Post-Communist Development: Europe's Experiences, Asia's Challenges

Edited by Andrzej Bolesta

16

Collegium Civitas

STUDIES AND ANALYSES

Post-Communist Development: Europe’s Experiences, Asia’s Challenges

Edited by
Andrzej Bolesta

Warsaw 2017

Post-Communist Development:
Europe's Experiences, Asia's Challenges

Edited by Andrzej Bolesta

Reviewers: Bhawan Ruangsilp & Charit Tingsabadh

Cover photo: Andrzej Bolesta

Graphic design: Ola Jaworowska & Marek Gawron

ISBN: 978-83-61067-59-7

Publisher:
Collegium Civitas
1 Plac Defilad
00-901 Warsaw, Poland
wydawnictwo@civitas.edu.pl

Collegium Civitas
www.civitas.edu.pl

Print:
Elpil
Artyleryjska 11
08-110 Siedlce, Poland
info@elpil.com.pl

Contents

Preface

Collegium Civitas is one of the leading private universities in Poland. Consistently throughout the years we have been among the frontrunners in the rankings. Consistently, Collegium Civitas has made efforts to be an important teaching and research centre dedicated to social sciences. We currently offer BA and MA courses in various social science' disciplines. We also host a PhD programme.

Contemporarily, in order to be a leader in teaching social sciences, in particular, international relations, one needs to understand what is happening in Asia, the most populous continent and the driving force of the global economy. This is why Asian Studies play a prominent role at Collegium Civitas. We host a number of degree and diploma courses which focus on Asia. In 2016 we established the Centre for Asian Economies.

Incidentally, some processes which are currently taking place in some parts of Asia are also familiar to Poland and to the rest of Central-Eastern Europe. What I mean here is the process of post-socialist transformation and development. This process, in its various dimensions, is the object of the analysis of this book.

This edited volume represents our growing commitment to social science research, which increasingly focuses on Asia. It is an account of reforms, transformational policies, international economic cooperation and systemic and institutional arrangements in Central-Eastern Europe, which may be applicable to the countries of post-socialist Southeast Asia in their path of transformation and development. As pioneers of political and economic transformation we in Poland and Central-Eastern Europe did not have a chance to learn from the successes and failures of others. Countries undergoing systemic transformation now have that opportunity. There is "a library of experiences" which is worth studying. Although each country in transition is different, there is no harm in learning what others have done and how they have succeeded.

Professor Stanisław Mocek

Rector, Collegium Civitas

Introduction

In September 2016, a colleague of mine Dr Michał Lubina and I presented a paper at the biennial conference of the Association of Southeast Asian Studies in the United Kingdom (ASEASUK). The conference took place at the School of Oriental and African Studies in London. Our panel and our paper focused on illustrating similarities and differences between Myanmar's systemic transformation and the post-socialist transformations in Central-Eastern Europe (CEE). Our presentation compared political and economic reforms in Myanmar and Poland.

During the Q&A session we were criticised by several members of the audience not for the content of our presentation, but for trying to compare a country from Central-Eastern Europe and a country from Southeast Asia. A couple of scholars tried to argue that this comparison is too far-fetched and claimed that such distant countries cannot have much in common. My colleague and I were surprised. For us, coming from a post-socialist country and having spent years conducting research on and in Myanmar, the extensive similarities were evident and almost self-explanatory. While Dr. Lubina has been the most prominent scholar on Myanmar in Poland, I myself also spent a significant amount of time in Myanmar between 2011 and 2016 meeting all the possible actors of the political, economic and social scenes. I held consultations with ministers, members of parliament, the main opposition party (NLD), business representatives and business associations, researchers at local think tanks and universities.

While discussing the economic and political changes of Myanmar, with most of my interlocutors I could find a common language and mutual understanding as we believed that our two countries were very similar in a number of dimensions. In the workshops, seminars, conferences, dialogues and consultations I organised over the period of five years, I was always reminded by my Myanmar colleagues and friends that our, that is Polish and Burmese, systemic transformations and thus, to some extent, challenges and developmental predicaments, were similar in nature. It was thus evident that not only are there obvious commonalities in institutional and systemic arrangements, but also that Myanmar and other post-socialist countries in the Southeast Asian region could draw some lessons, both good and bad, from the transformations of Central-Eastern Europe. Naturally the critics at the aforementioned panel of the ASEASUK conference were from countries which never experienced socialism, which in its economic-systemic form was central-planning and state-command and in its political dimension was an authoritarian regime presided over by a communist party, and hence did not have the chance to experience post-socialist transformation either.

This criticism was the inevitable consequence of a certain geographical categorisation in social sciences and humanities present in particular in the Anglo-Saxon world, which has impeded the understanding of systemic changes which have been taking place in some parts of Asia. In the Anglo-Saxon academic tradition there is a clear division between Asian studies and post-communist or post-Soviet studies. This often results in inadequate interaction between the scholars specialising in the two areas. Countries such as China, Vietnam, Laos and Myanmar are usually examined by scholars of Asian studies, whereas former Soviet Union and Central-Eastern Europe are usually left to scholars of post-communist studies. Often, therefore, China experts do not have an adequate background in post-communist studies which is the domain of experts focused on the Soviet Union and Central-Eastern Europe. The reality is, however, that although there are big differences among post-socialist countries, the actual process of systemic transformation has exhibited great similarities across Europe and Asia. Consequently, without understanding the transformation of CEE and the former Soviet Union one cannot understand what has been happening in Myanmar, Laos, Cambodia, Vietnam or even China.

This volume breaks with this divisionist tradition. Its purpose is to illustrate how certain development and transition policies of Central-Eastern Europe framed within the process of post-socialist transformation may be relevant for Myanmar and the rest of post-socialist Southeast Asia. The book is the result of a conference, which took place in December 2015 in Yangon, Myanmar. The two-day event was attended by over two hundred participants recruited from policy makers, business people, political activists, NGOs and international actors. The aim of the conference was to show how Central-Eastern European transformational experiences are relevant for Myanmar and other post-socialist Southeast Asian states.

The book contains six chapters.

Chapter one examines the concept of post-socialist developmental state in Asia. Unlike in Central-Eastern Europe and the former Soviet Union, Northeast Asian and Southeast Asian countries have drawn extensively from the developmental experiences of the so-called East Asian miracle, skilfully combining the provisions of the developmental state with the post-socialist systemic transformation.

Chapter two examines Poland's political transformation from an authoritarian system controlled by a communist party to a multi-party liberal democracy. It also shows the similarities in the initial political conditions in Poland and Myanmar and explains how these can be used in the systemic transformation of the latter.

Chapter three examines the systemic transformation in former Yugoslavia and in particular in its three biggest former republics – Croatia, Serbia and Slovenia. Yugoslavia, once one of the most developed socialist countries, descended into economic and political chaos caused by war and violent conflicts. It has, however, been steadily recovering since. The chapter shows how countries which were parts of the same state may follow very different transformation paths.

Chapter four analyses the dynamic increase in economic interaction in terms of international trade and investment of four Central European countries constituting the Visegrad Group, namely Poland, Hungary, the Czech Republic and Slovakia, upon their embarking on post-socialist economic transformation. The model of the Visegrad Group cooperation may be seen as applicable to the post-socialist economies of Southeast Asia within the CLMV group, namely Cambodia, Laos, Myanmar and Vietnam.

Chapter five is the examination of the production networks which developed between the biggest European economy – Germany and its immediate neighbours to the East, the post-socialist economies of Poland, Hungary, Czech Republic and Slovakia. This cooperation benefited immensely all the above countries, including Germany. This model can be applied in the conditionality of Southeast Asia, where post-socialist countries such as Myanmar, Cambodia, Laos and Vietnam may cooperate with larger and more advanced regional economies and create effective chains of production. This process is, to some extent, already taking place.

Chapter six thoroughly analyses the transformation of the Polish banking sector during the transition period. It examines its development and evaluates the applied policies and reforms. It illustrates how Polish policy makers dealt with transitional and international challenges. The Polish banking sector is currently one of the most modern and most stable in the world and plays an effective role in facilitating economic growth. Polish experiences in this respect are of the utmost importance for countries such as Myanmar, where the reform of the banking sector lags behind the transformation process.

Andrzej Bolesta

Warsaw, September 2016

Chapter 1

Andrzej Bolesta

The Post-Socialist Developmental State in Asia

Introduction

The post-socialist developmental state (PSDS) is a concept which serves as an explanation as to why post-socialist Asian countries significantly deviated in their transformation trajectories from the transition policies based on extensive economic liberalization and championed by the Central-Eastern Europe. The concept, which fuses two intellectual streams; that of developmental state and that of post-socialist transformation, brought extensive developmental advancements to the post-socialist Northeast and Southeast Asia.

This chapter examines the post-socialist transformation on the Asian continent, explains the provisions of the post-socialist developmental state and illustrates how China, Vietnam, Laos and Myanmar have utilised it.

The chapter consists of four sections. The first part describes post-socialist systemic transformation. The second part analyses the concept of post-socialist developmental state. Part three is a description of the post-socialist transformation in the countries of the Asian continent. The fourth part illustrates how the concept of post-socialist developmental state has been applied by China, Vietnam, Laos and Myanmar. In all three countries throughout the transition period, the authoritarian state has controlled the national economy and directed development trajectory applying national development plans and using central planning agencies. It based its industrial policy on selective targeting. While the gradual opening up to the global economy, partly illustrated by the establishment of special economic zones, has resulted in increased trade and foreign investment, the state still uses a number of mechanisms to hinder entry to its domestic market. Despite the criticism, these policies have resulted in significant developmental dynamics.

1.1 Post-Socialist Transformation

As it concerns more than 25 percent of the world's population, post-socialist transformation is undoubtedly a historic process. During the transition authoritarian regimes have been abolished or reformed, whereas economic systems were liberalised and opened. The goal of systemic transformation has been to establish a new socio-economic and/or political order. The need for establishing a new order would stem from the fact that it allegedly offered better conditions, i.e. more freedom (politically) and more wealth (economically) or a faster pace of development.

The historic systemic changes at the end of the twentieth century clearly illustrated that the need for democratization – to influence the state by choosing representatives for decision-making political centres – was in many countries very strong. This was particularly evident in Central and Eastern Europe where authoritarian communist regimes were replaced by multi-party democracies. In a large group of post-socialist transition countries, the democratization processes were fast – democracy was installed almost overnight. Naturally, its initial functioning as an effective tool of channelling popular demands and adjusting state policies would ill-perform (Klein 2007), due to the lack of adequate systemic institutionalization and of a formed civic society. Nevertheless, the system could legally be installed very quickly. In spite of this, in some cases of post-socialist transformation, the existing authoritarian systems were not liberalised and instead replaced by other, new authoritarian forms.

The experiences of the last hundred years allow us to claim that the dominant socio-economic system may be, at the current stage of social and civilizational advancements, only a genus of a market economy. A market economy is the only model that can generate high economic growth in the long run and ensure a sufficient pace of development, and, as a result, gradually increase wealth and thus improve standards of living. The centrally planned economies had to lose and lost to the market model because of their low efficiency, bureaucracy and a lack of sufficient incentives for development and modernization. It must be emphasized, however, that there is no one market economy model and the global economic crisis of 2008-2009 clearly showed the weaknesses of its version based on liberal, deregulated capitalism.

Many scholars believe that a market economy can function well only under the conditions of a democratic system. "Democracy is necessary to correct, in a civilised manner, the excesses of the free market and the impractical functioning of its mechanisms" (Kołodko 2001, p. 26). "In the long term, it supports and facilitates the process of growth because it is able to correct the errors of economic policy" (ibidem, p. 85). The majority of high-income countries, which owe their high level of development to an efficient market economy, are institutionally advanced democracies. Nevertheless, the success of East Asian tigers gives arguments to supporters of the notion that an authoritarian system is better suited to accelerate socio-economic development, as authoritarian regimes can more easily resist the pressure from the society and lobbying groups. In particular, it is allegedly applicable to developing countries, which are supposed to get rich first and democratize later.

Moreover, Klein (2007) makes an argument that a liberal deregulated capitalism, thus the extreme version of the market economy, cannot function in a sophisticated liberal democracy, where neoliberal errors are swiftly corrected by the democratic process. Consequently, the implementation of such an economic model must be associated with coercion or exceptional circumstances.

Some researchers, however, question the existence of a pattern which determines the relation between a political system and the dynamics of development. In history, we have had cases of a rapid development of authoritarian and democratic states. On the other hand, among those whose developmental dynamics have remained low have been both democracies and dictatorships. The relationship between the type of political system and the dynamics of development is thus more complex. Nevertheless, previous studies have shown that post-socialist transition countries which liberalised the political environment, have achieved a moderate economic growth in the medium term (1-5 percent) (in the years 1990-2005), while authoritarian states have recorded spectacular failures (for example, Moldova, which lost half of its GDP) and spectacular successes (especially Asian economies which in a given timeframe multiplied their size) (Bolesta 2010).

The very process of marketisation – building a market system – is controversial. On the one hand, we have advocates of the aggressive liberalisation of the national economies without looking at institutional reforms. On the other hand, those who advocate gradual changes and emphasize the need to build appropriate institutions and conduct microeconomic restructuring, and who stress that such reforms take time. Undoubtedly, the post-socialist transformation in the economic dimension is linked to three simultaneous processes: liberalisation and stabilisation, the building of market institutions and microeconomic restructuring. While liberalisation and stabilisation can be implemented rapidly, institution building – understood as the creation of the rules of the economic game, the laws and customs for enforcing these rules and the organisations to supervise them and to coerce the economic actors to follow them – is a time-consuming process.

Similarly, microeconomic restructuring involves the closure or transformation of unprofitable and outdated industries, the creation of new and modern ones, and the retraining of workers, which cannot all be done from one day to the other. Although many scholars argue about the superiority of the gradual model (Stiglitz 2004), some analysts are not convinced by the arguments (Sachs 1993). They have seen rapid and drastic liberalisation as the only possible action to avoid economic collapse (Sachs 2005; Balcerowicz 1997).

1.2 The Post-Socialist Developmental State

The term post-socialist developmental state (PSDS) was first used in 2004, but it was only in 2015 that the concept was given a comprehensive form (Bolesta 2015). The post-socialist development state combines elements of post-socialist transformation (PST) and the developmental state (DS). The developmental state "is widely believed to be the conceptual background of state policies and institutional arrangements leading to the unprecedented developmental achievements among the so-called late developers of the Asian continent" (Bolesta 2015, p. 7). A significant volume of scholarly literature has been devoted to DS (see: Johnson 1982; Amsden 1989; Wade 1990; Cumings 1984). Despite relatively broad criticism, there is no doubt that the promotion of Japan, Korea and Taiwan – all three being developmental states – to the group of highly developed economies was a phenomenon, due to its dynamics.

In order to comprehensively understand the concept of the developmental state, it is necessary to analyse its pillars: state ideology and systemic arrangements, economic policy, and the nature of the connections of the four participants in the process of transformation and development which Stubbs (2009) referred to as "relational aspects".

In a developmental state, nationalism is the state ideology, in which economic nationalism serves as the ideological basis for economic policies and explains the involvement of protectionist mechanisms to shield the national economy from foreign business penetration. Economic nationalism in a developmental state translates into regulating the flow of economic interaction externally and internally and erecting a "cocoon", in which the local business sector can adapt to new systemic and institutional conditions (forced upon by broader engagement with international markets) without the need to compete against foreign companies.

Economic policy is formulated as part of a broader industrialisation process that is initially oriented towards import-substitution industrialisation (ISI) and then export-oriented industrialisation (EOI). Industrialisation is based on Akamatsu (1962) flying geese theory, which explains how countries in the process of modernisation from importers become producers and then exporters. Industrialisation is first conducted by imitation, and after reaching the appropriate level of modernisation – innovation (Amsden 1989).

The authorities target or select industries for development and then support this development by various means distorting market signals. The support instruments comprise: trade policy of selective discrimination of import and support for export and a wide range of activities within the financial sector, including subsidies, cheap loans, manipulation of interest rates and exchange rates, and the subordination of the banking sector to developmental needs. In the case of developmental states industrialisation is preceded by agricultural reforms aimed at increasing food production and the elimination of potential political opposition (landowners) against dramatic changes in the state's economic policies, as well as at generating support among the poorer parts of the rural population, which the reforms empower.

The developmental state is usually an authoritarian state. In the case of a democratic developmental state, there are mechanisms to protect the long-term development trajectory from often populist and short-termist policies ordained by democratically elected politicians. The developmental state is characterised by a strong state that is in control of transformation and development, as opposed to Myrdal's (1968) soft state. The economic system demonstrates features characteristic of a free market and, at the same time, of central planning, which Johnson (1982) in his analysis of the historic industrialisation of Japan dubbed "plan-rational". State interventions focus on development and often ignore social cohesion. Moreover, in historical development states external conditions – a lack of external political stability and the threat of armed conflict – also influenced the development policies and institutional constructing.

The scope of tasks of post-socialist developmental states is broader than that of the traditional developmental states. In addition to guiding the development trajectory, a post-socialist developmental state is responsible for implementing the systemic reforms and more specifically the construction of a market economy through economic liberalisation, market institutionalisation and microeconomic restructuring. This economic-systemic reorganisation creates, in the short term, unfavourable conditions for development; the state focuses on systemic reforms and usually neglects developmental needs, as was the case of many Central and Eastern European countries (partly for ideological reasons) and the economy is in a state of "transitional vulnerability" due to an institutional and legal vacuum which limits the developmental capacity of the state.

The combined developmental experiences of developmental states and post-socialist countries allow us to identify several key features of the post-socialist developmental state:

- It is characterised by selective and incremental economic liberalisation, given the fact that the so-called "shock therapy" resulted in prolonged recessions in the majority of post-socialist countries, which was then followed by meagre economic growth. Meanwhile, high developmental dynamics is essential for a post-socialist developmental state. Moreover, a part of the shock therapy involved a wide-range sale of domestic state-owned enterprises to foreign investors (Klein 2007; Poznański 2000). Meanwhile, the domestically-owned business sector plays an important developmental role in the post-socialist developmental state;
- As part of the systemic and institutional change, the central planning mechanism is replaced by "rational planning" or "plan-rational" in market economy conditions rather than being dismantled. Consequently, the economic bureaucracy, present in the socialist system, is restructured to form a new state agency for development and reforms;
- Most importantly, however, from a systemic and institutional point of view, the state remains at the heart of the process of transition and development, and its removal from the national economy during post-socialist economic liberalisation must be much more limited than was the case of many European post-

socialist countries. This means that the state retains interventionist powers, which results in its regulating of the transformation process and economic interaction.

1.3 Reforms in Post-Socialist Asia

Asia, as much as Europe, is a continent with a number of countries which are undergoing post-socialist transformation. Post-socialist Asian economies include: China, Mongolia (Northeast Asia) and Vietnam, Laos, Myanmar and sometimes Cambodia (Southeast Asia). Central Asia (Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan) and the Caucasus (Georgia, Azerbaijan, Armenia), being part of the former Soviet Union, are also regions of post-socialist transformation.

With such a diverse group of states, post-socialist transformation cannot be a homogeneous process, which follows one pattern. While the market economy system was in all transition countries a declared target, democratisation processes were not universal. The societies of Central and Eastern Europe almost entirely favoured liberal democracy. In the case of former Yugoslavia, the process was delayed due to armed conflicts, wars and political disintegration, as well as nation building. There were, however, few proponents of democratisation in Asia. For example, China's reformers came to the conclusion that the reform of the political system should proceed slowly and only to the extent necessitated by economic reforms. A similar path was chosen by Vietnam, Laos, and up until the year 2015 was also followed by Myanmar. Central Asian states remain authoritarian, among whom only Kyrgyzstan tried to liberalise the political environment. In the Caucasus the most advanced in political liberalisation was Georgia. Azerbaijan is ruled by a family clan and Armenia has regularly received critical opinions concerning irregularities in its electoral process. Russia (a large part of which is located in Asia) made some efforts towards democratisation in the 1990s, but at the beginning of the twenty first century returned to an authoritarian system (though significantly different from that present during the communist dictatorship). Within the group only Mongolia already at the beginning of transformation fully liberalised its political environment and has managed to maintain the liberal standards since.

There are also significant differences as far as actual economic reforms are concerned. One could try to distinguish two different models of post-socialist transformation: the Asian and the European. The European model is defined by Winckler (1999, p. 231) as the European-Soviet big bang of parallel economic and political reforms, while the Asian model is seen as a gradual reform of the economy only. This division – not exactly precise – reflects the main dilemma of post-socialist transformation – radicalism versus gradualism (Bolesta 2015; Kołodko 1999).

Very little scholarly literature is dedicated to the comparative analysis of post-socialist transformation in Asia, although the systematic and institutional changes in China and its development policy are discussed in detail in periodicals and books.

Winckler (1999) points to three initial waves of systemic reforms in Asia. The first took place in the late 1970s and was generated internally by the poor economic performance of the socialist institutions. In China and in Southeast Asia, this resulted in limited economic liberalisation as well as minor political changes. The second wave took place in the mid-1980s and was the consequence of the first. As economic changes and political adjustments had a positive impact on social conditions, they needed to be continued. The second wave was generated internally, but also externally, because both the Soviet *glasnost* and *perestroika* introduced by Mikhail Gorbachev and the reforms of Deng Xiaoping in China's rural areas gave a good example to other Asian countries. This deepened economic reforms in China and initiated changes in Vietnam and Laos as well as in Mongolia and even in North Korea. There were at that stage prospects for political liberalisation in the PRC (People's Republic of China). The third wave occurred in 1989-90 and was triggered by external factors. Central and Eastern Europe was experiencing "The Autumn of the Nations", an outburst of drives to freedom and independence in some ways similar to that which took place in Central Europe in 1848 dubbed "Spring of the Nations". This wave accelerated economic reforms in Asian countries (with the exception of North Korea) and halted political change outside of Mongolia and Cambodia. Though Cambodia remained an authoritarian state.

While analysing the differences among the post-socialist states of Northeast and Southeast Asia undergoing systemic transformation, one should also refer to the initial economic and political conditions as well as the perceptions and preferences of the ruling elites, as, unlike in Europe, the role of authoritarian regimes in stimulating the reform process was, in the case of Asia, significant. Naturally, Asian countries upon embarking on the path of post-socialist transformation were at different levels of development. China was more developed than Vietnam, Vietnam was more developed than Laos, and Laos was slightly wealthier than Myanmar. In theory, a lower level of development would suggest a greater need for catching up. As a consequence, reform efforts had to take greater account of the implementation of long-term development policies than of systemic reforms, if we consider that these two processes should be treated separately.

An initial determinant of the reforms was also the level of foreign economic and political dependency – the greater the foreign dependency, the more violent the internal changes resulting from the interruption of existing links; the smaller the dependency, the weaker the transformational shock. The withdrawal of foreign political support would cause internal political changes, while the withdrawal of economic aid would create the need for immediate economic adjustments. Naturally, the lack of economic aid would also influence the internal political environment. Undoubtedly, the socialist countries characterised by great external dependency were Mongolia and North Korea. In the latter case, dependence on the USSR was replaced by an economic dependence on the PRC and political independence. In the early 1990s Mongolia quickly became politically independent, although over time it became economically dependent on China, while its dependence on Russia declined. Vietnam was for decades economically dependent on the USSR. It has become politically and economically independent since. The dependence of Laos on Vietnam began during the socialist times. We are currently observing the crystallisation of Lao political independence and falling into economic dependency from China. During the socialist period, Myanmar remained independent, although on occasions hostile to China and friendly towards the USSR (Bolesta 2016). China, its initial dependence on the USSR (Chang and Halliday 2005; Perkins 2015) replaced with political and economic independence already in the late 1960s and early 1970s.

Based on the above criteria, in Northeast and Southeast Asia, China and Myanmar would not experience a significant transformational shock upon embarking on systemic reforms, whereas Laos, Vietnam and Mongolia would. Indeed, Vietnam's initial transformational shock is well researched (see: Bolesta 2006), when economic growth slowed down significantly in 1986 and 1987 (ESCAP 2016), upon withdrawal of Soviet assistance. For the same reasons of weakening external economic support in 1987 and 1988

Laos experienced recession (ESCAP 2016). Mongolia's recession began in 1990 and lasted until 1993. Meagre economic growth dynamics continued afterwards until 2001 (ESCAP 2016).

Another initial condition was the degree of appropriation of the state by the ruling elite, resulting from the duration and form of communist regimes. The longer the system worked, the greater, in theory, its complexity and the strength of the political elite, and thus the more difficult the implementation of reforms. Paradoxically or not, the longer the authoritarian regime functioned, the more the country became industrialised and, as a consequence, the greater need for structural reforms. A greater level of industrialisation among socialist countries as compared to market economies at a similar level of economic development was due to the effective pressure of rapid industrialisation exercised by the state, characteristic of the communist regime, and a forceful transfer of capital from rural households to selected industries administrated in the conditionality of central planning, as discussed by Acemoglu and Robinson (2012) in the case of the Soviet Union. The emphasis on the expansion of heavy industry in earlier decades was the reason for the need for restructuring in the 1980s and 1990s, when it became evident that other sectors of the economy should be considered effective drivers of development and at that level of opulence, the state should focus on labour-intensive rather than capital-intensive industries.

In addition, the longer-lasting regimes managed to collectivise agriculture and thus to create the rationale for agrarian reforms. Agrarian transformation would become a very important component of the systemic reforms in the Asian post-socialist economies for social and even existential purposes, as all the states in transition belonged to the group of developing countries, thus characterised by possible food insecurity and the situation in which the majority of the population lived in villages and sustained its living from farming.

If we assume that the state-command, socialist economy period ended with the onset of external and internal liberalisation and market institutionalisation of national economies (despite the fact that some of the countries continue to be governed by communist parties in one-party states), then it appears that socialism in Asia had its longest run in Mongolia (in this analysis we omit Central Asia, the Caucasus and Russia as parts of the USSR) – 64 years (1924-1990). Perhaps as a consequence, until today, the land there remains collectively owned. In China, fully-fledged state-command socialism lasted for 29 years (1949-1978), in Burma (the previous name of Myanmar) – 27 years (1962-1988), in North Vietnam and Vietnam after the Vietnam War – 31 years (1955-1986) and in Laos and South Vietnam – 11 years (1975-1986).

These time periods are far from being precise, as it is difficult to determine the exact moment in which economic restructuring changed into systemic transformation. While in Mongolia the communist regime was replaced by liberal democracy at the beginning of transformation, in Myanmar the military junta replaced some cadres (including its leader general Ne Win) and reformulated its ideology from socialism to capitalism in a desperate attempt to gain US support and recognition. China, Vietnam and Laos, however, have throughout the transformational period been governed by nominal communist parties.

As mentioned earlier in reference to democratisation processes, the Asian transition countries could also be divided into those which have opted for economic reforms without dynamic political changes, i.e. those that follow the so-called "traditional" Asian way of post-socialist transformation such as China, Vietnam, Laos and Myanmar (until 2015), and those that also decided to introduce democracy – Mongolia and Myanmar (since 2015).

As far as the actual transformational trajectory is concerned, China, Vietnam and Laos have followed a similar path of economic and political reforms. The policy of the gradual establishment of a market economy in China began in the late 1970s, while in Vietnam the reforms of *doi moi* or renovation were initiated in the mid-1980s. Liberalisation of food production in Vietnam, unlike in China, ran parallel to some liberalisation in state-owned enterprises. The end of the 1980s brought China to a slowdown in reforms, as a result of the increasingly strong position of the CCP's anti-reformist conservative wing, whereas to Vietnam it brought reform acceleration. In the second half of the 1990s, China accelerated privatisation and marketisation, while the Vietnamese government slowed down the reform process. This is primarily due to the ascendance to power of the PRC's third generation of leaders represented by Jiang Zemin, and China's negotiations concerned with the World Trade Organization (WTO) accession.

Neither the Communist Party of China (CCP) nor the Communist Party of Vietnam (CPV) have introduced revolutionary political changes, as political reforms were rather rationalising measures to align the system to changes in the socio-economic regime and, naturally, to maintain their grip on politics and the control of the economy. Political liberalisation, however, was more dynamic in Vietnam, especially at the turn of the 1980s and 1990s (see: Hayton 2010), when China experienced reform retrenchments shortly after the Tiananmen Square events (Zhao 2009). The difference in political reform dynamics is also observed contemporarily. The overall faster market reforms in Vietnam than in China – which does not need to mean faster economic development – are attributed to several factors.

In the case of Vietnam, the northern part of the country failed to assimilate the capitalist South in the short term from the end of the Vietnam War (1975) until the beginning of *doi moi* (1986). In addition, Vietnam has remained a more agricultural economy than China, with a shorter-lasting tradition of collectivisation, with a smaller socialist industrial sector, and with a greater decentralisation of the economy (although China was a much less centralised economy than the Soviet republics and Central-Eastern Europe). Laos – Vietnam comparison seem to exhibit similar features to that of Vietnam and China – faster pace of transformation (Stuart-Fox 1997) and lower levels of economic development, together with a smaller role of the state authorities in the creation of institutional and economic order.

Although reforms in Laos started with the liberalisation or rather with the cancelation of the initial collectivisation efforts in the agrarian sector in the late 1970s, it is the introduction of the "New Economic Mechanism" in 1986 or its actual implementation in 1989, which are often considered the starting points. In the mid-1980s, proponents of the reforms argued that the previous ten years of the socialist economy did not allow adequate developmental dynamics. They emphasised that "given the […] state of economic development, the transformation towards socialism in Laos is [at that stage] not possible" (Stuart-Fox 1997, p. 195). They advised that "one must take one step back and introduce some capitalist mechanisms to take two steps forward in the construction of true socialism" (Stuart-Fox 1997, p. 195). Evans (2012) called this process "the Leninist way to capitalism", as in 1991 the Communist Party officially reiterated its leading role as the only political force permitted to exercise authority.

In the case of Myanmar, it was not a communist party but a military junta, which introduced socialism and then carried out the initial waves of post-socialist transformation. The Burmese Communist Party up until its dissolution remained in opposition to the Yangon regime (until 2005 the capital of Myanmar). The actual establishment of a model based on a centrally-planned socialist economy took place after the coup in 1962. The revolutionary council chaired by general Ne Win commenced the nationalisation of "important" means of production in the areas of industrial and agricultural production, distribution and transport of goods (von der Mehden 1963). The national economy was to be governed by the apparatchiks of the Burma Socialist Programme Party and centrally administered economic plans, based somewhat on a manifesto entitled *System of Correlation of Man and His Environment*.

However, in 1973, the government acknowledged that the model did not produce the expected results and partially liberalised the rules for conducting business. The tolerance for the informal sector generating 80 percent GDP increased. The 1974 constitution stated that private means of production were permitted and that private companies could function as long as the socialist economy was not impeded. In 1988 the military junta set up the State Council for the Restoration of Law and Order (SLORC) and proclaimed the beginning of transformation towards a capitalist economy. Between 1988 and 1992 many market regulations were introduced. The transformation was stopped, however, in 1996 and then accelerated in 2011. Between 2011 and 2015 over thirty market regulation laws were introduced, which changed the systemic and institutional landscape (Bolesta 2016). The first free parliamentary elections took place in November 2015 (if one does not count the April 2012 parliamentary by-elections). However, the 2008 constitution continues to guarantee 25 percent of seats to the defence forces *Tatmadaw*, enabling the army to block any significant systemic changes.

Mongolia was fully democratised in 1990-91, though it did not have a prior democratic tradition and the communist regime had lasted there the longest after the USSR. The large dependence on foreign support caused devastating effects on the economy after the aid ceased. Political liberalisation initially led to a shock therapy (MHDR 2003), followed by gradual economic reforms and the establishment of an institutionalised market economy. Currently, as a country dependent on global commodity prices, Mongolia is experiencing high fluctuations in its developmental dynamics.

1.4 The Post-Socialist Developmental State in China, Laos, Myanmar and Vietnam

The Asian model of post-socialist transformation is characterised by gradual changes (Winckler 1999) and the rejection of the European-style shock therapy (Bolesta 2006).

This is due to a number of reasons, including the high social costs of the latter and the political elite's desire to maintain power and control over the economy.

All the countries studied here, i.e. China, Vietnam, Laos and Myanmar (the latter until 2015), have retained an authoritarian regime throughout transformation and have not liberalised the political environment, which prolonged political repression and human rights infringements and sometimes violations. The Freedom House Index (FHI) – although in itself not the best measuring tool – clearly shows the closed nature of the political system in the aforementioned countries during the transition period. In the years 1998-2015, China, Laos and Vietnam remained authoritarian states ("not free" to use the FHI term). Naturally, the earlier stages of post-socialist transformation were also characterised by an authoritarian rule. In the case of Myanmar, the consequence of the parliamentary elections of November 2015, after which the democratic opposition took over power and in March 2016 formed the government, has been the change of the index to "partly free". Myanmar is the only example of political liberalisation among Southeast Asian post-socialist states that is advanced enough that we can perhaps talk about a slow trend towards a liberal democracy.

The long-term developmental dynamics of the post-socialist countries of Southeast Asia during the period of systemic transformation has been impressive and resembles the pace of growth in China during its reform and opening up (*gaige kaifang*). The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) estimates that between 1990 and 2015 (and thus when all post-socialist countries in the region were already undergoing transformation), China's average economic growth was 9.7 percent, Myanmar's 8.9 percent, Vietnam's 6.9 percent and Laos' 6.8 percent. Recognising that China was the pioneer of the Asian post-socialist transformation (and commenced the process in late 1978), it is worth emphasising that in the period 1979-2015, its annual growth rate was also 9.7 percent.

The developmental dynamics in post-socialist Southeast Asia and China has been significantly higher than in other post-socialist transition countries, both in Europe and in Asia. In the years 1990-2015, the average annual growth of Mongolia was 4.7 percent and this figure includes the galloping rate of 17.3, 12.3 and 11.6 percent respectively from 2011 to 2013, due to the significant increase in extraction of natural resources and the increase in their prices. In the period 1991-2015, economic growth in the post-socialist Caucasus and Central Asia was 3.3 percent in Armenia, 4.8 percent in Azerbaijan, 0.6 percent in Georgia, 2.9 percent in Kazakhstan, 1.2 percent in Kyrgyzstan, 1.1 percent in Tajikistan, 4.5 percent in Turkmenistan and 4.4 percent in Uzbekistan. However, it should be noted that data concerning average annual economic growth may not adequately illustrate the developmental dynamics in the former Soviet Republics, due to their extensive initial transitional recessions.

If we take into account the change in the Human Development Index, which examines not only GDP per capita but also the level of education and life expectancy, it also emerges that progress has been most significant in the examined countries. Between 1990 and 2015, China's development translated into an increase in the index value from 0.499 to 0.738 and thus by 0.239. In the case of Vietnam it was 0.206 (0.477-0.683), Myanmar 0.203 (0.353-0.556) and Laos 189 (0.397-0.586). The most developed CEE countries increased their HDI in the given period by 0.140 (Poland), 0.133 (Hungary) and 0.117 (the Czech Republic). In Central Asia the change was as follows: 0.104 for Kazakhstan, 0.049 for Kyrgyzstan and 0.011 for Tajikistan. For Armenia the recorded change was 0.139, whereas for Mongolia 0.156 (UNDP 2016).

Table 1.1 GDP Growth and HDI Change in China, Vietnam, Laos and Myanmar

	GDP (constant prices, 1990-2015)	HDI (change, 1990-2015)
China	9.7	0.239
Vietnam	6.9	0.206
Laos	6.8	0.189
Myanmar	8.9	0.203

Source: ESCAP 2016; UNDP 2016.

These states recorded high growth dynamics despite the fact that economic liberalisation was gradual and slow and the prevalent state interventionism caused the business environment to remain prohibitive with a significant amount of barriers for market access and operation. This is evidenced by the World Bank's ease of doing business index and Transparency International corruption perception index (CPI).

Table 1.2 World Bank's Ease of Doing Business Index (ranking)

	2016
China	80
Vietnam	91
Laos	136
Myanmar	171

Source: World Bank 2016.

In the above group, China remains "the friendliest" country for business, although Vietnam is catching up. Laos and Myanmar are still economies in which doing business is a serious challenge, especially for foreign entities that face many barriers. Difficulties related to economic activity can also be seen through the prism of corruption. In the surveyed group of countries, corruption is the highest in Myanmar (147th position out of 168 countries in the ranking from the year 2015), then in Laos (139th place), in Vietnam (112th) and in China (83rd) (Transparency International 2016).

Table 1.3 Corruption Perception Index (value)

	2015	2014	2013
China	37	36	40
Vietnam	31	31	31
Laos	25	25	26
Myanmar	22	21	21

Source: Transparency International 2016.

While the "natural" barriers for economic activity (in particular directed at foreign actors) in Myanmar, Laos and Vietnam are related to corruption, bureaucracy, judicial sluggishness and lawlessness, limited deregulation and persistent over-control of the economy by the state, the post-socialist governments of Southeast Asia also take up targeted actions to limit market access. Their policies are partly based on the so-called Chinese Catalogue, which divides domestic industrial sectors according to whether the state permits, encourages or prohibits foreign investment (Breslin 2006).

For example, the Myanmar Investment Commission (MIC) is the government body which approves foreign investments outside special economic zones. The MIC is known for its lengthy procedures and arbitrary decisions, as well as the issuing of directives that restrict the ability of foreign companies to operate on the Burmese market. Examples are: sectoral liquidation of customs privileges (MIC Notification 49/2014), taxation privileges (MIC Notification 51/2014) and environmental regulations (MIC Notification 50/2014). The MIC Notification 26/2016 sets out who as a foreign entity can enter into a joint venture, on what principles and in which sectors, if it plans to operate in Myanmar.

Restrictions also apply to international trade. Export and import can be handled almost exclusively by local companies registered with the Ministry of Commerce and licensed to trade in certain goods. Foreign companies can apply for an import license, but only for their own production activities. Foreign companies cannot trade, so they cannot obtain export licenses. However, this does not apply to entities located in special economic zones. A similar policy applies to Laos, where industrial sectors are controlled by family clans of members of the Communist Party and the authorities are increasingly coming up with new procedures hampering the operation of foreign business entities.

For example, international trade is connected with a complex licensing system. Licenses must be renewed annually. Many services, such as medical, postal, telecommunications and transport, remain reserved for national entities (mainly state-owned enterprises) (USDT 2015, p. 260). Energy projects must be implemented as joint ventures. In Vietnam, the situation is similar. Despite its extensive and growing economic engagement with the outside world, due to the level of state interventionism, bureaucracy and corruption, "Vietnam remains a market with many challenges [for foreign companies]" (Shultz *et al.* 2006, p. 683).

All this is partly due to the transformational chaos, in which a new social and economic system is being built and the national economies are being integrated into the global markets, and partly the result of using economic nationalism as the state ideology, which sees foreign intervention, including the presence of foreign economic actors as undesirable or desirable only in selected industries or geographic locations and only for selected objectives. Nevertheless, Myanmar, Laos or even Vietnam in their application of economic nationalism principles have not caught up with the level of sophistication of China, where nationalism has replaced communism as the main ideology of the state (Shirk 2007). Chinese nationalism has received a significant attention in the scholarly literature (Fewsmith 2008). Hughes (2006) presented its evolution during the reform period, exposing his links with economic, foreign and security policies. Deng Xiaoping, for instance, insisted that the core of the development strategy was always aligned with the key sectoral activities of the state [politics] resulting from patriotic motives. In China, nationalism is used to legitimise the CCP's claims to power, the genus of systemic reforms and the type of developmental model (Hughes 2006; Breslin 2007; Bolesta 2015). Similarly, nationalism is used by other communist parties in power in the region; the Laotian and the Vietnamese, to maintain their political grip and to implement gradual and incremental reforms.

As in the cases of historical examples of the development states, planning remains an important part of China's and post-socialist Southeast Asian countries' economic policy. This is evident through the fact that, for example in Myanmar, the current reform period is characterised by the proliferation of various socio-economic development plans and systemic transformation programmes (Myint 2013). Laos has been using national socio-economic development plans as the main documents defining sectoral directions for development and reform since the 1970s. In 1981, the first five-year plan was introduced. Also after the start of post-socialist transformation and in the process of building a market economy, economic policy has been based on five-year plans. Currently the eighth one (2016-2020) is being implemented. Vietnam has been utilising five-year plans with interruptions since 1961. In 2015 the ninth one was completed.

Moreover, central planning agencies still function in the administrative systems of the examined states, setting and supervising the development trajectories. In the case of Myanmar, in the years 1993-2015, the main planning body was the Ministry of National Planning and Economic Development (MNPED) responsible for preparing and implementing development plans (for example, the Framework for Economic and Social Reform – FESR) and systemic reforms. As a result of the administrative changes in 2016, the Ministry of Finance merged with the Ministry of National Planning and Economic Development and a super-ministry of Planning and Finance was created.

This recent change is the expression of a strong preference for centralised decision-making processes in economic reforms in post-socialist Myanmar and in Asia. It should be emphasised that in Central and Eastern Europe, where developmental aspects of post-socialist transformation were often neglected (Bolesta 2006), ministries of finance would normally assume a leading role in the reform process, while in Asia, where usually socio-economic development was prioritised over systemic transformation, ministries of planning would take that position. Thus, in Laos and Vietnam, the functions of the planning agency have been performed by the Ministry of Planning and Investment.

Nevertheless, in both cases one cannot overlook the role and influence of executive departments within the respective communist parties in the decision-making process related to development and reform strategies, given that in the socialist countries, governmental institutions were often mirrored by party structures. In China, the main role has been played by the National Development and Reform Commission (NDRC) (Bolesta 2015), although undoubtedly the Communist Party's internal structures have been equally involved (Zhang n.a.). Myanmar's Ministry of National Planning and Economic Development and now the Ministry of Planning and Finance, the Laotian and Vietnamese ministries of Planning and Investment and the Chinese National Development and Reform Commission exhibit extensive similarities with the Economic Planning Board of South Korea (under the military dictator Park Chung-Hee), the Council for Economic Planning and Development of Taiwan (under generalissimo Chiang Kai-shek's son and prime minister and later president Chiang Ching-kuo), the Economic Development Board of Singapore (under premier Lee Kuan Yew) and, to some extent, the Ministry of International Trade and Industry (MITI) of Japan (1949-2001).

Planning agencies have been responsible for the industrial policy of selective support for development of industries seen as promising due to an existing or potential competitive advantage. In the case of Myanmar, the current development strategy is based on an existing advantage in the extractive sector and the development of low-cost and labour-intensive sectors with limited technological sophistication such as the textile industry. In the case of Laos, the use of natural advantages is linked to the hydroelectric sector as well as to the textile industry. Both Laos and Myanmar treat agriculture as important areas for sectoral development. This is due to both economic and social reasons. The abundance of low skilled inexpensive labour force, limited capital requirements and existing tradition place both countries in a good position to further develop the agro-food industry. In addition, most of the population is employed in agriculture, which makes agrarian reforms an important social challenge. In order to gradually increase the standard of living in the countryside, it is necessary to transfer employment to non-food sectors as well as to increase the level and technological advancement of agro-food production.

Hence, for example, in recent years, the Lao government's sectoral strategy – implemented with the support of Hungary, among others – to develop food processing. Within the services, both countries place tourism as an important labour-intensive sector of the national economy. In the long run both countries intend to increase the added value and technological intensity in their production base. For that purpose, Laos created special economic zones located in the border areas, whereas Myanmar is becoming a strategic target for Japanese investments and their gradual relocation from China, where nationalist sentiments hamper the functioning of Japanese companies.

Vietnam has reached a higher level of economic development than Myanmar and Laos. Therefore, after a period of using the gas and oil sector and the agro-food sector as the growth medium, Vietnam (with a population approaching 100 million) has attempted to transform itself into a regional, or even a global, Chinese-style factory. This has been facilitated by the still large reserves of an inexpensive labour force (dynamic economic growth in China has resulted in a significant increase in labour costs there). At present, the development policy of labour-intensive low-tech industries has been gradually replaced by support for the machinery, electric and electronic industries.

China's selective sectoral support strategy has had a long tradition throughout the transformational period. State support in various forms of regulation and subsidies (Bolesta 2015) is targeted at a number of industries. This is due to the fact that such a large economy and the world's most populous country cannot base its development on several selected sectors, although undoubtedly the developmental incentives distorting market signals may focus on a limited group within. At the end of the 1970s, Deng Xiaoping inherited a socialist, underdeveloped economy (naturally as an influential member of the CCP he was involved in its creation in the first place) with a large and inefficient heavy industry. Therefore, China's industrial policy initially had two features: the development of a labour-intensive and low-cost textile industry (Naughton 2007) and restructuring of the capital-intensive heavy industry. Subsequently, efforts were made to increase technological sophistication of industrial output. In the 1990s, the focus was on the development of the machinery, automobile and household appliances industries (Kuchiki 2007).

However, the development of heavy and chemical industries continued. The state also focused its attention on electric and electronic sectors. In the 2000s, advanced technologies, including space and green technologies were also promoted and targeted. China remains the factory of the world, although some sectors with limited added value are being transferred to other locations – for example, Vietnam, the Philippines and Bangladesh. This is partly due to the state strategy and due to the rising costs. Currently, China has financial resources and technology, which increasingly enable it to compete with highly developed economies for the market share of technology intensive products. Although undoubtedly, it is difficult to imagine that with an abundant workforce, capital, technology and a place in the global economy, it will try to withdraw from the production areas that it came to dominate in the last twenty or so years.

In all the post-socialist countries of Southeast Asia and in China, industrial policy had to be supported by the attempts to enter foreign markets. A low level of domestic development and therefore limited purchasing power of the societies prevented local absorption of industrial production. Therefore, industrial policy had to, to some extent, include economic liberalisation, wider participation in regional initiatives, intensification of bilateral and multilateral economic cooperation, and thus also an increase in inward investment flows. Myanmar, Laos and Vietnam joined the global economy as the so-called late-comers.

Those countries, entering the global economy especially in such a dynamic region as East Asia, could benefit from some quick gains or quick wins. Firstly, they could use the knowledge, expertise and technology of others and adopt them to their own internal conditions. They could study historical successes and development failures and draw lessons for themselves. This applies to both development and systemic transformation from a socialist to a market model. Post-socialist transformation has already been underway for three decades and the reformers have assembled “a library of experiences” in this respect (Garton Ash 2013). Secondly, with lower labour costs, they could, if enabled by the existence of adequate infrastructure and regulation, rapidly export to more developed markets with much higher absorption capacity.

The intended increase in export capacity was facilitated by the establishment of special economic zones and industrial parks. The history of these in the case of China is well known and dates back to the year 1979 and the creation of four special economic zones in Shenzhen, Shantou, Xiamen and Zhuhai. More than one hundred specially designated areas have been established since. The recent policy has been to establish free trade zones. In August 2016, "Beijing passed approval for Chongqing, Zhejiang, Hubei, Henan, Sichuan, Shaanxi, and Liaoning to establish seven new free trade zones (FTZs), bringing China's total number to 11" (China Briefing 2016).

There are currently three special economic zones in Myanmar – Thilawa, Dawei and Kyaukphyu and two others are planned – Pathein and Myawaddy. In addition, the government has established 18 industrial parks in the following regions: Ayeyarwady (3), Bago (1), Magway (2), Mandalay (3), Mon State (1), Sagaing (2), Shan State (1), Tanintharya (1), Yangon and surroundings (4). It plans to open another ten. In the years 2003-2012 Laos established ten special zones – the Savan-Seno Special Economic Zone (opened in 2003), the Boten Beautiful Land Specific Economic Zone (2003), the Golden Triangle Special Economic Zone (2007), the Vientiane Industrial and Trade Area (2011), the Saysetha Development Zone (2010), the Phoukhyo Specific Economic Zone (2010), the Thatluang Lake Specific Economic Zone (2011), the Longthanh-Vientiane Specific Economic Zone (2012), the Dongphosy Specific Economic Zone (2012) and the Thakhek Specific Economic Zone (2012). Vietnam currently holds 298 special economic zones and industrial estates with a special status (Walsh 2015).

Conclusions

The Asian model of post-socialist systemic transformation and development is based on the concept of post-socialist developmental state (PSDS). It has initially been followed by China and then adopted, to various degrees, by Vietnam, Laos and Myanmar.

The application of PSDS is evident not only through the development dynamics of China, Myanmar, Laos and Vietnam measured by the pace of economic growth or change in the level of the Human Development Index, but also by their increasing interaction with the global economy and the opening up to the outside world, as partly marked by their accession to the World Trade Organization (WTO). This interaction takes place despite the simultaneous policy of domestic market access prevention for foreign economic actors, by maintaining old and creating new entry barriers and manoeuvring around the WTO rules, which is motivated by economic nationalism. All the post-socialist countries of Southeast Asia and China have maintained an authoritarian system. Even Myanmar with its government composed of members of the National League for Democracy (not so long the main democratic opposition) is yet to become a fully-fledged liberal democracy. In addition, throughout the transformational process the state has not withdrawn from the national economies; it continues to regard planning as the main instrument for defining development trajectories and reforms and keeps using a central planning agency. Often, development and reform strategies are framed within five-year plans, a model known from the times of real socialism.

References

Acemoglu, D., Robinson, J.A. (2012). *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York: Crown Publishers.

Akamantsu, K. (1962). A Historical Pattern of Economic Growth in Developing Countries. *Journal of Developing Economies*, 1 (1), pp. 3-25.

Amsden, A.H. (1989). *Asia's Next Giant: South Korea and Late Industrialization*. Oxford: Oxford University Press.

Balcerowicz, L. (1997). *Socjalizm, kapitalizm, transformacja. Szkice z przełomu epok*. Warszawa: Wydawnictwo Naukiowe PWN.

Bolesta, A. (2006). *Chiny w okresie transformacji. Reformy systemowe, polityka rozwojowa i państwowe przedsiebiorstwa*. Warszawa: Wydawnictwo Akademickie „Dialog".

Bolesta, A. (2010). *China as a Post-Socialist Developmental State: Explaining Chinese Development Trajectory*. Original text. Unpublished.

Bolesta, A. (2015). *China and Post-Socialist Development*. Bristol: Policy Press.

Bolesta, A. (2016). Wpływ Chin na rozwój i transformację Mjanmy. *Azja-Pacyfik: Społeczeństwo, polityka, gospodarka*, 19, *Problemy militarne i społeczno-gospodarcze Azji Wschodniej*, pp. 132-151.

Breslin, Sh. (2006). Foreign Direct Investment in the PRC: Preferences, Policies and Performance. *Policy & Society*, 25 (1), pp. 9-38.

Breslin Sh. (2007). *China and the Global Political Economy*. Basingstoke: Palgrave MacMillan.

Chang, J., Halliday, J. (2005). Mao: *The Unknown Story*. London: Random House.

China Briefing (2016). China Announces Seven New Free Trade Zones, Signalling Intent to Diversify Economy, http://www.china-briefing.com/news/2016/09/09/china-seven-new-trade-zones.html

Cumings, B. (1984). The Origins and Development of the Northeast Asian Political Economy. Industrial Sectors, Product Cycles and Political Consequences. *International Organization*, 38 (1), pp. 1-40.

ESCAP (2016). ESCAP Database. Bangkok: ESCAP.

Evans, G. (2012). *A Short History of Laos: The Land In Between*. Revised Edition. Chiang Mai: Silkworm Books.

Fewsmith J. (2008). *China Since Tiananmen. From Deng Xiaoping to Hu Jintao*. Cambridge University Press.

Freedom House Index (2016). Freedom House Index, https://freedomhouse.org/report/freedom-world/freedom-world-2016

Garton Ash, T. (2013). Speech made in Yangon, Myanmar in February 2013.

Hayton, B. (2010). *Vietnam – Rising Dragon*. New Heaven: Yale University Press.

Hughes, Ch. (2006). *Chinese Nationalism in the Global Era*. London: Routledge.

Johnson, Ch.A. (1982). *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford: Stanford University Press.

Klein, N. (2007). *The Shock Doctrine: The Rise of Disaster Capitalism*. New York: Metropolitan Books.

Kołodko, G.W. (1999). *Od szoku do terapii. Ekonomia i polityka transformacji*. Warszawa: Poltext.

Kołodko G.W. (2001). *Globalizacja i perspektywy rozwoju krajów posocjalistycznych*. Toruń: TNOiK.

Kuchiki, A. (2007). Industrial Policy in Asia. *IDE Discussion Papers*, 128. Chiba: Institute of Developing Economies.

MHDR (2003). *Human Development Report Mongolia 2003: Urban-Rural Disparities in Mongolia*, UNDP.

Myint, Th. (2013). Economic Reforms in Myanmar – The Way Forward. In: Bolesta, A. (ed.) *From Central Planning to Market: Poland's Transformation in a Comparative Perspective and the Lessons for Myanmar*. Bangkok: Chulalongkorn University, pp. 15-23.

Myrdal, G. (1968). *Asian Drama: An Inquiry into the Poverty of Nations*. New York: Pantheon.

Naughton, B. (2007). *The Chinese Economy: Transitions and Growth*. London: The MIT Press.

Perkins, G.H. (2015). *The Economic Transformation of China*. Singapore: World Scientific.

Poznański, K. (2000). *Wielki przekret. Kleska polskich reform*. Warszawa: Towarzystwo Wydawnicze i Literackie.

Sachs, J. (1993). *Poland's Jump to the Market Economy*. The MIT Press.

Sachs, J. (2005). *The End of Poverty: Economic Possibilities for our Time*. New York: Penguin Press.

Shirk, S.L. (2007). *China Fragile Superpower. How China's Internal Politics Could Derails its Peaceful Rise*. New York: Oxford University Press.

Shultz, C.J., Dapice, D., Pecotich, A. Doan Huu Duc (2006). Vietnam. In: Pecotich, A., Shultz, C.J. (eds.) *Handbook of Markets and Economies: East Asia, Southeast Asia, Australia, New Zealand*. New York and London: M.E. Sharpe, pp. 656-688.

Stiglitz, J.E. (2004). Globalization and Growth in emerging markets. *Journal of Policy Modelling*, 26, pp. 465-484.

Stuart-Fox, M. (1997). *A History of Laos*. Cambridge: Cambridge University Press.

Stubbs, R. (2009). What Ever Happened to the East Asian Developmental State? The Unfolding Debate. *The Pacific Review*, 22 (1), pp. 1-22.

The System of Correlation of man and His Environment (1963). The Burma Socialist Programme Party, The Union of Burma, 17 January, 3 edition; http://www.ibiblio.org/obl/docs/System-of-correlation.htm

Transparency International (2016). Corruption Perception Index 2015, https://www.transparency.org/news/feature/corruption_perceptions_index_2015

UNDP (2016). Human Development Index Data, http://hdr.undp.org/en/data

USDT (2015). Foreign Trade Barriers – Laos. Washington, D.C.: US Department of Trade, https://ustr.gov/sites/default/files/files/reports/2015/NTE/2015%20NTE%20Laos.pdf

Von der Mehden, F. (1963). The Burmese Way to Socialism. *Asian Survey*, 3 (3), pp. 125-135.

Wade, R. (1990). *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press.

Walsh, J. (2015). The Special Economic Zones of the Greater Mekong Subregion: Land Ownership and Social Transformation. *Conference Paper*, No. 19. Conference on

"Land grabbing, conflict and agrarian-environmental transformations: perspectives from East and Southeast Asia", 5-6 June 2015, Chiang Mai University.

Winckler, E.A. (ed.) (1999). *Transition from Communism in China: Institutional and Comparative Analyses.* Boulder: Lynne Rienner Publishers.

World Bank (2016). *Doing Business Ranking*, http://www.doingbusiness.org/rankings

Zhao, Z. (2009). *Prisoner of the State. The Secret Journal of Zhao Ziyang.* New York: Simon & Schuster.

Zhang, F. (2017). The Chinese developmental state: standard accounts and new characteristics. *Journal of International relations and Development*, pp. 1-30. https://doi.org/10.1057/s41268-017-0085-1.

Chapter 2

Michał Lubina

In Search of a "Round Table": Myanmar's Transformation and the Polish Experiences

Introduction

"We need general Jaruzelski in Burma!" (Szabłowski 2011). When Aung San Suu Kyi said these words, she knew what she meant. Jaruzelski was the leader of the Polish military regime who started talks with the democratic opposition in 1989. He gave away his power, while maintaining the privileges and behind-the-scenes economic dominance of the former establishment. The deal called "The Round Table Agreement" enabled Poland to flourish and became Europe's success story. Now Myanmar is undergoing rapid transformation from an isolated, poor country to one with an ambition to become a Southeast Asian leader. After the key elections in November 2015, the democratic opposition formed the government and since has faced challenges of moving the reforms to the next stage. Myanmar's transformation into Asia's new economic tiger will not happen overnight. In this uneasy path, the Polish experiences may play an important role.

This chapter examines similarities in democratic transformation between Myanmar and Poland from a political perspective. It argues that "the Polish model" is relevant for transforming Myanmar. Although comparing such different countries as Myanmar and Poland is always risky, there are significant similarities between them worth analysing. Poland in the 1980s was ruled by an oppressive military regime which was challenged by a charismatic opposition leader with popular support. The Polish People's Republic as Republic of the Union of Myanmar before 2011, was undeveloped, the society tired and suppressed, and the authorities enjoyed no legitimacy to power. The Polish regime thus started negotiations with the opposition that ended with the transformation of power and political and economic reforms. Poland became a success story.

This chapter is divided into five parts that discuss similarities between Poland's and Myanmar's transformations. The first two sections give a brief introduction to the process. The third part examines the role of the most important external factor, namely the involvement of the United States. The fourth part outlines the social consequences of transformation. The fifth part discusses the core similarities between the two countries: the political deal between the respective regimes and the democratic oppositions.

2.1 Poland's Transformation after 1989: A Brief Introduction

Poland's transformation started in 1989 as the first in the Eastern Bloc (Central-Eastern Europe and the Soviet Union). The communist Polish People's Republic – as Myanmar until 2011 – was ruled by an oppressive military regime which in the 1980s was challenged by a charismatic opposition leader with popular support, Lech Wałęsa. The movement he led was called "Solidarity" (Solidarność). It was a popular mass organisation against the communist government, created after the nation-wide anti-government demonstrations in August 1980. In 1980-1981 Solidarity was able to force significant concessions from the government, such as partially free speech. The movement was, however, crushed by the military "counterattack" – martial law, which was introduced by the communist leader, general Wojciech Jaruzelski on 13th December 1981.

Soon repressions followed and the communists regained their political dominance. Their governing of the state, however, was poor and ineffective. The country's economy sunk into disarray, the nation was tired and suppressed, and the communist regime's legitimacy was widely questioned. The communist-military government made attempts at reforming the economy during the 1980s, but nevertheless, failed. Therefore, after more than a decade of economic malaise, Poland's communist-military government decided to start talks with the democratic opposition, namely Solidarity.

The negotiations between the regime and the opposition were to be known as "the round table talks" and began in February 1989. These talks produced a breakthrough: an agreement (in April) to hold partly free parliamentary elections. The 4th June 1989 elections produced a lower chamber of the Parliament (Sejm), in which two-thirds of the seats were reserved for the communists and their allies, whereas the remaining freely contested one-third to Solidarity. Solidarity won the party-free elections with a landslide, securing all of the freely contested seats in Sejm, and all but one seat in the entirely freely-contested 100-seat upper chamber – the Senate (one seat in the Senate went to an independent candidate not a communist) (Dudek 2013).

As a result, Poland became the first country of the Eastern Bloc in which democratically elected representatives gained real power. On 19th July 1989, the National Assembly (Sejm and the Senate), with the support of a number of Solidarity deputies, elected General Wojciech Jaruzelski – the former communist and military junta leader – to the office of the President of Poland. Although the parliamentary elections were not entirely democratic, they paved the way to the creation of the first non-communist cabinet, led by Tadeusz Mazowiecki, and a peaceful transition in Poland and elsewhere in Central and Eastern Europe, culminating with the establishment of democracy and also the dissolution of the Soviet Union (Dudek 2013).

