Political support of the competition state in the Visegrád Four: The comprador service sector and its allies

Jan Drahokoupil*[1]*, Central European University, Budapest

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ABSTRACT

A variety of foreign-led economies has emerged in Central and Eastern Europe in the late nineties. This paper explains the emergence of the competition state in the region and analyzes its political support and institutional underpinning. While the structural power of transnational capital and integration into the European regulatory framework had major roles in steering the state into the competitive direction, the externally oriented strategies were implemented only when both the structural opportunities and political possibilities of the moment allowed domestic groups linked to transnational capital to come to the fore in individual social formations. These social forces, the comprador service sector, became the nodal point and organizer of a wide coalition of forces centred around foreign investors — a power bloc promoting the competition state.

Keywords **-** Central and Eastern Europe; competition state; internationalization; state; economic policy; foreign direct investment; scale.

Address for correspondence
Max Planck Institute for the Study of Societies;
Paulstr. 3; 50676 Cologne;
Germany
Email: jan.drahokoupil@gmail.com

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A variety of foreign-led economies has emerged in Central and Eastern Europe in the late nineties (e.g. Myant, 2003; Greskovits, 2005; Vliegenthart, 2007). After the attempts to promote national accumulation failed in the Czech Republic, Slovakia, and – to lesser extent – in Poland, the attraction of foreign direct investment has become a priority throughout the region (Bohle, 2002; Bohle & Greskovits, 2006). State economic strategies in the Visegrád Four region (V4) have converged towards a distinct model of the competition states (see Drahokoupil, 2007d, 2007b). While strategies aimed at promoting national accumulation dominated the region up until the mid 1990s, in 1999, the V4 states found themselves competing for the favour of foreign investors. Inward oriented regimes had been transformed into the states that were fine-tuned to compete for mobile transnational capital. Why did this transformation happen? What is driving the competition state? What are the fields of force pushing the state strategies in the competition direction? What is the political and institutional support of the transnational strategy?

The structural power of transnational capital and integration into the European regulatory framework had major roles in steering the state into the competitive direction. The economies in the V4 became structurally dependent on foreign capital, which controls access to technology, know-how, and major distribution networks. EU regulation gradually locked the state strategies in the competitive direction. The emergence of the competition state, however, cannot be understood without taking account of the agency of domestic social forces. Such forces must come to the forefront if "structural conditions" or "structural power" are meant to actually work; they cannot do without. The externally oriented strategies were implemented only when both the structural opportunities and political possibilities of the moment allowed domestic groups linked to transnational capital to come to the fore in individual social formations. These social forces, the comprador service sector, became the nodal point and organizer of a wide coalition of forces centred around foreign investors — a power bloc promoting the competition state. The power bloc also integrated significant fractions of domestic capital, which were becoming increasingly integrated into the supply chains of international investors. Moreover, some large domestic companies have joined the comprador bloc after it started to deliver direct benefits in the form of investment subsidies. Thus, these comprador power blocs in the V4 did not so much replace the supporters of the national strategies; rather, the latter were gradually rather transformed and integrated into the transnational coalition of forces underpinning the competition states.

First, I provide an account of the sudden emergence of the competition state in the Czech Republic, which is an exemplary case of discontinuity allowing the identification of particular mechanisms of state internationalization. The crisis-induced restructuring made the social arrangements most visible (Wolf, 1990) and provides an opportunity for exemplifying theory (Eisenhardt, 1989; Yin, 1989) The developments in the Czech Republic actually opened the race for greenfield investors in the V4 in the late nineties. Its 1999 rolling out of the most generous investment scheme yet among transition countries was followed by reinvention of the investment scheme in Hungary and by the introduction of investment schemes in Poland and Slovakia (Mallya, Kukulka, & Jensen, 2004; UNCTAD, 2002). Second, I characterize the social, political, and institutional support of the competition state in the Visegrád Four region. I identify coalitions of social forces supporting the competition strategy in the Czech Republic, Hungary, Poland, and Slovakia. Here, I deal with formation of the comprador service sector, as key hegemonic force in the region. Finally, I characterize the nature of the structure of representation that crystallized with the emergence of the competition state and analyze the operation of a power bloc underpinning this strategy. I point out the central role of the comprador service sector as a nodal point of the respective structure of representation organizing wider power blocs. I show that the structure of representation or the lines of force that "condense" social relations within the state extend beyond and across individual bodies of the state apparatus and across individual political parties.

While this paper focuses on national-level politics, the political support of the competition state cannot be understood with reference to the national scale and actors operating in and through it only. First, the process of rescaling in which power is shifted from the national level downwards and upwards provides an important structural advantage to social forces promoting the competition strategy. Second, the power bloc underpinning the competition state includes actors operating primarily in and through regional scales. I investigate the multiscalar constitution of the political support of the competition elsewhere (Drahokoupil, 2007a). There, I analyze the temporary articulations of the power bloc, which get mobilized when a locality is promoted to lure an investor in the investment-location bidding. These coalitions, which I call the investment-promotion machines, constitute a key moment of the hegemonic claims of the comprador sector and its competition state.

Crisis-induced internationalization: U-turn in the Czech Republic

On November 30, 1997, Prime Minister Klaus handed in his government's resignation in the wake of political and economic crisis. The departure of Klaus and his government marked the dissolution of the Klausian project and a profound reorientation of state strategy in relation to foreign investors. The economic programme of the caretaker government of Josef Tošovský, who was sworn in on January 2, 1998, included the aim of attracting foreign direct investment. The social democratic government, which took power in June 1998, would make attracting foreign investors a focal point of its economic strategy. There has been a double policy U-turn in this respect. First, the new governments jumped on the bandwagon of attracting foreign direct investment into manufacturing and (later) services. Second, they privatized major banks into the hands of foreign financial institutions. In April 1998, the Tošovský government introduced a package of investment incentives with the aim of attracting foreign investment.[2] Moreover, the Tošovský government started privatization of state-owned banks. Both of these steps were then implemented by Social Democrats. The terms of bank privatization were favourable to foreign buyers, and the major banks were indeed bought by foreign financial institutions. Both of the policy turns, however, were less related to changes of government than may seem. The change in relation to industrial investors should be related to the structural power of transnational capital, as translated by domestic actors and amplified by the exhaustion of the domestic accumulation project. The privatization of banks to foreigners then should be related primarily to the crisis of banking socialism, catalyzed by the agency of the central bank, and to EU pressures.

From the Czech Way towards competition for foreign direct investment

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

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[2] E.g., "Vláda dala najevo, že stojí o cizí capital [The government made it clear it is interested in foreign capital]," *Mladá fronta Dnes,* 30 April 1998.

The outward-oriented project was being developed within the state already at the time when the Klausian inward-oriented strategy was dominant. There was a group within the state that had been actively working on the promotion of FDI. These bureaucrats, located at the Department of the Industry and Trade, were facing a hostile environment. Nevertheless, they managed to thrive. In November 1992, they founded a foreign investment promotion agency: CzechInvest, then Czech Agency for Foreign Investment. As recalled by Vladimír Dlouhý, then Minister of Industry and Trade, a Phare-financed Irish advisor had a crucial role in persuading Dlouhý about the utility and necessity of having such agency.[3] The EU's financial support was vital for the agency in the years that followed. The EU not only financed advisors that used Irish experience to make the case for existence of investment promotion agency, but also provided a crucial source of funding. Ireland was perceived as the first European tiger to emerge to transform its semiperipheral location into the export led "climber" within the international hierarchy (cf. N. J.-A. Smith, 2005). Many within the EU apparatus and in the CEE states saw CEE as Ireland's natural successor. The region was meant to replicate the Celtig tiger experience within the EU.[4]

Table 1 CzechInvest's budget (in Czech koruna millions)

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

Source: MIGA-FIAS (2005). It is important to note that some of the assistance received was free of charge and not reflected in the budget. Approximate annual exchange rates used are: 1 US$ = 27 CZK (1993-1996); 1 US$ = 33 CZK (1997); 1 US$ = 30 CZK (1998); 1 US$ = 34.64 CZK (1999); 1 US$ = 38.59 CZK (2000);1 US$ = 38.04 CZK (2001); 1 US$ = 33.3 CZK (2002). This table reflects some rounding of decimal places.

