party.[51]

The process of formulating the economic growth strategy in 2004–2005 indicates the prominence of the comprador service sector within the state. The strategy, setting priorities for coordination of economic policy up to 2013, was drafted by a team of experts dominated by members of the sector.[52] The work was directed by Martin Jahn, former head of CzechInvest. In 2004, Jahn also took the position of Vice-Prime Minister for Economic Affairs and became the only economist in the government.[53] It is thus not surprising that the preferences of foreign investors were a major concern when drafting the strategy.[54]

Conclusion

This chapter identified the important role of the comprador service sector in the process of state internationalization in the Czech Republic. While the sector did not cause the policy u-turn, it had crucial role in shaping the transformation by mediating the structural power of transnational capital and providing a policy solution to the crisis of the internally oriented project. Its agency facilitated the u-turn and made it particularly rapid. The comprador service sector then had a crucial role in consolidating political support for the competition state. It was the major organizer of the power bloc underpinning the externally oriented strategy.

The comparative analysis in the next chapter will reveal that the role and prominence of the comprador service sector in the Czech Republic was somewhat extraordinary. Yet, the Czech experience is not exceptional. The domestic situation made the sector especially active and organized, which, in a way, magnified processes through which state internationalization is forged and sustained throughout the region. Apart from analysing different processes of state internationalization in Poland, Hungary, and Slovakia, the next chapter will investigate the roles of other actors, such as domestic capital and labour, and the nature of their integration into the respective power blocs in the V4, including the Czech Republic, and the question of resistance.

6 Political support for the competition state

The comprador service sector and its allies

The expansion of production at Volkswagen, not only in its Bratislava plant but in other locations throughout Slovakia, is a matter of public interest.

Ivan Mikloš, then Deputy Prime Minister for the Economy in Slovakia, 19 January 1999[1]

The incentive programme should be structured to be at least as advantageous as the programmes offered in Slovakia or the Czech Republic.

'Recommendations', position brief by AmCham Hungary, June 2003

Mikloš's view is representative of the new spirit that drove policy-making throughout the V4 region at the end of the nineties. While strategies aimed at promoting national accumulation dominated the region until the mid-1990s, in 1999 the V4 states found themselves competing for the favour of foreign investors. Inward-oriented regimes had been transformed into states that were fine-tuned to compete for mobile transnational capital. Why did this transformation happen? What pushed state strategies in the competition direction? What are the carriers and mechanisms for internationalization? In order to answer these questions, this chapter analyses the political and structural underpinning of the competition state in the V4 region.

The structural power of transnational capital and integration into the European regulatory framework had major roles in steering the states in the competitive direction. The economies in the V4 became structurally dependent on foreign capital, which controls access to technology, know-how, and major distribution networks. The Czech unfolding of a generous incentive scheme then ignited competition for FDI through incentives packages. Finally, EU regulation gradually locked the state strategies in the competitive direction. The emergence of the competition state, however, cannot be understood without taking account of the agency of domestic social forces. Such forces – the carriers of internationalization – must come to the fore if 'structural conditions' or 'systemic power' are actually to work; the latter cannot do without the former.

In the Czech Republic, the comprador service sector played an important role in organizing the u-turn towards investors. It became the nodal point and organizer of the power bloc promoting the competition state. While the comprador service sector emerged throughout the V4, its composition and the importance of individual groups within it varies by country. Furthermore, the political functions it has had in the Czech Republic have been performed by more diverse group of forces linked to FDI in other states in the region. Given the lack of domestic factors that would hinder or mute the effects of structural factors pushing the states in the competitive direction, there was not such a need for concerted effort and political action by domestic groups linked to FDI as was the case in the Czech Republic. The power blocs underpinning the competition state incorporated significant fractions of domestic capital and labour. Large companies in particular became increasingly integrated into the supply chains of international investors. Thus, these comprador power blocs in the V4 did not so much replace the supporters of national strategies. Rather, the latter were gradually transformed and integrated into the transnational coalition of forces underpinning the competition states.

This chapter focuses on national-level politics. However, the political support of the competition state cannot be understood only with reference to the national scale and the actors operating in and through it. First, the process of rescaling in which power is shifted from the national level downwards and upwards provides an important structural advantage to social forces promoting the competition strategy. Second, the power bloc underpinning the competition state includes actors operating primarily in and through regional scales. I investigate the multi-scalar constitution of the political support of the competition state in the chapter that follows. There, I analyse the temporary articulations of the power bloc, which are mobilized when a locality is promoted to lure an investor in investment-location bidding. These coalitions, which I call *investment-promotion machines,* constitute key moments of the hegemonic claims of the comprador sector and its competition state.

The competition state as a hegemonic project

Externally oriented strategies had become predominant throughout the Visegrád Four by 1999. They have since been pursued by governments regardless of ruling party coalitions (see Bohle, 2006). The political support of the competition state goes beyond narrow, short-term interest and immediate material concessions, as was largely the case with the national projects of the early nineties. It transcends party divisions and party politics, even though it can occasionally become politicized and connected with the party in power, giving rise to a false impression that the competition state is a project of the ruling party rather than a broader hegemonic project. The wide embrace of the competition state has to be related to the structural environment – material, institutional, and ideational – that produces a field of force that not only provides constraints on possible strategies but makes the externally oriented strategy a ‘comprehensive programme’ for societies in the region (see Overbeek, 1989). This field of force shapes the ‘field of the politically thinkable’ (Bourdieu, 1984) and thus makes the externally oriented project not only a positive programme but a framework of thinking that allows articulation of various ideological positions, including resistance, on its terms. The intellectuals of the competition state thus can defend investment subsidies even from 'a market perspective', according to which the measure, rather than being a market intervention, actually reflects the relations on the global market for investment. As Martin Jahn, former director of CzechInvest, put it, 'the demand for investment is higher than its supply. That means that it has a price.'[2] Many of the actors who do not agree with investment subsidies in principle or with the promotion of foreign investors see it as a must under current conditions. Thus, even Jaromír Drábek, president of the Czech Chamber of Commerce, an organization with a strong base of small businesses that are hostile to foreign investment promotion, believes that a lack of investment incentives would be very risky.[3] As far as popular sentiments are concerned, economic nationalism and the fear of foreign ownership had very much weakened on both the popular and elite levels by the end of the century. As far as popular support is concerned, a 2000 poll conducted for CzechInvest in the Czech Republic showed 78 per cent of the population considered investments of foreign companies beneficial. Even if asked specifically about German companies, 73 per cent of respondents found them credible. The poll further showed that 59 per cent of respondents were interested in working for Germans (GAC, 2000). In Poland, only 17 per cent of people opposed foreign investment in 1996. That had risen to 33 per cent by 2001, but 63 per cent of Poles approved FDI that year.[4] This largely reflected the above-average working conditions in many foreign enterprises.

The competition state is an organic strategy that reflects structural opportunities and constraints. It has a solid political, institutional, and structural underpinning within the V4. A structural dependence on foreign investors, territorial non-correspondence between the scales of political regulation and capital accumulation, the European regulatory framework, scalar organization of governance, and some of the interpretative frameworks that prevail among policy-makers are the main structural features that provide the project of the competition state with important strategic advantages. In the late nineties, foreign-led economies emerged in the region, with foreign control of leading export industries and most of the public utilities, and unprecedented levels of foreign dominance in the banking sector (Vliegenthart and Overbeek, 2007; Bohle and Greskovits, 2007). EU membership introduced a regulatory framework that locked the state strategies in the competitive direction. In some sectors and countries, the EU's coercive pressure was decisive in making the state remove protective measures and subsidies and thus integrating enterprises into global production networks (this was the case in the Czech Republic and Poland in the steel sector, see Sznajder, 2006). Technically, European competition regulation could mitigate the competition race through direct subsidies. Yet, the impact of the EU's regulation has been much more significant in preventing attempts to promote national accumulation. For instance, European regulation proved to be a powerful check on Polish attempts to discriminate against foreigners in the proposed privatization of the Warsaw Stock Exchange. It was also used by Austria's OMV to challenge the attempts of the Hungarian government to prevent its hostile takeover of the Hungarian 'industrial champion' MOL.[5] Finally, as will be analysed in the next chapter, rescaling within the states, shifting power to regional bodies, strengthened the representation of actors who are directly exposed to the structural power of capital within the state. These structural features are mediated by dominant interpretative frames. In this context, the 'business school notion of globalization' (Watson and Hay, 2003) – including the assumption of perfect capital mobility and capital's insistence on pursuing neoliberal policies – popular among policy-makers is particularly important (see Drahokoupil, 2004).

As was analysed in the previous chapter, the structural power of multinational capital – that is, its ability to locate investment outlets in the regulatory environment of its choice and the possibility of exit (at variable costs) – was crucial in reorienting state strategy in the Czech Republic. The Europe-wide implementation of some form of investment subsidy was also an important factor.[6] The 1998 rolling out of the most generous investment scheme yet seen in the region triggered aggressive competition for investors in the V4, making the structural advantages of foreign investors stronger (Gandullia, 2004, pp. 15–16; Sass, 2004; Jensen, 2006). Slovakia emulated the Czech scheme in 1998. As a reaction, Hungary introduced a customized cash grants scheme in 2003.[7] For the same reasons, Poland introduced a similar scheme in 2005.[8]

Implementation of the competition state project cannot be understood just as an outcome of unequal distribution of power between foreign investors and the governments, as the the state-centric understanding of state–multinational bargaining would have it (e.g., Vernon, 1998; Eden, Lemway, and Schuler, 2005; Meyer and Jensen, 2005). Governments are not social actors independent of other social forces, including investors. The actual policy outcomes are products of the agency of particular social forces mediated through structures of representation. In this spirit, Bohle and Husz (2005) point to the congruence of interests between the investors and national elites in the V4. To be more precise, I argue that it is the privileged position of social forces connected to FDI within respective states and societies that explains the support for the competition agenda.

In Hungary, as was discussed in Chapter 4, the externally oriented project had strong domestic support in the early nineties. It included internationally integrated managers of domestic companies, foreign investors active in Hungary, global consulting agencies and other FDI-related service providers, and internationalized financial and state cadres. FDI-related service providers and foreign investors themselves proved to be politically active through various lobbying activities. Moreover, the FDI-related service providers, most notably AmCham, actively organized the externally oriented power bloc. In Poland, the externally oriented project gradually gained supporters among managers of large domestic companies and trade unions as they started to realize that foreigners often bring above-average business and working conditions. The competition for FDI through incentives ignited in the late nineties then made the state fraction of the comprador service sector push for targeted incentives. The coalition of forces supporting the externally oriented project is much less consolidated nationally. Given the size of the country and the considerable autonomy of regional bodies (see Capik, 2007), strong FDI-growth coalitions operate in many regions, such as Wroclaw and Kobierzyce (see, e.g., Banaszek *et al.,* 1999, pp. 61–71). Finally, in Slovakia, where the illiberal regime politicized the structure of representation and economic policy-making, the reorientation of state strategy towards the externally oriented project took a very abrupt form. Mečiar's removal from government led to the sudden abandonment of promoting national accumulation and to the immediate embrace of the externally oriented strategy. However, even here, party politics explains merely the *form* of transition, not the change of attitude to FDI as such. It should be remembered that the Mečiar government introduced tax waivers for foreign investors in June 1998, three months before the elections that removed it from power.[9] Those elections brought to power a neoliberal 'epistemic community' (see Fisher, Gould, and Haughton, 2007) linked to international financial institutions and progressively internationalizing domestic financial groups (Mihalik, 2003, pp. 373–385). The new government was eager to open Slovakia to foreign capital. The illiberal democracy effect, politicizing economic policy, seems to vanish with the consolidation of the competition state: the 2006 change of ruling coalition, bringing Social Democrats and Mečiar's HZDS to power, did not pose any challenge.

The comprador segments

The comprador service sector constitutes the major element and organizer of the power blocs underpinning the competition state in the V4 states. Nevertheless, its composition and role differ from country to country. It is particularly integrated in the Czech Republic and Hungary. In Poland, it is more fragmented and organized on a regional basis. As analysed in the previous chapter, the Czech comprador service sector also had an important political role in the u-turn in the attitude of the government towards FDI. The state fraction of the power bloc, the investment promotion agency in particular, has had a major role in organizing the comprador service sector in the Czech Republic. This is somewhat exceptional. The importance and consolidation of the state fraction can be explained by the necessity of concerted action in order to be able to deliver some service for the investors within the state and by the need to push for a more favourable policy to FDI in an environment which was particularly hostile to such efforts in the political sphere and, at the same time, ripe with FDI opportunities in the sphere of accumulation. In contrast, the Slovak National Agency for Foreign Investment and Development (SNAZIR) – the predecessor of the Slovak Investment and Trade Development Agency (SARIO) – lacked any agency[10] and had virtually no impact on changing the attitude to FDI (FIAS, 1999, pp. A-8, A-9, cited in Trník, 2007, p. 27). The contrast with the Czech case can be explained by the much smaller lost opportunities with respect to FDI for a would-be Comprador Service Sector in the early and mid-1990s. SNAZIR's poor performance led the post-Mečiar government to create SARIO in 2001. However, this did not manage to establish itself as an autonomous body within the state (Trník, 2007), largely because other parts of the state apparatus, most notably the Ministry of Economy and the Governmental Representative for the Development of the Automotive Industry (1997–2003),[11] established themselves as centres of the CSS and representatives of FDI within the state, and benefited from the surge of FDI of the late nineties (Trník, 2007; see also Zamkovský, 1999).

Working in 'a truly welcoming land for foreign investors',[12] the Hungarian investment promotion agency ITDH has had a minor political role. Only in 2007 did it start to develop events and networking activities similar to those of CzechInvest.[13] Similarly, the Polish Information and Foreign Investment Agency (PAIiIZ) does not play a very important role in organizing the CSS. While it organizes conferences and discussions, its networking role is limited.[14] Importantly, however, PAIiIZ works as a mechanism for translating the structural pressure of incentives competition in the regions to the national agenda of the Polish government. Its publications and reports to the government analyse cases in which Polish regions were outbid by their competitors, identify the disadvantages of the Polish incentive scheme in comparison to regional competitors, and propose more competitive measures.[15]

In Hungary, the American Chamber of Commerce in Hungary (AmCham Hungary) – along with organizations like the Hungarian European Business Council (HEBC),[16] the Joint Venture Association (JVA)[17], British Chamber of Commerce in Hungary, and the German–Hungarian Chamber of Industry and Commerce – constitutes the core of the comprador service sector. As foreign investors had a record of involvement in the country and since Hungary was the first country in the region to open up to foreign investors in the privatization process, foreign investment banks and consulting agencies, such as PricewaterhouseCoopers, established a strong presence there at the beginning of the nineties. They advised both the government and the investors in privatization, and often introduced investors to ministers and bureaucrats.[18] They also quickly established formal networking fora and channels of influence. It is important to note in this context that – despite important differences in the way and timing of its consolidation – the social composition of Hungarian CSS personnel is similar to that in its Czech counterpart: global consulting agencies, investment banks, and affiliates of other investors would hire Hungarians with local histories even for very senior positions. Boards and staff positions in major networking fora and lobbying vehicles, such as AmCham and the JVA, would also predominantly be occupied by Hungarians. The corporate and public fractions of the CSS are similarly well interlinked. Thus, many top policy-makers would rotate between public offices and jobs in multinationals, banks, and international financial organizations (Greskovits, 1998, p. 47).

Established in November 1989 by thirty-two American companies, AmCham Hungary has been particularly active.[19] It has transformed itself from a representative of US business into a major hub of networking and lobbying activities of large transnational companies active in Hungary – including domestic multinationals, such as Hungarian oil giant MOL. Its events, including business breakfasts and various workshops, have been attended by senior civil servants and government ministers, including the Prime Minister. Its lobbying efforts and recommendations are widely understood to be very effective and influential.[20] For instance, in 2006–2007, AmCham Hungary influenced government policy on protecting the labour market after Bulgaria and Romania entered the EU by arranging expansion of the list of skilled workers that were allowed to seek work in the country.[21] Previously, it had actively worked to bring about changes to tax legislation: it issued reports that enjoyed wide media coverage, discussed its positions with policy-makers, and its representative was eventually invited to participate in the tax reform committee. According to Amcham's own evaluation, 'the hard labor of several years bore fruit in terms of favorable tax changes' (AmCham Hungary, 2006, p. 43). Finally, Amcham Hungary actively monitored and reported to the government on incentives competition in the region.[22] Its recommendation to restructure the incentive programme 'to be at least as advantageous as the programs offered in Slovakia or the Czech Republic' (AmCham Hungary, 2003, p. 4) was reflected in the policy of the government.

In Poland, the development of extensive relations with various domestic actors and the hiring of Polish managers were vital components in TNCs' strategy of 'learning the ropes in a generally unknown business and social environment' (Domański, 2005, p. 157). As elsewhere, global consulting agencies were extremely active in advising in privatization processes, developing real-estate infrastructure for foreign businesses, and establishing links with relevant parts of the state apparatus (Shields, 2003, p. 236). Foreign business organizations, most notably the British Polish Chamber of Commerce and AmCham Poland, have also been very active in organizing networking and lobbying activities. Their events are frequently attended by senior civil servants and politicians. Established in the 1990 through an initiative of the US Embassy in Warsaw, AmCham Poland developed various lobbying activities to support more open policies to FDI and a favourable business climate in Poland. It also promoted positive attitudes towards FDI in Poland. For instance, in 1999, when a series of articles condemned foreign investment as responsible for Poland's large trade deficit, AmCham responded with a campaign that emphasized the benefits of foreign investment.[23] However, foreign business chambers, as well as other business organizations, are not considered to be very influential in Poland (Jasiecki, 2002). Business groups, including the multinationals, are not particularly integrated. Lobbying tends to take place through individual channels and particularistic networks rather than through collaborative efforts (Domański, 2005). At the same time, strong FDI-growth coalitions often consolidate in regions.[24]

Finally, AmCham is also the most active business association in Slovakia. It is constituted of the usual mix of Slovak managers hired by multinationals and people working for global consulting companies. Its events welcome politicians and senior civil servants from across the political spectrum. Among others, AmCham Slovakia was involved in the consultation process before legislation enacting the neoliberal offensive of the early 2000s. In particular, it significantly influenced radical reform of the labour law (AmCham Slovakia, 2002; Bohle and Husz, 2005; Bohle and Greskovits, 2006a).

The multinationals

The multinational corporations investing in the CEE region represent the main productive element or material base of the externally oriented power bloc. In a classic understanding, mobile asset holders like multinationals would prefer to exert influence by using their structural power (exit strategy of silent withdrawal), while the less mobile fractions would have more incentives to invest in influence through agency (voice). According to the classical statement of Hirschman (1970), these two strategies are mutually exclusive. The empirical record indeed shows that mobility or the scale on which the respective actors operate influences the strategies that those actors employ. Thus, the comprador service sector and domestic capital have been very active in developing various agency-power activities. What is more, the sector has had major role in translating the structural power of multinationals into tactical forms of power. Tactical manoeuvring demanded that the multinationals make alliances with and hired local brokers. In this process of translation, transnational capital became embroiled with locally embedded domestic actors and the comprador service sector became the major organizer of the power bloc centred on multinational capital. However, the strategies of multinationals show that exit and voice strategies are by no means mutually exclusive. On the contrary, the multinationals have been employing both exit strategies – including playing the states against each other when making their investment-location decisions – and agency through voice.[25] While the comprador service sector usually plays the major role in representing transnational capital within the states, the TNCs do not leave political agency to the CSS only. They tend to be particularly active within the states after they invest there.

As we have seen, multinationals have exerted considerable influence through the exit strategy. The structural power of transnational capital was crucial in reorienting state strategies towards the competition state in the region. Thus, an aggressive competition for investors through various investment incentives, including generous grants and tax waivers, opened in the region. Locational competition allows multinationals to collect concessions in the form of investment subsidies. While some claim there is a close connection between FDI and (tax) incentives (e.g., Csáki, 1995; Hunya, 1998), others question the link between subsidies and investment inflows (Beyer, 2002) or doubt incentives' ability to draw in investment as the former is found not to be a primary factor in location decisions of investors (Mallya, Kukulka, and Jensen, 2004). The V4 experience shows that many investors indeed actively request subsidies in their negotiations with states.[26] What is more, at least some of them factor the possibility of securing *additional* benefits by receiving subsidies into their location decisions.[27] Once endowments among competing locations are similar, investment incentives play an important role in investors' locational decisions (Kolesár, 2006; see also Bohle, 2008). The V4 region offers more than one equally good investment location for many investors, which allows them to play the respective states against each other. Moreover, investors with such ability are often those targeted by investment support as they are considered to be strategic by the policy-makers in the V4. This was the case with large electronics and automobile manufacturers in the early 2000s. In sum, while it is possible that only a minority of investors really base their location decisions on the provision of subsidies, it is important that foreign investors in general, and the comprador service sector, demand investment incentives and actively push policy-makers to provide them. Of course, it would be quite irrational not to collect material concessions when virtually no costs are entailed.

The multinationals become more concerned with local policy environment, and thus more politically active, the more committed they are in their local operations. In the early nineties, foreign investors preferred to engage in low-commitment strategies, such as involvement through trade and subcontracting, rather than investing in the V4 directly (Martin, 1998, 1999). They engaged mostly in sectors which allowed for an easy exit option, such as apparel, textiles, shoes, and furniture (Pavlínek, 1998, 2004a; Bohle, 2002, pp. 165–176). Market-seeking strategies were pursued by small and/or medium-size enterprises (SMEs) from the EU states; large multinationals such as Danone, Nestlé, Unilever, and Shell; supermarket chains like Carrefour and Tesco; pharmaceutical and agricultural companies; and mobile-phone firms. Factor-cost-seeking, efficiency-oriented investments were the domain of both SMEs operating on the basis of outward processing and large multinationals investing in labour-intensive activities in automobiles, electronics, chemicals, plastics and rubber, and pharmaceuticals (e.g., Smith *et al.,* 2002; Begg, Pickles, and Smith, 2003; Pickles, *et al.,* 2005).

Hungary has developed into a regional hub in electrical and electronics industries. Large multinationals, such as Mannesmann, Philips, IBM, Kenwood, Samsung, Siemens, and Flextronics, and their smaller suppliers, have established primarily low-skilled, labour-intensive activities in the western part of the country (see Bohle and Greskovits, 2006a, pp. 12–16). Efficiency-seeking through cheap factor costs was a major motivation for investors. Some observers have suggested that the country is set to become ‘Europe’s Mexico’, suffering from ‘maquiladora syndrome’ (Ellingstadt, 1997; Kapoor and Eddy, 1998). In Poland, and to lesser extent in the Czech Republic, cheap labour was not the primary reason for FDI. The market-seeking investors were much more important in terms of both volume and economic impact (Benáček and Zemplinerová, 1997; Hardy, 1998; Pavlínek, 1998, 2004a; Domański, 2003). In the Czech Republic, efficiency-oriented investment was the domain of small Western firms that reaped the benefits of low production costs across the border. These small-scale, maquiladora-style investments concentrated along the German and Austrian borders (Pavlínek, 1998). The market-capture investments were typically large capital investments in existing state-owned companies (e.g., Phillip Morris in the tobacco industry, Procter and Gamble in detergents, Nestlé/BSN in sweets and chocolate). Very few investors invested in Slovakia in the early nineties.[28] The investors feared a potentially unstable investment environment after the break-up of Czechoslovakia. In contrast to the Czech part, there was almost no investment in Slovakia by 1993. Moreover, the privatization policy was probably most hostile to foreigners there (Pavlínek and Smith, 1998).