In December 1989, Sejm approved the government's reform programme (the so-called Balcerowicz's Plan) to rapidly transform the Polish economy from a centrally-planned model to a free-market model (Bolesta *et al.* 2013). Leszek Balcerowicz, the Minister of Finance in Mazowiecki's government, was the one who gave his face to the programme. However, the real initiator was an American economist Jeffrey Sachs (Sachs 2005). As a result of economic liberalisation and stabilisation efforts, prices were freed, international trade (in particular import) grew considerably, and a new policy towards state-owned enterprises was introduced. The central bank raised interests sharply to compensate for high inflation, and the national currency was made domestically convertible. Such far-reaching changes eventually stabilised the economy, which was now open to the global markets. The banking system and the monetary policy underwent extensive changes. Moreover, the ownership and property rights reforms had enormous significance as many companies became self-dependent. This stimulated the free market competition. Those actions led to the formation of the capital and market-based labour markets. The achievements in the economic sphere prompted creditors to reduce the Polish debt by 50 percent. Foreign enterprises started investing in Poland. In 1991 the stock exchange was established in Warsaw. Reforms and state policies made the Polish economy one of the most dynamic in Europe.[1]

In sum, the political agreement between the communist regime and the democratic opposition enabled economic reforms and reintegration with the global, Western-dominated economy. The Polish regime started negotiations with the opposition that ended

[1] *Economic Transformation in Poland after 1989*, Invest in Poland. Polish Market Promotion Website, http://www.investinpoland.pl/eng/index.php?option=content&task=view&id=10&Itemid=32.

with the transformation of power and economic reforms, and soon afterwards made Poland a success story.

2.2 Myanmar's Transformation: A Brief Introduction

Although the two countries are separated by a great distance, Myanmar's transformation in many ways has been similar to that of Poland.

The first market reforms in Myanmar (then called Burma), such as partial economic liberalisation and the turn away from autarchy to a free market, were introduced in 1987. They failed, however, to make the country economically developed. This was due to political circumstances and a lack of experience in economic management (Taylor 2009). This "halfway transition to a market economy" was not only unsuccessful, but also became the government's negative legacy (Kubo 2013). Only after the grand political opening of Myanmar in 2011, were the reforms really accelerated.

After general Thein Sein's inaugural speech as the president in March 2011 and his meeting with Aung San Suu Kyi in August the same year, Myanmar embarked on political reforms initiated "from above". The authoritarian country embarked on a course of slow political liberalisation. The reforms were elite-driven and stem from the president's and the progressive members of the military-dominated Union Solidarity and Development Party (USDP)'s conviction of their necessity. As a result, the country witnessed liberalisation of the press, the release of political prisoners and the initiation of a political dialogue between the regime on the one hand and the democratic opposition and ethnic groups on the other. The first phase of political reforms culminated in the parliamentary by-elections on 1st April 2012, which resulted in a landslide victory for Aung San Suu Kyi's National League for Democracy (NLD). The government lifted internal censorship laws and unblocked the websites of exile radio and TV stations. It also established an independent National Human Rights Commission and passed new legislation that allowed for labour unions to resort to industrial actions (Bünte and Portela 2012).

From the economic-systemic perspective, in 2012 the Myanmar government embarked on the "second stage of reform", which included fiscal and tax reforms, infrastructure development, private sector development, monetary and financial sector reforms, liberalisation of trade and investment, health and education, food security and agricultural growth, governance and transparency, mobile phones and internet access, and effective and efficient government (FESR 2012). In March 2012, the government drafted a foreign investment law, the first such document in more than two decades. This law oversees unprecedented liberalisation of the economy (for example, stipulates that foreigners no longer require a local partner to start a business and that they can legally lease land) (Aung Hla Tun 2012). The government relaxed import restrictions and abolished export taxes. As a result, foreign investments increased (The Independent 2011).

The political rapprochement with the West helped significantly. Not only did Western countries suspend sanctions (most of them did so after April 2012) (EU 2012), but the European Union reinstated Myanmar into the Generalised Scheme of Preferences (GSP) (EC 2013). Moreover, in January 2013 the Asian Development Bank granted Myanmar its first loan since 1986 – USD 60 million for a project to improve the efficiency of power distribution in 16 townships. Moreover, in 2013 a disbursement of a USD 512 million policy-focused loan ("Support for Myanmar's Reforms for Inclusive Growth") was approved to facilitate the implementation of economic and social reforms that form the foundation for improved policy frameworks in macroeconomic policy, public finance, trade, investment and finance sector development, agriculture, and education (ADB 2014). ADB also approved 14 technical assistance projects (including supplementary financing for an ongoing technical assistance), with USD 6.7 million and an additional USD 12.6 million USD subject to co-financing (ADB 2014).

This was followed by two projects funded by the Japan Fund for Poverty Reduction totalling USD 22 million: the inclusive growth project entitled "Enhancing Rural Livelihoods and Incomes", funded by the USD 12 million tranche and the "Greater Mekong Subregion Capacity Building for HIV/AIDS Prevention", funded by the USD 10 million tranche (ADB 2014). Moreover, Myanmar received USD 440 million worth of credit from the World Bank. This credit was intended to support critical reforms being implemented by the government to strengthen macroeconomic stability, improve public financial management and the investment climate. The Bank also provided a USD 80 million grant to help finance the National Community-Driven Development Project, which would enable villagers to develop rural infrastructure, including schools, health clinics, roads and irrigation schemes in about 640 village tracts across Myanmar over six years (World Bank 2013).

In January 2013, the Myanmar government announced the completion of a deal with international lenders to cancel or refinance nearly USD 6 billion worth of its debt, almost 60 percent of what it owes to foreign lenders. Japan wrote off USD 3 billion, the Paris Club USD 2.2 billion and Norway USD 534 million (Reuters 2013; Investvine 2013a).

As a result of international assistance, support and cooperation, Myanmar accelerated development. The International Monetary Fund (IMF) estimated that the gross domestic product grew 8.3 percent in 2013/14, 8.5 percent in 2014/2015 and 7.3 percent in 2015/2016 (IMF 2016). According to the consultancy firm McKinsey Global Institute, Myanmar's economic output could quadruple by 2030 to USD 200 billion if the country maintains a steadfast pace of economic and political reforms. It could also generate up to 10 million jobs, lifting 18 million people out of poverty. Additionally, Myanmar could attract up to USD 100 billion worth of foreign direct investments (FDI) over the next two decades (Investvine 2013b). For the fiscal year 2015/2016 Myanmar attracted USD 9.4 billion in FDI (Reuters 2016). Foreign investors are mostly interested in extractive industries, including energy resources (oil, natural gas, coal, gold), agriculture, fishing, food processing, real estate, textiles and tourism.

The liberalisation of the national economy, the establishment of special economic zones (in Dawei, Thilawa and Kyuakpyu), the establishment of the Yangon stock exchange, the arrival of foreign banks, the investments attracted by cheap labour by large multilateral companies (such as Heineken, Nestle and Unilever), infrastructure development and real estate boom, plus skyrocketing of consumption, all these processes are hallmarks of Myanmar's economic transformation.

When one observes Myanmar's transformation, one cannot miss certain similarities with Poland. These similarities include: external influence, economic transformation and the domestic political agreement.

2.3 The External Factor: The Convergence of Interests between Local Elites and the United States

The first factor, which makes Poland's and Myanmar's transformations similar, is external, that is the United States' incentive for and involvement in the process.

In Poland, as well as in other Central-Eastern European countries, the political involvement of the US must be seen within the context of cold war considerations. Poland was an important member of the Warsaw Pact (the communist countries' military alliance), as its very name suggests. However, the country became a socialist, Soviet satellite state in 1945 by force, not by choice. This had important consequences: the Polish communist and then communist-military regime were in many ways "puppet" regimes, controlled or otherwise supervised by the Soviet Union. Naturally, the Polish communists despised their Russian patrons and tried to manoeuvre as much political space as possible (Górnicki 1994), but the ultimate decisions were always made in Moscow. This made the Polish People's Republic a semi-sovereign entity, with the government lacking legitimacy among the society.

Washington was well aware of the delicate situation in Poland and had been trying to encourage Poland to distance itself from the USSR. This is why Washington backed the Catholic Church and the Solidarity movement. This explains why the US strongly condemned the Polish authorities for suppressing the Solidarity movement in December 1981 and even introduced economic sanctions (Curtis 1992). Officially, the Polish government was not perplexed (as illustrated by the statement of the government spokesman Jerzy Urban, who said that "the government [would be able to] feed itself") (Gazeta Wyborcza 2010). Nevertheless, it soon realised that the sanctions hindered the Communists' ability to steer the economy the way they wanted. On the other hand, the US policy failed to produce any significant positive outcomes for the democratic opposition and the country. Therefore with time the US decided to engage more with the Polish communist government within the "small steps policy" (Rachwald 1989).

It is difficult to determine the exact moment of the US policy's shift. The most important documents from that time remain classified. Nevertheless, one can observe steady US engagement in Polish affairs from the mid-1980s. What the impulse was for broader commitment is still unknown. Some say it was the October 1985 visit by general Jaruzelski during the UN session in New York, where he had a private and secretive meeting with influential banker and unofficial political adviser, David Rockefeller, who was accompanied by US government officials (the details of the meetings remain undisclosed and officially "failed to produce any tangible results") (Tygodnik Przegląd 2002). Some dismiss this as a conspiracy theory. The facts are as follows: from 1986 both sides had searched for a partial compromise in their political positions. Washington no longer objected to Poland's membership in the IMF, whereas on 22nd July 1986 the Polish authorities surrendered to US pressure and issued a general amnesty (Rachwald 1989). Progress followed. In 1987, the Deputy Secretary of State John C. Whitehead arrived in Warsaw. His visit culminated in the restoration of the most-favoured nation status for Poland and opened the way for the exchange of Ambassadors in 1988 (Rachwald 1989), as in the period 1982-1988, Poland's diplomatic representation was headed by *chargé d'affaires*.

In 1987, the US lifted economic sanctions (Curtis 1992). Throughout the late 1980s the USA was active in awarding the Fulbright and other prestigious fellowships to Polish scientists and communist nomenclature members. Furthermore, Vice-president George W. H. Bush initiated his presidential campaign by making a highly publicised visit to Poland in October 1987, which resumed Warsaw's high-level contacts with the United States. Bush again visited Poland, this time as the President, in July 1989, to back up the new accord (the "Magdalenka deal") between the Solidarity movement leader, Lech Wałęsa and the communist secret service chief (the number two in the communist regime), Czesław Kiszczak. Soon credits, loans and other financial help was granted to Poland and the US 'encouraged democratic processes and assisted economic reform' (Curtis 1992, p. 90-91).

Myanmar's reforms have also taken place with the US engagement. Here, the geopolitical context is even more important. Until 2011 Myanmar was considered irrelevant to Western (including American) politicians, therefore, in accordance with "Ott's Law" ("the less national interest the United States has in a country, the more human rights loom large in policy") (Steinberg 2000), the Western approach was based on ideology (democracy and human rights). This was very bad news for the Myanmar military government which already in 1987 hoped to "change from being an isolated left-wing military dictatorship to a pro-American right-wing military dictatorship" (Thant Myint-U 2007, p. 328). Unfortunately for the military government, Washington was not interested in this offer, at least not then.

In 2010s, however, the global trends changed and Myanmar became important to the West once again (major reasons being Myanmar's resources, a growing market and thus business opportunities, as well as Myanmar's favourable location to contain China's rise). This is why the American administration pivoting to Asia after 2011 made a deal with the generals[2]. In return for the reforms, the liberalisation of the political sphere and the opening of the economy, the generals received global legitimisation. Politically, the Burmese military men had simply changed their uniforms to *longyi*[3], and started reforming their country without, however, producing many concessions. They again were acknowledged by the international community and were able to resort to conducting the traditional Burmese foreign policy of balancing powers.

This had far-reaching consequences for domestic political context. After twenty years of struggle, Suu Kyi yielded and accepted the inevitable: the army's dominance. She agreed to function within the rules determined by the regime: changed her tactics from confrontation to cooperation and tried to endear herself to the generals. By doing so she compromised a lot; according to Tha Lung Zaung Htet (2013) she accepted donations from army cronies; moreover, she publicly proclaimed "love" for the army (Owen 2013); participated in military parades, did not back a communal struggle for the land appropriated by the military (Aung Zaw 2013b); and did not say a word in support of the Rohingyas (Robertson 2014).

Despite the failure to win the hearts and minds of the generals, who did not change the constitution (which effectively blocks Aung San Suu Kyi from becoming the head of state), Suu Kyi did not give up. She bet all her cards on the parliamentary elections of November 2015 (Hpone 2015) and won. She has since ruled Myanmar from behind the scenes as a state councillor (a position formally below the president, created especially for her) in cohabitation with the army.

What makes Poland and Myanmar cases similar are the geopolitical consequences. In the first case, Poland's transformation led to Warsaw's liberation from the USSR's control (and later even to the dissolution of the USSR). By pulling Poland away from the Soviet Bloc, Americans won the Cold War and became the only global hegemon. In

[2] Although it is difficult to tell when exactly the Americans made the deal with the Myanmar government, and what conditions were agreed, it must have followed political events such as the two visits of the US envoy Kurt Campbell (2009 and 2010) and the visit of Secretary of State Hillary Clinton in autumn 2011. This conclusion may also be reached when reading Aung Zaw's book *Face of Resistance* (2013a, p. 104-109 and 137) and ASSK's statement that 'she had come to realise the United States was prioritising stability over democratisation, and she now believed the US would prefer to see the USDP remain in power until at least 2020' (quoted in: Wai Yan Hpone 2015). President Barack Obama's statement at West Point academy is also telling: "Thanks to the American leadership […] we have seen […] a movement by Burmese leadership away from partnership with North Korea in favor of engagement with America and our allies. [….] If Burma succeeds we will have gained a new partner without having fired a shot", (*Remarks by the President at the United States Military Academy Commencement Ceremony*, The White House, 28.05.2014).

[3] A traditional Burmese dress.

the case of Myanmar, the post-2011 reforms distanced Naypyidaw (the capital of Myanmar since 2005) from China and allowed Myanmar to return to the traditional balancing foreign policy. By pulling Myanmar away from China, Washington achieved remarkable success in the „new containment policy"[4]. No matter to what extent Washington supported the changes, in both cases the outcome proved to be politically beneficial for the USA.

This is not to say that the US was primarily responsible for changes in the two countries. However, in both cases the US interests converged with the interests of the local (Polish and Burmese respectively) establishments. This made Washington stimulate and support the reforms, while the outcomes of these reforms in turn helped to fulfil the US foreign policy goals.

2.4 Social Consequences of Transformation

The second most visible similarity between Poland and Myanmar is the way economic transformation has taken place. Although both economies have accelerated development during systemic transformation and the new institutional environment created spaces for entrepreneurial individuals, there are groups that have benefited more than others and – to use an Orwellian expression popular in Poland – are "more equal" than others. In the Polish case these were the former members of the communist bureaucracy (nomenclature), in the Myanmar case this applies to the so-called cronies (the equivalent of oligarchs).

In Poland, transformation from communism to free market meant extensive privatisation and take-over of public assets by the members of the former nomenclature. In the new circumstances representatives of the former elites used their connections, knowledge, position, informal means, access to information and power or pressure to take up influential functions in the new economic, political and cultural organisations, as owners and managers of media, members of boards of directors and trustees and supervisory board members of former state-owned companies turned private. The transformation meant political, economic and legal chaos, a general state of affairs informally called in the Polish language as *bezhołowie*, which literally means "no head" and

[4] I use the name "new containment policy" cautiously, and follow Bertil Lintner's (2013) footsteps.

indicates a collapse of order and discipline due to the lack of leadership. These conditions of the declining old order and the emergence of a new one favoured the cleverest individuals who, sometimes legally, sometimes semi-legally and sometimes ruthlessly used the emerging opportunities to enrich themselves at the expense of employees/workers or the interests of the state (Morawski cit. in Kieżun 2013).

In these circumstances, the former communist bureaucrats transformed themselves from civil servants to capital owners and enriched themselves. They were the early winners of the free market transformation, alongside the most entrepreneurial individuals, often their friends. Those two groups raised fortunes: the "new Polish capitalists" emerged as well-connected entrepreneurs, businessmen who started from scratch and became rich through participation in the market via connections to the government (thanks to having relatives or close associates among government officials) and the administration during the state's transition to a market-based economy. The privatisation enabled them to become rich, as they achieved vast wealth by acquiring state assets cheaply (or sometimes for free) using connections to the former Polish People's Republic power structures and access to the funds, both domestic and foreign. They often merged with the incoming Western capital that exploited Poland's inexperience with the market economy and took over a large part of the Polish industry, including the high-tech enterprises (Kieżun 2013).

All this quite often happened illegally, or semi legally; the state capital was transferred via the back door, the stocks in newly created listed companies were redistributed, tenders were fixed and state property was sold out below its real value. Thus, "a new NEP [a Soviet Russia's New Economic Policy] emerged, […] quasi-capitalism, with governance of financial-bureaucratic oligarchy serving the interests of the new class of capitalists, mostly former nomenclature members" (Kieżun 2013, p. 172).

All this enabled the former party elites to survive the "shock therapy" and even keep their privileged position in society. As one survey from the late 1990s showed, in middle and large private enterprises, 80 percent of personnel were formerly employed in state agencies, and 62 percent of them served as directors and other supervisors (90 percent were previously nomenclature members) (Gardawski 2010). Jacek Kuroń, one of Solidarity's leaders and one of architects of the Polish transformation said in 1997, "it is being seen with the naked eye that nomenclature members control the most important

Polish companies: former foreign trade agencies, private banks, big commercial companies. […] Paradoxically, they became the pioneers of the Polish market economy. […] The privatisation process inevitably meant that there were equal and "more equal" participants" (Kuroń and Żakowski 1997, pp. 119-120).

The process of former political elites' using political capital to build economic capital has been dubbed "creation of political capitalism" (Staniszkis 2002), "circulation within circulation" (Zielonka et al. 2015), "nomenclature privatisation" (Kieżun 2013), and known by the public as "nomenclature enfranchisement". The combination of political and economic interests of Western capital, former nomenclature and new capitalists – contemporary equivalent of comprador elites – was responsible for the Polish transformation and development. Although this description may sound negative or ambivalent at best, it was nevertheless a necessary price worth paying. It enabled market reforms and made the emergence of the most entrepreneurial individuals possible. The fact that these people benefited most is undeniable. Had this not happened, however, almost nobody could have benefited and the reforms and development would not have been possible.

Myanmar's equivalent to "nomenclature enfranchisement" is "crony capitalism". It is, alongside corruption and the widening gap between the rich and the poor, a typical transformation disease. Its roots must also be traced back to before the transformation process.

"Crony capitalists" – a clique of fewer than 20 families – grew rich with help from the former military regime and are now 'repositioning themselves as the fresh new faces of "Myanmar Inc"' (Reuters 2012). Many have been retooling sprawling business empires that earlier relied on favours from the state, anticipating that the end of sanctions will soon bring new competition from foreign brands. Some are hiving off loss-making assets inherited under a system that reserved lucrative contracts — often in jade mining, timber and tourism — to favoured businessmen.

In exchange for giving military commanders and their children roles in their businesses, cronies like Tay Za, have coveted contracts and import licenses in profitable sectors: trade, logistics, property, agro-industries, tourism, oil and retail. Aung Ko Win is another example. His KBZ Group controls two airlines, the country's largest private bank, and lucrative jade and gem mining concessions (Reuters 2012). Aung Ko Win struck it rich in ruby and sapphire mines in the early 1990s in Shan State where General

Maung Aye – his friend – was a commander (Reuters 2012). Another famous crony, Zaw Zaw has holdings ranging from timber, gems and rubber plantations to construction and luxury resorts. He dominates the lucrative auto-import industry. Annual revenues of USD 500 million make his Max Myanmar Group "a Burmese leviathan" (Reuters 2012). He was said to be Than Shwe's (the leader of the country in the years 1992-2011) good friend but he was also one of the first to realise that the new times had arrived. He invited Suu Kyi for a football game, supported NLD and declared "I don't want to be [a] bad crony, I want to be a good one" (Htet 2013).

Others are reinventing themselves in an equally impressive manner. Quietly, they are bringing sons and daughters into play, spawning a second generation elite that is consolidating through business and marriage. This creates a legacy, which is a class of entrenched business dynasties. They keep informal monopolies over key industries. In Myanmar, military conglomerates and cronies have maintained significant influence over the economy. This was the very case with the former government (BTI 2012). However, the situation has not improved significantly under the new, NLD-dominated government. This all makes Myanmar's transformation likely "to be carved up between the generals, ex-junta tycoons and emerging-markets investors" (Reuters 2012). This pattern follows the Polish transformation.

Again, this description may seem ambivalent. For most of Myanmar's society crony capitalism is something despicable. It is, nevertheless, a necessary price that must be paid. Transition to free market/capitalism is impossible without capital, and "cronies" are the only ones who have it. They will, naturally, benefit most from the transition, but the entire process will benefit the rest of the society. Gradually, the lives of most members of society will improve, as they did in Poland. Again, the alternative is regress and backsliding on the reforms. In other words, it is better to accept that after transformation the cronies will have two (or even five) bowls of rice, while we will be able to afford one bowl only. The alternative is that they will have one bowl, whereas we will have none. When transforming a country from such a precarious state as Myanmar has been since the 1980s, one must accept the unjust fact that in order to help the society one must turn a blind eye to the fact that some people will become "more equal". This may be called by the Weberian name, "the ethics of responsibility".

2.5 The Political Deal between Former Opponents

Finally, the last, but nevertheless a crucial similarity is the political deal between former adversaries. It happened in Poland and has just happened in Myanmar as well. It is a political compromise, and as such it evokes radical interpretations, emotions and feelings. It is very controversial. But it has one value: it works.

In the 1980s Poland's communist regime tried to reform the country, but it lacked social support, as it was intensively unpopular, seen by many as outright illegal, and steadily losing control over its own bureaucracy (nomenclature). The democratic opposition, on the other hand, enjoyed mass popular support, but lacked experience in governance and qualified cadres. This, in a way complementarity, forced them to negotiate. During the process, the opposition tried to achieve as much as possible, while the government presented a strategy of "small concessions" to gain time (Dudek 2004). This is how the Polish "rationed revolution" (Dudek 2004), or "limited revolution" (Kieżun 2013) took place.

Although the official negotiations were taking place in public at a round table in the Presidential Palace in Warsaw – thus the name "Round Table Negotiations" – the real political deal was brokered behind closed doors in a different place. The secret negotiations took place at the military-owned villa ("the special object number 115") located in the Magdalenka village near Warsaw (Cenckiewicz 2013). There, away from public scrutiny and unwanted attention, the regime and the opposition leaders gathered before and during the round table talks and worked out the final compromise. The regime negotiation team was headed by Czesław Kiszczak, Interior Minister and the communist secret service chief; informally number two in the regime. The opposition was headed by Lech Wałęsa, Solidarity chairman and Nobel Peace Prize Laureate. His three most important advisers, themselves associated with the Communist party at some stage of their career, were Adam Michnik, Jacek Kuroń and Bronisław Geremek.

The importance of these negotiations was further emphasised by the fact that almost all of the opposition leaders and delegates on the Solidarity side were in the past prosecuted and some jailed by the regime's secret service headed by no other than Kiszczak himself. Therefore in Magdalenka the executioners and the victims literally met in one place, sat down and started negotiating (Jarosiński 2009). Although most of the negotiations were recorded, what was not recorded remains a favourite source of conspiracy theories.

There are two main narratives related to the Magdalenka negotiations. One narrative supported by the Polish intellectual mainstream (liberal and left intellectuals, writers, historians and political scientists) claims that these secret meetings worked out merely the technical compromise for partly free elections in June 1989. According to this narrative, the communists were confident that they would win the elections so there was no reason to strike secret deals with the opposition. These meetings were intended to force the opposition to take some responsibility for Poland's dire economic situation and consequently compromise the opposition leaders in the eyes of society. Unfortunately for the communists, they lost the elections decisively. This in turn contributed to their failure and the ultimate collapse of all communist regimes in Eastern Europe (Osęka 2009; Skórzyński 2014).

The alternative narrative preferred by the Polish right-wing supporters (historians, political scientists, journalists and politicians), says that the "Magdalenka deal" was the founding element of the so-called Polish Third Republic (the new, post-communist Poland). According to this narrative, Magdalenka was "a conspiracy theory that proved to be true". There was no written agreement, for "perfect conspiracies do not need such", but "the actions speak louder than the words". According to this narrative, the consequences of the "Magdalenka deal" were simple: negotiators dominated the political life of post-communist Poland to the detriment of the rest of Solidarity, the communist criminals were pardoned while the secret service archives were destroyed (see: Cenckiewicz 2013).

What philosophically differentiates these two narratives is the question of the capability of the social forces as free agents. In the first narrative, although the communists tried to control the political process, the power of the social will (the strife for democracy) was too strong to be stopped and ultimately the popular desire for democracy overwhelmed the communist political calculations. As one historian wrote, "they let the democracy virus into the system, which in turn destroyed the Polish People's Republic" (Skórzyński 2014). According to the alternative narrative, the Magdalenka deal created an unwritten pact, a "political salon" consisting of former communists and some opposition leaders who buried the hatchet, fraternised, rebranded themselves as democrats and continued to rule Poland in the new, changed circumstances (Ziemkiewicz 2006). In this narrative, the elites deceived the people, who strived for democracy, but achieved only an ersatz of it. A historian supporting this view wrote that 'the wind of history left Warsaw's salons and cabinets only for one June day [4th June 1989] to crush the communist dictatorship by the election bullet; this day was long enough to crush the walls of the Polish People's Republic fortress, but too short to destroy what was behind these walls' (Dudek 2004, p. 490).

The different interpretations of Magdalenka meetings are further reinforced by a strongly axiological/ideological approach based on a moral perception of politics. Supporters of the first, the "optimistic" narrative consider the changes that took place after 1989 very positive (the "golden age" narrative - the 25 years of the Third Republic as the Golden Age in the Polish history) (The Guardian 2014). Their ideological opponents, on the other hand, present the "pessimistic" narrative: the "Magdalenka deal" was a diabolic conspiracy (Cenckiewicz 2013), a treason that was responsible for all political and social drawbacks of the new Poland (the "Poland in ruins" narrative).[5] Hence, the latter is the favourite source of various conspiracy theories. This is why supporters of the optimistic narrative despise the name "Magdalenka" and prefer to use the phrase "Round Table" instead, whereas supporters of the pessimistic narrative do the opposite – they emphasise "Magdalenka".

In this chapter I try to combine the two approaches. I agree with the "optimistic narrative" that Magdalenka was the Polish equivalent of "cabinet diplomacy" (Skórzyński 2014). Nevertheless, I understand and partly agree with the reasoning of the "pessimistic narrative". I dismiss, however, the negative political judgment (let alone the moral condemnation) which is associated with the "pessimistic narrative". In other words, I support the claim that the real deal was done behind closed doors in Magdalenka, not at the Round Table, but I believe it was the right thing to do. It was, to use a paradoxical phrase, a good, rotten compromise. From my point of view, the "Magdalenka deal" was simple in its nature: the opposition persuades the regime to divide the power in return for economic benefits and – probably – security guarantees for the

[5] The phrase "Poland in ruins" was a semi-official slogan of the conservative, opposition Law and Justice party (PiS) in the presidential and parliamentary elections of 2015. This narrative emphasised Poland's social and economic contrasts, de-industrialisation, disorganisation of the state and other socio-political drawbacks. In many ways it was a populist rhetoric that nevertheless, proved effective. PiS won both elections.

communist apparatus, including the regime leaders. Having taken over the power from the regime in 1989, the opposition kept the deal, even though there were people within the opposition movement who strongly advocated its cancellation. This deal facilitated Polish reforms and made transition from authoritarianism to democracy possible. No matter how much this type of democracy may seem handicapped, it is nevertheless much better than the previous system.

Naturally, this deal was and had to be ambiguous. On the positive side, it gave the opposition access to power and enabled the "circulation" of the elites. It created a new structural framework better suited for global challenges (democracy, rule of law, free press, etc.) and a more flexible economic policy. Furthermore, it gave to a significant part of the society a moral satisfaction and evoked mass social enthusiasm; the feeling of impending change is always beneficial for the reforms. Therefore, it stimulated social creativity, enabled grass-root ideas and projects. Moreover, it enabled, to quote Immanuel Wallerstein (1974), re-engagement with the Western world system and stimulated the "compromise culture", essential in democracy. Finally, it showed that the Polish elites were mature and responded reasonably to the changing situation.

However, the negative consequences have indeed been serious. As a result of the deal, the basic economic interests of the former regime have not been touched, their privileged economic position has generally not been questioned other than verbally. Their control of the economic sphere and particularly the media has remained predominant. Their influence of the political sphere has been significant with the open possibility of returning to power by winning elections (in post-communist Poland the former communists won general elections twice)[6] .

The former state apparatus was not prosecuted (with the exception of low-level civil servants) and no extensive and decisive verification of cadres, called in Polish "lustration", of former apparatchiks took place. As a result of the application of the concept of the "thick line" policy[7], the personal security of the former regime leaders and the safety of their property was guaranteed and the legal actions against them were ineffec-

[6] They won the parliamentary elections in 1993 and in 2001. They governed Poland in the periods: 1993-1997 and 2001-2005. Moreover, they won the presidential elections in 1995 and in 2000.

[7] This is the term used by Poland's first non-communist prime-minister Tadeusz Mazowiecki, who advocated political abolition by saying: "We shall draw a thick line between the present and the past. We shall only be responsible for what we have done to pull Poland out of its current state of collapse" (MFA 2014).

tive (both of the most important leaders of the Polish communist-military regime, general Jaruzelski and general Kiszczak "died peacefully in their beds", despite facing extensive criminal charges, which included killing).

Although the ultimate result of the deal between the communists and the democratic dissidents may seem ambivalent and not a perfect solution, it was the best possible way ("a lesser evil scenario") to confront the political crisis and it proved successful, because (a) it guaranteed political and social stability; (b) it was peaceful and bloodless (prevented witch-hunting), and (c) enabled systemic reforms. The deal was politically mature. It was the best example of successfully implementing the ethics of responsibility in political decision-making and governance. By doing so, the Polish elites, both communist and the opposition, proved to be responsible and prepared for new challenges. This is how the Polish success was born.

As far as Myanmar is concerned, it has followed the Polish scenario (though perhaps unwittingly), yet the process is not over and its success is still uncertain. The "elite compromise" offers some reasonable options for Myanmar in its uneasy path of political and national reconciliation.

After the November 2015 elections, the real power was negotiated between NLD and the regime. From today's perspective, the transition of power in Myanmar has seemed relatively smooth. Yet it was far from being certain in November 2015. USDP was traumatised by the overwhelming electoral defeat. Although the military did expect a defeat, it did not anticipate its extent. NLD's score (77 percent of the popular vote) was well ahead of any expectations and much more that the 67 percent needed by this party to rule alone. This outcome ruined the military calculations for a divided parliament, in which no party has a majority. The election result gave Aung San Suu Kyi a strong mandate; nevertheless, she was well aware that only a deal with the generals guarantees the handover of power. She remembered the year 1990 when the military having lost the elections, simply nullified their results.

Although the political circumstances had changed, there was a danger that *Tatmadaw* may not have accepted the results again. Thus, Suu Kyi faced a challenge of persuading the army to relinquish its power. Moreover, from a political perspective, the position of the army has been structurally better than that of NLD, due to the former being privileged by the constitution which gave the defence forces authority over three ministries (defence, home affairs and border affairs, article 323), budget autonomy and the legal option of staging a coup should the army decide that such Three National Causes (Non-disintegration of the Union; Non-disintegration of National Solidarity; Perpetuation of Sovereignty; an indeed vague concept) are in danger (art. 40, the Constitution 2008). Moreover, the army was guaranteed 25 percent of the seats in parliament. Politically it meant that any government was forced to cooperate, cohabitate, if not co-rule, with *Tatmadaw*.

Suu Kyi while starting negotiations with the army knew that contrary to social expectations, NLD could not make political reckoning with the past; it could not be political payoff time. That is why having won the elections she has toned down the expectations, called for a dialogue and national reconciliation. In November and December 2015 she embarked on a series of behind-the-scene talks with top military commanders, such as general Min Aung Hlaing, the commander-in-chief of *Tatmadaw* and general Than Shwe, the former dictator who kept Suu Kyi under house arrest and conducted a failed assassination attempt on her in 2003. In other words, Suu Kyi was willing to talk with her former foes. The negotiations were secret and no communiques were published afterwards. Details about the process remain unknown: we do not know exactly where negotiations took place, who took part, how many meetings were organised, let alone what the exact agreed conditions were. Thus, their outcomes may only be judged by Suu Kyi's rhetoric (national reconciliation) and by what happened next.

The two sides must have agreed on basic principles of cooperation and kept the deal despite Suu Kyi's attempt (in late January/early February 2016) to become the president.[8] In spite of this, the relations between Suu Kyi and the army have remained cordial. Suu Kyi has not tried to challenge the position of the army which domestically meant maintaining the privileged position of the armed forces and the military-backed crony capitalists that control the economy; in foreign policy she has continued Thein Sein's balancing policy and has not bent under Western pressure on the Rohingya issue; and in ethnic issues, despite striving to achieve the New Panglong Agreement she has not attempted to stop military offensives against the Northern Alliance.

[8] Suu Kyi was unable to become the president. Instead she recommended her subordinate, Htin Kyaw. However, she bypassed the obstacle constructed against her by the army and has created a special position for herself – that of state councillor – which effectively places her at the top of the government, "above the president", as she stated.

For all this, Suu Kyi has finally been recognised by the military commanders; "the military no longer see Suu Kyi […] as a formidable threat to their institution, and view her as containable [and] as a pragmatic leader" (Aung Zaw 2016). It is not surprising given the fact that, in essence, Suu Kyi has been conducting similar policies to that of the army or she has simply continued *Tatmadaw*'s policies. Again this should not come as a surprise. After all, if we look at Burmese politics without ideological biases, the differences between Suu Kyi and the army have never been large, their struggle has rather been a "family quarrel" between a father's daughter and a father's comrades (or successors of father's comrades).

Suu Kyi was able to gain the power by persuading the government/regime to give it away. She did this by guaranteeing the political, social and economic security for the former regime and their property. The regime, on the other hand, restrained itself and accepted the necessity of losing full control over the state and the economy. The Myanmar process of a political deal between the opposition and the government, the national reconciliation policy, the political amnesty process (we may call it as we please) was carried out in compliance with the "cabinet diplomacy" style: it was brokered behind closed doors; during the negotiations media and the public were kept away; the details were not disclosed and have remained confident or even secret; it was done undemocratically, without transparency; it was promoted by a slogan of "national reconciliation" and the agreement has been kept as low profile as possible.

Although in fact it is this deal that guarantees the stability of the nation, both sides understood that it would be much better to present to the public another narrative, a less controversial one, such as "the elections as the turning point". In general, this deal was a wise decision. In Myanmar's circumstances, any attempt to politically reckon with the military could prompt resumption of repressions, withholding the reforms or even a new *coup d'état*. By guaranteeing the military a safe landing Suu Kyi secured the fruits of her victory and made it possible for Myanmar to move forward.

Furthermore, this deal was consistent with Myanmar political culture. It is precisely how politics has always been made in Myanmar. Not only in the "dark times" of Ne Win's and Than Shwe's dictatorships but also during Aung San times (the father of the independence and the father of Aung San Suu Kyi). It was precisely in this way that Aung San negotiated Burmese independence from the British in London in January 1947[9] and this is how he achieved his biggest success in domestic policy – the Panglong Agreement on 12 February 1947[10].

To sum up, we can see striking similarities between Myanmar and Poland. In both cases the deal was done behind closed doors and opposition gained power by guaranteeing the military a soft landing. This was easier given the fact that in both countries the negotiations were carried out by people who knew each other well. In the Polish behind-the-scene negotiations in Magdalenka many opposition leaders had a communist past, or were simply communists before (Adam Michnik, Jacek Kuroń, Bronisław Geremek). In Myanmar's case, many NLD members had army connections, or were soldiers in the past, most notably, Tin Oo. This "structural-ideological" connection helped in the trust building process, as adversaries, or partners, were not "from two completely different worlds".

Suu Kyi understood, as the Polish elites of early transformation did, that although it may seem ethically ambivalent, one cannot hold the military regime accountable for past misdeeds. Given the scale of military economic and social mismanagement in Myanmar since 1962 and the mass social repressions that marked this period, for many Myanmar citizens, it is unacceptable to forgive the military men and to start afresh from "tabula rasa". Revenge or any kind of political justice seem logically more proper actions. Unfortunately, what may seem right in everyday life is not quite so in politics. In a classical text of political science, we may quote: "The individual may say for himself *fiat justitia, pereat mundur* (let justice be done, even if the world should perish), but the state has no right to say so in the name of those who are in its care [...] The individual has a moral right to sacrifice himself in defence of such a moral principle, the state has no right [...] There can be no political morality without prudence, that is, without consideration of the political consequences of seemingly moral actions [...] Political ethics judges action by its political consequences" (Morgenthau 1948, p. 12).

As mentioned above, in Myanmar's circumstances any attempt of political reckoning with the military could sabotage reforms and inflict repressions. If such an unfortunate state of affairs happened, the average Myanmar citizen would be significantly worse off.

[9] *Attlee – Aung San Agreement*, Burmastar 27.01.1947, http://burmastar1010.files.wordpress.com/2011/06/44172419-aungsan-atlee-agreement.pdf.
[10] *The Panglong Agreement 1947*, Online Burma Library, http://www.ibiblio.org/obl/docs/panglong_agreement.htm.

That is why national reconciliation is the reasonable policy making in contemporary Myanmar. The same was in the case of Poland in 1989, where the political mood of the street was also that of revenge, but the democratic opposition elites decided to implement the "thick line" policy upon taking over the government, or, in other words, sanctioned the *de facto* abolition of the crimes and other ambivalent actions of the communists. This worked well and enabled Poland's success. Therefore, Myanmar's democratic opposition policy of amnesia towards *Tatmadaw* should not be judged morally – moral assessments are beyond the scope of this chapter – but purely politically and from a political perspective this was the only good policy choice available on the table.

While engaging in politics, one should use the ethics of responsibility instead of ethics of conviction. And the ethics of responsibility force one to accept the fact that political details should be disclosed from the public, in accordance with the words attributed to Otto von Bismarck: "Laws are like sausages. You should never see them made".[11] In other words, as Morgenthau (1948, p. 101) stated, 'the human mind in its day-by-day operations cannot bear to look the truth of politics straight in the face. It must disguise, distort, belittle, and embellish the truth'.[12]

Conclusions

Myanmar is undergoing a transformation process similar in many ways to that of Poland. This is true in political, social and economic spheres. Myanmar chose, as Poland did, to follow a good pattern of political deals brokered by the elites behind closed doors: the Round Table negotiations in the case of Poland and Suu Kyi-army deal in the case of Myanmar. Politically, these local equivalents of "cabinet diplomacy" offer political stability, enable reforms and fit into patterns of the Polish and the Burmese political cultures.

In both cases it has been a win-win model for the elites. The democratic opposition gained the nominal power and moral satisfaction. Society gained the feeling of change and of historic justice. The social energy was reinvigorated, while at the same time the

[11] Although Bismarck is universally known as the author of this "laws and sausages" maxim, he probably did not say that (judging by his political actions, however, you would agree with this reasoning) (Shapiro 2008).

[12] "The more so, the more individual is actively involved in the process of politics […] for only by deceiving himself about the nature of politics and the role he plays on the political scene is man able to live contentedly as a political animal with himself and his fellow men" (Morgenthau 1948, p. 101).

basic interests of the previous regime were not affected; the previous regime's authorities were not prosecuted and were even acclaimed abroad. They have continued to control the economic sphere from behind-the-scenes and to influence the political sphere. The success of this scenario required both sides of the political spectrum – the military establishment and the democratic opposition – to restrain their demands, compromise and keep the deal. The prize is well-worth it: political stability. Both Poland and Myanmar were able to achieve this, at least so far.

References

Aung Zaw (2013a). *Face of Resistance. Aung San Suu Kyi and Burma's Fight for Freedom*. Bangkok: Mekong Books.

Aung Zaw (2013b). The Letpadaung Saga and the End of an Era. *The Irrawaddy,* 14.03.2013; http://www.irrawaddy.org/commentary/the-letpadaung-saga-and-the-end-of-an-era.html

Aung Zaw (2016). The Army To Rebrand Itself as New Political Reality Sets in. *Irrawaddy*, 16.05.2016; http://www.burmanet.org/news/2016/05/16/the-irrawaddy-army-to-rebrand-itself-as-new-political-reality-sets-in-aung-zaw/

Bolesta, A. (ed.) (2013) *From Central Planning to Market: Poland's Transformation in a Comparative Perspective and the Lessons for Myanmar*. Bangkok: Chulalongkorn University.

BTI (2012). *Myanmar Country Report*, BTI; http://www.bti-project.de/fileadmin/Inhalte/reports/2012/pdf/BTI%202012%20Myanmar.pdf

Bünte, M., Portela, C. (2012). Myanmar: The Beginning of Reforms and the End of Sanctions. *GIGA Papers*, No. 3/2012; https://giga.hamburg/en/system/files/publications/gf_international_1203.pdf

Burma/Myanmar: EU Sanctions Suspended (2012). Council of the European Union; http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/130188.pdf

Cenckiewicz, S. (2013). Magdalenka. Teoria spiskowa, która okazała się prawdą. *Rzeczpospolita*, 18.10.2013; http://www.rp.pl/artykul/1058043-Magdalenka--Teoria-spiskowa--ktora-okazala-sie-prawda.html

Constitution of the Union of Myanmar (2008). Online Burma Library; http://www.burmalibrary.org/docs5/Myanmar_Constitution-2008-en.pdf

Curtis, G.E. (1992). *Poland: A Country Study*. Washington: GPO for the Library of Congress, http://countrystudies.us/poland/92.htm

Dudek, A. (2013). *Historia polityczna Polski 1989-2012*. Kraków: Znak.

Dudek, A. (2004). *Reglamentowana rewolucja. Rozkład dyktatury komunistycznej w Polsce 1988-1990*. Kraków: Arcana.

Eropean Commission (n.d.). "Myanmar/Burma: Trade". http://ec.europa.eu/trade/policy/countries-and-regions/countries/myanmar/

Framework for Economic and Social Reforms, Policy Priorities for 2012-15 towards the Long-Term Goals of the National Comprehensive Development Plan (2012). Government of the Republic of Union of Myanmar; http://www.eaber.org/sites/default/files/FESR%20Official%20Version%20-%20Green%20Cover.pdf

Gazeta Wyborcza (2010). Jerzy Urban: "Rząd się sam wyżywi". http://wiadomosci.gazeta.pl/wiadomosci/56,114873,8809584,jerzy-urban-rzad-sie-sam-wyzywi,,8.html

Górnicki, W. (1994). *Teraz już można. Ze wspomnien kulawego szerpy*. Wrocław: Wydawnictwo Dolnośląskie.

Investivine (2013). "Myanmar clears 60% of foreign debt". *Investvine,* 29.01.2013; http://investvine.com/myanmar-clears-60-of-foreign-debt/

Investvine (2013). "Myanmar's economy to quadruple by 2030". *Investvine*, 30.05.2013; http://investvine.com/myanmars-economy-to-quadruple-by-2030/

Jarosiński, M. (2009). Rozmowy w Magdalence. *Dzieje.pl*, 25.05.2009; http://dzieje.pl/aktualnosci/rozmowy-w-magdalence

Kieżun, W. (2013). *Patologia Transformacji*. Warsaw: Poltex.

Koji, K. (2013)."Myanmar's Two Decades of Halfway Transition to a Market Economy: A Negative Legacy for the New Government. In: Lim, H., Yamada, Y. (eds.) *Economic Reforms in Myanmar: Pathways and Prospects*. Bangkok: BRC Research Report, No. 10.

Kuroń, J., Żakowski, J. (1997). *Siedmiolatka, czyli kto okradł Polskę?* Wrocław: Wydawnictwo Dolnośląskie.

Lintner, B. (2013). Myanmar, North Korea stay brothers in arms. *Asia Times Online*, 5.09.2013; http://www.atimes.com/atimes/Southeast_Asia/SEA-01-050913.html

MFA (2014). 25 years ago Poland elected its first non-communist prime minister after WWII. Ministry of Foreign Affairs of Poland, Press Release, 12.09.2014; http://www.msz.gov.pl/en/news/twenty_five_years_ago_poland_elected_its_first_non_communist_prime_minister_after_wwii

Morgenthau, H. (1948). *Politics Among Nations. The Struggle for Power and Peace*, New York: A.A. Knopf.

Osęka, P. (2009). Jak wygraliśmy w Magdalence. *Gazeta Wyborcza* 03.04.2009; http://wyborcza.pl/1,97189,6463817,Jak_wygralismy_w_Magdalence.html#ixzz3tYnAjGoc

Owen, J. (2013). Why Suu Kyi Still Loves Burma's Army. *The Independent*, 27.01.2013; http://www.independent.co.uk/news/world/asia/why-suu-kyi-still-loves-burmas-army-8468363.html

Rachwald, A.R. (1989). *In Search of Poland: The Superpowers' Response to Solidarity, 1980-1989*. Stanford: Hoover Institution Press Publication.

Remarks by the President at the United States Military Academy Commencement Ceremony (2014). The White House, 28.05.2014; http://www.whitehouse.gov/the-press-office/2014/05/28/remarks-president-united-states-military-academy-commencement-ceremony

Reuters (2013). "Myanmar gets total debt relief of $6 billion; aid flows set to rise". *Reuters*, 28.01.2013; available: http://uk.reuters.com/article/uk-myanmar-economy-debt-idUKBRE90R02A20130128

Reuters (2012). "Special Report: An image makeover for Myanmar Inc." *Reuters,* 13.04.2012; available at: http://www.reuters.com/article/us-myanmar-cronies-image-idUSBRE83B0YU20120413

Robertson, T. (2014). Aung San Suu Kyi: Colluding with Tyranny. *The Diplomat,* 12.11.2014; http://thediplomat.com/2014/11/aung-san-suu-kyi-colluding-with-tyranny/

Sachs, J. (2006). *Koniec z nędzą: Zadanie dla naszego pokolenia*, Warszawa: Wydawnictwo Naukowe PWN.

Shapiro, F.R. (2008). Quote . . . Misquote. *The New York Times,* 21.06.2008; http://www.nytimes.com/2008/07/21/magazine/27wwwl-guestsafire-t.html?_r=0

Skórzyński, J. (2014). Tajemnica Magdalenki: Rozmowy, od których zaczęła się transformacja". *Newsweek*, 05.04.2014; http://25lat.newsweek.pl/co-ustalono-w-magdalence-okragly-stol-newsweek-pl,artykuly,282944,1,2.html

Staniszkis, J. (2012). *Poskomunizm*. Gdańsk: Słowo.

Steinberg, D.I. (2000). *Burma: The State of Myanmar*. Washington D.C.: Georgetown University Press.

Szabłowski, W. (2011). Jaruzelski do Birmy! *Gazeta Wyborcza*, 05.01.2011; http://wyborcza.pl/1,76842,8906849,Jaruzelski_do_Birmy_.html

Taylor, R.H. (2009). *The State in Myanmar*. Singapore University Press.

Tha Lung Zaung Htet (2013). Give Cronies a Chance to Reform, Says Suu Kyi. *The Irrawaddy*, 11.01.2013; http://www.irrawaddy.org/business/economy/give-cronies-a-chance-to-reform-says-suu-kyi.html

Thant Myint-U (2007). *The River of Lost Footsteps. A Personal History of Burma*: New York, FSG

The Guardian (2014). The second Jagiellonian age. Poland's New Golden Age. 28.06.2014; http://www.economist.com/news/special-report/21604684-first-time-half-millennium-poland-thriving-says-vendeline-von-bredow

The Independent (2011). Taste of democracy sends Burma's fragile economy into free-fall. 20.09.2011; http://www.independent.co.uk/news/world/asia/taste-of-democ-racy-sends-burmas-fragile-economy-into-freefall-2357511.html

Tygodnik Przegląd (2002). Obiad na Manhattanie. *Tygodnik Przegląd*. 22.04.2002; http://www.tygodnikprzeglad.pl/obiad-na-manhattanie/

Wai Yan Hpone (2015). The Lady's Predicament. *The Irrawaddy*, 31.03.2015; http://www.irrawaddy.org/contributor/the-ladys-predicament.html

Wallerstein, I. (1974). The Rise and Future Demise of World Capitalist System: Concepts for Comparative Analysis. *Comparative Studies in Society and History*, 16 (4); http://bev.berkeley.edu/ipe/readings/Wallerstein.pdf

World Bank, (2013). Myanmar and World Bank Group now fully engaged to spur growth and create opportunities for all. Washington, D.C.: The World Bank, 27.01.2013; http://www.worldbank.org/en/news/press-release/2013/01/27/my-anmar-world-bank-group-now-fully-engaged-spur-growth-and-create-opportuni-ties-for-all

Ziemkiewicz, R. (2006). *Michnikowszczyzna. Zapis choroby* (*Michnik-isation. A Record of Disease*). Warsaw: Red Horse.

Chapter 3

Natthanan Kunnamas

Post-Socialist Transformation of the Former Yugoslavia: The Cases of Slovenia, Croatia and Serbia

Introduction

This chapter assesses the transformation process of Slovenia, Croatia and Serbia, which the author considers the core countries among the former Yugoslav republics after the disintegration of Yugoslavia in 1992. In the transformation process of Central-Eastern Europe (CEE), the three former Yugoslav countries faced harder tasks compared to the Visegrad countries (Poland, Hungary, the Czech Republic, Slovakia) under the added difficulties of post-war nation-building conditions.

These conditions will be elaborated in the first part of the chapter. The first part will touch upon the former Yugoslavia under the reign of the controversial "smart dictator", Josip Broz Tito, and his Third Way Socialism of semi-liberal self-management, which again differentiates the former partisan Yugoslav cases from the other socialist countries during the Cold War. This part also outlines how post-Tito governance led to confrontations between nationalist and confederationist leaders, which in turn led to the breaking up of Yugoslavia involving ethnic cleansing.

The second part will assess the political and economic transformation of the three former Yugoslav states.

The third part will briefly examine the external environment and the actors involved in the three countries since the break-up of Yugoslavia, namely, the European Union (EU) and the United States (US), and how they were involved in the sub-region. This part will also explore the possibilities of the partisan/confederationist alliance among South-East European countries (SEE) in the future.

Post-socialist transformation processes in Central-Eastern European countries[1] are eye-catching phenomena which have been of interest to social scientists since the fall

[1] Central-Eastern European (CEE) countries include: Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and

of the Berlin Wall in 1989 and the collapse of the Union of Soviet Socialist Republics (USSR), or the Soviet Union, in 1991. When examining the dynamics and depth of changes among the CEE, the Visegrad group surfaces as having achieved the best results in reference to motivation of the elites, institutional adjustments and the systemic policies of the transformation process. The phenomenon of the Visegrad became a reference point for other non-European, post-socialist transformations, especially in less developed regions.

However, one should not forget that within the dynamic CEE region, there is a sub-region of South-East Europe (SEE), which includes former Yugoslavia and has also been undergoing post-socialist transformation. In the seven Yugoslav republics and autonomous provinces, namely Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia and Slovenia, the situation has varied considerably. Slovenia was by far the most advanced in systemic transformation and was able to join the European Union already in 2004 at the same time as the Visegrad group did. However, many countries in the sub-region are still in their early stages of state-building. This is true for previously war-torn Kosovo and is evident in the extraordinary power-sharing between three different ethnic and religious groups in Bosnia and Herzegovina.

As far as the two sub-regions of post-socialist transformation is concerned, the Visegrad experienced non-violent transition after the fall of the Berlin Wall in 1989. Former communist leaders stepped down peacefully in the face of the Velvet Revolution in Czechoslovakia and the Solidarity movement in Poland. In contrast, nationalist movements in the former Yugoslav states were involved in successive wars, from the ten-day War of Slovenian Independence (27 June-7 July 1991), to the four-year long war in Croatia (1991-1995). The civil war escalated into ethnic cleansing in Bosnia and Herzegovina (in which Bosnian Muslims were murdered by both Croat and Serb armies) and in Kosovo, where ethnic Albanians were killed by the Serb army. The civil wars in these two former republics turned states necessitated the involvement of the United States and the North Atlantic Treaty Organization (NATO) as well as the United Nations.

Slovenia. Consequently, the South-East European countries (SEE) are part of the CEE group. Several post-Soviet countries are often also counted as CEE in addition to Baltic states of Estonia, Latvia and Lithuania, namely Belarus, Moldova and Ukraine.

Consequently, for the former Yugoslav republics, the first precondition of the transformation process was reconstruction. In other words, the aftermath of the wars became the intervening variable. The second precondition was the nation-building. Again, this was different from other states in the CEE region, except perhaps in the case of Czechoslovakia, where the break-up (the so-called "Velvet Divorce") into two new nation states, the Czech Republic and Slovakia, was peaceful.

It is this author's belief that in the former Yugoslavia, three countries exhibited the most promise with regard to systemic transformation success, which this chapter terms as "core" nations. Among the seven countries of former Yugoslavia, Slovenia, Croatia and Serbia have been the most dynamic, developed, and committed to the transformation process. Slovenia is already an EU and Eurozone member. Croatia, which has been an EU member since 2013, is larger than Slovenia but ranks second in economic growth in the group. Serbia is still the largest in population and in size and has been a candidate for EU membership since 2014.

The transformations of these three countries have been difficult due to the aforementioned preconditions of post-war reconstruction and nation building. Another awkward but interesting impediment to transformation is the pride in the Cold War successes of Tito's partisan self-management economic policies in Slovenia and, to a lesser extent, in Croatia. This seems to have made both countries hesitant in moving towards full economic liberalisation and privatisation. The Tito-inspired gradualist approach turned out to be a major obstacle to accelerate transformation and contrasts significantly with Poland's drastic shock therapy transformation introduced by domestic political elites and American advisors, particularly, Jeffrey D. Sachs and Leszek Balcerowicz (Poonkham and Kunnamas 2013).

Naturally, the Visegrad can serve as a model for systemic transformation and post-socialist development. However, the former Yugoslav core countries' experiences can provide important lessons for those states, in which post-war reconstruction and nation building constitute important components of transition.

3.1 From Partisanism to Nationalism

The case of Yugoslavia has been indeed a special one in the history of Europe, ethnically and religiously, as well as economically (particularly during the Cold War). In the nineteenth century, the "Eastern question", and the power interplay between the Austrian and the Russian empires in the Balkan region triggered the catastrophic First World War. The region continued to be unstable and volatile politically and economically during the Cold War. The partisan Yugoslavia under Josef Broz Tito could never be described as being behind the "Iron Curtain", which divided the Communist bloc and the democratic countries. Tito pursued his own "national path of development", the so-called "third way socialism". He was expelled from the Soviet-dominated Cominform (the Communist Information Bureau)[2] and domestically allowed for economic self-management within certain economic sectors. This "third way socialism" and the participation in the non-aligned movement (NAM)[3] made the Yugoslav case historically unique.

3.1.1 Partisanism under Tito's "Smart Dictatorship"

After world war two, Josip Broz Tito was the most influential political figure in Yugoslavia. Although he was appointed President only in the year 1953, he had been influential in politics much earlier as the President of the League of Communists of Yugoslavia and as the Prime Minister and the Minister of Defence[4]. Tito played an important role in Yugoslavia for decades until his death in 1980.

His most illustrious role was, perhaps, his position as the leader of the Partisans, who were said to be the most successful anti-Nazi movement in the occupied Europe. He was a war hero (Jeffreys-Jones 2013). After heading an alliance of various nationalities against Germany's Hitler during the war, he eventually became an authoritarian leader of Yugoslavia. Despite the dictatorial position his state policies were believed to have benefited the majority of the nation. He thus was perceived as a benevolent or

[2] Cominform was established by the Soviet Union in 1947 to be the coordinating body between the communist parties of the USSR, Bulgaria, Poland, Italy, France, Czechoslovakia, Romania and Yugoslavia. The organisation served as a tool for Soviet policy makers to promote solidarity among its satellite states and communist political groupings.

[3] Non-aligned movement (NAM) is a grouping of developing countries, which was created to represent their interests and aspirations of their "third way", in the context of the Cold War's contest between the two blocs; capitalist and socialist, led by the US and the USSR respectively. NAM was partly the result of the waves of decolonisation and the process of gaining independence and acquiring self-determination after world war two by many developing states. It has advocated world peace, cooperation, multilateralism, and an equitable global economic order.

[4] Before Tito's reign, Yugoslavia had a ceremonial head of state, the Chairman of the Presidium of the National Assembly, Ivan Ribar (1945-1953).

smart dictator (Shapiro and Shapiro 2004)[5]. Although the term "Smart Dictatorship" itself may sound like an oxymoron, it reflects the collective experience that the majority of the population of Yugoslavia was part of. Obviously a communist, Tito witnessed the first constitution of the Federative People's Republic of Yugoslavia in 1946 modelled after the 1936 Soviet constitution.

Nevertheless, once leading the country he took a different path and remained detached from the USSR. While Stalin tried to spread the ideas related to socialism and communism worldwide and supported the emergence of communist regimes, Tito concentrated on working on benefits for his own country, a course later construed as "national communism". This ideological split damaged Tito's relationship with Josef Stalin. The price to pay was high, but the drift was unavoidable, as Tito himself once explained: "We study and take as an example the Soviet system, but we are developing socialism in our country in somewhat different forms. [...] No matter how much each of us loves the land of socialism, the USSR, he can in no case love his own country less" (Kullaa 2011, p. 40).

In the nation building process after world war two, by championing socialist ideology and creating an artificial national identity, Tito overcame (or suppressed) ethnic tensions within the Yugoslav population using the slogans of brotherhood, equality and unity among working-class people, regardless of their ethnic origin. This approach worked well during his dictatorship when Yugoslavs experienced security, inter-ethnic peace and relative prosperity. Economic and social development resulted in improved living conditions, and thus after Tito's death, some people for many years looked back nostalgically at the time of his regime. In terms of economic development, Tito used Soviet methods to rebuild the country in the aftermath of the war. He seized the land from "churches, monasteries, absentee landlords, private companies, and the expelled German minorities" (Curtis 1990, p. 44).

The Communist party later awarded some of it to poor peasants, which increased its broad popularity. In 1952, the sixth Party Congress became a demarcation of change in Yugoslavia. The Communist Party of Yugoslavia changed its name to the Communist League of Yugoslavia with provincial parties representing each republic and autono-

[5] "Smart Dictatorship" is a term that is often used in describing the dictatorial regime of Josip Broz Tito (see: Shapiro and Shapiro 2004).

mous province (Curtis 1990). These changes served Tito's desire to prove that his governance under third way socialism was superior to the Stalinist model. He chose to decentralise the country and the economy instead of increasing the state's central command. With this approach, republics within Yugoslavia could have some political rights and their own prerogatives.

Along with the new 1952 constitution, six local governments, including Vojvodina and Kosovo, established their own governments and assemblies. The apparatus of each local government based on communes was officially defined as a "self-managing socio-political community based on the power of and self-management by the working class and all working people" (Curtis 1990, p. 190). Each district controlled law enforcement, elections, and economic functions such as management of utilities for the communes. In the coordination mechanism between the central party apparatus and its regional branches nine executive secretaries worked under the secretary of the presidium and acted as liaison officers between the centre and the regions (Staar 1982).

Under this self-management system, economic arrangements during Tito's regime were sometimes dubbed "market socialism". Central administrative control of the economy was not achieved through a central production plan but rather by "ad hoc interventions through taxation, occasional subsidies, specific regulations binding on particular industries and both central and »national« (that is provincial) control over major new investment" (Estrin 2010, p. 65-66).

Consequently, state bureaucracy was more important than the Communist party in the communist regime. Companies were allowed to decide how much and where to invest, whether to buy raw materials by themselves, and whether to purchase from domestic or international suppliers, in contrast to the practice of the Soviet's state allocation of resources. A company could also rent land from the state or from private entities. Tito also introduced the "workplace to the workers" concept, in which workers would also receive a bonus in addition to their wages, dependant on companies' profits. The decision-making process in an enterprise would be managed by workers' councils and managers' committees. Workers' councils would make decisions related to the management of the enterprise, while managers would be in charge of planning and implementing plans as the steering committee. Theoretically, the workers' councils were superior to the steering committees and the managers.

The reality, however, was the opposite. Managers and members of steering committees were mostly experts who did the real management and who were subject to party control. Workers played in fact a minimal role in management and received relatively low wages compared to managers (Katalenac 2013). The third way economic socialism or self-management system was a mixture of a Second World Stalinism and a First World market economy.

The self-management economic system had different dynamics in the republics and autonomous provinces. Slovenia was Western influenced and Croatia preferred moderate economic liberalism. They fared better under Communist rule than Serbia, Montenegro, and Bosnia and Herzegovina, all of whom had earlier been under the Byzantine and Ottoman influence.