As shown in Table 1, external resources would cover up to 62 percent of CzechInvest's budget in the early nineties. Moreover, some of the aid to CzechInvest was provided in kind and was not

[3] Dlouhý's contribution in CzechInvest (2002, pp. 8-10).
[4] Confirmed by the experience of officials at a regional development agency in the Czech Republic (various interviews).

reflected in CzechInvest's budget. Jan Havelka, CzechInvest's founder and CEO in 1993-1999, very much underscores the importance of foreign aid for the organization in the early nineties. This is reflected in his estimate, according to which some 80 percent of CzechInvest's budget was paid by foreign taxpayers in some years of the early nineties.[5] Havelka, who was recruited by the foreign advisors because of his experience as project manager at the Kuwait Investment Office and advisor to the Slovakian Minister of Foreign Affairs, explains the importance of the EU in developing the foreign investment promotion agency in an environment that was very hostile to such activities:

> [External support was indeed important.] I was supported by people from the World Bank and the European Commission. Thus, I was able to obtain massive funding from Phare in the early years. This gave me an image of a person who knew what he wanted in the eyes of [Minister of Industry and Trade] Dlouhý. I had confidence of people who [the Minister] trusted. […] After I persuaded Dlouhý I could afford such escapades as arranging – behind the back of the Ministry – permanent representations abroad, financed by Phare. […] As soon as they got to know it, they made a lot of noise about it. […] And I could say: 'Look, gentlemen, it did not cost you a koruna, everything was paid by Phare.'[6]

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

Facing the hostile environment both within the government and among the general public, Havelka's strategy focused on changing the public's perception of foreign investment and winning the government's trust and gaining its support. In order to change the perception among state officials and to make allies among them, CzechInvest used its Steering Committee (see Table 2). It included representatives of other government institutions, the private sector, and banks, who were appointed by the Minister of Industry and Trade. CzechInvest employed internal public relations efforts to gain the understanding and trust of the government, especially from the immediate Ministry of Industry and Trade. For instance, CzechInvest invited government officials on study tours and remembered their birthdays and other personal events. To convince the public of the potential benefits of FDI, CzechInvest presented positive experiences of other countries and

[5] Interview with Jan Havelka, Prague, 30 December 2005.
[6] Interview with Jan Havelka, Prague, 30 December 2005.

promoted the agency and its efforts through continual press releases. The agency needed to show quick results in order to demonstrate the positive impact of FDI. "Greenfield" projects were found suitable for these purposes. Thus, it focused on attracting greenfield manufacturing investments in automotive, electronics, and precision engineering. Such investment projects were considered to have great potential of creating good publicity through job creation. Moreover, they related to the common belief in traditional Czech strength in manufacturing, technical skills, and a trained labour force (MIGA-FIAS, 2005).

Table 2 CzechInvest's Steering Committee: Institutional Membership

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

Source: CzechInvest's annual reports

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

However, the efforts of CzechInvest had only limited success throughout the mid nineties. The government was refusing to provide preferential treatment to foreign investors, which CzechInvest was promoting. This had visible consequences for locational decisions of the investors. Petr Hájek, working at CzechInvest at that time, illustrates this by a situation when a Japanese corporation asked for an import duty waiver on machinery it was going to import for its production plant. Klaus rejected the deal and the investor went to another country where it was able to receive such concessions.[7] The turning point came in 1997 when Intel and General Motors (GM) were looking for investment sites in Europe and explored possibilities in the Czech Republic. According to Havelka, Klaus got interested as he favoured American investors. CzechInvest put their familiar line that the Czech Republic was not competitive without investment subsidies, which were provided by direct competitors, most notably Hungary. In contrast, Klaus believed in the country's natural comparative advantages. Yet, in Havelka words, "The negotiations with the managements of Intel and GM gave him [Klaus] a lesson. They simply laughed at him."

The combination of these hard lessons, mounting economic crisis, and the fact that the Czech Republic was a regional laggard in terms of FDI inflows made the Klaus government to reconsider its approach to foreign investors. [8] In August 1997, the government offered Intel a package of subsidies as it had demanded.[9] In November 1997, just few days before its resignation, it offered a

[7] Interview with Petr Hájek, Prague, 19 December 2005.
[8] Interviews with Jan A. Havelka. Prague, 30 December 2005; Radomil Novák, CzechInvest's advisor to CEO and director in 2004, Campbell, CA, 29 March 2006; Martin Kavka of Ministry of Industry and Trade, Prague, 21 November 2005; Martin Jahn, CEO of CzechInvest in 1999-2004, now on the Board of Directors of Škoda-Volkswagen, Mladá Boleslav, 13 March 2006.
[9] Resolution of the Czech Republic's government #476, 13 August 1997. See, e.g., "Vláda pootevřela dveře investici amerického Intelu [The government open the door to Intel]," *Mladá fronta Dnes,* 14 August 1997.

similar package to GM.[10] As a part of "little packages" reacting to the economic crisis, Klaus assigned the Minister of Industry and Trade to draft an investment incentive scheme. Havelka, who was present at the subsequent meeting of the government, recalls: "Klaus fuzzed out and uttered: 'You know I don't agree with this. But if you wish, minister, prepare a proposal about what should happen, including the investment incentives.'"[11] However, the political development did not allow Klaus's team to vote on the proposal from the Ministry. Thus, it was the Tošovský government that approved the investment support scheme in April 1998.[12]

Witnessing many failures of domestic enterprises privatized through the voucher method or through the Czech Way, most Czech economists had started to perceive foreign capital as a major opportunity to stimulate economic development.[13] Moreover, by the mid 1990s, various "economic experts," mostly young economists working at investment banks or finance consulting companies, established prominence in media discourses. They not only emphasized the need to attract foreign capital, but also called for introduction of investment subsidies. At the same time, CzechInvest's PR efforts proved to be successful, and CzechInvest's experts were often commenting publicly on FDI relevant issues and emphasized the need for an investment support scheme.[14] Thus, when the decision to introduce an investment support scheme was reported in the media, it was accompanied by praise from established commentators.[15]

Investment incentives, however, became a political issue, structured along party lines, with ODS being critical of the scheme and Social Democrats embracing investment support. This gave rise to the impression that investment support actually came with the new government. The leader of ODS's MPs, Vlastimil Tlustý, expressed strong disagreement with the investment scheme proposed by the Tošovský government, despite the fact that the caretaker government presented the policy as a continuation of measures included in Klaus's "small packages" of reforms. In contrast, the leader of the Social Democrats, Miloš Zeman, welcomed the decision of the provisional government, stating that it in a way draws from the programme of the Social Democratic Party. He claimed that

[10] Resolution of the Czech Republic's government #723, 19 November 1997. In the end, neither Intel nor GM invested in the Czech Republic.
[11] Interviews with Jan A. Havelka. Prague, 30 December 2005.
[12] Resolution of the Czech Republic's government #298, 29 April 1998.
[13] Interviews with Radomil Novák, Campbell, CA, 29 March 2006; Jan Mládek, Prague, 28 November 2006. See also J. Mládek, "Keyword: Investment," *Právo,* 24 July 1998.
[14] E.g. "Chybí investiční pobídky, tvrdí analytici [Analysts: Investment incentives are lacking]," *Lidové noviny,* 1 October 1997.
[15] E.g. "Vláda dala najevo, že stojí o cizí capital [The government made clear it is interested in foreign capital],' *Mladá fronta Dnes,* 30 April 1998.