The quality of local regulatory environments and the stability of institutional frameworks were major concerns for investors engaging in the low-commitment activities that were predominant in the early nineties. The association agreements with the EU provided sufficient guarantees in this respect. Thus, it made more sense for the investors to be politically active in Brussels. On the EU level, they would engage in agenda-setting activities with respect to 'a historic opportunity' in Eastern Europe (ERT, 1991, pp. 11, see Holman, 2001). Later, they would lobby the Commission to speed up the enlargement process in order to secure investment opportunities in CEE (see Holman, 2001; Bohle, 2006). In CEE, the investors would often send their top management teams to negotiate directly with the governments. In the Czech Republic, representatives of foreign investors, such as the CEO of Volkswagen, Carl Hahn, would negotiate directly with the government, including Prime Minister Klaus. However, as we saw in Chapter 3, it was incumbent upon foreign investors' local allies to fight for the privatization strategy. In Hungary, investors would not only approach the privatization agency but – if they wanted to secure preferential treatment – directly negotiate with the Minister of Industry and Trade.[29] Moreover, as was discussed in Chapter 4, the multinationals, which were much more integrated in Hungary than elsewhere in the region, were quite active in relation to the formation of the 'transition' strategy.

Since the mid-1990s, however, the investors have shifted into higher-commitment and less mobile activities. First, after the capture of domestic monopoly producers, cost-cutting, efficiency-oriented investment motivation became dominant (Pavlínek, 2004a). Foreign direct investment into more capital-intensive industries took off (Bohle and Greskovits, 2006a). The early 2000s saw a wave of mass-production relocation from Western Europe to exploit low wages in the V4, particularly the Czech Republic (Pavlínek, 2004a). This transfer and outsourcing of parts of the production process has been especially notable in the electrical, electronics, and automotive industries. For instance, the Czech Severočeský region was the top-performing destination in Europe for investment in automotive components in 2002, attracting 7 per cent of European investment in this sector (Ernst and Young, 2003). Second, there were many cases of industrial upgrading and/or local embedding of multinationals' activities in the region (see, e.g., Turnock, 2004). Third, a number of mobile investors seeking low costs departed from the region to cheaper locations after only a few years of operation once the costs of input increased. For instance, Mannesmann, Shinwa, and Solectron have closed their production units in Hungary and moved them to China (Mannesmann and Shinwa) and Romania (Solectron) (see Kiss, 2001).[30] The Singapore-based Flextronics International, a contract electronics manufacturer, moved its production from the Czech Republic and some of its Hungarian operations to China in 2002, citing lower labour costs as the reason (see Drahokoupil, 2004; Pavlínek, 2004a).[31] Finally, European banks were very active in taking over financial houses throughout CEE at the end of the 1990s and in the early 2000s. They have achieved unprecedented dominance of the financial system in the region. Italian UniCredito and HVB Group have been very active in Poland. The Czech Republic is dominated by other European banks, namely KBC, Erste, and Société Générale. Belgium's KBC is the leading financial operator in Hungary. Other main shareholders in the top Hungarian banks are Bayerisch Landesbank, Banca Intesa, Erste, Raiffeisen International, UniCredito via HVB, GE Capital, and ING. Finally, Erste, Banca Intesa, and Raiffeisen International control the top three banks in Slovakia.[32] These engagements are crucial for the strategies of these banks, as the region has become one of the most profitable banking regions in the world.[33]

With the shift of investors' strategies towards more long-term engagement and with the rise of the competition states, the multinationals would join the comprador service sector in their efforts to approach the state directly. Comparative quantitative evidence based on a large company-level survey showed that TNCs – those operating in Eastern Europe and Central Asia in particular – enjoy a better business climate than domestic firms because of their bargaining power in negotiating entry conditions *and* their subsequent political activism in the host country (Desbordes and Vauday, 2007). After the state strategies reoriented, the multinationals did not leave the political agency to the comprador service sector. On the contrary, they promoted their interests through direct agency. Apart from supporting and taking part in the activities organized by the comprador service sector, foreign investors sometimes engage in independent lobbying activities. Direct lobbying through particularistic networks is especially important in Poland. The agency-based activities of the multinationals are very efficient in addressing investors' concerns and promoting favourable policies throughout the V4 (see Bohle and Husz, 2005). In Poland, for instance, the TNCs were 'an active force' lobbying for the country's integration into the EU (Domański, 2003, p. 105). The nature of the influence of the investors is well illustrated by the 2006 negotiations between Audi and the Hungarian state.

Hungary's biggest exporter, Germany's premium car-maker Audi has a long record of lobbying and negotiations with the government in order to obtain and preserve investment incentives, most notably tax concessions (see Bohle and Husz, 2005). In June 2006, it announced it would increase its operation in Hungary, including expansion of production of the TT sports car to over 50,000 units a year by 2010 from a planned 20,000 in 2006. On 1 September 2006, Hungary introduced an austerity package, including a 4 per cent 'solidarity tax' on pre-tax profits. This also applied to investors who enjoyed tax exemptions. Having been exempt from corporation tax until 2011, Audi announced in October 2006 that it would suspend future investment in Hungary, citing the solidarity tax as the reason. The announcement followed talks with the government about the tax. Audi's executives argued that the tax would decrease the company's competitiveness compared with its plants in Poland and China. Standing his ground, Hungary's Minister of Economic Affairs, János Kóka, declared that no foreign investor would be exempt from the solidarity tax. However, the negotiations continued, and in November the car-maker and the government reached an agreement on a tax allowance. The government would allow companies to reduce the tax base of the new solidarity tax with research and development expenditure. Audi declared it would go ahead with its planned investment. Right after the deal was concluded, the company's chairman, Martin Winterkorn, visited Hungary to meet with Prime Minister Ferenc Gyurcsány. Two days after the government approved an amendment to the solidarity tax, Audi announced it would set up a Research and Development Institution at the Budapest University of Technology and Economics. This will provide a significant boost to the already considerable R&D spending of the car-maker in Hungary.[34]

The influence of foreign investors through agency cannot be seen in isolation from the structural power they continue to exert and utilize. Thus, the dramas of bidding for investments keep state officials busy and continue to entertain newspaper readers in the region. Moreover, the multinationals employ the threat of exit in their negotiations with the governments (e.g., Bohle and Husz, 2005). It is no surprise that the combination of structural and agency influence gives the multinationals considerable leverage in promoting their interests and obtaining sweeteners. For instance, Schoenman's (2005) analysis shows that the multinationals in Poland were able to obtain similar tax concessions to those of domestic businesses well connected to the government. The structural power of capital is crucial to understanding the privileged position of the multinationals in the power blocs underpinning the competition states. In the pursuit of the voice strategies described above, the investors use the threat of exit in their negotiations with the government. In the Czech Republic, even the most embedded investor, Škoda–Volkswagen, has used the threat of relocating to the East. Recently, it has done this during wage negotiations and when the European Commission discussed a scheme to reduce limits on car emissions (which had already been scaled back after intense lobbying by car manufacturers).[35] Hungarian examples include the lobbying of Audi and pressure by multinationals for the government to obtain transitional concessions from the EU's competition policy in order to maintain generous incentives (see Bohle and Husz, 2005). Audi's high-involvement voice strategy, including flying its CEO to meet the Hungarian Prime Minister, indicates the limits of capital mobility. The investors in what is one of the most important industrial sectors controlled by foreigners seem to be less footloose than they themselves often tend to suggest.

In sum, there are a number of channels of direct political influence that the investors utilize. First, they use associations bringing together government officials and investors. These include the Czech AFI and various business chambers (discussed above). While the latter were often established as initiatives of the comprador service sector, investors are happy to use the opportunities for approaching state officials at different events organized by such associations. Second, investors often lobby and negotiate with the governments directly. Some of the investors exercise influence simply by handing over money to politicians or officials whom they deem relevant. A notorious example of such a practice is the privatization of Česká spořitelna in the Czech Republic. There, Erste paid 10 million koruna (approximately €330,000) to Miroslav Macek of ODS for his 'advisery service'. It was very unlikely that Macek was in a position to influence the privatization process; no could he possess knowledge of such value. The theory that Erste simply wanted to secure the deal by buying off politicians from both major parties has therefore been suggested.[36]

Domestic capital and bourgeoisie

The main cleavage in relation to the competition state is not between foreign and domestic capital, but rather between large and small companies. Even in the

Czech Republic, where there was a relatively vocal opposition from some of the representatives of domestic capital to CzechInvest's efforts to attract foreign investors in general and investment incentives in particular,[37] the outward-oriented project found strong support among Czech capital after it became dominant. So what explains the support for the competition state among the domestic capital?

First, with the emergence of foreign-led economies, domestic capital, and large enterprises in particular, became increasingly internationalized and/or dependent on foreign investors (see Chapter 2). In the Czech Republic, economic restructuring, including failures and bankruptcies, has not left many strong, large Czech enterprises in place. Transformation and internationalization of those that survived changed their outlook. The large enterprises that remained did not show much interest in influencing economic policy-making. The main representative body, the Confederation of Industry (CICR), has seen the representatives of Czech-owned manufacturing disappear from their membership base (see Table 6.1). Many of the companies that were privatized through one of the internally oriented ways and managed to thrive went through spontaneous internationalization. As Mertlík said, 'A lot of enterprises privatized through vouchers – if successful – were later bought out by a foreign investor, most likely a German one. The managers – if they managed to keep their positions – started to change their political-economic outlook.'[38] The management and owners of the companies that owed their success to the Czech Way style of primitive accumulation through redistributive games and looting also changed their preferences gradually. As characterized by Ganik:

> After they got rich and big, it did not matter any more . . . I can give you an example of a Czech group, which was taken over by Canadians. Now, when entering the country, they pretend they are Canadian. It does not matter any more whether a company is Czech or foreign. Czech capital often pretends it is foreign and the other way round, depending on what is more advantageous for them.[39]

Table 6.1 Individual members of the presidium of the Confederation of Industry of the Czech Republic by sector of employment

	1996/7	*2006*
Czech-owned utilities	3	4
Czech-owned transport	0	2
Czech-owned manufacturing	24	0
Foreign-owned manufacturing	2	2
Consultancy, management services, representative bodies	10	7
Czech-owned finance	2	0
Primary production	2	1
Total	43	16

Sources: Myant (2007a), http://www.spcr.cz/cz/dynamic/predstavenstvo.php

In Poland, where a significant section of the economy is owned by domestic capital and by the state, leading sectors, such as the automobile industry, are controlled and completely dependent on multinationals (see Pavlínek, 2006). While Polish SMEs often felt threatened by foreign competition, FDI found support among the managements of large enterprises (Gardawski, 2001, pp. 148–149). In the mid-1990s, many large Polish enterprises were progressively linked to foreign investors through joint ventures and other forms of collaboration. Managers of large enterprises increasingly realized the superior business and career opportunities involved in collaboration with foreigners. Having often found that they were unable to challenge or confront foreign investors in market competition, they opted for the strategy of cooperation on a subordinate basis through 'Polonization' of transnational production networks (Jasiecki, 2002, pp. 223–224).

In Slovakia, now one of the most FDI-dependent economies in the region, large enterprises acquired by domestic industrial tycoons of the nineties, including VSŽ and Slovnaft, were taken over by foreigners without major resistance. Having acquired a controlling share in the enterprise for a fraction of the market price in 1995, the management of Slovnaft invited a strategic partner into the company in 2000. The management then cashed in super-profits from the transaction that gave full control of the enterprise to the Hungarian MOL by 2002. In the case of VSŽ, difficulties in repaying loans to foreign lenders together with the loss of political backing after the change of government made the management resign in 1998. Often on the border line of legality, the new government succeeded in securing a controlling stake in VSŽ and sold the enterprise to US Steel. The deal involved not only limits on employment reduction but state subsidies and an unlimited tax holiday until the end of 2009.[40] Domestic 'winners' of privatizations and reforms implemented by post-Mečiar governments – notably financial groups such as J and T Finance, Penta and Istrokapitál – did not hesitate to form partnerships with foreign capital in privatization bids.

Second, a class of managers with an international outlook emerged not only through internationalization of domestic capital but by socialization of the new generation of managers (see, e.g., Jasiecki, 2002, p. 223). These managers like to pursue 'standard' careers within multinationals such as Unilever or successful domestic companies/regional multinationals, such as the Czech energy giant ČEZ, the Hungarian petroleum company MOL, or the Polish PKN Orlen.[41] Third, many managers of domestic companies realized the importance of foreign investors for the economy in general. Moreover, many companies started to benefit directly from the domestic activities of multinationals as they became integrated in their supplier networks (Pavlínek, 2003; Pavlínek and Janák, 2007). Finally, some of the successful companies started to invest on such a scale that they could reach the threshold for receiving investment subsidies.[42] In the Czech Republic, domestic companies successfully pushed for lowering the threshold so that more of them could benefit from it.[43] Understandably, after the bigger domestic companies started to receive direct material benefits, they demanded that their representatives, notably the CICR, must support the investment-subsidies scheme. As a consequence, a cleavage emerged among domestic companies in relation to investment support:

while the large companies joined the supporters of investment subsidies, smaller enterprises tend to oppose them.[44] As was discussed in the previous chapter, the structure of representation tends to marginalize the voice of smaller enterprises in this respect.

Having embarked on the externally oriented strategy early on, Hungary has seen the emergence of a strong domestic export sector and, in particular, a strong sector of domestic firms subcontracting from multinationals. These companies – the electronics manufacturer Videoton being one of the most important –acted as vocal representatives of the whole exporting and import-competing sector within the state (Greskovits, 2006). They organized in the National Alliance of Employers and Industrialists (MGYOSZ), with Gábor Széles, Videoton's owner, as president. In comparison to multinational exporting and import-competing companies, these Hungarian firms found it more difficult to upgrade their production activities (in order to deal with rising factor costs and an appreciating forint) and were less able than the multinationals to relocate production elsewhere. Therefore, they were more inclined to use voice strategies of direct political intervention to promote their interests. These included, for instance, the weak forint and flexible and cheap labour (see Bohle and Greskovits, 2006a, pp. 12–16). Representing companies that find it difficult to reach the threshold for investment support designed primarily for multinationals, MGYOSZ, together with Hungarian Chamber of Commerce and Industry, has been critical of investment support. This critique, however, is often interpreted as a strategy to obtain higher state support for SMEs rather than a real challenge for subsidies given to multinationals.[45]

While it could be expected that the differences between multinational and domestic capital will vanish with the increasing internationalization of the latter, contemporary records shows that these two fractions, despite the congruence of their interests, continue to be relatively separate, as far as their socialization is concerned, and use distinct channels of influence.[46] Moreover, the political agenda of the multinationals, in comparison with the companies with more geographically limited operations, has been narrower. In general, foreign firms are less constrained than domestic companies by the business environment (Batra, Kaufmann, and Stone, 2003). The fact that their operations are spread among several regulatory environments gives the multinationals room to manoeuvre to minimize adverse implications of policies through various 'optimization measures'.[47] In addition, much of the foreign-owned capital raises finance from outside the country, which further diminishes its incentive to engage in domestic politics.

Labour: aligned with the investors?

Major academic assessments of the position of organized labour in the V4 paint a relatively gloomy picture: labour is weak and tends to represent foreign investors rather than the workers. First, while the late nineties saw some consolidation of union power and situations in individual countries differ, the power of unions and tripartite institutions remains rather weak throughout the V4 (Avdagic, 2005). The 'double whammy' of organized labour, it is argued, continues to paralyse the unions (Crowley and Ost, 2001). Labour continues to suffer from the disabling political legacy of the past, while the new economic challenges, including neoliberal market reform and integration into the global economy, provided further blows to the organizational and political capabilities of the unions. Second, it is observed that foreign investors often bring better conditions for workers than are provided by struggling domestic companies (Lewis, 2005). For instance, research has shown that foreign companies paid on average 50 per cent higher wages than domestic enterprises in Hungary in 2001 (Sass, 2004, p. 84). The wage level in foreign affiliates in Poland was less impressive, but it still exceeded the average (Domański, 2001b). Thus, it is often argued that unions would choose to ally with foreign investors or would not make much effort to organize workers in the subsidiaries of multinationals (Kubicek, 2004). On the level of the factory, Ost (2002, p. 45) describes the situation at a GM plant in Poland as follows: 'For its young and hopeful workforce, Opel offered a much smarter and shinier community than any of the available unions could provide. And the unions seemed to agree. Far from developing innovative strategies to gain access to the site, local officials stayed away, seeing it as one of the hopes of the future where unions do not belong. In sum, unions continue to be weak and represent the interests of foreign investors rather than workers. Kubicek (2004, p. 2004) even goes as far as to conclude that the 'Marxist mantra of worker solidarity has been replaced by one that argues that what is good for business is good for workers.'

In the Czech Republic, the unions had rediscovered their leftist identity by the mid-nineties.[48] After Klaus's attack on the social welfare system and corporatist-style negotiations, the unions ended their support for the Klausian project and aligned with the Social Democrats (see Orenstein, 2001, p. 86). Union membership, however, fell below 20 per cent in 2006, and collective bargaining coverage is only slightly higher. With the Social Democratic governments, the unions were able to gain access to policy-making and exert notable influence.[49] They provided (tacit) support for the externally oriented project that the government implemented. In Poland, the unions gradually overcome early fears of short-term commitments made by foreign investors and started to consider the FDI-reliant restructuring as providing better employment conditions. What is more, unions often proved to be crucial allies of foreign investors in lobbying for government concessions, such as protectionist measures and special economic zones (Domański, 2005).

The thesis on the alignment of labour and investors should not be overemphasized. In fact, the nationality of ownership (domestic/foreign) is not a major factor determining workers' and/or unions' position in the plant or alliances on the national level. The experience of the unions around CEE shows that neither foreign nor domestic owners/management necessarily bring better/worse conditions. The situations in respective plants vary largely independently of the nationality of their owners/management.[50] For instance, in 2005, Jane Hardy visited the same GM plant in Poland that was observed by Ost. She found a very different situation: 'Solidarity claimed Opel as one of its big success stories. It had recruited 40 per cent of the workforce, established negotiating structures and spawned a new layer of activists' (Hardy and Zebrowski, 2005, p. 43). Similar situations were observed in other foreign-owned plants in Poland. Similarly, unions have been comparatively strong in the Skoda–VW plant in the Czech Republic. Even though the outcomes of wage-bargaining have been mixed, the unions repeatedly proved to be less aligned with the management than in other industrial disputes in the Czech Republic.[51] Thus, in order to analyse the politics at the workplace and the politics of social compromises on the national level, it is necessary to look at their broader determination, such as the nature of industrial sectors (Greskovits, 2005; Bohle and Greskovits, 2006a).

Conclusion

The competition state has a solid political, institutional, and structural underpinning within the V4. Politically, it is supported by power blocs organized by the comprador service sector. Institutionally, the EU regulatory framework locks state strategies in the competitive direction. Structurally, foreign-led economies have emerged in the region, with foreign control of leading export industries and most of the public utilities, and unprecedented levels of foreign dominance in the banking sector. The competition state is thus an organic strategy that reflects structural opportunities and constraints. Yet, its hegemony is far from unchallenged. Resistance to the competition state comes from small domestic companies that are not large enough to claim investment incentives and do not directly benefit from the presence of multinationals. The next chapter will show that the externally oriented project is also challenged by 'principled' NGOs (see Risse, Ropp, and Sikking, 1999) which object to the externally oriented project primarily for the environmental damage and human-rights violations that investment-attraction and the operation of multinationals often involve.

The eventual convergence towards the competition state in the V4 underscores the importance of the structural constraints – material, institutional, and ideational – that produce a field of force that not only limits possible strategies but makes the externally oriented strategy a 'comprehensive programme' for societies in the region. Nevertheless, comparison with Slovenia shows that the structural constraints allowed for relatively open outcomes. While the Visegrád states converged towards what I call the Porterian competition state, aiming to upgrade the industrial base by attracting high-value foreign investors, Slovenia – as was discussed in Chapter 2 – developed a distinctive model of the competition state, putting more emphasis on promoting the competitiveness of domestic capital and on social inclusion. Slovenian deviation from the neoliberal strategy, along with its favourable legacies, produced structural preconditions allowing for a different model in the same international political-economic context.

The actual policy outcomes, however, are products of the agency of particular social forces mediated through structures of representation. In particular, the competition state is promoted by a power bloc centred on multinational investors and organized by the comprador service sector. This sector helps to translate the structural power of transnational capital into tactical forms of power that enable agential power to work in sync with the interests of the multinationals. The comprador bloc also includes significant fractions of domestic capital, which are becoming largely internationalized and/or subordinated to international investors.

The hegemony of the externally oriented project and the predominance of the comprador service sector and its allies within the state – in the bodies directly involved in formulating economic strategies and FDI-related developmental policies in particular – create an important accountability problem. In Hungary, Bohle and Husz (2005) observed an apparent lack of interest among state officials in evaluating costs and benefits of subsidies and various concessions provided to the multinationals. This, as will be further documented in the next chapter, is a general pattern in the V4. For instance, CzechInvest – which many consider to be the most politically autonomous and economically embedded investment promotion agency in the region (see MIGA-FIAS, 2005; Trník, 2007) – has not conducted any systematic evaluation of its promotion.[52] The congruence of interest between the investors and respective state managers thus makes adjustment of the FDI-reliant strategy to the developmental needs of respective societies less likely.

Any account of the political and structural underpinning of the competition state would be incomplete without taking into account the multi-scalar constitution of the respective power bloc and the field of force, so I turn to such analysis in the following chapter. There, I will also investigate the continuous reproduction and reconstitution of hegemony of the competition state and the politics of resistance.

7 The investment-promotion machines

Everyday politics and the multi-scalar constitution of the competition state

> Investors like green fields. They like birds and forests. There are brown fields in Most, but why would we build a factory in the middle of a coal pit? They would have to pave the roads with gold for us to go there.
>
> Pavel Kučera, spokesperson of Mexican corporation Nemak[1]

> I was looking forward to the new era, but I did not suppose that it would be possible for someone to make up his mind and build a gas chamber behind your house . . . After all, they are continuing what the communists started.
>
> Jan Rajter, referring to his dispute with Nemak (ELS, 2003, pp. 6, 3)

> *Ut sit labor* [Work shall be blessed].
>
> Inscription on an obelisk dedicated to the arrival of global capital, erected by a local artist in Kolín-Ovčáry, 31 May 2005

The competition state has beaome a major developmental strategy in the V4 region. Its hegemony, however, is far from unchallenged. Hegemony is not the same as static domination, settlement, or agreement imposed or concluded once and for all. It leaves openings for contention and it must be sustained on a daily basis. Reproduction of hegemony does not take place only in the 'big games' of national-level politics in which the policy framework is set and high-profile cases are decided; the competition state is regularly challenged and its hegemony is reproduced through processes of attracting particular investors and promoting their projects. The power bloc promoting the externally oriented project is continually reconstituted in a dynamic process of coalition-building that brings together various actors by promoting the project of the competition state in particular places and times. This chapter analyses the dynamic, continuous, and contentious process in which the competition state and its political underpinning are reproduced in the everyday politics. It investigates formation of (and resistance to) what I call the investment-promotion machines. These temporary articulations of the power bloc are mobilized when a locality is promoted to lure an investor during investment-location bidding.

The investment-promotion machines constitute integral parts of the power blocs underpinning the competition state. They are largely constituted ad hoc around particular FDI-reliant regional development projects or even to promote a single investor within a region. Investment-promotion machines are extremely effective in promoting the interests of investors within the state and in the regions. They are driven by political and economic interests alike. Their activities exploit and recreate a legitimatory discourse of job creation that contributes to the hegemony of the competition state.

The formation of the investment-promotion machines has to be understood by taking into account the institutional and ideational environment in which they develop. In this context, the question of scale – that is, the spatial organization of social processes, their regulation, and governance – is crucial. This chapter does not merely provide an account of the political support of FDI-attraction in the regions, but rather offers a scalar political analysis of the political support of the competition state. It shows that the scalar organization of governance provides strategic advantages to those forces promoting the externally oriented project within the state. While focusing on the politics in the region, this chapter accounts for a crucial aspect of the power bloc which provides political support for FDI in CEE. The politics of investment-attraction and promotion of particular investors have a distinct dynamic without which any account of political support for the competition state would be incomplete.