In the end, however, the Stalinist model of rapid industrial development to stimulate growth in underdeveloped regions prevailed. The farming sector was drastically reduced and industrialisation advanced. Yugoslav agriculture-related industries could be classified in three types: private farms, cooperatives and "kombinats". Kombinats were large industrial agri-businesses which monopolised food and agricultural production locally. Kombinats would sign contracts with local private farms and cooperatives to buy supplies and then to sell the final products. They also used their own land for industrial production (Hall 1985)· This development pattern meant that agriculture itself played a limited role in Yugoslavia's economy.

In international affairs, relations with the Soviet Union after world war two were mostly confrontational. Stalin saw an independent Tito as a threat to the USSR and to its sphere of influence in Central-Eastern Europe. The USSR-Yugoslavia trade negotiations in the first months of 1948 ended up in stalemate. Tito eventually refused to attend a special session of the Cominform in Bucharest, leading to the expulsion of Yugoslavia from the group. Stalin called upon other Yugoslav communists and the Yugoslav people to overthrow Tito, however, to no avail, as the Yugoslav leader enjoyed domestic support and popularity.

The event illustrated how important Tito was as an icon of Yugoslavia. He also demonstrated how a smart leader could steer a country away from a stormy sea of economic and international political uncertainties. The Soviet-bloc's hostility led to changes in Tito's foreign relations. Yugoslavia ceased to logistically support the communist movement in Greece (due to the Tito-Stalin split and the Greek Communist

Party decision to align with the Soviet Union) and ceased to vote in the UN bodies in accordance with the Soviets. Yugoslavia accepted much needed economic and financial aid from the Western bloc, as well as military and security support from the US. Having parted ways with the USSR, Tito made historic move in 1961 by forming the Non-Aligned Movement (NAM) together with Gamal Abdel Nasser of Egypt, Jawaharlal Nehru of India, Sukarno of Indonesia and Kwame Nkruma of Ghana. The bond between the five leaders constituted the first solid expression of alliance among third world countries. On 1st September 1961, Josip Broz Tito became the Movement's first Secretary-General.

Tito's policy of neutrality during the Cold War and the ties established in the NAM accord eventually led to a complete break-up of Tito's relations with Stalin and later with the entire Eastern Bloc. His speeches during this period frequently conveyed the concept of remaining neutral and collaborating with every country, unless being aggressively pressured or coerced. This stance of neutrality established and strengthened bonds between Yugoslavia, the United States and the Western European countries.

3.1.2 The Balkan Wars and the Sluggish Road towards Nationalism

After Tito's death in 1980, the federal leadership or the presidency was rotated among the six republics' and autonomous provinces' representatives. This loose governance led to the failure of Tito's successors to preserve the confederation. The disintegration of Yugoslavia was accelerated when, in 1989, the Serbian Republic chose the nationalist and populist leader, Slobodan Milošević, as a new leader. Milošević pursued his own approach to socialist state intervention, while other republics, especially Slovenia and Croatia, held to the self-management economic system. In 1990, Milošević pushed through changes to the Serbian constitution that curtailed provincial autonomy of Vojvodina and Kosovo. He opposed Slovenia and Croatia's multiparty elections in 1990.

Behind these manoeuvres was his conviction that Serb nationalism was in opposition to the new confederalist ideas of the other republics. Using his pan-Slav campaign depicted as a quest for the dominance of the Eastern Slavic or Serb race. He also refused to keep the confederation together. When negotiations failed, Slovenia and Croatia as the first of the six republics, declared independence from the central government of Yugoslavia on 25th June 1991.

In 1990, before the independence, the Slovenian government allowed various political parties to hold rallies before the elections along with the communist party. The victory had gone to the Democratic Opposition of Slovenia (DOMOS) and an alliance of non-communist parties and Lojze Peterle from the Slovene Christian Democratic Union (SCDU) became the Prime Minister[6]. Even though the President, Milan Kučan, was a member of the communist party, the DOMOS was able to organise a referendum for independence in December 1990, which resulted in 88 percent of the votes in favour (Ramet 1997). Slovenia then fought a 10-day war of independence with the Yugoslav federal army. Germany was the first to recognise the new states of Slovenia and Croatia, followed by other European nations and the United States.

In 1990, the Croatian government allowed multi-party elections, which included the communists and resulted in the parliament choosing Franjo Tudjman as the president (by a margin of 331 to 281 votes) (Cohen 1997). Tudjman then campaigned for a referendum for independence from Yugoslavia and supported the process of Croat nation building. Croatia's war of independence lasted four years. The Serb minority (approximately 12 percent of the population) instigated a counter independence movement against Tudjman and against the constitution which privileged Croats. In the northern town of Knin, the movement was known as the "Log Revolution" to distinguish Tudjman's policies from those supported by Milošević for an autonomous region called the "Republic of Serbian Krajina". The Serbs in this enclave soon announced a Declaration of the Sovereignty and Autonomy of the Serbian People.

The conflict developed into a civil war in March 1991. In May, in referendum Croats chose to leave Yugoslavia, but the Serb nationalists found it unacceptable. The civil war escalated, with a United Nations Protection Force (UNPROFOR) brought in to maintain peace during 1991-1994. President Tudjman broke the ceasefire agreement, launching the "Operation Storm" against Serbs in the Republic of Serbian Krajina. The autonomous Serb region in Croatia collapsed, with violence and bloodshed continuing until 1995. Croatia under Tudjman was boycotted by the international community for crimes against civilians committed by Croat forces during their offensives, seen by some as an act of ethnic cleansing and genocide.

[6] The Democratic Opposition of Slovenia or DOMOS was an alliance of three opposition parties, namely, the Slovenian Democratic Union (SDU), the Social Democrat Alliance of Slovenia (SDAS) and the Slovene Christian Democratic Union (SCDU).

Bosnia and Herzegovina declared independence in March of 1992, as a result of a referendum. Under the government of Bosniak leader, Alija Izetbegovic, the country, with its ethnic mixture of Bosniaks (Bosnian Muslims), Serbs, and Croats, proclaimed itself independent of Serb-dominated Yugoslavia. This act stirred up resentment among the Serbian population, which strongly supported Milošević's idea of "Greater Serbia", according to the slogan "Wherever there is a Serb, there is Serbia" (Global Security 2015).

In response, Bosnian Serb ethno-nationalists declared their autonomous territory of "Republika Srpska" in the northern and eastern regions of the country. At first, the conflict appeared among the three ethnic groups, but as the Bosnian Serbs proved to be the biggest threat, the Croats and the Bosniaks agreed to a cease fire and in 1994 formed an alliance against the Serbs. The conflict escalated into a vicious war with ethnic cleansing carried out against Bosnian Muslims by Serbs. Perhaps the most infamous atrocity took place in the town of Srebrenica, where 7,000-8,000 Bosnian Muslims were killed in 1995. Eventually, having warned the Serbs and demanded that they withdraw from Muslim enclaves, NATO conducted a series of airstrikes against the Bosnian Serb forces. The bloody armed conflicts ended in late of 1995 as a result of the Dayton peace settlement sponsored by the US, which created a federation of two autonomous entities within one state, namely, a Bosnian Serb republic and a Muslim-Croat federation.

After the Serbian government under Milošević dissolved the provincial Kosovar government in the early 1990s, the same patterns of violence occurred in Kosovo, then an autonomous province of Serbia with a mostly ethnic Albanian population. As resentment in the Albanian population increased, a new conflict began. In 1996 the Kosovo Liberation Army (KLA) claimed responsibility for a series of violent attacks, which escalated quickly into another a war involving Serbian forces.

Throughout 1998 and 1999, the Serb-dominated Yugoslav forces committed systematic ethnic cleansing against Kosovar Albanians. For crimes against humanity and genocide committed during these campaigns Milošević was eventually tried by the International Criminal Tribunal for the Former Yugoslavia (ICTY). The US and NATO conducted a series of airstrikes against Yugoslav-Serbian forces and other strategic targets which resulted in a considerable number of civilian casualties, both Albanian and Serbian. This strategy succeeded in bringing about a Yugoslav withdrawal from Kosovo. Following the UN Security Council resolution in June 1999, the Serbian leadership of

Yugoslavia agreed to withdraw troops and did not oppose the deployment of US and allied peacekeeping forces in Kosovo to secure the region. Despite this, there were occasional acts of violence by Albanian guerrillas seeking revenge. In 2008, Kosovo gained independence from Serbia, and in 2013, the two agreed to normalise their relations.

In Serbia, during the eight years of Milošević's dictatorial rule, the country faced economic problems and bloody conflicts. Democratic opposition was repressed. However, the end of Milošević's presidency of Serbia in 1997 (constitutionally prohibited from serving a third term, he became the president of the Federal Republic of Yugoslavia, in the capacity of which he served between 1997 and 2000) and the escalation of ethnic war in Kosovo in 1998 and 1999 gave momentum to the rise of opposition groups, and a one in particular, namely the "Otpor" (resistance). This non-violent political group was established by a student movement in October 1998.

The initiative encouraged people to resist Milošević's regime and to support democratic change. By June 2000, in anticipation of up-coming elections on 24th September, Otpor campaigned against Milošević and succeeded in uniting 18 individual parties in the Democratic Opposition of Serbia (DOS) under its presidential candidate, Vojislav Kostunica. The election saw the participation of 80 percent of the electorate and resulted in Kostunica's victory. However, Milošević refused to recognise the results and called for another vote on 8th October. Campaigns for a general strike and disobedience against Milošević effected mass rallies and demonstrations in Belgrade and in other major cities all over Serbia. Worker strikes began with coal miners in the Kolubara mines and soon spread to other occupational groups, leading to the shutdown of state functions and production. On 5th October, mass protesters from the provinces converged in Belgrade using bulldozers to clear blockades. They seized the national parliament and a state-run television station, a moment that marked the symbolic success of the so-called "Bulldozer Revolution". The next day, Milošević formally announced his resignation and was replaced by Kostunica.

The event that eventually marked Yugoslavia's final dissolution was the 2006 Montenegrin referendum on separation from Serbia. The two states shared historic, cultural and social links. In terms of political and economic structure, however, they were barely integrated and followed separate trajectories. Since pro-independence, former prime minister, Milo Djukanović from Democratic Party of Socialists of Montenegro became president in 1997, the Montenegrin government, frustrated by unequal power-relations between the two republics of the Federal Republic of Yugoslavia, began severing its ties with Serbia. Montenegrin representatives were withdrawn from various federal institutions, the republic's own banking and custom system was established and deutschmark was adopted as the currency, instead of Yugoslav dinar (Wood 2001). In the referendum 86.6 percent of the registered voters participated and 55.5 percent of them voted in favour of independence (Deloy 2006). The new independence opened the road for the Montenegrin Democratic Union of Socialists (DPS) government to pursue further economic and social reforms, and to focus on integration with the European Union.

3.2 Transformation

In analysing political and economic transformation, this study uses two transformational indexes: the Freedom House "Nations in Transit" (NIT) score;[7] and the Bertelsmann's Transformation Index (BTI) published by the Bertelsmann Foundation which evaluates separately economic and political transformation processes.[8]

3.2.1 Slovenia: The Leader?

As discussed in the previous section, Slovenia's path towards independence and the process of nation building were the least radical and difficult, compared to the other, war torn, former Yugoslav republics. After the end of the Cold War, its development level continued to be on par with that in the Visegrad countries. Slovenia also maintained many features of Tito's economic self-management system. It joined the EU in

[7] Freedom House is an American think tank which, among other activities, publishes yearly evaluations entitled "Nations in Transit" for countries which are shifting from Communist regimes to democracy The NIT ratings cover seven areas: the electoral process, civil society, independent media, national democratic governance, local democratic governance, judicial framework and independence and corruption. The NIT scores range from 1-5 in which lower scores imply more democracy and higher scores less democracy.

[8] Bertelsmann Foundation is a German think-tank which publishes yearly Bertelsmann Transformation Index (BTI) to evaluate countries' political and economic transformation. The BTI political transformation index is divided into 6 categories: stateness, political participation, rule of law, stability of democratic institutions, political and social integration, which produce a final score for "democracy status". The BTI economic transformation index is divided into 7 categories: socioeconomic level, market organisation, currency and price stability, private property, welfare regime, economic performance and sustainability, which produce a final score for "market economy status". The scores are between 1 and 10. The higher the score the more the economy exhibits featured of a liberal market model.

2004 at the same time as the Visegrad countries did, and in 2007 became the first CEE nation to adopt the Euro as currency.

At present, in theory, Slovenia is governed under a semi-presidential system. The president is chosen in direct elections for a five-year term and is the head of state as well as the commander-in-chief of defence forces. However, the presidency is mainly a ceremonial post, even in the time of war, because it is the minister of defence, who is the real executor of defence power. The use of force must be approved by the parliament (Cerar 1999). The prime minister is the head of the government, nominated by the president and approved by the parliamentary majority. However, a second nomination can also come from the parliament.

Krašovec and Lajh (2008), in "Slovenia: weak formal position, strong informal influence?", point out that, despite the country's so-called "semi-presidential" system, prime ministers have three times been removed by no-confidence votes by the parliament. Thus, limited roles of the Slovenian president and prime minister suggest the existence of a parliamentary system, as in the case of Croatia.

Legislative powers in the Slovenian parliament are exercised through a bicameral system consisting of the National Assembly and the National Council. The parliament also chooses the chief judge of the Supreme Court, the ombudsman and the governor of the Central Bank. Within the 90 seats in the National Assembly, 50 seats are allotted proportionally, 38 seats come from direct elections; and two seats are reserved for Hungarian and Italian minorities. Of the 40 seats in the National Council, 22 come from direct elections among local interest groups. The remaining 18 seats are selected from different civil societies, i.e. employers (4 seats), employees (4 seats), farmers, skilled labourers (4 seats) and epistemic communities (6 seats) (National Assembly of Slovenia n.d.). Slovenian constitution attempts to safeguard both the State of Slovene Citizens and the "Autochthonous National Minorities" (Kuzmanic 2002). Slovenia's political system has extensively relied on public hearings and participation, which has affected and influenced the country's economic transformation trajectory.

As far as democratic transformation is concerned, both indexes have suggested extensive presence of democratic practices in the examined period (Table 3.1 and 3.2). There have been minor difficulties with the transformation of the judiciary system, according to the NIT score. The country has had inadequate staffing policies in the judiciary and in local governments (Government of the Republic of Slovenia 2014). The

Freedom House's NIT rated Slovenia with a total score of 1.93 for political transition in 2014. The electoral process and the local democratic governance were the two strongest areas in this political transformation with scores of 1.5 each. The lowest rating was given for corruption with a 2.50 score, which particularly affected high ranking political figures such as the former prime minister, former political party leaders, and the former mayor of the capital city Ljubjana.

Bertelsmann Foundation awarded Slovenia a total BTI score of 9.3 for its democracy in 2014. The country received the highest score (9.8) in the category of stateness. In its monopoly of the use of force, in its identity as a state, and in its basic administrative system sub-categories Slovenia received full 10 points. In the category of political participation, especially in terms of free and fair elections, effective power to govern, and rights of association and assembly, Slovenia again obtained full 10 points. According to the BTI, a less complete transformation was observed in the category of political and social integration for which the country received a score of 8.5.

Table 3.1 Slovenia: The Nations in Transit Ratings 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Electoral Process	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Civil Society	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Independent Media	1.50	1.75	2.00	2.25	2.25	2.25	2.25	2.25	2.25	2.25
National Democratic Governance	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Local Democratic Governance	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Judicial Framework and Independence	1.50	1.50	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75
Corruption	2.00	2.25	2.25	2.25	2.50	2.50	2.50	2.25	2.25	2.50
Democracy Scores	1.68	1.75	1.82	1.86	1.93	1.93	1.93	1.89	1.89	1.93

Remark: Freedom House's Nation in Transit focuses on Eurasia. The evaluations made by this method specifically assess democratic transition, and use a 1-7 score range in which 1 is the highest and 7 is the lowest.

Source: Freedom House (2014). *Nations in Transit 2014: Eurasia's Rupture with Democracy*. Washington, D.C.: Freedom House.

Table 3.2 Slovenia's Political Transformation: Bertelsmann Foundation's Transformation Index (BTI) 2006-2014

	2006	2008	2010	2012	2014
Stateness	9.8	9.8	9.8	9.8	9.8
Monopoly on the use of force	10	10	10	10	10
State identity	10	10	10	10	10
Non-interference with religious dogma	9	9	9	9	9
Basic administration	10	10	10	10	10
Political Participation	10.0	9.8	9.8	9.8	9.8
Free and fair elections	10	10	10	10	10
Effective power to govern	10	10	10	10	10
Rights of association and assembly	10	10	10	10	10
Freedom of expression	10	9	9	9	9
Rule of Law	9.5	9.8	9.8	9.5	9.0
Separation of powers	10	10	10	10	10
Independent judiciary	10	10	10	9	9
Prosecution of abuse of office	9	9	9	9	8
Civil rights	9	10	10	10	9
Stability of Democratic Institutions	9.5	10.0	10.0	10.0	9.5
Performance of democratic institutions	9	10	10	10	9
Commitment to democratic institutions	10	10	10	10	10
Political and Social Integration	9.0	9.3	9.5	9.3	8.5
Party system	8	8	9	9	8
Interest groups	9	10	10	10	9
Approval of democracy	10	10	10	9	8
Social capital	9	9	9	9	9
Democracy Status	9.55	9.70	9.75	9.65	9.30

Remark: The BTI evaluation in each category gives a score between 1 and 10, in which 1 is the lowest and 10 is the highest score. The index produced every two years since 2006 has been estimated for 129 countries.

Source: Bertelsmann Stiftung (2014). *Transformation Index BTI 2014.* Gütersloh: Bertelsmann Stiftung.

Slovenia's economy relies on services (69.5 percent of GDP). Telecommunications, the banking sector and tourism play important roles (Blejec 2015). Capital intensive industries constitute 28.4 percent of GDP. Major export includes: machinery, automobile parts, petrochemicals and pharmaceuticals. The main export destinations are in Europe – Germany (accounts for 20 percent of Slovenia's export) and Italy (12 percent). Agriculture accounts for only 2.1 percent of GDP (EC 2015a). Slovenia has a 100 percent literacy rate. According to the United Nations Development Program's Human Development Index Slovenia's quality of education ranks 25th globally, on par with Finland (UNDP 2015).

Regarding economic transformation, Slovenia's successful economic self-management system was much praised in the early stages of transition, notably for the reduction of inflation rates from 300 percent at the beginning of transformation to 20 percent in 1995, after the new "Tolar" currency replaced the "Dinar" in October of 1991 (OECD 2015). Historically, Slovenia was the most advanced and Westernised part of the former Yugoslavia. At the beginning of economic transformation, the DOMOS–Peterle alliance continued to follow a gradualist approach (Šušteršič 2004).

This contrasted with the radical path in the Visegrad and the "shock therapy" introduced by an American advisor Jeffrey D. Sachs, which underlined privatisation and extensive economic liberalisation. Because of somewhat "consensual" type of politics in Slovenia, privatisation became problematic (Silva-Jauregui 2004). In the state with strong workers' unions, the process led, in 1992, to political destabilisation and the end of the DOMOS–Peterle alliance (Boduszyński 2010). The next coalition government of Janez Drnovšek, the leader of the Liberal Democratic Party, issued in November 1992 the Ownership Transformation Actto enable a "coupon privatisation" (Simoneti *et al.* 2004), a process through which shares of particular enterprises were distributed to managers, workers, and the general public.

When Slovenia joined the Eurozone in 2007 its hesitation towards full economic liberalisation and extensive privatisation became even more problematic. As a result of the Eurozone crisis of 2010, the country was slow to recover. Slovenia was unable to match the high economic performance of more liberalised economies of the Visegrad and the Baltic states. In 2014, its economic growth declined to -1.2 percent (World Bank 2015b), and the banking sector went nearly bankrupt. Anze Burger, an economics professor from the University of Ljubljana, blamed a lack of sufficient liberalisation, very cautious privatisation and strong worker unions having a voice in private companies' decisions for the meagre developmental dynamics[9].

Table 3.3 Slovenia's Economic Transformation: Bertelsmann Foundation Transformation Index (BTI) 2006-2014

	2006	2008	2010	2012	2014
Socioeconomic Level	10.0	10.0	10.0	10.0	10.0
Socioeconomic barriers	10	10	10	10	10
Market Organization	9.0	9.0	9.0	9.3	9.0
Market-based competition	9	9	9	9	9
Anti-monopoly policy	9	9	9	9	9
Liberalization of foreign trade	10	10	10	10	10
Banking system	8	8	8	9	8
Currency and Price Stability	10.0	10.0	10.0	9.5	9.5
Anti-inflation / forex policy	10	10	10	10	10
Macrostability	10	10	10	9	9
Private Property	9.5	9.5	9.5	9.5	9.0
Property rights	10	10	10	10	9
Private enterprise	9	9	9	9	9
Welfare Regime	9.5	9.5	9.5	9.5	9.5
Social safety nets	9	10	10	10	10
Equal opportunity	10	9	9	9	9
Economic Performance	8.0	8.0	8.0	8.0	7.0
Output strength	8	8	8	8	7
Sustainability	9.5	9.0	9.0	9.0	8.5
Environmental policy	9	9	9	9	9
Education policy / R&D	10	9	9	9	8
Market Economy Status	**9.36**	**9.29**	**9.29**	**9.25**	**8.93**

Remark: The BTI evaluation in each category gives a score between 1 and 10, in which 1 is the lowest and 10 is the highest score. The index produced every two years since 2006 has been estimated for 129 countries.

Source: Bertelsmann Stiftung (2014). *Transformation Index BTI 2014.* Gütersloh: Bertelsmann Stiftung.

[9] Interview with Dr. Anze Burger, Faculty of Economics, University of Ljubljana, 17.09.2015.

As far as Bertelsmann Transformation Index related to economic transition is concerned, Slovenia received an overall score of 8.93 in 2014. The country was awarded a full 10 points in the socio-economic level category, followed by 9.5 scores for currency, price stability, and the welfare regime. The least advanced economic transformation was in the category of economic performance, in which Slovenia was rated at only 7.0 due to its weak output (Table 3.3). To some extent, the slow growth and limited output can be attributed to the trap of gradualist transformation approach associated with the legacy of Tito's third way socialism.

3.2.2 Croatia: The Runner-Up?

Compared with Slovenia, Croatia's path to real sovereignty and the process of nation building have been longer and more difficult. In addition to the four-year war for *de facto* independence, Croatia was also involved in the ethnic cleansing of Bosnian Muslims allegedly as it was "protecting the rights of Croats" in the Bosnia and Herzegovina's civil war.

To date, minor territorial disputes with neighbouring countries such as Slovenia, Bosnia and Herzegovina, and Serbia continue. For instance, Croatia has had an unsolved dispute over sea border with Slovenia in the gulf of Trieste since early 1990s concerning Slovenia's access to international waters; a dispute over the peak and two small islands of Klek peninsula, southwest of the Bosnian coastal town of Neum; and series of border disputes with Serbia along the Danube river, which is considered a natural border between the two countries. During the early stage of the nation building process, there were great costs of after-war reconstruction and those stemming from alienation by the international community during Franjo Tudjman's dictatorial rule (1991-1999).

That decade was also characterised by the curtailment of freedom of expression in a supposedly democratic system (Šedo 2010). After the separation from Yugoslavia in 1991, Croatia was governed by a semi-presidential system. After Tudjman's death, the popularity of his party Hrvatska Demokratska Zajednica (the Croatian Democratic Union – HDZ) declined. This led in the 2000 elections to a transition of power to the Social Democratic Party of Croatia (SDP) (Levitsky and Way 2010). The new constitution tried to limit presidential powers, empowering the prime minister as head of the cabinet as well as the parliament. This changed the Croatian system from a semi-presidential one to a more parliamentarian one (CRC 2001, art.4,5). Nowadays, the president is chosen in direct elections for a five-year term and although he/she functions as the head of the state and the Commander in Chief of the armed forces, the position is very much a ceremonial one with limited powers.

Since the amendment of the constitution in 2001, the legislative power in Croatia has rested in a unicameral parliament (Davo n.d.). The parliament called the *Sabor* is presided over by a house speaker. Members are elected for four year terms. Since 1995, elections have taken place under a mixed system of majoritarian and proportional representations. Out of 151 seats eight proportional seats are reserved for minorities. Three parliamentarians within the proportional seats pool are voted in by Croatians residing abroad (CRC 2001, art.72).

The 2001 constitution empowers the civil society which increasingly participates in the policy making. Media enjoy significantly more freedom than before (Edmunds 2007). In 2014 Croatia received a total Nations in Transit's score of 3.68 for political transformation. The civil society is strong (the score of 2.75). It, however, resembles Slovenia in its problematic judicial system. That is, the framework of the judiciary is weak and the courts lack independence. In this category, Croatia scored 4.5 out of 5 (Table 3.4). The court ruling against the call for referendum arrangements regarding same sex marriages and abortion rights in the country is a case in point (Freedom House 2014).

In Bertelsmann Foundation's rating, Croatia scored a total of 8.45 for the democracy status in 2014. It received the highest score (9.5) in the category of stateness (especially in terms of holding a monopoly on the use of force and for its basic administrative system, for which the country received full 10 points). The judiciary and the rule of law (score of 8.3) were considered the weakest parts of transformation, according to the Freedom House's NIT. This sectoral assessment was less severe, compared to the BTI's category of political and social integration, for which Croatia received a score of only 7.3. The party system, approval of democracy and social capital, in particular, received scores of only 7 points (Table 3.5).

Table 3.4 Croatia: The Nations in Transit Ratings 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Electoral Process	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Civil Society	3.00	2.75	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.75
Independent Media	3.75	3.75	4.00	3.75	4.00	4.00	4.00	4.00	4.00	4.00
National Democratic Governance	3.50	3.50	3.50	3.25	3.50	3.50	3.50	3.50	3.50	3.50
Local Democratic Governance	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Judicial Framework and Independence	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50
Corruption	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Democracy Scores	3.75	3.71	3.75	3.64	3.71	3.71	3.64	3.61	3.61	3.68

Remark: Freedom House's Nation in Transit focuses on Eurasia. The evaluations made by this method specifically assess democratic transition, and use a 1-7 score range in which 1 is the highest and 7 is the lowest.

Source: Freedom House (2014). *Nations in Transit 2014: Eurasia's Rupture with Democracy*. Washington, D.C.: Freedom House.

As far as Croatia's economic structure is concerned, it is similar to that of Slovenia. The largest sector is services (69 percent), followed by industry (29 percent) and agriculture (2.1 percent) ("Agriculture of Croatia" n.d.). Hosting more than 10 million foreign visitors annually, tourism is the largest earner in the services sector. (MKIL 2015b). Major exports are: plastic automobile parts, machinery and electronics. Main buyers are Italy, Germany, Russia and China (CIA 2015).

With regard to economic transformation, the cost of Tudjman's war was estimated at approximately USD 37.1 billion (MKIL 2015a). The dictatorship provoked an economic boycott by the West (Brada, et al. 2006). Through "coupon privatisation", important businesses were passed to oligarchs and later went bankrupt. Much of the service industry – for example, tourism – is in the hands of foreign investors, as is 90 percent of the banking sector. After Tudjman's death and the transition of power to the Social Democratic Party, economic reforms accelerated and its dynamics became much faster than in Slovenia. They included market liberalisation, tax reforms and fiscal discipline, reduction of public spending and privatisation.

Table 3.5 Croatia's Political Transformation: Bertelsmann Foundation's Transformation Index (BTI) 2006-2014

	2006	2008	2010	2012	2014
Stateness	9.5	9.5	9.3	9.3	9.5
Monopoly on the use of force	10	10	9	10	10
State identity	9	9	9	9	9
Non- interference with religious dogma	9	9	9	8	9
Basic administration	10	10	10	10	10
Political Participation	10.0	9.5	9.0	8.8	8.8
Free and fair elections	10	10	10	9	9
Effective power to govern	10	10	9	9	9
Rights of association and assembly	10	10	10	10	10
Freedom of expression	10	8	7	7	7
Rule of Law	8.3	8.0	7.8	7.8	8.3
Separation of powers	9	9	9	9	9
Judicial independence	7	7	7	8	8
Prosecution of office abuse	8	7	7	6	8
Civil rights	9	9	8	8	8
Stability of Democratic Institutions	9.5	9.0	8.5	8.5	8.5
Performance of democratic institutions	9	9	8	8	8
Commitment to democratic institutions	10	9	9	9	9
Political and Social Integration	8.3	8.3	8.0	7.8	7.3
Party system	8	8	8	8	7
Interest groups	8	8	8	8	8
Approval of democracy	9	9	9	8	7
Social capital	8	8	7	7	7
Democracy Status	9.10	8.85	8.50	8.40	8.45

Remark: The BTI evaluation in each category gives a score between 1 and 10, in which 1 is the lowest and 10 is the highest score. The index produced every two years since 2006 has been estimated for 129 countries.

Source: Bertelsmann Stiftung (2014). *Transformation Index BTI 2014.* Gütersloh: Bertelsmann Stiftung.

According to the 2008 report by the European Bank for Reconstruction and Development (EBRD), Croatia was the second fastest-growing economy in the South-East Europe after Bulgaria (Ott 2009). Being under the EU Stabilization and Association Process (SAP), Croatia obtained restructuring aid and trade privileges (Bađun 2009).

As a result, significant direct investments from Europe flowed in. Croatia's economy was inevitably put under pressure by the US subprime crisis in 2008 and by the Eurozone crisis in 2010. Even having joined the EU in July 2013, its economy has not been performing well; in 2015 public borrowing accounted for 84.9 percent of GDP (World Bank 2015a) and unemployment was 16.8 percent (EC 2015b).

Foreign investment stock in Croatia fell more than 60 percent after EU accession (Veselica 2014). Croatia's only viable trade sector has been industrial export to the EU. Although it increased by 15 percent in 2013, the country has been experiencing trade deficits (TSC 2013). The policy to try to solve the crises has been to focus on fiscal mechanisms, state investment to increase employment and to adopt austerity measures, as recommended and pushed by the EU (Bartlett 2015).

Bertelsmann Foundation's assessment of economic transformation awarded Croatia in 2014 an overall BTI score of 7.89 in the market economy status. The country received the highest score in market organisation (8.8) and a full score of 10 points in the subcategory of liberalisation of foreign trade. The weakest economic transformation was in the category of economic performance in which Croatia scored only 6.0 due to weak output (Table 3.6).

To some extent, as in the case of Slovenia, its overall slow growth and weak output resulted from a weak economic structure and the fact that it still applied provisions of Tito's third way socialism. There are still some state-owned enterprises in sectors such as shipbuilding, construction, petrochemicals and food processing and many scholars suggest that state intervention in industry is likely to impede Croatia's competitiveness in the long run[10].

[10] Interview with Professor Hrvoje Šimović, Faculty of Economics and Business, University of Zagreb; Dr. Goran Vuksic and Dr. Pedrag Bejakovic, Institute of Public Finance, Zagreb, Croatia, 21.09.2015.

Table 3.6 Croatia's Economic Transformation: Bertelsmann Foundation Transformation Index (BTI) 2006-2014

	2006	2008	2010	2012	2014
Socioeconomic Level	8.0	8.0	8.0	8.0	8.0
Socioeconomic barriers	8	8	8	8	8
Market Organization	8.8	8.5	8.8	8.8	8.8
Market-based competition	8	8	8	8	8
Anti-monopoly policy	8	8	8	8	8
Liberalization of foreign trade	10	10	10	10	10
Banking system	9	8	9	9	9
Currency and Price Stability	9.5	9.5	8.5	8.5	8.0
Anti-inflation / forex policy	10	10	9	9	9
Macrostability	9	9	8	8	7
Private Property	8.5	8.5	8.5	8.5	8.5
Property rights	9	9	9	9	9
Private enterprise	8	8	8	8	8
Welfare Regime	8.0	8.5	8.0	8.0	8.0
Social safety nets	8	8	8	8	8
Equal opportunity	8	9	8	8	8
Economic Performance	8.0	7.0	7.0	7.0	6.0
Output strength	8	7	7	7	6
Sustainability	7.5	8.0	8.0	8.0	8.0
Environmental policy	8	8	8	8	8
Education policy / R&D	7	8	8	8	8
Market Economy Status	**8.32**	**8.29**	**8.11**	**8.11**	**7.89**

Remark: The BTI evaluation in each category gives a score between 1 and 10, in which 1 is the lowest and 10 is the highest score. The index produced every two years since 2006 has been estimated for 129 countries.

Source: Bertelsmann Stiftung (2014). *Transformation Index BTI 2014.* Gütersloh: Bertelsmann Stiftung.

3.2.3 Serbia: The Dark Horse?

Despite the fact that Belgrade and Serbia once were the administrative heart of Tito's Third Way Socialism and of economic self-management system in the Socialist Federal

Republic of Yugoslavia, Serbia, the new nation, still endures a long-lasting legacy of political instability as well as economic difficulties.

In 1990s, Serbia was governed through a semi-presidential system. The regime was characterised by excessive, even dictatorial power in the hands of the president. This was especially true in the era of Milošević. However, after the defeat of Milošević by the opposition leader Vojislav Koštunica in the presidential elections and the anti-Milošević Bulldozer Revolution of 2000, reforms were launched. The new constitution limited presidential powers and empowered the parliament and the prime minister as the head of the government. These reforms transformed Serbia to a more parliamentarian system (CRS 2001, art. 113). Still, presidential powers in Serbia are more extensive than in Croatia. The president can enforce or repeal particular laws and has the power to dissolve the entire cabinet or even the parliament (CRS 2001, art. 111). He/she nominates the prime minister (CRS 2001, art. 127), appoints ambassadors and can reduce prisoners' sentences or pardon them (CRS 2001, art. 112).

Serbia's legislature, the National Assembly of the Republic, is unicameral and comprises 250 members. Although the reforms lag behind Slovenia and Croatia, the trust of political parties in the multi-party system is very strong, which is evident in the closed list proportional representation system and only one electoral unit (NARS n.d.). Each party must have at least 5 percent of the total national vote in order to occupy a seat in the parliament. Minority parties whose seats are guaranteed are exempted from this minimum threshold.

The inefficient judicial system characterised by political interference is a major concern. Serbia's efforts to reform it in 2009 were unsuccessful. As a result, the country was rated only 4.50 in this category by the Freedom House. Neither has Serbia fulfilled its commitment to the EU to investigate corruption in the private sector during the last decade. Consequently, Serbia scored only 4.25 in the corruption category. The score is a reflection of overbearing bureaucracy, weak prosecution of power abuse and a non-independent judiciary system with which politicians can interfere. Serbia did, however, abolish death penalty, as requested by the EU. Moreover, according to the Freedom House, Serbia achieved a good score of 2.25 in the Nations in Transit (NIT) category of social capital and civil society involvement (Table 3.7).

Bertelsmann Foundation's score shows country's improvements in the democratic status (an increase from 7.40 to 8.45 between 2006 and 2014), while both Slovenia and Croatia exhibited mildly declining trends. Serbia scored relatively well in the category of stateness (9.5). The country received the best score for controlling the use of force, basic administration and rights of association and assembly. Another interesting point is that, in terms of social capital, the government has been gradually giving more freedom to NGOs. Hence, the score in this category has steadily increased from 4 in 2006 to 7 in 2014 (Table 3.8).

Table 3.7 Serbia's The Nations in Transit Ratings 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Electoral Process	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Civil Society	2.75	2.75	2.75	2.75	2.75	2.50	2.25	2.25	2.25	2.25
Independent Media	3.25	3.25	3.50	3.75	3.75	4.00	4.00	4.00	4.00	4.00
National Democratic Governance	4.00	4.00	3.75	4.00	4.00	3.75	3.75	3.75	3.75	3.75
Local Democratic Governance	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
Judicial Framework and Independence	4.25	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Corruption	5.00	4.75	4.50	4.50	4.50	4.50	4.25	4.25	4.25	4.25
Democracy Scores	3.75	3.71	3.68	3.79	3.79	3.71	3.64	3.64	3.64	3.64

Remark: Freedom House's Nation in Transit focuses on Eurasia. The evaluations made by this method specifically assess democratic transition, and use a 1-7 score range in which 1 is the highest and 7 is the lowest.

Source: Freedom House (2014). *Nations in Transit 2014: Eurasia's Rupture with Democracy.* Washington, D.C.: Freedom House.

Serbia's post-war economy featured hyperinflation which haunted the country after the break-up of Yugoslavia. Despite the government's efforts to advance the modernisation process by welcoming foreign investors and closing down unprofitable state-owned enterprises, Serbia's standard of living have remained lower as compared to Slovenia's and Croatia's. Public debt continues to rise due to the implementation of deficit-prone policies to stimulate growth.

Table 3.8 Serbia's Political Transformation: Bertelsmann Foundation's Transformation Index (BTI) 2006-2014

	2006	2008	2010	2012	2014
Stateness	8.8	8.8	9.3	9.3	9.5
Monopoly on the use of force	9	9	9	9	10
State identity	8	8	9	9	9
Non interference in religious dogmas	9	9	9	9	9
Basic administration	9	9	10	10	10
Political Participation	8.5	8.8	8.5	8.5	8.8
Free and fair elections	9	9	9	9	9
Effective power to govern	8	9	9	9	9
Rights of Association and assembly	9	9	9	9	10
Freedom of expression	8	8	7	7	7
Rule of Law	6.8	7.0	6.8	7.0	8.3
Separation of powers	8	8	8	8	9
Independent judiciary	6	6	6	6	8
Prosecution of official abuses	6	7	6	6	8
Civil rights	7	7	7	8	8
Stability of Democratic Institutions	7.0	7.5	8.0	8.0	8.5
Performance of democratic institutions	6	7	7	7	8
Commitment to democratic institutions	8	8	9	9	9
Political and Social Integration	6.0	6.8	7.5	7.5	7.3
Party system	6	7	8	8	7
Interest groups	6	7	7	7	8
Approval of democracy	8	8	9	9	7
Social capital	4	5	6	6	7
Democracy Status	**7.40**	**7.75**	**8.00**	**8.05**	**8.45**

Remark: The BTI evaluation in each category gives a score between 1 and 10, in which 1 is the lowest and 10 is the highest score. The index produced every two years since 2006 has been estimated for 129 countries.

Source: Bertelsmann Stiftung (2014). *Transformation Index BTI 2014.* Gütersloh: Bertelsmann Stiftung.

The Serbian government, however, has tried to stabilise the economy and strengthen fiscal discipline. Successive governments have been willing to extensively liberalise the market and to privatise state-owned enterprises, in contrast to Slovenia's and Croatia's more gradual approach to the releasing of domestic state control. Consequently, Serbia, which was the least successful among the three under Tito's third way socialism and despite the fact that its transformation path has been perhaps the most difficult and featured dramatic shocks, was able, after Milošević, to implement liberalisation and privatisation policies more extensive that what was done in Croatia and Slovenia (Arandarenko 2015).

Although Serbia's economic performance has been relatively weak, the banking system has maintained high standards. Serbia's economy depends on a large services sector, just as Slovenia's and Croatia's do, but the World Bank and the IMF have pushed in the former for more manufacturing and exports (Popović 2005), in order to sustain economic recovery after a decade of Yugoslav wars in 1990s. During 2000s Serbia's industrial growth fell behind most of the transitional economies in the region (Bajec and Jakopin 2009). Main trading partners are Italy, Germany, Bosnia and Herzegovina, Russia, and China. With the latter Serbia enjoyed good relations during the Cold War and later during the Balkan Wars. Afterwards, China has become economically involved in Serbia's infrastructure projects.

In 2014, Serbia's economic transformation was awarded a BTI score of 7.89, an improvement as compared to previous years, unlike Slovenia and Croatia, which recorded mild declines. Serbia's best score was achieved in the category of market organisation (8.8), with 10 points in the sub-category of liberalisation of foreign trade. This could reflect the implementation of export strategies adjusted along the lines of recommendations of the World Bank. Likewise, in the category of private property, Serbia achieved a good 8.5 score. On the other hand, the category with the lowest score was economic performance (6.0). This could be due to the fact that many industries went bankrupt in the aftermath of the economic crisis of 2008 (Economy Watch 2010).

Table 3.9 Serbia's Economic Transformation: Bertelsmann Foundation's Transformation Index (BTI) 2006-2014

	2006	2008	2010	2012	2014
Socioeconomic Level	6.0	6.0	6.0	6.0	8.0
Socioeconomic barriers	6	6	6	6	8
Market Organization	6.0	6.5	7.0	7.8	8.8
Market-based competition	6	6	6	6	8
Anti-monopoly policy	4	6	7	8	8
Liberalization of foreign trade	7	7	8	9	10
Banking system	7	7	7	8	9
Currency and Price Stability	8.5	8.0	8.0	8.0	8.0
Anti-inflation / forex policy	9	8	8	8	9
Macrostability	8	8	8	8	7
Private Property	6.0	6.5	7.0	7.0	8.5
Property rights	7	7	7	7	9
Private enterprise	5	6	7	7	8
Welfare Regime	7.0	7.0	7.0	7.0	8.0
Social safety nets	7	7	7	7	8
Equal opportunity	7	7	7	7	8
Economic Performance	7.0	6.0	6.0	6.0	6.0
Output strength	7	6	6	6	6
Sustainability	5.0	6.5	6.5	7.0	8.0
Environmental policy	5	7	7	7	8
Education policy / R&D	5	6	6	7	8
Market Economy Status	**6.50**	**6.64**	**6.79**	**6.96**	**7.89**

Remark: The BTI evaluation in each category gives a score between 1 and 10, in which 1 is the lowest and 10 is the highest score. The index produced every two years since 2006 has been estimated for 129 countries.

Source: Bertelsmann Stiftung (2014). *Transformation Index BTI 2014.* Gütersloh: Bertelsmann Stiftung.

3.2.4 Evaluation of Transformation

Systemic transformation in Slovenia, Croatia and Serbia has been a multi-layered process of political and economic reforms, nation building and post-war reconstruction.

Regarding the nation building process, the three achieved great progress, despite the post-war chaos in Croatia and Serbia. Although the evaluation exercise (using Freedom House's NIT and Bertelsmann Foundation's BTI) concluded that Serbia's political transformation lagged behind those of Slovenia and Croatia, the results suggest that there have been improvements in Serbia in both political and economic transitions and some regress in this regard in Slovenia and Croatia. As Freedom House's NIT saw the judiciary and corruption as major concerns, the BTI gave more weight to social and economic integration in the society.

All countries have shown satisfactory levels of state building, multi-party political participation, civil society development and minority election rights adherence. As compared to the period of nationalism and extremism as illustrated by Milošević's campaign for "Greater Serbia", Serbia has reformed and currently guarantees parliamentary seats for minorities. It has gone further by establishing a unicameral legislature, a one electoral unit system, and a closed proportional list for the whole country that reflects strong trust in the party system.

Economic transformation has been moderately successful in Slovenia and Croatia, though the legacy of Tito's third ways socialism and economic self-management have impacted the process. Although Slovenia was praised for its gradualist approach to transformation in the early phases of transition, the cautious, nationalist-orientated incremental liberalisation was not an adequate response to the Eurozone crises of 2010.

As a result, the BTI ratings suggested a weak output in Slovenia and in Croatia, though Slovenia's political ratings were more progressive than those of Croatia. Serbia received the lowest score for its market economy status, but the study showed an upward, positive trend. It liberalised its economy extensively and privatised state assets to a larger extent than Slovenia and Croatia did. The two now struggle in terms of domestic output, thus Serbia may emerge as a "dark horse", thanks to its larger size, resources and more liberal economic environment.

Table 3.10 Slovenia, Croatia and Serbia in a Comparative Perspective 2014

		Former Republic of Yugoslavia		
		Croatia	Serbia	Slovenia
Bertelsmann Stiftung's Transformation Index (BTI) 2014				
Political Transformation	***Democracy Status***	8.45	7.95	9.30
	Stateness	9.5	9.0	9.8
	Political Participation	8.8	8.3	9.8
	Rule of Law	8.3	7.3	9.0
	Stability of Democratic Institutions	8.5	8.0	9.5
	Political and social Integration	7.3	7.3	8.5
Economic Transformation	***Market Economy Status***	7.89	7.07	8.93
	Level of Socioeconomic Development	8.0	6.0	10.0
	Organization of the Market and Competition	8.8	8.5	9.0
	Currency and Price Stability	8.0	7.5	9.5
	Private Property	8.5	7.5	9.0
	Welfare Regime	8.0	7.0	9.5
	Economic Performance	6.0	6.0	7.0
	Sustainability	8.0	7.0	8.5
Freedom House: Nations in Transit (NIT) 2014				
Democracy Scores		3.68	3.64	1.93
Electoral Process		3.25	3.25	1.50
Civil Society		2.75	2.25	2.00
Independent Media		4.00	4.00	2.25
National Democratic Governance		3.50	3.75	2.00
Local Democratic Governance		3.75	3.50	1.50
Judicial Framework and Independence		4.50	4.50	1.75
Corruption		4.00	4.25	2.50

3.3 External Factors

Slovenia and Croatia are members of the European Union. Serbia is a candidate country. The EU is gradually becoming an interchangeable term for the European identity. The European Commission's rules and norms, as envisaged by the 1993 Accession or Copenhagen Criteria, have been major external factors for the transformation process in the Balkans, especially in the case of Croatia and Serbia[11]. For example, EU has been pressuring prospective member states to democratise (Levitsky and Way 2010). During the 1995 Madrid European Council, EU added conditions on administrative structures, governance capacity, justice, anti-corruption, and measures curbing organised crime. The latter has indeed been a problem in Croatia and Serbia.

Croatia and Serbia were pressured to hand over individuals charged with crimes against humanity. Persons such as general Ante Gotovina, in the case of Croatia and the "Operation Storm," and general Ratko Mladic, in the case of Serbian-committed genocide against Bosnian Muslims, were summoned to face trial at the International Criminal Tribunal for the former Yugoslavia (ICTY) at The Hague. The incarcerations of Gotovina and Mladic in 2005 and in 2011 respectively were major preconditions for EU membership negotiations. To ensure the functioning of the market economy in compliance with the required economic criteria enumerated in the *Acquis communautaire*, the European Commission laid down rules Yugoslavian countries needed to adopt and implement by adjusting their domestic laws, in order to become EU member states. Launched in 2000 the Stabilization and Association Process (SAP) became a major EU mechanism to push for transformation in Southeast Europe.

The road of nation building of the three former Yugoslav republics involved the United States and the US-led transatlantic forces addressing ethnic cleansing problems in Bosnia and Herzegovina and in Kosovo. This was done through the North Atlantic Treaty Organization (NATO) operations and the United Nations Interim Administration Mission in Kosovo (UNMIK). The US was involved in critical issues such as restoration of order, especially on the peripheries of the former Yugoslavia. In the cases of Bosnia and Herzegovina and of Kosovo, the US government assisted with early

[11] Accession criteria or Copenhagen criteria includes a stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

election arrangements. In Kosovo, the US also spent USD 130 million USD on political settlements and democratic and economic transformation.

In economic transformation, Slovenia and Croatia were hesitant to use American policy advisors and shock doctrines employed earlier by Poland and Hungary. In the case of Serbia, US-led bombing made the Serbian government seek economic assistance from Russia and to some extent from China. Consequently, the US role in the three countries has been weakening since the wars of partition were settled.

However, with growing demand for transformation coinciding with less assistance from EU, attempts have been made to bring the US back into Southeast Europe. In 2013, Slovenia and Croatia launched the Southeast European sub-region initiative called the Brdo-Brijuni Process, comprising countries from former Yugoslavia (Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Slovenia), as well as Albania and Austria. Germany and France supported the process. The fact that the first loosely partisan cooperation was initiated by Slovenia and Croatia, both of which were formerly pro-confederation under Tito and former foes, is indeed very interesting.

In 2015, Donald Tusk, the President of the European Council, and Joe Biden, Vice President of the United States, participated in an event in Zagreb at the invitation of the two leaders of the process, namely, the Croatian president Kolinda Grabar-Kitarovic and the Slovenian president Borut Pahor. Kolinda Grabar-Kitarovic – the first woman president of Croatia – suggested that the EU stop using the term "Western Balkans" and use "Southeast Europe" instead (Marini 2015). The new term would imply a more equal partnership than the term Western Balkans, which insinuated historically a lesser developed group of countries and their ghettoization. President Grabar-Kitarovic declared that the "future of the region cannot be built without US aid". She also added that "with heightened refugee crises, Brussels cannot fill the shoes of US as a great power" (Marini 2015). This statement also served Serbian and Macedonian interests, as both governments have had to shoulder the burden of refugees, especially from the Middle East and North African (MENA) Region.

The question is whether this partisan process is taken as seriously as in the Visegrad grouping. Undoubtedly, the Brdo-Brijuni Process cannot yet match the Visegrad initiative. If we recall the Serb-Slovene War, the Serb-Croat War and the Slovene-Croat territorial clashes during the process of nation building and reaching for independence, then the political situation in Southeast Europe remains indeed complicated. As a result of the violent conflicts, countries in the region usually prefer unilateralist approach allied with major powers in their foreign policies. Slovenia and Croatia tend to ally with Austria, Italy and Germany while Serbia tends to side with Russia. Nevertheless, the aforementioned initiative could be possible under US auspices with the already existing EU framework for enhanced cooperation.

Conclusions

In the systemic transformation processes of CEE, the former Yugoslav core countries have faced harder tasks compared to those of the Visegrad group. The states which emerged from old Yugoslavia had to deal with the chaos of war and undergo the process of nation building. Data shows that political transformation has so far been successful in the case of Slovenia and moderately successful in the cases of Croatia and Serbia. It should be noted that there have been similar political flaws among the three regarding weaknesses in their judiciary systems. Nevertheless, dramatic transformation detours into dictatorship and clientelism are unlikely to happen, partly because the young nations are members of the EU or candidate countries and this serves as an important stabilising factor.

It is believed that the economic transformation has been more successful than the political transformation. However, literature and field research suggest that Slovenia and Croatia are being trapped by the "gradualist approach" partially inherited from Tito's self-management, semi-liberal economic system. This trap became apparent when Slovenia became exposed and vulnerable during the Eurozone crises of 2010. The study finds, by contrast, that Serbia, despite its relatively late liberal transformation, is progressing fast with market reforms.

The study also takes external factors into account as engines of both direct and indirect transformation. At an early stage, the EU had already set major reform conditions for the membership of Slovenia and Croatia. The latter struggled more as a result of war crime issues. The US as the great power remains the preferred partner for the former Yugoslav states, especially due to the heightened economic and refugee crises. However, the US is hesitant to step in, while the post-Cold-War Yugoslav partisanism is unlikely to occur in the near future among former foes without the involvement of major powers.

References

Agriculture of Croatia, *Encyclopaedia Britannica*, http://global.britannica.com/EBchecked/topic/143561/Croatia/42770/Agriculture-forestry-and-fishing

Arandarenko, M. (2015). *The Shadow Economy: Challenges to Economic and Social Policy*. In: Krstić, G. and Schneider, F. (eds.), *Formalizing the Shadow Economy in Serbia: Policy Measures and Growth Effects*. Cham: Springer International Publishing.

Bađun, M. (2009). *The Croatian Economy on the Way to the EU: Structural Problems Need Resolving*. Zagreb: Institute of Public Finance.

Bajec, J. and Jakopin, E. (2009). Challenges of Industrial Development of Serbia, *Panoeconomicus*; http://www.panoeconomicus.rs/casopis/2009_4/06%20Edvard%20Jakopin.pdf

Bartlett, W. (2015). Croatia economy under Milanovic: Recession and Policy Response. *LSEE Blog*; http://blogs.lse.ac.uk/lsee/2015/03/19/croatias-economy-under-milanovic-recession-and-policy-response/

Bertelsmann Stiftung (2014). *Transformation Index BTI 2014*, Gütersloh: Bertelsmann Stiftung.

Blejec, Z. (2015). Import Price Indices. *Statistical Office of the Republic of Slovenia*, 29th May; http://www.stat.si/StatWeb/en/show-news?id=5210

Bochsler, D. (2010). *Political parties in Serbia*. In: Stojarová, V. and Emerson P. (eds.), *Party politics in the Western Balkans*. Oxford: Routledge; http://www.bochsler.eu/publi/bochsler_serbiacountry.pdf

Boduszyński, M.P. (2010). *Regime change in the Yugoslav successor states: divergent paths toward a new Europe*. Baltimore, MD: Johns Hopkins University Press.

Brada, J.C., Kutan, A.M. and Yigit, T.M. (2006). The effects of transition and political instability on foreign direct investment inflows. *Economics of Transition*, 14 (4).

CIA [Central Intelligence Agency] (2015). Economy of Croatia. *Central Intelligence Agency: The World Factbook*; https://www.cia.gov/library/publications/the-world-factbook/geos/hr.html

Cerar, M. (1999). *Slovenia*. In: Elgie, R. (ed.), *Semi-presidentialism in Europe*. Oxford: Oxford University Press.

Cohen, L.J. (1997). *Embattled democracy: Postcommunist Croatia in transition*. In: Dawisha, K., Parrott, B. (eds.) *Politics, Power, and the Struggle for Democracy in South-East Europe*. Cambridge: Cambridge University Press.

CRC [Constitution of the Republic of Croatia] (2001). Article 4, 5, 72; http://www.usud.hr/default.aspx?Show=ustav_republike_hrvatske&Lang=en

CRS [Constitution of the Republic of Serbia], Article 111-113, 127; http://www.srbija.gov.rs/cinjenice_o_srbiji/ustav.php?change_lang=en

Constitution of The Republic of Slovenia (1991). Article 80, 96; http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN014895.pdf

Curtis, G.E. (ed.) (1990). *Yugoslavia: A country study*. Washington, D.C.: Federal Research Division, Library of Congress.

Davo, B. (n.d.). Abandoning of Semi-Presidentialism in Central Europe? Cases of Croatia and Poland; http://paperroom.ipsa.org/app/webroot/papers/paper_2484.pdf

Deloy, C. (2006). After twenty four years of union with Serbia Montenegro is independent again. *Foundation Robert Schuman: The Research and Studies Centre on Europe*; http://www.robert-schuman.eu/en/eem/0522-after-twenty-four-years-of-union-with-serbia-montenegro-is-independent-again

Edmunds, T. (2007). *Security sector reform in transforming societies: Croatia, Serbia and Montenegro*. Manchester: Manchester University Press.

Estrin, S. (2010). *Self-management: Economic theory and Yugoslav practice*. Cambridge: Cambridge University Press.

EC [European Commission]. (2015a). Agriculture: Slovenia, *Europa*, http://ec.europa.eu/agriculture/publi/peco/slovenia/summary/sum_en.htm

EC [European Commission]. (2015b). Macroeconomic Imbalances Country Report: Croatia 2015. *Occasional Papers*, 218, June.

Economy Watch (2010). Serbia Industry Sectors. *Economy Watch*, 30th March; http://www.economywatch.com/world_economy/serbia/industry-sector-industries.html

Freedom House (2014). *Nations in Transit 2014: Democratization from Central Europe to Eurasia*, Lanham, MD: Rowman & Littlefield.

Global Security (2011). War and Ethnic Cleansing in Yugoslavia. *Global Security*; http://www.globalsecurity.org/military/world/war/yugo-hist4.htm

Government of the Republic of Slovenia (2014). PM Cerar discusses possibilities to strengthen economic cooperation with Chancellor Merkel. *Government of the Republic* *of Slovenia*, 30th October; http://www.vlada.si/en/media_room/government_press_releases/press_release/article/pm_cerar_discusses_possibilities_to_strengthen_economic_cooperation_with_chancellor_merkel_49424/

Hall, B.F. (1985). *Agro-Industry in Yugoslavia*. Institute of Current World Affair.

Jeffreys-Jones, R. (2013). *In spies we trust: the story of western intelligence*. Oxford: Oxford University Press.

Kullaa, R. (2011). *Non-alignment and Its Origins in Cold War Europe: Yugoslavia, Finland and the Soviet Challenge*. London: I.B. Tauris & Co. Ltd.

Katalenac, J. (2013). Yugoslav self-management: Capitalism under the red banner. *Libcom.org*, 9th October; https://libcom.org/library/yugoslav-self-management-capitalism-under-red-banner-juraj-katalenac

Krašovec, A. and Lajh, D. (2008). *Slovenia: weak formal position, strong informal influence?* In: Elgie, R. and Moestrup, S. (eds.), *Semi-Presidentialism in Central and Eastern Europe*. Manchester: Manchester University Press.

Kuzmanic, T. (2002). Slovenia: from Yugoslavia to the middle of nowhere? *Democratization in Central and Eastern Europe*. London, New York: Continuum.

Levitsky, S. and Way, L.A. (2010). *Competitive authoritarianism: Hybrid regimes after the Cold War*. New York: Cambridge University Press.

Marini, A. (2015). Croatia suggests dropping the term "Western Balkan". *Euinside*, 27th November [translated by Stoev, S.]; http://www.euinside.eu/en/analyses/western-balkans-no-longer-a-valid-term-brdo-brijuni-process

MKIL [Miroslav Krleža Institute of Lexicography] (2015a). "Economic Transition". *Croatia.eu: Land and People*; http://croatia.eu/article.php?lang=2&id=31

MKIL [Miroslav Krleža Institute of Lexicography] (2015b). Tourism. *Croatia.eu: Land and People*; http://croatia.eu/article.php?lang=2&id=34

NARS [National Assembly of the Republic of Serbia] (n.d.). Elections and Electoral System. *National Assembly of the Republic of Serbia*; http://www.parlament.gov.rs/national-assembly/role-and-mode-of-operation/elections-and-electoral-system.502.html

National Assembly of Slovenia. (n.d.). Electoral system. *Republika Slovenija*; https://www.dz-rs.si/wps/portal/en/Home/PoliticniSistem/VolitveInVolilniSistem

OECD [Organisation for Economic Co-operation and Development] (2015). *Slovenia - Assessment and Recommendations*http://www.oecd.org/slovenia/1894212.pdf

Ott, K. (2009). Croatia Well Positioned but Without Advancements in 2008. *Press Release*, 2 (7), pp.1-3.

Poonkham, J. and Kunnamas, N. (2013). *Central and Eastern Europe: Towards Democratic Transformation and Liberal Economy*. Bangkok: Centre for European Studies, Chulalongkorn University.

Popović, D. (2005). *Economic Activity and Macroeconomic Policies in Transition*. In: Boris, B. and Boško M. (eds.), *Four Years of Transition in Serbia*. Belgrade: Center for Liberal Democratic Studies.

Ramet, S. P. (1997). *Democratization in Slovenia–the second stage*. In: Dawisha, K. and Parrott, B. (eds.), *Politics, power, and the struggle for democracy in South-East Europe*. Cambridge: Cambridge University Press.

Šedo, J. (2010). *The Party System of Croatia*. In: Stojarová, V. and Emerson, P. (eds.), *Party Politics in the Western Balkans*. London: Routledge.

Shapiro, S.G. and Shapiro, R. (2004). *The curtain rises: oral histories of the fall of communism in Eastern Europe*. Jefferson: McFarland.

Silva-Jauregui, C. (2004). *Macroeconomic Stabilization and Sustainable Growth*. In: Mrak, M., Rojec, M. and Silva-Jáuregui, C. (eds.), *Slovenia: From Yugoslavia to the European Union*. Washington D.C.: International Bank for Reconstruction and Development.

Simoneti, M., Rojec, M. and Gregoric, A. (2004). *Privatization, Restructuring, and Corporate Governance of the Enterprise Sector*. In: Mrak, M., Rojec, M. and C. Silva-Jáuregui (ed.), *Slovenia: From Yugoslavia to the European Union*. Washington D.C.: International Bank for Reconstruction and Development.

Staar, R.F. (1982). *Communist Regimes in Eastern Europe*. 4th ed. Stanford: Hoover Press.

Šušteršič, J. (2004). *Political Economy of Slovenia's Transition*. In: Mrak, M., Rojec, M. and Silva-Jáuregui, C. (eds.), *Slovenia: From Yugoslavia to the European Union*. Washington D.C.: International Bank for Reconstruction and Development.