Social Democrats would continue and develop its policy if they won the elections.[16] The project of FDI-attracting, and investment incentives in particular, came to be perceived as a Social Democratic project. The oppositional ODS would very much use this interpretative framework in its attacks on the Social Democrats and their policies. ČSSD would reinforce this interpretation to demonstrate successes of its economic policy.

By 1997, there was indeed an implicit consensus within Social Democracy about the desirability of foreign investment support. A group of economists around former Minister of Industry and Trade, Jan Vrba, which included Jan Mládek, Pavel Mertlík, and Jiří Havel, represented major proponents of such a strategy.[17] They were assigned to develop industrial policy for the party. However, in the time before the elections, there were quite vocal nationalistic statements, such as those about the "family silver," coming from some of the Social Democrats too. It was understood that Miroslav Grégr, former manager of state-owned enterprise Desta and major adversary of Vrba within ČSSD, was the main proponent of economic nationalism in ČSSD.[18] Havelka recalls a situation when he was attacked by Grégr at a parliamentary committee for bringing competitors to good Czech enterprises.[19] Grégr himself claims that he was in favour of creating Czech capital in the early nineties. He believed that a "national capitalism" with limited FDI inflow would be viable if the enterprises were restructured before privatization by the state.[20]

After the elections in July 1998, the Social Democrats came to power. They took the foreign investment support, including the investment-incentives scheme, as a flagship of their economic and industrial policy.[21] This included not only supporting the incentives scheme, but also relying on foreign investors in the remaining privatization cases. Social Democrats would use the successful cases of privatization to foreigners, such as Škoda-Volkswagen, as examples that such strategy works. Moreover, they could already use the first wave of investors who were granted investment incentives. The scheme of investment support was met with great interest from investors. Only one month after it was introduced, CzechInvest reported 111 applicants.[22] Zeman, as fresh Prime

[16] "Kabinet výrazně podpořil cizí i domácí investory [Cabinet strongly supported foreign investors]," *Profit*, 4 May 1998.
[17] Interviews with Jan Mládek, Prague, 28 November 2006, Jan Vrba, Prague, 21 October 2005.
[18] It has to be noted, however, that Grégr participated in the privatization of Škoda to Volkswagen, which he later very much emphasized.
[19] Interviews with Jan A. Havelka. Prague, 30 December 2005.
[20] Interview with Miroslav Grégr, Prague, 10 December 2005, see also Grégr in Myant (2007b).
[21] As emphasized by then Prime Minister Miloš Zeman (2006, p. 47).
[22] "Investiční pobídky rychle zabraly [Investment incentives work quickly]," *Hospodářské noviny*, 29 May 1998.

Minister, would take part in the opening ceremony of the Matsushita plant, which marked the success of investment attracting. For investors, this was a sign of strong commitment of the new government to the investment incentives scheme. For CzechInvest, which was put into uncertainty after Grégr became the Minister of Industry and Trade, it made clear that it would find strong political support within the government.[23] Grégr indeed jumped on the bandwagon of foreign investment support. He didn't see much potential for an autonomous developmental strategy after the industrial base was destroyed by the Czech Way of previous governments.[24]

Later, when the government was deciding about restructuring failing large enterprises, Grégr got into a dispute with Mertlík, then Deputy Prime Minister. Grégr prepared an ambitions proposal of state-led enterprise restructuring whereby 60bn koruna, amounting to 3.3 percent of GDP, would be made available for credits to enterprises with 200 or more employees that would come up with a credible business plan. Grégr's ideas found support among powerful enterprise managers. This, however, calmed downed considerably after it become clear that the Grégr plan entailed surrendering their power over enterprises to the government. Mertlík was promoting a solution prepared by Vrba's team in close cooperation with World Bank experts. The Mertlík proposal, inspired by the German Treuhand privatization agency, envisioned a politically independent agency to take control over failing enterprises, removing existing owners and management, and preparing them for privatization to foreign investors. Unlike the Grégr proposal, Mertlík's proposal was designed to be compatible with EU competition policy. In fact, Grégr's proposal was hardly possible once EU accession was set as a priority. The Mertlík proposal was supported by foreign investors. The final outcome, the Revitalisation Programme, agreed upon on April 14, 1999, was a compromise close to the Mertlík proposal. It established a Revitalisation Agency, insulated from the government. However, the Revitalisation Agency, administered by a consortium of the investment bank Lazard and Latona Associates, never played a major role in enterprise restructuring. The few cases it administered resulted in sell-offs to new owners, who lacked competence or ambition to ensure prosperity for the enterprises. [25]

The Mertlík-Grégr dispute is often interpreted as the last attempt to implement the Czech Way. Indeed, Grégr's proposal allowed for enterprise restructuring independent of foreigners, which the

[23] Interview with Jan A. Havelka. Prague, 30 December 2005.
[24] Interview with Miroslav Grégr, Prague, 10 December 2005.
[25] The account of the Mertlík-Grégr dispute draws on interviews with Jan Vrba, Prague, 21 October 2005; Václav Žák, Prague, 25 October 2005; Pavel Mertlík, Prague, 24 October 2005; Miroslav Grégr, Prague, 10 December 2005. See also Myant (2003, pp. 202-205; 2007b).

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

After the elections in 2006, ODS took the government. One of the most vocal critics of the investment incentives scheme, Martin Říman (ODS), became the Minister of Industry and Trade. Based on the bold statements of ODS politicians in opposition, there were many reasons to expect a scaling down of the investment schemes.[26] Shortly after Říman took the post, he introduced an amendment to the law on investment incentives, which he presented as a major change in approach.[27] In fact, rather than changing the state strategy, this amendment included retargeting of investment support to more technology-intensive activities, as actually planned by the ministry and CzechInvest before Říman ODS took power. Thus, ODS was implementing adjustment of the incentives that would have been done anyway. Therefore, Social Democrats had no problems with supporting the amendment in the parliament.[28]

The reorientation of Czech industrial policy underscores the importance of structural pressures in steering the state strategies into the competition direction. Negotiations with investors proved to be key mechanisms translating the structural power of transnational capital into policy outcomes. At the same time, the project of the competition state was promoted within the state by a group of state managers, which I call the state fraction of the comprador service sector. It organized a coalition of forces promoting the competition state and took advantage of the powerful seduction of the Irish example and Irish consultants. Mediated by the activities of this group, the structural power of

[26] See, e.g., "Pobídky investorům možná skončí [Investment incentives may end]," *Ekonom*, 26 February 2004, p. 18.
[27] See "Říman vyhlásil stop montovnám [Říman: assembly plants stop]," *iHNed.cz*, 19 October 2006.
[28] "ČSSD podpoří novelu zákona o investičních pobídkách [ČSSD supports amendment to the law on investment incentives]," *iHNed.cz*, 14 December 2006. Cf. a telling discussion between Říman and Havel: M. Říman, "Dělají to ostatní, my můžeme jinak [Everybody does that, that, we can do it differently]," *Právo,* 25 October 2006; J. Havel, "Říman vol'aký zmätený? [Říman confused]," *Britské listy,* 30 October 2006, http://www.blisty.cz/2006/10/30/art30992.html; See also J. Drahokoupil, "Is CzechInvest facing extinction?" *Czech Business Weekly,* 7 May 2007, http:/www.cbw.cz/phprs/2007050702.html.

capital brought the comprador service sector in the forefront. The EU provided important support to the activities of the comprador service sector in the early nineties. Later, EU regulation effectively precluded attempts to promote domestic accumulation. The Czech story shows that the actual support of the competition state goes across party lines, political rhetoric notwithstanding.