This analysis draws on my case studies of attraction and promotion of FDI in the Czech Republic and Slovakia. It also uses secondary sources on investment promotion in Hungary and Poland. In particular, I focus on the cases of Nemak investment in Havraň (Czech Republic); L. G. Philips Displays in Hranice na Moravě (Czech Republic)[2]; bidding for BMW investment in Banská Bystrica (Slovakia), Kolín (Czech Republic), and Leipzig (Germany); investment of PSA Peugeot-Citroën in Trnava (Slovakia); Kia motors in Žilina (Slovakia)[3]; TPCA - Toyota and Peugeot-Citroën in Kolín (Czech Republic) and an unsuccessful bid for the TPCA investment in Kobierzyce (Poland); and investment of Hyundai in Nošovice (Czech Republic).[4] Table 7.1 provides an overview of these cases. The investments under consideration are mostly large plants of major car-makers. This reflects not only the interests of this type of investor in the region in the late nineties and early 2000s but the strategic considerations of investment-attraction agencies throughout the V4 who considered these types of activity as strategic at that point in time. As a result, the late nineties and early 2000s saw the arrival of a big wave of car-makers forming a large automotive cluster in the V4 (see McKinsey, 2002; Ernst and Young, 2003).[5] Since then, at the time of the writing, the definition of strategic investment has shifted to other activities.

First, I provide narratives of political mobilization, resistance, and coalition-building in investment promotion, taking the examples of attempts to attract BMW to Slovakia and the Czech Republic and to promote investment by the Mexican corporation Nemak in the Czech Republic. Then, I discuss earlier conceptualizations of regional growth politics in the V4 and relate them to my understanding of investment-promotion machines. Third, I analyse the composition, operation, and effectiveness of the investment-promotion machines and resistance to their efforts. Finally, I focus on the driving forces of the investment-promotion machines and provide an explanation of their support and operation.

Promoting the investors: the cases of BMW and Nemak

The stories of BMW and Nemak presented below clearly demonstrate the operation and effectiveness of investment-promotion machines. Implementation of the project of investment-attraction requires the involvement and cooperation of a number of actors who operate on municipal, regional, and national levels. At the very least, it requires the cooperation of regional government bodies and municipalities in technical matters in the locality where a particular investment is to take place. Individual investment projects can be objects of the political strategies of different social actors. These include those who find it desirable, those who directly benefit from it, and those who object to it for different reasons, including mobilizing against costs incurred by the investment project. In these struggles, the hegemony of the competition states is loosened and needs to be recreated and reproduced.

The two narratives highlight the multi-scalar composition of investment-promotion machines and illustrate the coalitions of resistance they seek to overcome. They show how, in order to achieve its ends and attract investment, the competition state employs these machines to side-step substantive democracy and any debates over 'development'. They reveal the readiness of state actors to circumvent and violate existing regulations if needed, how protestors are targeted through personalized mob actions by 'moral majorities', and how the promise of job creation and monetary incentives are used as tools for hegemony to mobilize support and to silence resistance.

BMW: a shy animal

In September 2000, car-maker BMW officially announced that it intended to build a new production plant in a European country. Potential bidders were asked to answer a detailed questionnaire by 17 November 2000. This document specified the requirements of the corporation and included 120 questions on demographic, technical, spatial, and ecological features of the bidding localities. Subsequently, BMW received about 150 offers. Among the bidders were a Czech project from the industrial zone in Kolín-Ovčáry and a Slovakian proposal from Banská Bystrica.[6]

The Slovakian bid attracted public attention when the media revealed a secret meeting between high-ranking Slovakian officials and BMW's management in Germany.[7] This provoked an exasperated reaction from the Honorary General Consul of Slovakia in Baden-Württemberg, Ronald Kissling. He foresaw that the car-maker would react in a way that would have unpleasant ramifications for Slovakia: 'Foreign investors', he said, 'are shy animals. They are gone if the hunter makes a noise' (Zamkovský, 2001, p. 5). It later emerged that the meeting violated BMW's internal anti-corruption regulations.

Meanwhile, in Banská Bystrica itself, the investment-promotion machine started to form. On 2 November 2000 representatives of regional and county councils, regional governing bodies, state-owned enterprises, and expert groups on infrastructure and the environment met to gather background information for filling in BMW's questionnaire. However, it soon became clear at the meeting that, rather than seeking detailed information, BMW expected all state bodies, from county councils to the national government, to cooperate in accommodating its needs and preferences. According to a representative of the Slovakian investment promotion agency SARIO, the main requirement was for the state to guarantee the purchase of land and investment in infrastructure.

From the point of view of the investment-attraction agency there were two main problems. First, a number of public infrastructure networks were already operating in the prospective industrial zone earmarked for BMW. Existing municipal and regional land-use plans had not previously envisaged the development of a new, large industrial zone, and, according to Slovak law, the existing plans could be changed only according to a procedure involving all stakeholders and the public. However, the costs of removing the infrastructure networks from the area did not seem to be an issue for the participants of the preparatory meeting, and they did not see any difficulty in changing the land-use plans. Even the removal of land from the Agricultural Soil Register, which would have led to the closure of two cooperative farms, was expected to be merely a technical matter. The director of the Department of Services of Banská Bystrica's city council explained, 'BMW does not care at all how much we'd have to pay for the infrastructure development. That will be our problem. Now, we have to fill in the questionnaire'. SARIO's representative added, 'the state will have to invest in the infrastructure. It has already been discussed at the Department of Industry. It remains to be found out what is ready and how much is to be paid by the state' (Zamkovský, 2001, p. 7).

The second issue to be addressed was the fact that the land in the prospective zone was owned by an enormous number of owners. The precise number was not known, but it was estimated to be up to 5000 people. This was a concern because it could be a great disadvantage for the locality in the competition for the investment. The director of the Department of Services proposed that in answering the questionnaire it should be stated that there was a law in place which made it possible to expropriate privately owned land for public purpose constructions. He even proposed drafting a special law on the industrial zone in Banská Bystrica to solve this problem in the locality. At a later meeting on 9 November 2000 it was clarified that the land belonged to about 2000 known and a number of unknown owners. The discussion focused on how to speed up the building permit processes, including the environmental impact assessment (EIA) procedure. The representative of Banská Bystrica County Council's Department of Environment suggested the possibility of using a special, accelerated procedure for land expropriation allowed by the Slovak Building Code. Although the law did not allow for a fast track in the EIA procedure, this was not seen as a problem. According to the representative of the Department of Environment, 'there will have to be a special regime in the

EIA procedure. There is no chance to make it otherwise. A number of processes will have to run concurrently: EIA, land-use decision, and land acquisitions' (Zamkovský, 2001, p. 7). The intervention of NGO representatives, stating that it was necessary to compare the expected state subsidy with expected benefits of the investment and to make an economic analysis comparing the investment with other possible developmental projects, was met only with surprise among other participants in the meeting.

In the meantime, another investment-promotion machine was being mobilized in the Czech Republic. After the car-maker had announced its investment plan, the governmental investment-promotion agency CzechInvest started to look for appropriate locations. However, according to BMW's consulting agency, Svoboda and Partner, the activities of CzechInvest were seen to be insufficient. Instead, Svoboda and Partner became the real driving force of the investment-promotion machine. 'We would knock on the closed doors of various authorities, trying to persuade them that the state had to make a real effort. It was not enough to offer land; it was necessary to fulfil even the unexpressed wishes and expectations of the car-maker,' explained Zdeněk Svoboda.[8]

CzechInvest then concluded a cooperation agreement with the consulting agency and Svoboda drafted the Czech project, proposing a location in Kolín-Ovčáry. Svoboda also mobilized auto-industry suppliers operating in the Czech Republic. Those, including TRW, Visteon, Peguform, and Wagon, met at the Department of Industry and Trade to define a common strategy. In January 2001, Svoboda and the suppliers arranged a trip by Prime Minister Zeman to Munich to promote Kolín-Ovčáry as the investment location for BMW.[9] CzechInvest, the government, and the Kolín municipality started to prepare the Kolín-Ovčáry site and buy out the land. On 30 July 2001, the government approved a CZK 1.3 billion package to purchase the land and upgrade the site. In addition, the government promised to complete the D11 highway between Prague and Kolín by 2005 and to modernize a road linking the industrial zone to the D11 by June 2004. CzechInvest also prepared a plan to build a training centre for the automobile industry.[10]

The efforts to promote Kolín-Ovčáry were quite successful, as the location made it to the top of BMW's shortlist. However, in July 2001, the German car-maker decided to place its factory in Leipzig, in former East Germany. It cited the following factors: economic viability and flexibility; the features and location of the future plant area; the availability of qualified manpower; the use of existing structure in terms of plants, suppliers, and logistics; and the connection to the sales and distribution networks. This did not impress state managers in the Czech Republic, who understood that Leipzig was made attractive by a very generous state-aid package.[11] Germany offered a subsidy of €418.6 million (35 per cent of the investment).[12] Obviously, the decision was met with disappointment among the East European bidders. The mayor of Banská Bystrica, for instance, blamed the critics of Banská Bystrica's investment-promotion machine (Zamkovský, 2001, p. 11). CzechInvest, however, was able to find another car-maker for Kolín-Ovčáry very quickly. It announced 'the largest investment in the country's history', a joint investment of Toyota and PSA Peugeot-Citroën (TPCA) in December 2001.[13]

Nemak: from collectivization to globalization

In 2001, a Mexican corporation, Nemak, decided to build an aluminium auto-parts factory in the Most region of the Czech Republic. Nemak had previously proposed an investment plan in the Czech Republic but this had been withdrawn after massive resistance from the local population and environmental activists concerned with its environmental impact.[14] The Most region is one of the most ecologically damaged areas in the Czech Republic. It is affected by large-scale surface mining and by the presence of a chemical industry. However, for its new plan Nemak had managed to find a locality that was almost untouched by heavy pollution – it proposed to construct an ecologically demanding aluminium foundry near Havraň, a community where farmer Jan Rajter tilled one of the few fertile areas in the region. Czech legislation does not allow the construction of an industrial plant on agricultural land when there are enormous areas of industrial wasteland in the surrounding area. However, a powerful coalition of national authorities, regional administration, local government, and the investor, framed by an ideology and policy of attracting foreign direct investment, accomplished the seemingly impossible. The company was granted all the necessary permits to construct the foundry in a very short time. The whole process would have been even smoother if Jan Rajter and an NGO, Ekologický právní servis, Environmental Law Service (ELS) – had not objected to the investment and mobilized against it. The ELS not only provided legal services to help resist the plan but launched a campaign, 'The Story of Peasant Rajter – From Collectivization to Globalization', which presented Rajter's life story. The campaign involved a travelling exhibition of photographs (see Plates 7.1, 7.2, and 7.3).

Plate 7.1 Jan Rajter at a municipal council meeting
© Ibra Ibrahimovič

Plate 7.2 Nemak aluminium factory, construction site
© Ibra Ibrahimovič

Rajter had learned that Nemak intended to construct the aluminium plant next to his fields in March 2001. Attempts by state officials to deceive him into a land exchange then led him to ally with the ELS.[15] In June 2001, however, the government decided to subsidize the investment, to develop a wider infrastructure for the investor, and to approve the land transfer. It also issued a recommendation for various bodies of the state apparatus to take into account the government's support for the investment project in their decisions.[16] Czech authorities on different levels subsequently did their best to promote the controversial factory while often violating or circumventing the law. For instance, in order to make land in Havraň

Plate 7.3 Nemak aluminium factory
© Ibra Ibrahimovič

available for incorporation into the industrial zone, the Ministry of Environment agreed to its removal of land from the Agricultural Soil Register without following the legal procedure. Their decision was made only two days after Most's request, dated 11 June 2001. Since it then emerged that the decision was not valid for formal reasons, the ministry issued a new decision in October 2001. According to an official from the ministry, the decision did not consider alternative locations (as required by law), but rather considered 'socio-economic criteria'.[17]

Further, the city of Most issued a positive land-use decision regarding the construction of the factory in its Havraň district without obtaining background information required by law. Moreover, Rajter was prevented from participating in the review procedure by which Nemak obtained permission to begin its factory construction in Havraň. In the dispute that followed, the ELS filed approximately 250 suits, complaints, and appeals regarding legal violations in the various decision-making processes that enable the plan to be implemented.

In March 2002, Most and Nemak concluded a 'memorandum of understanding' in which the city 'pledges to do everything for Nemak to be given all necessary rulings, agreements, and permission from the state and local government in time'.[18] Nemak also authorized Most to represent it in administrative matters. The construction of Nemak's plant started in May 2002 even though, by that time, the ELS and Rajter had won several of their appeals. In particular, a regional court confirmed that the farmer had been illegally prevented from participating in the building permit procedure for Nemak's project, and the Czech Ombudsman's Office stated that the investment site had not been removed from the Agricultural Land Register in a legal manner. This, however, did not stop or even delay the construction process. In September 2002, the citizens of Havraň proposed a municipal referendum regarding Nemak's factory. But, despite the fact that all legal requirements had been fulfilled, the mayor of Havraň refused to declare the referendum, even though the law did not allow him to make such a decision.[19] By the end of 2002, Nemak had started to develop its operations in Havraň as originally planned. In October 2003, the plant began production.

Thereafter, the ELS proved to be relatively successful in a never-ending string of suits and appeals. Most notably, in April 2005, the Supreme Administrative Court of the Czech Republic overtuned five decisions of the Regional Court in Ústí nad Labem regarding the land-use decision and the building permit procedure. Consequently, the Regional Court ruled two building permits for Nemak illegal. This caused the ELS to start a procedure for removal of illegal constructions (the factory). In addition, two building permits for roads leading to the industrial zone and the land-use decision were found to be illegal. The legal proceedings were accompanied by a successful publicity campaign which resulted in Jan Rajter's story receiving wide coverage in the Czech mainstream media. The adverse publicity and their legal reverses led Nemak to ask the Czech government officially for help. In support, the representative of the government in North-East Bohemia, Vlastimil Aubrecht, warned against the consequences that would follow if the investor had to leave the country.[20] In May 2006, the government decided to propose a settlement to Rajter. In exchange for withdrawing all suits and appeals, it offered CZK 260 million for his land in Havraň. Having effectively lost the main part of his struggle, Rajter accepted the settlement and withdrew all suits.[21]

The case studies described here illustrate the lengths to which investment-promotion machines are prepared to go to facilitate investment projects, including overcoming local opposition and, where necessary, overriding laws and regulations. In the rest of this chapter, I will construct a systematic understanding of investment-promotion machines by relating key analytical arguments to the empirical records of investment-attraction described above and to other accounts and theories.

From the post-socialist growth machine to investment-promotion machines in post-socialism

The investment-promotion machines are key moments of hegemonic formations that bring together pro-growth coalitions in a way that is novel in the region and peculiar to the competition state. In Poland, Domański (2005, p. 160) observed 'effective lobbying of temporary coalitions of company officials, trade union representatives and local politicians'. Kulcsar and Domokos (2005) have analysed this on the municipal level in Hungary. Drawing on American growth politics literature, they coined the concept of the 'post-socialist growth machine' to characterize the growth coalitions that emerged there. With business interests benefiting from a growth project as its crucial element, the growth machine refers to the political underpinning of developmental projects in urban settings (Molotch, 1976; Jonas and Wilson, 1999).[22]

Kulcsar and Domokos (2005) argue that the post-socialist growth machines are distinct. First, in contrast to growth machines in the US, political actors such as municipal politicians and bureaucrats comprise the core of the post-socialist growth machine. With the growth agenda being primarily political, growth machines can be successful even when the growth projects do not bring any real opportunities for growth. Because it is organized around political power, influence, and control over the community, it is sufficient for a post-socialist growth machine to use the *promise* of growth to carry out its political agenda. Second, while local elites are divided in the original conceptualization, the post-socialist growth machines incorporate almost everybody in local politics. This is explained with reference to a lack of real pluralism in post-socialist municipal politics and by the solidification of interlinked and overlapping political and economic elites. Anti-growth entrepreneurs are missing, as they are not allowed to break into the elite. Third, there is no resistance to the growth agenda. The economic hardship of post-socialism made any growth agenda popular and, as Kulcsar and Domokos (2005) observe, there was no revival of civil society on the regional level. Fourth, absent in the original growth machines literature, transnational corporations are not part of the post-socialist growth machines, either. However, they provide an important resource of growth – or, at least, its promise. Finally, autonomous from any social constraints and pressures, local elites would do anything to attract investors and accommodate their preferences.

Table 7.1 Overview of investment-promotion cases under investigation

	Nemak	*L. G. Philips Displays*	*BMW*	*TPCA*	*PSA Peugeot-Citroën*	*Kia*	*Hyundai*
Start date (bidding)	2000 (1999)	2001 (1999)	2004 (2000)	2002 (2001)	2003 (2002)	2004 (2002)	2006 (2005)
Type of investment, and value	Green field, €314m	Green field, €604m (planned, not fully realized)	Green field, €1.2bn	Green field, €700m	Green field, €710m	Green field, €890m	Green field, €700m
Product	Aluminium auto parts	Cathode ray tubes for TV screens	Car	Small car	Small car	SUV	SUV
Location	Havraň (CZ)	Hranice (CZ)	Leipzig (D)	Kolín (CZ)	Trnava (SK)	Žilina (SK)	Nošovice (CZ)
Other bidders (selected)	Localities in Hungary	Localities in Hungary and Poland	Kolín (CZ); Leipzig/Halle, Augsburg, Schwerin (D); Arras (F); Banská Bystrica (SK); Nošovice (CZ); Trnava (SK)	Kobierzyce (PL); a locality in Hungary	Žatec (CZ); Radomsko (PL)	Localities in Poland, Hungary, and Nošovice (CZ) (CZ were dropped: they refused to offer incentives, which were found to be in conflict with CZ and EU regulations)	Localities in Slovakia and Turkey

(Continued on following page)

Table 7.1 Overview of investment-promotion cases under investigation *(Continued)*

	Nemak	*L. G. Philips Displays*	*BMW*	*TPCA*	*PSA Peugeot-Citroën*	*Kia*	*Hyundai*
Incentives	CZK 68m employee training subsidy; 10-year tax relief; City of Most: CZK 65m (land transfer), CZK 255m (industrial zone development, subsidized by the state); in 2006 CZK 260m compensation to Rajter for land buy-out)	Tax relief, custom relief, employee training subsidy; state subsidy to Hranice to build flats for employees (total CZK 1.6bn)	€418m intention, then reduced to €363m after European Commission's rule (Case C 75/02)	10-year income tax relief; transfer of real estate at a premium price; employee training grants (total direct: CZK 3.5bn); the state and municipality covered most of the infrastructure development in the industrial zone; Kolín obliged to build 850 flats for TPCA employees and new waste-water treatment plant	Direct: €53.3m (including tax relief and employee training, transfer of real estate)	Direct stimuli more than €170 million (EU limit); initial promise to provide incentives to subcontractors (eventually not materialized); infrastructure investment: highway construction (about SKK 22bn); airport reconstruction; village for management; luxurious housing in Bratislava (worth €40 million); pledge not to increase corporation tax, and not to increase employment and social protection	Tax relief, transfer of real estate, employee training grants; road infrastructure development

Direct support per job created		Approximately $20,000	€160,000 (original offer on which the location decision was based)	$37,000 (Deloitte estimate)	$50,000 (Deloitte estimate)	$86,000 (Deloitte estimate)	€37,000 (EU Commission data); $48,000 (Deloitte estimate)
Number of jobs created directly	530 in 5 years; 1361 in 10 years	3250 in 2002, then scaled down	2600	3000	3500	Announced 2800 to be created; 1600 employed by 2006	3000
Selected activities of investment-promotion machines	Fast-track procedures involving numerous violations of law; unconstitutional denial to organize municipal referendum; memorandum of understanding obliged city of Most to represent and 'do everything' for Nemak in permit procedures and property development	Fast-track procedures involving violation of legislation; Regecová case: bullying of citizen who refused to sell land, senior police officers and Czech Security Service used to persuade her to sell	In Trnava, preparation for fast-track building permit and other procedures; land expropriation	State and municipality help in land-permit, EIA, land-expropriation, and other procedures; city of Kolín obliged to pay TPCA penalty in case of delays in the procedures; state and municipality bureaucrats on the TPCA project-implementation board; investor free of any obligations	Contracts between the investors and the state kept secret from the public despite court rulings ordering the state to disclose them	Land expropriation involving breaching ownership rights to land as well as legal decision-making procedure; contract with the investor kept secret initially; contract void of any obligations for the investor	Fast-track procedures; monetary compensation for Nošovice inhabitants; death threats to owners not willing to sell their land

Sources: Deloitte (2006); Kolesár (2006); Czechinvest, 'Dokončené projekty [Completed projects]' (various issues), available at: www.czechinvest.org; EC (2002); 'Nizozemci získali výhody pro svou investici [Dutch gained advantages for their investment]', *Mladá fronta Dnes*, 30 March 2000; 'BMW opens Leipzig plant as Eastern Europe beckons', *Reuters News*, 13 May 2005; 'Premiér pošle domů miliony. Na Nemak' [PM sends home millions for Nemak]', *aktualne.cz*, accessed 7 November 2007; 'Navštívili jsme automobilku KIA' [We visited the car-maker Kia]', available at: http://automix.centrum.cz/magazin/clanek.phtml?id=8900, accessed 7 November 2007; author's research and calculations

Key: CZ: Czech Republic; D: Germany; PL: Poland; SK: Slovakia

The overall picture provided by Kulcsar and Domokos (2005, p. 559) of the post-socialist growth machine and the way the benefits of growth are distributed is rather cynical: ‘The Hungarian post-socialist growth machine seems to be even more successful than the one Molotch described 30 years ago. Local elites accumulated wealth, while people were given a fancy landscape and the feeling of development’. Since it does not aim to evaluate costs and benefits of FDI-based development in general, this analysis develops a political analysis of growth machines in the region. The model of the post-socialist growth machine applies to a relatively broad range of developmental projects, including both industrial investment and development of residential areas and shopping centres. In contrast, the analysis to be developed here is interested in the social and political underpinnings of a narrower range of development projects, which aim to promote investment in productive activities. Moreover, it does not prioritize the legacies of the past but rather analyses the articulation of various forces driving and hindering the investment-promotion projects with the legacies of the past and popular memory. In what follows, therefore, rather than growth machines, I will discuss ‘investment-promotion machines’ in post-socialism.

A number of caveats and clarifications are necessary. First, while investment-promotion machines are often driven by political actors, actors pursuing their own economic interests are among the main protagonists as well. Second, while the investment-promotion machines incorporate almost all local elites and the latter often put their struggles aside to attract foreign investors, the machines, however effective, do often face resistance. As observed by Kulcsar and Domokos (2005), the growth agenda often does not divide local elites, but rather follows the populist division between ‘the elites’ and (some of) ‘the people’.[23] Third, the analysis has to take into account the relations and mutual constitution of the regional, urban, and national – and even transnational – politics and analyse forces which operate in and through different spatial scales (MacLeod and Goodwin, 1999, p. 508). Thus, the conceptualization of post-socialist growth machine, which is essentially regional and local, has to be extended into multi-scalar political analysis (Swyngedouw, 1997). National actors often exert considerable pressure on local politics. At the same time, the national actors are constituted under the influence of local politics. I now turn to the (multi-)scalar political analysis of investment-promotion machines.

The Anatomy of the investment-promotion machines

The project of foreign investment promotion – as illustrated in the cases of BMW and Nemak and further documented in Table 7.1 – gives rise to ad hoc coalitions that are constituted around promoting an investor within the region and the country at large. The case of BMW has shown that these investment-promotion machines take shape in the process of bidding for an investment by promoting a particular investment location. Investment promotion brings together a wide coalition of actors from local, regional, and national levels. Thus, the investment-promotion machines are composed of actors operating on different scales. They are key moments of the power bloc underpinning the competition state and link regional actors with the metropolitan comprador service sector. The latter often orchestrates the formation and operation of the machines.

