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Introduction

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As we put the final touches to this special issue of *Competition and Change* an ultra conservative, neo-populist government in Poland have forced the resignation of another 'informer' for the communist secret services, the repercussions of neo-Nazi violence during Hungary's fiftieth anniversary celebration of the 1956 revolution continue to reverberate around Budapest, and the Russian oil company *Transneft* is threatening to cut off oil supplies to Europe. These are 'interesting' times for the former communist states of Eastern Central Europe (ECE) and a reconsideration of the region's relationship to globalization, which would be of interest at any time, seems particularly apposite at this juncture, stimulated as much by European Union (EU) accession as by continuing global economic integration. It now seems clear to many that, like the construction of socialism after 1945, so the reconstruction of capitalism after 1989 has not just been a matter of applying a proven blueprint for the construction of a New Jerusalem on each national territory.

Rather it has been the result of intense social conflicts whose outcomes were importantly shaped by the specific historical context of the global political economy. For the most part, 'transitological' studies of ECE, and the Soviet bloc as a whole, since 1989 have only incidentally acknowledged the significance of the global context in which capitalism was restored. Uniquely in the world, ECE has built democratic capitalism at the same time as it has become integrated into the globalizing and regionalizing world economy. For us, and the contributors to this special issue, this has generated the following set of research questions that we attempt to address: what types of capitalism have emerged from this unique challenge? How have global and European constraints and opportunities shaped the local political economies of ECE? How have local actors made use of these constraints and opportunities?

The Methodological Nationalism of Transitology

Western social scientists offered the reformers of ECE simplistic general instructions on the art of transition from the Soviet model of central planning and party-state to liberal–democratic capitalism. These blueprints centred on the construction of a market economy based on private ownership, on the rolling-back of the state as collective owner and provider, and in the political sphere on free elections, democratic constitutions, and the rule of law. While at a more concrete level the transition programme entailed the liberalisation of foreign trade and capital movements, and potentially accession to a range of Western

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intergovernmental bodies such as NATO and the EU, these issues were treated as natural components of a programme of national economic, political and social change. The basic expectation was that the newly liberated citizens of the ECE states would follow their mentors' advice, and elaborate national policies which would allow them to rejoin the mainstream of European history.

This flourishing cottage industry of 'transitological' studies attempting to explain the transitions in ECE and the former Soviet Union (FSU) have reached a peculiar consensus concerning the relative importance of internal and external causes. Beyond the influence of the International Monetary Fund and World Bank (Linden 2002: 13–14; Pollert 1999; Stone 2002) and, of course, recent studies on democratization and conditionality during negotiations to join the EU (inter alia Dimitrova 2004; Rupnik and Zielonka 2003; Schimmelfennig and Sedelmeier 2005) in the aftermath of 1989, there is an almost uniform acceptance that the genuine causes of the path of transition are internal and international factors were, at most, only supportive.

There are a number of reasons why capitalist restoration in ECE has primarily been perceived as a national project rather than one shaped by international, transnational or global factors and actors. First, nationalism played an ambivalent role in ECE during the Communist period. Communist regimes appropriated national history and symbols as part of their struggle for legitimacy, even if the extent and timing of these efforts varied according to particular historical circumstances (Kubik 1994). To the extent that they failed in this regard, opposition movements could bend the nationalist tradition as an alternative to social–democratic or liberal ideologies, to serve their own purposes. A second reason for the national focus of restoration was that the new ECE governments were successors of a regime that had been far more exclusively national in institutional terms than the regimes of West Europe after some 35 years of integration efforts. Both the Warsaw Pact and the Council for Mutual Economic Assistance (CMEA) had remained strictly intergovernmental in form (if hegemonic in content). A third reason was that, in the relative absence of organised social interests and institutions of 'civil society', it fell largely to the state itself – constituted as a conventional nation-state – to manage directly the complex processes of institutional change that followed the end of communism. Finally, since deeper reflection has largely been the province of academics and public intellectuals, a serious analysis of the global context in which capitalism returned to East had been hindered by the 'methodological nationalism' of Western social science (Gore 1996).