From banking socialism towards foreign control

While the promotion of foreign direct investment in manufacturing turned out to be a relatively easy political asset with immediate benefits for the Social Democrats, the government had to deal with a much more difficult problem: the crisis of the financial system, the dismal situation of large state-owned banks in particular. Moreover, by tightening the regulatory framework, the central bank forced the banks to disclose the real extent of non-performing assets and to deal with the problem by standard strategies (i.e., not by finding another way to hide them and roll them over). The Social Democrats where shocked when they revealed the shape of the banking sector. This led them to reconsider their position emblematized by one of their election slogans, "not a single koruna into the banks."[29] The government went for privatization preceded by large and costly cleanup operations and equity increases.

Jan Mládek, then Deputy Minister of Finance, illustrates the predicament of the government in facing failing banks:

> Obviously, the main and primary pressure to privatize banks came from inside [of the banking sector]. They [the bankers] brought them to rack and ruin and, what is more, they were unbelievably arrogant. Once Klapal, then director of Česká spořitelna, came to a governmental meeting. It was sometimes in November 1998, probably on the 28th. He would say: 'Guys, you have got fourteen business days for bailing us out. Otherwise, we go bust in January.' He was telling this to the new government. Now, they did not know what to do. So they started to discuss options. In the end, they went for the bail out.[30]

The privatization had started already by March 1998, when the Tošovský government sold its minority stake in IPB to Nomura Europe. Rather than a strategic decision, this was a culmination of the spontaneous privatization of IPB by its management, which had started back in 1993. The government had little choice than to sell the bank to the coalition of Nomura and bank management (Kudrna et al., 2002). The privatization of remaining banks was implemented by the Social Democratic government (see

[29] See account of then Prime Minister Miloš Zeman (2006, p. 43).
[30] Interview with Jan Mládek, Prague, 28 November 2006.

Table 3 for an overview). In June 1999, the government sold its stakes in ČSOB to a Belgian bank, KBC, for €1.2 billion. The privatizations of Česká spořitelna and Komerční banka followed. They were supported by bailouts amounting to over 11bn koruna, i.e. over €346m (see Hanousek, Němeček, & Hájková, 2002). As an outcome of privatization process, 94.2 percent of total assets of the banking sector were directly or indirectly controlled by foreign capital. Thus, the Czech banking sector was fully tied into the multinational financial structures. The bad assets which were removed from the banks in the process of privatization went for sale at a 90% discount by the Czech Consolidation Agency. The losses of these transactions were covered by the taxpayers.

Table 3 Privatization of major banks

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

Source: Kudrna et al. (2002), market shares as of total assets in credit approval sheet at the end of 1999.

As with the U-turn in the approach to foreign investors in industry, the abandoning of bank socialism cannot be attributed to political change. Again, the historical record contradicts such understanding. It was the Klaus government that approved sale of the sale of the state's stake in Komercni Banka, and Ceskoslovenska Obchodni Banka on June 5, 1997.[31]

It is often emphasized that the pressures from the EU and the process of Europeanization had a major impact on the dissolution of banking socialism and on the process of bank privatization (see, e.g., Csaba, 2005). In 1997, the Commission in its report on the progress of the Czech Republic in the accession process indeed recommended that privatization, preferably to foreign capital, and improvement of the regulatory framework and standards of governance would bring the country closer towards fulfillment of the Copenhagen criteria (EC, 1997). It would then consistently push for bank privatization in the successive annual assessments (EC, 1998, 1999, 2000, 2001; see also

[31] "Czechs put two banks up for sale," *Financial Times,* 6 June 1997, p. 3.

Vliegenthart & Horn, 2007). The reports were met with vivid attention in the Czech Republic and were quoted by various reports for investors. The Commission's insistence on improving the regulation of the banking system proved to be important backing for those pursuing the regulatory agenda.[32] At the same time, there was some room to manoeuvre for policy makers, who could interpret the EU's pressure differently and negotiate various outcomes (cf. Lindstrom & Piroska, 2007). For instance, in Mládek's interpretation, the EU did not insist on privatizing the banks; it rather emphasized the need to restructure them. [33] Therefore, there were probably more possible scenarios to be pursued as a reaction to the crisis and EU pressures.

Apart from the EU pressures and exhaustion of the games of banking socialism, the major factor pushing the bank restructuring was the approach of the Central Bank, which was tightening monetary policy and the regulatory framework. The EU has provided important backing for the Central Bank's efforts. The gradual introduction of international standards made many of the tricks to hide non-performing assets illegal (see CNB, 1999). This graduated in July 1998, when CNB decreed full provisioning of loss loans regardless of the value of the linked real estate collateral. This took away a major loophole in the institutional framework, forced banks to express their credit risks in their full extent, and effectively led to a string of bank failures (see Kudrna, 2004). It is interesting to note in this context that, according to Tošovský, then governor of the Czech National Bank, bank failures that the new regulation produced were an unintended consequence of the Central Bank's pursuit of credibility in shifting to new monetary-policy instrument of inflation targeting.[34] This "unintended consequence," however, led to a major crisis that hit not only the banking system but the whole economy, since the banks were not able to provide even basic operational credits (i.e., situation of credit crunch). Suddenly, the only source of money available to domestic companies was foreign capital.[35] In this situation, the government could not allow to wait with bank restructuring.

Political underpinning of the competition states: Power blocs, mechanisms of influence, and the structure of representation

The reorientation of state strategy towards the externally oriented project took a very abrupt form not only in the Czech Republic, but also in Slovakia. The illiberal regime in Slovakia very much

[32] E.g., interviews with Jiří Havel, Prague, 21 October 2005; Pavel Mertlík, Prague, 24 October 2005.
[33] Interview with Jan Mládek, Prague, 28 November 2006.
[34] As reported by Zdeněk Kudrna, advisor to the Minister of Finance Mertlík in 2002-03 and local World Bank consultant in 2003-2005 (interview, Brno, 22 December 2005).
[35] Interview with Zdeněk Kudrna, Brno, 22 December 2005.

politicized the structure of representation and economic policy-making (Gould, 2001, 2003). Mečiar's removal from government thus led to the sudden abandonment of promoting national accumulation and to immediate embracement of the externally oriented strategy. However, even in Slovakia, party politics explains merely the form of transition. Similarly to the Czech case, it was already the Mečiar government that introduced tax waivers for foreign investors in June 1998, just three months before the elections that removed it from power.[36] In Poland, the transformation was much more gradual, and the hegemony of the competition state is less solid there. By 1999, however, the externally oriented strategy became predominant all around the Visegrad Four. It was pursued by governments regardless of ruling party coalitions (cf. Bohle, 2006). Its political support goes beyond narrow short-term interest and immediate material concession, as was largely the case with the national projects of the early nineties. It transcends party divisions and party politics, even though it occasionally becomes politicized and connected with the party in power, giving rise to the false impression that the competition state is a project of the ruling party rather than a broader hegemonic project. Even in Slovakia, the illiberal-democracy effect, politicizing economic policy, seems to vanish with the consolidation of the competition state: the 2006 change of ruling coalition, bringing Social Democrats and Mečiar's HZDS to power, did not pose any challenge.