The political actors driving the investment-promotion machines include national-level, regional, and municipal politicians. Further, the investment-promotion machines comprise actors rooted in the sphere of production, namely the comprador service sector, people who own land in the prospective industrial zone and land speculators, sometimes domestic suppliers, and–after committing to the locality–the investors. In Poland, local trade unions often become important members of the investment-promotion machines.[24] The machines also include bureaucrats of various bodies of the state apparatus on different levels. However, these bureaucrats are often used by other actors within investment-promotion machines and usually act under immense pressure 'from above', rather than pursuing their own goals. Nowhere in the Visegrád Four does the institutional framework guarantee independence to the bodies of state administration. This is particularly the case at the regional and municipal levels. Thus, the bureaucrats are subordinated to individual politicians, who override and bend rules and institutions for their own power-broking purposes.

The circumvention and violation of institutional rules that the operation of investment-promotion machines often entails are legitimated and justified by the hegemonic frame of job creation and development. What is more, the state administration is often locked into investment promotion by institutional and legal measures in the process of attracting investment. In the TPCA case, the Czech Project Realization Team included the head of the project EIA team at the Ministry of Environment and the head of Kolín's Building Office, responsible for issuing the land-use decision and the building permit. Apart from prospective local suppliers, the Polish project team, established by PAIiIZ, included numerous officials from both national and regional governments (PAIiIZ, 2004, pp. 21–22). On the regional level, memoranda of understanding would often oblige the municipalities to promote the interests of investors, 'do everything'[25] for the investor in various procedures, including pledges to 'provide the buyer all necessary assistance and cooperate in obtaining all land decisions and construction permits that will be needed',[26] 'be responsible for the smooth implementation of the project, approval proceedings, construction and commencement of the production',[27] and arrangements in which the investor provided rights to the municipality to represent them in various procedures in order to guarantee timely issuance of necessary assessments, agreements, and permits.[28] They also include concrete obligations and sanctions for different bodies of state apparatus in relation to their position in various permit processes.[29] The national governments would also often conclude memoranda that would compel the state to represent the investor regardless of the 'general interest' and often make them breach local regulations.[30] The international agreements on the protection of investment then act as a 'regulation of the last resort' that causes the state to back the investor in local and national politics (as in the Nemak case).

The conceptualization of the post-socialist growth machine puts a lot of emphasis on political interests as the major driving factor of the machines. This can also be seen in the Czech and Slovak case studies. Attracting a particular investor into a region is a political stake not only in local politics, as emphasized by Kulcsar and Domokos (2005), but in national-level politics. Thus, in the Nemak case, most of the decision-making processes in Havraň were determined by external intervention, including political pressure. For instance, the deeply indebted village received a government subsidy, or a 'state bribe', as described in Feřtek's article,[31] in order to pay off the forfeited building of its office. The newly elected mayor of Havraň reported enormous pressure from regional and national governments when one of the referendum proposals was discussed in the municipal council.[32] On the national level, the investment projects are promoted by politicians, for whom they offer tangible benefits. They also act as the 'shopping windows' of an FDI-oriented state strategy. Actually, all the cases described here were used as flagships of success by respective governments.[33] On the regional and municipal levels, the investments were promoted by politicians who perceived the projects in terms of a growth agenda that would bring development into the localities.

At the same time, the investment-promotion machines are driven by economic interests. On the local level, the investment projects are an extraordinary opportunity for landowners to extract superprofits from the difference between the market value of land which is categorized as arable and the value of the same plot of land when designated as an industrial zone. In the TPCA case, the value of agricultural land around Kolín ranged from 3.5 to 8 koruna per square metre, but if it was changed into an industrial zone, it could be sold for 150–250 koruna. This provides huge incentives to landowners and also offers opportunities for speculators with insider knowledge. Very often, landowners are represented within municipal councils and it is therefore no surprise that they become active in promoting the investment projects. For instance, in the Hyundai case, many of the municipal MPs who approved the land-use plan owned land in the zone.[34] Moreover, the investment projects are promoted by the comprador service sector, most visibly represented by investment promotion.[35] Finally, any growth agenda provides economic opportunities that are exploited by local companies. These companies are often owned by or linked to people from the municipal and regional governments. In the Nemak case, Jiří Šulc, the regional president, was also the co-owner of a company that arranged construction permits on behalf of Nemak.[36] In the L. G. Philips case, the preparation of the industrial zone was conducted by Jureka, owned by municipal MP Jaromír Volf.[37]

None of the actors seems to constitute the driving force of the investment-promotion machines. The initiative often comes from both above and below. It is important to note, nevertheless, that the national-level actors, comprador service sector, and politicians are important driving forces of the machines in the regions. At the same time, the investment-promotion machines usually do not work on the top-down governance principle but draw on the activities of relatively independent local agents on behalf of investment promotion. In the case of TPCA, the industrial zone was very much an initiative of local politicians and landowners. However, CzechInvest and the investor had the upper hand in the negotiation of the condition of entry and in drafting the memorandum that imposed many expensive obligations on the city of Kolín.[38] The investment-promotion machines are able to engage in complex inter-scalar mobilization and steering that make it possible to coordinate decisions and exert pressures in different places and on different scales. Particular promotion machines often develop nodal points of inter-scalar mobilization. These are often represented by project managers of investment-promotion agencies,[39] governmental assignees for development of particular industry (in the Slovak case),[40] or governmental representatives in the region (in the Nemak case).[41]

The investment-promotion machines proved to be extremely effective. They managed to secure fast-track procedures for obtaining a number of permissions needed for building production units or industrial zones.[42] They also managed to secure the introduction of special regulations to address the concerns of individual investors. For instance, TPCA was granted exemption from the restriction on freight-transport traffic on Sundays and holidays.[43] When drafting the proposal project for BMW investment in Kolín, the growth machine required special customs status for bringing BMW freight across the border.[44] Cases of special treatment in the field of environmental protection were also observed in Poland (Domański, 2001, pp. 473–475). In Slovakia, the investment-promotion machines were able to take advantage of accelerated land expropriation procedures.[45] The introduction of special measures was also discussed in the Czech Republic. This discussion was particularly prominent in the context of the Hyundai case, where Ms Regecová was not willing to accept the amount offered for her plot of land in the industrial zone.[46] Further, investment-promotion machines were able to shift state resources for the development of transport infrastructure required for the investor.[47] Last, but not least, the investment-promotion machines were able to exert enormous pressure to make various actors promote the interests of the investor. This pressure was particularly felt by opponents of the investment. For instance, Regecová was not only a victim of bullying in the media (with the participation of Prime Minister Zeman) but was visited by a senior police officer who attempted to persuade her to sell her land. Moreover, the Czech Security Information Service gathered information about her.[48]

Job Creation, value-free development, and the politics of scale: institutional and ideational underpinnings of investment promotion

How can the effectiveness of investment-promotion machines be explained? Many attribute their effectiveness to the legacies of the past, and ‘post-socialist political culture’ in particular (Kulcsar and Domokos, 2005; Franc, 2006). Indeed, one can find much continuity between the practices of regional governance during state socialism and in the era of foreign investment-promotion machines. The actors involved often recall parallels with injustices experienced during state socialism, most notably with nationalization in the 1950s.[49] One can witness the reincarnation of paternalistic coalitions based on personal relations between village representatives and the ‘local’ enterprise (Müller, 2002; Müller and Kohutek, 2002). In the Nemak case, the representatives of Havraň exchanged support of the company for direct help both to the village and to themselves personally. Thus, cooperation with the investor helped Havraň's mayor to solve the problem of the village debt. Further, the village council rejected the proposal to call a municipal referendum because of the vote of a councillor whose son was a Nemak employee and was sent to Mexico for training.[50]

Yet, culture, or history, is not a reified template that would justify the teleology of the 'post-socialist culture' explanation. Instead, culture should be understood as 'an engram', a set of articulate and variably institutionalized memories, which may be mobilized and updated by strategic action or institutional processes (Wolf, 1982; Kalb and Tak, 2005). Reproduction of legacies of the past is thus a question that needs to be explained rather than assumed. Thus, the formation and effectiveness of investment-promotion machines has to be related to institutional and ideational structures that constitute the 'field of force' that exerts pressure and sets limits that provide advantages to the strategy of investment promotion. The process of rescaling is particularly relevant in this context.[51]

State apparatuses have been rescaled in the Visegrád Four to a considerable extent. The processes of rescaling provide strategic advantages to the project of investment attracting and to actors who promote it. The relativization of scale gives rise to local dependency on capital operating on wider scales (Cox, 1995; Cox and Mair, 1989). This has been discussed as the structural power of mobile capital. The fragmentation of state power produces inter-local competition for FDI, which is clearly evident in the V4 states. What matters in the competition for investors in Central and Eastern Europe is not so much fragmentation of authority within the national spaces, but the fragmentation of authority and regulatory regimes on the EU–European scale. Yet, location competition even within a single country can be a powerful disciplining measure. This is especially the case in Poland – a large country with many comparable investment locations. Thus, the vice-president of PAIiIZ emphasizes that playing off localities against each other rather than direct interference in local politics is a better and more efficient way to achieve what the agency wants:

> For instance, there was someone making life difficult recently – a lady [with a high price expectation for land she was administering] in one of the potential investment locations. My project managers thought we had to influence her. I said, 'No way.' The only way is to offer a real alternative, find an equally good place, a competitive location. Then, come back to that lady and offer her 24 hours for a response. In this case, she didn't get back. Subsequently, the lady lost her job.
>
> There are always problems. However, this is for local leaders. Those who are not happy should be excluded, taken out, or managed. If the support is not strong enough, we go elsewhere. Then, they often come back to us and we tell them what to improve.[52]

The case of BMW demonstrates the importance of EU regulation, which provides a cap on state support.[53] The car-maker would not be able to obtain the concessions it gained from the German state now. However, the remaining cases of attracting FDI analysed in this chapter demonstrate that the current regulatory framework not only provides ample space for 'beggar-thy-neighbour' competition[54] but encourages investment-promotion machines to offer 'perfect-location products' for competitive bidding. Such 'products' are often produced at the expense of local regulations, people, and the environment. The case of Kia demonstrates the scope and willingness of political growth machines to circumvent EU regulation (Kolesár, 2006).

Scale fragmentation provides material basis for discourses that, on the one hand, link the interest of local community to those of capital and, on the other, suppress local antagonisms and conflicts of interest (Cox, 1988). In this context, Logan and Molotch (1987) have described the discourse of 'value-free development' that provides political and ideological cement for the growth machine. Scale fragmentation gives rise to the myth of 'coherent community' as well as other myths, including the exaggerated notion of 'hypermobile capital', according to which a community has no alternative but to meet capital's demands (Cox, 1995).

Investment-promotion machines employ ideologies that link the interests of everybody in the community to the interests of a particular investor. As suggested in material produced by one of the Slovak NGOs opposing FDI promotion, a large part of the claims regarding the positive effects have a mythological dimension since there is a lack of (critical) evaluation of costs and benefits of FDI support in the region (CEPA, 2000, pp. 15–20; Bohle and Husz, 2005).[55] The discourse of 'job creation' is a crucial legitimizing device to recreate the hegemony of the externally oriented project. The claim that their projects bring jobs to regions is a mantra of the investment-promotion machines. In the case of large production plants, the promise of employment for the local population, however, often takes the form of what anthropologists call a 'cargo cult': it works as a future promise that rarely materializes. For instance, TPCA, by far the largest employer in Kolín, recruited only a fraction of its employees from the region. Thus, the launch of the factory was not reflected in the regional unemployment figures.[56] Drawing further on the anthropological metaphor, an obelisk displaying a car and an inscription in Latin, '*Ut sit labor*', was erected by a local artist to 'honour arrival of global capital' on the hill above the TPCA production plant (see Plate 7.4).[57]

These discourses then produce a hegemonic articulation in which the attraction and promotion of FDI and the interests of investors are presented as the 'general interest'. Although this articulation is contested, it has been institutionalized as an organic ideology which finds resonance among politicians and the general public. It provides ideational support for the activities of foreign investment-promotion machines and disadvantages its opponents. Among other things, it allows the organized targeting of people resisting investment promotion through personalized mob actions by what is presented as the 'moral majority'. For instance, Regecová, who resisted selling her land in the industrial zone in Hranice, was subsequently smeared by the Prime Minister in the media. She received 'loads' of anonymous letters, including lines such as the following: 'To the greedy hairdresser: Do you actually like anything other than money? Don't you know we are waiting for work? It's your turn now'.[58]

Plate 7.4 'Ut sit labor' obelisk, with TPCA factory at the background
© Jan Drahokoupil

This conflation of investment promotion and the 'general interest' found expression in the legal framework in Slovakia and Hungary, where the investment zones were defined as in the public interest, which was used to justify the appropriation of land in the zones. There were a number of attempts to introduce the same regulation in the Czech Republic.[59] No such proposals were discussed in the Polish parliament.

Finally, rescaling in the form of shifting power to regional governance bodies offers advantages for the attraction of FDI. The political actors on the regional and municipal scales, regardless of their party affiliation, are more exposed to the structural power of transnational capital. In the Czech Republic, the local elites in many regions were quite supportive of FDI, even when the project of promoting national accumulation, which was hostile to FDI promotion, was dominant on the national level. As was discussed in Chapter 5, the national-level representatives of ODS – the main right-wing party – have opposed the investment incentives schemes. However, their representatives in regional and municipal governments have often supported the scheme and have actively taken part in the investment-promotion machines.[60] ODS, on the national level, has to deal with contradictory preferences and lines of power representing opposing projects. The regional politicians provide important support for the externally oriented projects within ODS. For instance, Regional President Tošenovský, an important figure in ODS, played a key role in the investment-promotion machine supporting the Hyundai investment. ODS politicians were also active in promoting the TPCA plant. This is also supported by many participants in the processes of investment promotion in the Czech Republic. For instance, according to officials of the Czech Confederation of Industry:

> While ODS represents a more liberal position and its centre rejects incentives, the regional presidents we meet so often . . . are in a completely different situation, of course. They simply defend the particular incentive and they actively engage in the efforts to obtain the incentives [for the investors]'.[61]

Regional politicians are directly exposed to the transnational power of capital, including the ideational underpinning of the investment-promotion machines. The investors represent a growth agenda, which is a valuable political asset, especially in stagnating or declining regions with high unemployment. Moreover, there are no alternative growth agendas available to them. Thus, ODS politicians in the regions often perceive the anti-subsidies stance as an ideological position of the politicians in the centre who are remote from the real world and actual economic problems. This was well explained by Regional President Tošenovský:

> [The provision of incentives] is a standard measure for a simple reason. I would be glad if we did not have to provide them at all. However, our neighbours and the whole of Europe are crazy about this, even the Americans . . . So we have to find a form that would be acceptable for my political persuasion . . . Nevertheless, I am aware that this is not actually ideologically pure . . . Had I not succeeded in the international competition, had they decided for Poland, for instance, it would have had adverse economic repercussions [for our region].[62]

The process of rescaling, however, does not provide advantages only to the investment-promotion machines. In general, the capacity to 'jump scales' becomes an important asset in political struggles (N. Smith, 1993; Swyngedouw, 1997). The case studies have shown that the investment-promotion machines are able to coordinate their activities across different scales. Project managers of investment-promotion agencies,[63] governmental assignees for development of particular industries (in the Slovak case), or governmental representatives in the region (in the Nemak case) often function as nodal points of inter-scalar mobilization. The NGOs opposing the machines also have considerable potential to jump scales vertically and horizontally. This makes it possible for them not only to attract resources for their activities but to oppose the investments directly. For instance, ELS, together with CEE Bankwatch Network, approached the EBRD in Nemak case. The EBRD, which was asked by the investor for credit to finance the investment project in Havraň, reacted to the complaints and withdrew from the project in 2003 (ELS, 2003, p. 10).

Manufacturing consent: the pathology of investment-promotion machines

The operation of investment-promotion machines–as moments of power bloc mobilization–has a number of negative repercussions. These include bending of the rule of law, corrupting local democracy, and violating individual dignity, and they are part and parcel of the hegemonic devices and procedures that the investment-promotion machines employ to promote their projects and manufacture consent.

First, fast-track procedures are possible only when the respective regulations are violated or circumvented. Thus, investment-promotion machines are often not opposed to violating laws or breaking rules. As is obvious in the Nemak case, fast-track procedures contravene the law not only procedurally but in substance. In Havraň, the investment-promotion machine denied the citizens their right to a municipal referendum. In the L. G. Philips case, the company was allowed–in breach of law–to start construction of its plant and later launch production without the necessary permits (ELS, 2004). In the Kia and L. G. Philips cases, investment promotion led to the illegal use of private property.

Second, 'over-effective' investment promotion can harm those groups whose interests are not in line with those of the investors. As the Kia case shows, the investment-promotion machines may promote the interest of the investor in a way that violates broader democratic processes. This may harm not only local dissidents but much broader social groups (Bohle and Greskovits, 2006a). In the Kia case, the Slovak government pledged in its memorandum with the investor that it would not expand employment and social protection in a way that would increase Kia's production costs. It also vowed not to raise corporate and related taxes for four years and not to increase VAT and other taxes on cars.[64] It may be argued that these provisions are not uncommon and that a stable policy environment is beneficial for the economy as a whole. However, violation and circumvention of democratic procedures and the rule of law, including exclusion of some groups from decision-making, are neither necessary imperatives of a stable investment environment nor a price worth paying for it.

Third, investment promotion can lead to environmental damage. The fast-track permit procedures often involve substantive violation of environmental protection measures. Most notably, the EIAs in the fast-track mode–especially when managed by bureaucrats linked to the investment-promotion machines–are reduced to a formality without fulfilling their substantive purpose. Fourth, the emphasis on confidentiality and secrecy in the process of bidding for investment and in concluding particular deals provides opportunities for corruption.[65] It is a common story that even mere mention of negotiations with the investor leads to public accusations of threatening the chances of the locality.[66] In Slovakia, the government was determined to keep contracts it concluded with investors secret even when the courts ordered them to be disclosed.

Finally, the activities of investment-promotion machines can lead to individual suffering and conflict within communities. In September 2005, when the car-maker Hyundai shortlisted Nošovice as a potential location for its production plant there was a dramatic increase in the pressure on local people to sell their land. The pressure increased even more with the regional government's offer to pay all families in Nošovice and neighbouring Nižní Lhoty compensation in the amount of 100,000 koruna.[67] This effectively silenced many who had been critical of the lack of accountability in the decision-making process and imposed enormous stress on those who did not want to sell their land.[68] The village became deeply divided, with those opposing the industrial zone in a very difficult and painful position. This was well illustrated by a local participant in the negotiations with the regional government:

> It was very difficult psychologically for everybody involved. There was an immense pressure in the media. And the neighbours . . . I don't even live here [in Nošovice]. I received a nasty letter to get lost . . . And the other issues . . . I couldn't imagine what was possible. Now, the neighbours don't talk to one another. The situation is strained. Now it's quiet. But once Hyundai start construction, with all trucks going through the village . . . it will divide the village for at least ten years.[69]

On 12 November 2005, after his visit to the village, Regional President Tošenovský announced that he had terminated preparation of the zone as he had not managed to conclude a deal with landowners there. At the same time, he set an additional deadline for buy-outs of 16 November. On 14 November the regional government concluded a deal with the Nošovice agricultural cooperative, one of the main sources of resistance. The next day, the final three landowners who were still refusing to sell received anonymous letters threatening them with death if they did not comply.[70] These made them all surrender and sell their land.

One of the landowners described their position as follows:

> We were rolled over in a very nasty way . . . They say it was legal . . . They achieved that by crude violence. When someone threatens you with death, not only you but your immediate family, telling you to enjoy your life as you never know when it will finish, this is crude violence. Whoever wrote the letters, it suited them [the regional government] . . . My husband suffered a lot from that. [*Crying.*] . . . It is worst when men cry . . . They did not cry because of the defeat. We expected that partly. They treated us in a dreadful way. Without dignity. We were humiliated. No one cares in our country. Everybody is concerned with votes and talks of jobs . . . No one cares about our heritage . . . [The investors] may be gone after a while.
>
> No one respected our property. From my personal perspective, [the land] was what I inherited from my parents and ancestors. I had a very different idea what to do with that. I was glad we had this natural landscape. We have beautiful animals in the fields. Those people who are not living here . . . those in Prague don't care.[71]

The Nošovice case is an example of how the investment-promotion machines, in mobilizing the local constituency to support a 'corporate and expert-driven project'

(Kalb, 2006, pp. 588–592), corrupt the democratic process. In the spirit of '*neoliberal ius communitatis*', they override the democratic voice by distributing considerable amounts of money as direct payments to citizens–on the condition that they make sure that everybody agrees. The regional president can than present the whole process of manufacturing consent as consulting the local community in order to listen to the *vox populi*.[72] Unfortunately, as we have seen in both Nošovice and the Rajter case, the process of 'consultation' leaves the local community deeply divided and the opponents of the projects bitterly humiliated.

Resisting the investment-promotion machines

The investment-promotion machines are engines reconstituting the hegemonic field of forces that exert pressure and set limits on political strategies in the region. Hegemony is not a static domination, settlement, agreement, or deceit imposed or concluded once and for all. It must be sustained on a daily basis (Roseberry, 1994; Kalb, 1997; G. Smith, 2004). As a relational field of force, it leaves openings for contention. As the Nemak case illustrates well, the investment-promotion machines can face resistance. This is even more remarkable since the promotion of greenfield manufacturing investment is unlikely to generate opposition as it is–in contrast to the redevelopment projects analysed by the US growth machine literature–the least likely to threaten any local economic interests directly and the most likely to bring completely new employment. In the Nošovice case (Hyundai), landowners and other citizens of the village drafted a petition against the investment which was signed by 360 local residents. They also founded an association called Půda pro život (Soil for life) to take part in the permit and decision-making processes.[73] This association then allied with ELS and other NGOs (both regional and national) to pursue a common strategy against, and in relation to, the investment.

The resistance comes from local actors who incur the direct costs of the investment, such as environmental degradation, destruction of arable land, and increase in freight traffic (Logan and Molotch, 1987; Harding, 1995). As the Regecová case shows, it also includes locals who object to the investment-promotion machine for various individual reasons. In this case, the resistance started with a disagreement over the price offered for the land. But after the mayor of Hranice offended Regecová in the media, it turned into a personal conflict. The resistance to investment-promotion machines also comes from social actors, usually NGOs, which most often object to investments on environmental grounds (Goetz, 1994). While allying with local people, these NGOs tend to operate nationally. The NGOs, most notably ELS in the Czech Republic and Friends of the Earth (Centrum pre podporu miestneho aktivizmu, CEPA) in Slovakia, object to the investment-promotion machines not only because of the environmental damage and the violation of various regulations and human rights in individual cases but because they disagree with the policy of FDI-attraction and investment subsidies in general.[74] Like some elements of the comprador service sector, the NGOs resisting investment-promotion machines are nodal points of inter-scalar mobilization. The inter-scalar networks of resistance link villages like Nošovice, metropolitan NGOs, and worldwide organizations, such as Friends of the Earth and the Bankwatch Network. These global networks provide important ideational and organizational resources for resistance.

So far, the resistance to the investment-promotion machines has not managed to prevent or even delay any major investment project. However, it has enjoyed some success. The NGOs have been able to use existing legal frameworks to prove that many of the fast-track procedures and other activities of the investment-promotion machines violated the law. In the Nemak case, ELS managed to win its cases, which made crucial permits void. This led to a settlement with Rajter involving high monetary compensation.[75] In the Hyundai case, ELS and other NGOs were able to use their power as leverage on the state and the investor and managed to obtain significant concessions from them. They made the state pledge to stop preparation of two other industrial zones (Šilheřovice and Dolní Lutyně), to agree to put future emphasis on brownfield sites rather than greenfield sites in investor placement, and to improve the railway infrastructure in the Nošovice region. They also made Hyundai promise that it would follow environmental protection measures as required by Czech regulations, to implement additional measures to reduce its impact on the environment, and to provide financial support to the local community. These obligations were formally recorded in a Declaration of understanding between the NGOs, the investor, and various bodies of the state apparatus, most notably CzechInvest.[76] The state and the investor were willing to conclude such a declaration because they were concerned that the NGOs would delay various permit processes and even force the retraction of permits that had previously been issued.[77] The declaration obliged the NGOs not to interfere with or delay the permit processes; instead, it institutionalized consultation processes among all the parties involved.