TSC [Trade Summary for Croatia] (2013). *World Integrated Trade Solution*; http://wits.worldbank.org/CountryProfile/Country/HRV/Year/2013/Summary

UNDP [United Nations Development Programme] (2015). Human Development Index (HDI). *Human Development Reports*; http://hdr.undp.org/en/content/human-development-index-hdi

Veselica, L. (2014). "Croatia Fails to Reap Fruits One Year after Joining EU". *Yahoo! News*, 29th June; http://news.yahoo.com/croatia-fails-reap-fruits-one-joining-eu-061543462.html

Wood, N. (2001). Montenegro at the crossroads. 21st April; https://www.theguardian.com/world/2001/apr/21/balkans

World Bank (2015a). Croatia: Overview. http://www.worldbank.org/en/country/croatia/overview#1

World Bank (2015b). World Bank national accounts data – Slovenia. http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=SI

Interviews by the author:

Burger, Anze, Assistant Professor at the Faculty of Economics, University of Ljubjana, Llubjana, 17th September 2015.

Šimović, Hrvoje, Associate Professor at the Faculty of Economics and Business, University of Zagreb, Zagreb, 21st September 2015.

Vuksic, Goran and Predrag Bejakovic, Researchers at the Institute of Public Finance, Zagreb, Zagreb, 21st September 2015.

Chapter 4

Ágnes Orosz and Ágnes Szunomár

Trade and Investment in Central Europe: The Lessons of Transition for Post-Socialist Southeast Asia

Introduction

The importance of analysing foreign trade and foreign direct investment (FDI), as engines of development has often been emphasized. OECD (1998, p. 36) states that "more open and outward-oriented economies consistently outperform countries with restrictive trade and foreign investment regimes". Foreign trade and FDI can be seen as catalysts promoting economic growth and integration of transition countries with the world economy.

The transition from central planning to a market economy in the Central-Eastern European (CEE)[1] countries resulted in large inflows of FDI and the expansion of their international trade. FDI is essential in augmenting domestic capital stock and in technology transfer which contribute to the long-term growth of an economy. The opening-up of transition countries and their trade integration with the European Union (EU) has brought about large increases in trade between the two groups of countries and the substantive trade creation has gone hand in hand with vast increases in FDI flows (Damijan and Kostevc 2011).

[1] Based on the definition of the OECD, Central and Eastern or Central-Eastern European (CEE) countries is a term for the group of countries comprising Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania. Although this paper does not focus on the whole CEE region, occasionally the examples of the Visegrad countries are supplemented since in some cases it is useful to refer to other post-communist countries in the region.

The research related to this chapter was supported by the NKFIH project No. 112069, "Varieties of Capitalism – Varieties of Direct Economic Intervention of the State" and NKFIH project No. 112450, "Shift in the world economy: from export orientation towards domestic demand led growth?".

This chapter analyses the changes in trade and FDI patterns of the Visegrad countries[2]. The transition process has resulted in a massive reorientation of trade. The chapter is structured as follows: the next section briefly summarizes the formation of the Visegrad Group, being one of the most successful cooperation initiatives in Central Europe. The second part reviews the initial steps and challenges of structural transformation undertaken in the region. This is followed by a discussion of the changing trade patterns of the V4 countries. Since foreign direct investment has also influenced significantly the development of foreign trade, this also leads us to a brief analysis of FDI patterns. Finally, the similarities of CLMV region[3] and the V4 countries are examined. The applicability of economic policies of one group of countries in the other is analysed. The main findings are summarized in the conclusions.

4.1 The History of the Visegrad Cooperation

The Visegrad Four (V4) was set up in 1991 to facilitate Euro-Atlantic integration of three former Eastern Bloc countries: Czechoslovakia (since 1993 the Czech Republic and Slovakia), Hungary and Poland. In the Visegrad Declaration the leaders – Václav Havel, József Antall and Lech Wałęsa – emphasized that this cooperation aims at building closer ties with Western European and Transatlantic institutions and re-integrating the region with Europe. As Pawlas (2015, p. 582) highlights, the formation of the Visegrad Group was motivated by the desire to introduce economic, social and political transition, and the need to overcome historic animosities.

The cooperation was successful in this respect as today all the V4 countries are members of both the European Union and the North Atlantic Treaty Organization (NATO). However, the group has changed to a significant degree during the last twenty five years. While at the beginning it was more like a loose community of nations driven by a historic necessity and linked by a common ideology, over time it took on more practical form as a platform for closer cooperation in a number of areas.

[2] The Visegrad Group (also known as the "Visegrad Four" or simply "V4") is made up of the Czech Republic, Hungary, Poland and Slovakia and reflects their efforts to work together in a number of fields of common interest within the all-European integration.
[3] Cambodia, Lao PDR, Myanmar and Vietnam.

Although the four countries have similar cultural, historical and linguistic backgrounds (the latter does not apply to Hungarians, whose language is not Slavic), they differ in many respects; ranging from the market size through population to the strength of their economies. But these differences did not hinder the deepening of the relationship so that the Visegrad Group could become a strong actor within the EU. V4's combined GDP makes the Group the world's fifteenth biggest economy, and together they have twice as many members at the European Parliament as France, Italy or the United Kingdom. Their total population is around 13 percent of the whole EU; only three percent less than that of Germany.

The Visegrad Four can be regarded as one of the most successful initiatives in Central Europe. The functioning of the Group is based on cooperation at all levels – from political summits to activities of non-governmental associations and numerous networks of individuals. Twenty five years after its formation the V4 exercises significant influence which affects not only the V4 group but also the European Union as a whole (Pastwa 2014).

Table 4.1 Basic Data for the Visegrad Countries (In Total and as Share of the EU) 2015

		Czech R.	Hungary	Poland	Slovakia	V4	EU-28
GDP	USD billion	155	104	411	76	745	13958
	% EU	1.1	0.7	2.9	0.5	5.3	100
Population	million	11	10	38	5	64	508
	% EU	2.1	1.9	7.5	1.1	12.6	100
Members in the European Parliament	votes	21	21	51	13	106	751
	% EU	2.8	2.8	6.8	1.7	14.1	100
International Trade	USD billion	248	162	329	127	866	9153
	% EU	2.7	1.8	3.6	1.4	9.5	100
FDI Net Inward Flow	USD billion	6	4	14	0	24	258
	% EU	2.3	1.6	5.4	0.2	9.4	100
FDI Net Inward Stock	USD billion	122	98	245	53	518	7759
	% EU	1.6	1.3	3.2	0.7	6.7	100

Source: World Bank (GDP, population, trade composed of import and export of good and services); UNCTAD (FDI).

The Visegrad Group has substantially increased its profile within its own region and also, to some degree, internationally. Currently, the Visegrad clearly operates as a lobby within the EU for its own regional interests. It has mechanisms to include external partners for particular cases of consultation and advocacy, while keeping its valuable internal cohesion. On the one hand the Visegrad undertakes a range of initiatives; on the other hand, its choices suggest that it also realistically knows its limits (Fawn 2013). The V4 may be seen as a good model for other, similar organisations.

As far as future areas of the Visegrad cooperation in the EU are concerned, they are expected to those, which will effectively support the interests of Central European EU Member States by articulating policy ideas important to the region and the entire EU (Pastwa 2014).

4.2 Economic Transition and Recent Developments

The collapse of the communist regimes was followed by rapid and radical changes. Institutions of parliamentary democracy and a market-conform legal infrastructure were developed. While the private sector grew rapidly, the reforms of the pension system, medical care and social assistance were put aside for several years (Kornai 1997).

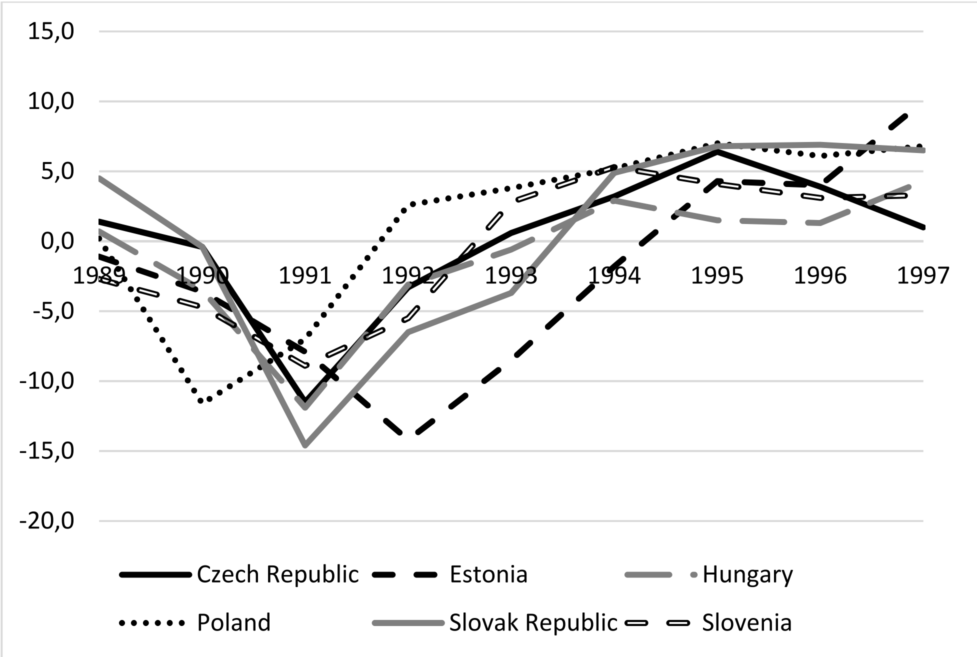
Transition brought three major challenges for the post-communist states: the elimination of most price subsidies, the end of full employment and the transformation of state-owned enterprises into profit-making companies. These shocks, accompanied by growing social needs and economic reforms caused massive recessions (Orenstein 2008).

The breakdown of the communist block led to market-oriented reforms in all post-communist countries. The V4 (Czech Republic, Poland, Hungary, Slovakia), as well as Slovenia and the Baltic states launched ambitious reform programmes establishing market order, while Russia and the non-Baltic successor states of the USSR opted for a longer road of reforms (Pittlik 2000).

A common pattern was a severe output decline (Figure 4.1). The V4 countries returned to pre-1989 levels of economic output within four to five years and then began a period of solid economic growth. However the transformation process took significant toll in the long term, negatively affecting the socio-economic environment[4].

[4] Poland returned to positive growth rates in 1992, after two years of contracting output, which was the shortest period within Central and Eastern Europe.

Figure 4.1 Real GDP Growth Rate in CEE Countries (1989-1997)[5]



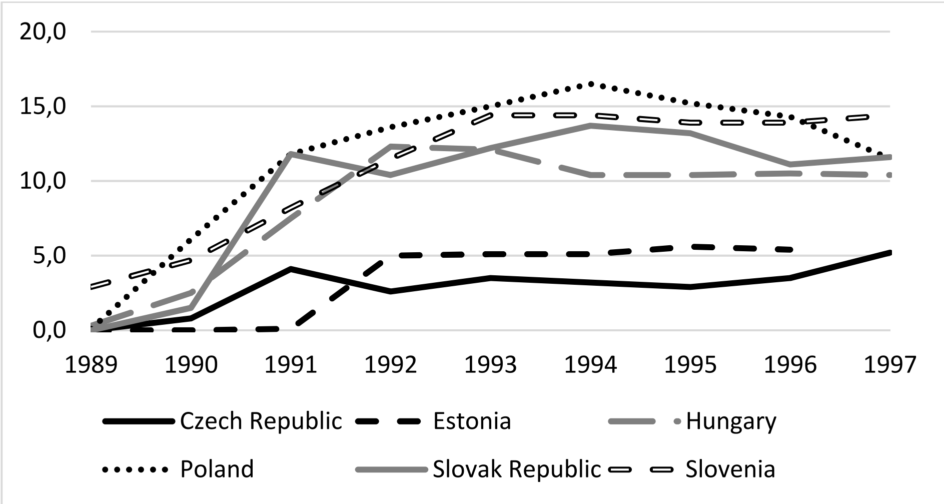
Source: Pittlik 2000, p 41.

The dramatic effect of the end of full employment can be observed in Figure 4.2. With respect to the labour market development, the V4 plus Slovenia and Estonia experienced a salient rise in official unemployment rates exceeding 10 percent, with the exception of the Czech Republic where rates stayed below 5 percent until 1997 and of Estonia where unemployment rate fluctuated around 5.5 percent between 1992 and 1996.

At the beginning of transformation in 1989, inflation in Poland and Slovenia exploded to rates of more than 600 and 270 percent respectively. Estonia experienced hyperinflation of 300 percent in 1991 and almost 1000 percent in 1992.

[5] Data of the V4 has been complemented by data of Slovenia and Estonia (both are OECD members) in order to have a more comprehensive picture of the Central and Eastern European region.

Figure 4.2 Unemployment Rate in CEE (1989-1997)



Source: Pittlik 2000, p. 41.

Table 4.2 shows that inflation varied considerably. Hungary, for example, never had an inflation rate above 40 percent, and the Czech level only exceeded 50 percent in 1991, later stabilising at around 10 percent. Inflation in Slovakia was the lowest during almost the whole examined period and, after its peak in 1989 and 1991, Slovenia was also able to keep inflation level below 10 percent.

Table 4.2 Inflation Rate in Selected CEE Countries (1989-1997)

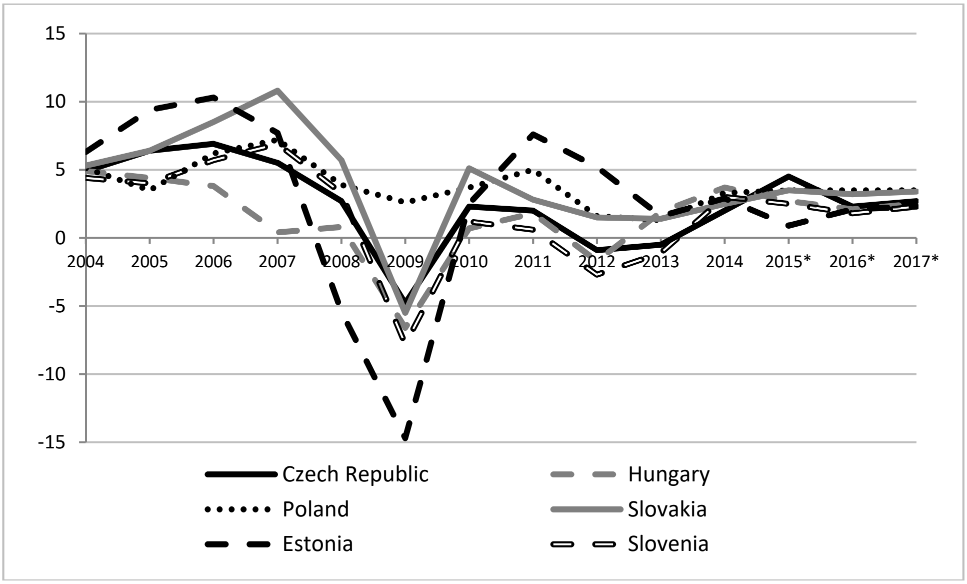
	1989	1990	1991	1992	1993	1994	1995	1996	1997
Czech Republic	1.5	18.4	52.0	12.7	18.2	9.7	7.9	8.6	10.0
Estonia	n.a.	n.a.	303.8	935.5	35.6	42.0	29.0	15.0	12.0
Hungary	18.9	33.4	32.2	21.6	21.1	21.2	28.3	19.8	18.4
Poland	639.5	249.0	60.4	44.3	37.6	29.4	21.6	18.5	13.2
Slovak Republic	1.5	18.4	58.3	9.3	25.1	11.7	7.2	5.4	6.4
Slovenia	272.0	105.0	247.1	92.9	22.9	18.3	8.6	8.8	9.4

Source: Pittlik 2000, p. 41. Note: CPI end of year.

The EU accession process contributed significantly to improving standards of living in the new post-socialist member states, fostering economic and social cohesion within the European Union. Economic catch-up is illustrated by the fact that per capita income in new member states rose from 40 percent of the old member states' average in 1999 to 52 percent in 2008 (European Commission 2009).

During the 2000s, the Visegrad countries experienced a relatively high growth rate, while other post-socialist new EU member states recruited from the Baltic States experienced strong economic growth until the onset of the global financial crisis (Figure 4.3). Before the economic crisis, the CEE labour markets performed relatively well. Among Central-Eastern European countries only Poland and Slovakia had high rates of unemployment (over 10 percent), while the other four countries had unemployment rates between 5 percent and 10 percent (Table 4.3). During 2005-2008, unemployment declined in all CEE countries. The decrease was not coupled with a significant inflation growth, which meant that the structural unemployment persisted.

Figure 4.3 Real GDP Growth Rate in Countries of CEECs (1998-2017)



*European Commission (2016): *Winter 2016 Economic Forecast: Weathering new challenges*.

Source: Eurostat statistics, online code: [tec00115].

The global financial and economic crisis caused severe output loss and CEE countries were strongly affected. However, the impact of the crisis varied significantly across countries. While Poland handled the crisis relatively well, others experienced a considerable decline in GDP, and the Baltic States faced a double-digit contraction in economic activity in 2009.

Table 4.3 Unemployment Rate in Selected CEE Countries

	2000	2005	2009	2010	2011	2012	2013	2014	2015
Czech Republic	8.8	7.9	8.7	7.3	6.7	7.0	7.0	6.1	5.1
Estonia	13.6	7.9	13.5	16.7	12.3	10.0	8.6	7.4	n.a.
Hungary	6.3	7.2	10.0	11.2	11.0	11.0	10.2	7.7	n.a.
Poland	16.1	17.9	8.1	9.7	9.7	10.1	10.3	9.0	7.5
Slovak Republic	18.9	16.4	12.1	14.5	13.7	14.0	14.2	13.2	11.5
Slovenia	6.7	6.5	5.9	7.3	8.2	8.9	10.1	9.7	9.1

Source: Eurostat statistics, online code: [tsdec450].

In general, those countries that had grown particularly dynamically in the years before the crisis, namely, Estonia, Latvia, Lithuania and Romania, have subsequently suffered the largest decline in output. As a result, Latvia, Romania and Hungary had to request EU and IMF-led international financial assistance (ECB 2010). Hungary was one of the worst-hit countries among the CEE countries. Financing external debt became a major constraint. However, in October 2008 the country received external financing from the IMF and the EU under the terms that implied budgetary restriction (Seitz and Jost 2012).

The crisis was accompanied by an expansion of unemployment and an increase of the budget deficit and a corresponding increase of the public debt. However, increases of budget deficits were similar to the increases of deficits in the rest of the EU, while public debts among the Visegrad countries were lower than in most EU member countries. This was due to the shorter history of capitalism in these countries. The only exception was Hungary, where gross public debt was close to the EU27 average during the post-crisis period.

Although, as indicated earlier, there were some economic problems among the Visegrad economies, these were mostly overshadowed by the crisis in some old EU member states, namely Greece, Spain and Portugal. This crisis represented a much more severe threat to the future of the EU. Overall, CEE countries have performed well. Poland is the only EU country which did not experience depression during the global economic and financial crisis. The GDP in Slovakia recovered quickly, the economic circumstances have been improving in Hungary, the Czech Republic and Estonia (Mencinger 2013). Steady economic performance is forecasted for all the V4 (at about 3 percent growth for 2017 and 2018, accompanied by stable levels of government deficit.

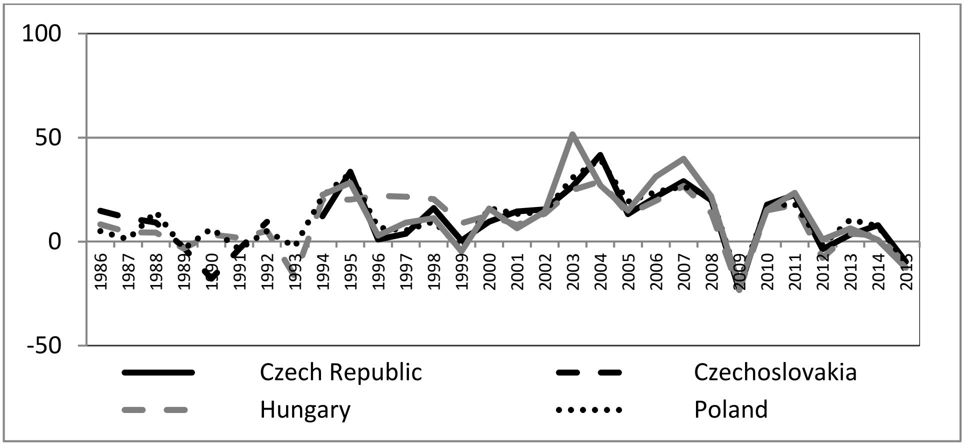
To sum up, the V4 countries have benefited significantly from EU accession. Their annual average GDP growth has increased by approximately 1 percent due to the EU membership. The V4 export have grown three times faster than that of EU15; making the V4 the fourth largest exporter within the EU28. EU membership has played a key role in improving export opportunities of the V4 countries, of which three (the Czech Republic, Hungary and the Slovak Republic) are among the top five open economies within the European Union (Jedlička *et al.* 2014). The Visegrad countries have experienced continuous increase in FDI inflows, which have contributed significantly to the export restructuring of Central-Eastern Europe. Besides improving economic circumstances, Visegrad countries have experienced strong income convergence.

4.3 Foreign Trade

"Under central planning foreign trade was regarded as an evil necessary to obtain unavailable inputs and technologies" (Kamiński *et al.* 1996, p. 47). All European post-socialist transition countries went through recession due to the initial economic dislocation and trade disruption stemming from the collapse of the Soviet-era Council for Mutual Economic Assistance (COMECON) (Roaf *et al.* 2014, p. 3). However, several post-communist countries had partially dismantled the state monopoly over foreign trade already before the collapse of communism. Consequently, their firms had made direct commercial contacts with Western traders and gained experience in international marketing before the transition took place (Kamiński *et al.* 1996). The adjustment to market forces was for those countries a lot smoother, although the foreign trade regime remained a source of distortions and inefficiencies.

In the actual process of transition, foreign trade played an important role. However, it was hindered because of systemic distortions, such as distorted output growth, underspecialisation, technological obsolescence and unbalanced trade patterns due to the communist production and trading system (Winiecki 2002). Three distinct time periods can be determined in the development of trade patterns in the V4 (Figure 4.4).

Figure 4.4 Annual Average Growth Rate of Export of the V4 Countries, 1990-2015



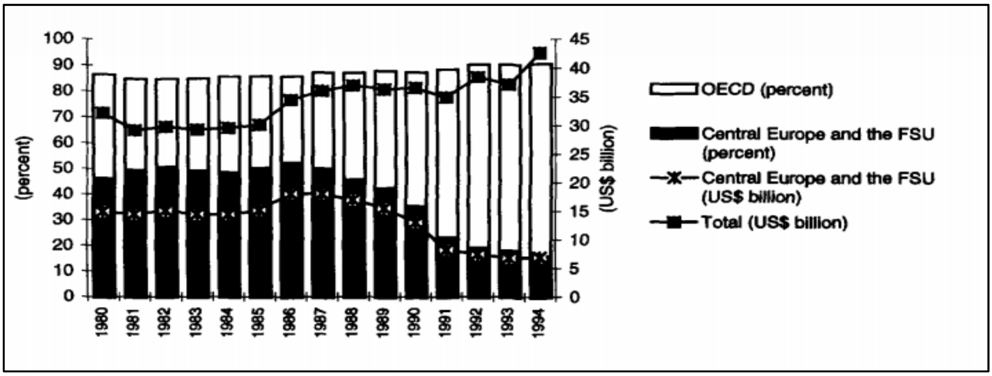
Source: UNCTAD statistics: Merchandise: Total trade growth rates, annual, 1981-2016.

The first phase was the transition and its aftermath, starting in the 1980s and lasting until 1994. The decline during the initial years was accompanied by a salient reorientation of trade, which was followed by significant trade creation due to the membership in international organizations. The second phase ended at the outbreak of the financial and economic crisis of 2008. Trade patterns after 2008 have changed significantly.

During the 1980s, trade performance of the Visegrad countries (and other transition economies) in the OECD markets was not remarkable. This changed subsequently to a varying degree. Figure 5 shows that the volume of export increased significantly for a short period of time in the mid-1980s and then again in 1992. In terms of trade composition these countries experienced a salient restructuring. The share of export to the OECD almost replaced that to the members of the COMECON. The share of export to the OECD countries reached 75 percent in 1994 (pre-transition level was 33 percent).

Between 1990 and 1994, the share of the Visegrad countries' trade with former socialist countries halved. By contrast, trade with the EU increased significantly (Hungary's total export to the EU grew from 45 percent to nearly 63 percent, while its share of imports from the EU increased from 49 percent to almost 60 percent). The end of shortage economy led to a salient rise in imports (for example, in Hungary from 34 percent of GDP in 1991 to 41 percent in 1996) (WTO 1998). Poland and former Czechoslovakia experienced the strongest import growth, while in Hungary the expansion of import was steadier and more moderate, keeping with the slower pace of reform.

Figure 4.5 Reorientation of Export of Visegrad Countries (1980-1994)



Source: Kamin ski, Wang, Winters 1996, p. 18.

The increasing volume of import is a key factor in trade adjustment, which can be demonstrated by the evolution of current account balances within the Central-Eastern European region. Compared to the Commonwealth of Independent States (CIS) region this issue was not problematic, with even a moderate positive balance as a share of GDP up until 1994 (averaging at around 1 percent of GDP). Current account balance developments reflect contractions in domestic demand, real exchange rate undervaluations and external financing constraints for the CEE countries (Aristovnik 2006). To sum up it can be concluded that trade and financial integration created vulnerabilities as well.

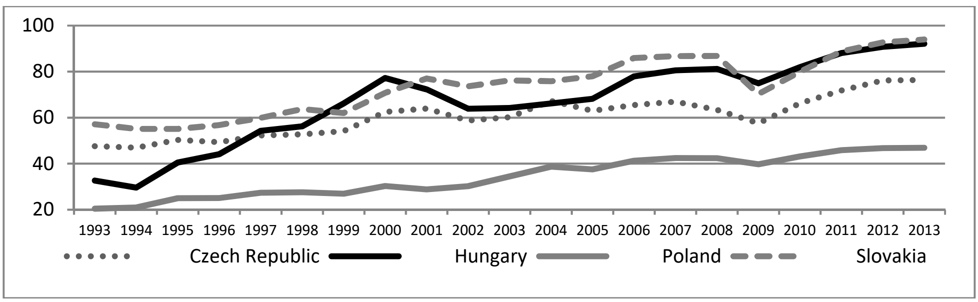
Membership in international organisations was an important feature of the first phase, which offered not only new markets and increased movement of goods, but also strong regulatory and political frameworks to build sound market institutions, support sustainable structural reforms, and increase competitiveness across sectors (Roaf *et al.* 2014). Hungary, Poland and Slovakia became part of World Trade Organization in 1995 and the Czech Republic joint in 2000. This resulted in lower tariff rates, harmonized legislation and the adoption of independent dispute settlement mechanisms (Campos

2004). Improving trade performance of the Visegrad countries is linked to the fact that their integration through trade and investment began almost immediately after transition commenced, long before the full economic integration into the EU. Consequently, by the mid-1990s, many transition countries had implemented bilateral trade agreements with the EU (or then EEC) as a precursor to the actual membership (Roaf *et al.* 2014).

The second distinct time period of trade development for the Visegrad countries started in 1995 and lasted until the financial and economic crisis. After 1994 CEE countries experienced significant current account deficit, peaking at almost 7 percent of GDP in 1998 on average (for example, Slovakia 9.6 percent), mostly as a result of growing imports of both consumption and investment goods. Deterioration of current accounts in the region was the result of the growth in merchandise trade deficits, downward trends in the service balance, rising indebtedness and profit repatriation as well as the consequence of continuous real appreciation of domestic currency in most cases (Aristovnik 2006).

This second period can be characterised by a significant trade creation with EU partners. Figure 4.6 shows how openness to trade of the Visegrad Group increased. Except for Poland, even before the EU accession, the Visegrad countries showed a relatively high degree of openness to trade (Slovakia had the highest level, followed by Hungary and the Czech Republic). The importance of international transactions increased even further over time. In the case of Poland due to the much bigger domestic market, the share of foreign trade compared to GDP was significantly lower (40 percent of GDP in 2013). In 2013 international trade accounted for almost 90 percent of GDP in Slovakia, 80 percent in Hungary and around 70 percent in the Czech Republic.

Figure 4.6 Goods and Services (BPM5) Trade Openness Indicators, 1993-2013



Source: UNCTAD statistics: Goods and services (BPM5): Trade openness indicators, annual, 1980-2013.
Note: BPM5 is the fifth edition of the Balance of Payments Manual.

If, in addition to export and import of goods, commercial services are analysed, the general picture of openness is somehow different within the Visegrad Group. The share of export of goods and services compared to GDP has been considerably higher in the V4 than the EU average for a long time (Table 4.4). Poland is similar to the EU average in this respect.

Table 4.4 Export of Goods and Services as Percentage of GDP of the Visegrad Countries

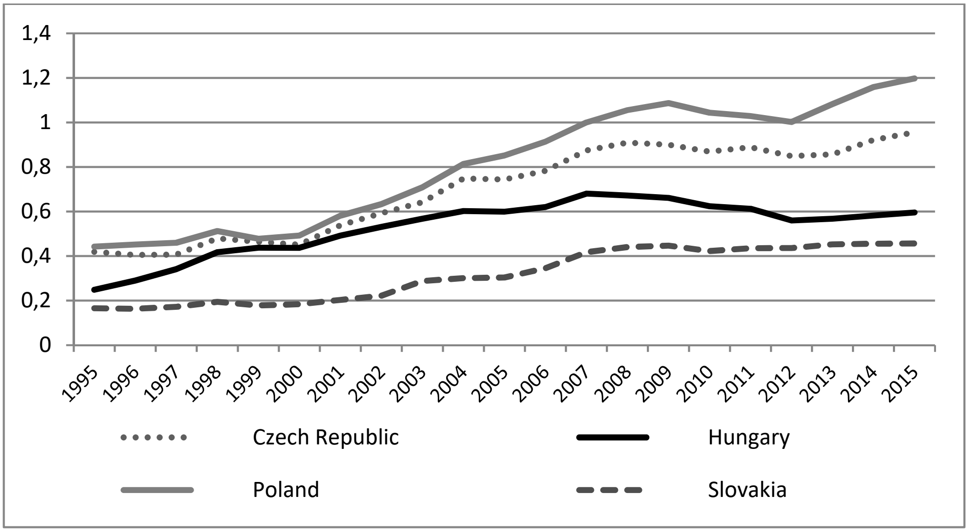
	1990	1995	2000	2005	2008	2009	2010	2014	2015
Czech Republic	33.21	40.56	48.33	62.31	63.36	58.81	66.18	82.55	82.96
Hungary	28.82	39.26	66.82	62.80	79.65	74.77	82.25	88.66	90.73
Poland	25.93	22.96	27.23	34.61	37.86	37.18	40.06	47.59	49.55
Slovak Republic	25.03	56.68	54.07	72.05	80.05	67.61	76.34	91.80	93.49
EU average	25.54	28.64	34.39	35.57	38.87	34.65	38.33	42.63	43.24

Source: Eurostat, Code: tet00003.

Since 1995, the Visegrad countries have increased their share in the world trade. From the EU accession until 2009 the share of export in world total exports increased significantly and continuously for almost all the V4 (Figure 4.7). Poland, as the largest economy, is also the largest trader within the examined group (Éltető 2014).

The Visegrad countries benefited enormously from being part of supply chains. Over time, they have increased their domestic value added in export in line with the increase in Germany (as illustrated in the next chapter), and to a significantly larger extent than in other European countries. In general, export increased across all categories during 1995–2008. The growth in relatively knowledge-intensive manufacturing sectors, namely machinery and transport equipment, was spectacular, resulting in the creation of a comparative advantage of these countries over time, especially in knowledge-intensive manufacturing (Roaf et al. 2014). Hungary and the Slovak Republic experienced a double digit increase in their domestic value-added exports to GDP ratio between 1995 and 2008. The Czech Republic and Poland experienced moderate growth in export orientation and a lower increase in the domestic value-added exports to GDP ratio (Rahman and Zhao 2013).

Figure 4.7 Share of Goods and Services in World Export of the Visegrad Countries, 1995-2015



Source: UNCTAD statistics: Merchandise: Total trade and share, annual, 1948-2016.

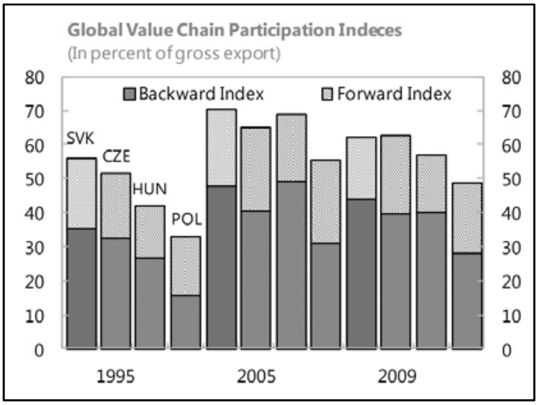
During phase two of trade development the Visegrad countries experienced an export-driven robust growth, allowed, among others, by machinery and transport equipment manufacturing. They are now strongly linked to the German supply chain, which grants them access to more dynamic markets in Asia and elsewhere, as discussed in the next chapter. Over time, the V4 not only have moved up the production value chain, but also created areas of new comparative advantage (Roaf *et al.* 2014).

Participation in global value chains (GVCs) has offered significant opportunities as well as posed some risks. Substantial foreign direct investments, particularly in the automotive and electronic sectors, have led to a growing participation of the V4 economies in GVCs (Figure 4.8). In 1995, Slovakia followed by the Czech Republic were the leaders in GVC performance. Later, the other two Visegrad countries managed to catch up.

The value of foreign trade (export and import) of the Visegrad countries grew steadily between 1994 and 2008. The dynamics of export growth exceeded the dynamics of import growth, leading to improved position of foreign trade balance (Škubna *et al.* 2011).

Subsequently, the financial and economic crisis of 2008 had negative effects on the trade performance of the V4 and on the global value chains[6]. Thus, the third distinct period relates to the changes in trade development due to the outburst of the crisis.

Figure 4.8 Change in GVC Participation Indices of the Visegrad Countries



Source: IMF (2014): Slovak Republic: 2014 Article IV Consultation. IMF Country Report No. 14/255. p. 5.
Note: Backward participation means the contribution of imported inputs in overall exports, forward participation can be understood as domestic value added sent to third economies.

Due to the collapse of the fourth largest US investment bank Lehman Brothers in September 2008 global risk aversion increased, leading to a sudden decrease in capital inflows to the V4 (and the CEE) region. Global trade collapsed in parallel, placing the region at the epicentre of the emerging market crisis. This "recoupling" with advanced economies continued during the Euro area crisis (Roaf *et al.* 2014). Economic openness of the Visegrad countries contributed to the deeper than expected effects of the financial and economic crisis. In 2008, foreign investors suddenly lost faith in markets of emerging Europe. The near-panic behaviour led to the depreciation of national currencies and fall of the stock markets. Consequently foreign trade shrank, and with it GDP and the living standards (Bod 2009).

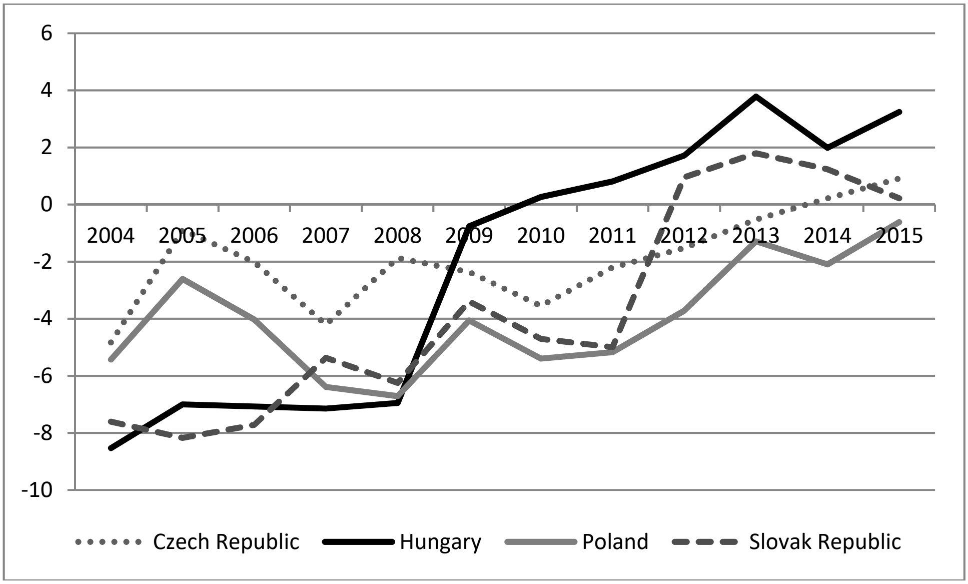
As the foreign trade trends in the V4 are similar to those of the world in general, the region's trade reached its highest value in 2008, after which a considerable fall took place in 2009, together with the global economic crisis (Stojadinović Jovanović *et al.* 2015).

[6] According to the literature, global value chains can be channels for the rapid transmission of both real and financial shocks (Éltető 2014; Milberg and Winkler 2010).

Merchandise trade in the V4 countries recovered in 2010 and has been expanding since 2011 (surpassing the maximum value of 2008 in 2011). As a result of the financial and economic crisis, the V4 domestic consumption and investment activity decreased, thus export remained the major possible source of growth. After dramatic decline in export performance in 2009 (the year of the international trade's collapse), in the subsequent year, the volume of export started to increase again (Éltető 2014).

The global financial and economic crisis led to improving current accounts in all four Visegrad countries (Figure 4.9). The main reason behind it was the improving trade balance due to sharp decline in imports (caused by decreasing domestic demand).[7] The financial and economic crisis changed both investment and consumption patterns inside and outside the V4 economies.

Figure 4.9 Current Account Balance of the Visegrad Countries



Source: The World Bank DataBank, World Development Indicators: Current Account Balance (percentage of GDP).

[7] Trade surplus in Hungary is somehow a special case which is mainly due to the marked decline in imports as a consequence of the crisis. Hungarian import growth remained moderate as a consequence of low domestic demand (Bodnár *et al.* 2013).

To sum up, as mentioned earlier, the V4 countries' annual average GDP growth has increased by approximately 1 percent due to EU membership. The V4 exports have grown three times faster than EU15 exports; making the V4 a fourth largest exporter within the EU28. Besides improving economic circumstances, the Visegrad countries have experienced strong income convergence. EU membership has played a key role in improving export opportunities of the V4 countries, of which three (the Czech Republic, Hungary and the Slovak Republic) are among the top five open economies within the European Union (Jedlička *et al.* 2014). The Visegrad countries have experienced continuous increase in FDI inflows, which contributed significantly to their export restructuring.

4.4 Foreign Direct Investments

Foreign direct investments have been driving economic growth in many transition economies. During the transformation, states of Central-Eastern Europe, including the Visegrad countries, went through radical economic changes. These changes were largely induced by foreign capital. Investors, mainly from EU15, were attracted by relatively low unit labour costs, market size, openness to trade, and proximity (Szunomár and Éltető 2016). Eastern enlargement of the European Union was accompanied by an expansion of industrial capacities by multinational corporations in the new member states, particularly in the Visegrad countries (Drahokoupil and Galgóczi 2015). Foreign multinationals implemented significant investment projects and established their own production networks therein.

Moreover, FDI have played an important role in the successful restructuring of the V4 economies after 1990. FDI have contributed to productivity growth, technological modernisation, the creation of an export capacity indispensable for a healthy growth potential and the creation of new jobs. Furthermore, non-debt generating FDI were a key factor in improving the country's external balances (Andrei and Andrei 2013). Extant literature suggests diverse institutional factors that influence inward FDI. In the case of the V4, the prospects of their economic integration with the EU increased FDI inflows while in other Central-Eastern European countries the lagging behind in terms of implementation of transition policies and a longer perspective for joining the EU, discouraged FDI (Bevan and Estrin 2004).

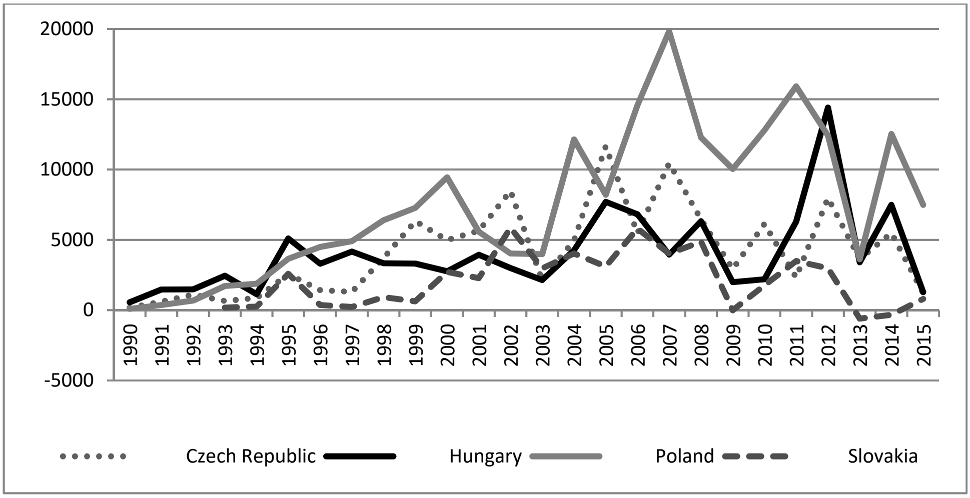
When searching for possible factors which make the CEE region a favourable and attractive investment destination, Ikemoto (2007, p. 92) found the following advantages: "(1) the countries' tradition of manufacturing; (2) many qualified and skilled workers; (3) qualified production managers; (4) advantageous geographical location for the EU market; (5) relatively well established infrastructure (roads, railways, electric power, etc.); (6) lower labour costs than in EU15; and (7) FDI incentive programs (several years' tax holidays, duty free import of equipment, job creation grants, site development support, etc.)".

In fact, V4's workforce is believed to be more skilled compared to other Central-Eastern European countries, while labour costs are lower in the CEE region than the EU average. Concerning the market size, Poland has the biggest population, while others are medium-sized or small. The Czech Republic and Slovakia are relatively affluent markets, based on their GDP per capita in purchasing power standards. In addition to the size of the market, the CEEs' convenient location in the centre of Europe and generally good overall business conditions also play an important role in attracting investors. Altogether in the V4 countries, around 90 percent of foreign investments are from Europe, only 7.4 percent comes from other countries, mainly from the USA, South Korea, Japan and China.

Inward FDI play a crucial role in the catching-up process. However it must be noted that beyond the general and policy framework conditions, FDI inflows may also fluctuate due to single large deals or for statistical reasons, as was the case of Hungary in 2012 (Hunya 2015)[8]. Inward FDI flows (Figure 4.10) reached their peak for the V4 region during the 2000s. Due to the financial and economic crisis they sharply declined in 2009. In Poland this decline was relatively modest, however the drop continued afterwards. The year 2011 brought some modest recovery throughout the V4 region. The Czech Republic experienced it one year later. In 2013 a renewed setback occurred in line with the deleveraging in emerging markets, which was followed by a correction in 2014, in all the V4 countries except for Slovakia.

[8] Almost half of the inflow was in the temporary form of "other capital", which underwent subsequent rebalancing. The structure was specific: half of the equity FDI in 2012 and also in subsequent years went to the banking sector because of a special tax on turnover to be paid also by loss-making financial institutions and the simultaneous obligation to increase the capital adequacy ratio and compensation for losses (Hunya 2015).

Figure 4.10 Inward FDI Flow (USD at Current Prices and Current Exchange Rates Per Capita)



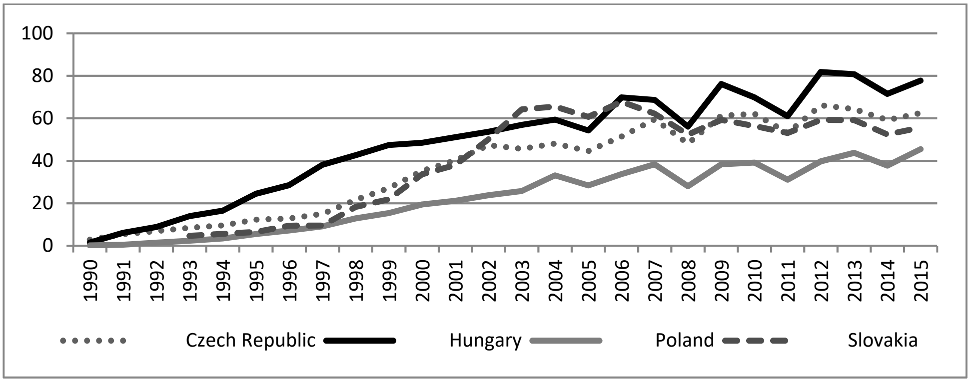
Source: UNCTAD statistics: Foreign direct investment: Inward and outward flows and stock, annual, 1970-2015. Note: Czech Republic, 1990-1992 data represents Czechoslovakia.

A different indicator is the size of the accumulated FDI stock, which indicates the importance of a country for international investors. It is not a simple sum of annual inflows but a separately measured indicator that depends on the duration and size of inflows, the exchange rate at the end of the reporting year and valuation of the assets of foreign investment enterprises (Hunya 2015).

The analysis of the FDI stock as a percentage of GDP (Figure 4.11) concluded that the Hungarian FDI stock level is the highest (82.2 percent of GDP in 2013 and 71.7 percent in 2014) among the Visegrad countries, followed by the Czech Republic (around 60 percent), Slovakia (above 50 percent) and Poland (between 40 and 50 percent). Based on data provided by UNCTAD[9] in nominal terms inward stock of FDI in 2014 was the highest in Poland (245.16 billion USD), followed by the Czech Republic (121.53 billion USD) and Hungary (98.36 billion USD). The value was the lowest for Slovakia (53.22 billion USD).

[9] UNCTAD provides data on foreign direct investments. Data of foreign direct investment: Inward and outward flows and stock, annual, for the time period between 1970 and 2015, can be downloaded from http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740.

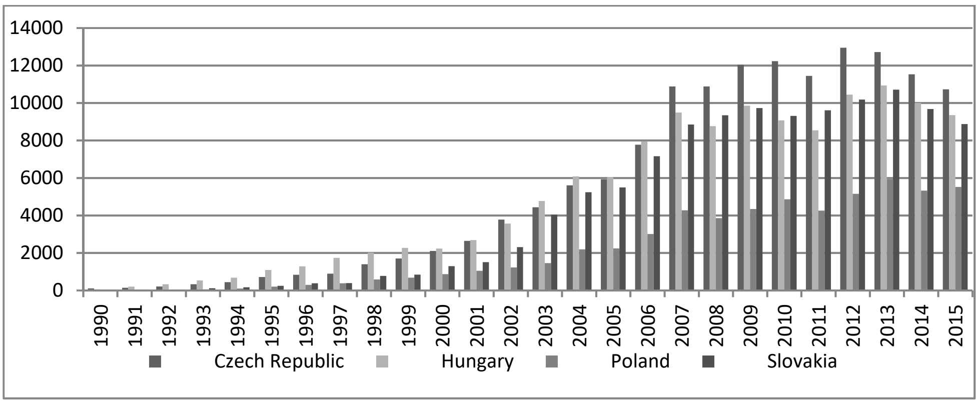
Figure 4.11 Inward FDI Stock of the Visegrad Countries (as percentage of GDP)



Source: UNCTAD statistics: Foreign direct investment: Inward and outward flows and stock, annual, 1970-2015.
Note: Czech Republic, 1990-1992 data represents Czechoslovakia

FDI stock per capita describes the intensity of FDI penetration and thus the importance of FDI for the host country. The V4 group shows increasing FDI penetration. After transition, Hungary was in a leading position among the V4 countries until 2006. Afterwards FDI penetration has become the highest in the Czech Republic. The relative position of the countries has not changed due to the outbreak of the financial and economic crisis (Figure 4.12).

Figure 4.12 Per Capita Inward FDI Stock of the Visegrad Countries (USD at Current Prices and Current Exchange Rates)



Source: UNCTAD statistics: Foreign direct investment: Inward and outward flows and stock, annual, 1970-2015.

Drahokoupil and Galgóczi (2015) call to attention the fact that the financial and economic crisis put an end to a longer cycle that was marked by FDI expansion in Central-Eastern Europe linked to the opening up of the region and its subsequent EU accession. They suggest that the golden era of FDI is over, since FDI flows from 2008 onwards suffered a substantial setback, which seems to be more than just a cyclical effect. Consequently FDI has lost its growth-engine function, while economic growth has become sluggish and the catching up process of the new EU members with the EU15 has slowed down. Policy-makers have to bear in mind that the reliance on FDI worked rather as a convenient policy shortcut.

However, Nölke and Vliegenthart (2009) argue that FDI can compensate for a weakness of domestic institutions and consequently hinder the implementation of structural reforms. Since FDI are shifting towards knowledge- and skill-intensive manufacturing and services the implementation of structural changes is crucial for the Visegrad countries in attracting FDI in the future. Targeted policy interventions to attract and upgrade the quality of FDI or to broaden their regional dimension seem to have had only a limited effect and it remain a key challenge for the V4 (Drahokoupil and Galgóczi 2015).

4.5 CLMV and the V4: Trends, Challenges and Similarities

Albeit some exceptions, the CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) region shows similarities with the V4 region in its initial post-socialist development path. Both groups of countries are new members of an economic organisation: CLMV are the newest members of the Association of Southeast Asian Nations (ASEAN)[10] while the Visegrad countries also belong to the new member states of the European Union. The CLMV countries have a total population of 158 million, equivalent to more than one-quarter of the ASEAN total. In case of the V4, population share is lower, with a population of around 13 of the EU28.

As analysed earlier, trade relations, participation in GVCs and foreign direct investments have played an important role in the process of transition in the Visegrad coun-

[10] Vietnam acceded to ASEAN in 1995, Lao PDR and Myanmar in 1997 and Cambodia in 1999. In December 2015 ASEAN member states established ASEAN Economic Community (AEC).

tries. Similarly, the CLMV's growth outlook improved substantially as a result of developing trade relations and large influx of foreign investment. Furthermore, members of both the V4 and CLMV are economically strongly connected to their 'big neighbours', especially Germany, in the case of the V4, and mainly Thailand and China,[11] in the case of CLMV. Another similar feature is Laos' and Myanmar's high share of trade within the ASEAN Economic Community (AEC) (80 percent and 50 percent respectively). The corresponding data for Slovakia's and Czech Republic's trade with the EU15 exceeds 80 percent. And finally, as well as in the case of the V4 region, intra-trade relations within the CLMV region are relatively low.

Overall real GDP growth in Southeast Asia has been strong in the past few years (Table 4.5). According to OECD (2014) estimates, growth in the CLMV countries is projected to be robust over the coming years (2014-18), ranging from close to 7 percent for Cambodia and Myanmar to 7.7 percent per annum in Lao PDR.

Table 4.5 Real GDP growth of the CLMV Countries (Annual Percentage Change)

	2000	2005	2009	2010	2011	2015
Cambodia	8.8	13.3	0.1	6.0	7.1	7.0
Lao PDR	5.8	7.1	7.5	8.5	8.0	7.4
Myanmar	13.7	13.6	10.6	9.6	5.6	7.3
Vietnam	6.8	7.5	5.4	6.4	6.2	6.7

Source: The World Bank DataBank, World Development Indicators: GDP growth (annual percentage change).

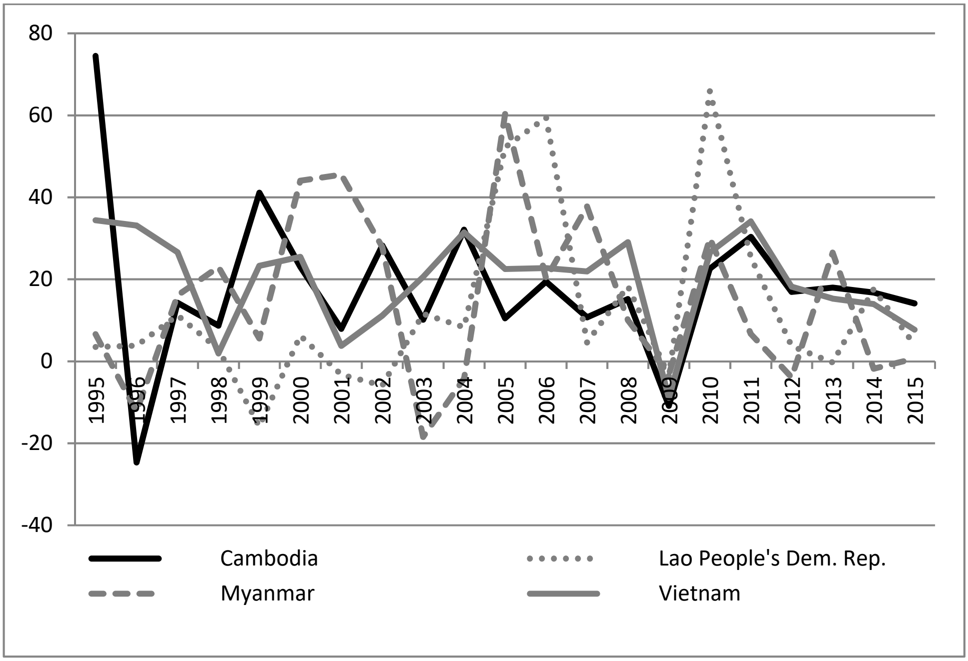
Although their market size is still small within the ASEAN Economic Community, they represent dynamic growth potential and were able to resist a hard landing after the financial and economic crisis of 2008 as they have had sound export growth in apparel, tourism, agricultural products and hydropower and their trade and investment linkages with big regional neighbours have strengthened their economies (OECD 2013).

After opening up their once centrally planned economies, Cambodia, Lao PDR, Myanmar and Vietnam experienced a fast growth in trade volumes. Both the unilateral policy actions and the expanded economic cooperation – through the Greater Mekong

[11] The interdependence to China ranges from very important (rank 1 in Myanmar's imports in 2013) to negligible (rank 28 in Cambodia's exports in 2013).

Region program, ASEAN membership and the ASEAN Free Trade Agreement (AFTA) – played important roles in this development. Their membership in the World Trade Organization (WTO) further enhanced this process[12]. As Menon (2012, p. 4.) emphasises, for the CLMV the most important contributions of WTO membership have been the adoption and appliance of the principles of most favoured nation (MFN) status and the reduction of technical barriers, mainly in the form of tariffs.

Figure 4.13 Annual Average Growth Rate of Total Trade, the CLMV Countries, 1995-2015



Source: UNCTAD statistics: Foreign direct investment: Inward and outward flows and stock, annual, 1970-2015.

As can be seen in Figure 4.13, despite the global economic and financial crisis of 2008, unilateral policy reforms and greater economic cooperation have led to positive growth in trade annually (total trade) and an increase of trade as a share of gross domestic product (exports of goods and services) in the CLMV. However, trade growth became

[12] Myanmar has been a member of the WTO since 1995, Cambodia, Vietnam and Lao PDR became members in 2004, 2007 and 2013, respectively.

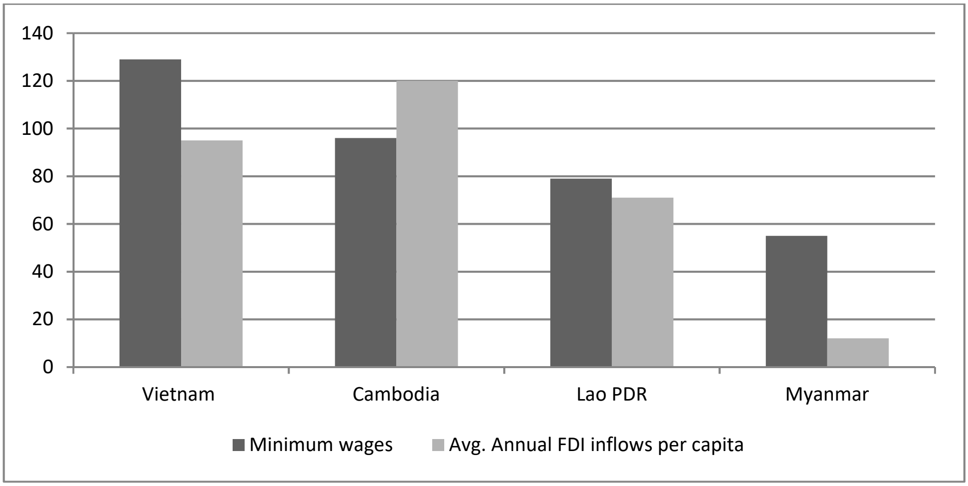
volatile after 2010, which might be the result of the weakening global demand and the regional halt caused, to a large degree, by China.

The growth of trade activities over the past two decades brought among CLMV countries an increase in their economic interaction with the rest of the world as well as with each other. Trade liberalisation and declining tariff level played a key role in fostering trade, especially with the more advanced ASEAN member states (Philippines, Indonesia, Malaysia, and Thailand). For instance, Thailand's exports to CLMV rose from 3 percent of total exports in 2000 to 3.8 percent in 2007 and 7.8 percent by 2012 according to the Bank of Thailand statistics (EC XT 003 S2). Cambodia, Lao PDR and Myanmar are strongly connected to the Greater Mekong Region in terms of trade relations, while the growth of sub-regional trade is modest in the case of Vietnam as it has strong trade connection – and more diverse relations – with the rest of the world. As a consequence, the CLMV countries are linked to the global value chains through their own regional value chains, typically through Thailand. The role of the People's Republic of China is also significant, especially as the major source of imports, but also in terms of export and investment activities.

Regarding the structure of exports of the CLMV, there has been a clear shift away from primary commodities towards manufactured goods, especially in the case of Vietnam and Cambodia (OECD 2013). According to Menon (2012), diversification of trade has become a critical part of export dynamism in Vietnam, with the share of machinery and equipment rising as a proportion of total exports. However, in the case of Cambodia, predominantly low-skilled and labour-intensive garment sector remains the most important, while manufactured exports from the Lao PDR and Myanmar have remained predominantly labour-intensive and resource-based.

The economic growth of the CLMV group has been fostered not only through expanding trade but also through sustained foreign direct investments that were facilitated by improved physical infrastructure, cheap labour costs and preferential market access to developed countries' markets (Banomyong 2010). Traditionally China, with its vast and cheap labour force, was the hub where parts supplied by more advanced economies and financed by high-income countries were assembled and shipped to the rest of the world. However, as China is moving up the value chain from mass manufacturing to more high-tech products and its labour costs are on the rise, CLMV countries are experiencing growing inward investments due to their cheap labour force as well as their preferential market access (GSP) to industrial economies in certain industries, such as garment. According to World Investment Report (2015) Vietnam still enjoys a labour cost advantage over China. However, the other three CLMV countries have significant labour cost advantages over Vietnam. As a result, efficiency-seeking FDI in manufacturing increased recently in Myanmar, Lao PDR and Cambodia. However, labour costs are not the only attracting factor for FDI. As shown in the graph below (Figure 4.14), per capita FDI inflows in Lao PDR and Myanmar are still considerably lower than in Vietnam.