Many of the factors (re)producing the inward-oriented strategies in CEE, including its social and institutional support, were transformed, or exhausted by the mid-nineties. Economic nationalism and the fear of foreign ownership, which were important factors explaining the strong drive for promoting domestic accumulation, had very much weakened both on the popular and elite levels. As far as the popular support is concerned, a 2000 poll conducted for CzechInvest in the Czech Republic had shown 78 percent of the population considered investments of foreign companies beneficial. Even if asked specifically about German companies, 73 percent of respondents found them credible. The poll showed that 59 percent of respondents were interested in working for Germans (GAC, 2000). In Poland, only 17 percent of people opposed foreign investment in 1996; this percentage rose to 33 in 2001. However, 63 percent of Poles approved FDI that year.[37]

Yet, xenophobia and nationalism in general have by no means disappeared from public discourse in Central and Eastern Europe. On the contrary, the mid 2000s have brought politicians mobilizing the public by appealing to xenophobic and nationalist sentiments right into the political mainstream and

[36] See decree of Slovak government 192/1998 coll., 9 June 1998.
[37] CBOS survey quoted in "The public and foreign investment," *The Warsaw Voice Online,* 8 April 2001, retrieved from http://www.warsawvoice.pl/archiwum.phtml/4634/ on 19 December 2006.

often into governmental offices. In Poland, Jaroslaw Kaczynski, who became Prime Minister in 2006, would bring tension into relations with Germany and Brussels by rediscovering "Polish national interests." "Liberal traitors who want to allow foreign companies to exploit innocent Poland" became a major bogeyman of the Kaczynski government.[38] In Hungary, the leader of the Hungarian opposition Young Democrats (Fidesz), Viktor Orban, would rail in the 2006 election campaign against "luxury profits and rapacious foreigners."[39] In Slovakia, Mečiar's HZDS was brought back to government as a minority partner of left-wing Smer in the same year. Some of the Czech politicians would keep playing the nationalistic card to appeal to the public. While in the 1998 election campaign, it was Zeman (ČSSD) who used the "family silver" line, it was Klaus (ODS) who adopted the rhetoric on the "dangers of globalization" and excessive foreign investment in the run up to the 2002 elections.[40]

The enduring prominence of xenophobia and nationalism in Eastern European politics provides potential for resistance to the competition space and makes the hegemony of the externally oriented project problematic. However, in contrast to the early nineties, nationalism has not provided a major blow against the implementation of the externally oriented project (yet). What is more, the competition state has solid social, political, institutional, and structural bases in CEE states and beyond, which not only provides strong ground to face such challenges, but also makes them less likely.

The structural environment — material, institutional, and ideational —produces a field of force that not only provides constraints on possible strategies, but also makes the externally oriented strategy a "comprehensive programme" for societies as wholes. The structural underpinning of the competition state includes territorial non-correspondence between the scales of political regulation and capital accumulation, the European regulatory framework, and some of the interpretative frameworks that prevail among policy makers.[41] Rescaling of policy-making enhances structural advantages of social forces promoting the competition state (see Drahokoupil, 2007a). Dominant ideas and interpretative frames have an important impact that is often independent of actual material

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[38] Hilary Davies, "Poland's terrible twins," *Prospect online 134,* http://www.prospect-magazine.co.uk/article_details.php?id=8658.

[39] "Sense and nonsense," *The Economist 378/8472,* 4 August 2006, p. 50.

[40] However, opinion polls reveal that ODS voters are not impressed by Klaus's rhetoric. They are very pro-European and outward oriented. Moreover, party programmes of both ODS and ČSSD very much contradicted such rhetoric (see Petrovic & Solingen, 2005). People more familiar with both of these politicians put doubt on the sincerity of such statements (This was emphasized by a number of my interview partners. The respondents did not wish to be quoted on this issue.). Thus, it is quite likely that the politicians do believe in the continuing relevance of the nationalistic ideas and employ them instrumentally.

[41] See also Schelling (1960), N. J.-A. Smith (2005).

constraints.[42] This includes what Watson and Hay (2003) call the business school notion of globalization: the assumption of perfect capital mobility and capital's insistence on pursuing neoliberal policies (see Drahokoupil, 2004). Accordingly, the world is perceived as a marketplace for FDI. As Martin Jahn, former director of CzechInvest, put it, "the demand for investment is higher than its supply. That means that it has a price."[43] These frames also include the assumption that none of the investors granted incentives would have come had the incentives not been provided (e.g. MIT, 2004). Many of the actors, who do not agree with investment subsidies in principle or with promotion of foreign investors, see it as a must under the given conditions. Thus, even Jaromír Drábek, president of the Czech Chamber of Commerce, an organization with a strong base of small businesses that are hostile to foreign investment promotion, believes that a lack of investment incentives would be very risky.[44]

The actual policy outcomes, however, are a product of the agency of particular social forces mediated through structures of representation. The structural power of multinationals, enacted in the negotiations between governments and investors, was crucial in making the policy makers, regardless of their ideological persuasion, reorient the internally oriented polices towards the externally oriented framework. Here, the agency-based strategies pursued by the comprador service sector merely facilitated the impact of structural factors.[45] This sector, however, has a crucial role in the power blocs underpinning the competition state. It is a nodal point and organizer of transnational power blocs centred around multinational investors. The comprador service sector helps to translate the structural power of transnational capital into tactical forms of power that enable agential power to work in sync with the interests of the multinationals. The comprador blocs also include significant fractions of domestic capital, which are becoming largely internationalized

[42] Both foreign investors and local capital do exploit additional structural advantages provided by prevailing ideational frameworks. They push for and often obtain concessions that could be considered as puzzling if only "hard" factors such as costs of exit or labour intensity of production were considered. Most notably, foreign investors push for and obtain concessions in the form of various incentives even when they do not base location decisions on them or when the cost-benefit rationality of such provisions from the perspective of respective states is questionable. Similarly, the local capital takes advantage of its privileged political position in comparison to organized labour, favourable media environment, and discursive structure in general (i.e. advantages provided by discursive selectivity) and pushes for concession in the realms of labour regulation and taxation. For instance, media coverage would make one believe that the level of taxation in the Czech Republic is higher then in the rest of the EU. In fact, the overall level of taxation, most notably that of capital, is below the EU average (see Appel, 2006). Moreover, the Confederation of Industry of the Czech Republic sees intervention through media as one of the most effective means of political influence.

[43] Interview with Martin Jahn, Mladá Boleslav, 13 March 2006.

[44] Interview with Jaromír Drábek, Prague, 12 June 2006.

[45] The comprador service sector was particularly active during the internally oriented period in the Czech Republic (Trník, 2007). Yet even there, it merely facilitated and mediated the policy turn. (Interview with Martin Jahn, 13 March 2006.)

and/or subordinated to international investors. Moreover, some large domestic companies have joined the power bloc after it started to deliver direct economic benefits in the form of investment subsidies.

Contrary to the state-centric understanding of state-multinational bargaining (Vernon, 1998; Eden, Lemway, & Schuler, 2005; Meyer & Jensen, 2005), implementation of the competition-state project cannot be understood as an outcome of unequal distribution of power between foreign investors and the governments. The governments are not social actors independent of other social forces, including the investors. In this spirit, Bohle and Husz (2005) pointed to the consent of interests between the investors and national elites in the V4. To be more precise, I argue that it is the privileged position of social forces connected to FDI, the comprador service sector in particular, within respective states and societies that explains the support for the competition agenda. The social forces supporting the externally oriented strategy exert influence through different channels, depending on their structural position, most notably their ability to move operations elsewhere and their ability to access politicians and policy makers directly and influence their decisions. These channels go across various bodies of the state and even across individual political parties.