The International Context of Transition

It is only relatively recently that the transitological literature has begun to focus more systematically on the broader international and global context in which the ECE quest for democratic capitalism has occurred. The earliest line of investigation is concerned with the broader global context of neoliberal ideology, which has influenced most transition strategies. Neoliberalism originated in post-World War II liberal think tanks and the economic profession and became intellectually strong after the world economic crisis of the 1970s, and specifically the debt crisis in Latin America (see Fourcade–Gourinchas and Babb 2002). As an established reform paradigm, neoliberalism made its way into ECE through transnational epistemic communities, external advisors, and especially through the conditionality of the International Financial Institutions (IFIs) (Wedel 2001). For local reform elites, neoliberalism was attractive as it represented the most radical alternative to the now illegitimate socialist ideology (Appel 2004; Bockman and Eyal 2002; Greskovits 1998; Shields 2003).

Second, scholars have increasingly identified the central role of foreign direct investment (FDI) for restoring capitalism in the transition countries. Until the mid-1990s, FDI (whether greenfield or brownfield) was widely seen as being both pitifully low, and largely directed towards local markets for goods and services that were in short supply and therefore highly profitable. This poor performance in attracting FDI was seen a sign of continued marginalization or exclusion from global capitalism. From the mid 1990s, however, FDI started to pour into the region, especially to countries aspiring to membership of the EU. Some of the ECE countries by now belong to the most transnationalized countries of the world (UNCTAD 2006). The evidence on the impact of FDI on the host countries is mixed. On the one hand, FDI is believed to offer the benefits of fresh capital, technological advance and new management methods. On the other hand, there is the danger of an emerging bifurcation in the ECE economies, in which transnationalized enclaves coexist with backward local economies (Fink 2006; Jensen 2006; Meyer 2004). FDI has a clear European dimension. A major feature of FDI in ECE is that it is less market seeking than efficiency seeking. A new cross-European division of labour has emerged, in which peripheral eastern European locations compete with southern European countries for core types of economic activities, and increasingly with western European countries (Barry 2004; Zysman and Schwartz 1998).

Most recently, a growing body of literature has explored the impact of EU enlargement on the transition countries. As the editors of the, so far, most encompassing volume on the EU's impact on ECE argue, 'any study of transition that is limited to domestic processes and outcomes and overlooks the parallel process of Europeanization will fail to grasp the complex and sometimes contradictory transformation of the state in Central and Eastern Europe' (Schimmelfennig and Sedelmeier 2005: 139). Europeanization in this literature is defined as a 'process in which states adopt EU rules'. These comprise 'rules for regulation and distribution in specific policy areas, rules of political and administrative and juridical process, and rules for the set-up and competencies of state and sub-state organizations' (Schimmelfennig and Sedelmeier 2005).

There are a number of reasons why the EU is assumed to have a stronger impact on the restructuring of ECE states than on older member states. First, the asymmetric power relation between the EU and the accession states, the breadth of the EU agenda in the region and the required speed of adjustment has put strong pressure on the applicants. Second, EU rules could exert a much deeper influence on the ECE applicant countries because their enforcement parallelled the transformation of domestic institutions. Third, EU-membership conditionality, regular compliance monitoring, the limited scope of real negotiations in the accession process, and the unavailable option of opting out have pushed the new member states to comply with all EU regulations (at least on the formal level) already before their accession. In contrast, non-compliance or opting-out is much more frequent among old member states. As a result, all ECE countries that sought EU-membership have increasingly converged around a common set of EU rules and norms concerning the regulation of their market economies, and have successfully consolidated their democracies. At the same time, the lack of EU influence in the countries of the former Soviet Union is seen as a primary factor of the increasing divergence between these and the CEE countries (Jacoby 2001; Schimmelfennig and Sedelmeier 2005; Vachudova 2005).

Rethinking the Linkages Between External and Internal Factors in Eastern Central Europe's Development

By the time of the two series of conference panels in Budapest in June 2003, and The Hague in September 2004, which served as the initial steps towards this special issue, the scholarly community had started to pay increasing attention to the international context of transition. While the contributors to this volume seek to contribute to that debate, they are especially interested in offering a more nuanced account of ECE's transformation and international integration than is commonly offered in most of the literature to date. Relying on a plurality of theoretical approaches, this special issue goes beyond the existing literature in three major ways.