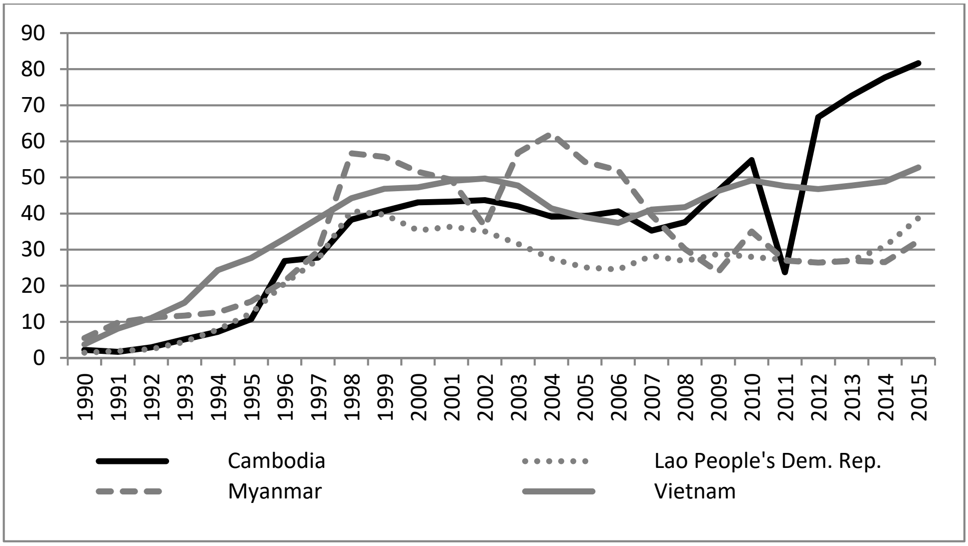
Figure 4.14 Labour Cost Advantages to Attract FDI (USD)



Source: World Investment Report 2015, p. 42. Note: Minimum monthly wages, 2014, and annual FDI inflows per capita, 2012–2014 (USD)

While moving up the value chain, the well-established industries of Thailand and Malaysia decided to outsource more labour-intensive processes of their manufacturing activities to lower-wage countries. As a consequence, the more advanced ASEAN members are becoming the leading investors in CLMV. According to the ASEAN Investment Report (ASEAN 2014) ASEAN investments to Cambodia, Lao PDR, Myanmar and Vietnam rose by more than 75 percent in 2013, attracted by wage cost differentials, market potential and future opportunities. As CLMV countries have locational cost advantages for labour-intensive manufacturing operations, a major share of total FDI inflows goes to the manufacturing sector. As the main FDI recipient of the CLMV group, Vietnam attracts foreign investments in several sectors. It has become an important exporter in the electronics sector, with electronic products including computer and telecom equipment overtaking coffee, textiles and rice to become the country's top export items already in 2012 (Zito *et al.* 2014). In the case of Cambodia, Lao PDR and Myanmar, industrialisation is not as diversified as in Vietnam: FDI goes to textiles and apparel, agriculture and forestry (ASEAN 2014). Vietnam also stands out from the CLMV group in other respects: its outward FDI is becoming increasingly important within the group, since 47 percent of all Vietnamese projects are in Lao PDR and Cambodia. Most of these investments have gone to hydropower, agriculture and construction projects (ASEAN 2014).

Figure 4.15 Inward FDI Stock, the CLMV Countries (as Percentage of GDP)



Source: UNCTAD statistics: Foreign direct investment: Inward and outward flows and stock, annual, 1970-2015.

FDI into Myanmar also rose rapidly in recent years, reaching USD 17 billion in 2014 according to UNCTAD. However, this number excludes non-equity modes of investment such as contractual arrangements and concessions in infrastructure or mining activities, therefore FDI in Myanmar is likely to exceed these official numbers. FDI flows to Myanmar are dominated by investments from China, ASEAN (mainly Singapore) and the European Union. Most attractive sectors are infrastructure (roads, power plants, telecommunications and logistics), oil and gas, followed by manufacturing, mining, real estate developments and hotel and tourism.

Conclusions

In order to maintain the income convergence and utilize further benefits from EU membership, theV4 countries need to move up the value chain, explore more possibilities in the export of services and improve the quality of institutions, which would help them to raise their absorption rate of EU funds. In the future, all the V4 countries will experience demographic aging. As a result, their labour markets will face shortages. Unless the V4 countries are prepared to undertake significant efforts to attract skilled labour from abroad in the medium term, it is foreseeable that work force shortages will hurt potential GDP growth significantly throughout the region (Jedlička *et al.* 2014).

In terms of future economic growth potential, FDI seems to have lost its growth-engine function. Meanwhile economic growth has become sluggish and the process of catching up with the EU15 has slowed down. Policy-makers of the V4 have to bear in mind that further implementation of structural changes is crucial. In the short run, engaging more foreign investors is a necessity, since targeted policy interventions to attract and upgrade FDI in terms of quality or to broaden its regional dimension seem to have had only a limited effect.

Regarding future challenges for CLMV countries; in order to continue the catching-up process, they have to maintain strong export growth and continue to attract foreign direct investments. Regional cooperation – among CLMV countries, within the ASEAN as well as between Northeast and Southeast Asia – must be further strengthened as it could contribute to the reduction of transaction costs and easier movement of goods, services, information and people, both within and outside the region. Investment in infrastructure is another crucial point as it could strongly enhance the region's attractiveness for foreign direct investments. China's "One Belt, One Road" initiative (BRI), Korea's Eurasia initiative or the Asian Infrastructure Investment Bank's activities can further boost regional integration and connectivity in this regard.

The comparative advantage of low labour costs of CLMV may become less relevant as locational determinant of export-oriented FDI, when the skilled labour force is missing or when labour is not available in the targeted area. Consequently, the quality of labour has to be strengthened, and as Banomyong (2010, p. 477) highlights, labour-related laws need to be more employer-friendly "in order to help investor gain the most from the available cheap labour cost".

Furthermore, the traditional FDI-attracting factors, i.e. economic and country indicators, seem to be insufficient in fully explaining FDI decisions of foreign investors. In the last decade international economics and business researchers acknowledged the importance of institutional factors in influencing the behaviour of multinational companies (Tihanyi *et al.* 2012). Stable institutional environment (law and social norms, regulation enforcement), FDI incentives and related policies, education and human capital as well as political stability and confidence can significantly influence investors' decisions. In addition, equal treatment to all foreign investors should be secured and transparency and political support must be strengthened by the CLMV governments in the future.

The V4, whose members share similar social and economic models, were bound together by converging interests in many areas. Those interests were addressed later at the EU level by formulating and pursuing common the V4 interests. For example, possessing a large voting power in the EU Council[13] is a very important factor allowing the V4 to effectively impact the EU's decision-making process. Although there are differences among them, common values and some converging interests can help binding the CLMV countries together. As a subgroup they could effectively maximise their influence and exert a constructive impact on the processes of ASEAN and ASEAN Economic Community. Therefore at least a loose institutional structure would be necessary for them to formulate common objectives, make joint efforts and – as a result – achieve common goals.

[13] Poland, the Czech Republic, Slovakia, and Hungary together have the same number of votes as Germany and France.

References

Andrei, D. M., Andrei, L. C. (2013). Some FDI disparities within the EU region. *Internal Auditing & Risk Management*, 8 (2), pp. 245-256.

Aristovnik, A. (2006). Current account deficit sustainability in selected transition economies. *Proceedings of Rijeka School of Economics*, 24 (1), pp. 81-102.

Banomyong R. (2010). *Challenges and Prospects for Upgrading and Diversification of Industrial Structure in CLMV Countries*. In: Banomyong, R. and Ishida, M. (eds.), *A Study on Upgrading Industrial Structure of CLMV Countries*. ERIA Research Project Report 2009-7-3, Jakarta: ERIA. pp. 471-483.

Batt, J. (1998). *Introduction: Defining Central and Eastern Europe*. In: White, S., Batt, J., Lewis, P.G. (eds.), *Developments in Central and East European Politics 2*. Basingstoke: Macmillan, pp. 1-14.

Bevan, A.A., Estrin, S. (2004). The determinants of foreign direct investment into European transition economies. *Journal of Comparative Economics*, 32 (4), pp. 775-787.

Bod, P. A. (2009). *The Financial Landscape – Seen From a Converging Country*. In: Hieronymi, O., Vautravers, A. (eds.), *Globalization and the reform of the international banking and monetarysystem*. Palgrave Macmillan

Bodnár, K., Molnár, Gy., Pellényi, G., Szabó, L., Várhegyi, J. (2013). *Dynamics of the trade balance and developments in exports and imports.* MNB Bulletin Special Issue, October, pp. 37-45.

Campos, N. F. (2004). What Does WTO Membership Kindle in Transition Economies?: An Empirical Investigation. *Journal of Economic Integration*, 19 (2), pp. 395-415.

Damijan, J. P., Kostevc, C. (2011). Trade liberalisation and economic geography in CEE countries: the role of FDI in the adjustment pattern of regional wages. *Post-Communist Economies*, 23 (2), pp. 163-189.

Damijan J., Crt, K., Rojec, M. (2013). Global Supply Chains at Work in Central and Eastern European Countries: Impact of FDI on export restructuring and productivity growth. *LICOS Discussion Paper Series*, No. 332. KU Leuven.

Drahokoupil, J., Galgóczi, B. (2015). *Introduction: Foreign direct investment in eastern and southern European countries: still an engine of growth?* In: Galgóczi, B., Drahokoupil, J., Bernaciak, M. (eds.), *Foreign investment in eastern and southern Europe after 2008: Still a lever of growth?* Brussels: European Trade Union Institute (ETUI), pp. 19-36.

ECB (2010). The impact of the financial crisis on the Central and Eastern European countries. *Monthly Bulletin*, July 2010. European Central Bank, Frankfurt am Main; https://www.ecb.europa.eu/pub/pdf/mobu/mb201007en.pdf

Éltető, A. (2014). *Foreign trade trends in the EU10 countries*. In: Éltető, A. (ed.), *Mind the gap: Integration Experiences of the Ten Central and Eastern European Countries*. Budapest: Institute of World Economics, Centre for Economic and Regional Studies, Hungarian Academy of Sciences, pp. 41-60.

Éltető A., Szunomár, Á (2016). Chinese investment and trade – strengthening ties with Central and Eastern Europe. *International Journal of Business and Management*, 4 (1), pp. 24-48.

European Commission (2016). *Winter 2016 Economic Forecast: Weathering new challenges*. Luxembourg: Office for Official Publications of the European Communities; http://ec.europa.eu/economy_finance/publications/ publication14078_en.pdf

Export-Import Bank of India (2014). Enhancing India's Bilateral Ties with Cambodia, Lao PDR, Myanmar, Vietnam: A Brief Analysis. *Working Paper*, No. 34; http://www.eximbankindia.in/sites/default/files/Research%20Brief/CLMV%20WORKING %20PAPER.pdf

Fawn, R. (2013). Visegrad: Fit for purpose? *Communist and Post-Communist Studies*, 46 (3), pp. 339-349.

Hunya, G. (2015). *Mapping flows and patterns of foreign direct investment in central and eastern Europe, Greece and Portugal during the crisis*. In: Galgóczi, B., Drahokoupil, J., Bernaciak, M. (eds.), *Foreign investment in eastern and southern Europe after 2008: Still a lever of growth?* Brussels: European Trade Union Institute (ETUI), pp. 37-70.

Ikemoto S. (2007). *Globalization and Japanese Investment in the Czech Republic*; http://www.eco.nihon-u.ac.jp/center/economic/publication/journal/pdf/37/37ikemoto.pdf

IMF (2014). Slovak Republic: 2014 Article IV Consultation. IMF Country Report No. 14/255; http://www.imf.org/external/pubs/ft/scr/2014/cr14255.pdf

Jedlička, J., Kotian, J., Münz, R. (2014). *Visegrad Four – 10 years of EU membership. Erste Group Research – CEE Special Report*; https://www.erstegroup.com/en/Downloads/6754d348-f37c-4861-aafd-a0ef49bd35f2/ pi20140423-special-report.pdf

Kamin□ ski, B., Wang, Z.K., Winters, L.A. (1996). Foreign Trade in the Transition: The International Environment and Domestic Policy. *Studies of Economies in Transition*. No. 20. Washington D. C: World Bank.

Kornai, J. (1997). Editorial: Reforming the Welfare State in Postsocialist Societies. *World Development*, 25 (8), pp. 1183-1186.

Mencinger, J. (2013). From the collapse of socialism to the crisis of capitalism: Experiences of Central and Eastern European countries. *Ljetopis Socijalnog Rada*, 20 (1), pp. 11-34.

Menon J. (2012). Narrowing the Development Divide in ASEAN: The Role of Policy. *ADB Working Paper Series on Regional Economic Integration*, 100; https://aric.adb.org/pdf/workingpaper/WP100_Menon_Narrowing_the_Development_Divide.pdf

Milberg, W., Winkler, D. (2010). Trade Crisis and Recovery. Restructuring of Global Value Chains. *Policy Research Working Paper 5294*. Washington D. C.: World Bank

Nölke, A., Vliegenthart, A. (2009). Enlarging the varieties of capitalism: The emergence of dependent market economies in East Central Europe. *World Politics*, 61 (4), pp. 670-702.

OECD (1998). *Open markets matter: The benefits of trade and investment liberalization*. Paris: Organisation for Economic Co-operation and Development.

OECD (2013). *Integrating CLMV countries through trade and investment*. In: *OECD: Southeast Asian Economic Outlook 2013 With Perspectives on China and India*. Paris: Organisation for Economic Co-operation and Development.

OECD (2014). *Economic Outlook for Southeast Asia, China and India 2014*. Paris: Organisation for Economic Co-operation and Development.

Orenstein, M. A. (2008). Postcommunist Welfare States. *Journal of Democracy*, 19 (4). pp. 80-94.

Pastwa, J. (2014). The role of the Visegrad Cooperation in EU Foreign Relations. *Pro Publico Bono – Magyar Közigazgatás*, 2 (3), pp. 83-90.

Pawlas, I. (2015). *The Visegrad Countirs and European Union Membership – selected issues*. Proceedings of IISES 18th International Academic Conference, London, September, pp. 581-592.

Pittlik, H. (2000). Explaining economic performance during transition: What do we know? *Intereconomics*, 35 (1), pp. 38-45.

Roaf, J., Atoyan, R., Joshi, B., Krogulski, K. (2014). *25 years of transition: post-communist Europe and the IMF*. Washington, D.C.: IMF.

Seitz, F., Jost, T. (2012). The Role of the IMF in the European Debt Crisis. University of Applied Sciences Amberg-Weiden (OTH), *OTH im Dialog: Weidener Diskussionspapiere*, 32; http://www.oth-aw.de/fileadmin/user_upload/Aktuelles/Veroeffentlichungen/WEN-Diskussionspapier/wen_diskussionspapier32.pdf

Škubna, O., Smutka, L., Steinenger, M., Maitah, M. (2011). Selected central European countries' foreign trade development. *Ekonomická revue*, 14 (1), pp. 21-36.

Stojadinović Jovanović, S., Jakšić, M., Todorović, V. (2015). FDI: Source of Financing or Source of Trade for CEE. *Ekonomika preduzeća*, March-April, pp. 182-195. Belgrade: Serbian Association of Economists.

Taušer, J., Čajka, R. (2014). *External Economic Balance of Visegrad Countries – Quantitative Analysis of Empirical Data*. In: Duréndez, A., Wach, K. (eds.), *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics.* Servicio de Documentación edición 1. Cartagena: Universidad Politécnica de Cartagena, pp. 193-224.

Tihanyi L., Devinney, T.M., Pedersen, T. (2012). *Institutional Theory in International Business and Management*. Bingley: Emerald Group Publishing.

UNCTAD (2015). *World Investment Report 2015 – Reforming International Investment Governance*; http://unctad.org/en/PublicationsLibrary /wir2015_en.pdf

Winiecki, J. (2002). *Transition Economies and Foreign Trade*. London & New York: Routledge.

WTO (1998). Hungary: July 1998. Trade policy reviews: First press release, secretariat and government summaries. World Trade Organisation; https://www.wto.org/english/tratop_e/tpr_e/tp77_e.htm accessed on 25.01.2016

Zito, M., Lynn, B., Liu, E. (2014). Key Industries for Investment in ASEAN. ASEAN Briefing, 3 December, http://www.aseanbriefing.com/news /2014/12/03/key-industries-investment-asean.html

Chapter 5

Günter Heiduk

Regional Production Networks: The Lessons from German-Central Europe Cooperation

Introduction

The development path of the world economy after the World War Two (WWII) is characterised by two apparently contradictory directions, namely globalisation and regionalisation. The former is frequently understood as a process which is dwarfing locations and distance, creating borderless mobility and communication and blurring boundaries between economics, politics, culture and society. A unique combination of technological (internet), political (opening-up), economic (institutionalised liberalisation) and social (increasing physical and mental mobility) driving forces is challenging and changing traditional personal life styles, organisational patterns of firms, and even hierarchies in governmental systems as well as in public-private governance relations. Regionalisation seems to be a less fuzzy process than globalisation despite the fact that the latter has a clear spatial dimension whereas the former leaves room for a variety of delimiting criteria.

However, its crucial weakness is the definition of a region. Different criteria such as geographic, cultural, economic may lead to regions which overlap, but not fully match. Furthermore, there is ample evidence that from an economic perspective, regionalisation as an evolutionary process is not only increasing the level of cross-border activities but is often changing the initial limits of a region. The evolution of East Asian regionalisation and the extension of its boundaries to Southeast Asia in the 1990s is often cited as the prime example of the power of predominantly self-organising market processes (e.g. Munakata 2006; Öjendal 1997; Pempel 2005). Compared to other regions in the world and despite the already well-formed ASEAN (the Association of Southeast Asian Nations), Asian regionalism is still at an early stage, most likely due to the fact that relations on the government level are rather unsettled.

There are other regions around the globe which crowned common interests and/or existing economic interdependencies by establishing an institutional framework ranging from a low level of commitment (e.g. intergovernmental cooperation, free trade agreements) to a shift of competencies from the national to the supranational level (customs union, monetary union). It is now common to bundle all types of institutionalised areas that are based on integrative ideas under the term "regionalism" (Mansfield and Milner 1999). In a wider sense, regionalism often serves as an instrument to stabilise and secure the evolutionary process of regionalisation.

In view of the global trade liberalisation that resulted from the GATT negotiation rounds, a controversial discussion among economists emerged on the question whether regional trade agreements (RTAs) affect global trade positively or negatively. Bhagwati and Panagariya (1996) represent the advocates of multilateral liberalisation by arguing that RTAs create negative trade diversion effects and in the case of free trade agreements (FTAs) need costly control mechanisms (e.g. certificates of origin).

The proponents of regionalism (e.g. Ethier 1998; Summers 1991) argue that the evidence suggests a positive balance of trade creation over trade diversion. Furthermore, it is noted that the economic integration in RTAs may create internal political stability. Bergsten (1997) proposed the concept of "open regionalism" to achieve compatibility between the fast growing number of RTAs and the global trading system which is nowadays represented by the WTO. Policy options range from open membership, unconditional MFN (most favoured nation) status to trade facilitation by abolishing or harmonising non-tariff barriers (NTBs).

Bergsten (1997, p. 545) considers the Asia-Pacific Economic Cooperation (APEC) as a successful example of open regionalism. Particularly as far as the comparability with the GATT/WTO multilateralism is concerned, Strange (2009, p. 1) noted that the EU is generally accepted as a deep and enlarging integration area with some features of Bergsten's open regionalism. In a broader context, he argues that EU regionalism can be understood "as both *part of* and *a political response to* (neoliberal) globalisation". The EU's open regionalism is not only oriented towards outsiders with the result of new regionalisation (e.g. EU-China trade), it also allows insiders to form institutionalised coalitions or to stay in or out of the EU's integrative decisions (e.g. joining the banking union or "wait and see").

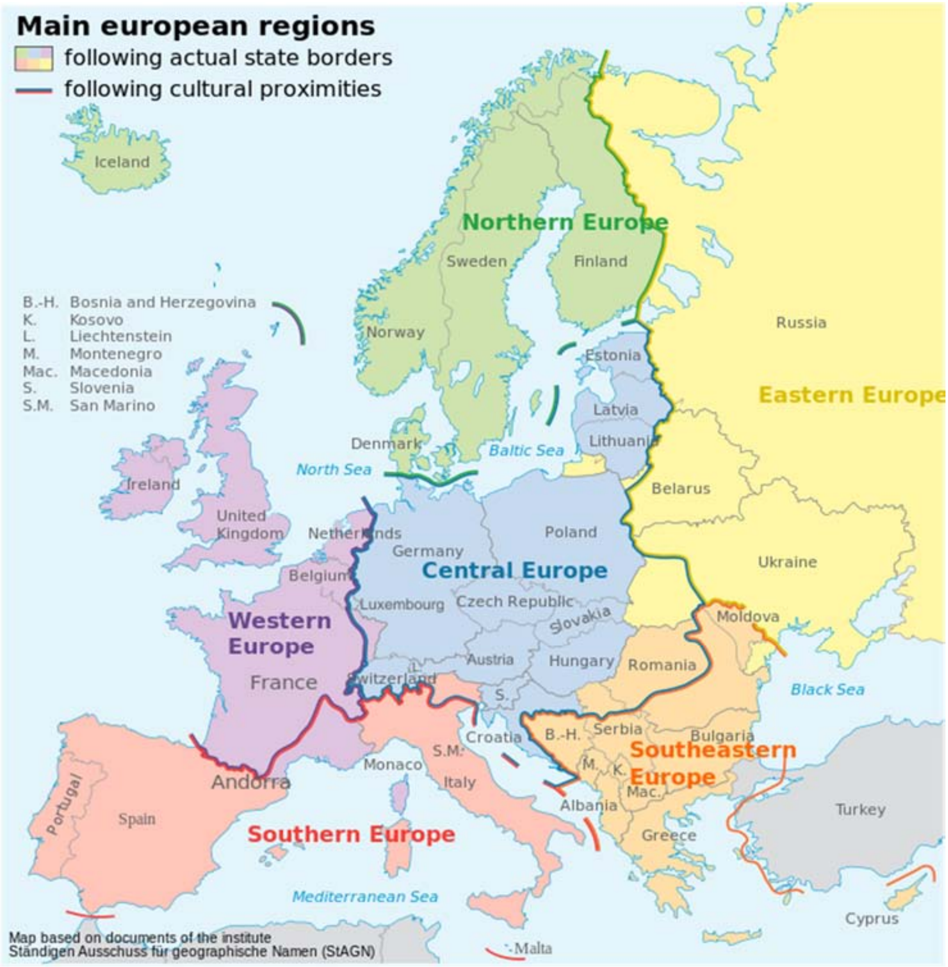
Last but not least, it is obvious that within this region of 28 member states different driving forces are permanently working towards new patterns of regionalisation. The EU's dynamic regionalism visible by its deepening and widening policies creates the basis for numerous "clubs" which differ by their pattern of structural change and specialisation. Today's industrial landscape of Europe is rooted in the expansion of Britain's industrialisation in the late eighteenth and early nineteenth centuries to the European continent. In 1900 approximately 40 percent of the world's manufacturing output was concentrated in the UK, Germany, France and the Habsburg Empire (Bairoch and Kozul-Wright 1996, p. 15).

The fast increasing wealth in the European core region was accompanied by a relative impoverishment of the peripheral Eastern and Southeast Europe. This also holds true for the former dependent peripheral countries in Africa and Asia (including Burma as a province of British India). Empirical studies on the specialisation patterns of Western European countries[1] in the second half of the last century (e.g. Brülhart 2001; Palan and Schmiedeberg 2010) have found that the pre-WWII industry patterns did not change drastically. Despite significant technological changes, the economic structures between North, South and Central Europe persist to be quite heterogeneous while economic structures within each "club" are becoming similar. The opening up of Central-Eastern European countries in 1989 and the accession of 11 of them to the EU between 2004 and 2013 raises the question whether there is evidence for the emergence of a new "club" which includes some countries of the former Western Europe and Eastern Europe.

Therefore, it seems reasonable to use the geographically defined "New Central Europe" (NCE) as point of departure of the analysis (figure 1). If we were to focus on the core countries, an economic analysis could exclude the mainly small peripheral countries (Luxembourg, the Baltic states, Slovenia and Croatia) and Switzerland as a non-EU member state. By doing so, the Western part of this new region would consist of Germany and Austria, the Eastern part of Czech Republic, Hungary, Slovakia and Poland.

[1] In this context, Western Europe is identical with the EU15.

Figure 5.1 Geographically and Culturally Defined Regions in Europe



Source: Bundesamt für Kartographie und Geodäsie, Frankfurt/Main, Germany.

The aim of the chapter is twofold, namely, first and foremost, to search for economic evidence of this NCE region with Germany as the core and the aforementioned four countries as the emerging partners and second, to draw some conclusions for the future orientation of Myanmar's internationalisation.

The chapter is structured as follows: section one examines the initial transformation approaches of the V4 (Visegrad four countries) and their impact on key economic indicators, with special reference paid to the V4 new orientation to the West. It analyses the "large big bang" of 1989 and the "small big bang of 2004". Section two is a brief description of the impact of V4's accession to the EU. This section includes an examination of trade and investment relations with Western Europe. The special relation of V4's with Germany is highlighted in section three. The German-V4 production networks and supply chains are uncovered in this section. Evidence for the emergence of German-V4 production networks in the automobile industry is given in section four. Section five draws some lessons for Myanmar.

5.1 The Institutional Basis for the New Central European (NCE) Manufacturing Club

5.1.1 The "Large Big Bang" in 1989

The evolution of economic interdependencies between Germany and the four countries is closely connected with two institutional changes that laid the foundation for a new political and economic landscape of Europe. The "Large Big Bang" in 1989 was tantamount to the collapse of the socialist CMEA[2] integration area. The opening up to the West instantly uncovered the sharp East-West divide in GDP per capita and labour productivity. The political and economic opening up of Czechoslovakia[3], Hungary and Poland to the West forced these countries to implement a full and inclusive transformation strategy. The first stage of the new era was characterised by a drastic decline of GDP and associated increase in unemployment.

Welfens (1998) highlights the crucial role of the competitive privatisation in the process of structural change and points to the side effect of converting the hidden unemployment into a massive official unemployment. The cleaning up of anti-market specialisation patterns was achieved by further fundamental economic reforms, amongst others the liberalisation of prices, trade, foreign exchange, the macroeconomic stabilisation – primarily the reduction of high or even hyperinflation, the capitalisation of the economies by reforming the banking and financial sectors, the strengthening of subnational financial administrative institutions. It has to be noted that the priorities as well

[2] The Council for Mutual Economic Assistance (CMEA – often called COMECON) aimed to establish an integrated economic area which was based on an international socialist division of labour and implemented by an effective and comprehensive plan coordination.

[3] The country split on 1st January 1993 into the Czech Republic and Slovakia.

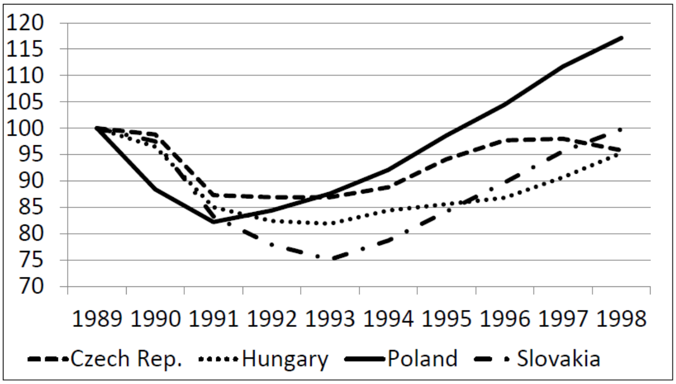
as the pace of the reforms were different due to different balances of power between influential social and political groups, different technical capabilities to manage the reforms as well as differences in the use of foreign advice and assistance.

While political leaders in Poland and the Czech Republic decided to follow the "shock therapy", Hungary preferred a gradual approach (Czaba 1993; Pollert 1999; Zecchini 1997). Numerous studies deliver arguments for the superiority of the shock therapy. Bokros (2013, cited in Grigoriadis 2014, p. 102) argues that "political rent-seeking and weak institutions are baseline causes for the partial completion, *ex ante* rejection or *ex post* reversal of liberal reforms". Without going into details of the comparison between Central-Eastern European (CEE) countries, it can be stated that the Hungarian gradual approach delivered the most disappointing results measured by key economic indicators in the first phase of the transformation process.

The Czech Republic, Hungary, Poland and Slovakia did not consider their transformation strategies as an end in itself. On 15th February 1991 the leader of the then three countries signed the *Declaration on Cooperation between the Czech and Slovak Federal Republic, the Republic of Poland and the Republic of Hungary in Striving for European Integration* in the Hungarian city of Visegrad. The Declaration points to the "similarity of the situation that has evolved over the past decades [and] has determined for these countries convergent basic objectives: [amongst others] full involvement in the European political and economic system" (Visegrad Group). The identity of objectives as well as the common historic, cultural and spiritual heritage prompted the coordination of the efforts to attain this goal by intensive cooperation of governmental institutions and civil communities as well. The process of integration into the EU took more than a decade from the first arrangements until full membership. Despite differences in their transformation strategies and consequently differences in their economic performance, the V4 managed to move with almost the same pace towards the membership in the EU.

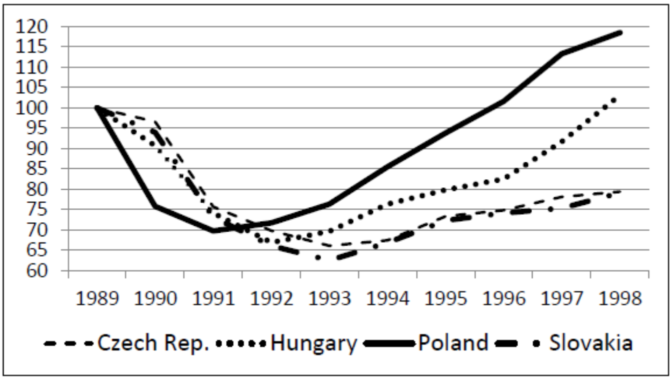
There is a broad consensus that the transformation process in the first half of the 1990s was accompanied by a severe economic crisis (e.g. Fischer *et al.* 1996; Murell 1996; Rangelova 1999). The "transition pain" manifested itself in U-shaped curves of macroeconomic indicators such as GDP and industrial output (figures 5.2, 5.3). Poland's shock therapy was clearly visible as both indicators reached their bottom earlier than in the other countries. The success was evidenced in the steeper increase of both indicators.

Figure 5.2 Real GDP in the Visegrad Countries, 1989-1998 (1989 = 100)



Source: UNECE 1999, p. 128.

Figure 5.3 Real Gross Industrial Output in the Visegrad Countries, 1989-1998 (1989 = 100)



Source: UNECE, 1999, p. 130.

Despite differences in the time and sequencing of the transformation strategies (Czaba 2007), the common aim of moving towards the EU resulted in similarities in their models of capitalism (Farkas 2011; Lane and Myant 2007; Sachs *et al.* 2000). This assertion is, however, challenged by some scholars. Especially Lane and Myant's (2007) collection of papers centred around the question whether V4's trajectory of transformation and their specific model of capitalism is based in pre-communist common historic and cultural roots or rather in post-WWII communist experiences.

Farkas (2013) particularly highlights trade openness, FDI-led industrial modernisation, liberalisation of labour markets, fiscal consolidation by reducing social protection as well as relatively low wages of a large pool of well-skilled workers as important determinants for V4's emerging competitiveness in the post-1989 era. It is not surprising that the country-specific institutional changes in the first phase of transformation uncovered essential gravity advantages such as geographical and cultural proximity. It could be expected that the two closely linked driving forces of regionalism and regionalisation determined growth and structure of V4's trade in their first phase of transition, namely the re-orientation to the West and the emergence of intra-V4 trade.

Both had been supported – but definitely not initiated – by institutional arrangements. First steps towards closer economic relations between the EU and CEE had been achieved by trade agreements with Hungary in 1988, Poland in 1989 and Czechoslovakia in 1990. Despite the fact that the EU and the Visegrad countries signed "Europe Agreements" in December 1991, they did not come into full force until 1994/1995. In the meantime, the joint document of the Council of the European Communities and the V4 Group (EU 1992, p. 2) stated in October 1992 that "the Community and the Visegrad countries reaffirmed their view that the implementation of the Europe Agreements should help the latter achieve their final objective, namely accession to the European Union. The Community reaffirmed its willingness to assist the Visegrad countries in this direction".

The trade related parts of the Europe Agreement were put into force as "Interim Trade Agreements" (ITA) in early 1992. These agreements aimed at establishing free trade in industrial goods within ten years as well as harmonising the economic legislation with EU legislation. Asymmetric liberalisation was intended at allowing the V4 to protect industries during the restructuring period and at the same time force EU to faster liberalise imports from these countries. The "Central European Free Trade Agreement" (CEFTA) – signed between the Visegrad countries in 1992 – was intended to accompany the liberalisation with the EU in order to avoid trade diversion effects. As stronger dependence on the EU may have led to negative effects during potential recession periods in the EU, the strengthening of the intra-V4 trade was aimed at creating an own small-scale tariff-free sub-region.

In general, the four countries quickly liberalised their imports in the first transformation period. According to Kamiński (1994, p. 18) the liberalised product groups accounted for 30-50 percent of the pre-agreements trade with the EU. The trade expansion effect occurred with a time delay. Despite a 20 percent tariff reduction in the first year of ITAs, the value of exports decreased by 35-40 percent. Kamiński concluded that finally "these concessions [would] assure the CEE-5 [Bulgaria, former Czechoslovakia, Hungary, Poland, Romania] a significant advantage over potential competitors from other former CMEA countries with comparative advantage in many similar products because of similarities of investment patterns under central planning" (Kamiński 1994, p. 34). Later, the efforts in liberalisation slackened and the countries introduced some protectionist measures, especially in the agricultural sector.

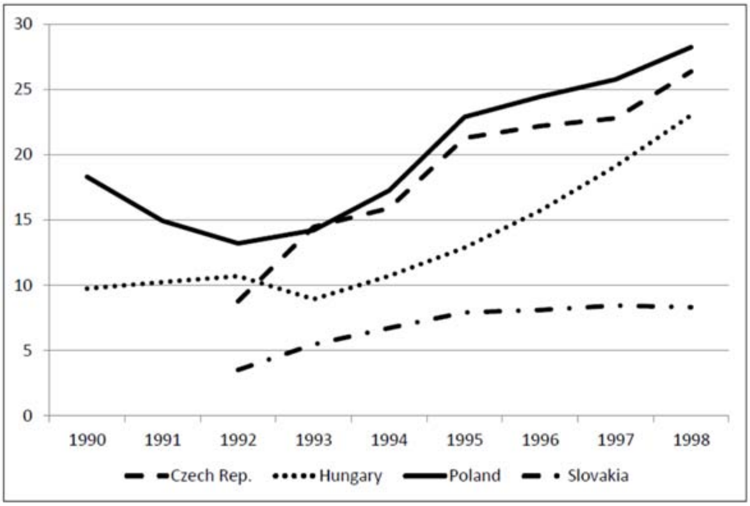
The original CEFTA was enlarged by Slovenia in 1996, Bulgaria in 1997 and Romania in 1999. The agreement aimed to completely liberalise intra-regional trade in industrial products by 2001 and to achieve substantially liberalised agricultural trade. Dangerfield (2014, p. 6) noted that "CEFTA became increasingly acknowledged as a device for future EU members to foster their mutual integration *en route* to the EU. Its enlargement criteria, established in Brno during the second annual summit of CEFTA Prime Ministers in September 1995, stipulated that prospective CEFTA members must have accomplished the following: membership of the World Trade Organisation (WTO); have signed a Europe Agreement with the EU; have signed bilateral free trade agreements with all existing CEFTA members. At this point the identity of CEFTA was clarified as a »club« for those post-communist states committed to Euro-Atlantic integration and acknowledged by the EU as future members".

The interpretation of CEFTA as a forerunner for the future accession to the EU might be the reason why the Europe Agreements and CEFTA did not compete, but rather, on the contrary, mutually reinforced each other. There is no doubt that the two institutional arrangements – Europe Agreements and CEFTA – served as opener for and probably accelerator of gravity forces which all together had been responsible for the new trade pattern of the V4.

The cleaning up of the CMEA-forced specialisation led to an immediate decrease or stagnation of V4's trade after 1989. The recovery began in 1992/1993 leading to fast growth in the following years (figures 5.4a and 5.4b). Only Slovakia was not able to keep this pace with its exports. Despite positive development on the export side, imports grew faster. Trade surplus or balanced trade turned into trade deficits. With respect to the geographic structure, the trajectories of their exports show increasing exports to the near West – represented by Germany – as well as to their Visegrad partners (figures 5.5-5.7)[4].

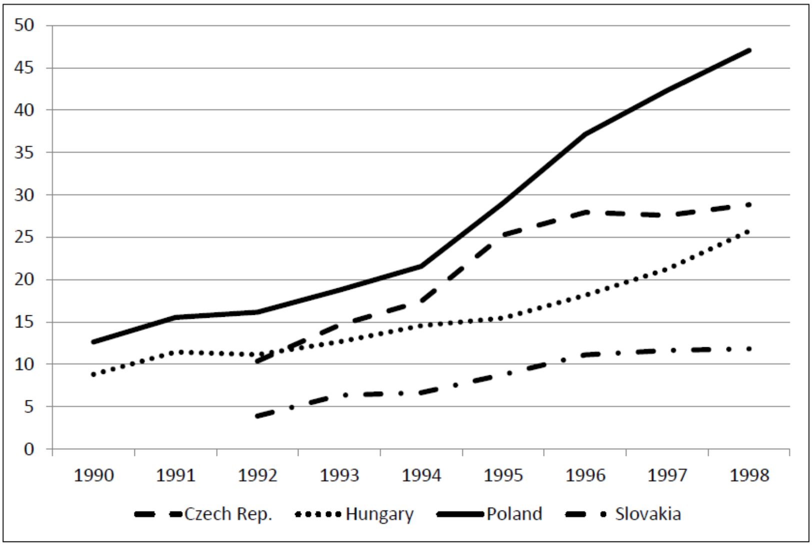
It is noteworthy that the exports to Germany were less stable than those to the Visegrad partners which might be explained by differences in the familiarity with the export markets and their environment. The sharp drop of the Czech-Hungary trade in 1993/1994 might be a consequence of the adjustments following the separation of Czechoslovakia. Despite similarities in the general trajectories of trade, the value of exports to Germany was considerably higher than exports to Visegrad partners, except for Slovakia (figure 5.8). Its high share of exports to Visegrad partners (in 1998, 30.6 percent compared to 28.8 percent to Germany) resulted from its former intensive domestic trade within Czechoslovakia.

Figure 5.4a Merchandise Exports of the Visegrad Countries, 1990-1998 (USD billion)



[4] Slovakia is not included in Figures 5.5 to 5.7 because of its strong dependence on Czech Republic after the separation.

Figure 5.4b Merchandise Imports of the Visegrad Countries, 1990-1998 (USD billion)



Source: UNECE 1999, p. 136-137.

Figure 5.5 Exports of the Czech Republic to Germany (left axis) and Bilateral Trade the Czech Rep. – Hungary (right axis), 1993-1998 (USD thousand)

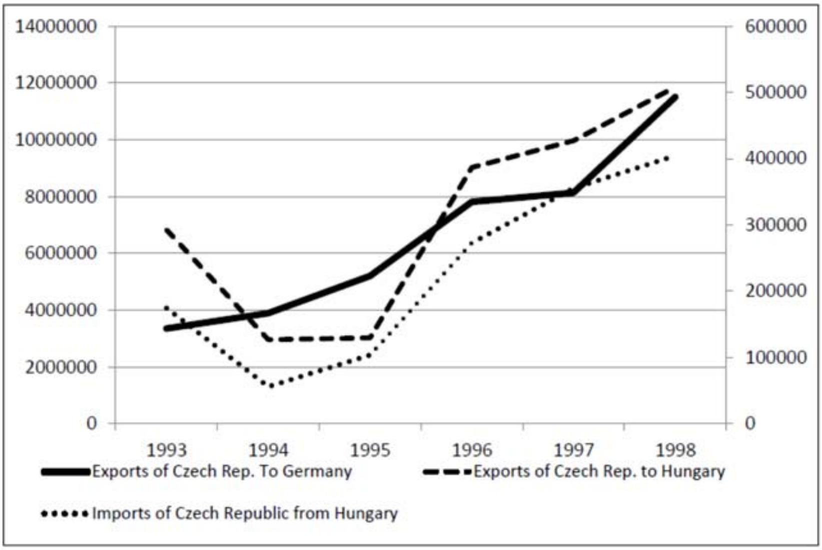


Figure 5.6 Exports of Hungary to Germany (left axis) and Bilateral Trade Hungary-Poland (right axis), 1992-1998 (USD thousand)

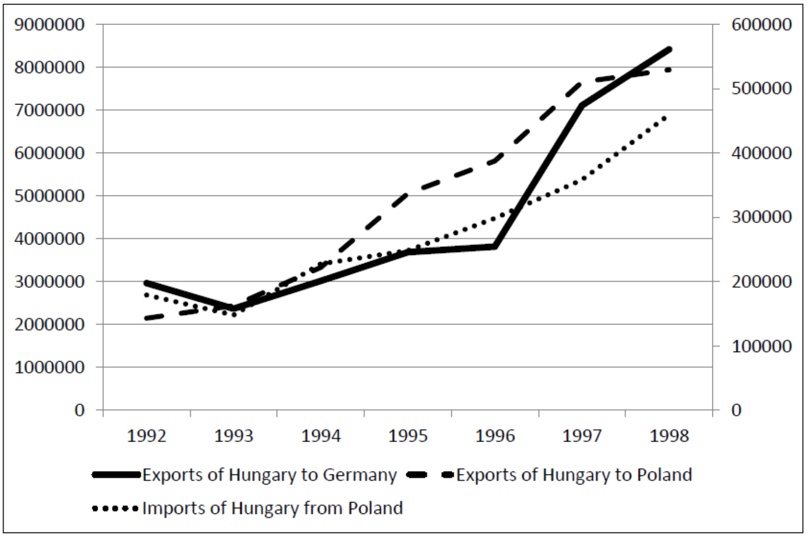


Figure 5.7 Exports of Poland to Germany (left axis) and Bilateral Trade Poland-Czech Rep. (right axis), 1993-1998 (USD thousands)

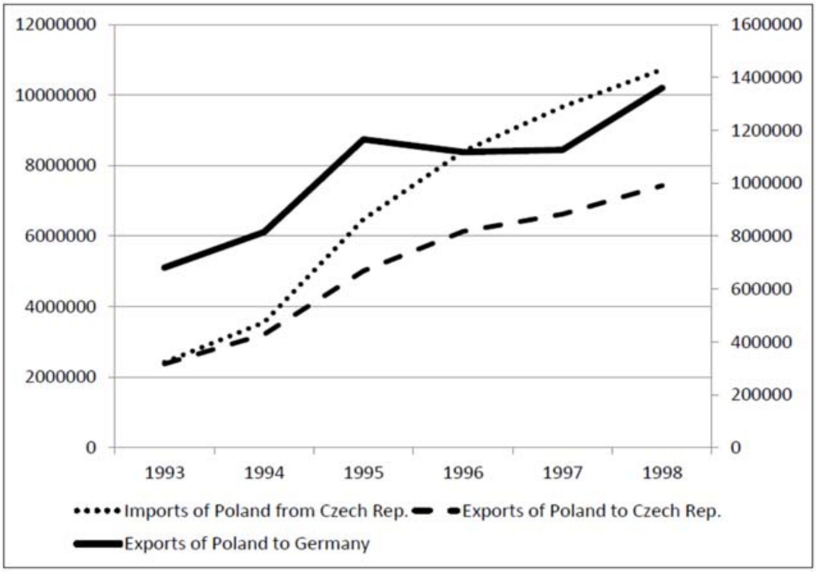
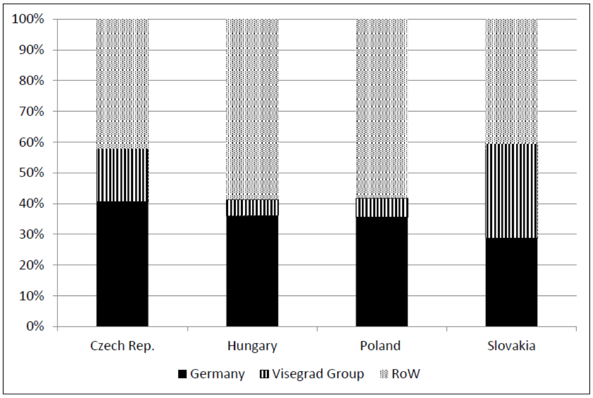


Figure 5.8 Exports of the Visegrad Countries to Selected Partner Countries, 1998



Sources figures 5.5-5.8: OECD.Stat, Bilateral Trade in Goods by Industry and End-use (BTDIxE), ISIC Rev4.

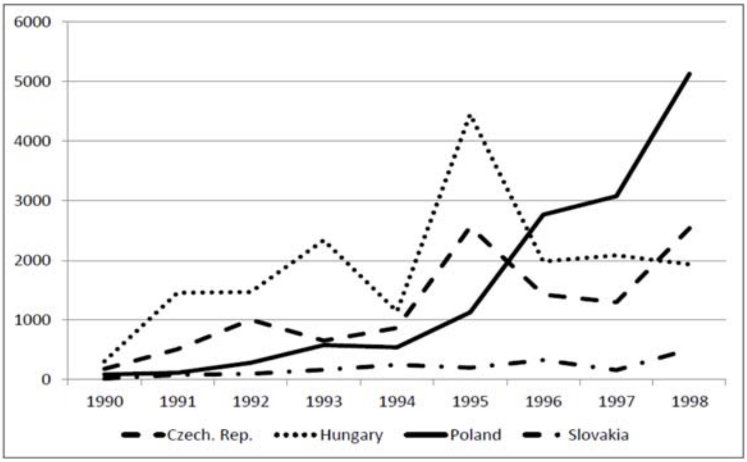
When taking China as an example for the mechanism which changes a country's trade during the transformation and opening up period, it becomes obvious that trade is closely linked to FDI inflows (Heiduk and Holslag 2011). In the case of the V4, advantages such as location, skilled work force at relatively low wages as well as the growing market potential attracted vertical and horizontal FDI. Confidence in a long-term positive development path – last but not least justified by the institutional arrangements with the EU (Europe Agreements) as well as between the V4 (CEFTA) – motivated a growing number of Western European companies to enter the race for benefitting from the first-mover advantages in the V4 region[5].

Hunya and Richter (2011, p. 79) note that Hungary introduced a FDI attracting policy already at the beginning of the 1990s. Evidence for the FDI-trade nexus is confirmed even without econometric analysis by two observations, namely, first, the matching high FDI inflows from Germany with high exports to Germany and second, the increasing share of trade in parts and components in manufacturing industries. For the period 1990-1998, the comparison of total FDI inflows into the V4 with the inflows from Germany showed a relatively synchronic trajectory (figure 5.9 and 5.10). In 1998, Germany's shares in total FDI stock ranged between 20 percent in Poland and 35 percent in Hungary (figure 5.11). By comparison, the FDI stock from Visegrad partners

[5] See for example the competition between Peugeot and Volkswagen to acquire the Czech car maker Skoda.

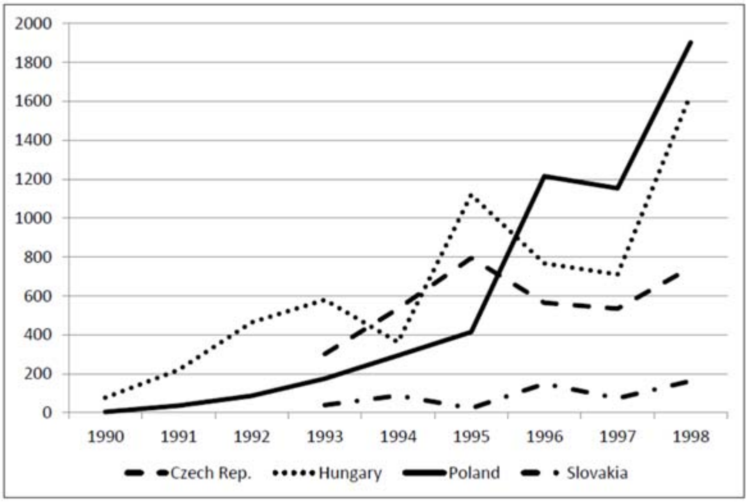
was extremely low, except in Czech Republic where around 90 percent of the FDI stock comes from Slovakia (figure 5.12).

Figure 5.9 Total FDI Inflows into the Visegrad Countries, 1990-1998 (Euro million)



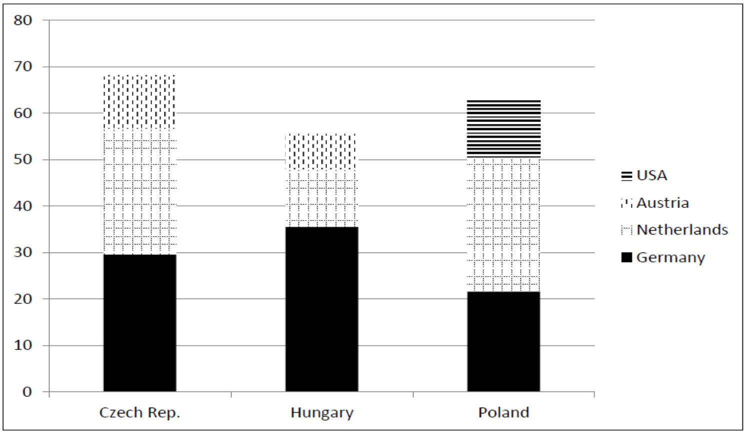
Source: UNECE 1999, p. 142.

Figure 5.10. Germany's FDI Flows to the Visegrad Countries, 1990-1998 (Euro million)



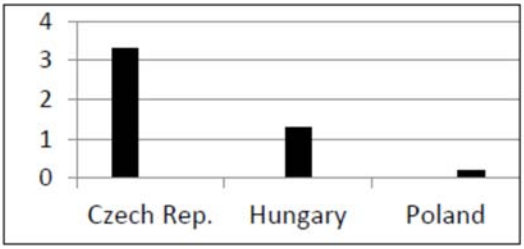
Source: OECD.Stat, FDI Flows by Partner Country.

Figure 5.11 FDI Stock in the Visegrad Countries by Top Three Investors, 1998 (percentage of total FDI stock)[6]



Source: OECD.Stat, FDI Positions by Partner Country.

Figure 5.12 FDI Stock from the Visegrad Partners, 1998 (percentage of total FDI)



Source: OECD.Stat, FDI Positions by Partner Country.

The main features of the first phase of the Visegrad countries' post-communist era can be summarised as follows: the collapse of the CMEA opened up the opportunity for CEE-5 to re-orient their economies to their main pre-WWII trade partners. The initial stage of their political and economic transition combined with an institutionally secured free trade to Western Europe as well as within the Visegrad 4 Group allowed the powers of gravity to develop. The largest share of their growing trade was driven by geographical

[6] Data for Slovakia is not available.

proximity to Germany as the largest economy in Europe. The function of Germany as an economic anchor was underpinned by considerable inflows of FDI. As shown later, FDI inflows did not only create trade, but also changed its structure. Finally, it should be noted that independent from their transition strategy, all Visegrad countries experienced similar adjustments in their geographic trade pattern.

5.1.2 The "Small Big Bang" in 2004

Despite differences in their initial conditions as well as in the sequencing and timing of their transformation policies, the V4 had been united in their common objective to join the European Union. The start of the accession negotiations in 1998 (the Czech Republic, Hungary and Poland) and 2002 (Slovakia) heralded the second phase of V4's economic re-orientation which culminated with the accession to the EU on 1st May 2004 (Table 5.1). This date marked the last step of a gradual process of adjusting their institutional frameworks to EU law, norms, rules, regulations and therefore consequently fulfilling the requirements of the *acquis communautaire*.

It is noteworthy that each country was negotiating on its own. The umbrella of the Visegrad Declaration offered a basis for the exchange of opinions as well as for cooperation, but did not lead to common positions towards EU accession process. Each country was pursuing its own priorities. This strategy fitted with EU's new approaches of governing the 5th enlargement round (Eastern enlargement). The former interpretation of the principle of conditionality required the candidate country to possess the ability to take obligations of the *acquis* and not the necessity to take over the whole *acquis* before accession (Maniokas 2004, p. 20).

The new principles were clearly apparent in the different timing of starting accession negotiations. In 1997, the Czech Republic, Hungary and Poland were considered well prepared to adopt the *acquis*; Slovakia was excluded, mainly due to political reasons. In 1998, the European Commission started publishing annual "Progress Reports" for each candidate country which served as important sources of information on the economic situation and "the progress of each Central and Eastern European Candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it [was] adopting the Union *acquis*"[7]. The adjustment to the EU legislation went hand in hand with advancing transformation. At the time of accession in 2004, the V4 were already converging with the EU15 countries and in addition showed internal "club convergence". Their accession marked the successful fulfilment of the pronounced objective of the Visegrad Declaration. Earlier, in 2000, the foundation of the "International Visegrad Fund" (IVF) illustrated V4's willingness to frame future cooperation within an institutionalised basis and to extend the scope of activities. A few days after the EU accession, the V4 prime ministers signed a declaration on their future cooperation, which included the continuation of the IVF.[8]

Table 5.1 The Visegrad Countries on their Path to the European Union

Country	Czech Republic	Hungary	Poland	Slovakia
Europe Agreement	16th Dec., 1991*	16th Dec., 1991	16th Dec., 1991	16th Dec., 1991*
Official application for EU membership	17th Jan., 1996	1st April, 1994	8th April, 1994	27th June, 1995
Start of pre-accession negotiations	31st March, 1998	31st March, 1998	31st March, 1998	March 2000
Start of accession negotiations	1998	1998	10th Nov., 1998	2002
End of accession negotiations	13th Dec., 2002	13th Dec., 2002	13th Dec., 2002	13th Dec., 2002
Signing Accession Treaty	16th April, 2003	16th April, 2003	16th April, 2003	16th April, 2003
Accession to EU	1st May, 2004	1st May, 2004	1st May, 2004	1st May, 2004
Euro adoption	Not yet	Not yet	Not yet	1st Jan., 2009
Presidency in the Council	Jan.-June, 2009	Jan.-June, 2011	July-Dec., 2011	July-Dec., 2016

** - as Czechoslovakia; separate Europe Agreements were signed by both the Czech Republic and Slovakia in October 1993 and they came into force on 1st February, 1995.*

Source: Pawlas 2015, p. 582.

The candidate status of the V4 granted by the Luxembourg European Council at the end of 1997 and the start of the accession negotiations in 1998 were perceived by producers and consumers as strong signals for future deep integration. It was expected that economic integration with the EU15 markets would accelerate during their candidate status and would be given an additional boost. This raises the question whether the "power of regionalism" dominates the "power of regionalisation". In other words: Did V4's membership of the EU meant that Western Europe expanded to the East and

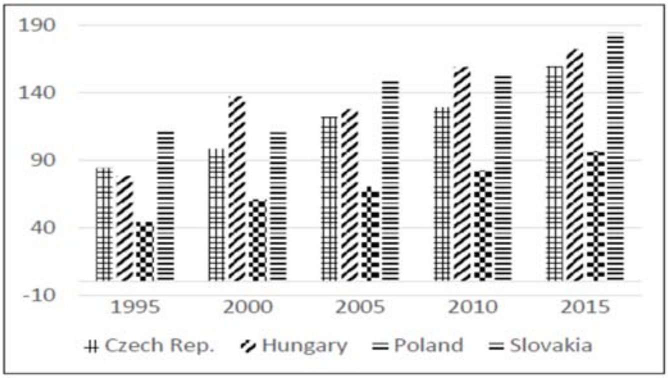
[7] The 1999 report (and other reports) are available at: http://ec.europa.eu/enlargement/archives/key_documents/reports_1999_en.htm.
[8] The declaration is available at: http://www.visegradgroup.eu/documents/visegrad-declarations/visegrad-declaration-110412-1.

thereby weakened the economic anchor function of Germany or the deep integration elevated the already formerly strong economic ties with Germany on a higher quantitative and qualitative level.

5.2 The Economic Impact of V4's Accession to the EU

In the process of post-socialist transformation trade and foreign direct investments (FDI) were important channels which contributed to the V4's integration with the West. However, the different efficacy of trade was due to differences in the size of the V4 countries. It is well known that large countries are usually economically less open than small countries (e.g. Alesina *et al.* 2006). This holds for Poland as a large and relatively closed economy and the Czech Republic, Hungary and Slovakia as relatively small and open economies (figure 5.13). Last but not least, the special case of the separation of former Czechoslovakia into two countries had to be taken into consideration when analysing the effects of deeper integration with EU15 as well as within the Visegrad Group.

Figure 5.13 Trade Openness of the Visegrad Countries, selected years (International Trade as percentage of GDP)

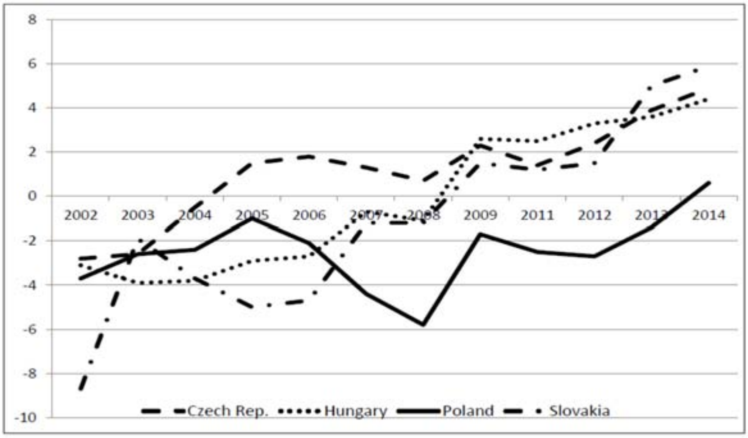


Source: World Bank, Trade (% of GDP).

A cursory glance of the trajectories of trade and FDI data in the candidate and post-accession periods justifies the following conclusions:

- The negative balance of trade in goods measured by percentage of GDP turned in all Visegrad countries into a positive balance, with the Czech Republic as the forerunner in 2004 and Poland as a latecomer in 2014 (figure 5.14). The size of Poland and its lower degree of openness could be a plausible explanation. Tauser and Cajka (2014, p. 194) show that Poland's share of trade and services turnover as percentage of GDP is still lower than 100 percent, whilst in 2012 the Czech Republic reached the value of approximately 150 percent, while Hungary and Slovakia reached 180 percent.

Figure 5.14 Balance of Trade in Goods of the Visegrad Countries, 2002-2014 (in percentage of GDP)



Source: EUROSTAT, Balance of Trade [Code: teiet215].

- The dynamics of overall growth in trade differed among the V4. In the period 2002-2014, Slovakia achieved the highest average annual growth rate (3.3 percent) and Hungary the lowest (1.8 percent). Slovakia as the economically less developed part of former Czechoslovakia had first to increase its regional integration efforts and obviously benefitted strongly from the membership to the EU. Hungary was already relatively open to the West in the pre-transformation era and exploited the possibility to economically integrate with the EU even before its EU membership. Poland's relatively high growth in trade could be interpreted as a catching up process of formerly relatively closed economy and the result of its large size.

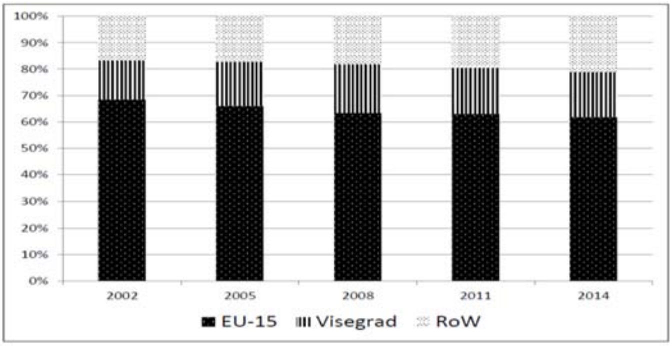
- It is noteworthy that despite the similarities in growth of export, only Poland and Hungary showed a similar geographic structure (figure 5.8). After the EU accession, the dominant orientation towards the EU15 did not change, but neither received an additional push by the membership. The share of the Czech Republic's and Hungary's export to the EU15 in total export decreased, whereas Poland's share of exports into EU15 almost stagnated, while Slovakia experienced an up and down trend (figure 5.15). The exports to other Visegrad countries also showed no common trend. The share of Hungary's and Poland's exports to the other V4 in their total exports increased strongly, whereas the respective increase of the Czech Republic's share was low. Slovakia's share did not change much.

  Nevertheless, Foster *et al.* (2011) note that the intra-Visegrad trade experienced a considerable revival after the accession to the EU. According to Hunya and Richter (2011), intra-Visegrad trade benefitted significantly from FDI inflows from Western European companies. Trade creation in deeply integrated regions like the EU always raises the question whether there are trade diversion effects with third countries. Pelkmans and Casey (2003, p. 1) argued in a pre-accession study that "non-European stakeholders in the accession process [would] greatly benefit from sustained catch-up growth by the [CEE countries]".