Such "condensation of forces" within the state is nicely illustrated by the situation of Czech ODS. As we have seen, this party has been in a schizophrenic position of being a pertinacious opponent of (foreign) investment support, on the one hand, while actually taking part in, (tacitly) supporting, and even initiating, the implementation of the investment incentives scheme both in the parliament and with the government.[46] As Havelka notes, "It's a kind of political game, today they oppose [the investment support], and tomorrow they will support it".[47] Moreover, there is a centre-regions split within the ODS in the approach to FDI and investment support (for more details, see Drahokoupil, 2007a). Why does ODS indulge in what Havelka characterizes as "political games"? As an element in the structure of representation within the state, ODS reflects two lines of power; it condensates social forces in a contradictory way. On the one hand, domestic small-scale capital is an important material and political base of the party. ODS benefits from the financial support of this fraction, and the "petty bourgeoisie" is an important element in the electorate. As observed by Mládek, "domestic business is their material base after all. First, these entrepreneurs vote them. Second, they are linked

[46] In 2000, out of 63 MPs of ODS, none voted against the Law on Investment Incentives, one abstained, and 10 did not take part in the voting. However, ODS MPs voted differently about the 2001 amendment to the law: 18 supported the law, 20 voted against, and 18 abstained.
[47] Interview with Jan A. Havelka. Prague, 30 December 2005.

to the party directly. In contrast, the multinationals would rather support all parties [financially], more or less legally. National capital has a different approach."[48] Thus, ODS in the centre has to accommodate the (mainly agency) power of the national bourgeoisie. On the other hand, the position of the party also reflects the (mainly structural) power of the multinationals.[49] As the analysis of the scalar constitution of hegemony shows, the structural power of multinationals is particularly felt in the regions (Drahokoupil, 2007a). This tension within the party, as we have seen above, has been further polarized by the dynamics of party electoral competition.

Resistance to the competition state comes from small domestic companies and from "principled NGOs" and individuals bearing the costs of particular investment projects (Drahokoupil, 2007a). In Hungary, where monetary policy became part of the competition strategy as favoured by the export-oriented industrial sector, a cleavage between fractions of finance and service sector, on the one hand, and industrial capital, on the other, became prominent.

The comprador service sector

The literature on (FDI-)dependent development has emphasized the crucial role of domestic actors in the political coalitions underpinning the externally oriented projects. These coalitions have been understood as a "triple alliance" of state, international capital, and the local bourgeoisie (O'Donnell, 1978; Evans, 1979). While the national bourgeoisie lacks the productive potential of the multinational, it has an important economic perspective role, since multinationals shift production only if local social forces create an expectation of increased profitability. From the political and ideological perspective, O'Donnell (1978) claimed that only the local bourgeoisie can contribute "the national and private" ingredients needed for a hegemonic project. In the discussion of earlier "transitions" in Europe incorporating the Southern periphery into the European core, Poulantzas used the term comprador bourgeoisie to describe class relation in the periphery and to analyze the core-periphery relations. Comprador bourgeoisie was defined as "that fraction whose interests are entirely subordinated to those of foreign capital, and which functions as a kind of staging-post and direct intermediary for the implantation and reproduction of foreign capital" (Poulantzas, 1976, p. 42; cf. Baran, 1957). In this context, Poulantzas has distinguished between comprador bourgeoisie and internal (or interior) bourgeoisie. In the capitalist core states, or what Poulantzas calls "imperialist metropolis," the internal bourgeoisie is neither national nor comprador. It "maintains its

[48] Interview with Jan Mládek, Prague, 28 November 2007.

[49] As Havelka noted before the 2006 elections that brought ODS to the government, "I hope that ODS will not close the golden mine if it comes to power." The subsequent developments have shown that ODS would not do that.

own economic foundation and base of capital accumulation both within its own social formation, and abroad"; however, it no longer preserves structural features of the national fraction as it is "implicated in the multiple ties of dependence in the international division of labour' (Poulantzas, 1974/1978, p. 72). Peripheral development is understood to be dominated by the comprador bourgeoisie, economically, politically, and ideologically subordinated to foreign capital. Since the comprador fraction does not have its own base for capital accumulation, it is often taken to include the "bureaucratic bourgeoisie" (Poulantzas, 1974/1978, p. 71).

According to Holman, the new power elites in CEE are not propertied comprador bourgeoisie, but managerial and administrative elites "whose interests are entirely subordinated to those of foreign capital, and which functions as a kind of staging-post and direct intermediary for the implantation and reproduction of foreign capital in these countries" (Holman, 2004, p. 223). Thus, this elite functions as a mechanism translating structural dependence on foreign capital into concrete political processes within CEE states. As the quote indicates, Holman's new power elite in CEE has the same social function as the comprador bourgeoisie analyzed by Poulantzas in Southern Europe.[50] Holman's conceptualization draws on Böröcz's (1997) concept of the "auctioneer elite." This, however, is not suitable since Böröcz's "auctioneer elite" refers specifically to the privatization processes and does not concern exclusively the link to foreign capital. In particular, it refers to the conflict between the roles of property owner and regulator of the accumulation process that the post-socialist states faced.

I characterize this group as comprador *service sector* in order to specify the structural position of this group and avoid any possible misleading associations. It is not possible to speak about bourgeoisie, as the comprador service sector is neither a propertied class, nor a professional managerial class, whose interests are linked to that of company owners. Structurally, the comprador service sector is much closer to what van der Pijl characterizes as "cadre" (van der Pijl, 2004). In this context, the comprador service sector specifies structuration of corporate and state fractions in Sklair's all-encompassing understanding of the transnational capitalist class. Functionally, this group is *comprador* as it is structurally dependent on transnational capital, whose interests it represents. For instance, Martin Jahn of CzechInvest made quite clear what the role of the agency was. In 1996, he wrote, "One could have an impression that our agency discriminates against Czech

[50] In this context, it is interesting to note that, according to Holman, Poulantzas's understanding of Southern European class structure is misplaced since the fractions that Poulantzas considered as comprador, such as bank capital, were in reality autonomous (Holman, 2004, p. 223).

companies. However, our agency represents primarily the interests of foreign investors. [… In addition, CzechInvest] is the National Contact Centre of OECD that conveys demands of the multinationals to Czech authorities."[51]

The comprador service sector plays a major role in the power blocs underpinning the competition state in the V4. It represents the interests of multinationals in the region and organizes the power blocs centred around the multinationals. The comprador service sector includes state officials from FDI-related bodies, local branches of global consulting and legal advisory service firms and their local competitors, and companies providing other services to foreign investors. Similar networks of state bureaucrats and the private service sector can be observed all around the V4 (cf. Zamkovský, 1999; OECD, 2000; Shields, 2003, p. 236; Capik, 2007; Trník, 2007). They are often organized by FDI-related fractions of state apparatus and investment promotion agencies. The centre and organization of representation of this sector within the state varies. Usually, the investment promotion agencies are major sites of representation of this sector (i.e. CzechInvest, ITDH in Hungary, PAIiIZ in Poland, and SARIO in Slovakia). The comprador service sector is also represented in other FDI-linked bodies within the state, such as the respective section of the Ministry of Economic Affairs in Hungary, Economy Ministry and Governmental Assignee for Development of Automotive Industry in Slovakia, and Ministry of Industry and Trade[52] in the Czech Republic. These linked bodies are particularly important in Slovakia, where the investment promotion agency is weak (Trník, 2007; cf. Zamkovský, 1999). In Poland, regional authorities and their investment promotion bodies have an important and autonomous role (Capik, 2007).