In the case of Nemak, ELS was able to challenge the investment-promotion machine and the project of investment attraction in general on the level of public discourse. Its campaign, ‘From collectivization to globalization’, articulated popular anti-communism to challenge the policy of FDI promotion. The campaign cunningly utilized the life story of Jan Rajter. This not only attracted the attention of the media but served to create an (imagined) link between Rajter’s earlier unpleasant experience of property expropriation during state socialism and his present dispute regarding the process of investment-attraction, depicted as part of the process of globalization. This strategy was successful as it played on the continuities and resemblances between the practices of regional governance during state socialism and contemporary investment promotion (Drahokoupil, 2005).[78]

Resistance, however, has been limited to the space of negotiation structured by the hegemonic field of force. As pointed out by Roseberry (1994), hegemonic subjects often have to use the language and strategies that are shaped by the hegemonic structures of domination. The case studies analysed in this chapter show that anti-communism provides a language of resistance to use in legitimate subjects of complaint, such as violation of the rule of law and environmental destruction. The investment-promotion machines reconstruct systems of domination and spaces of negotiation within which the resistance takes place. Thus, after the partial victory of ELS in the Hyundai case, the comprador service sector concluded a truce on its own terms: through a memorandum of understanding and the introduction of a consultation process. Thus, the struggle for democracy and transparency leads to a compromise outside of the democratic and accountable institutional framework.

Concluding remarks

The analysis of investment-promotion machines in this chapter has demonstrated that the hegemony of the competition state is constituted in dynamic and relational processes, which unfold in the interplay of municipal, regional, national, and supranational politics. Hegemony is structured geographically in an uneven way and it is continually reproduced and reconstituted, as well as resisted and challenged in particular social practices and political struggles. Investment-attraction and promotion is a major site where the hegemony of the competition state is reproduced and transformed. The investment-promotion machines have a crucial political role in implementing the project of the competition state and reconstituting its hegemony.

This chapter indicated the importance of regional and municipal scales as sites where the support for the competition state is manufactured. It investigated the political dimension of rescaling in Central and Eastern Europe and thus followed MacLeod and Goodwin's (1999, p. 721) call 'to uncover the extent to which the constitutive processes in the construction of hegemony are being re-scaled to local, urban and regional levels'. The process of rescaling, however, has not merely shifted the locations of political struggles. It has also changed the strategic advantages inscribed in the institutional environment. On the one hand, the present form of rescaling provides political advantages to the forces promoting the project of the competition state. On the other hand, it narrows the space for those resisting this project by reducing the available meanings attached to promotion of the interest of foreign investors (Jessop, 1990, p. 244). At the same time, the struggles surrounding investment-attraction have shown that the investment-promotion machines face resistance, though within the terms set by the hegemonic structures. Furthermore, NGOs opposed to investment-promotion machines, together with some local citizens, have produced discourses that have found a wider resonance.

This chapter has analysed the investment promotion that dominated the landscape from the late 1990s. However, the kind of strategic investor and the actual flows of investment into the region are changing. With the arrival of another type of investor, it can be expected that the activities of investment-promotion machines will change to some degree. Most notably, there will be less need to secure huge industrial zones and plots of land. This is likely to change the dynamics of the politics of FDI in the region.

8 Conclusion

An era of rapid internationalization in CEE came to a close in the mid-2000s. A variety of foreign-led economies had emerged in the region in the late nineties and early 2000s. State economic strategies in the V4 region have converged towards a distinct model of the competition state, aiming at upgrading industrial bases in the region by attracting high-value foreign investors. As this conclusion is being written, in 2007, the 'outsourcing hotspot' in CEE seems to have cooled down: the investors have started to complain about wage increases and the position of the region in FDI-confidence charts has dropped.[1] Yet, Eastern European politics is hotter than ever. Pandering to foreign investors may seem out of fashion. Political mobilization with an appeal to xenophobic and nationalist sentiments was brought right into the political mainstream. In Poland, the Kaczynski 'terrible twins' (President Lech and Prime Minister Jarostaw), as foreign journalists put it, rediscovered Polish national interests and aggravated relations with both Berlin and Brussels. For Kaczynski's 'pig-headed government', 'liberal traitors who want to allow foreign companies to exploit innocent Poland' became major bogeymen.[2] In Hungary, the leader of the opposition Fidesz, Viktor Orbán, rails against 'luxury profits and rapacious foreigners' and calls for 'a national government in Hungary, which sees the world through Hungarian eyes, thinks with a Hungarian mind and senses in its heart a Hungarian beat'.[3] Meanwhile, the government is fighting a battle to protect MOL from hostile takeover by Austria's OMV.[4] In Slovakia, Mečiar's HZDS, the emblematic party of the nationalistic period of the early nineties, returned to government as a minority coalition partner in 2006. Finally, ODS's return to power in the Czech Republic brought a major critic of pandering to foreign investors right into the belly of the beast, the Ministry of Industry and Trade. This led to a major purge in the investment-attraction agency CzechInvest in 2007.

Do these disturbances represent a serious threat to the competition state? In the light of the arguments presented in this book, we can be confident that this is rather unlikely. I have shown that the externally oriented project has solid social and political bases in CEE states and beyond. Indeed, in contrast to the early nineties, nationalism has not provided a major blow to the project of the competition state. Thus, Prime Minister Kaczynski's rhetoric was not translated into economic policy, and he was voted out of office at the end of 2007. The purge at CzechInvest did not lead to an abandonment or significant change in the externally oriented strategy;

the clean-up was essentially about gaining political control over an important component of the state apparatus.[5] The investors seem to know this. The business press wonders about the new opportunities of profit extraction based on 'brainpower in the service industries, rather than cheap, nimble fingers in manufacturing'.[6] Exciting dramas of discovery, conquest, and eventual incorporation of the region into transnational networks have been replaced with mundane challenges of dependent development in the European periphery.

This book analysed these dramas and depicted the political landscape to which they gave rise. By analysing the emergence of the externally oriented state strategies, it showed how the states adapt to the environment of economic globalization and help to recreate it. It brought politics into the scholarship on the contemporary character of the state by identifying political, social, and institutional support of the competition state in the V4. An overview of the analysis is provided in Table 8.1.

Why so late?

Peripheral integration, produced by neoliberal transition policies, made the economies in the V4 structurally dependent on foreign capital, which controls access to technology, know-how, and major distribution networks. These structural exigencies represent the main factor accounting for the convergence towards the competition state in CEE. In the early nineties, the reform strategies throughout the V4 followed the neoliberal doctrine of macroeconomic stabilization, market liberalization, and privatization. This installed political-economic structures that made the exigencies of global accumulation a political prerequisite for national strategies in the region. However, state strategies were relatively hostile to FDI and focused on promoting domestic accumulation throughout the nineties. So why were the structural factors translated into political outcomes only at the end of the decade?

First, constraints and limits of the international political economic environment notwithstanding, the actual outcomes were largely contingent upon domestic politics. Only in Hungary did external constraints in the form of debt predetermine state strategy and outcomes of industrial restructuring. The peripheral mode of integration indeed reflected the 'American strategy', which was materialized in the policies of Western European states and the US towards the region and in the agency of international financial institutions within and in relation to CEE states. In this environment, however, Slovenia implemented policies that significantly departed from the global policy orthodoxy. It pursued a much more gradualist strategy, including elements of economic and social protectionism. Slovenian exceptionalism therefore shows that it was feasible to pursue more protectionist and gradualist strategies. In general, neoliberalism won through *domestic* political struggles. External pressures and support did not play decisive roles. Anti-communism and the delegitimation of the Left provided important political advantages to neoliberals over other forces in the V4. These domestic advantages were missing in Slovenia, which had a long record of relatively successful reforms

Table 8.1 Political-economic evolution in the V4 and Slovenia

	'Transition' (beginning of the 1990s)	*Early 1990s*	*Late 1990s/early 2000s*
State strategies	National pathways, inward-oriented in CZ, SK, PL; externally oriented in HU	CZ, SK: policy u-turns by the end of the 1990s PL: gradual reorientation HU: continuity	The competition state (V4: Porterian; SL: corporatist)
1 International political-economic environment • Integration into IPE	**HU: indebted to private creditors and bonds** PL: indebted to institutional lenders, defaulted, negotiation CZ/SK: virtual autarky, not indebted SL: debt renegotiated	Peripheral integration through the 'logic of exchange' Structural power of TNCs: capital mobility	**Peripheral integration through the 'logic of production'** Structural power of TNCs: capital mobility; competition for FDI
• Strategy: international institutions	'American strategy' of neoliberal development through integration **(translated only later)**, focus on economic policy	**EU enlargement**: push for bank privatization, promotion of FDI, opportunities for FDI-linked forces to draw resources SK: anti-government stance, networking with and support of the opposition	EU enlargement, WB: focus on institutions and social policy; EU regulation locks state in the externally oriented direction
• Strategy: TNCs and the transnational class	Politically active within the EU; CZ, HU: interest in high commitment; PL, SK: interest lukewarm	Low-commitment strategies; increasing commitment with the advent of EU enlargement	**High-commitment strategies**; agency within the states
2 Domestic political-economy • Relations of production • State form • Structure of representation	***CZ/SK: structural autonomy of the state*** ***PL: insider enterprise control*** **HU: debt service: imperative of obtaining cash**; state control of enterprises reasserted; economic internationalization prior to 1989 SL: mixed ownership; economic internationalization prior to 1989	***CZ: Czech capitalism*, exhaustion in 1996** HU: foreign-led economy, some upgrading in the value chain ***PL: National economy,* with increasing foreign presence** ***SK: Slovak capitalism*, abandoned** SL: Slovenian capitalism	**Foreign-led economies** Rescaling of the state Actors connected to FDI became hegemonic within the state

(Continued on following page)

Table 8.1 Political-economic evolution in the V4 and Slovenia *(Continued)*

	'Transition' (beginning of the 1990s)	*Early 1990s*	*Late 1990s/early 2000s*
• Political regime type	'Extraordinary politics' (temporary political autonomy of reformers from societal forces)	PL, HU: liberal, ruling party alternation; CZ, SL: liberal, no alternation; SK: illiberal, no alternation	Liberal, alternation
• Dominant ideas	V4: Transnationally produced neoliberalism CZ, SK: economic nationalism HU: Expert discourse on the importance of FDI SL: Social-democratic developmentalism	V4: Transnationally produced neoliberalism	**FDI in general interest (competition state as a hegemonic project)** V4: Transnationally produced neoliberalism
3 Domestic politics • Major actors, coalitions, and strategies	V4: Both internally and externally oriented projects represented within the states; neoliberals dominant HU, SL: international socialization of elites SL: TNCs active	CZ: national power bloc; enterprise outsiders, dispersed SK: national power bloc; enterprise insiders, concentrated PL: national power bloc; fractional party–enterprise links HU: power bloc led by the CSS and TNCs SL: national bourgeoisie (and +state ownership)	Transnational power blocs led by the CSS, encompassing most social forces, including TNCs and national capital; investment-promotion machines

*Notes: **Major inward oriented factors;*** **Major outward oriented factors**; CZ – Czech Republic; PL – Poland HU – Hungary; SK – Slovakia; SL – Slovenia implemented by the Communist Party. At the same time, neoliberalism, both in East and West, was produced transnationally. Neoliberal ideas developed in Western centres of ideational production had an important impact on the intellectual formation of East European reformers, who were well integrated into international networks connecting East and West decades before transition. It is likely that the trust engendered from the international networks provided the reformers in CEE with autonomy – within the margins of the Washington Consensus. Thus, as ever, domestic politics was transnationally constituted.

Second, with the exception of Hungary, the domestic political situation and structural constraints were not favourable to externally oriented strategies in the early nineties. What is more, in the cases of Slovakia and Poland, the international environment did not provide opportunities for an FDI-reliant restructuring. At the beginning of transition, the structural autonomy of the state – determined by the structure of enterprise control and the nature of international indebtedness – allowed for relatively open outcomes only in Czechoslovakia. Only there were the reformers and state managers relatively free to decide about enterprise restructuring. What is more, the political weakness of labour and enterprise managers made the actors within the state a considerable autonomous social force. By contrast, in Poland, the enterprises were largely controlled by insiders. In Hungary, the privatization strategy was subordinated to the need to obtain cash to repay the country's large external debt to private investors. Furthermore, foreign investors were quite cautious about getting involved in Poland and showed no interest whatsoever in Slovakia. Only in Hungary and the Czech Republic were they interested in high-commitment involvement, and these were the only countries where state managers controlled enterprises and could transfer them to foreign investors. Domestic political struggles – transnationally constituted, however – put the Czech Republic on the internally oriented track. In Hungary, the externally oriented outcome was not just exposed by the imperative of debt service. Hungarian strategy largely reflected (transnationally constituted) preferences of domestic elites. Moreover, the earlier strategy of the Hungarian Central Bank contributed to locking Hungary in the externally oriented path.

The Hungarian cash-based privatization strategy provided a huge advantage to foreign investors who, in contrast to local subjects, possessed capital. The hands of the government were tied particularly as a result of the debt-management strategy of the Hungarian Central Bank, which had switched a large part of the debt to bonds. At the same time, the foreign-oriented strategy enjoyed broad domestic support. Hungarian financial cadres were integrated into respective international networks. Moreover, there was a significant transnationally linked managerial elite that was very eager to cooperate with foreign investors. Finally, a transnational dialogue on FDI and development between Hungarian economists working in the US and those based in Hungary provided a theoretical justification for FDI-led industrialization.

Czech state strategy was shaped in a struggle between two groups within the state. The 'industrialists', on the one hand, advocated a privatization programme that would find strategic owners, foreign investors, for main enterprises. On the other hand, neoliberal reformers promoted a hands-off, voucher-based privatization model. A number of foreign investors were ready to bid for the commanding heights of the Czech economy. However, the neoliberals – largely because of the idiosyncrasies of domestic popular politics – won a path-shaping political struggle and most of the potential investors were ultimately turned down. The strategy of the early nineties prevented rapid internationalization of the commanding heights of the Czech economy. It produced a distinctive economic dynamic, Czech capitalism, and created a coalition of reform-winners that provided political support to the internally oriented project. At the same time, once the economic dynamics of Czech capitalism were exhausted, the strategy reinforced the structural advantages of foreign investors.

How does the process of internationalization work?

On 29 April 1998, the Czech Republic rolled out the most generous investment scheme yet seen among CEE countries. The introduction of this scheme, with targeted subsidies including cash grants at its core, ignited a race for greenfield investors in the V4. As I demonstrated earlier, the competition catalysed the convergence of state strategies in the region. The Czech policy u-turn was followed by the introduction of similar investment schemes in Slovakia and Poland, and the reinvention of investment subsidies in Hungary. The Czech case allowed for the dose investigation of the carriers and mechanisms of internationalization. The rapid process of internationalization induced by economic crisis made those mechanisms particularly visible. What is more, the environment hostile to FDI made the carriers of internationalization – domestic groups linked to foreign investors – particularly active and organized. In other countries, where domestic politics did not hinder the translation of structural factors – that is, the systemic power of foreign investors enhanced by the competition for them – into policy outcomes, the role of these groups was not so apparent and prominent.

The turning point in the Czech approach to FDI had come in 1997 when the previous government, led by the leading figure of the Czech neoliberals, reconsidered its hostile approach to FDI at a time when it was reacting to an economic crisis caused by the exhaustion of Czech capitalism. The u-turn can be directly linked to the structural dependence of the country on foreign capital, which was heightened by the economic failure of Czech capitalism. The government learned a lesson about the inaccuracy of its belief in the country's 'natural comparative advantage' as an investment site during its negotiations with American investors. The cogency of investors' arguments was confirmed by past experiences with investment withdrawals after the government did not offer incentives that investors had requested.

The government's realization of its structural dependence on transnational capital and its implications allowed social forces that had been developing the externally oriented project within the state to come to the fore. These social forces – the comprador service sector – were the actual carriers of internationalization within the state, organizing the mechanisms for internationalization on the domestic level and shaping the emergence of the competition state. The comprador service sector was facing a hostile environment within the state in most of the nineties. Nevertheless, it managed to thrive. Along with other foreign donors, the EU provided a crucial source of funding that allowed this group to develop. Moreover, EU-financed advisers used the Irish experience to make the case for the creation of the investment-promotion agency CzechInvest and helped with its further development.

Throughout the 1990s, CzechInvest worked to win the government's trust, gaining its support and changing the public's perception of foreign investment. During that period, the comprador service sector became organized. This social group has since played a major role in the power blocs underpinning the competition state. However, only the 1997 experience with foreign investors allowed CzechInvest to push through its project of investment incentives. In order to demonstrate the positive impact of FDI, the agency needed to show quick results. Greenfield projects were considered to have great potential for creating good publicity through job creation. This went hand in hand with a new wave of interest among manufacturing investors, who wished to get involved in the region in the late nineties. The Social Democrats, who came to power in July 1998, could cash in on the wave of greenfield investors and make support of foreign investment the flagship of their industrial policy.

The u-turn in industrial policy was accompanied by the massive sale of the state's stakes in major banks. The pressures from the EU and the process of Europeanization had a major impact on the dissolution of so-called banking socialism in the Czech Republic and on the process of bank privatization. Like elsewhere in the region, the EU consistently pushed for bank privatization in its annual assessments of the country's performance. At the same time, the Slovenian case shows that there was room for manoeuvre for policy-makers, who could interpret the EU's pressure differently and negotiate various outcomes (see Lindstrom and Piroska, 2007). Thus, it was important that domestic forces resisting bank sales to foreigners were marginal or absent in the V4 by the mid-nineties. After the process of integration was completed, EU competition regulation effectively prevented attempts to promote national ownership, and not only in the banking sector.

What is pushing the states to adapt their competition strategies?

The structural dependence on foreign investors, the EU regulatory framework, and the scalar organization of governance are the main structural features constituting a field of force that gave the externally oriented project important strategic advantages. This field of force eventually gave rise to the power blocs led by the comprador service sector. The structural power of capital is further enhanced by a competition for investors in the V4 region through various subsidies, most notably cash grants. While the EU competition regulation could mitigate the competition race through direct subsidies, its actual impact has been much more significant in preventing attempts to promote national accumulation. Rescaling within the states, shifting power to regional bodies, has provided significant advantages to the externally oriented project. It strengthens the representation of actors who are directly exposed to the structural power of capital within the state.

However, the externally oriented strategies were implemented only when both structural opportunities and political possibilities allowed the domestic groups linked to transnational capital to come to the fore in individual social formations. In order to be effective within the nation states, the structural power of foreign capital needs to be translated into what Wolf (1990) calls 'tactical power': that is, power that controls the settings of interaction. In this translation, multinational capital becomes embroiled with local social actors. In the Hungarian case, the process of transnational class formation and elite socialization played a major role in putting the country on the externally oriented path in the early nineties. Yet, the contrasting trajectories of Slovenia and Hungary – the two countries in the region that were most internationalized by 1990 – demonstrate that a high degree of transnational integration alone cannot predict outcomes. The interests and capabilities of domestic allies of the transnational class and/or connected cadres – as well as their structural literacy (see Gramsci, 1971, p. 113) – are relatively contingent upon the domestic context. Thus, internationalization of the state was forged in transnationally constituted domestic politics. In this process, the agency of the comprador service sector had a crucial role. It translated the structural power of multinationals into the tactical power of blocs centred on foreign investors.

Such translation took place only in the late nineties. In the Czech Republic, the strategy of neoliberals not only lacked any protective measures for domestic producers of high-value-added goods but effectively destroyed much of the viable potential in the domestic industrial base. The economic exhaustion of Czech capitalism then forced the policy-makers to open themselves up to the preferences of foreign investors. The Polish strategy allowed a significant domestic sector to emerge. Yet, it did not produce strong, competitive domestic sectors. The leading sectors gradually became dominated by multinationals. In Slovakia, the political dynamics of party alteration in the illiberal regime catalysed the introduction of an externally oriented strategy. It also brought into power a government which was well connected to international financial institutions and enjoyed credibility among investors. Meanwhile, Slovenian deviation from the neoliberal strategy, along with its favourable legacies, produced structural preconditions allowing for a different political-economic model in the same international political-economic context. Thus, Slovenia developed a distinctive model of the competition state, putting more emphasis on promoting the competitiveness of domestic capital and on social inclusion.

With the advent of EU enlargement and general expansion in FDI stock in the world economy, the late nineties witnessed a surge of investors relocating to Eastern Europe. This turned policy experimentation with FDI promotion into apparent success stories and a source of political capital. The FDI inflow then reinforced the region's dependency on FDI and led to social transformation that made the investors and related social forces important social and political actors.

The eventual EU accession then narrowed the space for attempts to promote domestic accumulation.

What constitutes the political support of the competition state?

As this analysis has demonstrated, actual policy outcomes are products of an agency of particular social forces mediated through structures of representation. In the early nineties, in the time of the 'extraordinary politics' (Balcerowicz, 1995), social forces located within the state enjoyed exceptional structural autonomy. This was particularly the case in Czechoslovakia and Hungary, where the state controlled enterprises. While the external debt and economic instability tied the hands of Hungarian state managers, the structural autonomy of the state brought popular politics to the fore in Czechoslovakia. However, the 'extraordinary politics effect' quickly vanished as privatization proceeded. This brought societal actors into politics. In particular, the rise of the competition state was accompanied by a consolidation of a power bloc centred on multinational investors and organized by the comprador service sector. I argue that the comprador blocs constitute the political underpinning of the competition state in the V4. They also integrate significant fractions of domestic capital, which are becoming largely internationalized and/or subordinated to international investors. The comprador service sector has a crucial role in these blocs. It helps to translate the structural power of transnational capital into tactical forms of power that enable agential power to work in sync with the interests of the multinationals. Thus, structurally, this group is comprador because it is structurally dependent on transnational capital, whose interests it represents. This sector comprises domestic groups providing services to FDI. Although its composition and role vary in individual countries, the sector typically includes state officials from FDI-related bodies, local branches of global consulting and legal advisery firms and their local competitors, and companies providing other services to foreign investors.

While the comprador service sector serves as a nodal point and organizer of the power bloc underpinning the competition state, the multinational corporations investing in CEE represent its main productive element or the material base. The structural power of transnational investors was crucial in pushing the states to embark on externally oriented strategies in the late nineties; but the actual political agency within the state was left to the comprador service sector. Yet, the multinationals do not leave the political agency to the comprador service sector any more. After committing themselves to longer-term activities, such as cost-cutting, efficiency-oriented investment, and investment in finance, foreign investors have been quite active in promoting their interests through direct agency. They have used various channels of influence – including those created by the comprador service sector, their own business organizations, direct negotiations with government officials, and even corruption. Obviously, the influence of foreign investors through agency cannot be seen in isolation from the structural power they continue to exert and utilize. The dramas of bidding for investments keep respective state officials busy and continue to entertain newspaper readers in the region. After the investment decision is made, the multinationals employ the threat of exit in their continuing negotiations with the government.

What makes the competition state hegemonic?

The externally oriented policies of the competition state were pursued by governments regardless of ruling party coalitions. The political support of this state strategy goes beyond narrow, short-term interest and immediate material concession, as was largely the case with the national projects of the early nineties. The support of this strategy transcends party divisions and party politics, even though it occasionally becomes politicized and connected with the party in power, giving rise to a false impression that the competition state is a project of the ruling party rather than a broader hegemonic project. The competition state is an organic strategy that reflects structural opportunities and constraints. It has a solid political, institutional, and structural underpinning within the V4. Politically, it is supported by power blocs organized by the comprador service sector. Institutionally, the EU regulatory framework locks the state strategies in the competitive direction. Structurally, foreign-led economies have emerged in the region, with foreign control of leading export industries and most of the public utilities, and unprecedented levels of foreign dominance in the banking sector.