First, while much of the existing literature relies on generalizations based on single case studies, and is biased towards the four Visegrád countries – the Czech Republic, Poland, Hungary and the Slovak Republic – this volume seeks to extend this geographical scope. In addition to single case studies, we seek to include genuinely comparative analyses which cover a broad range of transition countries, including some states of the CIS. Both the analyses of Bohle and Greskovits and Sabonis-Helf attempt to capture the specific ways in which the latter countries' transition paths have been shaped by external factors systematically different from those of the eight new EU member states. In this way, we hope to contribute to a more thorough understanding of which external factors matter for ECE's transformation, in which specific cases and how.

We identify two major differences. First, the ECE countries have been more thoroughly integrated in the western-dominated capitalist world economy through multiple and heavily institutionalized channels: trade, FDI, membership of IFIs and the EU. In contrast, the CIS pattern of international integration is under-institutionalized and 'shallow', as it essentially occurs through a handful of world markets and, in many cases, direct Russian interference in domestic political economies. Second, it seems that an essential element of the dividing line between the CIS and ECE is their different form of integration into the international division of labour. Whereas the bulk of ECE exports comprise industrial goods, the CIS countries typically export resources and raw material to the world markets and, thus, assume an export role that is reminiscent of the most peripheral regions of the global economy. A further differentiation can be drawn that five out of the eight new EU member states have started to specialize in exports typical for the developed, western world: Hungary, Poland, the Czech Republic, Slovenia and Slovakia earn a substantial amount of foreign currency by producing for export cars, electronics, chemicals, machinery and durable consumer goods. This does not mean, however, that these countries have been able to fully join the world of advanced Western countries. As shown by Doerrenbaecher, industrial transformation in ECE (except for Slovenia) is almost entirely dependent on foreign capital, and thus the strategies and room for manoeuvre of the subsidiaries of multinational companies (MNCs). As Shields illustrates, the implications of this dependency are not positive. Moreover, the articles in this volume indicate that the international and global integration of East European capitalisms have resulted in peripheral and semi-peripheral positions in the global economy.

Third, much of the current literature on international factors in ECE's development does not really aim at overcoming the problems of methodological nationalism. Trans- and international actors and forces are mostly seen as external factors, to which local actors adapt. In contrast, the articles in this issue seek to go beyond the dualistic view of external pressures and domestic adaptations by explicitly addressing the question of how external factors are linked to domestic ones, and how they reach into the domestic political economy. Thus, Bohle and Greskovits argue that the type of integration into the world markets has an important impact on state capacity to bring about capitalist democracies. The CIS-states, which were simultaneously exposed to the volatility of global commodity and financial markets and had to build their capitalist institutions from scratch have barely gained control over their national economies. In contrast, the types of thorough and institutionalized external influences to which the ECE-8 have been exposed presuppose and help to reproduce more capable states. Paradoxically then, the market economies that emerged in ECE are much more the product of conscious state choices than those of the CIS countries. Sabonis-Helf's paper shows how the dependency on different energy sectors in three CIS countries has shaped Russia's capacity to gain control over them. The Central Asian states, in spite of disarray in their energy sectors, have attempted to develop strategies which treat energy as a strategically sensitive commodity, and account for Russia's interests while protecting their own. The adaptive capacity of the Central Asian states varies from state to state — but also subtly, from sector to sector.