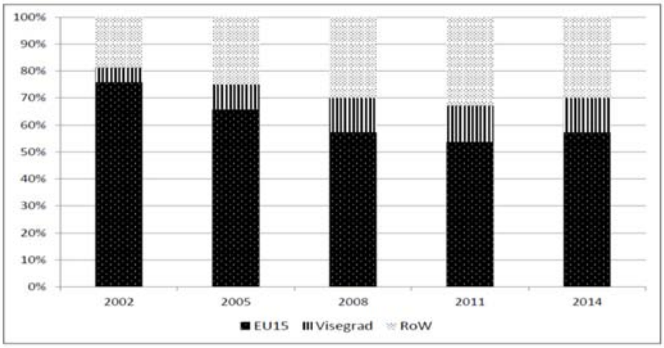
  Indeed, the share of exports of the Czech Republic, Hungary and Slovakia to the rest of the World (RoW) increased, whilst Poland's share almost stagnated since the beginning of the first decade of the twenty first century. It can thus be assumed that the deep integration of the V4 with the EU did not only increase trade volume with the EU15 and within the V4, but also with countries outside of the EU (RoW) (figure 5.15). Representative of the Visegrad Group is the development of the Czech Republic's exports by value and geographic structure (figure 5.16). In the period 1999-2014, its trade with EU15 showed the highest dynamics, but intra-Visegrad and extra-EU28 trade also grew. The largest part of the increase of V4's trade with EU15 was attributed to the growth of trade with Germany (figure 5.17).

Figure 5.15 Exports of the Visegrad Countries by Selected Regions, 2002-2014 (percentage of total exports)

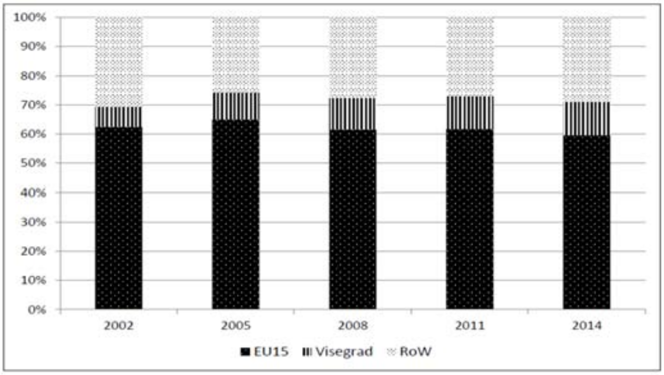
a) The Czech Republic



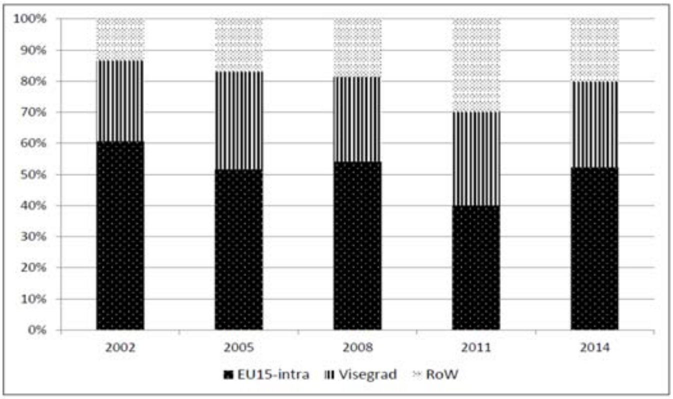
b) Hungary



c) Poland

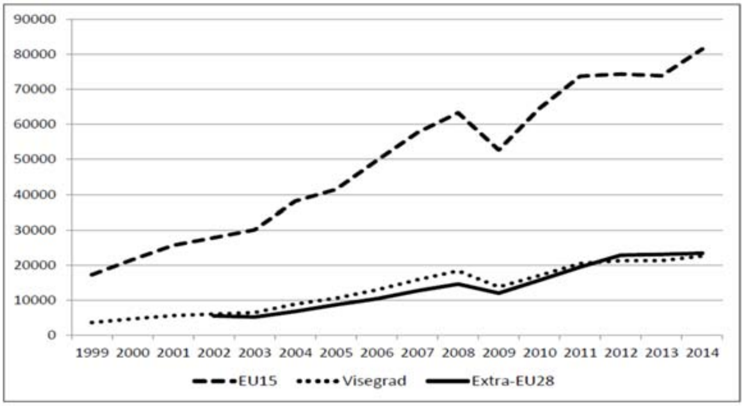


d) Slovakia



Source: EUROSTAT, Trade Statistics (SITC), DS-018995.

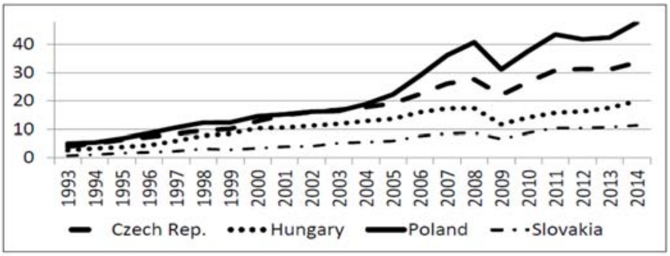
Figure 5.16 Exports of the Czech Republic to EU15, the Visegrad Countries, Extra-EU28, 1999-2014 (Euro million)



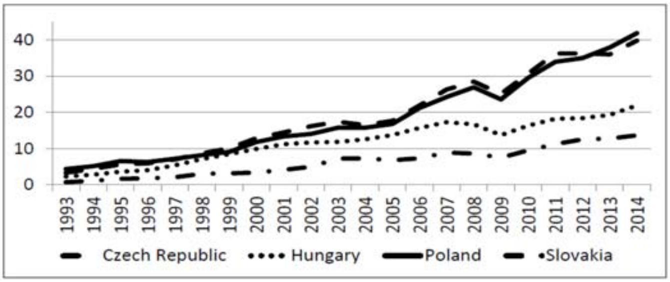
Source: EUROSTAT, Trade Statistics (SITC), DS-018995.

Figure 5.17 Germany's Trade with the Visegrad Countries, 1993-2014 (Euro million)

a) Exports



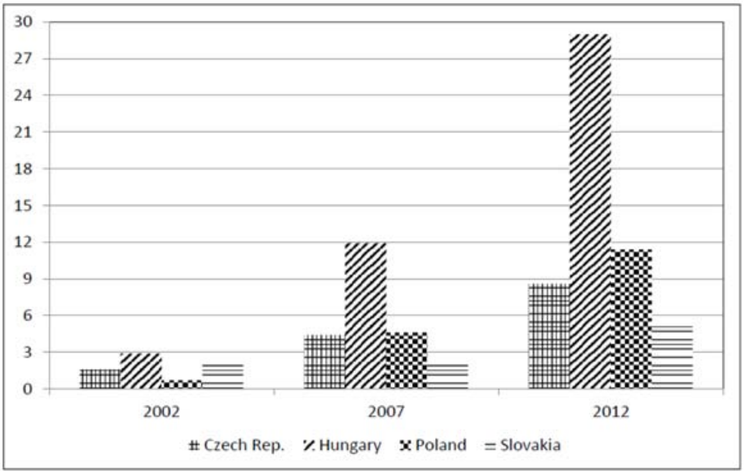
b) Imports



Source: EUROSTAT, Trade Statistics (SITC), DS-018995.

- The accession of the V4 to the EU unfolded the use of their comparative advantages such as low wages of their skilled work force for companies in Western Europe. After 2004, the FDI stock increased in all the V4, but with different growth rates (figure 18). Since the early 1990s, Hungary's FDI stock as percentage of GDP has been the highest. Based on gravity models, numerous studies found evidence for the hypothesis of a positive correlation between inflows of FDI into the Visegrad countries and their international trade dynamics (Ambroziak 2012; Molendowski and Żmuda 2013; Zysk and Śmiech 2014). The V4 received the highest share of FDI inflows of all transition countries in CEE and experienced the highest growth in exports.

Figure 5.18 Direct Investment Stock in the Visegrad Countries, selected year (as percentage of GDP)



Source: EUROSTAT, European Union Direct Investment, tec00047.

5.3 Germany-V4 Production Networks

Gross (2013, p. 84) has put Germany-V4 economic ties in a nutshell by pointing out that "one of the most important foundations of Germany's export economy has been the commercial network it has developed with the economies of East-Central Europe over the past several decades. Through geography and through an active investment policy pursued by the state and by private business, Germany has forged a unique relationship with the economies of Poland, Hungary, the Czech Republic, and Slovakia".

One of the arguments for Germany's rapidly growing economic relations with the V4 was the loss of its international competitiveness due to the burden of its reunification as well as to the rigid labour market regulations. The reach out of German manufacturing industries which are the backbone of Germany's economy into the Eastern region offered the chance to benefit from transformation and opening up effects in CEE. The following analysis of trade and investment between Germany and the V4 aims to deliver evidence for the hypothesis that this region meets the characteristic criteria of a specialisation club in manufacturing with Germany as the industrial developer and designer and the V4 as the manufacturer. It has been already highlighted that regionalism in the form of EU's deep integration as well as regionalisation based on gravity effects are the driving forces of the Germany-V4 manufacturing region which is the core of the New Central European specialisation club.[9]

Schumacher (1995) aimed to estimate the potential trade between Germany and CEE countries by applying a purely economic-based regression model with distance, total GDP and GDP per capita as variables. Not surprisingly, the study found that in 1992 Germany's real trade with its nearest CEE countries (the Czech Republic, Hungary and Poland) already exceeded the estimated trade. It is obvious to assume that in the early 1990s the sectoral structure of Germany's trade with CEE countries was determined firstly by differences in wages, availability of human capital and geographic distance. The analysis of imports of consumer goods from CEE and exports of capital intensive goods to CEE confirm this assumption. Particularly, increasing imports of textiles, clothing and leather goods resulted from relocation of production to CEE. Already in the middle of the 1990s capital intensive industries such as the automotive industry started to invest in CEE which led to a drastic change in the value, regional and sectoral structure of Germany's trade with CEE.

5.3.1 Fragmentation, Foreign Direct Investment, Subcontracting

Low transaction costs allow to exploit the comparative advantages of large high wage countries by specialising in high-tech and research-intensive industries and low wage countries by specialising in labour-intensive industries (Fujita *et al.* 1999; Venables 1996). Driven by increasing global competition, industries in the former countries explore possibilities to shift labour-intensive production processes and low-value parts of their value chains to the latter countries. The key requirement is fragmentation of the production process and the key strategies are FDI and offshore outsourcing. The measurable result is the emergence of a new structure of trade: the classical inter-industry trade is losing ground to the new intra-industry trade. Locations are linked across countries by regional production networks (RPN). Schütz and Palan

[9] Former studies identified a Northern, Southern, Central European specialisation clubs. The latter did not include countries of the CEE region (Palan and Schmiedeberg 2010). A number of studies identified also specialisation clubs in Asia and North America (Hiratsuka and Uschida 2008; Fujita 2007; Kuroiwa and Heng 2008).

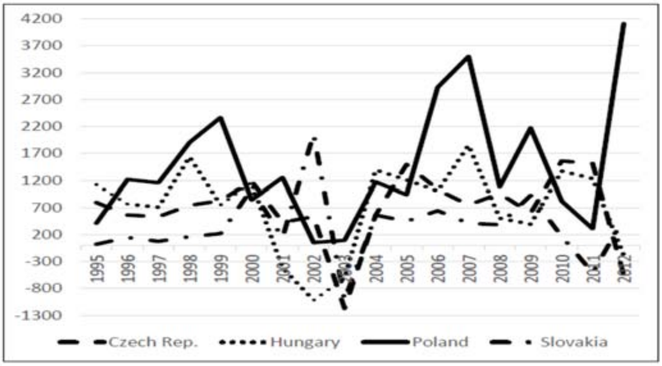
(2015, p. 25) note that "fragmentation occurs along regional blocks as both proximity and regional trade agreements are important drivers of location processes". Johnson and Noguera (2012, p. 408) show evidence for the relation between proximity and fragmentation in the way "that intraregional trade is more fragmentation-intensive than trade outside regions".

As indicated earlier, already in the 1990s the stock of FDI in the V4 grew considerably with Germany as a leading investor. It should be recalled that in addition to Dunning's (2001) ownership, location and internalisation advantages (OLI paradigm), specific FDI promotion policies should also be taken into consideration as drivers of FDI inflows to the V4. According to a study by Cass (2007, p. 104), the V4 achieved the highest scores in FDI incentives and promotion policies among CEE countries. Country studies (MacBean 2014) point to the fact that export promotion policies in the V4 – mainly introduced to counterbalance negative effects of overvalued currencies – could indirectly promote FDI inflows.

The argument of proximity could also speak for an advantage of German companies to use and benefit from these investment and trade promotion policies. Last but not least, it has to be mentioned that the ever closer economic interdependencies would not have been possible without a political pro-German turn in the V4 (Simecka 2013). From a German point of view, Gawrich and Stepanow (2014, p. 1) conclude that "because of unequal interests and differences of opinions, the V4 as a whole is less important to Germany than the sum of its individual bilateral relationships".

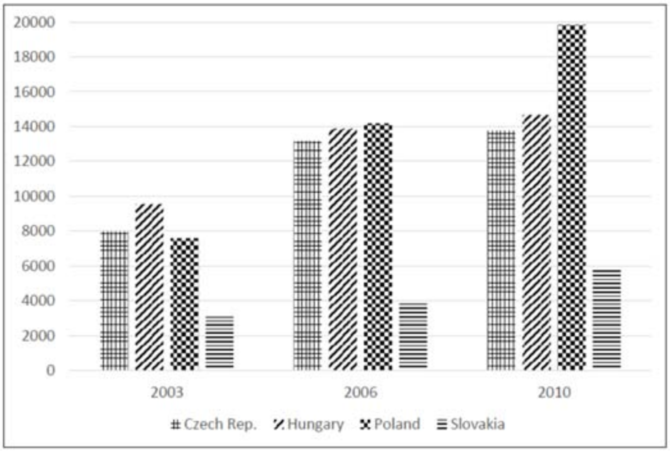
It is striking that Germany's FDI in the V4 show trajectories with peaks at the end of the 1990s and shortly after V4's accession to the EU (figure 5.19). The drop in 2001-2003 is generally attributed to Germany's "sickness period" (Siebert 2003). After the economic crisis of 2008-2009 German FDI inflows to Poland increased sharply, whilst their inflows to the other countries have been uneven. Anyhow, in the last decade, the stock of German FDI in the four countries increased considerably (figure 5.20).

Figure 5.19 Germany's FDI Flows to the Visegrad Countries, 1995-2012 (Euro million)



Source: OECD.Stat, FDI Flows by Partner Country.

Figure 5.20 Germany's FDI Position in the Visegrad Countries, selected years (Euro million)



Source: OECD.Stat, FDI Flows by Partner Country.

In the early 1990s, German FDI was concentrated in transportation, energy and communication sectors. From the late 1990s on, FDI in manufacturing has dominated German FDI in the V4. This change was linked to a change in the mode of FDI. The formerly predominant brownfield investments – buying old companies, modernising the technical equipment and organisational processes – were gradually replaced by greenfield investments. All in all, it is estimated that in 1990-1997 German firms acquired or established around 2300 affiliates in the V4 which put Germany on top of foreign investors (Gros 2013, p. 90). As a by-product of FDI inflows, technology transfer enabled companies in the V4 to move into higher value-added activities. In addition to FDI, German companies developed contract-based relations with subcontractors in the V4 that were integrated into their supply chains.

5.3.2 FDI-Trade Link

Both, German subsidiaries/affiliates and subcontractors in the V4 benefitted from the EU's regulation regarding outward processing traffic (OPT) even before the V4 accession in 2004. If a local manufacturer in the V4 imported intermediate goods from Germany, added value to this product and re-exported it to Germany, the re-import to Germany was not subject to EU tariffs. Gros (2013, p. 92) noted that "Germany took particular advantage of the EU's OPT regulations: during the 1990s German firms engaged 2.5 times as many OPT operations as any other European country. […] As a result of this, today much of trade between Germany and the Visegrad Group takes place within a given firm or within a vertical production chain".

As a result of FDI inflows from German and other Western European (and more recently also American and Asian) companies, V4's old manufacturing base had been completely modernised and technologically upgraded. The considerable increase in their share in world's manufacturing exports – to a large extent directed to Germany – justifies to call the V4 the New Central European manufacturing club. A study of almost 4000 Czech companies with German equity holders finds that 34.4 percent of German investments are in manufacturing, 31.8 percent are in trade and accommodation and 23.7 percent are in business services (Hecht 2015, p. 11).

Furthermore, this study delivers evidence for the importance of agglomeration effects and distance as determinants of the choice of location within countries. One third of German affiliates in the Czech Republic is located in border regions near Germany and one third in the region of Prague, the capital city. A large part of German investors have their German base near the border of the Czech Republic, especially in Bavaria. This suggests that German companies' affiliates exploit location advantages in the near-shore Czech Republic by intra-firm, intra-industry trade. However, it is important to note that this type of trade is mainly related to vertical, efficiency-seeking FDI. Hecht (2015, p. 15) reports that in her sample 40.5 percent of respondent companies invested in the Czech Republic for cost saving reasons, whilst 56.2 percent invested for improved market access (horizontal FDI).

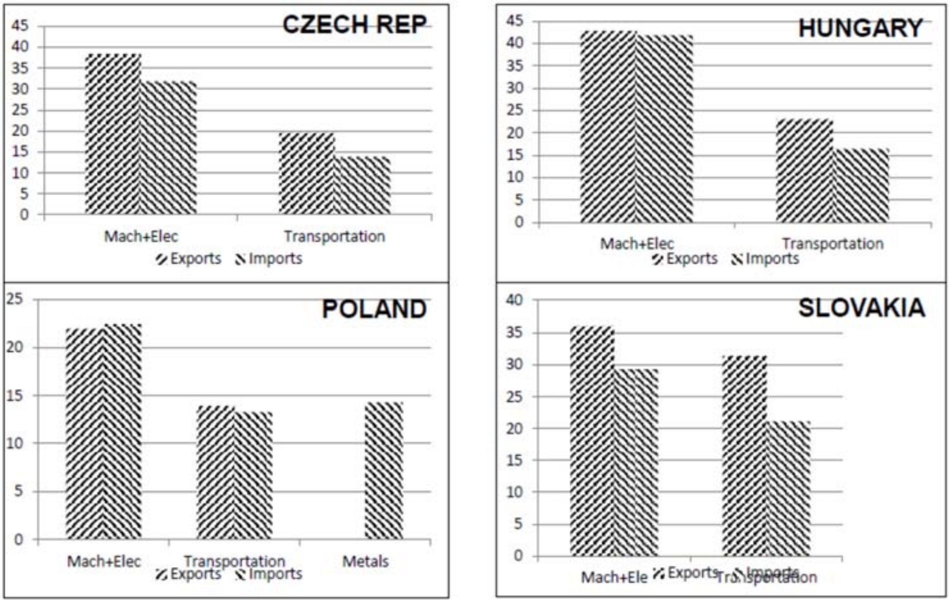
Studies which compare the Germany-CEE countries trade and FDI patterns with that of other EU15 countries (Giovannetti and Lucetti 2008) find that Germany's dominance in FDI is stronger than in trade. Furthermore, Germany's trade is to a higher degree concentrated on capital-intensive product groups (e.g. automotive industry), whereas for example Italy's trade is rather concentrated in labour-intensive industries (e.g. textiles). The sectoral trade pattern explains to a certain degree the location pattern. Germany's trade is relatively high with the industrialised, relative high wage Czech Republic, whereas Italy's trade is relatively high with low-wage Romania. These patterns match the sectoral and regional distribution of FDI.

5.3.3 Intra-Industry Trade and Production Networks

The quantitative analysis of global/regional production networks starts with the measuring of intra-industry trade which is generally defined as exports and imports in the same category of goods/sectors/industries. Companies export fragmented parts of their value chain to another country where their subsidiaries or domestic suppliers add value and export the processed product back for assembling or to a third country for further processing. The first case (intra-firm intra-industry trade) needs to link this trade to foreign direct investment (FDI).

Germany-V4 trade data on the industry level shows that, firstly, the two manufacturing groups "industrial and electrical machinery" and "transportation equipment" represent a substantial part of Germanys exports to each of the V4 as well as imports from each of the V4 (figure 5.21). Secondly, the two industries' shares in total exports differ only slightly from the shares in total imports in each of the four countries' trade with Germany.

Figure 5.21 Trade of the V4 with Germany by Leading Product Groups, 2014 (as percentage of total trade with Germany)



Source: EUROSTAT, Intra- and Extra-EU Trade by Member State and by Product Group, ext_lt_intratrd.

Calculations based on the World Input-Output Database (WIOD) deliver evidence for the link between Germany's FDI stock in the V4 and intra-industry trade. The domestic value added in both Germany's and V4's exports decreased over time indicating that FDI inflows in the V4 are used to create value added in export products. According to WIOD[10], Germany's domestic value added in transport equipment decreased from 78.9 percent in 1995 to 66 percent in 2008. Pashev *et al.* (2015, p. 89) report that the biggest decline of domestic value added in exports between 1995 and 2011 took place in Hungary, Poland and the Czech Republic.

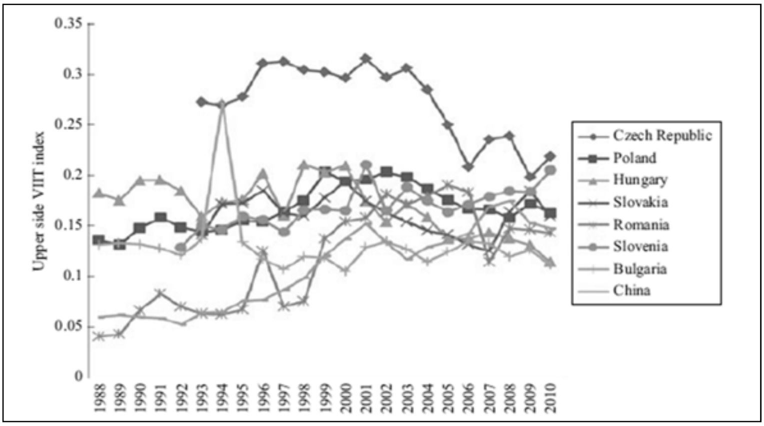
The most obvious feature of Germany-CEE countries trade is the high share of intra-industry trade in parts and components. Already in the 1990s, Germany took around 50 percent of CEE exports of parts and components and accounted for approximately 40 percent of their total imports of parts and components (Kamiński and Ng 2001, p. 16). In some industries, intra-industry trade also developed fast in final products. By using the

[10] http://www.wiod.org/new_site/gvc.htm.

Grubel-Lloyd intra-industry trade index (GLI), Ito and Okubo (2012) found that this index considerably increased since 1989 (figure5. 22). In 2010, the V4 group's GLI reached approximately the same level as the Germany-the Netherlands, Germany-Austria, Germany-Italy, Germany-Belgium GLIs.

The decomposition of intra-industry trade (IIT) into horizontal and vertical IIT (HIIT, VIIT) (Fontagné and Freudenberg 1997) allows deeper insights into Germany –CEE trade. The example of Poland shows that the HIIT generally increased with some minor dips at the end of the 1990s and 2006/2007. The dynamics of HIIT (and VIIT as well) depends on the threshold value. The higher this value – Ito and Okubo (2012, p. 1133) tested values between 5 percent and 50 percent – the higher the dynamics. Regarding the VIIT, the study for the first time introduced a differentiation between upper and lower sides of VIIT index[11].

Figure 5.22 Germany's IIT Index with CEE and China, 1989-2010



Source: Ito and Okubo 2012, p. 1131.

The empirical exercise exemplified by Germany-CEE/China VIIT shows a sharp contrast between the trends of upper and lower sides IIT indices (figures 5.23a and 5.23b). Furthermore, in both cases the trend of China's index differs from those of CEE. The sharp increase in the trend of Germany's lower side VIIT index with CEE and China's stable

[11] Products with a price difference above (below) 1.15 belong to upper (lower) VIIT.

trend indicate that CEE generally move up the quality ladder, and particularly compared to China with a higher speed. Over the entire period the V4 show higher GLIs than other CEE countries, especially Bulgaria and Romania.

Figure 5.23a Germany's Upper Side VIIT Index with CEE and China, 1989-2010

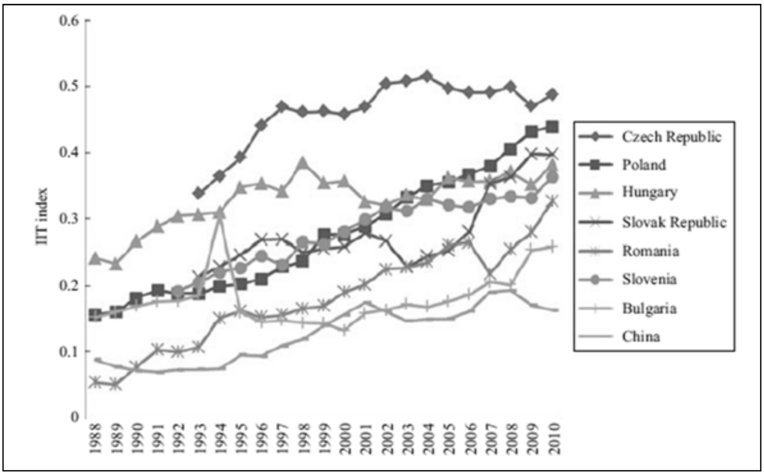
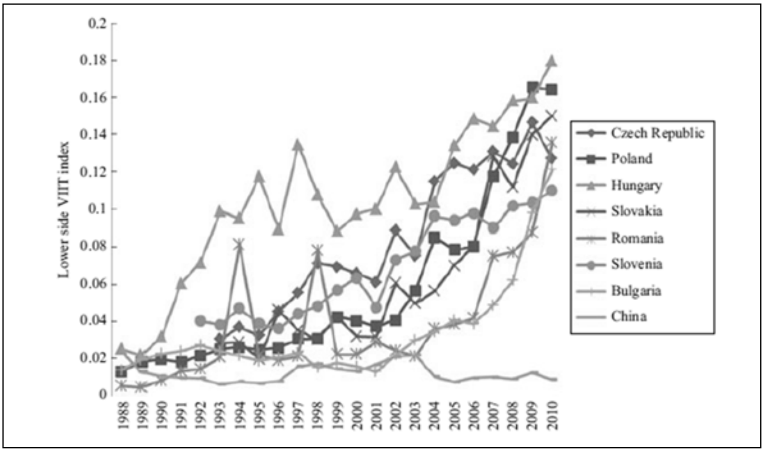


Figure 5.23b Germany's Lower Side VIIT Index with CEE and China, 1989-2010



Source: Ito and Okubo 2012, p. 1135-36.

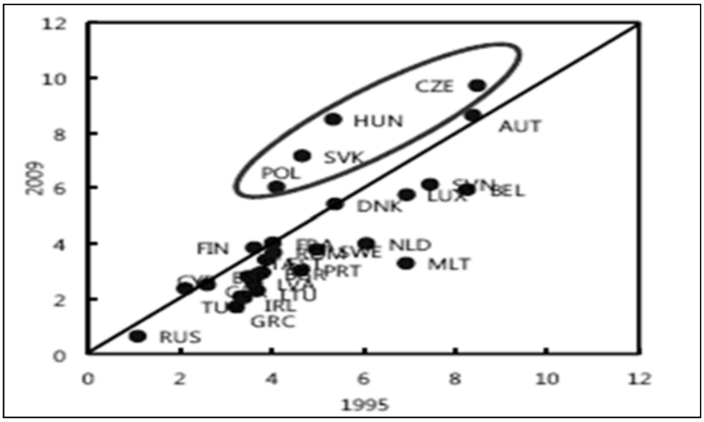
The literature on IIT, on the one hand, and the literature on FDI, on the other hand, are merging more and more under the new umbrella of global/regional value chains or production networks. The focus of empirical studies is turning from a flow-oriented view towards a value-added view. Gross exports are decomposed into several categories of value-added exports (Koopman *et al.* 2011).

From a global point of view, Rahman and Zhao (2013, p. 6) found that since the mid-1990s exports in manufacturing and services experienced (a) a declining share of domestic value-added, (b) increasing supply links, (c) increasing foreign value-added. In the V4 the foreign value-added components in their exports reached over 50 percent. Based on a gravity model, Rahman and Zhao (2013, p. 26) showed that Germany is the most important hub in the export supply network of Europe in terms of value of trade. They argue that the high intra-industry trade of Germany with the V4 is an important driver for supply links. This leads to an extension of the gravity equation by adding to the well-known variables (common border, common language, free trade area) the industrial similarity as a new determinant of cross-border supply chains. Rahman and Zhao (2011, p. 17) calculate a high "industry similarity index" for Germany's export structure with V4's export structure.

As shown in figure 5.24, the Germany-V4 interdependencies in supply links developed more dynamically than with other Western and Eastern European countries. For the V4 this means that they not only depend on Germany's domestic economic performance but also indirectly on global growth because of Germany's deep embeddedness into the world economy. Depending on the methodology of calculating the indirect exposure, a substantial fraction of the V4 exports pass through Germany before being exported outside the EU (IMF 2013, p. 5).

In the 1990s, the main driving force of the German-V4 value chain was the wage differential. With increasing unit labour costs, V4's cost advantage will decline. The supply may move eastward where countries like Bulgaria and Romania have the potential to substitute the V4. The emergence of the German-V4 value chain created a permanent knowledge transfer to the V4. However, there is evidence that there are considerable differences between industries and even between companies. If labour skills increase, the V4 may gradually move up into knowledge-intensive value chains. The IMF study (2013, p. 14) points to a number of other positive effects for the V4 such as increased domestic value-added, accelerated income convergence, inflow of investors from outside of Europe and therefore integration into global value chains, and synchronisation of business cycles.

Figure 5.24 Share of German Value-Added in Total Exports of the V4 and other European Countries, 1995 versus 2009



Source: IMF 2013, p. 4.

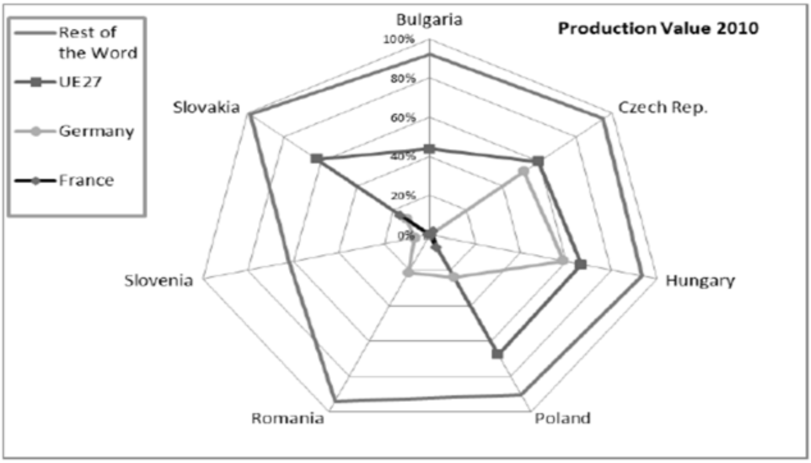
5.4 Germany's Automotive Industry in CEECs[12]

One of the special features of the automobile industry is the outstanding importance of suppliers and subcontractors which make up around 75 percent of an automobile's manufacturing costs (Frigant and Miollan 2014, p. 2). From this point of view it is understandable that the analysis of internationalisation of the automotive industry pays attention to horizontal FDI (multi-plant operations) as well as to vertical FDI and outsourcing/subcontracting (parts and components production). Despite the fact that Germany retains its position as the centre of European vehicle assembly, the reality is – as Frigant and Miollan (2014, p. 10) noted – that European production has shifted eastwards. This also holds for suppliers as they often seek proximity to their manufacturer customers. Suppliers in CEE are a special case as they are often connected to Western European manufacturers by ownership or contracts. Their share of exports and imports

[12] CEECS: V4 + Romania and Slovenia.

in total production tends to be larger than that of suppliers in other regions in the world. Similar to the German dominance in assembling motor vehicles in CEE, Germany takes the top rank in foreign owned subsidiaries in the parts and component production with almost 60 percent of the total value in the Czech Republic and Hungary (figure 5.25).

Figure 5.25 Foreign Subsidiaries' Share in CEE Automotive Industry – Production Value, 2010



Source: Frigant and Miollan 2014, p. 18.

The automotive industry in CEE before 1989 was concentrated in Czechoslovakia (Skoda), Poland (license from Fiat) and Romania (Dacia, license from Renault). Due to low quality, outdated designs, a lack of service infrastructure these cars were not competitive in Western Europe despite their low price. In the 1990s, CEE automotive exports and imports in final products, parts and components increased rapidly, especially in the Czech Republic, Hungary, Poland, Slovakia and Slovenia. The integration of the CEE automotive industry into European production networks was mainly driven by FDI from German (Volkswagen and Opel) and French (Renault) automotive companies as well as Italy's Fiat (Van Tulder and Ruigrok 1998). Japanese and Korean automotive companies established assembly plants (e.g. Suzuki in Hungary) or invested in privatised domestic companies (e.g Daewoo in Romania and Poland). Contrary to Western European automotive companies which integrated CEE in their production networks, the Asian car makers invested in CEE in order to gain "tariff jumping" advantages even before CEE countries' accession to the EU.

"The shift of German automotive production towards the [V4] started in the mid-1990s and was a natural outcome of demand and supply forces. On the demand side, German automobile manufacturers needed a more competitive environment in an increasingly globalised world, while on the supply side, the [V4] countries offered an attractive mix of characteristics whose appeal only strengthened their accession to the EU in 2004. Geographic proximity, relatively low unit labour costs, the favourable tax environment, and a highly qualified workforce with a history of expertise in the automobile industry played an important role" (IMF 2013, p. 13).

When analysing the change of V4's gross exports structure in the automotive industry from a value-added perspective, we have observed from the mid-1990s the deepening of the German-V4 value chain. In 1995, Poland recorded the lowest value-added share in its automotive exports to Germany. It grew from 7 percent in 1995 to 11 percent in 2009. Hungary achieved the highest share with 16 percent, up from 11 percent in 1995.

According to Jürgens and Krzywdzinski (2009), the German car makers applied two strategies to integrate CEE countries into their production networks; firstly, the specialisation of their CEEs plants in the production of sub-compact cars in the low price segment and secondly, the parallel production of the same model. The acquisition of Skoda by Volkswagen (brownfield investment) is an example of the first strategy, whereas Opel producing the Opel Astra model in Germany and in Poland is an example of the second strategy. Furthermore, German car makers established subsidiaries or outsourced parts and component production to CEE. The stock of FDI of German automobile and supplier industry in CEE increased from 1.2 billion Euro in 1995 to 5.4 billion Euro in 2002 (Nunnenkamp 2005, p. 9).

The production of German cars increased in the V4 from 240.1 million units in 1996 to 782.4 million units in 2003. The German trade balance in this industry switched from surplus in 1995 to deficit in 2003. Data on Volkswagen's production at home and in the V4, and on Germany-V4 exports and imports suggest that the production in the V4 had a substitution effect. From the perspective of German automobile industry, the majority of studies do not confirm significant substitution – and related negative employment – effects. This also holds for the parts and component production. Jürgens and Krzywdzinski (2009, p. 32) argue that "rather than displacing manufacturing in

Germany, component imports from [Central European] countries seem to have supplanted imports from Western Europe and the Iberian Peninsula".

Case Study: Acquisition of SKODA AUTO, the Czech Republic, by VOLKSWAGEN Group, Germany

Immediately after the fall of the Iron Curtain in 1989, numerous problems of leading manufacturers in CEE became obvious. It was a common knowledge that the existing automotive industry in CEE was not competitive in an open European market. But Western European automotive companies quickly identified a new business chances and diagnosed how to solve shortcomings of companies in CEE such as outdated technology, low productivity, a lack of market orientation, inefficient organisational structure.

The case of Skoda showed an additional special feature: In the 1970s and 1980s, the shortage of labour forced Skoda to employ approximately 1500 convicts and 1500 Vietnamese (Pavlinek 2008, p. 79). As a result of the presidential amnesty in January 1990, all convicts left Skoda. The sudden stop of production and the reopening with new inexperienced workers led to high financial losses which negatively influenced the value of the company by the time of its privatisation in early 1991. The menacing insolvency threatened the existence of more than 200 domestic suppliers. A joint venture with a foreign company seemed to be the only realistic solution to prevent bankruptcy. At first sight it might seem astonishing that more than 20 foreign automotive companies registered to participate in the public tender for privatisation of Skoda. This can be interpreted as a clear sign of positive expectations regarding CEE as a low cost production location and a new market with high potential.

The government announced a number of requirements which the foreign partner had to fulfil such as keeping Skoda as a brand, maintaining contracts with domestic components suppliers, extending the production capacity. Finally, Renault and VW had been short-listed. Renault offered in its (second) proposal a model of an indirect holding of 40 percent by a newly established company, while VW proposed a direct capital relationship in a joint venture and guaranteed to include Skoda as an equal partner of VW, Audi and Seat. Furthermore, VW promised to modernise Skoda by investing around USD 6 billion up to 2000.

All in all, VW's offer was higher ranked than Renault's offer. The agreement between the government and VW was signed in March 1991 and the joint venture was formed one month later. VW increased its share from originally 31 percent up to 70 percent in 1995 by paying around USD 900 million. The successful bidding made VW the first mover in implementing a fully-fledged CEE strategy. It was also the biggest-ever Western European investment in an Eastern European company.

By 2000, VW's investment in working capital and in repaying Skoda's debt reached 2.05 billion Deutsche Mark (Vojtech 2011, p. 24). From 2004 on, Skoda was obliged to send annual dividends to VW. Frigant and Miollan (2014, p. 3) consider VW's takeover of Skoda as the "trailblazer" of CEE strategies of Western and Asian automotive companies. As a first mover, VW benefitted from tax preferences, duty free import of technologies, and relatively high import tax, which protected Skoda from foreign competitors.

In the early 1990s, the new Skoda company experienced extensive difficulties caused by a drastic decline of sales compared to pre-1989, resulting in a loss of USD 1.1 billion up until 1993. Furthermore, the originally planned project of a new engine plant was cancelled and the plant was instead built in Hungary. At the end of 1994 an addendum to the joint venture agreement was signed confirming VW's general commitment, but reducing investment and production targets. The government promised among others to increase protectionist measures. In 2000, Skoda became a wholly-owned part of the Volkswagen Group.

The managers of Skoda initially believed in the superiority of VW's production and organisational knowledge and were willing to transfer it without adjustment to Skoda despite a different environment. Finally, it was concluded that 'the simple and total transfer of VW's production and management practices that ignored the existing experiences, attitudes and overall ways of making cars at Skoda obviously did not work as smoothly and efficiently as VW's managers had planned' (Pavlinek 2008, p. 93). The experiment with "tandem team" faced among others language and other problems, but was eventually considered to be an efficient and speedy way of knowledge transfer. In terms of modernising the production process, VW introduced concept of "strategic insourcing" resulting in lower logistical and warehousing costs. The closer contacts with suppliers were used to motivate them to establish joint ventures with Western suppliers.

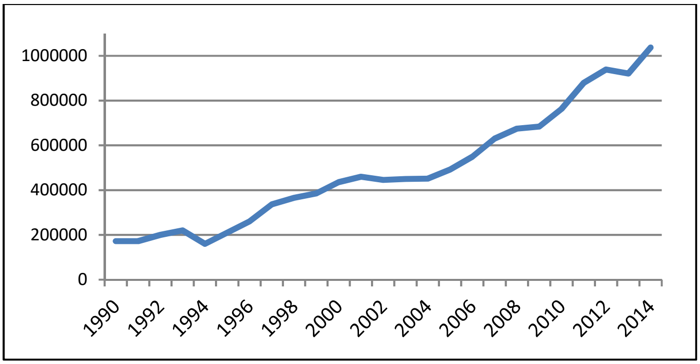
At the end of the 1990s, Skoda was included into VW's group to develop a common platform for cars of similar size and use it in VW, Seat and Skoda cars. Since 1999, all

Skoda models have been based on VW corporate platforms. This reduced the dependence on local suppliers.

Not surprisingly, the restructuring process led to job losses, especially among foreign workers. After the take-off of the car production in the second half of the 1990s, Skoda reacted to short-term fluctuations in its production by hiring and firing Polish (and more recently Ukrainian) workers. Earlier than other European car makers, Skoda introduced a new production system ("Skoda Production System") in order to maintain its competitive advantage compared to newcomers such as Japanese and Korean companies. Pavlinek (2008, p. 105) noted that "Škoda's restructuring strategy proved to be very successful. The company was transformed into a low-volume, low-cost producer of good quality automobiles without fully reaping the benefits of economies of scale. Škoda could compete with Japanese and South Korean auto makers in terms of production costs (but not yet in terms of the quality and reliability of its vehicles)".

All in all, after a short period of start-up problems, the affiliation with VW resulted not only in a recovery, but in an impressive growth of sales (figure 5.26). With the backing of VW's internationalisation know-how, Skoda have been selling cars to more than 90 countries. More than 80 percent of Skoda cars are sold within the EU of which 55 percent account for Western Europe. This raises concerns that Skoda sales grow at the expense of higher priced VW models. As a result, according to Pavlinek (2008, p. 111), there is evidence that Skoda's relative freedom within the VW Group has been curtailed and it has been more subordinated to the VW headquarters.

Figure 5.26 Annual Production of Automobiles by Skoda, 1990-2014



Source: SKODA AUTO, Annual Report

Skoda has three production plants in the Czech Republic (Mladá Boleslav and Kvasiny for cars and Vrchlaby for gears). Currently, Skoda cars are also produced in China at Shanghai Volkswagen production plants (Anting, Yizheng, Ningbo), India (Pune and Aurangabad), Russia (Volkswagen Group assembly plant in Kaluga and the GAZ plant in Nizhny Novgorod) and Slovakia (Volkswagen production plant in Bratislava). In 2014, Skoda produced almost 280000 cars in China which is by far the largest foreign production of the company. The sales in China are also ranked top of foreign markets followed by Germany (slightly over 50 percent of sales in China). With the removal of tariffs in Poland in 2002, the main reason for assembling Skoda cars in Poland vanished. Consequently, Skoda stopped its production there.

To conclude, the takeover of Skoda by Volkswagen can be regarded without doubt as a successful brownfield investment. One of the key factors of this success is the combination of VW's and Skoda's strengths. Skoda's market share in the Czech Republic was around 30 percent in 2012. It should be noted that Skoda contributes considerably to the positive economic development of the country. The company is the largest employer with around 25,000 employees in its three production plants. Furthermore, approximately 100,000 employees in supplier firms indirectly depend on Skoda.

5.5 Lessons for Myanmar

There are no unique patterns of transformation, development or catching up strategies. Neither any of the V4 transition strategies nor any of their opening up strategies can be transferred in their entirety to Myanmar. The V4's initial conditions and transition strategies differed, but their economic successes in terms of macroeconomic indicators have been similar. There is no disagreement on the cornerstones of transformation and development, but timing and sequencing offer room for different approaches. The four pillars on which the V4 have based their development in the past 25 years are: political stability, liberalisation of trade and capital flows, privatisation, and macroeconomic stability. The unique feature which has supported the processes of V4's successful transformation, relatively high economic growth and deepening regional integration is the countries' willingness to accept the anchor function of the EU. From an economic point of view, the orientation towards Germany has significantly contributed to the structural change and modernisation of V4's industrial sector.

A step from observing and analysing other countries' performances to transferring lessons learned and applying them in a different environment needs in-depth technical knowledge. An analysis of Myanmar's development path greatly exceeds the scope of this chapter. An increasing number of reports examines Myanmar's progress in political and economic transition (ADB 2014; Lim and Yamada 2013; McKinsey 2013; KPMG 2013; OECD 2013 and 2014; World Bank 2015).

Some lessons from the experiences related to the Germany-V4 specialisation club in manufacturing can be summarised as follows:

- In the 1990s, both Myanmar and the V4 followed the export-oriented growth model. Sanctions interrupted export growth in Myanmar and – more importantly – limited the FDI inflows. The new opening up policy aims to return to the export-oriented strategy as well as to attract FDI inflows. The V4 opening up shows three features which obviously do not exist in Myanmar: Trade and FDI are geographically (Germany), sectoral (manufacturing with focus on machinery and transportation equipment) and technologically (transfer of medium-high and high-tech technologies) interrelated. Trade does not only grow by volume but also and foremost by value. Myanmar needs an anchor country as investor in high-value manufacturing, with companies which establish production networks resulting in increasing intra-industry trade. Important features of these production networks should be a high sectoral diversity, a high degree of product diversity and the growing inclusion of local suppliers.
- The main problems in replicating the Germany-V4's model in Myanmar are the lack of a neighbouring anchor country as well as the lack of a skilled domestic labour force. Evidence from the latest FDI inflows suggests that Japanese companies aim to develop production networks in Myanmar. The disadvantage of geographical distance might be compensated by the advantages of the ASEAN-Japan Comprehensive Economic Partnership[13] which had been signed in 2008. However, it does not offer the same depth of integration as EU's single market does to its member states. The exclusive competence of the EU in the field of commercial policy eliminates the threat of its member states being divided by memberships of different trade agreements.

[13] See: https://aric.adb.org/fta/asean-japan-comprehensive-economic-partnership.

- It has proved an advantage to attract FDI by a broadly based set of policies ranging from education to transport infrastructure. Benefits of FDI are locally concentrated. Main determinants are short distance between headquarter and foreign affiliate, skilled labour force, agglomeration effects (clusters with a large number of investors from the same country). Therefore, a FDI-attracting policy has to be a regional or even a local policy rather than a national one.
- Macours and Swinnen (2002, p. 370) noted that the upgrading of V4's already existing manufacturing sector went hand in hand with the decline of gross agricultural output, coupled at the same time with a considerable increase in agricultural labour productivity. Even Poland's relatively strong comparative advantages in several agricultural products declined. There are signs in Myanmar that the former comparative advantage in agricultural products will be revived. These efforts may conflict with a FDI-trade led specialisation in manufacturing.
- The strong common interest of the sub-regional V4 Group to join the EU launched an intergovernmental cooperation mode which has continued to exist after the accession had been achieved. A similar mode of cooperation might create benefits for the sub-region which includes Cambodia, Laos, Myanmar and Vietnam (CLMV). The most promising field of cooperation seems to be its development into an integrated platform for FDI which would allow for establishing a cross-border manufacturing belt, similar to the Czech-Hungarian border zone, especially in automotive industry. Perhaps with an exception of Vietnam, it will be difficult for each of the CLMV countries to establish itself separately as an independent manufacturer having as close neighbours overwhelmingly larger economies of China and India. This calls for a stronger cooperation inside the CLMV group compared to that in the V4.
- The emergence of the Germany-V4 specialisation club was and still is observed, monitored, analysed, evaluated and sometimes corrected on the basis of reliable data and statistics. Empirical research on the effects of Myanmar's opening up on its economic growth is hampered by the lack of long-term time series of all positions of the balance of payments, especially with respect to detailed trade and FDI statistics that are comparable with EUROSTAT and OECD.

Conclusions

Transformation and opening up policies in the V4 have contributed to the emergence of a New Central European (NCE) specialisation club with Germany as the anchor country. Whereas transition strategies and results differ among the V4, the opening up – completed with the accession to the EU – was a common goal. The already visible in the early 1990s accession perspective which found its expression in the Europe Agreements and the actual accession in 2004 have served as important institutional arrangements supporting NCE emergence. Traditional gravity factors as well as basic similarities in the industrial structures, especially a skilled workforce in the V4, have been the driving forces for increasing FDI flows from Germany to the V4, which resulted in mainly vertical – but recently increasingly horizontal – intra-industry trade. The V4 emerged as a factory with focus on industrial and electrical machinery and transportation equipment. The V4 intra-regional trade has benefitted from the Germany-V4's integration dynamics.

Myanmar's initial conditions differ significantly from each of the V4. It has to develop and implement its own transition and integration strategy. However, the Germany-V4 specialisation club offers some lessons: (a) deep regional institutional arrangements provide stability and sustainability of the integration process, (b) cooperation between similar neighbouring countries allows to realise sub-regional specialisation advantages, (c) upgrading the manufacturing sector with focus on transferring technology, increasing the product diversity stimulates FDI and intra-industry trade, (d) supporting policies should be strongly directed towards creation of location advantages. With the increasing complexity of the development path it is necessary to create transparency of the specialisation club's pattern and trajectory. This requires a large set of in-depth, reliable, long-term data and statistics. They deliver the empirical basis to test the most adequate specialisation model.

References

Asian Development Bank (2014). *Myanmar Unlocking the Potential – Country Diagnostic Study*. Manila: Economics and Research Department, Asian Development Bank.

Alesina, A., Spolaore, E. and Wacziarg, R. (2006). *Trade, Growth and the Size of Countries.* In: Aghion P., Durlauf S.N. (eds.), *Handbook of Economic Growth*, Vol. 1B, Chapter 23. Amsterdam: Elsevier, pp. 1500-1541.

Ambroziak, L. (2012). FDI and Intra-Industry Trade: Theory and Empirical Evidence from the Visegrad Countries. *International Journal of Economics and Business Research*, 4 (1/2), pp. 180-198.

Baroich, P. and Kozul-Wright R. (1996). Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy. *UNCTAD Discussion Papers*, 113, Geneva: UNCTAD.

Bergsten, C.F. (1997). Open Regionalism. *The World Economy*, 20 (5), pp. 545-565.

Bhagwati, J. and Panagariya A. (1996). *Preferential Trading Areas and Multilateralism – Strangers, Friends, or Foes?* In: Bhagwati J. and Panagariya A. (eds.), *The Economics of Preferential Trade Agreements.* Washington, DC: American Enterprise Institute Press, pp. 1-78.

Bokros, L. (2013). *Accidental Occidental. Economics and Culture of Transition in Mitteleuropa, the Baltic and Balkan Area.* Budapest: Central European University.

Brülhart, M. (2001). Evolving Geographical Specialisation of European Manufacturing Industries. *Weltwirtschaftliches Archiv*, 132, pp. 215-243.

Cass, F. (2007). Attracting FDI to Transition Countries: The Use of Incentives and Promotion Agencies. *Transnational Corporations*, 16 (2), pp. 78-122.

CEPI and DemosEuropa (2014). *Central Europe Fit for the Future – Visegrad Group Ten Years after EU Accession.* Report by the High Level Reflection Group, Bratislava and Warsaw.

Czaba, L. (2007). *The New Political Economy of Emerging Europe.* Budapest: Akadémiai Kiadó.

Czaba, L. (1993). *Economic Transformation in the Visegrad Countries: A Comparison.* Helsinki: Helsinki University.

Dangerfield, M. (2014). *Visegrad's States Trade and Economic Relations with Russia: Before and After EU Membership.* Paper presented at the 10th Biennial Conference of the European Community Studies Association – Canada, Montreal, 08-10 May.

Dunning, J. (2001). The Eclectic (OLI) Paradigm of International Production: Past, Present and Future. *International Journal of Economics of Business*, 8 (2), pp. 173-190.

Ethier, W. J. (1998). The New Regionalism. *The Economic Journal*, 108 (449), pp. 1149-1161.

EC [European Union] (1992). Press Release, 9033/92; http://aei.pitt.edu/1585/1/visegrad_meeting_Oct_92.pdf

EUROSTAT, Trade Statistics (SITC), DS-018995.

EUROSTAT, European Union Direct Investment, tec00047.

EUROSTAT, Intra- and Extra-EU Trade by Member State and by Product Group, ext_It_intratrd.

Farkas, B. (2013). *Visegrád Countries: Could they be Pioneers of the Change of the Central and Eastern Model of Capitalism?*. Paper presented at the 45th Annual UACES Conference, Bilbao, Spain, 07-09 September 2013; http://www.uaces.org/documents/papers/1501/Farkas.pdf

Farkas, B. (2011). The Central Eastern European Model of Capitalism. *Post-Communist Economies*, 23 (1), pp. 15-34.

Fischer, S., Sahay, R. and Vegh, C.A. (1996). Stabilization and Growth in Transition Economies: The Early Experience. *Journal of Economic Perspectives*, 10 (2), pp. 45-66.

Fontangné, L. and Freudenberg, M. (1997). Intra-industry Trade: Methodological Issues Reconsidered. *Working Paper*, No 97-01, Paris: CEPII.

Foster, N., Hunya, G., Pindyuk, O. and Richter, S. (2011). Revival of the Visegrad Countries' Mutual Trade after their EU Accession: A Search for Explanation. *Research Reports*, No. 372, Vienna: The Vienna Institute for International Economic Studies.

Frigant, V. and Miollan, S. (2014). The Geographical Restructuring of the European Automobile Industry in the 2000s. *MPRA Paper*, No 53509; https://mpra.ub.uni-muenchen.de/53509/1/MPRA_paper_53509.pdf

Fujita, M. (ed.) (2007). *Regional Integration in East Asia*. New York: Palgrave Macmillan.

Fujita, M., Krugman, P. and Venables, A.J. (1999). *The Spatial Economy*. Cambridge, MA: MIT Press.

Gawrich, A. and Stepanov, M. (2014). German Foreign Policy toward the Visegrad Countries – Patterns of Integration in Central Europe. *DGAPanalyse*, 17. Berlin: German Council on Foreign Relations.

Giovannetti, G. and Lucetti F. (2008). *Trade and Foreign Direct Investment: Italy, Germany, and the New Europe*. In: Quadrio Crucio, A. and Fortis, M. (eds.), *The EU and the Economies of the Eastern European Enlargement*. Berlin-Heidelberg: Physica-Verlag, pp. 73-84.

Grigoriadis, T. (2014). Book Review: Bokros, Lajos, "Accidental Occidental". *Journal of Economics*, 111, pp. 101-103.

Gross, S. (2013). The German Economy and East Central Europe. *German Politics and Society*, 108 (31), pp. 83-105.

Hamanaka, S. (2014). Trans-Pacific Partnership versus Regional Comprehensive Economic Partnership: Control of Membership and Agenda Setting. *ADB Working Paper Series on Regional Economic Integration*, 146. Manila: Asian Development Bank.

Hecht, V. (2015). Location Choice of German Multinationals in the Czech Republic – The Importance of Agglomeration Economies. *FIW Working Paper*, No. 158. Vienna: Research Center International Economics.

Heiduk, G. and Holslag, J. (2011). *China's Opening-Up in the 1980s and 1990s*. In: Heiduk, G. and McCaleb, A. (eds.), *China's Choices after the Current Economic Crisis: Going Global, Regional, National?* Warsaw: Warsaw School of Economics Press, pp. 11-16.

Hiratsuka, D. and Uschida, Y. (eds.) (2010). *Input Trade and Production Networks in East Asia*. Cheltenham: Edward Elgar.

Hunya, G. and Richter, S. (2011). Mutual Trade and Investment of the Visegrad Countries before and after the EU Accession. *Eastern Journal of European Studies*, 2 (2), pp. 77-91.

IMF (2013). German – Central European Supply Chain-Cluster Report. *IMF Multi-Country Report*, No 13/263. Washington, DC: International Monetary Fund.

Ito, T. and Okubo, T. (2012). New Aspects of Intra-industry Trade in EU Countries. *The World Economy*, 35 (9), pp. 1126-1138.

Johnson, R.C. and Noguera, G. (2012). Proximity and Production Fragmentation. *American Economic Review: Papers and Proceedings*, 102 (3), pp. 407-411.

Jürgens, U. and Krzywdzinski, M. (2009). Changing East-West Division of Labour in the European Automotive Industry. *European Urban and Regional Studies*, 16 (1), pp. 27-42.

Kamiński, B. and Ng, F. (2001). Trade and Production Fragmentation: Central European Economies in EU Networks in Production and Marketing. *Policy Research Working Paper*, 2611. Washington: World Bank.

Kamiński, B., Wang, Z.F. and Winter,s L.A. (1996a). Foreign Trade in the Transition – The International Environment and Domestic Policy. *Studies in Economies in Transformation*, 20. Washington: World Bank.

Kamiński, B. Wang. Z.F. Wang and Winters, L.A. (1996b). Export Performance in Transition Economies. *Economic Policy*, CEPR, pp. 423-442.

Kamiński, B. (1994). The Significance of the Europe Agreements for Central European Industrial Exports. *Policy Research Working Paper*, 1314. Washington: World Bank.

Kamiński, B. (1993). How the Market Transition Affected Export Performance in the Central European Economies. *Policy Research Working Papers*, 1179. Washington, D.C.: World Bank.

Koopman, R., Powers, W., Wang, Z. and Wei, S. (2011). Give Credit Where Credit Is Due: Tracing Value-added in Global Production Chains. *NBER Working Papers*, 16426, Cambridge: NBER.

Kuroiwa, I. and Heng, T.M. (eds.) (2008). *Production Networks and Industrial Clusters – Integrating Economies in Southeast Asia.* Tokyo: Institute for Developing Economies, JETRO.

Lane, D. and Myant, M. (eds.) (2007). *Varieties of Capitalism in Post-communist Countries.* New York: Palgrave Mcmillan.

Lim, H. and Yamada, Y. (2013). Myanmar's Integration with Global Economy. *BRC Research Report*, 13. Bangkok Research Center, IDE-JETRO; http://www.ide.go.jp/English/Publish/Download/Brc/13.html

Macours, K. and Swinnen, J.F.M. (2001). Patterns of Agrarian Transition. *Economic Development and Cultural Change*, 50 (2), pp. 365-394.

Maniokas, K. (2004). *The Method of European Union's Enlargement to the East: A Critical Appraisal*. In: Dimitrova, A.L. (ed.), *Driven to Change – The European Union's Enlargement Viewed from the East*. Manchester and New York: Manchester University Press, pp. 17-37.

MacBean, A. (ed.) (2014). *Trade and Transition – Trade Promotion in Transitional Economies*. London and New York: Routledge.

McKinsey (2013). *Myanmar's Moment: Unique Opportunities, Major Challenges*. Bangkok: McKinsey Global Institute.

KPMG (2013). *Infrastructure in Myanmar*. Yangon: KPMG Advisory (Myanmar) Ltd.

Mann, K. (2015). The EU, a Growth Engine? The Impact of European Integration on Economic Growth in Central Eastern Europe. *FIW Working Paper*, 136, Vienna: Research Center International Economics.

Mansfield, E. and Milner, H. (1999). The New Wave of Regionalism. *International Organization*, 53 (3), pp. 589-627.

Moagar-Poladian, S. and Cocosatu, C.C. (2015). The Foreign Direct Investment Flows and the National Economic Evolution. *National Strategies Observer*, 1 (1), pp. 1-15.

Molendowski, E. and Żmuda M. (2013). Changes in Competitiveness among Visegrad Countries after Accession to the European Union: A Comparative Analysis Based on a Generalised Double Diamond Model. *Comparative Economic Research*, 16 (4), pp. 121-153.

Munakata, N. (2006). *Transforming East Asia: The Evolution of Regional Economic Integration*. Washington, DC: Brookings Institution Press.

Murell, P. (1996). How Far Has the Transition Progressed? *Journal of Economic Perspectives*, 10 (2), pp. 25-44.

Nunnenkamp, P. (2004). The German Automobile Industry and Central Europe's Integration into the International Division of Labour: Foreign Production, Intra-industry Trade, and Labour Market Repercussions. *Papeles del Este Revista Electronica*, 9; http://pendientedemigracion.ucm.es/BUCM/cee/papeles/09/pape0404220004a.pdf

OECD (2013). *Multi-dimensional Review of Myanmar*, Vol 1, Initial Assessment. Paris.

OECD (2014). *Multi-dimensional Review of Myanmar*, Vol 2, In-depth Analysis and Recommendations. Paris.

OECD.Stat, Bilateral Trade in Goods by Industry and End-use (BTDIxE), ISIC Rev4. https://stats.oecd.org/index.aspx?queryid=64755.

OECD.Stat, FDI Flows by Partner Country, https://stats.oecd.org/Index.aspx?DataSetCode=FDI_FLOW_PARTNER.

Öjendal, J. (1997). Regionalization in East Asia-Pacific – An Elusive Process. *World Development Studies*, 11. Helsinki: UNU World Institute for Development Economics Research.

Palan, N. and Schmiedeberg, C. (2010). Specialization Patterns of European Countries. Paper presented at the 4th FIW Research Conference, Vienna: Research Center for International Economics.

Pashev, K. Casini, P., Kay, N. and Pantea, S. (eds.) (2015). *EU Structural Change 2015*. Brussels: European Commission.

Pavlinek, P. (2008). A Successful Transformation? *Contributions to Economics*. Heidelberg: Physica-Verlag.

Pawlas, I. (2015). *The Visegrad Countries and European Union Membership – Selected Issues*. In: Rotschedl, J. and Cermakova, K. (eds.), Proceedings of the 18th International Academic Conference, Prague: International Institute of Social and Economic Sciences, pp. 581-592.

Pelkmans, J. and Casey, J.-P. (2003). EU Enlargement: External Economic Implications. *BEEP Briefing*, 4. Bruges: College of Europe.

Pempel, T.J. (ed.) (2005). *Remapping East Asia: The Construction of a Region*. Ithaca: Cornell University Press.