The wide embrace of the competition state is thus related to the structural environment – material, institutional, and ideational – that produces a field of force that not only constrains possible strategies but makes the externally oriented strategy a ‘comprehensive programme’ for societies in the region (see Overbeek, 1990). This makes its hegemony, to recall van der Pijl (2004), ‘less of a magical trick’. The field of force shapes the ‘field of the politically thinkable’ (Bourdieu, 1984) and thus makes the externally oriented project not only a positive programme but a framework of thinking that allows articulation of various ideological positions, including resistance, on its terms. The intellectuals of the competition state thus can defend investment subsidies from ‘a market perspective’, according to which the subsidies, rather than being a market intervention, reflect the relations on the global market for investment, and the excess of demand for FDI over its supply in particular.[7] The politicians in the regions discovered the ‘real world’ of what Harvey (1996) calls the ‘militant particularism’ of investment-attraction. Its antipode, the ‘global ambition’ of changing supra-local structure, is absent in the political discourse in the region. Those who articulate the perspective of the small domestic bourgeoisie and claim to oppose the externally oriented project frame their opposition in terms of ‘investment subsidies for all’, which makes the project of ‘global ambition’ less thinkable and likely.

The internally oriented projects did not lack for ‘organic intellectuals’ who would ground them organically in the constraints and opportunities of the historical conjuncture (Gramsci, 1971, p. 9). On the contrary, the Czech case demonstrates that intellectuals, such as Klaus, proved to be master political and intellectual operators. They took the lead in forging the interests of societal players, knew how to articulate their project to resonate and rework the ideational structure prominent within public opinion (e.g., anti-communism, fear of foreigners), and promoted an agenda that appealed to, or was at least compatible with, the predominant wisdom within the cadres of international institutions. However, the internally oriented projects in the V4 either failed to develop sustainable accumulation strategies, as in the Czech case, or, if relatively successful in economic terms (as in Poland), were gradually reoriented under structural pressures and in reaction to the changing accumulation dynamic. As soon as the foreign investors became interested, the externally oriented project could promise to deliver superior economic benefits to a wide range of actors. Moreover, the eventual subordinate integration of leading sectors into transnational production networks controlled or owned by multinationals linked the externally oriented project with driving forces of economic growth.

Yet, the hegemony of the competition state is far from guaranteed and unchallenged. Hegemony is not a static domination, settlement, or agreement imposed or concluded once and for all. It always leaves openings for contention and it must be continually sustained. Hegemony is thus constantly reproduced and/or transformed. Similarly, a power bloc is not a static coalition, but rather a dynamic process of coalition-building that brings together various actors by promoting the hegemonic project in particular places and times. The competition state and its political and ideational underpinning are continually reconstituted in dynamic and often contentious processes in which investment-promotion machines are formed. These machines are largely constituted ad hoc around particular FDI-reliant regional development projects or even around the promotion of a single investor within the region. These temporary articulations of the power bloc are mobilized when a locality is promoted to lure an investor during investment-location bidding. They are extremely effective in promoting the interests of investors within the state and in the regions. Driven by political and economic interests alike, they bring together actors operating on different scales. Their activities exploit and recreate the legitimatory discourse of job creation – articulating reproductive needs of communities and social formation at large – constituting an essential element of the competition state project.

The investment-promotion machines are at times challenged by 'principled' NGOs (see Risse, Ropp, and Sikking, 1999), which object to the externally oriented project primarily over issues of environmental damage and human-rights violations that investment-attraction and the operation of multinationals often involve. However, the 'principled' NGOs have not been able to articulate an alternative hegemonic project or accumulation strategy. In addition, resistance to the competition state comes from small domestic companies that cannot reach investment incentives and do not directly benefit from the presence of multinationals. In the Czech case, the resistance of the domestic bourgeoisie merely promotes a different type of competition, based on a low-cost, flexible environment (i.e., the strategy of the Baltic States). Alternatively, as we have seen in the Hungarian case, it can be interpreted as a strategy to obtain material concessions rather than a promotion of an alternative accumulation strategy. These strategies are largely marginalized within the state.

What explains the convergence of state strategies?

In the real world, the mechanisms of convergence – competition, coercion, learning, and emulation – are operating together with other social mechanisms producing contingency and divergence. These mechanisms include the structural and institutional mediation of the actual impact of common pressures, the cognitive filtering of such impact, mediation through the policy process, the impact of the implementation process, and the embedding of outcomes in various institutional and cultural contexts.

Finally, I take a step back to point out the major mechanisms of convergence and divergence and show how they were brought together to forge the convergence towards the Porterian competition state in the V4.

Competition, or the systemic power of TNCs, is the major mechanism explaining the convergence towards the competition state. The structural preconditions for competition – that is, peripheral mode of integration – were in place in the early nineties. They were, nevertheless, significantly intensified in the late nineties with a surge of investors relocating to the region. The systemic power of multinationals was further reinforced by the incentives race for investors, ignited by the Czechs in 1998. Within CEE, the competition was structured according to the structural and institutional advantages of individual countries. The V4 countries, endowed with comparable structural and institutional advantages, were integrated into the transnational economic space in a very similar way. Thus, as predicted by the theories of competition and its structural/institutional mediation, the role-equivalent countries of the V4 found themselves competing for similar types of investors. As a consequence, the competition within the region led to a convergence towards the Porterian competition strategies. In contrast, favourable institutional and structural legacies allowed Slovenia to pursue social-democratic developmentalist policies in the early nineties. Its strategy then produced structural preconditions for developing a distinctive model of the neo-corporatist competition state. Finally, the Baltic States, constituting another role-equivalent cluster, converged towards the macroeconomic, stability-driven neoliberal competition states.

While the structural preconditions for competition were in place in the early nineties, they were translated into actual competition only when both structural conditions and contingencies of domestic politics allowed actors promoting the externally oriented project to prevail in domestic politics (i.e., the impact of the policy process). As is evident in the Hungarian case, the process of transnational class formation and elite socialization played a major role in this context. Yet, even in these processes, the complexities of domestic politics introduced a number of contingencies into the strategy of internationalized segments and respective political outcomes. My analysis of the Czech case pointed out the importance of dominant cognitive frames, or structural literacy, in formulating strategic responses to the environment. Thus, this book investigated the mechanisms of learning and emulation through which the exigencies of the environment are discovered, structural literacy is acquired, and policies are adjusted. It demonstrated the political nature of learning and the role of expert networks.

It was the comprador service sector that organized the 'teaching' of state officials about the exigencies of the environment. This sector also developed a transnational network of experts who advised on strategies of investment-attraction around the region.

At the beginning of the 1990s, structural conditions for coercive policy transfer through imposition were fulfilled in Poland and Hungary as both of these countries were burdened by enormous per capita debts. Coercion, however, was often not very effective, as was demonstrated in the cases of numerous privatization advisers; or there was no need for coercion to take place, as was the case when pursuing the neoliberal transition strategy. The imperative of obtaining cash imposed by the external debt determined the privatization strategy in Hungary. Yet, even there, the external imperatives to a large extent concurred with the preferences of domestic actors, including policy-makers and enterprise managers. Later, EU accession installed a number of coercive mechanisms. The European regulatory framework effectively locked the states into the externally oriented strategy. In addition, softer coercion exerted by the World Bank has had an important impact on restructuring social policies from the late nineties on wards. Since then, the WB has had strong agenda-setting influence on welfare state reforms throughout the region (Orenstein and Haas, 2005; Cain, 2003). After 1995, social policy moved to the top of the international agenda, which reflected lessons learned during the post-communist transition (see Sachs, 1995; WB, 1996). The influence of the WB was particularly apparent in the case of Slovak neoliberal reforms.

At the beginning of the transition, the constraints of the environment, both domestic and international, provided significant space for strategic intervention and thus allowed for relatively open outcomes as far as the state strategies were concerned. Thus, Slovenia could take advantage of its favourable legacies and develop the competitiveness of its domestic industries. There was no place for developmentalist measures in the more neoliberal transition frameworks employed in the V4. This also discouraged many potential strategic investors who were unwilling to take over state-owned enterprises without obtaining considerable protectionist measures for their activities. By the end of the nineties, however, the room for manoeuvre had changed significantly (see Bohle and Greskovits, 2007, p. 463). First, the European regulatory framework constrained what was possible in industrial policy and the soft coercion of the WB shaped the restructuring of social policies. Second, the interplay of domestic state strategies and the investment decisions of foreign investors gave rise to political-economic structures that provided advantages to some social and industrial policies while making life difficult for others. In particular, the emergence of more complex, foreign-controlled leading sectors in the V4 locked state strategies into promoting foreign-led accumulation, on the one hand, and provided structural *potential* for higher outcomes in terms of social protection, on the other. Yet, this potential does not guarantee high-road outcomes. In fact, the political landscape provides reasons for optimism only in Slovenia. In the V4, the weakness of labour and the reactionary mobilization of the domestic bourgeoisie make the sustainable social compromise problematic.

Finally, structures of representation and political regime types that emerged in the early nineties pushed the form of restructuring towards the competition state. In Poland, heightened party fluctuation in the context of domestic economic recovery and gradual economic internationalization led to gradual transformation towards the competition state. This transformation has been differentiated geographically as the regional bodies in Poland have significant autonomy in formulating and implementing developmental strategies. In the early nineties, both the Czech Republic and Slovenia had liberal political systems without government alteration. This allowed internally oriented projects to become well entrenched. However, the Czechs failed to develop a sustainable accumulation strategy. The crisis of Czech capitalism destroyed much of the domestic potential and led to the sudden embrace of the Porterian competition strategy. In contrast, the Slovenian accumulation strategy created conditions for gradual restructuring towards a neo-corporatist competition state. The illiberal regime type in Slovakia in the nineties led to extreme party-politization of economic policy. The internally oriented project was thus abandoned immediately after the Mečiar coalition lost the 1998 election. The new government then relied exclusively on the externally oriented project and radical neoliberal reforms.

Which important questions remain unanswered?

This book analysed structural and institutional forces that impose constraints and provide opportunities for political and state strategies in CEE. It mapped the political landscape in the V4 and identified major social forces that shape the adjustment of state strategies to the globalized political-economic environment. It contributes to better understanding of the real constraints and possibilities for pursuing alternative strategies in the region. Yet, in order to arrive at a comprehensive understanding of the subject matter, at least two major questions needs to be answered. First, to what extent can the Porterian competition state secure a (relatively) stable and functional regulatory framework in the long term? Can it provide 'institutional complementarities' resolving crucial coordination problems and providing 'comparative advantages' to varieties of capitalism in the region (see Hall and Soskice, 2001)? Second, what are the real constraints on, and opportunities for, social policies and welfare state reform? My analysis shows that welfare state retrenchment and welfare reforms are largely motivated by concerns over competitiveness and FDI attraction. At the same time, these reforms are motivated by domestic political issues independent of these constraints. As suggested by Bohle and Greskovits (2007), the position of the V4 in the international division of labour provides structural potential for higher social outcomes. By implication, if Bohle and Greskovits are right, social actors, when justifying neoliberal reforms with a concern with competitiveness/FDI attraction, are either misreading the real constraints or employing the competitiveness discourse strategically. If the real reasons for neoliberal reform pertain to domestic politics, is there scope for strategic intervention leading to a more progressive 'high road' of development? This is an important area for future research.

Notes

Introduction

1 The Visegrád Four comprises the Czech Republic, Slovakia, Hungary, and Poland.
2 For the genealogy of the problem of international competitiveness, see Fougner (2006).
3 Quoted in Gowan (1995, p. 10). For the irony of the statement, see Ivanova (2007).
4 Here, I am using the language of Eric Wolf's classification of power (Wolf, 1990). Chapters 1 and 5 discuss it in detail.

1 Understanding convergence towards the competition state

1 The discussion of policy convergence is further complicated by the use of different, largely overlapping concepts, including the following: policy convergence, isomorphism, policy transfer, and policy diffusion (Knill, 2005). I draw on relevant insights from all of these literatures.
2 Moreover, state strategies throughout CEE follow the same trajectories (externally oriented strategy). Policy convergence is limited to geographical clusters (see Chapter 2 and Bohle and Greskovits, 2007).
3 'Whatever its institutional manifestations, political authority represents a fusion of power with legitimate social purpose. The prevailing interpretation of international authority focuses on power only; it ignores the dimension of social purpose. The problem with this formulation is that power may predict the *form* of the international order, but not its *content*' (Ruggie, 1982, pp. 382, original emphasis).
4 See EBRD transition reports of the early nineties.
5 By the mid-1990s, in response to the institutionalist studies, the international financial institutions started to stress the need for institutional reform and the continuing importance of the state as a rule-setter (WB, 1996; EBRD, 1999).
6 Interestingly, the modernization stream of transitology has celebrated eventual convergence, understood in a teleological fashion as a final emancipation of institutional and cultural legacies/pathologies of communism (Sztompka, 1995; see Blokker, 2005, pp. 506–508).
7 There are a number of overviews and classification of the mechanisms of convergence (Bennett, 1991; Henisz, Zelner, and Guillén, 2005; Holzinger and Knill, 2005; Knill, 2005; Simmons, Dobbin, and Garrett, 2006). The classifications authors present are quite similar. The typology I use is the same as that of Simmons, Dobbin, and Garrett.
8 There is controversy among those who maintain that competition undermines regulatory standards and leads to a 'race to the bottom' (e.g., Genschel, 2002; Scharpf, 2002) and those who maintain that it promotes efficient solutions, including 'high roads of development' (e.g., Tiebout, 1956; Vogel, 1995). For many neo-classical and neo-Marxist scholars alike, capital mobility will undermine social-democratic policies and their taxation base as these represent nothing other than lost capital to mobile

assets-holders (e.g., Przeworski and Wallerstein, 1988; see Watson and Hay, 2003). The extensive research on this topic shows that the outcomes are contingent on a number of factors, such as the nature of competition and the field of regulation under consideration (for an overview, see Radaelli, 2004).

9 Some argue that the conditionality of the IMF and the WB can be understood as imposed by some of the powerful states, most notably the US, through these organizations (Simmons, Dobbin, and Garrett, 2006). The historical record of US policy towards these institutions supports such understanding (Babb, 2007).

10 The exaggeration of the EU's influence, its impact on democratic consolidation in particular, is criticized even from within the Europeanization discourse (Grabbe, 2006).

11 As Vaughan-Whitehead (2003), a senior EU official working on the enlargement agenda, has complained, social policies were given very low priority in the EU enlargement process.

12 As implied in the idea of convergence in legitimatory rhetoric.

13 At the same time, Gowan is obviously aware of the existence of these domestic forces since he explicitly mentions them in his discussion of the dissolution of Comecon (Gowan, 1996, p. 132).

14 For a sceptical assessment of the actual leverage of the international financial institutions, see Kahler (1992).

15 Domestic factors can be specified as the political salience of the respective agenda, a country's macro-strategy of adaptation to the EU, and its institutional capacity to achieve its goals. The important European factors that limited the influence of the EU were diffuseness of its influence (lack of coherent policy in many areas) and uncertainty about its requirements (Grabbe, 2006).

16 For instance, for some of the traditionally protectionist actors, such as those representing the steel industry, the competition in CEE ceased to be a threat in the mid-1990s. In the case of the steel industry, the trade between East and West was liberalized only in 1996. At that time, however, most of the steel production in the EU started to specialize in high-tech and highly competitive activities. Thus, the industry benefited from liberalization as it stimulated demand from CEE and offered relocation possibilities (Schabbe and Wolter, 2004, in Bohle, 2006).

17 Here, I refer to Jessop's account of state transformation towards the Schumpeterian competition state (Schumpeterian workfare postnational regime, to be precise). Jessop's state theory, however, is equipped with a much more complex and political understanding of state transformation. I will make use of the latter in constructing my theoretical framework below in this chapter.

18 Based on Simmons, Dobbin, and Garrett (2006, p. 795) and Hay (2002, pp. 131–132).

19 For instance, Václav Klaus, a member of the Mont Pelerin Society, was among the people who were most integrated into transnational class networks in the Czech Republic. Paradoxically, the political strategy of Klaus and his peers prevented early internationalization of the state in the Czech Republic.

20 This is precisely what many neo-Gramscian scholars were championing (e.g., Holman, 2001, p. 178). Yet, their empirical conclusions have not been sufficiently informed by their theory.

21 These approaches do not correspond to the stylized distinction among ideational, interest-based, and institution-oriented explanations. For instance, both rational choice theory and instrumental Marxism employ the interest group logic.

2 The rise of the competition state

1 A form analysis identifies dominant social forms (e.g., commodity form, exchange value, use value, money, capital, the wage form, the price form, legal form, and state form) and contradictions; investigates whether and how they correspond to each other (institutional separation of economic and political is advantageous but also problematic

for capital accumulation and interest of capital; thus, form problematizes function); and it examines how the dominant forms shape possibilities of action, identify their strategic selectivities (Jessop, 1982, 1990, 2002).

2 Social policy is analysed here primarily in the context of reproduction of labour power, which implies that some aspects of welfare are ignored.

3 The generic features of the capitalist type of state comprise institutional separation of state and economy, monopoly on violence, tax state, specialized administrative body, rule of law, and formal sovereignty (see Jessop, 2002, pp. 36–48).

4 On ontological, epistemological, and methodological principles of periodization, see Jessop (2003) and Campbell (2004, ch. 2).

5 The exceptions consisted of preferential treatments negotiated by some foreign corporations in order to provide them with a protective environment for restructuring enterprises they privatized (e.g., Volkswagen's buy-out of Škoda in the Czech Republic and General Motors in Poland).

6 Before the large privatization act was passed, a few large foreign takeovers/mergers and joint ventures with state-owned enterprises had occurred. The most important was the takeover of Škoda by Volkswagen (see, e.g., Pavlínek, 2002a).

7 In direct-sale privatization, foreigners could participate only if there were no domestic buyers.

8 The cumulative value of foreign investment in privatization was equivalent to 27 per cent of FDI stock at the beginning of 1994, 37 per cent one year later and 48 per cent by the beginning of 1996 (Adjoubei, 2004).

9 For instance, the Czech strategy to tackle unemployment relied on the investment support scheme even when it was not fully implemented. See 'Zahraniční investoři si na vládní úlevy ještě počkají [Foreign investors have to wait for incentives]', *Mladá fronta Dnes*, 1 April 1998. See also Sass's Hungarian observations (Sass, 2004, p. 76).

10 For instance, they can hardly be characterized as Schumpeterian, which is the way Jessop (2002) describes competition states in advanced capitalism, since CEE states do not engage primarily in promoting permanent innovation and enterprise (research and development policies targeting the 'sunrise' sectors).

11 The discussion of the competition states in CEE draws on Bohle and Greskovits' (2006) work on their variety and my work on statehood in thevisegrád Four (Drahokoupil, 2007a and b).

12 In the original conceptualization, Porter's notion of competitiveness prioritized indigenous firms (see Myant, 2003, pp. 245–262) and it saw local development in conflict with foreign capital (Rugman and Verbeke, 1998, pp. 115–136). This, however, became less important to him (Porter, Sala-i-Martin, Lopez-Carlos, and Schwab, 2004).

13 Pickles and Smith (2004, p. 26) were probably first to speak about 'Porteresque cluster strategies' in CEE.

14 For additional support on the structured differences in the investment support system between the V4, the Baltic States, and the rest of Eastern Europe, see Meyer and Jensen (2005, Table 5.3).

15 See OECD (2001, pp. 93–96) for clustering policy in Hungary and PAIiIZ (2004) for Poland. Similar policies can be found throughout the V4.

16 Confirmed in various interviews with policy-makers.

17 See Young (2004, pp. 111–113), OECD (2004, pp. 73–79).

18 Static comparative advantage refers to 'natural' factor endowments (e.g., raw materials, cheap labour power). Dynamic competitive advantage relates to 'social' factors – basically, to the overall efficiency of resource allocation. Long-term competitiveness would be based on developing competitive advantage (Jessop, 2002, pp. 119–123).

19 Interview with Tibor Takács, Katalin Zsámboki, and János Rajki of ITDH, Budapest, 16 November 2007.

20 Interview with Wojciech Szelagowski, vice-president of PAIiIZ, Munich, 25 October 2007.

21 Based on interviews in SARIO conducted by M. Trník.
22 Interview with Martin Fassmann of Czech-Moravian Confederation of Trade Unions, Prague, 26 October 2005.
23 I do not claim that the nation states are necessarily losing power in rescaling. This is not a zero-sum game. Instead, the role of the state is being transformed, and they are acquiring a different position in respect to the scalar dimension of politics (see Brenner, 1999).
24 'Plný pytel projektů [A bag full of projects]', *Týdeník Euro 25*, 16 June 2007, pp. 44–46.
25 UNCTAD transnationality index is an average of four ratios expressed in percentage terms: average of FDI inflows as percentage of gross capital formation; FDI inward stocks as percentage of GDP; value added of foreign affiliates as percentage of GDP; employment of foreign affiliates as percentage of total employment.
26 The following discussion of leading sectors in CEE draws heavily on the original work of Greskovits and Bohle. Greskovits classifies export sectors according to factor and human-capital intensity. Accordingly, he distinguishes heavy-basic, heavy-complex, light-complex, and light-basic types. The nature of dominant industrial sectors determines structural conditions for possible industrial relations and wider social compromise. 'In concrete, the heavy-complex type intensive both in immobile physical and human capital is the likeliest to produce the socioeconomic foundations of some kind of a *solidaristic capitalism*. Its polar opposite light-basic type, characterized by low physical and human capital intensity as well as high crossborder mobility predicts *capitalism without compromise*' (Greskovits, 2005, p. 122).
27 The relatively sizable heavy-complex and light-complex sectors of Lithuania and Estonia are found to be 'monocultural': the majority of their output originates in a few or even a single industry.
28 On the peripheral position of CEE in the automobile industry, see Pavlínek (2004b). On the peripheral position in research and development spending and human capital, see UNCTAD (2005) and Hardy (2007).
29 The locational decisions of different types of foreign investors account for the difference between the Visegrád Four and the rest. Investors were initially attracted to the Visegrád states by their relative institutional advantages of the early nineties (e.g., shape of banking sectors, regimes of foreign trade and foreign exchange). FDI then brought structural advantages (e.g., supply structures) that locked the flows of complex investment in the Visegrád Four (Greskovits, 2005).
30 For Jessop, this would be knowledge-based economy, largely organized on the European scale.

3 Creating national capitalism against the odds

1 'Czechs head west to pitch privatization of industries', *Washington Post*, 14 June 1991, p. a23.
2 See 'Mercedes looks toward Eastern Europe', *Wall Street Journal*, 9 March 1992, p. A9B.
3 See, e.g., Hanley, King, and Janos's (2002) critique of a transition classic, Stark and Bruszt (1998).
4 Gowan refutes the argument that 'communist industrial goods were worthless' by pointing to a surge in export from CEE to the West right after the barriers were removed. Yet, a more refined sectoral analysis reveals that very few V4 enterprises could compete against more sophisticated products (see Myant, 1989, pp. 235–239, 1993).
5 ODS was founded in 1991.
6 Interview with Martin Fassmann, Prague, 26 October 2005. See also Fassmann and Čornějová (2003).