State and corporate fractions of the comprador service sector are linked by the common interest of promoting FDI. They are integrated through personal links, institutional channels, material benefits, and recruiting patterns. First, the two fractions are integrated through flows of people between them. The main protagonists would switch from working for governments to jobs in consulting agencies, developers, or law offices, and often back. For instance, Jan A. Havelka, founder of CzechInvest, left CzechInvest in 1999 to become the director of corporate and government relations at the Prague office of the global law firm White & Case. While working for White & Case, he chaired the AFI. In 2005, he became a crisis manager of the Slovakian investment promotion

[51] M. Jahn, "Investment produces higher competition," *Mladá fronta Dnes,* 8 March 1996, p. 13.
[52] The Ministry of Industry and Trade is often considered as a bastion of national capital. It is certainly the case. At the same time, as is evident from the struggle between the internal and external projects in the Czech Republic in the early nineties, the centre of representation of foreign investors has been in the same ministry.

agency SARIO and an external advisor to the Ukrainian Center for Foreign Investment Promotion (UCFIP). Quitting White & Case, Havelka took the post of the director of international project management and property development corporation IPEC — CZ, which develops industrial sites for foreign investors. After leaving the government in 1992, Jan Vrba worked as an advisor to foreign investors. Since 1997, he works as a local partner for Procuritas, a Scandinavian private equity house. After leaving CzechInvest, Martin Jahn served as Deputy Prime Minister for Economic policy in 2004-2005. In 2006, he started on the board of directors of Skoda-Volkswagen. A similar phenomenon was observed by Greskovits in Hungary, where some of the top policy makers would rotate between public offices and jobs in multinationals, banks, and international financial organizations (Greskovits, 1998, p. 47).

Second, the state and public fractions developed a number of institutional channels and fora of cooperation. The linkages are usually organized through inclusion of private-sector representatives into supervisory-board structures of investment promotion agencies (McMenamin & Hill, 2004). Moreover, the comprador services sector has developed networking and lobbying organizations such as AFI in the Czech Republic and the Investors' Council established by the Ministry of Economic Affairs in Hungary, and some foreign business chambers.

The Czech case very well illustrates the nature of integration between state and corporate fractions of the comprador service sector. CzechInvest used its Steering Committee to develop a close working relationship with the private sector. It brought together senior government officials and top executives of private companies and large banks. The representation of the private sector gradually expanded (see Table 2). The Committee had a particularly important role in manufacturing support for the externally oriented project in the early years of the agency (Trník, 2007). In 1996, the comprador service sector created a special networking and lobbying body, the Association for Foreign Investment. AFI is a joint project of CzechInvest and companies providing service for FDI. Its membership structure, including various management consultancies and other service providers, exemplifies the composition of the comprador service sector (see Appendix A). AFI was established in order to serve business and political aims. Its business aim is to link foreign investors with local suppliers. Its political aim is to provide a channel between foreign investors and the government and thus to promote the interest of foreign investors. Moreover, AFI is an important source of funding for CzechInvest's activities that could not be paid from the state budget. These include activities aimed at assisting foreign investors at home and promoting the Czech Republic as an investment site abroad.[53]

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

> There was a number of things we [CzechInvest] could not solve alone. … First, there was a problem that investors would approach project managers and ask them to find a good lawyer, etc. … This was very dangerous. What is more, some of the project managers would have short lists of lawyers, auditors, and so on. This was a highway to hell. On the other hand, local consultants, including branches of multinationals, would approach me to recommend them [to investors]. Even quite renowned companies would offer commissions for this… Second, we needed to provide the investors with information about suppliers, etc…[54]

Jan Vrba, who was working as a consultant for foreign investors after leaving politics, emphasizes the business function of AFI and comments on material benefits that it entailed.

> This group [AFI] was an exemplary case of insider trading. It was founded by Jahn. I consider him a product of PR agencies. He became director of CzechInvest. Milan Ganik came with this idea of AFI. It was something like a foundation. Jahn became head of the foundation. It brought together various companies, lawyers, law offices, consulting agencies. All of them had to pay some annual fee. Then, if a foreign investor appeared, CzechInvest forwarded him to this group. They would recommend respective law firm or consultant. And Jahn was the head. Thus, he was receiving two salaries. One, rather low, was from CzechInvest, and another, much higher, from the foundation. In addition, not to make it too obvious, it would include holiday in Malta and other unbelievable things that reminded me of Banana republics.[55]

Milan Ganik, then director of Squire, Sanders & Dempsey's Prague branch, founding member of AFI, recalls the launching of AFI and its functions as follows:

> It was sometime in 1995. I was in the US. Martin Jahn approached me and we discussed AFI. It was about… Well, I see it as a part of the attempt to break through Klaus' nationalist approach. It was quite difficult for foreign investors by then. [AFI] was an effort to keep the investor interested [in the Czech Republic]. It tried to

[53] Interviews with Jan A. Havelka. Prague, 30 December 2005; Petr Hájek, formerly of CzechInvest, Prague, 19 December 2005. See also AFI's official website (www.afi.cz), CzechInvest (2002).
[54] Interview with Jan A. Havelka. Prague, 30 December 2005.
[55] Interview with Jan Vrba, Prague, 21 October 2005.

> introduce them to local partners like Squires, which was a founding member of the foundation… So it was an effort to break through [the nationalist approach] and thus to get new clients for consulting firms. Later, it got too tangled and closed… But at the moment, it's not very efficient as it has lost the exclusivity of a closed club.[56]

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

Finally, the two fractions of the comprador service sectors are integrated through recruitment patterns. An average two-year staff turnover in investment promotion agencies, whether in developing, transition, or developed countries, amounts to about 30 percent (UNCTAD, 2001, p. 39). Among the V4 cases, staff turnover in CzechInvest was kept at about 14 percent in early 2006; SARIO reported staff fluctuation of 37 percent in 2006 (Trník, 2007). A position in the state fraction, followed by work for the comprador service sector or direct work for multinationals, often works as two logical steps in career ladders, especially for graduates. In the Czech Republic, it is a common phenomenon that young people, after getting experience in CzechInvest or in FDI-related departments of Ministry of Industry and Trade, get lucrative positions in the FDI-related private sector. The management of CzechInvest is aware of the fact that it cannot offer salaries competitive with the private sector. CzechInvest's strategy thus has been to hire young talented recent college graduates, who were given significant responsibility in terms of project management and product development.[57] Such work provides them not only with experience that is valued in the private sector, but also with contacts within the top management of the multinationals and the corporate fraction of the comprador service sector.

The comprador services sector and its allies have become increasingly influential within the states in the V4. Among others, they got involved and significantly influenced the reforms of social and labour laws, tax and competition policies, and the preparation for EU accession (AmCham Slovakia, 2002; Bohle & Husz, 2005; Bohle & Greskovits, 2006; Kolesár, 2006). For instance, in

[56] Interview with Milan Ganik, Prague, 21 November 2005.
[57] See MIGA-FAIS (2005). Interviews with Martin Kafka, Head of Investment Support Unit, Ministry of Industry and Trade, Prague, 21 November 2005; Petr Hájek, Prague, 19 December 2005.

the Czech Republic, the comprador elite sector managed to build a "working relationship" with key politicians and officials (MIGA-FIAS, 2005, p. 14). As characterized and evaluated by Havelka,

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

In addition, the process of formulating the Economic Growth Strategy in the Czech Republic indicates the prominence of the comprador service sector within the state. The strategy, setting priorities for coordination of economic policy up to 2013, was drafted in 2004-2005 by a team of experts dominated by the members of the comprador service sector.[58] The work was directed by Martin Jahn, former CEU of CzechInvest. In 2004, Jahn also took the position of Vice Prime Minister for Economic Affairs and became the only economist in the government.[59] It is thus not surprising that the preferences of foreign investors were a major concern when drafting the strategy.[60]

The multinationals

The multinational corporations investing in the CEE region represent the main productive element or material base of the externally oriented power bloc. While negotiations with big strategic investors (Intel and GM in the Czech case) proved to be important mechanisms expressing the structural power of transnational capital, the actual political agency within the state was left to the comprador service sector. The multinational investors, however, tend to be quite active within the states after they invest there. This could have been observed already in the early nineties in Hungary, where the multinationals were quite active in relation to the formation of the "transition" strategy (Mihályi, 2001, pp. 63-64).