It is particularly the Europeanization literature that conceptualizes the EU as an external factor to which national actors have to adapt. Europeanization of ECE is considered strictly as a top-down process; this obscures the extent to which domestic actors and institutions of the CEE interact with rules imposed by the EU and thus produce divergent outcomes in the adaptation process. However, as both Lindstrom and Piroska, Vliegenthart and Horn, and the article by Shields in this volume indicate, even if the pressure the EU exerts on applicants and new member states is stronger than its influence on old members, Europeanization is what ECE actors and institutions make of the requirements set by the EU rather than a strictly top down process. Lindstrom and Piroska demonstrate how Slovenian political actors and the general public continuously contested core EU requirements of liberalization and privatization of strategic sectors. This does not imply that Slovenia has not been as Europeanized as the rest of ECE. Rather, Lindstrom and Piroska's article offers a nuanced understanding of Europeanization as a process in which political elites skilfully mediate transnational and domestic requirements. In the Czech case, Europeanization has led to a different outcome. Vliegenthart and Horn show the crucial influence of the EU on the institutional development of corporate governance structures. Using the banking and financial sector they analyse the central role the European Commission plays in promoting and advocating regulatory policies conducive to the deeper embedding of neoliberal reforms. Shields shows in the Polish case, that EU accession, rather like the initial transition process is strengthening the neoliberalism bloc but simultaneously engendering resistance to the hardships spawned by Warsaw or Brussels directed reforms.

Finally, all of the contributions share a normative -concern with the contradictions and development failures of the transformation processes. We explicitly aim at going beyond the Panglossian world-view endorsed by far too much of the mainstream literature on transition and, more recently, on Europeanization. Both bodies of literature assume rather than prove that establishing institutions modelled on the examples of the advanced capitalist countries, and compliance with EU rules and regulations help the post-communist states to become consolidated market economies and stable democracies. However, for the authors of this volume it is far from self evident that institutions, rules and regulations taken from advanced market economies are adequately meeting the needs of less advanced countries. In contrast, we argue that our understandings of transition needs to be adequately contextualized in an emergent global political economy, and that we must establish the intellectual basis for an alternative more nuanced political economy of transition based on the restructuring of the old economy while incubating the new and avoiding wholesale immiseration in the interval.

The contributions of Bohle and Greskovits and Lindstrom and Piroska reveal how only Slovenia has managed to fully develop the features of an 'EU-compatible', balanced political economy. Slovenia's capitalism alone combines a thoroughly institutionalized market economy, social cohesion and macroeconomic stability, which are seen as core features of the EU model. Moreover, among all the new democracies in the region, it is only Slovenia which has successfully built an 'inclusive democracy' (Acuna and Smith 1994). Despite 15 years of ongoing and thorough market reforms, the democratic capitalism of the Visegrád countries and even more that of the Baltic States falls short of being fully 'EU compatible'. This should give us pause for thought. If we follow the analysis of Lindstrom and Piroska, it seems that Slovenia could manage to become fully European precisely by resisting many of the EU's demands. Whereas this finding is certainly puzzling for advocates of the Europeanization and mainstream transition literatures, it is much less so for students of late-comers in the world economy. Indeed, in his powerful interpretation of 19th century industrialization, Alexander Gerschenkron (1976/1962) argues that it is precisely the fact that France, Germany or Russia did not follow the path shown by the most advanced country, Britain, which allowed them to (more or less) successfully catch up. Had it been in England's power to push for compliance with what seemed to be its own recipe for economic development – accumulation based on reinvested business profits, a commercial banking system that offers only short term credits rather than long-term investment capital, and a non-interventionist state – we would not have witnessed the successful catch up of Germany based on universal banking and organized capitalism, or of France based on industrial investment banks. Vliegenthart and Horn and Shields push the argument even further and wonder whether many of the pathologies of transition are precisely due to the international consensus shared by most transition countries that neoliberal policies and institutions are 'the only game in town'.

In a similar vein, the articles in this issue are sceptical about a uniformly optimistic picture of the benefits of FDI for transition countries. Our findings caution against the dominant view according to which FDI is a 'panacea' for ECE's development problems. Slovenia's success, as mentioned earlier, is a success based precisely on the national control of its major strategic and industrial sectors. In contrast, FDI in the Baltic States has not brought about developmental successes so far. In conclusion, it is worth heeding Doerrenbaecher's study of Hungary, one of the most successful transition countries that have relied heavily on foreign-led modernization. The Hungarian example warns us that dependence on the resources of foreign capital subsidiaries might not work as an insurance policy against industry downgrading.

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