7 While political allegiance was certainly required, the recruitment to top managerial and administrative positions in the 1970s and 1980s was not based only on political criteria (see Linz and Stepan, 1996).
8 The 'lustration' law was extended in the Czech Republic only in October 1995.
9 For analysis of managerial turnover, see Čapek and Mertlík (1996) and Soulsby and Clark (1996a and b).
10 Interview with Jan Vrba, Prague, 21 October 2005. See also Orenstein (2001), Myant (2003), Appel (2004), Gould (2003).
11 Interview with Jan Vrba, Prague, 21 October 2005 and interview with Vrba in *Listy* 6/1999, available at: http://www.blisty.cz/2004/4/29/art17878.html.
12 Email communication with Martin Myant, 14 March 2007.
13 The form of transnational integration of industrialists, on the one hand, and neoliberal economists, on the other, differed. Yet, the following discussion will show that other factors were more likely to shape their preferences.
14 Vrba's account understandably concurs with Myant's (interview with Jan Vrba, Prague, 21 October 2005).
15 Interview with Dušan Tříska in *Respekt* 45/91, 11 November 1991, p. 9. This view is supported by Karel Dyba (Minister of Economic Policy and Development, 1990–1992, and Minister of Economics, 1992–1996), who, despite being very close to Klaus, supported privatization to foreign investors. (Interview with Karel Dyba, Prague, 21 November 2005.)
16 Tříska in 1996 interview by Appel (2004, p. 114).
17 It is important to note that the political project of privatization was much broader than protection of reformers' partial interests of political survival or to protect a particular hierarchy of power as implied in the property rights theory (Riker and Weimer, 1993). For this point, see Appel (2004, p. 115).
18 Speech by Klaus at G-30 conference in Vienna on 24 April 1993, 'The Czech Republic's prospects', published in *Telegraf*, 4 May 1993, cited in Appel (2004, p. 161).
19 Interview with Jan Vrba, Prague, 21 October 2005; interview with Karel Dyba, Prague, 21 November 2005.
20 Privatization through individual savings accounts that would also create a privately managed pension scheme was proposed in Czechoslovakia in 1990 by a London-based economist, František Nepil. See transcript of interview with Nepil and Klaus's adviser Ivan Svítek on Radio Free Europe, Czech Edition, January 1991, available at: http://www.britskelisty.cz/9905/19990506j.html.
21 Václav Žák on Radio Free Europe, Czech Edition, 10 January 2001.
22 Ibid.
23 Klaus is notorious for his metaphor that there was a need for a period of time 'when the lights are turned off' in order to, as Tříska would put it, 'let the sharks accumulate'.
24 As suggested by Martin Fassmann (interview, Prague, 26 October 2005).
25 Interviews with Jiří Havel, Prague, 21 October 2005, and Pavel Mertlík, Prague, 24 October 2005. See also Mládek (2002).
26 Interview with Karel Dyba, Prague, 21 November 2005.
27 Interview with Jan Švejnar, an economist who took part in designing the voucher method, in *Ekonom*, 8 December 1996.
28 Interview with Václav Žák, Prague, 25 October 2005. Supported also by Jan Švejnar (interview in *Ekonom*, 8 December 1996).
29 E.g., interviews with Jan Vrba, Prague, 21 October 2005 and Miroslav Grégr, then the Czech Minister of Engineering, Prague, 20 December 2005.
30 Interview with Dušan Tříska in *Respekt* 45/91, 11 November 1991, p. 9.
31 'Cizí investoři bez úlev [Foreign investors without incentives]', *Lidové noviny*, 25 February 1993, p. 12.
32 'Sousedy Německa navěky [German neighbours evermore]', *Respekt* 6/92, 10 February 1992.

33 For the debate about the dominance of German capital, see, e.g., ibid. 'Máme strach z Němců, nebo z kapitalismu? [Are we afraid of Germans or capitalism?]', *Respekt* 7/92, 17 February 1992. The power of this debate was emphasized by all parties involved whom I interviewed.
34 Interview with Jan Vrba in *Euro*, 6 December 1999, p. 36.
35 Petr Pithart (then Prime Minister), 'German entrepreneurs are best prepared', *Respekt* 6/92, 10 February 1992; 'Máme strach z Němců, nebo z kapitalismu? [Are we afraid of Germans or capitalism?]', *Respekt* 7/92, 17 February 1992.
36 As recorded by, e.g., Jan A. Havelka (CEO of investment promotion agency CzechInvest, 1993–1997), 'Patriotismus, reforma a zahraniční investice [Patriotism, reform, and foreign investment]', *Mladá fronta DNES*, 12 April 1997.
37 Interview with Martin Fassmann, Prague, 26 October 2005.
38 Interview with Václav Žák, Prague, 25 October 2005.
39 Interview with Jan Vrba, Prague, 21 October 2005.
40 Also expressed in interviews with Jan Vrba, Prague, 21 October 2005, and with Milan Gánik, Prague, 21 November 2005.
41 Interview with Milan Ganik, Prague, 21 November 2005.
42 Interview Jan A. Havelka, Prague, 30 December 2005.
43 For instance, Martin Myant notes: 'I remember in September 1989 Tříska arguing very firmly that he didn't want foreign ownership and that Hungary was heading that way' (email communication, 16 March 2007).
44 Interview with Jan Mládek, Prague, 28 November 2006.
45 Email communication with Martin Myant, 16 March 2007.
46 Interview with Karel Dyba, Prague, 21 November 2005.
47 Based on a detailed study of individual sectors, Kolanda and Dittert suggested that the only way forward for the key engineering sector might be the sale of 30 per cent to Western firms.
48 Some of the gradualists, however, have criticized the trade policy of a cheap Czech koruna for not helping to increase exports' quality. Instead, it was argued that such policy stimulated exports of simple, low-value-added products and raw materials and made import of advanced technology expensive (Pick, 1991).
49 See, e.g., 'Klaus versus Komárek', *Svobodné slovo*, 7 April 1990, p. 1; Zdeněk Hoffman and Pavel Páral, 'Rychle, nebo postupne [Quickly or gradually]', *Rudé právo*, 9 June 1990, p. 1; Eva Procházková and Vladimír Matějovský, 'Nejde o vítězství, ale o prohru [It is not about winning but losing]', *Mladá fronta DNES*, 9 June 1990; Vladimír Diviš, 'Klaus versus Komarek', *Rudé právo*, 18 July 1991, pp. 1, 2, 32.
50 While Klaus often emphasized he was never a member of the Communist Party, the radicals were no dissidents. They often worked in the same institutes as the gradualists, in many cases under Komárek's protection. Some of the prominent radicals were in the Communist Party before 1989 (e.g., Vladimír Dlouhý).
51 Ježek's proposal attracted the support of the Association of Entrepreneurs (Appel, 2004, p. 58).
52 Email communication with Martin Myant, 16 March 2007.
53 See 'Czechs hang "for sale" sign on 50 of republic's key companies', *Financial Times*, 14 June 1991, p. 2; 'Czechs head west to pitch privatization of industries', *Washington Post*, 14 June 1991, p. a23.
54 See, for instance, interview with Dušan Tříska in *Profit* (business weekly), 2 May 2006 or Jiří Schwarz's speech at Czech–German colloquium 'Reform and transformation' in Prague, 6 March 2001, later published as Schwarz (2003).
55 Also, other economists and policy-makers outside of Klaus and Tříska's circle confirm Vrba's position. Interview with Jiří Havel, Prague, 21 October 2005.
56 Interview with Vrba in *Listy* 6/1999, available at: http://www.blisty.cz/2004/4/29/art17878.html.
57 Klaus's team couldn't turn to international institutions for support. The WB was not

convinced about their privatization scheme; it would even discourage the neoliberals from privatization as its design was found too radical. In the end, it managed to persuade the reformers to make some concession from their original (e.g., Appel, 2004, p. 116).

58 Interview with Jan Vrba, Prague, 21 October 2005.

59 Ibid. Compare this with Appel's report on her earlier interview with Vrba in 1996 (Appel, 2004, p. 139).

60 See interview with Vrba in *Listy* 6/1999, available at: http://www.blisty.cz/2004/4/29/art17878.html and 'The Czech minister says Volvo could take truck stake', *Reuters News*, 26 May 1991.

61 In January 1993, the government also ended tax incentives for foreigners that were in place.

62 There is no consensus about the absolute values. The ratios, however, hold.

63 The wide spread of these corrupt activities gave rise to the word 'tunnelling', which later became part of the international economic vocabulary. For the prominence of tunnelling in the popular discourses, see Altshuler (2001).

64 Interview with Martin Fassmann, Prague, 26 October 2005. See also Myant (2003).

65 E.g., Václav Žák, 'Chudák Libor Novák [Poor Libor Novák]', *Lidové noviny*, 25 April 2000, Jan Macháček, 'Kdo dostal rodinné stříbro [Who obtained the family silver],' *Respekt* 39/97, 22 September 1997. For an overview of corruption in privatization, see Orenstein (2001, pp. 106–109).

66 Interestingly, Soudek was removed from the management of Škoda Plzeň by Vrba in 1991, after it was found that he engaged in insider dealing (see interview with Vrba in *Listy* 6/1999).

67 Interview with Jan Vrba, Prague, 21 October 2005. See also interviews with Vrba in *Euro*, 6 December 1999, p. 36, and *Listy* 6/1999.

68 'Český prýmysl do českých rukou [Czech industry belongs to Czechs]', *Respekt* 44/93, 1 November 1993, p. 7.

69 Interview with Jan Vrba, Prague, 21 October 2005.

70 Interview with Václav Žák, Prague, 25 October 2005.

71 'Tajemství trezorů IPB [The secret of IPB's safes]', *Respekt* 50/00, 4 December 2000, p. 11 (see Kudrna *et al.,* 2002b, pp. 58, 61).

72 Some observers would argue that the banks were not keen to provide loans to failing enterprises, but rather often had to succumb to external pressure. That was the perspective of Myant (email communication, 14 March 2007).

73 This was another major disagreement between Klaus's team and Vrba's group. The latter preferred quick privatization of banks. However, it was not able to translate it into an open struggle as in the case of privatization of enterprises.

74 Email communication with Martin Myant, 14 March 2007.

75 E.g., 'Kdo kradl v privatizaci? [Who was stealing during privatization?],' *Respekt* 9/02, 25 February 2002, p. 13. Interview with Milan Ganik, Prague, 21 November 2005.

76 E.g., Interview with Dušan Tříska in *Respekt* 45/91, 11 November 1991, p. 9., or Schwarz (2003).

77 See, for instance, interview with Dušan Tříska in *Profit*, 2 May 2006

78 Moreover, some of the costs that the labour had to bear, such as the decline in real wages, were not apparent (interview with Martin Fassmann, Prague, 26 October 2005).

79 Heterogeneity and dispersion are conventionally considered to be major disadvantages in the competition for influence (Olson, 1965; Becker, 1983).

80 The list of losers should perhaps include citizens and taxpayers at large, since they had to pay for the banks' bail-out in the end. The lack of information would apply to them as well.

81 Interview with Jan Mládek, Prague, 28 November 2006. See also Havel (2004, p. 24). The point about PPF was emphasized by Žák (interview, Prague, 25 October 2005).

83 Interview with Milan Gánik, Prague, 21 November 2005.

84 Interview with Martin Fassmann, Prague, 26 October 2005.

85 Interview with Zdeněk Kudrna, adviser to the Minister of Finance Mertlík in 2002–2003 and local World Bank consultant in 2003–2005, Brno, 22 December 2005.

4 The internally oriented pathways in the early nineties

1 Gowan links the failure of the French government to put through its proposal to the fact that the US vision was in line with German interests in the region. Thus, the EU has accepted the fragmentation of the Comecon region and focused on establishing its hegemony over the East while managing the strain on the EU's trade regime.
2 Interviews with Jan Vrba, former manager of a state-owned enterprise, Minister of Industry and Trade in 1990–1992, Prague, 21 October 2005; Péter Ákos Bod, Minister for Industry and Commerce in 1990–1991, governor of the National Bank of Hungary in 1991–1994, Budapest, 15 November 2007. See also Appel and Gould (2000), Orenstein (2001), and Bod's contributions in Bléjer and Coricelli (1995, p. 88).
3 Poland owed a huge debt to institutional lenders. This gave the IMF immense potential power over Poland. It was never fully exercised as there was a convergence of understanding about appropriate reform strategy and the lenders were willing to renegotiate and eventually drop the debt without imposing conditions to which the reformers would object.
4 Interview with Wojciech Szelagowski, then assistant to the chief negotiator of the Polish government in the Fiat deal, Munich, 25 October 2007.
5 Interview with Boleslaw Domański and Krzysztof Gwosdz, Cracow, 6 November 2007.
6 Interviews with Péter Ákos Bod, Budapest 15 November 2007, György Csáki, economic adviser to the government in 1994–1998, member of the board of directors of the State Privatization Holding in 1996–1998, Budapest, 15 November 2007. See also Bod's contributions in Bléjer and Coricelli (1995, p. 77).
7 Confirmed in interviews with with Péter Ákos Bod, Budapest, 15 November 2007, and György Csáki, Budapest, 15 November 2007.
8 Pointed out by Péter Ákos Bod, in interview, Budapest, 15 November 2007.
9 Interview with Boleslaw Domański and Krzysztof Gwosdz, Cracow, 6 November 2007.
10 Interviews with Péter Ákos Bod, Budapest, 15 November 2007. See also Bod's contributions in Bléjer and Coricelli (1995).
11 Confirmed in interviews with Péter Ákos Bod, Budapest, 15 November 2007, and György Csáki, Budapest, 15 November 2007.
12 Confirmed in Domański's interviews with foreign investors in Poland (Domański, 2005). However, there is no information that some investment would not be realized because of these concerns.
13 Interview with Péter Ákos Bod, Budapest, 15 November 2007.
14 Ibid. See also Diczházi (2000, p. 77).
15 These companies, however, had stakes in fewer than 100 joint ventures, and their investment had not exceeded $500 million.
16 Confirmed in interview with György Csáki, Budapest, 15 November 2007.
17 Confirmed in interviews with Péter Ákos Bod, Budapest, 15 November 2007, and György Csáki, Budapest, 15 November 2007.
18 Confirmed in interviews with Péter Ákos Bod, Budapest, 15 November 2007, and György Csáki, Budapest, 15 November 2007.
19 There were important structural differences between the Czech and Slovak economies that gave the Czech part a considerable advantage in adjusting to Klaus's shock liberalization (see Myant, 1993, pp. 220–225).
20 Interview with Jože Mencinger, former Minister of Economy in Slovenia and Deputy Prime Minister, Bratislava, 12 November 2006. See also Mencinger (1996) , Gligorov (1995), and Ganev (2005, p. 360).
21 Interview with Jože Mencinger.

22 The account of business–state relations in Poland in this section is based on Schoenman (2005). For a competing perspective, see McMenamin (2004).

5 The time of the comprador service sector

1 E.g., 'Vláda dala najevo, že stojí o cizí capital [The government made it clear it is interested in foreign capital]', *Mladá fronta Dnes*, 30 April 1998.
2 Dlouhý's contribution in CzechInvest (2002, pp. 8–10).
3 Confirmed by the experience of officials at a regional development agency in the Czech Republic (various interviews).
4 Interview with Jan A. Havelka, Prague, 30 December 2005.
5 Ibid.
6 Interview with Petr Hájek, Prague, 19 December 2005.
7 Interviews with Jan A. Havelka, Prague, 30 December 2005; Radomil Novák, CzechInvest's adviser to CEO and director in 2004, Campbell, CA, 29 March 2006; Martin Kavka of the Ministry of Industry and Trade, Prague, 21 November 2005; Martin Jahn, CEO of CzechInvest in 1999–2004, now on the board of directors of Škoda–Volkswagen, Mladá Boleslav, 13 March 2006.
8 Resolution of the Czech Republic's government no. 476, 13 August 1997. See, e.g., Vláda pootevřela dveře investici amerického Intelu [The government opens the door to Intel]', *Mladá fronta Dnes*, 14 August 1997.
9 Resolution of the Czech Republic's government no. 723, 19 November 1997. In the end, neither Intel nor GM invested in the Czech Republic.
10 Interview with Jan A. Havelka, Prague, 30 December 2005.
11 Resolution of the Czech Republic's government no. 298, 29 April 1998.
12 Interviews with Radomil Novák, Campbell, CA, 29 March 2006; Jan Mládek, Prague, 28 November 2006. See also J. Mládek, 'Klíčové slovo investice [Keyword: Investment]', *Právo*, 24 July 1998.
13 E.g., 'Chybí investiční pobídky, tvrdí analytici [Analysts: investment incentives are lacking]', *Lidové noviny*, 1 October 1997.
14 E.g., 'Vláda dala najevo, že stojí o cizí capital [The government made clear it is interested in foreign capital]', *Mladá fronta Dnes*, 30 April 1998.
15 'Kabinet výrazně podporil cizí i domácí investory [Cabinet strongly supported foreign investors]', *Profit*, 4 May 1998.
16 Interviews with Jan Mládek, Prague, 28 November 2006; Jan Vrba, Prague, 21 October 2005.
17 It has to be noted, however, that Grégr participated in the privatization of Škoda to Volkswagen, which he later very much emphasized.
18 Interview with Jan A. Havelka, Prague, 30 December 2005.
19 Interview with Miroslav Grégr, Prague, 10 December 2005. See also Grégr in Myant (2007a).
20 As emphasized by then Prime Minister Miloš Zeman (2006, p. 47).
21 'Investicní pobídky rychle zabraly [Investment incentives work quickly]', *Hospodářské noviny*, 29 May 1998.
22 Interview with Jan A. Havelka, Prague, 30 December 2005.
23 Interview with Miroslav Grégr, Prague, 10 December 2005.
24 The account of the Mertlík–Grégr dispute draws on interviews with Jan Vrba, Prague, 21 October 2005; Václav Žák, Prague, 25 October 2005; Pavel Mertlík, Prague, 24 October 2005; Miroslav Grégr, Prague, 10 December 2005. See also Myant (2003, pp. 202–205; 2007a).
25 See, e.g., 'Pobídky investorům možná skončí [Investment incentives may end]', *Ekonom*, 26 February 2004, p. 18.
26 See 'Říman vyhlásil stop montovnám [Říman: assembly plants stop]', *iHNed.cz*, 19 October 2006.

27 'ČSSD podporí novelu zákona o investičních pobídkách [ČSSD supports amendment to the law on investment incentives]', *iHNed.cz*, 14 December 2006. See also a telling discussion between Říman and Havel: M. Říman, 'Dělají to ostatní, my můžeme jinak [Everybody does that, we can do it differently]', *Právo*, 25 October 2006; J. Havel, "Říman vol'aký zmätený? [Říman confused]', *Britské listy*, 30 October 2006, available at: http://www.blisty.cz/2006/10/30/art30992.html. See also J. Drahokoupil, 'Is CzechInvest facing extinction?', *Czech Business Weekly*, 7 May 2007, available at: http:/www.cbw.cz/phprs/2007050702.html.
28 See account of then Prime Minister Miloš Zeman (2006, p. 43).
29 Interview with Jan Mládek, Prague, 28 November 2006.
30 'Czechs put two banks up for sale', *Financial Times*, 6 June 1997, p. 3.
31 E.g., interviews with Jiří Havel, Prague, 21 October 2005; Pavel Mertlík, Prague, 24 October 2005.
32 Interview with Jan Mládek, Prague, 28 November 2006.
33 As reported by Zdeněk Kudrna, adviser to Minister of Finance Mertlík in 2002–2003 and local World Bank consultant in 2003–2005 (interview, Brno, 22 December 2005).
34 Ibid.
35 The comprador service sector was particularly active during the internally oriented period in the Czech Republic (Trník, 2007). Yet, even there, it merely facilitated and mediated the policy turn (interview with Martin Jahn, 13 March 2006).
36 In 2000, out of 63 MPs of ODS, none voted against the Law on Investment Incentives, 1 abstained, and 10 did not take part in the voting. However, ODS MPs voted differently in the 2001 amendment to the law: 18 supported the law, 20 voted against, and 18 abstained.
37 Interview with Jan A. Havelka, Prague, 30 December 2005.
38 Interview with Jan Mládek, Prague, 28 November 2007.
39 As Havelka noted before the 2006 elections that brought ODS to power: 'I hope that ODS will not close the gold mine if it comes to power' (interview with Havelka, Prague, 30 December 2005). The subsequent developments have shown that ODS would not do that.
40 Poulantzas distinguished between comprador bourgeoisie and internal (or interior) bourgeoisie. In the capitalist core states, or what Poulantzas calls 'imperialist metropolis', the internal bourgeoisie is neither national nor comprador. It 'maintains its own economic foundation and base of capital accumulation both within its own social formation, and abroad'; however, it no longer preserves structural features of the national fraction as it is 'implicated in the multiple ties of dependence in the international division of labour' (Poulantzas, 1974/1978, p. 72).
41 Holman's conceptualization draws on Böröcz's (1997) concept of the 'auctioneer elite'. This, however, is not suitable since Böröcz's auctioneer elite refers specifically to the privatization processes and is not concerned exclusively with the link to foreign capital. In particular, it refers to the conflict between the roles of property owner and regulator of the accumulation process that the post-socialist states faced.
42 See www.ipec-group.com.
43 M. Jahn, 'Investment produces higher competition', *Mladá fronta Dnes*, 8 March 1996, p. 13.
44 See, *inter alia*, Hirschman (1970); Przeworski and Wallerstein (1988); Offe and Ronge (1975); Gough (1979). For a detailed discussion of structural/agency power of capital, see Gill and Law (1989) and Farnsworth (2004).
45 Wolf's notion of tactical power largely corresponds to the agenda-setting face of power as conceptualized by the faces of power debate in political science (see Hay, 2002, pp. 174–178).
46 Interviews with Jan A. Havelka, Prague, 30 December 2005; Petr Hájek, Prague, 19 December 2005. See also AFI's official website (www.afi.cz) and CzechInvest (2002).
47 Interview with Jan A. Havelka, Prague, 30 December 2005.

48 Interview with Jan Vrba, Prague, 21 October 2005.
49 Interview with Milan Ganik, Prague, 21 November 2005.
50 See MIGA-FAIS (2005). Interviews with Martin Kafka, head of Investment Support Unit, Ministry of Industry and Trade, Prague, 21 November 2005; Petr Hájek, Prague, 19 December 2005.
51 Interview with Jan A. Havelka, Prague, 30 December 2005.
52 See *Economic Growth Strategy of the Czech Republic, 2005–2013*, available at: www.hospodarskastrategie.cz.
53 See, e.g., 'Člověk zvenku [The man from outside]', *Euro*, 29 August 2004.
54 Interviews with Petr Hájek, Prague, 19 December 2005; David Hofman, economic growth strategy project manager, Prague, February 2006. The draft of the strategy was greeted with dismay by the unions and many Social Democrats. Former Prime Minister Zeman described the content as 'being right of the Right' (Zeman, 2006, p. 121). The prominent members of the team were quite explicit about their neoliberal orientation.