Pollert, A. (1999). *Transformation at Work in the New Market Economies of Central Eastern Europe*. Thousand Oaks: Sage.

Rahman, J. and Zhao, T. (2013). Export Performance in Europe: What Do We Know From Supply Links? *IMF Working Paper*, 13/62. Washington: International Monetary Fund.

Rangelova, R. (1999). *Economic Growth in Transition CEECs: Implications for and of Modern Growth Theory*. In: Dimitrov, M. (ed.), *Economies in Transition and the Variety of Capitalism – Future, Changes, Convergence*. Proceedings of the 5th Conference of the EACES, pp.102-126.

Sachs, J., Zinnes, C. and Eilat, Y. (2000). Patterns and Determinant of Economic Reform in Transition Economies. *CAER II Discussion Paper*, 61. Harvard Institute for International Development.

Schumacher, D. (1995). Impact on German Trade of Increased Division of Labour with Eastern Europe. *DIW Discussion Paper*, 116, Berlin: German Institute for Economic Research.

Schütz, M. and Palan, N. (2015). Restructuring the International Textile Production and Trade Network. Italy and Portugal. *FIW Working Paper*, 156. Vienna: Research Center International Economics.

Siebert, H. (2003). Why Germany Has Such a Weak Growth Performance. *Kiel Working Paper*, 1182. Kiel Institute for World Economics.

Simecka, M. (2013). The Visegrad Group and Germany: Towards a New Paradigm. *CEPS Commentary*. Brussels: Centre for European Policy Studies.

SKODA AUTO, Annual Report, various years, http://www.skoda-auto.com/en/company/investors/annual-reports/.

Strange, G. (2009). World Order and EU Regionalism: Towards an Open Approach of New Constitutionalism. *Working Paper*, 162. Perth: Murdoch University.

Summers, L.H. (1991). Regionalism and the World Trading System. *Federal Reserve Bank of Kansas City Proceedings*, Kansas: Federal Reserve Bank of Kansas, pp. 295-301.

UNECE (1999). *Economic Survey of Europe*, No. 3, Statistical Appendix, Geneva: UN Economic Commission for Europe.

Van Tulder, R. and Ruigrok, W. (1998). *International Production Networks in the Auto Industry: Central and Eastern Europe as the Low End of the West European Car Complexes*. In: Zysman, J. and Schwartz, A. (eds.), *Enlarging Europe: The Industrial Foundations of a New Political Reality*. Berkeley: University of California Press, pp. 202-237.

Venables, A.J. (1996). Equilibrium Locations in Vertically Linked Industries. *International Economic Review*, 37, pp. 341-359.

Visegrad Group. *Declaration on Cooperation between the Czech and Slovak Federal Republic, the Republic of Poland and the Republic of Hungary in Striving for European Integration*; http://www.visegradgroup.eu/documents/visegrad-declarations/visegrad-declaration-110412

Welfens, P. (1998). *Privatisation, Structural Change, and Productivity: Toward Convergence in Europe?* In: Black, S.W. (ed.), *Europe's Economy Looks East – Implications for Germany and the European Union*. Cambridge: Cambridge University Press, pp. 212-257.

World Bank (2015). *Myanmar: Empowering People for Inclusive Growth. Country Partnership Framework for the Period 2015-2017*. Report No. 95183-MM. Washington, D.C., U.S.A.

World Bank, Trade (% of GDP), http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS

Zecchini, A. (ed.) (1997). *Lessons from the Economic Transition: Central and Eastern Europe in the 1990s*. New York: Springer Science+Business Media.

Zysk, W. and Śmiech S. (2014). The Influence of Foreign Direct Investment on Foreign Trade in the Visegrad Countries 2001-2011. *Entrepreneurial Business and Economics Review*, 2 (3), pp. 7-18.

Chapter 6

Piotr J. Szpunar

Post-Socialist Financial Policies and the Development of the Banking Sector: The Case of Poland and the Lessons for Myanmar

Introduction

"As it embraces around one fourth of the human population, post-socialist transformation is by all means a global process of historical significance. In simplistic terms, the process is twofold in its nature. Firstly, it comprises a political changeover from an authoritarian regime to a democratic system. Secondly, it is supplemented and completed by a socio-economic transformation from centrally-planned economy, which is based on state ownership and bureaucratic control, into a free market economy, which is based on private ownership and the rule of law" (Bolesta 2013, p. 99). In this chapter we focus on one of the most relevant components of the latter process, namely, the transformation of the banking sector.

The stability and development of the banking sector under transition depends on both macroeconomic policies and microeconomic factors, including the wide-ranging restructuring of enterprises and the overhaul of a deficient regulatory framework. Usually, maintaining the stability of the banking sector under these turbulent conditions is a challenge, given the lack of proper business culture, mature governance structures, sufficient know-how and experience in managing of banks.

Nevertheless, the success of economic reforms may critically depend on the stability of the banking sector. Only a stable banking system can facilitate money flow in the economy (especially by processing secure payments), and in that way enable economic growth. By performing its stable and credible operations banks also critically contribute to supporting public trust, which is crucial for implementing successful reforms. Should a costly banking crisis occur, it could disturb economic transformation and imperil the whole process of democratic political reforms.

Some authors tend to stress the importance of banks in the intermediation of funds in the economy, usually understood as transforming financial savings of enterprises and households into investment (Balcerowicz and Bratkowski 2001). Evidently, this is one of the most crucial functions of banks in the modern economy, even if it should rather be understood as a money creation process by credit expansion (Ryan-Collins et al. 2015).

However, the role of banking credit in supporting economic growth might be of less or even no importance at the beginning of transition, whereas imprudent or excessive lending can be very dangerous and costly in terms of economic growth. What matters much more, is a high quality of utility banking (especially secure deposits and payments), underpinning social trust and helping to build confidence in domestic currency. Having this in mind, we try to identify the most important drivers and components of the transition from an undeveloped, inefficient and fragile banking system to a modern, effective, competitive, stable and shock-resistant one. This changeover has been successful in Poland. Thus, using the Polish experience, one can draw some general conclusions that might be useful for other post-socialist countries such as Myanmar.

The job of policy makers would be so much easier if there existed a primer, explaining how to conduct successful economic reforms. It would be much more useful to have a standardised model of successful reforms that could just be copied. Unfortunately, this is not the case, as one size does not fit all. Every country needs to find its particular development path which fits its own specific features.

Nevertheless, some lessons from the experiences of others can be very useful, especially when they help to avoid costly mistakes (Foerch and Hai 2013). This may be especially true for the experiences in reforming the banking sector in Poland, which seems to be potentially relevant and useful for the Myanmar case. The experiences of the transition in Myanmar and Poland are similar in many aspects, both political and socio-economic. Prior to 1990, over decades the economic outlook in Poland kept worsening. Shortages in supply of goods like petrol, food products or housing and a very low quality of many others – were commonplace.

The dire state of the affairs in Poland of those years carries some similarities to the developments in Myanmar over recent decades. We share the experience of one-party monopoly with brutal suppression of political opposition and the omnipresence of surveillance apparatus (Bayer 2013). Both societies were embroiled in the socialist economic system, with predominance of ineffective state-owned companies ruled by privileged party cronies.

The low and deteriorating standard of living in Poland under the communist regime brought disappointment and anger across the entire society, especially among the working class. This was an extreme paradox as the communists claimed that they ruled on behalf and in the interest of the working class, and their propaganda tried fiercely to convince the general public of it. All efforts of the communist regime to reform the economy failed and resulted in even greater chaos and misery, as it proved impossible to repair the command economy system. Still, any signs of civic resistance were brutally crushed by the communist apparatus. Despite severe repressions, the desperation of society increased massively and strong opposition structures started to emerge.

This growing sentiment gave birth to the Solidarity movement, in which both the working class and intellectuals joined their forces. The Solidarity movement enjoyed massive support from the society and achieved its apex in the beginning of the 1980s. The communist regime still kept political and real power but the communist party members were increasingly conscious of a complete lack of legitimacy and an economic breakdown which could lead to social unrest and bloodshed. A unique window of opportunity for historical change opened at the moment of the collapse of the Soviet Union.

A lack of potential threat and influence from the Soviet "ally" enabled the Polish ruling communists and the opposition leaders to reach a historical deal, agreed during the so-called Round Table Talks in 1989, some of which were held in Magdalenka – a small satellite-village of the Polish capital Warsaw. Although very controversial, this deal (called thereafter the "Magdalenka deal") initiated political- and socio-economic reforms in Poland. As the first result of the deal, partially free elections to the Parliament in June 1989 were organised.

As explained in chapter two, the communist party and its allies enjoyed a guaranteed quota of 65 percent of seats in Sejm, the lower chamber of the Parliament. Then, after the elections and some reshuffling on the political scene, the allies of the communists change their allegiance and supported Solidarity, which won nearly 100 percent of the remaining seats in the lower and upper chambers of the Parliament. As a result a first, non-communist government was formed in August 1989. The communists did not participate in the new government coalition but they did not oppose the government having been given two very important ministries responsible for defence and internal affairs. By reaching the deal in Magdalenka the communist regime comfortably shifted the responsibility for the reforms of the devastated economy to the new non-communist government.

This was an enormous challenge and a kind of trap. The new authorities soon realised that the only chance to improve the situation was to embark on a one-way bet – a quick, ultra-liberal "shock therapy". One of the most crucial challenges to the Polish reform process was the overhauling of the banking system. This chapter focuses on the transition of the banking sector, which remains the most important segment of the financial sector in Poland.

The chapter comprises seven sections. The first section describes the banking sector during the command economy and at the beginning of transition and focuses on the risks and sources of the sector's ineffectiveness. In section two we move to the presentation of the "big bang" reforms in the early 1990s, with particular focus on the approach to overhauling the banking sector. Section three offers the depiction of the main problems newly established banks encountered in the free-market economy, which was mainly detrimental growth in non-performing loans.

The next section is about the privatisation of state-owned banks, enforced in two phases: commercialisation and capital privatisation. Section five describes smaller non-bank credit institutions and their important role in the generating of systemic risks. Section six describes the regaining of trust in the domestic financial system and local currency by society and business through the processes of disinflation and de-dollarization. Section seven delivers some evidence on how the modern, efficient and stable banking system supports growth in a real economy. In the conclusions we try to summarise some crucial elements of the successful transition of the banking sector in Poland (highlighting both successes and failures during the process), that could be potentially useful for other countries.

6.1 The Banking Sector: The Command Economy and the Beginning of Transformation

The situation of the Polish banking sector and its structure at the beginning of systemic transformation was mainly determined by historical circumstances, strongly influenced by extremely poor macroeconomic conditions (Balcerowicz and Bratkowski 2001). The immediate period before transformation was characterised by extreme economic imbalances, with high inflation, scarcity of numerous goods combined with rationing of basic food products. The real wages were kept extremely low in an attempt to spur exports.

Despite those efforts the command economy remained uncompetitive and plagued by large current account deficits. This led to increasing external imbalances and unsustainable foreign debt. Poland was heavily indebted. High foreign debt was, to a great extent, the result of big government investment programmes dating back to the 1970s. Those investments proved ineffective and utopic almost immediately, which was the result of the general inefficiency of the system, low productivity and waste of resources. Lacking proceeds from the investments projects led to insolvency, as the foreign debt could not be serviced properly. In the 1980s the communist government stopped servicing the public external debt completely and the country went bankrupt. All attempts to reform the system during the 1980s failed as they could not address the main deficiencies of the command economy. The very root of all problems lay in the centrally planned economy, the economy of shortage and inefficiency.

Under communist control the Polish banking system had become highly centralised and served primarily as a conduit for transferring funds between the central government and the various state enterprises that managed the country's economic life. The most important financial institution, the National Bank of Poland (NBP), served as both a central bank and a supplier of credit to key industries. Decisions on monetary policy, the allocation of credit to borrowers and the scope of the NBP's operations, were made by the central government. The NBP was directly responsible to the Ministry of Finance, with the president of the NBP serving as undersecretary of state (vice-minister) at the ministry. The main responsibility of the NBP was to develop and then to realise a central credit plan, which mirrored the central economic plans of the government. Following the central credit plan the NBP financed various economic activities of the government, including large central investments. In this way money was being printed.

Although official inflation numbers tended to be low, they were unreliable as the prices were under administrative checks. Controlled prices combined with growing money supply resulted in the increasing shortages of basic goods. At the same time the black-market (informal sector) exchange rate of the USD skyrocketed. Given the lack of confidence in domestic currency the economy became highly dollarized.

During the 1980s, the communist government began reforming the banking system. The Banking Act of 1982 separated the NBP from the Ministry of Finance and introduced parliamentary approval for the appointment of the President of the NBP. This act also legalised the formation of private banks as joint stock companies with or without foreign equity participation. However, the NBP continued to perform the functions of both a central and a commercial bank until 1989, when Parliament passed a new Banking Act and the National Bank of Poland Act (Mondschean and Opiela 1997).

6.2 Economic Reforms, the "Big-Bang" and the Initial Stages of a Banking Reform

At the beginning of the 1990s the overall economic and financial conditions of Poland could be assessed as utterly dramatic. More than forty years of command economy dampened the entrepreneurship, which in normal circumstances is the backbone of the economy. This gloomy picture was exacerbated by the deficient legal framework and very weak institutions. Modern institutions and legislation had to be built almost from scratch, or just re-established after the pre-war standards (like, for example, the code of commerce). The major weaknesses of the economy were the deficit of entrepreneurs, skills and capital, as well as low income and poverty, low savings ratio and high dollarization. Dollarization was stubbornly undermining confidence in domestic currency and affected economic stability. Foreign currencies were extensively used in price-setting and payments, and, as a rule, in high value transactions between private agents (purchases of cars, houses and apartments, land, etc.). Indexation to hard currencies was widely applied in private contracts, especially in private debt redemption.

In addition, which was especially important from the point of view of the central bank, very high inflation was eroding domestic savings, thus reducing the opportunity to create the financial capital.

In late 1988 the (still communist) government made the first major step towards a market economy – it liberalised the economic conditions by allowing individuals to create and run their own, private enterprises. The registration procedures became very simple. Hundreds of thousands of small businesses were established, mainly in the trade and services sectors. The government also somewhat eased foreign trade and foreign exchange regulations, which enabled private companies to get involved in foreign trade. As the first non-communist democratic government was established in August 1989, it gave momentum to further fundamental economic reforms.

One of the first important reform steps was a changeover from the socialist monobank structure towards a modern, two-tier banking sector. The NBP became a genuine and a *de facto* independent central bank. Nine large commercial banks were created as a result of separation of ownership and structures formerly belonging to the NBP. In fact, the nine new commercial banks were simply created from the operational branches of the NBP and inherited their staff and most of their balance-sheet items (NBP 2001).

The newly established commercial banks provided foundations for the development of universal banking in Poland. A banking supervision within the structures of the NBP was established, which obtained the authority to issue banking licenses and binding regulations. Some other important decisions were also made: the remaining credit controls were gradually lifted, the credit market liberalised and the central bank started to promote the formation of the interbank market and its instruments.

Given the overall macroeconomic conditions at the starting point of the reforms, the main objective of the early 1990s was to build (nearly from scratch) a brand new, competitive banking system. The new system was expected to be composed of many diverse, competitive and self-dependent entities that could change the model of capital allocation in the economy – namely, from a centrally planned to a market oriented flow of credit. The new government understood the importance of the de-centralised, market and profit oriented distribution of private credit as a substitution for an inefficient, centrally planned and administered credit rationing. At the beginning of the 1990s it became clear that much more bold reforms were inevitable. Privatisation of state-owned banks was among the transformational priorities, but the scarcity of domestic private savings and the very weak position of Poland as a destination for foreign investment stymied a successful bank privatisation at that stage. This was principally due to Poland's default on sovereign debt at the beginning of the 1980s and a very uncertain macroeconomic situation in the early 1990s – thus the perceived country risk hovered high (Kokoszczyński 2013).

The next important step towards a market economy and regaining the trust in the domestic system was the so-called "small privatisation", related mostly to small companies and services. A creation of the capital market in Poland (primarily by establishing the Warsaw Stock Exchange) laid foundations for fully-fledged privatisation and opened a new channel of capital support for private companies. The consecutive governments stuck to the strategy of privatisation of the biggest companies and important business sectors. A mass privatisation programme and the conception of the National Investment Funds (the so-called coupon privatisation) followed. It proved to be less effective than direct privatisation. To overcome the difficulties, in the second phase (direct privatisation) the Ministry of Treasury (the name of the Ministry evolved over time) began selling majority stakes to strategic foreign investors.

The methods of the privatisation of banks also evolved. At the beginning the preferred way was the sale of stakes via the stock exchange. Soon, however, the government switched to a direct sale of the majority stakes to single strategic institutional investors. This approach allowed the State Treasury not only to cash-in the premium for control, but also opened a channel for acceleration of the privatisation process. However, given the initial reluctance of foreign investors this process stalled and the NBP started to pursue quite a lenient licensing policy in order to encourage private capital. Capital requirements were set very low and there were hardly any requirements from the shareholders, as far as the history records in banking were concerned (Borowiec 1996).

Due to very limited entry requirements in the early 1990s a significant number of new domestic banks were registered. By the end of 1991 the number of commercial banks exploded and exceeded ninety (Figure 1). Yet, these banks were usually small and poorly capitalised. In many cases the main founders and shareholders were state agencies, state-owned companies or municipalities. In some cases, the newly established banks targeted exclusively servicing some specific sectors of the economy (for example, the energy sector, sugar industry, etc.). To some extent, the role of those banks can be seen as similar to the role of policy banks in Myanmar. In some cases the shareholders used the deposited funds just to get easy and cheap access to credit (Balcerowicz 1997). In this way, the new structure of the banking system was formed with the dominance of large state-owned banks (mainly these nine banks separated from the NBP), co-existing and competing with small privately- or quasi-privately-owned structures.

The trust of international financial markets and their participants was gradually restored, especially after the reduction of Poland's foreign debt[1], the association agreement with the European Union (or at time the European Communities) (in 1991), the accession to the OECD (1996) and progressive liberalisation of foreign exchange regulations. Those achievements helped to attract inflows of foreign direct investments (FDI). In time, an increasing portion of GDP was created in a highly competitive private sector. The economic role of the state as an owner diminished, but it simultaneously increased as a regulator and watchdog of the market discipline. The exchange rate regime liberalisation was finalised in consecutive steps and equal treatment of resident and non-resident entities was introduced. The harmonisation of the legal framework with EU standards was advanced. This enabled Poland to reach its strategic target which was the accession to the European Union in 2004. Since then, Poland has obtained access to a large pool of EU cohesion funds, which have been channelled mostly to projects focused on infrastructure modernisation and to agriculture.

6.3 The Turbulences of the early 1990s: Weak Banks and a Harsh Economic Environment

At the beginning of the 1990s the following factors had a crucial impact on the development of the Polish banking sector:

- The commencement of the banking system reform in 1989;
- The radical market and economic reforms (the so-called Balcerowicz Plan).

The systemic transformation process was accompanied by the emergence and rapid increase in the volume of "bad loans" in the banking sector. The reasons for the surge in non-performing loans (NPLs) were both macroeconomic, as well as of a legal and systemic nature (Table 6.1) (Lachowski 1995).

[1] The agreements with the Paris Club and the London Club were reached in 1991 and 1994, respectively.

Table 6.1 The Causes of the Emergence of Non-performing Loans (NPLs)

Macroeconomic	Legal and systemic
· Collapse of the command economy; · A radical reform program ("the shock therapy") implemented to quench inflation and liberalise the country's economy; · Transformational recession; · Bankruptcies of state-owned companies; · Massive surge in unemployment; · Collapse of traditional export; · Extremely high nominal interest rates; · Low viability of economic forecasts and projects.	· Ineffective bankruptcy and liquidation regimes; · An inefficient judicial system and enforcements of problematic contracts; · A lack of appropriate credit controls and monitoring by enterprises; · Loopholes and inadequacies of the law regulating business activity; · Questionable value of collaterals for loans; · A lack of technical infrastructure and poor regulatory framework; · A lack of sufficient banking regulation, including provisioning rules.

Source: Author's own, based on Lachowski 1995. Study prepared as part of the research project: The Process of Enterprises "Exit in the Transition to the Market Economy", Łódź, February 1995.

To a considerable extent the rapid increase in NPLs was the result of the collapse of the centrally planned economy and the accompanying economic recession (a transformational recession). A bad economic situation was reinforced by an inefficient and inappropriate legal framework for business activity, which was a descendant legacy of the communist period. The inadequacy of the legal system in the context of the needs of banks and the market economy led to the preservation of economic inefficiencies. The NPL problems can also be partly considered as a cost incurred by the economic transformation. Radical market oriented reforms were necessary to stop negative tendencies in the economy. A shock treatment necessary to spur new business activities in a refurbished economic environment was, however, very costly in terms of economic growth (Lachowski 1995). In the period 1990-1991 the Polish GDP decreased by 17 percent.

The transformation revealed many structural flaws and maladjustments of financial institutions to the conditions of a market economy. The lenient licensing policy resulted in a weak capital base of banks and was combined with poor risk management, shortage of skilled human resources and insufficient know-how. Banks suffered from the insufficient credit history of most customers and poor experience in the market environment. In some cases also criminal offences were filed. It all brought problems not only for newly established banks, but also for the entire banking sector.

The transformational recession and dramatic changes in the structure of the economy generated a very strong adverse shock, which hit vulnerable banks. It pushed the

Polish banking sector into a quasi-crisis (Kokoszczyński 2013), with the bad loans problems at its centre. At the beginning banks recorded high profits as proper provisioning rules were not in place. In 1992, the NBP eliminated this regulatory gap and issued prudential regulations imposing proper standards of provisioning. As a result, the accumulated problems with non-performing loans came to light and eroded the stability of the system.

The diagnostic studies and analyses of the banks' situation by external auditors disclosed a very high level of NPLs in their portfolios. The share of NPLs peaked in 1993 at approximately 31 percent of total loans. Due to the high share of nonperforming assets and severe erosion of the capital base, many of the small and medium sized banks, mostly private or with a mixed ownership structure, collapsed. The intervention of the central bank and the rehabilitation of the troubled banks became necessary to protect depositors and to avoid a negative feedback-loop between banks and the economy.

Both, the government and the NBP cooperated in preparing and applying appropriate solutions. The NBP was mandated with the supervision and regulation of banks and adopted a new regulation on asset classification. Using its powers the NBP demanded from banks a build-up of adequate capital buffers and provisions by the end of 1993.

The following additional measures were implemented:

- new detailed accounting principles, to a large extent conforming with the EU guidelines, were introduced in 1995;
- liquidity, solvency and general prudential requirements were introduced;
- in 1995 a deposit insurance scheme and a special institution to answer requests for assistance from troubled banks: the Bank Guarantee Fund – (BFG) began its operations;
- the NBP temporarily suspended granting of new banking licenses in the years 1992-1995 (Balcerowicz and Bratkowski 2001).

The poor results of liberal licensing policy showed clearly that the growth of the sheer number of banks was not enough to create a properly functioning banking system. The banks' strength, both in terms of their capital and their competences, should have been considered much more important. To resolve the problems both the State Treasury and the NBP participated in private banks restructuring. The main objective of the NBP at this time was to strengthen the domestic banking sector through the restructuring and rehabilitation of ailing private banks, partly with the assistance of foreign investors. Once the transformational recession was overcome, some interest in the market reappeared and foreign investors started to bid for banks operating in Poland.

However, the process of establishing new banks by foreign investors was stopped for fear of an excessive increase in competition against financially weak Polish banks. At the same time the authorities removed benefits resulting from the option available to foreign banks to maintain capital in foreign currencies (NBP 2001). Instead of issuing new licenses, the NBP asked international financial institutions to assist ailing banks with regard to their restructuring programmes.

In exchange, the investors were allowed by the banking supervision authority to invest with the eventual possibility of taking over the assisted institutions. The emergence of foreign players was crucial in the restructuring and recapitalisation process of ailing banks. In due course also the state-owned commercial banks started to benefit from the involvement of foreign investors. Besides capital injections, foreign investors addressed knowledge and know-how deficiencies in the domestic banks.

In many cases foreign banks became strategic partners and finally also strategic investors in domestic banks. The initiatives undertaken by the World Bank in the early 1990s were vital, like diagnostic studies of the state-owned banks and the initiation of twining agreements between domestic and foreign banks. Having gained experience from various countries undergoing liberalisation of the financial sector the specialists from the World Bank suggested preparing a diagnostic study of all major state-owned banks.

The study revealed the banks' weaknesses and recommended steps to mitigate them. The World Bank and the IMF directly and indirectly provided technical assistance, financing external experts, and assisting the Polish authorities in creating banking supervision and proper reporting standards, and in issuing banking regulations.

The State Treasury and the NBP directly participated in restructuring of private banks, by taking over some banks, as well as indirectly, by providing the financial assistance aimed at implementation of the rehabilitation plans. This aid was also granted to banks that took over the failing entities. The NBP did not hesitate to clean up the sector – seven banks were liquidated in 1994 alone. At the same time, the government provided support to the state-owned banks. Parliament passed legislation allowing for the restructuring and recapitalisation of banks with the use of state funds. Based on this legislation the State Treasury issued high-yielding restructuring bonds, which were distributed among state-owned banks and qualified as capital. The total face value of the bonds was PLN 4.7 billion (around USD 1.88 billion), mostly issued in the 1993-1994 period (Pawlikowski and Serwa 2007). This measure was very effective in strengthening the capital position of those banks – the bonds not only increased the capital but also generated high profits.

It is worth stressing that despite the substantial engagement of the state in the restructuring process of the banks, no "bad-bank" was created. Banks had to deal with the accumulated portfolios of bad loans on their own. This decentralised approach was adopted to keep the banks responsible for their former credit decisions. This approach promoted accumulation of expertise in the field of (in some cases very painful) debt restructuring and bad loans management. It was helpful in avoiding the spreading of moral hazard (Kawalec and Kluza 2003). A separation of bad debts ("carving-out") was applied during banking crises in the USA and Spain in the 1980s and in a number of countries in the 1990s (including the Czech Republic, Slovakia and Slovenia).

Such an approach also entailed recapitalisation of banks with interest bearing government bonds but the central measure was a transfer of bad loans to a specially created restructuring agency ("a bad-bank"). This allowed for a quick cleansing of banks' balance sheets and a separation of bad borrowers from banks' healthy operations. This reduced the risk that banks would be tempted to finance old insolvent borrowers ("ever-greening") and allowed the managers to focus on new business. The Polish decision-makers believed, however, that the carving out of bad loans would have not addressed the root cause of the problem, which primarily resulted from a lack of experience and expertise of the banks in assessing credit risk in the market environment. A painless removal of the bad debt burden from banks could create the risk of the bad loans' reappearing in the future. In addition, the Polish decision-makers did not believe that a centralised, government sponsored agency could vigorously and effectively recover bad loans.

It would have been very difficult to create such an effective institution with highly remunerated and qualified staff with the right incentives to solve the problem in a brisk, efficient manner. The staff of such a bad-bank would have to be properly motivated to act and achieve defined goals in the shortest timespan possible, which would mean that their jobs would be terminated quickly afterwards. Instead, banks were obliged to separate bad loan portfolios internally and to establish a debt-collection department within their institution, separate from the credit department. There was also a deadline set to complete the restructuring of the bad loan portfolios within one year and a formal ban on providing new credit to an enterprise whose debt was placed in the bad-loan portfolio, unless such credit were refinanced on the basis of a conciliatory agreement. At the same time the recapitalisation through government bonds allowed banks for the adequate provisioning of those portfolios (Kawalec and Kluza 2003).

The experience with “the Polish approach” towards bad loans can be illustrated using the comparison with the record of some other Central European post-communist countries (Table 6.2).

The restructuring process was successful; state banks offloaded the majority of bad loans and became profitable, which allowed them to improve their standing and solvency. In the years 1993-1997 return on assets (ROA) improved from -1.3 percent to +1.9 percent and return on equity (ROE) increased from -33.8 percent to +27 percent (Balcerowicz and Bratkowski 2001). The choice of measures made by the Polish authorities, including active engagement of foreign investors, limited the cost of the banks restructuring for the taxpayers. The total aggregated costs of the banking sector restructuring borne in the years 1993-2006 by public bodies amounted to PLN 18.6 billion (ca. USD 6.4 billion), amounting to 2.6 percent of the annual GDP.

The largest costs related to the tools employed in the banking sector restructuring process were those of servicing restructuring bonds allocated by the State Treasury to finance threatened banks (over 80 percent of total costs). The largest share of assistance went to state-owned banks, i.e. 90 percent. The total costs of banking sector restructuring in Poland can be assessed as low when compared to other transition countries, which experienced the banking crisis (Pawlikowski and Serwa 2007).

Table 6.2 NPL-related Restructuring and Privatisation of Banks in Three Post-Communist Countries

	Czech Republic	Hungary	Poland
Initial conditions:	In early 1990s 30-70 percent of loans in state-owned banks were non-performing and many major banks became technically insolvent.		
Bank restructuring methods applied in 1991-1994:	The Spanish model	A mixed approach with partial carving out and less than full recapitalisation failed. Banking culture was not changed and the government repeated recapitalisation twice.	The Polish model
Bank privatisation:	Partial privatisation in 1992 with the government retaining control. In 1997 in the face of persistent bad loan problems the government decided to sell controlling stakes to strategic investors, which was finalised in 2000-01.	Government ultimately decided to ensure proper governance through strategic investors. Most banks were sold to foreign banks in 1994-1997.	Privatisation conducted at a much slower pace than originally planned. Ultimately, all banks originally covered by the programme were taken over by foreign banks by 2000 (7 years after recapitalisation).
Contribution of banking supervision in containing bad loans problem:	Weak	Moderate	Significant
Results:	Room created by carving out old bad loans was soon refilled by new ones. The government had to recapitalise major banks again in 2000 before their sale to strategic investors.	High fiscal costs of 3 consecutive recapitalisations. Ultimately, the most healthy banking sector in Central Europe as a result of the sale of the banks to foreign strategic investors.	There was a positive change in bank behaviour. Banks originally covered by the programme retained capital adequacy (regained through recapitalisation) and were ultimately sold to strategic investors with high premiums to their book values.

Source: Kawalec, Kluza 2003, p. 9.

6.4 Structural and Ownership Changes: The Maturing of the System

Privatisation was one of the main goals of the Polish systemic reforms commenced in January 1990 and it included the banking sector. It is worth underscoring that, contrary to, for example, the former Czechoslovakia and some other countries, the voucher privatisation of banks in Poland had not been seriously considered. Instead, the classic method of privatisation was pursued from the very beginning of the transition (Balcerowicz and Bratkowski 2001). Privatisation was aimed at increasing bank operational efficiency by way of handing to the management boards and the supervisory boards of banks full responsibility both for the day-to-day management and for strategic business development.

It was also expected that privatisation would contribute to the alteration of management methods and technology, as well as ensure access to new capital sources, raise the effectiveness of banks and in that way increase their competitive capabilities (NBP 2001). The other goals of privatisation were to prepare the banks for functioning in the integrated EU banking market (after Poland's entry to the EU) and, last but not least, to collect considerable privatisation revenues.

The roadmap for the privatisation of "the nine" banks that was set out in 1991 included two stages of the process, namely: commercialisation (i.e. making bank shares available to third parties) and capital privatisation. The privatisation programme was subject to many changes and did not start until 1993. This delay was caused by the bad financial standing of state-owned banks, which became evident in 1991. The government decided to postpone the privatisation and to deal with the banks' bad debt portfolio first. Such a sequence of measures made the government (i.e. the state budget) bear the cost of bank restructuring, but as a result the market value of the rehabilitated banks increased significantly (Lachowski 1996).

The implementation and successful completion of the restructuring programme facilitated further privatisation of state-owned banks. On the other hand, this restructuring process stimulated further structural changes, mostly in the form of mergers and acquisitions, among both private and state-owned banks. Both processes may be classified as market-driven consolidation. They substantially strengthened the Polish banking system without limiting the competition in the sector (Kokoszczyński 2013).

The composition of the banking sector was changed from an almost complete monopoly of the NBP and several commercial banks at the beginning of 1989 to a competitive structure of several private banks. In the early 1990s the system was composed of large banks controlled by the State Treasury and dozens of smaller privately-owned commercial banks. The sector`s transformation significantly improved the market position of both segments: state-owned and privately-owned banks.

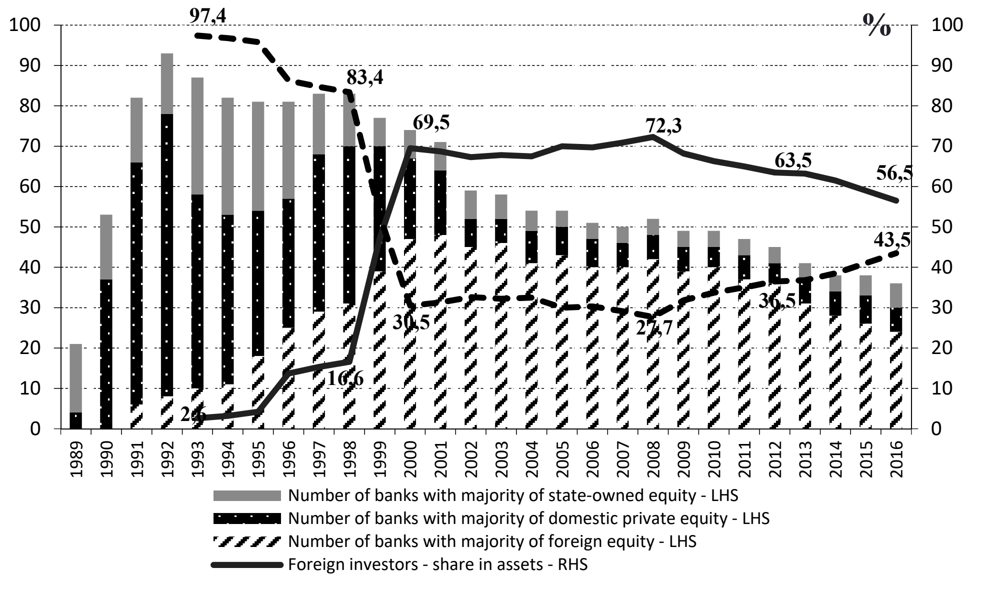
The next stage of the banking sector privatisation and consolidation was associated with the amendment of the banking laws in August 1997: the Banking Act and the Act of the National Bank of Poland. The introduced changes were aimed at adjusting banking regulations to EU standards. They boosted the confidence of foreign investors in the Polish banking sector. The years 1997-2000 witnessed further strengthening and enhancing the effectiveness of the banking supervision institutions, polishing and revamping of prudential norms and increasing the level of guarantees for bank deposits. Together with high economic growth and strengthened fundamentals all this attracted a significant amount of prospective investors interested in acquiring Polish banks.

On 1st January 1999 Poland removed restrictions applied formerly to foreign banks, concerning purchases of larger stakes, opening new branches and obtaining a license to establish a bank. This liberalisation was the consequence of the commitments undertaken by Poland when joining OECD (in 1996). As a result, the environment for business in the banking sector became more open and competitive (Balcerowicz and Bratkowski 2001).

Foreign sectoral investments between 1998 and 2002 notably changed the ownership structure of the banking sector in Poland. Most of transactions were completed in 2000, when the share of bank assets controlled by foreign owners increased from 47 percent to 70 percent (Figure 1). In the following years, the process of the banking sector consolidation was significantly influenced by Poland's accession to the EU (in May 2004), and also by mergers and acquisitions carried out in the EU15 countries involving parent banks for Polish subsidiaries. In subsequent years the financial crisis gave another impetus for consolidation, mostly due to the abating financial condition and the solvency of some EU and US banks, and the need to sell their Polish subsidiaries to pay back for the public aid (Kozak 2013).

It should be highlighted that the main mode of the privatisation policy adopted at that time was the selection of reputable foreign strategic investors in order to improve governance structure and to receive capital and technology injections. In addition, the investors had to commit to supporting the acquired banks in case of difficulties. The geographical diversification was observed and new investors were expected to float a large part of shares on the Warsaw Stock Exchange (WSE). This policy not only supported the development of the Polish capital market, but also created a significant minority shareholder groups who controlled the business strategies and risk-taking of the banks' management. High standards and information requirements enforced through the listing at the WSE ensured transparency and proper reporting of banks. In this way the domination of strategic investors was balanced by strong minority interests. Currently, banks in Poland are legally separated from their foreign investors, operate transparently and are supervised by reliable domestic authorities.

Figure 6.1 The Commercial Banking Sector in Poland according to the Ownership Structure (1989-2016)

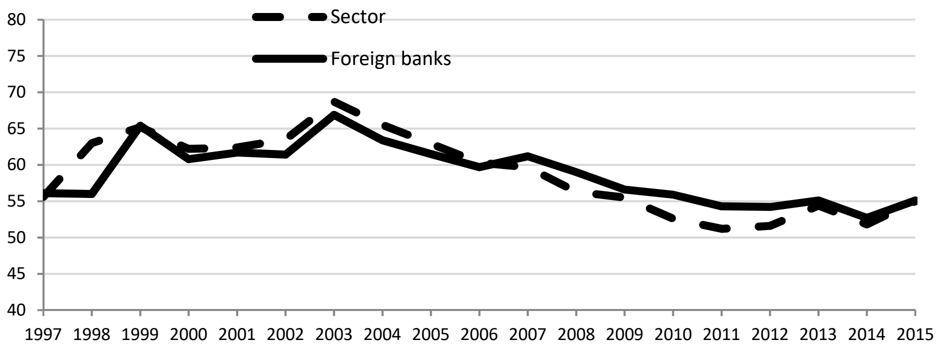


Source: own calculations based on UKNF reports.

The broad objectives of privatisation were relatively quickly achieved, mainly through the sale of controlled packages of shares to reputable foreign financial institutions. The system evolved rapidly with the main results being fast modernisation and improvements in the operating of banks, optimisation of branch networks and their staffing, growth in efficiency and profitability, enhanced risk management, extensive access to modern banking technology, as well as, access to liquidity and subordinate debt. Privatisation was perceived as a major step towards creating a competitive market of banking services. After the process the majority of the biggest banks were not only controlled by esteemed foreign institutions but also listed on the WSE, disclosing publicly crucial information on their performance and strategy. The modernisation of banks attributed to foreign investors increased their profitability.

Despite the fall in profitability after 2008, it remained relatively high compared to other European banks. One of the factors behind high profitability was cost efficiency. Since foreign investors entered the system the cost to income ratio has decreased visibly. Due to intensive competition, good practices implemented by foreign investors spilled over to the entire system, which also improved efficiency and cost discipline in domestically-owned banks. Subsequently, domestic banks started to outperform those with foreign ownership (Figure 6.2).

Figure 6.2 Cost/Income Ratio (C/I)



Source: own calculations based on UKNF.

The evaluation of the ownership concentration, in particular in reference to the foreign banking groups as strategic investors, is not simple. On the one hand, there are clear benefits of this model: strategic investors bear the responsibility for controlled banks; in many cases they are formally obliged to assist the subsidiary banks in times of market stress (providing capital and liquidity and acting as counterparts in risk hedging transactions). Strategic investors have also access to fiscal aid in their home countries, as well as, in most cases, to the European Central Bank's liquidity assistance.

Last but not least, a strategic investor as an owner is a viable partner for the host supervisory authority. This partnership may not be easy in the case of dispersed shareholders. On the other side, the weak point of the current model is a potentially easy and fast transmission of a crisis to the host country from the home country of the bank. Empirical evidence shows that foreign ownership is widespread around the world and that it amplifies international spillovers (Brzoza-Brzezina *et al.* 2016).

Another problem can arise from the business models and risk management approved and applied on the group level, thus not taking into full consideration the local market conditions. The home-host relations might be strained, which can imperil coordination of supervisory policy. The Polish experience showed, however, that this kind of banking system can be stable, crisis-resilient and work efficiently and well. It is also interesting that the most successful banks were those who relied more on local management and tried to adjust to specific local market features, instead of introducing unilateral standards.

The global financial crisis did not have any serious impact on the stability of the Polish banking sector despite the fact that many strategic investors' institutions ailed and required state aid. In Poland the taxpayers were in a much more comfortable position and did not have to hand out any funds to support the banking system.

6.5 The Importance of Smaller Credit Institutions

Even a small bank can cause big problems. Numerous small credit institutions, loan and savings types, are often poorly supervised. This can turn to serious and costly problems, especially when there are many small ailing institutions on the market. The problem of small institutions became evident in the case of Polish financial cooperatives, known as SKOKs. The first SKOK commenced its operation in 1992 and since then the sector has experienced remarkable growth. In 2015 the total assets of SKOKs stood at PLN 12 billion (ca. USD 3.1 billion), which was a negligible amount, especially compared to the scale of banking assets. Still, the total number of clients of SKOKs at over 2.1 million remained high. Consequently, ailing SKOKs produced a social problem that could not be ignored.

Until the end of 2012 SKOKs were not supervised by the Polish Financial Supervision Authority (KNF). Given the rapid growth in terms of assets and the number of members, however, it was necessary for the authorities to start to supervise and to regulate the system of cooperatives to protect its soundness and stability. For many years the SKOKs system had operated beyond external control and accumulated a serious scale of bad loans. The current situation in the sector remains complex and difficult. The quality of SKOKs loan portfolio is poor, the capital position and the value of regulatory capital – inadequate to the scale of their operations. Most of credit cooperatives that carried out operations at the end of 2015 were obliged to prepare a recovery programme, but only in a few cases the programme met the expectations of the supervisor.

In the years 2012-2015 three credit cooperatives were taken over by commercial banks, three had to suspend their operations and two merged with other cooperatives. Fortunately, Polish credit cooperatives collectively represent only a small fraction of the financial sector. In 2015 the ratio of assets of operating SKOKs to assets of the banking sector amounted to 0.8 percent. Nevertheless, poor financial conditions of those institutions raise concern not only among the Polish supervisory authorities but also among commercial banks, who have to pay the bill for bankruptcies and restructuring processes via the Bank Guarantee Fund (BFG). Given the small size of the sector, the ease of substituting the services it provides and the fact that its financial ties with other financial institutions are negligible, the problems of the credit cooperatives do not incur systemic risk.

However, those problems have indirect repercussions. The restructuring of the sector requires the involvement of financial resources at the disposal of institutions of the BFG. This reduces the amount of funds that can be used in the event of problems of the banking sector, which is crucial for financial stability. With regards to the above, the reduction of BFG resources may produce adverse systemic results.

Therefore, sufficiently rigorous standards must be applied also to the sector of small financial institutions whenever they collect deposits or finance their activities on the retail market. Moreover, thorough supervision is deemed necessary from the very beginning of their operation. Obviously, this would increase the fixed cost of running and hamper their development, on the other hand. However, it would reduce potential public costs of a crisis and create a level playing field for banking services[2].

[2] For more information see: NBP (2015); World Bank (2010).

6.6 Regaining Trust in the Domestic Financial System and Currency: Disinflation and de-Dollarization

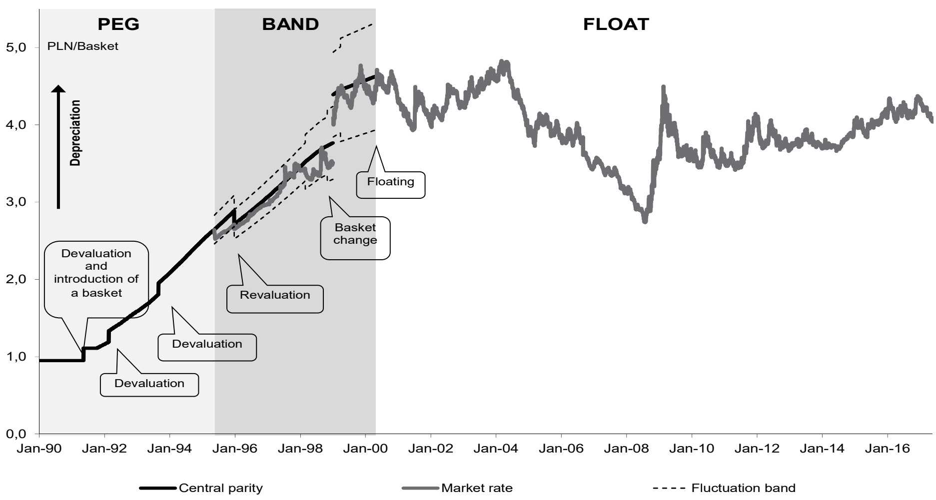
Most economies of Central and Eastern Europe and the former Soviet Union experienced high inflation or hyperinflation at the onset of the transition process. It was caused mainly by two factors: (i) price and exchange rate liberalisation that unfroze the earlier accumulated stock of money (the so-called "monetary overhang"), which was the result of extensive earlier price control, and at least temporarily increased the velocity of money in circulation; (ii) weak monetary and fiscal controls.

The second factor became particularly acute in the last years of communist regimes and the first years of democratic governments, when most state institutions were significantly weakened and political elites tried to calm their electorates at the expense of macroeconomic stability. In addition, a large output decline resulting from deep structural distortions inherited from the command economy impeded fiscal and monetary adjustment. However, very early on it became clear that fast disinflation was a basic precondition for structural reforms and macroeconomic stabilisation (Dąbrowski 2001).

In fact, for the Polish policymakers one of the most important aspects of stabilising the national economy was the reduction of inflation. At the beginning of the 1990s the central bank devalued the Zloty (PLN), the domestic currency, to realign its value with the market exchange rate, and pegged the exchange rate to the US dollar. This measure was intended to create a nominal anchor for the economy. However, to protect competitiveness of the real economy, this regime was gradually changed towards a more flexible one: from fixed peg to the US dollar, then peg to a basket of currencies, through a corridor, a narrow corridor, a crawling band, and finally ending with a full floating in 2000 (Figure 6.3).

This kind of exchange rate arrangements protected the fragile export sector while enabling gradual disinflation during the 1990s. At the same time, however, the inflation rate still lingered on elevated levels well above 10 percent. To bring the disinflation process to an end, a shift in policy regime was required. In 1997 the new Constitution granted full independence to the central bank. It enabled the NBP to adopt an inflation targeting regime and to switch to a flexible exchange rate regime (which, however, required approval of the Government). The NBP used the new regime to finalise the disinflation process by setting high real interest rates. This generated a high initial cost to the real economy but in the end successfully delivered well anchored, low inflation expectations. This in turn, allowed the NBP to stabilise inflation around its CPI target set at 2.5 percent, without the need to set high interest rates.

Figure 6.3 Exchange Rate Fluctuations (PLN/Basket)



Source: own calculations based on the NBP data

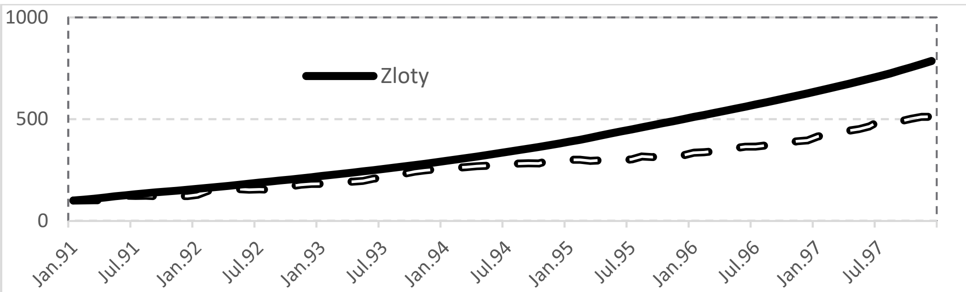
The floating exchange rate regime has served the economy well as a shock absorber. After some initial jolts (especially at the beginning of 2000s) the floating exchange rate has been shielding the economy well from external idiosyncratic shocks. At the same time the development of the intra-company trade made the Polish economy less vulnerable to exchange rate fluctuations. The impact on inflation of the changes in exchange rate (the so-called pass-through) was also significantly reduced.

For example, in the case of consumer prices it was found that the long-term pass-through declined from about 0.4 in 2002 to about 0.2 in 2008 and well below 0.1 in 2015 (Przystupa and Wróbel 2009). Obviously, such a low pass-through created comfortable conditions for the monetary policy, which was less constrained by the external interest rates (more precisely: the interest rate disparity) and could respond more effectively to changes in domestic inflation determinants: the output gap and the unit-labour costs. It turned out that there was no substantive reason for any fear of floating and, paradoxically, the volatility of the exchange rate was reduced significantly after switching to the inflation targeting regime.

Before the introduction of the inflation targeting regime the monetary policy was based on a kind of eclectic monetary targeting. The pace of pre-announced central parity devaluation (based on a basket of currencies) was set lower than targeted inflation, whereas the real interest rates were kept positive. As a result, the interest rates on Zloty deposits were systematically higher than inflation and higher than the pace of Zloty depreciation. In this way, the public learnt quite fast that saving in foreign currencies pays significantly less compared to Zloty and the expected US dollar returns on Zloty deposits were increasingly more attractive (Figure 6.4).

The longer this learning process lasted the more convinced the public was that the discrepancy in profitability of Zloty versus foreign exchange deposits increased significantly. This supported growing trust in domestic currency and prompted a substantial de-dollarization.

Figure 6.4 Profitability of USD (the dotted line) versus PLN Deposits (stylised)



Source: own calculations based on the NBP data on: Exchange Rates And Rediscount Rate and Fed Funds Rates.

Note: To compare the profitability of the USD versus the Polish Zloty (PLN) deposits we assumed that on the 1st January 1991 a deposit of 100 PLN was made in two alternative forms: a PLN deposit and a USD deposit, whereas for the USD deposit we assumed the same starting amount of 100 PLN converted into USD at the start of investment. The interest on the PLN deposit was computed using the NBP rediscount rate. The interest on the USD deposit was equal to the Fed Funds Rate. The value of the USD deposit is shown in PLN using the actual exchange rate. Given the short tenors of most deposits at the time we applied in both cases monthly capitalisation.

Obviously, some other important factors encouraged the de-dollarization process as well, including the success of economic transformation (robust growth, growing competitiveness, strong fundamentals), and a strong, well-capitalised, liquid, competitive and shock-resistant banking sector. These factors assisted in momentous improvements in confidence and credibility in the new economic system. No dedicated policies aimed at reducing dollarization were necessary. Currently only a small fraction of households' deposits is maintained in FX, mostly for transaction purposes.

6.7 The Focus on Financial Stability and its Benefits: The Modern, Efficient and Stable Banking System and Economic Growth

Financial stability is usually defined as a situation in which the financial system performs its functions in a continuous and efficient way, even in the case of unexpected and significant shocks or disturbances. Thus, a lack of stability or a crisis can be described as a situation in which a financial system (especially with regard to banks, but also other intermediaries) cannot continue its activity without significant external support (Szpunar 2014). Disturbances in the functioning of the financial system and in the efficiency of the provision of financial services have a harmful effect on the standing of enterprises and households. To avoid the costs of a crisis to exacerbate, the public sector may have to intervene by injecting funds into the failing banking system. In such circumstances the financial sector, especially banks, can create a serious burden for economic growth. This was the case in the first half of the 1990s in Poland.

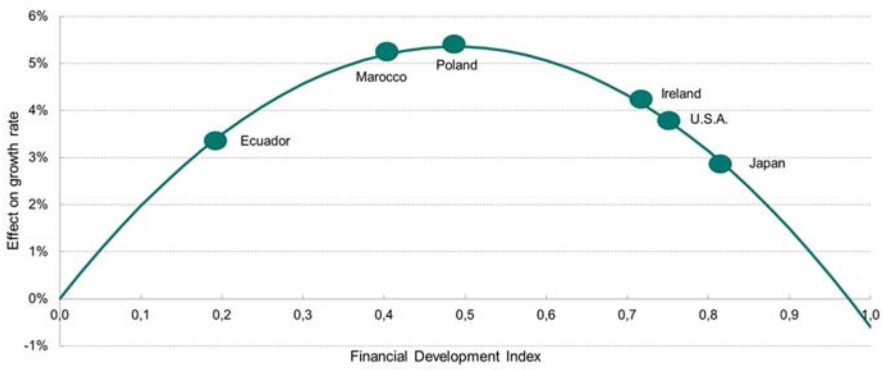
In principle, the development of the financial system increases the country's resilience and boosts economic growth. However, once a country is already highly developed, further growth of credit and financial intermediation may become counterproductive for economic growth. There is a bell-shaped relationship between financial development and growth (Figure 6.5).

Moreover, the pace of financial development matters. International experiences show that too fast a pace leads to instability. Additionally, there is a space for pursuing financial development that entails very few or no trade-offs with financial stability, in that a subset of strong regulatory and supervisory principles is found to promote both.

It is also worth remembering that as economies evolve, the relative benefits from having strong banks decline and those from having liquid and effective financial markets increase (Sahay *et al.* 2015).

In the last 25 years Poland experienced fundamental changes in the scale and scope of financial institutions and in the structure of the financial system. At the end of June 2015, the value of assets of institutions comprising the Polish financial system amounted to PLN 2,170.7 billion (ca. 556 USD billions, i.e. ca. 124 percent of GDP). Given the present level of Poland's financial system development, its further development should continue to have positive effects on economic growth. IMF experts believe that Poland reached the level of development of the financial system that indicates its most optimal size and structure with regard to the positive impact on economic growth.

Figure 6.5 Financial Development Effect on GDP Growth



Source: Sahay *et al.* 2015, p. 16.

In Poland, as in other countries of Central Europe, the banking sector has played a key role in the financial system at least since the systemic transformation. The credit activity of banks is the most important source of funding for the economy and, at the same time, largely shapes the profitability and capital adequacy of the banking sector. After the restructuring and consolidation phase, especially during the 1990s, banks started to expand and to attract new clients. As a consequence of a strong growth in lending, development of new products and distribution channels intensified.

However, after a few years the domestic deposit base growth became too slow. Banks started to import funds, mostly from or via their strategic investor institutions. Easy access to cheap foreign funding strengthened the competitive position of banks with foreign strategic investors vis a vis domestically owned banks. However, the strategies applied by different banks varied. The banks with domestic ownership and some foreign banks remained self-sufficient in the area of funding. In the longer run this proved to be the right strategic choice.

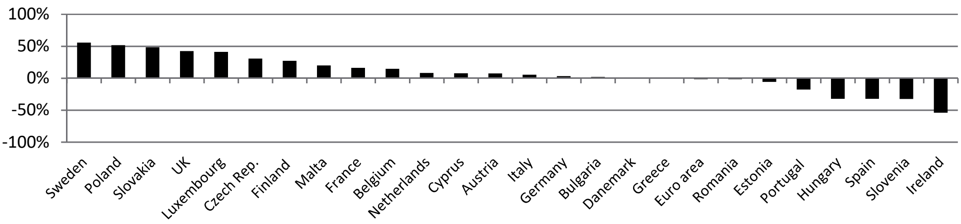
When the global financial crisis broke out in October 2008 the most important question was whether the financial system in Poland could weather the storm. The Polish banks were not directly affected by the global financial crisis, but, unfortunately, their parent banks were.

As a result of the crisis the domestic interbank market dried up. The NBP (like many other central banks) started to play an active role in financial intermediation on the interbank market. Despite a high liquidity surplus, the NBP injected even more liquidity into the banking system. However, these exceptional operations were quickly abandoned and the interbank market returned to its smooth functioning. Strategic investors in Polish banks actively assisted their subsidiaries by providing funding and offering hedging transactions. A sharp depreciation of the Zloty might have produced negative effects among the borrowers in foreign currencies, but it was to a large extent offset by the reduction of foreign interest rates (especially in the case of the Euro and the Swiss Franc). The high resilience of Polish banks can be attributed to conservative banking regulations and supervisory practices, high capital cushions and the stabilising role of parent banks. Most banks accumulated high capital buffers. This high level of capital adequacy ratio was also combined with the high quality of capital (ca. 90 percent was Tier 1 capital) and low leverage.

In recent years the growth rate of lending has been close to the nominal GDP growth rate. In this way, the banking system has supported economic growth without inducing imbalances that could jeopardise financial stability or constitute a barrier to economic growth in the longer run.

At the same time, the credit growth rate enabled banks to report relatively high earnings. Banks operating in Poland have not been forced to curb lending nor deleverage in order to improve their capital adequacy ratios, as was the case in some EU countries (Figure 6.6).

Figure 6.6 Cumulative Nominal Growth of Banking Loans, 2008-2015



Source: own calculations based on BIS data.

The transformation of the banking sector in Poland is believed to have been a success. Nevertheless, some side effects and some unpredicted consequences emerged, *inter alia*, large-scale mortgage lending in FX, financed by the capital inflows. The whole course of transformation was a process of learning by doing. As an end-result, however, Poland enjoys a mature, stable banking sector, compatible with that of the rest of the EU, and developed financial intermediation, complemented by the appropriate legal and institutional framework. Banks provide customers with excellent, state-of-the-art services to the benefit of the entire economy. The buffers in the banking sector remain very high and the system remains shock-resistant. Nevertheless, Poland has also chosen to develop a safety net with efficient instruments, safeguards and back stops to deal with potential crises.

Conclusions

The reforms launched in Poland in the early 1990s can be characterised as a "big-bang" approach. Many decisive reforms started at once and were aimed at a radical change-over of the business environment and the legal framework from a centrally planned model to a free market oriented model.

This "big-bang" approach proved effective, although the high costs of transformation were also unavoidable. The costs resulted not solely from the liberal "shock therapy" reforms but much more from the dire economic situation at the starting point of transformation. Unfit for competition, mostly state-owned and ineffective enterprises were brutally confronted with a completely different and highly demanding free market reality. The initial cost was high – the Polish GDP fell in 1990-91 by 17 percent.

When the economy started to steadily recover in 1992, high structural unemployment appeared. Sticking to the "fast track" approach, however, very soon delivered a vital, irreversible "critical mass" of reforms and yielded significant improvements of the macroeconomic situation and positive structural changes. The opening up to the internal and international competition led to a relatively rapid and radical overhaul of the economy. It was largely supported by the inflow of FDIs (foreign direct investments), which in turn, increased the productivity and export potential of the economy. Creation of a robust legal framework and institutional infrastructure of the market economy, including the stock exchange, the complex financial sector and supplementary institutions, supported the economic growth from another angle.

The "shock therapy" reforms enabled Poland to kick-start the integration process with the EU. This process, in turn, catalysed further reforms, high economic growth and apparent real convergence. The business cycles of Poland and other European countries became more correlated and Germany started to play the role of the main business and trade partner. However, a dramatic change of the economic structures, including massive bankruptcies of inefficient socialist enterprises, led to a very high level of structural unemployment, as mentioned above, which constituted the most significant long-term cost of the reforms and burdened the economy for many years.

It took nearly two decades to reduce the unemployment rate to a one-digit level, but eventually the Polish labour market conditions drastically improved and the economy created a significant number of new jobs, to a large extent located in a dynamically growing services sector. The cost of the reforms was eventually internalised, while the positive results proved to be long-lasting and yielded real convergence, stable and balanced growth, robust new economic structures and solid resistance to economic and financial shocks. GDP per capita (calculated in purchasing power parity or PPP) increased from USD 6,529 in the year 1990 to USD 26,403 at the end of 2015; the value of export increased from USD 12 billion to USD 259 billion and Poland advanced in the World Bank's Doing Business ranking to a high 25th position.

As illustrated in this chapter, the banking system has also overcome the initial difficulties, to a large extent with the help of public support and smart crisis management, as well as targeted assistance from international institutions and foreign institutional investors. After a successful rehabilitation and privatisation, banks started to facilitate long-term economic growth with stable and prudently generated credit and played a dominant role in growth of the equity and debt markets and investment funds (Balcerowicz and Bratkowski 2001).

In both countries, Myanmar and Poland, the banking sector remains the most important part of the financial system. A stable and efficient banking sector can act as a catalyst for economic growth, regardless of how unattainable and unlikely it may seem at the very onset of the transition process. It is perhaps advisable, that firstly a solid base for a free market economy and a monetary policy (price stability and de-dollarization) is established. In other words, the "multiplier" function of the banking sector is a kind of premium garnered from reforms. The costs of reforms can in turn be considered as a kind of long-term investment. Usually banks are not in a position to support neither reforms nor economic growth in the initial phase of transition, as they usually also require thorough refurbishment.

The biggest impediments take the form of a lack of know-how, imprudent risk management and price instability, implying high interest rates and contributing to an unstable economic environment. High credit growth in such circumstances may easily generate systemic risks, which can materialise as a banking and economic crisis. A lack of financial stability is usually a significant burden to economic growth. Unfortunately, Poland did not manage to avoid banking instability entirely. At the beginning of the 1990s many banks, often poorly managed and not sufficiently capitalised, got into serious difficulties once confronted with demanding free market conditions and a harsh economic environment. The overly liberal licensing policy at the beginning of the Polish reforms resulted in the establishment of too many weak and poorly managed banks. Instead of increased competition this policy resulted in a massive increase in NPLs, related turbulences and fiscal costs.

Thus, it would be overoptimistic to expect that the banking sector can support economic growth under all circumstances and in every situation. This remains especially true for the initial phase of economic reforms, when markets are immature and risks remain high. Under such circumstances the common arguments on the need for balancing between restrictiveness of supervisory policy and economic growth policy do not hold. Banks must be supervised thoroughly and strictly. It always pays to avoid a crisis.

This is why there is a strong need to focus on financial stability from the very beginning of the transition. The banking system has to be completely revamped to effectively reallocate savings and create sound credit (Balcerowicz and Bratkowski 2001). Particularly, it is usually a mistake to try to animate the economy by encouraging, or even just allowing, excessive lending. This can end-up in a trap of over-optimism which fuels economic imbalances. Large shifts in market confidence can also easily translate into a significant (and underestimated) source of systemic risks. International experiences dictate that excessive credit combined with real estate booms can be particularly treacherous. Bursting of the bubble usually results in long recession or stagnation, which offsets all gains from the boom phase.

This is why the banking sector should first be developing in line with the overall economic growth. Only stabilising the price level and rebalancing of the economy create conditions which enable banks to support economic growth (via its "multiplier" function). Poland, unlike for example Vietnam, has managed to avoid any serious crises since the transition commenced 25 years ago (Foerch and Hai 2013). Moreover, the turbulences of the early 1990s might have been avoided, but problems were finally resolved in a skilful, smooth and relatively low-cost way. The "big-bang" approach to transition, liberal in nature, proved to be effective in many dimensions of economic transformation and smoothly facilitated a changeover from a planned to a free market economy. This approach, however, proved not entirely appropriate for reforming the banking sector. One should be very attentive in shaping the banking structures and licensing and overseeing of banks' activities. Initial mistakes cannot be easily reversed and may prove very costly.

Another question concerns capital flows and the involvement of foreign investors in the banking system. It seems that barriers to capital flows should be removed carefully and gradually. What is urgent is the full liberalisation of the current account transactions, including profit transfers, which is a necessary precondition for attracting productive foreign investments.

However, how to deal with foreign ownership in banks? In the initial phase of transition risk to investors remains high and it is not easy to attract reliable investors. After the situation stabilises usually a high demand for domestic assets emerges. This includes the banking sector. In the case of Poland, the authorities soon realised that privatisation of the major banks via sales to foreign investors was unavoidable. The banking business is capital-intensive and there is usually simply no sufficient domestic capital to develop sound banks. With privatisation and the participation of foreign investors, multiple objectives could be achieved simultaneously: access to capital, modernisation, transfer of know-how, transfer of risk management skills, promotion of local model codes, introduction of key master agreements and best market practices.

In the case of Poland, the access of foreign investors to the market was, however, thoroughly controlled. The Polish supervisor authorities assessed investors very diligently; the final approvals were based on geographical diversification and conditioned on the participation of foreign banks in the restructuring of failing domestic institutions. Firstly, however, sound regulations and strong banking supervision were introduced.

There is also another strong argument in favour of the broad presence of foreign investors: foreign banks are usually less politically entangled in domestic affairs and their capacity to influence the regulators (known as regulatory capture) and supervisors (resulting in supervisory forbearance) is limited. Foreign-owned banks must, however, be thoroughly supervised in order to prevent importing bad practices, like, for example, lending in FX to domestic unhedged borrowers (as was the case with Swiss-Franc denominated mortgages in Poland). The inflow of capital through the banking system, especially into a real estate sector, must also be diligently analysed and – if needed – addressed with macroprudential measures, like the introduction of strict loan to income or debt service to income limits.

Finally, foreign banks usually help to stabilise the sector by guaranteeing the operations of their banks. In some circumstances, however, foreign banks may also transmit external shocks to the country of their operation. The best response to this risk is diversification of the investor base and, possibly a high, parallel presence of domestic banks.

The choice of exchange rate regime also matters for the stability of the financial system. In Poland, the changeover to a free floating regime was gradual and took roughly a decade. First, the fixed exchange rate was used as a nominal anchor (given the lack of any other choices). Then, the regime was switched to a crawling peg aimed at protecting the real economy and, at that time, the still fragile exporting sector from rapid appreciation of domestic currency. Then, the peg was replaced by a crawling band, which was widened in consecutive steps. This policy helped to stabilise the economy. On the other hand, however, it brought about slower than intended disinflation.

Finally, at the end of the 1990s, this regime showed serious limitations and had to be abandoned. It was not possible to escape from the trap of "impossible trilemma", as it proved impossible to control both exchange rates and interest rates given capital integration and free movement of capital (see: Aizenman 2010). The change to a floating exchange rate regime allowed for the acceleration of disinflation and de-dollarization of the economy. Thereafter, the floating exchange rate regime served the economy very well as a shock absorber. Together with improving fundamentals the floating exchange rate increased the resilience of the economy to abrupt capital flows, external shocks and currency speculations. It is also better for the economic agents to cope with exchange rate fluctuations than to live with the illusion of a guaranteed level (or range) of exchange rate, that eventually must break down. This also created a sounder environment for smooth and stable operation of the banking system.

The authorities can and should also be active in the development of liquid financial and hedging markets, which enable banks to carry proper market risk management. At the beginning of transition there are usually numerous obstacles to the development of the local market: too few domestic players with proper capital buffers, high risk aversion, scarce activity of customers hedging their FX positions, as well as high inflation and interest rates (In the case of Poland, initially, it was the central bank which successfully animated the interbank money market).

Alternative sources of financing like capital markets and venture capital funds should effectively complement bank financing and provide financing to companies that struggle to obtain bank credit, such as mainly SMEs (small and medium enterprises) and start-ups. Policymakers while ensuring the development of a stable and robust banking sector should, at the same time, create conditions conducive to the development of other segments of a local financial market. Having more diversified sources of financing allows for more accurate credit allocation and is essential for financial stability, since it mitigates the impact of the business cycle and potential problems in the banking sector on companies and their access to finance. In case of such problems resulting in a credit crunch the enterprises may still finance their activity from the alternative market sources.

It seems necessary that there are always measures at one's disposal, which can be used for early detection and the mitigation of risks posed not only by individual institutions (microprudential supervision) but also systemic risks (a macroprudential policy). Strict regulation, prudent risk management, transparency and proper corporate governance in banks are imperative but not sufficient. A systemic oversight and decisive, welltimed actions of the authorities once a systemic risk is assessed as excessively high are crucial to maintaining financial stability. The costs of a financial or banking crisis are too high; it is much more cost-optimal to prevent the crisis from happening than to manage and resolve it. Robust regulation, especially concerning provisioning, open FX positions, etc. should be established as soon as possible.

Naturally, the question is how to achieve all this. The answer is that both micro- and macroprudential supervision must keep pace with the developments in the banking industry; it must have an enforceable legal basis for the collection of information and inspections and has to be equipped with sufficient resources and well remunerated staff. The supervisors must be independent of the political cycle and the influence of the supervised institutions. The activity of the banking industry may by its very nature generate systemic risks and warrant constant vigilance. This is why once a solid institutional background for the micro and macroprudential supervision is established (optimally as a part of the central bank's structure), the learning process should accelerate. The most economical way to avoid costly mistakes is to draw lessons from the experiences and mistakes of others.

The international community of central bankers and supervisors offers many platforms of technical cooperation and knowledge sharing. This is exactly what the Polish authorities used extensively at the beginning of transformation. They learnt that a dedicated team of experienced, thoroughly selected international experts can achieve more than the best academic training can offer. In order to put this into practice, however, a proper absorption capacity should be achieved. To create an efficient team of domestic experts, adequate human resources must be allocated by the domestic central bank.

References

Aizenman, J. (2010). The Impossible Trinity (aka The Policy Trilemma). *Encyclopedia of Financial Globalization*, http://web.pdx.edu/~ito/Tril_Aizenman_Dic.pdf

Balcerowicz, E., Bratkowski, A. (2001). *Restructuring and Development of the Banking Sector in Poland. Lessons to be Learnt by Less Advanced Transition Countries*. Warsaw: CASE.

Balcerowicz E. (1997). *Privatization and Restructuring of State-owned Banks in Poland*. Paper for the Conference: The Restructuring and Privatization of Banks, Bad Loans Portfolios, and their Impact on Enterprise Restructuring in Early Transition, Tirana, 12-13 December.

Bayer, J. (2013). *Poland's Political Transformation after 1989*. In: Bolesta, A. (ed.) *From Central Planning to Market: Poland's Transformation in a Comparative Perspective and the Lessons for Myanmar*. Bangkok: Chulalongkorn University.

BIS data, http://www.bis.org/statistics/totcredit.htm.

Bolesta, A. (2013). *Post Socialist Economic Transformation: Initial Conditions, Various Paths and Developmental Differences*. In: Bolesta, A. (ed.) *From Central Planning to Market: Poland's Transformation in a Comparative Perspective and the Lessons for Myanmar*. Bangkok: Chulalongkorn University.

Borowiec, M. (1996). *Changes in Ownership Structure of the Banking Sector and Participation of Banks in Privatization of Enterprises in Poland in Years 1990-1995*. Paper for the Conference on Ownership, Transformation, and Restructuring Processes in Central and Eastern Europe, Warsaw: CASE, 11-12 April.

Brzoza-Brzezina, M., Kolasa, M., Makarski, K. (2016). Crisis, contagion and international policy spillovers under foreign ownership of banks. *NBP Working Paper*, 231.

Credit Unions in Poland: Diagnostic and Proposals on Regulation and Supervision (2010). Document of the World Bank. December.

Dąbrowski M. (2001). *Disinflation Strategies in Transition Economies and Their Effectiveness.* Warsaw: CASE.

Exchange Rates and Rediscount Rate, https://www.nbp.pl.

Fed Funds Rates, https://apps.newyorkfed.org/markets/autorates/fed%20funds.

Foerch, T., Hai, N.T. (2013). *Reforming the Banking Sector: What Can Myanmar Learn from Vietnam?* In: Bolesta, A. (ed.) *From Central Planning to Market: Poland's Transformation in a Comparative Perspective and the Lessons for Myanmar*. Bangkok: Chulalongkorn University.

Kawalec, S., Kluza, K. (2013). *Two Models of Systemic Bank Restructuring: Interdependence with Privatization Strategy*. Paper for the World Bank Conference: Transforming Public Sector Banks, Washington: April 9-10.

Kokoszczyński, R. (2013). *Transformation of the Banking Sector in Poland: From a State-Owned and Government-Controlled Monobank to a Two-Tier Banking System in a Market Economy*.

In: Bolesta, A. (ed.) *From Central Planning to Market: Poland's Transformation in a Comparative Perspective and the Lessons for Myanmar*. Bangkok: Chulalongkorn University.

Kozak, S. (2013). *Consolidation of the banking sector in Poland in 1989-2013 in comparison with the structural changes of the banking sector in the USA and the EU*, NBP Working Paper 166.

Lachowski, S. (1996). *Remarks on Privatization of Polish Banks*. In: *How to Complete Privatization of Banks in Poland*. Warsaw: CASE.

Lachowski, S. (1995). *Restructuring of a bad debt portfolio in a commercial bank in the midst of an economic transition period*. Study prepared as part of the research project: The Process of Enterprises" Exit in the Transition to the Market Economy. Łódź: February.

Mondschean, T.S., Opiela, T.P. (1997). Banking reform in a transition economy: The case of Poland. *Economic Perspectives*, 21 (2), pp. 16-32.

NBP (2001). *The Polish banking system in the nineties*. Warsaw: NBP, December.

NBP (2015). *Financial Stability Report*. Warsaw: NBP, June.

Pawlikowski, A., Serwa, D. (2007). The Costs of Banking Sector Restructuring in Poland. *Bank i Kredyt*. Warszawa: NBP.

Przystupa, J., Wróbel, E. (2009). Asymmetry of the exchange rate pass-through: an exercise on the Polish data. *MPRA Paper* 17660, Munich: University Library of Munich.

Ryan-Collins J., Greenham T., Werner R., Jackson, A. (2015). *Where does money come from?*, London: New Economics Foundation.

Sahay, R. *et al.* (2015). Rethinking Financial Deepening: Stability and Growth in Emerging Markets. *IMF Staff Discussion Note*, 15 (08). Washington: IMF.

Szpunar, P.J. (2014). *Macroprudential Policy: Rationale and Challenges*. In: Monkiewicz, J., Małecki, M. (eds.), *Macroprudential Supervision in Insurance*. London: Palgrave Macmillan, pp. 103-135.

UKNF reports, https://www.knf.gov.pl/opracowania/sektor_bakowy/raporty_i_opracowania/publikacje_sektora_bankowego/

World Bank (2010). Credit Unions in Poland: Diagnostic and Proposals on Regulation and Supervision. Washington, https://openknowledge.worldbank.org/handle/10986/12997.

Conclusions

Europe's Experiences, Asia's Challenges

Every country is different; and this also applies to the states in post-communist systemic transformation, despite the relatively common perception that the communist bloc existed as a systemic and institutional monolith. This means that each state needs to follow a different, tailor-made development and transformational trajectory. There is no one-size-fits-all model, and no universal remedy for the maladies of socialism, contrary to the opinions of some who tried to convince the world otherwise at the beginning of post-socialist transformation in the late 1980s and the early 1990s.

However, undoubtedly European experiences of countries in systemic transition may be useful in some sectoral dimensions for others. To a great extent, post-communist Europe is a transformation and development success story, in particular when one refers to Central-Eastern European member states of the European Union. The path of transformation and development was not, however, an easy one.

On the contrary, after years of maintaining a centrally-planned, state-command authoritarian model, the socialist states needed an extensive systemic and institutional overhaul, and this required multi-layered state policies to be implemented in a relatively short period of time. With no obvious guidebook to follow, some mistakes were made. The late-comers of the post-socialist systemic transformation can now study these successes and failures; they can learn from the mistakes that were made and try to utilise those solutions which were successful. It is always less costly to examine how others fared and draw your own conclusions, rather than to ignore the experiences of others. This book's aim has been to modestly contribute to the efforts of minimizing costs during transformation, as it has provided some subtle sectoral institutional and policy recommendations for post-socialist Southeast Asia, in particular, Myanmar.

The analysis of the post-socialist developmental state model shows that one cannot easily discard old development models, which are believed to be obsolete due to a significant change in the international conditionality. In particular, this should not be the case if this model advocates the role of a state as the facilitator of transformation, development and economic engagement with the outside world. Following the provisions of the post-socialist developmental state model, the state needs to remain at the centre of the reform process, despite international pressure, and its withdrawal from the national economy should be less extensive than initially thought.

It is the state which needs to devise and implement the overall development policy, based on a long-term strategy, which includes a carefully designed industrial policy. It should use the country's natural advantages based on historical experiences, as well as geo-economic location and the changes in the global economy. External and internal economic liberalisation, as well as market institutionalisation, are of paramount importance, but need to be gradual, implemented with caution and they ought to serve the development goal of a country, rather than a certain ideology.

As far as political transformation is concerned, the policy recommendations for Myanmar based on the Polish transformational experiences are quite simple, given the fact that the current Myanmar government consciously (or not) has followed the local equivalent of the Polish "thick line" policy in systemic transformation. Aung San Suu Kyi's government came to existence thanks to an unwritten political deal brokered by the elites behind closed doors that resembled the Round Table negotiations in Poland in 1989. The NLD's policy makers seem to understand that they must be on good terms with the military, as any attempt of political reckoning could sabotage reforms, inflict repressions and overthrow the government.

This is why despite being ethically ambivalent (as it leaves the military unaccountable for past misdeeds), Myanmar's "thick line" style transition is the only realistic policy option on the ground. Therefore, Myanmar should continue to follow it, as this is the requirement for political stability. In doing so, Myanmar may wish to replicate the example of Poland, in which for 26 years (1989-2015), successive governments implemented the "thick line" policy and the achieved political stability enabled the country to undergo successful transformation. In the unlikely event that circumstances allow Myanmar to change this policy (as was the case in Poland after 2015), and that there would be political room which would allow the former military establishment to be held accountable for their actions, then, and only then, would Myanmar be able to alter this policy. However, this hypothetical scenario is at best decades away.

For the coming years, if not decades, the local equivalent of a "thick line" policy should be the unquestioned agenda of Myanmar policy makers. Happily, for Myanmar, Aung San Suu Kyi is well aware of that. This is good news for Myanmar, which may repeat the extraordinary success of Poland's transformation.

The transformation of the three former Yugoslav republics, Slovenia, Croatia and Serbia towards peace, stability, and security with functional statehood, democratic governance, and a market economy, can also shed some light on the effective transformation and development of socialist states. These countries learnt the hard way to a large degree, how to overcome precedent ethnic, religious, or communal differences in the process of nation-building and state-building. Upon commencing transformation, some of these countries descended into longstanding ethnic conflicts and even civil wars. In Southeast Asia, many states have faced similar problems.

For example, Myanmar's territory is inhabited by various ethnic groups, among them Bamar, Shan, Karen, Kachin, Chin, Mon and Rakhine. Myanmar as well as other Southeast Asian states with ethnic minorities may learn from the mistakes of Yugoslavia and from their subsequent adoption of successful ethnic-focused policies. The three former Yugoslav states have given some autonomy and assured protection of rights for their minorities. In Slovenia, for example, the national minorities – the Hungarians and the Italians, are protected under the Constitution and each has a representative in the National Assembly. Bilingualism is guaranteed in ethnically-mixed areas. These policies have been successful in maintaining national unity and security. Consequently, Slovenia, as well as Croatia and Serbia, are interesting models that both post-socialist and non-socialist states in Southeast Asia should consider.

What eventually facilitated the process of securing the rights of minorities was the introduction of a liberal democracy, a lesson, particularly important for authoritarian post-socialist Southeast Asian states. As far as economic development is concerned, perhaps thanks to the legacy of Tito's third ways socialism and economic self-management, the economies of Slovenia and Croatia were liberalised cautiously and gradually over a long period of time, whereas Serbia, initially a late-comer due to political circumstances, finally employed more extensive liberalisation policies. Both patterns worked.

If we look closer at the transition from central-planning to a market economy, we see that among the Central-Eastern European countries the internalisation of the external driving forces of economic growth needed to be implemented in a comprehensive manner in order to succeed with systemic transformation. The same applies to the post-socialist Southeast Asian states. In addition to the openness toward capital inflows, a business-friendly environment (legal certainty, simple, accessible and stable regulations, simple visa requirements for foreign workers, monetary stability, low tariffs and low non-tariff barriers, export promoting measures ranging from free trade zones to free trade agreements) can create incentives for foreign companies to shift parts and component production from other countries. Economic growth will in the long-term depend, to a considerable degree, on political stability. A major economic driving force is the inflow of foreign direct investment (FDI). Foreign investors are, however, highly averse to political risks. Thus, in the case of CLMV (Cambodia, Laos, Myanmar, Vietnam), a stable institutional environment (law and social norms, regulation enforcement), FDI incentives and related policies, investment in education and human capital, as well as political stability and confidence, can significantly enhance foreign direct investments.

In addition, equal treatment of all foreign investors should be secured and transparency and political support must be strengthened. To maintain a high long-term dynamics of growth, international trade expansion and development and foreign direct investments are essential. To continue the catching-up process, CLMV have to maintain strong export growth and continue to attract foreign direct investments. In the case of the Visegrad group the opening-up of the countries in transition and their trade integration with the European Union brought about large increases in trade and the substantive trade creation went hand in hand with vast increases in FDI flows.

Regional cooperation – among CLMV countries, within the ASEAN, as well as between Northeast and Southeast Asia – must be further strengthened as it could contribute to the reduction of transaction costs and easier movement of goods, services, information and people, both within and outside the region. Investment in infrastructure is another crucial point as it could strongly enhance the region's attractiveness for foreign direct investments. China's "One Belt, One Road" initiative (BRI), Korea's Eurasia initiative or the Asian Infrastructure Investment Bank's activities can further boost regional integration and connectivity in this regard.

If we look closer at regional and sub-regional economic cooperation, the case of Germany-V4 collaboration brings about some interesting lessons for post-socialist Southeast Asian countries, including Myanmar. Some post-socialist Southeast Asian economies need perhaps an "anchor country" with the following properties: a) rich in capital, b) a large number of affluent consumers, c) similarity in the organisation of public life, d) geographical proximity, e) cultural and historical affinity, f) intensive cross border trading, g) intermodal and interconnected transportation routes. The anchor country would facilitate the process of modernisation of national economies, as seen by the role of Germany in the Visegrad group. Based on these experiences, CLMV should seek to deepen the integration and extend it to a sub-regional manufacturing hub by strengthening economic ties with countries such as Thailand (CLMV+1), and should develop a strategy on how to benefit from various cooperation initiatives, such as China's Belt and Road Initiative, without, however, being exposed to possible negative effects (for example, by losing control over natural resources or significantly increasing public debt). The integration process may be enhanced by the reforms of the labour market. The comparative advantage of the low labour costs of CLMV may become less relevant as the locational determinant of export-oriented FDI, if the skilled labour force is missing, or if labour is not available in the targeted area. Consequently, the quality of labour has to be gradually strengthened.

The V4, whose members share similar social and economic models, were bound together by converging interests in many areas. Those interests were addressed later at the EU level by formulating, coordinating and pursuing common policies. For example, possessing significant voting power in the EU Council is a very important factor allowing the V4 to effectively impact the EU's decision-making process. Although there are differences among them, common values and some converging interests can help bind the CLMV countries together. As a subgroup they could effectively maximise their influence and exert a constructive impact on the processes within ASEAN and the ASEAN Economic Community. Therefore at least a loose institutional structure would be necessary for them to formulate common objectives, make joint efforts and – as a result – achieve common goals.

As far as particular lessons from the financial sector reforms and policies are concerned, based on Polish experiences, the following policy recommendations for post-socialist Southeast Asia can be suggested. In general, the authorities should seek to build trust in the domestic currency and financial system via a "critical mass" of reforms aimed at ensuring macroeconomic stability, bringing down inflation and maintaining financial stability.

Lowering and stabilising inflation is perhaps the most central target. In the case of Myanmar, while a part of this may be attributed to periodic floods and cyclones which affect crops and ultimately food prices (which constitute a major share of the CPI index), inflation appears to be also driven to a considerable extent by monetary financing of the budget deficit. This was also the case of Laos. Faced with a "soft budget constraint", the government can be expected to overspend and neglect any serious efforts aimed at mobilising domestic revenues and increasing expenditure efficiency. While Myanmar's government is proceeding with efforts to gradually increase caps to the central bank's financing of the budget deficit, a more decisive stance may be needed. Poland found it quite effective to include formal prohibition of monetary financing in the Constitution and it is a step worth considering in Myanmar's case as well. A final step in the direction of delivering price stability in the medium term is the formal introduction of inflation targeting strategy.

The Polish experiences suggest that a commitment to price stability brings transparency and focus to monetary policy which facilitates the anchoring of inflation expectations and gradual build-up of credibility of monetary institutions. Ensuring low and stable inflation would not only be instrumental in stabilising an economy, but it would also boost competitiveness, reduce external vulnerability and increase trust in domestic currency.

In parallel with price stability, the government needs to ensure financial stability. This will help foster stable macroeconomic outcomes both directly – by not allowing the financial system to be a source of shocks – and indirectly, by enhancing the stability in response to exogenous shocks. In post-socialist Southeast Asia, efforts are needed to increase the financial sector's transparency through regular bank examinations and publication of credible banks' financial soundness indicators, in line with the government's official reform agenda. The banking sector competitiveness should also be improved by gradually curtailing the special status of state-owned banks and proceeding with balance sheet restructuring where needed.

Contributors' Note

Andrzej Bolesta, Ph.D. set up and directed the Centre for Asian Economies at Collegium Civitas, Warsaw, Poland in 2016. Between 2007 and 2016 he worked in economic diplomacy in Asia, whereas between 2001 and 2006 he was a university lecturer specialising in Asian development and transformation. He has a Ph.D. from the London School of Economics and a master's degree from the University of Oxford. He is the author of the concept of Post-Socialist Developmental State, which he examined in his broadly acclaimed book *China and Post-Socialist Development*, published by Policy Press, UK.

Professor Günter S. Heiduk studied Economics at Universities in Erlangen-Nuernberg and Cologne, Germany, where he got his Diploma in 1968. Having earned his Ph.D. and habilitation at RWTH Aachen University he was appointed assistant professor. In 1981 he accepted an appointment as professor of international economics at Duisburg-Essen University (former Duisburg University) from which he retired in 2007. During his tenure he served as dean of the Faculty of Business and Economics as well as vice-president for International Academic Affairs. In 1983 he co-founded the East Asian Studies Programme. He was a visiting professor/researcher at Fudan University, Kyoto University, Tokyo Keizai University and Wuhan University. He also worked as an expert in several EU-China projects of the European Commission. Since December 2007 he has been professor at the World Economy Research Institute/East Asian Research Unit at the Warsaw School of Economics, Poland. He has published 25 books and more than 50 articles.

Natthanan Kunnamas, Ph.D. is Jean Monnet Chair, director for Interdisciplinary Department for European Studies and an assistant professor in International Relations, Faculty of Political Science, Chulalongkorn University. She is also an editor of the Journal of European Studies of the Centre for European Studies, Chulalongkorn University. She obtained her PhD from the University of Leeds.

Michał Lubina, Ph.D. is a political scientist and a prominent Burma/Myanmar scholar. He is assistant professor at the Institute of Middle and Far East, Jagiellonian University, Kraków, Poland. His research includes pioneering works on Burma/Myanmar in the Polish language and a biography of Aung San Suu Kyi, as well as a book on Sino-Russian relations.

Ágnes Orosz, Ph.D. is a research fellow at the Institute of World Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences and assistant professor at the Faculty of International and European Studies of the National University of Public Service, Budapest, Hungary. Her research focuses on the role of state in the economy (the social policy) mainly in the case of post-socialist countries. She has extensive experience in lecturing and has participated in a number of international conferences in Asia and Europe.

Piotr J. Szpunar, Ph.D. is director of Economic Analysis Department at the National Bank of Poland. He graduated with a degree in Philosophy at the Academy of Catholic Theology in Warsaw, Poland and continued his education at Otto-Friedrich University in Bamberg, Germany and the National School of Public Administration in Warsaw. He obtained his Ph.D. in Economics from the Warsaw School of Economics in 1999. For over twenty two years he has held several positions in the National Bank of Poland concerned with monetary operations and policy (i.a. as deputy director of Macroeconomic Analyses Department), as well as with financial stability (as director of the Financial System Department and advisor to the chairman of the National Bank of Poland). He has also served as an IMF external expert and actively supported works of the European Systemic Risk Board (ESRB), the macroprudential authority of the European Union. He chaired an international working group on FX lending under the auspices of the ESRB, which prepared the first set of its recommendations in 2011. He lectures on economics and is an author of publications on financial stability, exchange rate and monetary policy.

Ágnes Szunomár, Ph.D. is a research fellow at the Institute of World Economics (which she joined in 2007), Centre for Economic and Regional Studies of the Hungarian Academy of Sciences, where she heads the Research Group on Development Economics. Between 2004 and 2010 she worked for the Secretariat of the Government Commissioner for the Development of Hungarian-Chinese Economic Relations. In 2012 she was an expert evaluator of FP7 research proposals at the European Commission. Her research focuses on China's foreign economic relations including with Central-Eastern Europe. She has also conducted research on emerging markets as well as on foreign direct investments and related policies in CEE countries, with special attention paid to Hungary.

Collegium Civitas is the Publisher or Co-publisher of the below mentioned publications:

The European Value System, (ed.) Jadwiga Koralewicz, Warsaw 1999: Collegium Civitas Press/ Instytut Studiów Politycznych PAN

Marek Ziółkowski, Jadwiga Koralewicz, *Mentalność Polaków. Sposoby myślenia o polityce, gospodarce i życiu społecznym 1988-2000*, Warszawa 2003: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

Edmund Wnuk-Lipiński, *Granice wolności, pamiętnik polskiej transformacji*, Warszawa 2003: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

Leszek Chajewski, *Monitoring of Polish Visa Policy*, Policy paper, Warsaw 2004: Stefan Batory Foundation/Economic Sociology Department Collegium Civitas

Cywilizacja europejska. Wykłady i eseje, (red.) Maciej Koźmiński, Warszawa 2004: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

Cywilizacja europejska. Wykłady i eseje, wydanie II rozszerzone, (red.) Maciej Koźmiński, Warszawa 2005: Instytut Historii PAN/ Collegium Civitas

Dziennikarstwo, media, społeczeństwo, (red. naukowa) Stanisław Mocek, Warszawa 2005: Instytut Studiów Politycznych PAN/ Collegium Civitas Press

Tomasz Płudowski, *American Politics, Media and Elections. International Perspectives on US Presidency, Foreign Policy and Political Communication*, Toruń/Warszawa 2005: Wydawnictwo Adam Marszałek/ Collegium Civitas Press

Spojrzenia. Pałac Kultury i Nauki w socjologicznym kalejdoskopie, (red.) Anna Wyka, Katarzyna Iwińska, Warszawa 2005: Collegium Civitas Press

New Europe. The Impact of the First Decade. Vol. 1: Trends and Prospects, (eds.) Teresa Rakowska-Harmstone, Piotr Dutkiewicz, Warsaw 2006: Institute of Political Studies Polish Academy of Sciences/ Collegium Civitas Press

Eugeniusz Cezary Król, *Polska i Polacy w propagandzie narodowego socjalizmu w Niemczech 1919-1945*, Warszawa 2006: Oficyna Wydawnicza „Rytm"/ Collegium Civitas Press/ ISP PAN

Stanisław Mocek, *Dziennikarze po komunizmie. Elita mediów w świetle badań społecznych*, Warszawa 2006: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

JP II. Pokolenie czy mozaika wartości?, (red.) Paweł Ruszkowski, Jacek Bieliński, Agnieszka Figiel, Poznań/Warszawa 2006: Zysk i S-ka/ Collegium Civitas Press

Terroryzm. AnaVol.ia zjawiska, (red. naukowa) Krzysztof Liedel, Warszawa 2006: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

New Europe. The Impact of the First Decade. Vol. 2: Variations on the Pattern, (eds.) Teresa Rakowska-Harmstone, Piotr Dutkiewicz, Warsaw 2006: Institute of Political Studies Polish Academy of Sciences/ Collegium Civitas Press

Terrorism, Media, Society, (ed.) Tomasz Płudowski, Toruń 2006: Wydawnictwo Adam Marszałek/ Collegium Civitas

Jacek Adamski, *Nowe technologie w służbie terrorystów*, Warszawa 2007: Wydawnictwo „Trio"/ Collegium Civitas

Waldemar J. Dziak, Jerzy Bayer, *Mao. Zwycięstwa, nadzieje, klęski*, Warszawa 2007: Instytut Studiów Politycznych PAN/Wydawnictwo „Trio"/ Collegium Civitas

Barbara Stępniewska-Holzer, Jerzy Holzer, *Współczesna historia Egiptu*, Warszawa 2007: Dialog/ Collegium Civitas Press

Jacek Czaputowicz, *Teorie stosunków międzynarodowych. Krytyka i systematyzacja*, Warszawa 2007: PWN/ Collegium Civitas

O życiu publicznym, kulturze i innych sprawach, (red. naukowa) Bogdan W. Mach, Edmund Wnuk-Lipiński, Warszawa 2007: Collegium Civitas Press/ Instytut Studiów Politycznych PAN

Krzysztof Liedel, Paulina Piasecka, *Jak przetrwać w dobie zagrożeń terrorystycznych. Elementy edukacji antyterrorystycznej*, Warszawa 2008: Wydawnictwo „Trio"/ Collegium Civitas Press

Anna Czekanowska, *Kultury tradycyjne wobec współczesności. Taniec, poezja, muzyka*, Warszawa 2008: Wydawnictwo „Trio"/ Collegium Civitas Press

Jakub Ferenc, *Sport w służbie polityki*, Warszawa 2008: Wydawnictwo „Trio"/Collegium Civitas Press

Kuba Jałoszyński, *Współczesny wymiar antyterroryzmu*, Warszawa 2008: Wydawnictwo „Trio"/ Collegium Civitas Press

Tomasz Płudowski, *Komunikacja polityczna w amerykańskich kampaniach wyborczych*, Warszawa 2008: Wydawnictwo Naukowe PWN/ Collegium Civitas Press

Bohdan Szklarski, *Mity, symbole i rytuały we współczesnej polityce*, Warszawa 2008: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

Ameryka: społeczeństwo, kultura, polityka. Tom 1: Społeczeństwo, Vol. 2: Kultura, Vol. 3: Polityka i stosunki międzynarodowe, (red.) Tomasz Płudowski, Toruń–Warszawa 2008: Wydawnictwo Adam Marszałek/ Collegium Civitas Press

Jadwiga Koralewicz, *Autorytaryzm, lęk, konformizm*, wyd. 2 zmienione, Warszawa 2008: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

Gra w przywództwo. Jak zdobyć i utrzymać władzę?, (red.) Bohdan Szklarski, Warszawa 2008: Centrum Kreowania Liderów/ Collegium Civitas Press

Lider, manager, oportunista – współczesne koncepcje przywództwa, (red.) Krzysztof Kasianiuk, Warszawa 2008: Centrum Kreowania Liderów/ Collegium Civitas Press

John Horgan, *Psychologia terroryzmu*, Warszawa 2008: Wydawnictwo Naukowe PWN/ Collegium Civitas Press

Aleksander Manterys, *Sytuacje społeczne*, Warszawa 2009: Zakład Wydawniczy NOMOS/ Collegium Civitas Press

Islandia. Wprowadzenie do wiedzy o społeczeństwie i kulturze, (red.) Roman Chymkowski, Włodzimierz Karol Pessel, Warszawa 2009: Wydawnictwo „Trio"/ Collegium Civitas Press

Paweł Dobrowolski, *Szkotka w Paryżu. Pamiętnik Grace Elliott*, Warszawa 2009: Instytut Historii PAN/ Collegium Civitas Press

Pamięć zbiorowa jako czynnik integracji i źródło konfliktów, (red.) Andrzej Szpociński, Warszawa 2009: ISP PAN/ Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

Budowanie partnerstw lokalnych. Projekt Razem dla Regionu, (red.) Katarzyna Iwińska, Warszawa 2009: Collegium Civitas Press

Rok 1956 w Polsce i jego rezonans w Europie, (red.) Joanna Szymoniczek, Eugeniusz Cezary Król, Warszawa 2009: ISP PAN/ Fundacja Współpracy Polsko-Niemieckiej/ Collegium Civitas Press

Włodzimierz Karol Pessel, *Antropologia nieczystości. Studia z historii kultury sanitarnej Warszawy*, Warszawa 2009: Wydawnictwo „Trio"/ Collegium Civitas Press

Francja ta sama czy inna? Jean-Yves Potel w rozmowie z Markiem Rapackim i Marcinem Frybesem, Warszawa 2009: Wydawnictwo „Trio"/ Collegium Civitas Press

Pokolenie JPII: dylematy światopoglądowe młodzieży, (red.) Paweł Ruszkowski, Warszawa 2009: Wyd. Zysk i S-ka/ Collegium Civitas Press

Stosunki transatlantyckie z perspektywy polskiej polityki zagranicznej, (red.) Agnieszka Orzelska, Warszawa 2009: ISP PAN / Collegium Civitas Press

Adam Burakowski, Aleksander Gubrynowicz, Paweł Ukielski, *1989 – Jesień Narodów*, Warszawa 2009: Wydawnictwo „Trio"/ Collegium Civitas Press

Paulina Codogni, *Okrągły stół, czyli polski Rubikon*, Warszawa 2009: Prószyński i S-ka/ Collegium Civitas

Waldemar J. Dziak, *Korea Północna. U źródeł rodzinnej sukcesji władzy*, Warszawa 2009: ISP PAN/ Collegium Civitas Press

Świat i Polska wobec globalnych wyzwań. Wybrane problemy, (red. naukowa) Ryszard Żelichowski, Biblioteka Prac Doktorantów No. 1, Warszawa 2009: ISP PAN/ Collegium Civitas

Koncepcje polityki, (red.) Włodzimierz Wesołowski, Warszawa 2009: Wydawnictwo Naukowe „Scholar"/ Collegium Civitas

Nowe krytyki Kościoła, (red.) Cezary Kościelniak, Kraków 2010: AUREUS/Collegium Civitas Press

Maria Dunin-Wąsowicz, *Suwerenność i pieniądz w Europie 1870-2002*, Warszawa 2010: Wydawnictwa Uniwersytetu Warszawskiego/ Collegium Civitas

Cywilizacja europejska. Szkice i eseje z dziejów cywilizacji i dyplomacji, (red.) Maciej Koźmiński, Warszawa 2010: Instytut Historii PAN/ Collegium Civitas Press

Konsultacje społeczne wokół inwestycji infrastrukturalnych, (red. naukowa) Katarzyna Iwińska, Warszawa 2010: Collegium Civitas/ Klub Myśli Społecznej Inicjatywy

Katarzyna Pachniak, *Nauka i kultura muzułmańska i jej wpływ na średniowieczną Europę*, Warszawa 2010: Wydawnictwo „Trio"/ Collegium Civitas Press

Piotr Mańkowski, *Cyfrowe marzenia. Historia gier komputerowych i wideo*, Warszawa 2010: Wydawnictwo „Trio"/ Collegium Civitas Press

Małgorzata Budyta-Budzyńska, *Socjologia narodu i konfliktów etnicznych*, Warszawa 2010: Wydawnictwo Naukowe PWN/ Collegium Civitas Press

Piotr Łossowski, *Ultimatum polskie do Litwy 17 marca 1938. Studium z dziejów dyplomacji*, Warszawa 2010: Instytut Dyplomacji Collegium Civitas/ Wydawnictwo „Trio"

Wojciech Krzysztof Szalkiewicz, Wiesław Gałązka, *Żądza rządzenia. O władzy, polityce i politykach*, Warszawa 2010: Collegium Civitas/ Wydawnictwo „Trio"

Waldemar J. Dziak, *Pjongjang rok 1956*, Warszawa 2010: Instytut Studiów Politycznych PAN/ Collegium Civitas Press

Profesjonalny menedżer w NGO, (red.) Katarzyna Iwińska, Warszawa 2010: Collegium Civitas Press/ Klub Myśli Społecznej Inicjatywy

Andrzej Wierzbicki, *Spory o polską duszę. Z zagadnień charakterologii narodowej w historiografii polskiej XIX i XX wieku*, Warszawa 2010: Muzeum Historii Polski/ Collegium Civitas/ Wydawnictwo „Trio"

Krzysztof Liedel, *Zarządzanie informacją w walce z terroryzmem*, Warszawa 2010: Wydawnictwo „Trio"/ Collegium Civitas

Das Jahr 1956 in Polen und seine Resonanz in Europa, (red.) Eugeniusz Cezary Król, Joanna Szymoniczek, Warszawa 2010: ISP PAN/ Collegium Civitas/ Stiftung für Deutsch-Polnische Zusammenarbeit

Terroryzm w medialnym obrazie świata. Terroryści, dziennikarze, administracja w epoce walki informacyjnej, (red.) Krzysztof Liedel, Stanisław Mocek, Warszawa 2010: ISP PAN/ Wydawnictwo „Trio"/ Collegium Civitas

Zagadnienia fizycznej walki z zagrożeniami terrorystycznymi, (red.) Kuba Jałoszyński, Warszawa 2010: Wydawnictwo „Trio"/ Collegium Civitas

Marcin Gawrycki, Natalia Bloch, *Kuba,* Warszawa 2010: Wydawnictwo „Trio"/ Collegium Civitas

„Po co pamiętać razem?" Praktyki pamięci a kultura obywatelska kobiet w gminie Stare Juchy i powiecie ełckim, (red. nauk.) Barbara Markowska, Warszawa 2010: Collegium Civitas

Grażyna Szelągowska, *Dania*, Warszawa 2011: Wydawnictwo „Trio"/ Collegium Civitas

Józef Łapos, *Belgia*, Warszawa 2011: Wydawnictwo „Trio"/ Collegium Civitas

Dariusz Kołodziejek, *Turcja*, Warszawa 2011: Wydawnictwo „Trio"/ Collegium Civitas

Afryka w Warszawie. Dzieje afrykańskiej diaspory nad Wisłą, (red. naukowa) Barbara Stępniewska-Holzer, Warszawa 2011: Fundacja Afryka Inaczej/ Urząd m.st. Warszawy/ Collegium Civitas

Michał Fiszer, *Lotnictwo w osiąganiu celów strategicznych operacji militarnych*, Warszawa 2011: Collegium Civitas/ Wydawnictwo „Trio"

Ideologie – państwa – społeczeństwa, (red.) Ryszard Żelichowski, Biblioteka Prac Doktorantów No. 2, Warszawa 2011: ISP PAN/ Collegium Civitas

Leszek Jesień, *Prezydencja Unii Europejskiej*, Warszawa 2011: PISM/ Collegium Civitas

Profesjonalny menedżer w NGO, cz. 2, (red.) Katarzyna Iwińska, Anna Radiukiewicz, Warszawa 2011: Klub Myśli Społecznej „Inicjatywy"/ Collegium Civitas

Lech Królikowski, *Warszawa – dzieje fortyfikacji*, Warszawa 2011: Collegium Civitas/ Wydawnictwo „Trio"

Czas totalitaryzmu. Stalinizm, faszyzm, nazizm i pokrewne systemy polityczne w XX wieku, (red.) Joanna Szymoniczek, Eugeniusz Cezary Król, Warszawa 2011: Collegium Civitas/ ISP PAN

Zamach w Norwegii – nowy wymiar zagrożenia terroryzmem w Europie, (red.) Krzysztof Liedel, Paulina Piasecka, Tomasz R. Aleksandrowicz, Warszawa 2011: Wydawnictwo „Difin"/ Collegium Civitas

Waldemar J. Dziak, Grażyna Strnad, *Republika Korei. Zarys ewolucji systemu politycznego*, Warszawa 2011: ISP PAN/ Collegium Civitas

Quo vadis America?, (ed.) Bohdan Szklarski, Frankfurt am Main, Warszawa 2011: Peter Lang/ ASC UW/ Collegium Civitas

Kamil Zubelewicz, *Finanse publiczne*, Warszawa 2011: Collegium Civitas Press/Instytut Jagielloński

Aleksandra Niżyńska, *Streetart jako alternatywna forma debaty publicznej w przestrzeni miejskiej*, Warszawa 2011: Collegium Civitas/ Wydawnictwo „Trio"

Andrzej Wielowiejski, *Na rozdrożach dziejów. Historie prawdziwe i alternatywne*, Warszawa 2012: Collegium Civitas/ Europejskie Centrum Solidarności/ Wydawnictwo „Trio"

Dominik Smyrgała, *Oś naftowa. Latynoamerykańskie imperium Hugo Chaveza*, Warszawa 2012: Wydawnictwo „Difin"/ Collegium Civitas

Katarzyna Lidia Kuklińska, *Polskie singelki. Płeć kulturowa. Feminizm. Ponowoczesność. Internet*, Warszawa 2012: Wydawnictwo „Difin"/ Collegium Civitas

Katarzyna Joanna Kozłowska, *Psychologia w zawodzie trenera piłki nożnej. José Mourinho kontra Josep Guardiola*, Toruń 2012: Wydawnictwo Adam Marszałek/ Collegium Civitas

Michał R. Węsierski, *Problemy integracji wiedzy a badanie zjawisk politycznych. W stronę idei jedności nauki*, Warszawa 2012: Wydawnictwo Naukowe „Semper"/ Collegium Civitas

Profesjonalny menedżer w NGO. Wydanie drugie poprawione, (red.) Katarzyna Iwińska, Warszawa 2012: Klub Myśli Społecznej „Inicjatywy"/ Collegium Civitas

Waldemar J. Dziak, Małgorzata K. Citko, *Porywacze Yodogo. Działalność japońskiej Frakcji Armii Czerwonej w latach 1969-1972 w kontekście porwań obywateli Japonii do Korei Północnej*, Warszawa 2012: ISP PAN/ Collegium Civitas

Można, koncepcja, opracowanie i red. merytoryczna Jadwiga Koralewicz, współpraca Karina Wielomska, Piotr Komorowski, Warszawa 2012: Collegium Civitas Press

Agnieszka Barszczewska, *Mołdawscy Csángó a Rusini Karpaccy (1867-1947)*, Warszawa 2012: Collegium Civitas/ Wydawnictwo „Trio"

Krzysztof Liedel, Andrzej Mroczek, *Terror w Polsce – analiza wybranych przypadków*, Warszawa 2013: Wydawnictwo „Difin"/ Collegium Civitas

Stanisław Faliński, *Warszawski samorząd terytorialny w latach 1990-2002. Geneza, ustrój, idee ustrojowe, aktywność*, Warszawa 2013: Wydawnictwo „Difin"/ Collegium Civitas

Państwo i polityka w Ameryce Łacińskiej. Zarys ewolucji systemów politycznych państw latynoamerykańskich, (red.) Piotr Łaciński, Warszawa 2013: Wydawnictwo „Difin"/ Collegium Civitas

Singlizm. Nowy styl życia w ponowoczesnym świecie, (red. naukowa) Katarzyna Lidia Kuklińska, Warszawa 2013: Collegium Civitas/ Wydawnictwo „Trio"

Małgorzata Molęda-Zdziech, *Czas celebrytów. Mediatyzacja życia publicznego*, Warszawa 2013: Wydawnictwo „Difin"/ Collegium Civitas

„To oni są wszystkiemu winni...". Język wrogości w polskim dyskursie publicznym, (red.) Xymena Bukowska, Barbara Markowska, Warszawa 2013: Collegium Civitas/ Wydawnictwo „Trio"

Oyungerel Tangad, *Scheda po Czyngis Chanie. Demokracja po mongolsku*, Warszawa 2013: Collegium Civitas/ Wydawnictwo „Trio"

Marta Kosmala-Kozłowska, *Dialog Zachód–Azja Wschodnia w dziedzinie praw człowieka. Wizje i praktyka*, Toruń 2013: Collegium Civitas/ Wydawnictwo Adam Marszałek

Jakość naszej demokracji. Społeczno-kulturowe podstawy polskiego życia publicznego, (red. naukowa) Bogdan W. Mach, Warszawa 2013: Collegium Civitas/ Instytut Studiów Politycznych PAN

Andrzej Zybała, *Państwo i społeczeństwo w działaniu. Polityki publiczne wobec potrzeb modernizacji państwa i społeczeństwa*, Warszawa 2013: Wydawnictwo „Difin"/ Collegium Civitas

Piotr Siuda, Radosław Bomba, Magdalena Kamińska, Grzegorz D. Stunża, Marek Troszyński, Tomasz Żaglewski, *Prosumpcjonizm pop-przemysłów. Analiza polskich przedsiębiorstw z branży rozrywkowej*, Warszawa 2013: Fundacja „Wiedza Lokalna"/ Collegium Civitas

Przeszłość w dyskursie publicznym, (red.) Andrzej Szpociński, Warszawa 2013: Instytut Studiów Politycznych PAN/ Wydawnictwo Naukowe „Scholar"/ Collegium Civitas Press

Krzysztof Iwanek, Adam Burakowski, *Indie. Od kolonii do mocarstwa*, Warszawa 2013: Wydawnictwo naukowe PWN/ Collegium Civitas

Xymena Bukowska, Marcin Jewdokimow, Barbara Markowska, Paweł Winiarski, *Kapitał kulturowy w działaniu. Studium światów społecznych Białowieży*, Warszawa 2013: Collegium Civitas/ ISP PAN/ Uniwersytet Kardynała Stefana Wyszyńskiego w Warszawie

Jacek Bieliński, *Między anomią a fatalizmem. Regulacja społeczna w Polsce w okresie zmiany systemowej*, Kraków 2014: NOMOS/ Collegium Civitas

Cywilizacja europejska – różnorodność i podziały, Vol. III, (red.) Maciej Koźmiński, Kraków 2014: Universitas/ Collegium Civitas

Teresa Rakowska-Harmstone, *Reluctant Clones. Moscow and the "Socialist Commonwealth"*, Warszawa 2014: Collegium Civitas/ IPN

Nieodkryty wymiar III sektora. Wprowadzenie do badań nad nowym społecznikostwem, (red. nauk.) Stanisław Mocek, Warszawa 2014: Collegium Civitas/ Centrum Wspierania Aktywności Lokalnej CAL

Katarzyna Iwińska, *Być i działać w społeczeństwie: Dyskusje wokół teorii podmiotowego sprawstwa,* Kraków 2015: NOMOS/ Collegium Civitas

Marta Sałkowska, *Matka Downa. Piętno – Znaczenia – Strategie*, Kraków 2015: NOMOS/ Collegium Civitas

Marcin Gajek, *W stronę republikańskiego liberalizmu. Kategoria cnót liberalnych we współczesnej amerykańskiej myśli politycznej*, Warszawa 2015: Ośrodek Myśli Politycznej / Collegium Civitas

Terroryzm wczoraj i dziś. Księga pamiątkowa na 10-lecie Centrum Badań nad Terroryzmem Collegium Civitas, (red. nauk.) Krzysztof Liedel, Paulina Piasecka, Warszawa 2015: Difin

Sergiusz Trzeciak, *Coaching marki osobistej czyli kariera lidera*, Sopot 2015: GWP

Sergiusz Trzeciak, *Wizerunek publiczny w internecie. Kim jesteś w sieci?*, Gliwice 2015: Helion

Krajobraz społecznościowy – Polska 2014, (red. nauk.) Galia Chimiak, Katarzyna Iwińska, Warszawa 2015: Collegium Civitas / Centrum Wspierania Aktywności Lokalnej CAL

Efekt motyla. Scenariusze rozwoju sektora społecznościowego w Polsce, (red. nauk.) Rafał Krenz, Stanisław Mocek i Bohdan Skrzypczak, Warszawa 2015: Collegium Civitas / Centrum Wspierania Aktywności Lokalnej CAL

The Visegrad Countries in Crisis, (ed.) Jan Pakulski, Warsaw 2016: Collegium Civitas

Krzysztof Liedel, *Z Sherlockiem Holmesem o dedukcji, indukcji, życiu i innych ważnych sprawach*, Warszawa 2016: Difin / Collegium Civitas

Ewa Nowicka, *Korzenie ałtargany sięgają głęboko. Buriaci między Rosją, Mongolią i Chinami*, Kraków 2016: NOMOS

Dominik Smyrgała, Leszek Jesień, Łukasz Kister, Marcin Koniak, Łukasz Tolak, *PKP Energetyka po prywatyzacji – bezpieczeństwo dostaw energii i przewozów kolejowych*, Warszawa 2016: FIBRE / Collegium Civitas

WISE Handbook, (eds.) Katarzyna Iwińska, Michael Jones, Magdalena Kraszewska, Athens – Brno – Porto – Uppsala – Warsaw 2017: Collegium Civitas

Magdalena El Ghamari, *Cool Jihad*, Warszawa 2018: Difin / Collegium Civitas

Publication Series **Zeszyty Naukowe Collegium Civitas**

Zeszyt No. 1: *Intelektualiści a komunizm i inne eseje*, (red.) Andrzej Paczkowski, 2002

Zeszyt No. 2: *Płońsk w socjologicznym kalejdoskopie. Raporty z badań studenckich*, 2002

Zeszyt No. 3: *Świat instytucji i organizacji społecznych*, (red.) Włodzimierz Pańków, 2002

Zeszyt No. 4: *Panorama ruchów społecznych w Polsce*, (red.) Marcin Frybes, Paweł Kuczyński, 2002

Zeszyt No. 5: *Kaszuby: Prawdy i mity. Raporty z badań studenckich*, 2004

Zeszyt No. 6: *Być cudzoziemcem w Polsce*, (red.) Hanna Malewska-Peyre, 2004

Zeszyt No. 7: *Lobbing w praktyce: doświadczenia polskie*, (red.) Małgorzata Molęda-Zdziech, 2004

Zeszyt No. 8: *Polacy XXI wieku. Nowe style życia*, (red.) Stanisław Mocek, 2005

Zeszyt No. 9: *Bezpieczeństwo narodowe i międzynarodowe*, (red.) Jacek Czaputowicz, 2005

Zeszyt No. 10: *Europejskie prawo gospodarcze. Nowe tendencje*, (red.) Aleksander Gubrynowicz, 2006

Zeszyt No. 11: *Lobbing w praktyce: doświadczenia polskie, wydanie drugie poprawione i rozszerzone*, (red.) Małgorzata Molęda-Zdziech, 2006

Zeszyt No. 12: *Europejskie prawo gospodarcze. Nowe tendencje – część 2*, (red.) Aleksander Gubrynowicz, 2008

Zeszyt No. 13: *Płeć współczesnej kultury*, (red.) Marta Zimniak-Hałajko, 2008

Zeszyt No. 14: *Antropologia wizualna*, (red.) Joanna Tokarska-Bakir, 2008

Zeszyt No. 15: *Polacy XXI wieku. Nowe ruchy religijne*, (red.) Marta Zimniak-Hałajko, 2009

Zeszyt No. 16: Joanna Aleksandra Janas, *Funkcjonowanie swobody przepływu kapitału i jej miejsce na rynku wewnętrznym Unii Europejskiej*, 2009

Zeszyt No. 17: *Polacy XXI wieku. Praca Polaków w kulturze współczesnego kapitalizmu,* (red.) Marta Zimniak-Hałajko, 2011

Zeszyt No. 18: *Patologie życia społecznego*, (red.) Jadwiga Koralewicz, 2011

Zeszyt No. 19: *Surowce energetyczne w polityce wielkich mocarstw*, (red.) Dominik Smyrgała, 2011

Zeszyt No. 20: *„Wartością sołectwa są ludzie" – raporty ze studenckich badań terenowych w gminach śląskich*, (red.) Katarzyna Iwińska, Anna Radiukiewicz, 2012

Zeszyt No. 21: *Mediatyzacja – analiza zjawiska i wybranych studiów przypadków*, (red. naukowa) Małgorzata Molęda-Zdziech, 2012

Zeszyt No. 22: *Wokół niepodległości Kosowa: historia i pierwsze reakcje*, (red. nauk.) Dominik Smyrgała, 2012

Zeszyt No. 23: *Wojna o pokój trwa…*, (red. nauk.) Dominik Smyrgała, 2014

Zeszyt No. 24: *Democracy and Human Rights in East Asia and Beyond*, (ed.) Marta Kosmala-Kozłowska, 2016

Publication Series **Studia i Analizy Collegium Civitas**

Vol. 1: *Cóż po antropologii? Prace Katedry Antropologii Kulturowej Collegium Civitas*, (red. nauk.) Joanna Tokarska-Bakir, 2006

Vol. 2: *5 lat Karty Praw Podstawowych UE*, (red. nauk.) Aleksander Gubrynowicz, 2006

Vol. 3: *EURO 2012. Mistrzostwa Europy w cieniu terroryzmu*, (red. nauk.) Krzysztof Liedel, 2007

Vol. 4: *Umowy zawarte przez Wspólnoty Europejskie w orzecznictwie sądowym państw członkowskich*, (red. nauk.) Aleksander Gubrynowicz, 2008

Vol. 5: Kuba Jałoszyński, Janusz Skosolas, *Media wobec współczesnego zagrożenia terroryzmem*, 2008

Vol. 6: *Rola mediów w przeciwdziałaniu terroryzmowi*, (red. nauk.) Krzysztof Liedel, Paulina Piasecka, 2009

Vol. 7: *Nowe technologie w zwalczaniu terroryzmu. Projekt PROTEUS*, (red. nauk.) Kuba Jałoszyński, Krzysztof Liedel, 2009

Vol. 8: *Kształtowanie się nowej europejskiej polityki wschodniej – ocena Partnerstwa Wschodniego*, (red. nauk.) Kerry Longhurst, 2009

Vol. 9: *Forging a new European Ostpolitik – An Assessment of the Eastern Partnership*, (ed.) Kerry Longhurst, 2009

Vol. 10: *Autorytaryzmy iberyjskie – Hiszpania Franco i Portugalia Salazara*, (red. nauk.) Bohdan Szklarski, Maciej Słęcki, 2010

Vol. 11: *Polska racja stanu*, (red. nauk.) Szymon Hatłas, 2010

Vol. 12: *Latynoameryka u progu trzeciego stulecia niepodległości: przywództwo, idee i systemy polityczne*, (red. nauk.) Piotr Łaciński, 2011

Vol. 13: Dominik Smyrgała, *Latynoamerykańska teologia wyzwolenia – wiara, rewolucja pasywna, nacjonalizm antykolonialny*, 2014

Vol. 14: *Między regionalnymi rynkami energii a technologią – przyszłość sektora energetycznego w Polsce*, (red. nauk.) Dominik Smyrgała, 2016

Vol. 15: *The Visegrad Countries in Crisis*, (ed.) Jan Pakulski, 2016

Publication Series Studia i Analizy Historyczne Collegium Civitas

Vol. 1: **Eugeniusz Cezary Król**, *Polska kultura 1956*, 2007

Vol. 2: *Rzeczpospolita wielokulturowa – dobrodziejstwo czy obciążenie?*, (red. nauk.) Jerzy Kłoczowski, 2009

Vol. 3: **Piotr Toczyski**, *Jak mit jednoczy Europę? Analiza arturiańskich elementów kultury symbolicznej jako czynników spajających współczesną Europę*, 2013

Vol. 4: **Kamil Popowicz**, *Madame de Staël*, 2013

Vol. 5: **Paweł Dobrowolski**, *(P)oszukiwanie tożsamości: cztery studia o Oświeceniu*, 2015

Publication Series Studia i Analizy Dyplomacji Kulturalnej i Publicznej Collegium Civitas i Instytutu Adama Mickiewicza

Vol. 1: *Promocja Polski w świecie: kultura – dyplomacja – marka narodowa*, 2010

Vol. 2: *Wymiana i konkurencja. Środowisko i formy promocji Polski w świecie*, 2011

Publication Series Zeszyty Gospodarki Społecznej

Vol. 1: *Z teorii i praktyki gospodarki społecznej*, (red. nauk.) Ewa Leś, Małgorzata Ołdak, 2006

Vol. 2: *Przedsiębiorstwo społeczne w rozwoju lokalnym*, (red. nauk.) Ewa Leś, Małgorzata Ołdak, 2007

Vol. 3: *Nowa gospodarka społeczna w rozwoju regionalnym i lokalnym*, (red. nauk.) Ewa Leś, Małgorzata Ołdak, 2008

Collegium Civitas is (with European Association for Security) publisher of an open access scientific half-yearly journal "Securitologia", covering the broadly understood issues of safety and security of individuals and social organizations, http://securitologia.edu.pl.

Collegium Civitas publishes also "Zoon Politikon", an international peer-reviewed journal, that is published annually and aims to refer to the Aristotelian tradition of thinking about the humanities, social affairs and public life.

Since 2010 Collegium Civitas is the co-editor of the "Animacja Życia Publicznego" notebooks.

Collegium Civitas also publishes an open access scientific half-yearly journal "Energetyka – Society – Politics" and since 2016 – together with the European Solidarity Center – has been publishing the annual yournal "Freedom and Solidarity".

“[This book] is a convincing attempt to establish links previously overlooked or seen as far-fetched between contemporary Central-Eastern Europe and Southeast Asia, the regions, whose studies thereof have been subject to a clear division. The volume successfully shows that there are both different models of development – the Asian developmental state and Central-Eastern European systemic transformation, and that the shared historical feature of a socialist regime also shaped some similarities and laid comparable foundations for the subsequent transformation in both regions.”

Professor **Bhawan Ruangsilp**, History Department, Chulalongkorn University

“The subject of the transition from socialism to a market economy has been around now for approximately a quarter of a century, from the fall of the Berlin Wall in 1989 and the subsequent evolution in the different countries of the region. What is original, in my view, is looking at this experience with a view to drawing lessons for the so-called “socialist” countries of Southeast Asia. This is an unusual perspective to take, but brings to light the importance of the legacy of communist rule and how this plays out in different countries, where interesting variations among them are showcased.”

Professor **Charit Tingsabadh**, Former Director, Centre for European Studies, Chulalongkorn University

Collegium Civitas

www.civitas.edu.pl

WARSAW 2017

ISBN 978-83-61067-59-7