6 Political support for the competition state

1 'Vo verejnom zaujme: podpora vlady VW Slovakia [In the public interest: government's support for VW Slovakia]', *Pravda*, 19 January 1999.
2 Interview with Martin Jahn, Mladá Boleslav, 13 March 2006.
3 Interview with Jaromír Drábek, Prague, 12 June 2006.
4 CBOS survey quoted in 'The public and foreign investment', *Warsaw Voice Online*, 8 April 2001, available at: http://www.warsawvoice.pl/archiwum.phtml/4634/.
5 See, e.g., 'Warsaw–EU clash over stock exchange sale', *FT.com*, 14 February 2007; 'EU threatens action on MOL move', *Financial Times*, 5 October 2007.
6 By 1996, of 45 European countries, 35 offered FDI preferential tax rates, 26 offered tax holidays, 16 offered special accelerated depreciation schemes, 7 offered social security relief, 11 offered special tax-deductible items, and 20 offered exceptions from tariff payments (Zemplinerová and Benáček, 1996, in Pavlínek, 1998).
7 Interview with Tibor Takács, Katalin Zsámboki, and János Rajki of ITDH, Budapest, 16 November 2007.
8 Interview with Wojciech Szelagowski, vice-president of PAIiIZ, Munich, 25 October 2007.
9 See decree of Slovak government 192/1998 coll., 9 June 1998.
10 See Peter Barecz, 'SARIO agency playing catch-up to region', *Slovak Spectator* 6 (35)/2000; Keith Miller, 'SARIO promising to bring vital FDI', *Slovak Spectator* 6 (28)/2000; Trník (2007).
11 The post of governmental representative was created by the resolution of Slovak government no. 447/1997, dated 17 June 1997, and resolution no. 750/2000, dated 20 September 2000.
12 Csaba Kilián (investment director of ITDH), 'Background information for the Max Planck–ITDH meeting', Budapest, 16 November 2007.
13 Interview with Tibor Takács, Katalin Zsámboki, and János Rajki of ITDH, Budapest, 16 November 2007.
14 Interview with Wojciech Szelagowski, vice-president of PAIiIZ, Munich, 25 October 2007.
15 Ibid. See also PAIiIZ (2004, pp. 21–22, 65).
16 The Hungarian European Business Council was established in 1998 upon the initiative of the ERT. HEBC is the business council of the chairmen and CEOs of Hungarian affiliates of ERT enterprises, significant investors in the Hungarian economy such as ABB, Akzo Nobel, BAT, BT, Electrabel, Electrolux, Ericsson, MOL, Nestlé, OMV, Philips, SAP, Suez Environnement and Unilever.
17 Established in 1986, the JVA aims to 'represent, protect and exert by all legal means

the specific interests of partly or wholly foreign-owned companies registered in Hungary' (the JVA's mission statement, available at: http://www.jointventure.hu/index.php?cat=intro&lang=en). Its 400-member base includes ABB, Alstrom, Flextronics, Nokia Hungary, Deloitte, and PricewaterhouseCoopers.

18 Interview with György Csáki, economic adviser to the government in 1994–1998, member of the board of directors of the State Privatization Holding in 1996–1998, Budapest, 15 November 2007.

19 See annual reports of AmCham Hungary. The 2000–2007 volumes are available at: http://www.amcham.hu/annualreport/.

20 Interviews with Péter Ákos Bod, Budapest, 15 November 2007; Magdolna Sass, senior research fellow at the Institute for Economics of the Hungarian Academy of Sciences, Budapest, 15 November 2007; György Csáki, Budapest, 15 November 2007; and Takács, Katalin Zsámboki, and János Rajki of ITDH, Budapest, 16 November 2007.

21 See AmCham Hungary (2007). Confirmed in interview with Magdolna Sass, Budapest, 15 November 2007.

22 For instance, Amcham Hungary and the local branch of White and Case hosted an 'EU Seminar on State Aid and Investment Incentives' on 25 April 2003. Speakers included three partners of White and Case LLP Budapest, Ágnes Vargha, head of cabinet for European Integration, Ministry of Finance, and Csaba Kilián, investment director of ITD Hungary. See http://www.amcham.hu/Events/event_detail1.aspx?EventID=2815.

23 Tony Housh (AmCham executive director) *American Investor*, June 1999, cited in 'AmCham's 15 year history', available at: http://amcham.pl/index.php?mod=page&page=1_history.

24 Interview with Boleslaw Domański and Krzysztof Gwosdz, Cracow, 6 November 2007; Wojciech Jarczewski, Instytut Rozwoju Miast [Institute of Urban Development in Cracow], Cracow, 8 November 2007. See also Banaszek (1999, pp. 61–71).

25 Based on his study of Mexico, Thacker (2000) arrived at a similar conclusion. For the political agency of multinationals, including corruption, compare Hellman, Jones, and Kaufmann (2000) and Lewis (2005).

26 Interview with Wojciech Szelagowski, vice-prezident of PAIiIZ, Munich, 25 October 2007. See also Kolesár (2006).

27 Interviews with Kazutami Ando, CzechInvest honorary adviser and adviser to Japanese investors, Prague, February 2006, and Jan A. Havelka, Prague, 30 December 2005.

28 The 1991 factor-seeking investment of Volkswagen in Bratislava was a notable exception (see Pavlínek and Smith, 1998).

29 Interview with Péter Ákos Bod, then Minister for Industry and Commerce, Budapest, 15 November 2007.

30 See also P. Serenyi, 'China's cheaper', *Business Central Europe*, February 2001, available at: www.bcemag.com.

31 'Flextronics: Čína je levnější [Flextronics: China is cheaper]', *Mladá fronta Dnes*, 17 May 2002, p. 2.

32 'CEE: expanding across CEE', *European Banker*, 8 November 2006, p. 9; www.die-bank.de; www.thebanker.com.

33 'All eyes turn to growing profits in Eastern Europe', *Financial Times*, 25 October 2005, p. 9.

34 'Audi halts Hungarian investments on new tax', *BBJ Online*, 20 October 2006; 'Audi suspends investment plans in Hungary', *Porfolio.hu*, 20 October 2006; 'Hungary EcoMin sends message to Audi? Hungary PM sticks to new tax, Audi not exempt', *Porfolio.hu*, 27 October 2006; 'Audi, Hungary reach tax deal', *BBJ Online*, 8 November 2006; 'Audi to set up R&D institution in Hungary, bring further investments', *Porfolio.hu*, 10 November 2006.

35 'Jahn: Škoda Auto zvýší mzdy o 12,7 procenta, navíc dá příplatky [Jahn: Škoda to

increase wages]', *iHNed.cz*, 18 April 2007; 'Tlak z Bruselu zdraûí auta [Brussels' pressure to make cars expensive]', *iHNed.cz*, 7 February 2007; 'EU to impose new limits on car emissions', *FT.com*, 5 February 2007.

36 See, e.g., 'Všimné pro Macka [Advance tip for Macek]', *Respekt* 38/01, 17 September 2001, p. 9; Havel (2004, p. 31).

37 Interview with Jan A. Havelka, Prague, 30 December 2005.

38 Interview with Pavel Mertlík, Prague, 24 October 2005.

39 Interview with Milan Ganik, Prague, 21 November 2005.

40 As a result of EU accession negotiation, the tax relief was later reduced to $500 million.

41 Interviews with Zdeněk Kudrna, Brno, 22 December 2005; Milan Ganik, Prague, 21 November 2005.

42 Interviews with Jaroslav Míl, president of the Confederation of Industry of the Czech Republic, Prague, 17 June 2006; Oldřich Körner and Boris Dlouhý, researchers of the Confederation of Industry of the Czech Republic, Prague, 23 June 2006.

43 The threshold was first lowered from $25 million to $10 million by governmental decree no. 844 in December 1998. It was lowered further by amendments to the Investment Incentives Law: from CZK 350 million to CZK 200 million 2004 and to CZK 100 million in 2006. All regulations stipulated significant cuts of the threshold in areas with high unemployment. The first Czech investors benefited from the investment incentives in 1999.

44 Interview with Oldřich Körner and Boris Dlouhý, Prague, 23 June 2006.

45 Interviews with Tibor Takács, Katalin Zsámboki, and János Rajki of ITDH, Budapest, 16 November 2007; Péter Ákos Bod, Budapest, 15 November 2007; Magdolna Sass, Budapest, 15 November 2007.

46 Interview with Jan Vrba, Prague, 21 October 2005; Tibor Takács, Katalin Zsámboki, and János Rajki of ITDH, Budapest, 16 November 2007; Péter Ákos Bod, Budapest, 15 November 2007; Magdolna Sass, Budapest, 15 November 2007. This is also indicated by the membership structure of the business organizations. According to the records of the Confederation of Industry of the Czech Republic, only 31 of its 1508 members are foreign owned or have mixed ownership (see www.spcr.cz).

47 Interview with Jan Vrba, Prague, 21 October 2005. See also Greskovits (2006).

48 Interview with Martin Fassmann, Prague, 26 October 2005.

49 Ibid.

50 Ibid. Also confirmed by Kubicek's (2004) research.

51 'Jahn: Škoda Auto zvýší mzdy o 12,7 procenta, navíc dá příplatky [Jahn: Škoda to increase wages]', *iHNed.cz*, 18 April 2007; 'Lidé ze Škodovky: stávka byla fiasko [Škoda workers: strike was a fiasco]', *Právo*, 20 April 2007.

52 The evaluation of FDI promotion by the Czech state includes only aggregate descriptions produced by the Ministry of Industry and Trade and unsystematic case studies outsourced to consulting agencies (MIT, 2003, 2004, 2006; Deloitte, 2006; Zahradník and Jedlička, 2006; NextFinance, 2005). After ODS took over CzechInvest, its minister, Říman, asked a group of economists very close to the party to produce an evaluation of investment promotion. Predictably, the analysis concluded that the investment subsidies were inefficient (see Schwarz, 2007). Yet, none of the studies met basic analytical standards.

7 The investment-promotion machines

1 *Prague Pill*, January 2002.

2 For a detailed account of promoting Philips' investment, see ELS (2004) and GARDE/ELS (2006), available at: www.sedlakjan.cz and www.responsibility.cz.

3 For a detailed account of bidding for, and promotion of, the KIA investment, see Kolesár (2006).

4 I use extensive empirical material, including in-depth interviews with major actors in the localities and beyond and archival research.
5 See also Ernst and Young (2003); 'Central Europe is focus of production changes', *Automotive News Europe* 10 (24), 28 November 2005.
6 Slovakia alone offered four prospective production sites.
7 The account of the events in Banská Bystrica is based on Zamkovský (2001), who was an eyewitness to the process there.
8 Quoted in 'Lákání zesiluje [Lure increasing]', *Euro* 9, 26 February 2001, p. 33.
9 Ibid.; 'Zeman bojoval o investici BMW [Zeman fought for the BMW investment]', *Mladá fronta Dnes*, 24 January 2001, p. 1.
10 'Driving ambitions', *Prague Business Journal*, 23 July 2001.
11 Ibid.
12 The European Commission decided on 11 December that Germany had to reduce planned regional aid to BMW to 30.14 per cent of the investment. This corresponds to €363.16 million (EC, 2002, Case C 75/02).
13 Immediately after BMW's decision, CzechInvest launched a campaign to lure TPCA. An adviser to CzechInvest, David Brown, described these efforts as follows: 'The highlight for me was watching the ingenious way in which Martin Jahn and his team clinched the TPCA car plant from Poland. If there was ever a case where the investment-promotion agency made the difference–this was it' (CzechInvest, 2002, p. 35).
14 From 1999 to 2001, Nemak attempted to build a plant in Plzeň but it was successfully resisted by local citizens and environmental activists by means of a petition and a media campaign. This, together with unfavourable results of environmental impact assessment analyses, led to the withdrawal of plans for a CZK 6 billion ($160 million) plant deal.
15 Rajter was offered the opportunity to consolidate some of his scattered plots of land into one large plot. The real purpose of the transaction, however, was for the investment project to acquire some of his land that was in the planned industrial zone. Rajter was thus not only deceived as far as the purpose of the transaction was concerned; he would also have lost a very high premium from standard buy-out of that part of his land that was in the zone.
16 Government of the Czech Republic, Resolution on preparation of industrial zone Most–Havraň for investment plan of Nemak Europe Ltd., no. 735/2001, dated 18 July 2001, available at: http://racek.vlada.cz/usneseni/usneseni_webtest.nsf/WebGovRes/00D73F8E3B6B70C5C12571B6006C1E87?OpenDocument.
17 See GARDE/ELS (2004, p. 5). For a comprehensive evaluation, see Žižalová (2008).
18 Memorandum on Mutual Cooperation between the City of Most and Nemak Europe Ltd., signed 26 March 2002.
19 ELS and the Rajter family brought the case to the Constitutional Court (CC). However, the court, after accepting their appeal and finding the action of the mayor and municipal deputies illegal, curiously decided it was not competent to intervene in the matter (see CC publication III. ÚS 658/02, 11 September 2003).
20 'Nemak v potížích, žádá vládu o pomoc [Nemak facing difficulties, asking the government for help]', *Hospodářské noviny*, 21 September 2005.
21 The state transferred CZK 234 million from its budget directly; the city of Most paid CZK 26 million. The settlement was delayed due to some obstructions on the part of the Most municipality. However, it was concluded in September 2006. See 'Sedláci dostali čtvrt miliardy [Peasants received a quarter-billion]', *Mlladá fronta Dnes*, 29 September 2006.
22 I do not wish to subscribe to this particular version of elite theory. However, the growth machine literature and its application in Central and Eastern Europe in particular have produced important insights. For a critique of the growth machine literature, see, e.g., Lake (1990), Cox and Mair (1989), and Clarke (1990).

23 For further discussion, see Drahokoupil (2005). This is not to suggest that the FDI-based growth agenda benefits only 'the elites' and not 'the people'. The point is to identify a political or discursive cleavage that often emerges.
24 Interview with Boleslaw Domański and Krzysztof Gwosdz, Cracow, 6 November 2007. See also Domański (2005).
25 Memorandum on Mutual Cooperation between the City of Most and Nemak Europe Ltd., signed 26 March 2002.
26 Contract between the town of Hranice and Philips Displays Components Czech Republic Ltd., signed 14 September 2000.
27 Memorandum of Understanding between Toyota Motor Corporation and Peugeot-Citroën Automobiles S.A. and the City of Kolín, dated 2 February, 2002.
28 Memorandum on Mutual Cooperation between the City of Most and Nemak Europe Ltd., signed 26 March 2002.
29 For a detailed analysis of contracts between Kolín and TPCA and various obligations for the city it included, see ELS's analysis, available at: www.sedlakjan.cz. See also Nezhyba (2006).
30 It is not suggested here that FDI is either against or for the 'general interest'. Instead, the point is that these institutional arrangements prevent state officials making a decision in the 'general interest' by obliging them, with legal means, to promote the partial interests of the investors. The question of whether those partial interests are compatible with the general interest is of secondary importance in this context.
31 Tomáš Feřtek, 'Sedlákova cesta od kolektivizace ke globalizaci [The journey of a peasant from collectivization to globalization]', *Reflex* 44, 5 November 2003, pp. 24–29.
32 See ibid. and ELS (2003).
33 For example, 'Zvon zahájil stavbu továrny [Sound of bells marks start of factory construction]', *Mladá fronta Dnes*, 13 September 2000.
34 Interviews with Vladimír Burda, activist of Půda pro život, Ostrava, February 2006; 'A', a Nošovice inhabitant, Nošovice, February 2006; and 'B', employed in Nošovice and closely involved in the dispute, Nošovice, February 2006.
35 Local journalists and activists in Kolín emphasized that the municipality often acted under immense pressure from CzechInvest. The distribution of obligations in respective contracts provides indirect support for their claims.
36 See Marek Švehla 'Teror přichází z Mostu [Terror comes from Most]', *Respekt* 13 (2), 7 January 2002, p. 5, and ELS (2003).
37 'Firma radního–špatné smlouvy [Municipal MP's company–bad contracts]', *Mladá fronta Dnes*, 24 September 2002, p. 1.
38 Interviews with Miroslav Kaisler (ČSSD), mayor of Kolín 2003–2006, and Jiří Buřič (ODS), deputy mayor 2003–2006 and mayor from 2006, Kolín, 7 February 2006; Martin Prokop, journalist on local *Kolínský press*, Kolín, 7 February 2006; and Martin Jahn, Mladá Boleslav, 13 March 2006.
39 Interviews with Martin Jahn, Mladá Boleslav, 13 March 2006; and Wojciech Szelagowski, vice-president of PAIiIZ, Munich, 25 October 2007.
40 The Slovak government established a Governmental Representative for Development of the Automotive Industry on 17 June 1997. The assignee proved to be very active in organizing the BMW investment-promotion machine.
41 Vlastimil Aubrecht, governmental representative in Northern Bohemia, had a major role in organizing the Nemak investment-promotion machine.
42 For example, Nemak, L. G. Philips, preparations for BMW in Trnava, TPCA, and Hyundai.
43 However, under pressure from local activists and ELS, the company decided not to use the exception. See 'TPCA nevyužije výjimku ze zákazu jízdy o víkendu [TPCA not to use the freight-transport exception]', *Hospodářské noviny,* 1 February 2005.
44 'Lákání zesiluje [Lure increasing]', *Euro* 9, 26 February 2001, p. 33.
45 Amendment to the Building Code 175/1999 Coll., approved on 29 June 1999. See also

‘Jménem republiky, vyvlastnit! [On behalf of the state: expropriate!]’, *Respekt* 40/04, 27 September 2004, p. 6.

46 See ‘Průmyslová zóna by měla být veřejným zájmem [Industrial zone should be a public interest]’ *Právo*, 24 November 2000; ‘Průmyslové zóny budou vznikat i za cenu vyvlastnění [Industrial zones will be built even with expropriation]’, *Hospodářské noviny*, 2 May 2001.

47 For example, in the cases of Kia, TPCA, and Hyundai.

48 See ‘Nejsem hrdinka, říká nejslavnější kadeřnice [The famous hairdresser: I am not a hero]’, *Mladá fronta Dnes*, 9 October 2002.

49 For example, see Rajter epigraph at the beginning of this chapter; also interviews with ‘A’, a Nošovice inhabitant, ‘B’, employed in Nošovice and closely involved in the dispute, and ‘C’, Nošovice inhabitant, Nošovice, February 2006.

50 Jiří Leschtina, ‘Po každé ráně se musíš zvednout [You have pick yourself up after each blow]’, *Magazín Hospodářských novin IN*, 25 April 2003.

51 On a more general level, it has been argued that rescaling entails a shift in ‘scalar selectivity’, that is in the form of representation systematically favouring some social groups and social projects over others and thus strengthening some while disempowering others (Swyngedouw, 1997; Jessop, 2002, p. 170). For overviews of the literature on the political implications of rescaling, see MacLeod (1999), Brenner (1999), and Uitermark (2002).

52 Interview with Wojciech Szelagowski, vice-president of PAIiIZ, Munich, 25 October 2007.

53 See respective regulation at http://ec.europa.eu/comm/competition/state_aid/overview/index_en.html.

54 Inter-local competition does not automatically lead to a ‘beggar-thy-neighbour’ outcome (Barros and Cabral, 2000; Baldwin and Krugman, 2004; Navaretti and Venables, 2004). The necessary condition of ‘symmetrical competition’, however, is in many sectors fulfilled in the V4 (Bohle, 2008).

55 In the Czech Republic, the Supreme Audit Office (SAO), an independent institution which audits the management of state property and the performance of the national budget, found in May–April 2004 that CzechInvest’s evaluations of its activities were without foundation (SAO, 2004, pp. 194–204, 303–310). In 2006 CzechInvest then commissioned consulting agencies to produce evaluations of its activities in the regions. These reports, however, had little analytical value.

56 See ‘Míra nezaměstnanosti stoupla na 9,3 % [Unemployment rate increased to 9.3%]’, *Kolínsky press*, 17 August 2004; ‘Automobilka v Kolíně marně shání pracovníky [Carmaker unable to find employees in Kolín]’, *Právo*, 21 September 2004. For a comprehensive evaluation, see Žižalová (2008).

57 A tea ritual was conducted to welcome the TPCA president at the obelisk inauguration ceremony. See ‘Oslavili příchod globálního kapitálu [Arrival of global capital celebrated]’, *Kolínsky press*, 7 June 2005; ‘Wild ride–a different perspective on the Czech car industry’, *prol-position news* 5, February 2006, available at: http://libcom.org/library/wild-ride-a-different-perspective-on-the-czech-car-industry.

58 ‘Nejsem hrdinka, říká nejslavnější kadeřnice [The famous hairdresser: I am not a hero]’, *Mladá fronta Dnes*, 9 October 2002.

59 These were mostly proposals of Social Democrats that failed because of the opposition from ODS. See ‘Poslanci odmítli vyvlastnění pozemků [MPs rejected expropriation]’, *Mladá fronta Dnes*, 24 May 2001. On 17 February 2006, the Czech government approved a ‘Proposal for improvement of the investment environment’ that identified strategic industrial zones as in the public interest. Implementation of such measures would enable appropriation of land in the prospective industrial zones.

60 The centre of the party is not only less exposed to the structural power of capital (especially when it is not in government), but is more influenced by another line of

representation, that is the party's considerable base in the Czech small bourgeoisie (see Chapter 5).

61 Interviews with Oldřich Körner and Boris Dlouhý, researchers at the Confederation of Industry of the Czech Republic, Prague, 23 June 2006; also confirmed in interview with Martin Kavka of the Ministry of Industry and Trade, Prague, 21 November 2005.

62 Interview with Evžen Tošenovský, Regional President of Moravskoslezský Region, Ostrava, 13 February 2006.

63 This was confirmed in the interview with Martin Jahn, Mladá Boleslav, 13 March 2006.

64 'Investičná zmluva týkajúca sa navrhovanej výstavby závodu na montáž automobilov v Žiline, Slovenská republika [Memorandum of understanding between the Slovak Republic and Kia/Hyundai]', 5 March 2004. It is striking that the obligations as far as tax levels were concerned went beyond the term of the government.

65 This is emphasized by NGOs opposing the investment-promotion machines (Zamkovský, 2001; ELS, 2004).

66 This was the case in the Slovakian bids to attract BMW and L. G. Philips. See 'Philips možná přijde na severní Moravu [Philips may come to Moravia]', *Mladá fronta Dnes*, 22 February 2000, p. 17.

67 Approximately €3500, a considerable amount in a poor region.

68 Interview with 'A', a Nošovice inhabitant, Nošovice, February 2006.

69 Interview with 'B', employed in Nošovice and closely involved in the dispute, Nošovice, February 2006.

70 See 'Blackmailing of Nošovice citizens sparks police investigation', *Czech Business Weekly* 19, 12 May 2006.

71 Interview with 'A', a Nošovice inhabitant, Nošovice, February 2006.

72 Interview with Evžen Tošenovský, Regional President of Moravskoslezský Region, Ostrava, 13 February 2006.

73 See www.pudaprozivot.org.

74 Interviews with Pavel Franc of ELS, Brno, 2006–2007; Jiří Nezhyba of ELS, Brno, 2006–2007; and Roman Havlíček of CEPA, Bratislava, 11 November 2006.

75 Regecová has also received high monetary compensation for her land.

76 Declaration of understanding, 3 November 2006, available at: http://aa.ecn.cz/img_upload/409344c5b28b1bd833ef56a4fcfd168d/Deklarace_H_projekt_en_final.pdf.

77 Interview with Pavel Franc of ELS, 9 February 2007. In hindsight, Franc believed that ELS would be able to stop the investment by legal means.

78 Attaching communist experience to globalization and neoliberal strategy was a novel tactic in the Czech context. Until then, connecting the Left to communism was a conventional strategy of the Right. Suddenly, it was the neoliberal project that was labelled in this way. Translated into the language of Laclau and Mouffe's (1984) discourse analysis, ELS was able to articulate available elements of the discourse into moments of a new discourse that attached a novel meaning to 'globalization'.

8 Conclusion

1 'Outsourcing hotspot cools as wages rise in Poland', *Deutsche Welle World*, 9 April 2007, available at: http://www.dw-world.de/dw/article/0,2144,2432641,00.html; A.T. Kearney, 'FDI Confidence Index 2007', 10 December 2007, available at: http://www.atkearney.com/shared_res/pdf/45130A_FDICI_2007.pdf.

2 Hilary Davies, 'Poland's terrible twins', *Prospect online* 134, available at: http://www.prospect-magazine.co.uk/article_details.php?id=8658; 'Turning the loose screw', *The Economist*, 17 February 2007, p. 52. Elected in 2006, the government was voted out of power in 2007.

3 'Sense and nonsense', *The Economist*, 4 August 2006, p. 50.

4 'Hungary vows to avoid MOL takeover dispute', *Financial Times*, 6 October 2007.

5 Jan Drahokoupil, 'Is CzechInvest facing extinction?', *Czech Business Weekly*, 7 May 2007, available at: http://www.cbw.cz/phprs/2007050702.html.
6 'Shadows at Europe's heart', *The Economist*, 12 October 2006; 'Rise of a Powerhouse', *Business Week,* 12 December 2005.
7 Interview with Martin Jahn, CEO of CzechInvest 1999–2004, now on the board of directors of Škoda–Volkswagen, Mladá Boleslav, 13 March 2006.

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