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[58] See *Economic Growth Strategy of the Czech Republic, 2005-2013*, available at www.hospodarskastrategie.cz.

[59] See, e.g., "Člověk zvenku [The man from outside]," *Euro,* 29 August 2004.

[60] Interviews with Petr Hájek, member of the Economic Growth Strategy, formerly of CzechInvest, Prague, 19 December 2005; David Hofman, Economic Growth Strategy Project Manager, Prague, February 2006. The draft of the strategy was met with dismay among the unions and many members of Social Democracy. Former Prime Minister Zeman would describe the content as "being right of the Right" (Zeman, 2006, p. 121). The prominent members of the team were quite explicit about their neoliberal orientation.

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

Hungary has developed into a regional hub in electrical and electronics industries. Large multinationals, such as Mannesmann, Philips, IBM, Kenwood, Samsung, Siemens, and Flextronics, and their smaller suppliers, have established primarily low-skilled, labour-intensive activities in the western part of the country (see Bohle & Greskovits, 2006, pp. 12-16). Efficiency-seeking through cheap factor costs was a major motivation for investors. Some observers would suggest that the country was about to become “Europe’s Mexico,” suffering from “Maquiladora syndrome” (Ellingstadt, 1997; Kapoor & Eddy, 1998). In Poland, and to lesser extent in the Czech Republic, cheap labour was not the primary reason for FDI. The market-seeking investors were much more important in terms of both volume and economic impact (Benáček & Zemplinerová, 1997; Hardy, 1998; Pavlínek, 1998, 2004; Domański, 2003). In the Czech Republic, the efficiency-oriented investment was the domain of small Western firms that reaped the benefits of low production costs across the border. These small-scale, maquiladora-style investments concentrated along the German and Austrian borders (Pavlínek, 1998) The market-capture investments were typically large capital investments in existing state-owned companies (e.g. Phillip Morris in the tobacco industry, Procter&Gamble in laundry detergents, Nestlé/BSN in candies and chocolate). Very few investors invested in Slovakia in the early nineties.[61] The investors feared a potentially unstable investment environment after the breakup of Czechoslovakia — in contrast to the Czech part, there was almost

[61] The 1991 factor-seeking investment of Volkswagen in Bratislava being a notable exception (see Pavlínek & Smith, 1998).

no investment record in Slovakia by 1993. Moreover, privatization policy was probably most hostile to foreigners there (Pavlínek & Smith, 1998).

The quality of local regulatory environments and the stability of institutional frameworks are not major concerns for investors engaging in the low-commitment activities that were predominant in the early nineties. The association agreements with the EU provided sufficient guarantee in this respect. Thus, it made more sense for the investors to be politically active in Brussels, which they indeed were. They would lobby the Commission to speed up the enlargement process in order to secure investment opportunities in CEE (see Holman, 2001; Bohle, 2006).

Since the mid 1990s, however, the investors have shifted into higher-commitment and less mobile activities. First, after the capture of domestic monopoly producers, cost-cutting, efficiency-oriented investment motivation has become dominant (Pavlínek, 2004). Foreign direct investment into more capital-intensive industries took off (Bohle & Greskovits, 2006). The early 2000s have seen a wave of mass-production relocation from Western Europe to exploit low wages in the V4, in the Czech Republic in particular (Pavlínek, 2004). This type of transfer and outsourcing of parts of the production process has been particularly the case in electrical, electronics, and automotive industries. For instance, the Czech Severočeský region was the top-performing destination in Europe for investment in automotive components in 2002, attracting 7 percent of European investment in this sector (Ernst&Young, 2003).
Second, there were many cases of industrial upgrading and/or local embedding of multinationals' activities in the region (see, e.g., Turnock, 2004). Third, a number of mobile investors seeking low costs departed from the region to cheaper locations after only a few years of operation when the costs of input increased. For instance, Mannesmann, Shinwa, and Solectron have closed their production units in Hungary and moved them to China (Mannesmann and Shinwa) and Romania (Solectron) (see Kiss, 2001).[62] The Singapore-based Flextronics International, a contract electronics manufacturer, has moved its production from the Czech Republic and Hungary to China in 2002, citing lower labour costs in China as the reason (see Drahokoupil, 2004; Pavlínek, 2004).[63]

Finally, European banks were very active in taking over financial houses all around CEE by the end of the 1990s and in the early 2000s. They have achieved unprecedented dominance of the financial

[62] See also P. Serenyi, "China's cheaper," *Business Central Europe*, February 2001, www.bcemag.com.
[63] "Flextronics: Čína je levnější [Flextronics: China is cheaper]," *Mladá fronta Dnes,* 17 May 2002, p. 2.

system in the region. Italian UniCredito and HVB group have been very active in Poland. The Czech Republic is dominated by other European banks, namely, KBC Bank, Erste Bank, and Societe Generale. Belgium's KBC is leading Hungarian finance. Other main shareholders in the top Hungarian banks are Bayerisch Landesbank, Banca Intesa, Erste Bank, Raiffeisen International, UniCredito via HVB, GE Capital, and ING. Finally, the Erste Bank, Banca Intesa, and Raiffeisen International control the top three banks in Slovakia.[64] These engagements are crucial for strategies of these banks, as the region has become one of the most profitable banking regions in the world.[65]
In this context, it is useful to elaborate the conventional distinction between the structural and agential power of capital by including the tactical face of power.[66] The structural power of capital is derived from the dependency of the state and society at large on the investment decisions that are controlled by capital (e.g. possibility of investment strike and state revenue dependence).[67] The structural power of capital is greatly enhanced when it is able to relocate its investment in different regulatory environments (capital mobility). The structural dependence of state and society on capital accumulation and profitability provides the business an important advantage in presenting its interests as "national interests." This advantage could be considered as a structural dimension of the ideological power of capital. (Poulantzas, 1973, pp. 303-305; Miliband, 1969, p. 165; Lindblom, 1977, p. 202). The power through agency is exercised by direct participation of business within and in relation to the state institutions. It includes access to the state through allied policy makers or direct representatives of business, influence through party funding, support of various civil society organization like think-tanks, representation through business associations, corruption, and lobbying (e.g. Miliband, 1969; Domhoff, 1996, 1967; Block, 1987). The notion of tactical power introduces an intermediate level between the structural and agential faces of power. The tactical power refers to the ability to control settings of interaction, or the respective field of force. It enables the structural power to work in sync with its agential counterpart (Wolf, 1990).[68]

In a classic understanding, mobile asset holders like multinationals would prefer to exert influence by using their structural power (exit strategy of silent withdrawal), while the less mobile fractions would have more incentives to invest in the influence through agency (voice). According to Hirschman (1970), these two strategies are mutually exclusive. The empirical record shows that

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[64] "CEE: Expanding across CEE," *European Banker,* 8 November 2006, p.9; www.die-bank.de, www.thebanker.com.
[65] "All eyes turn to growing profits in eastern Europe," *Financial Times,* 25 October 2005, p. 9.
[66] For a detailed discussion of structural/agency power of capital, see Gill & Law (1989) and Farnsworth (2004).
[67] See, inter alia, Hirschman (1970); Przeworski & Wallerstein (1988); Offe & Ronge (1975); Gough (1979).
[68] Wolf's notion of tactical power largely corresponds to the agenda-setting face of power as conceptualized by the faces of power debate in the political science (see Hay, 2002, pp. 174-178).

mobility or the scale on which the respective actors operate does indeed influence the strategies that the respective actors employ. Thus, the comprador service sector, local subcontractors, and local capital have been very active in developing various agency-power activities. What is more, the comprador service sector had major role in translating the structural power of multinational into the tactical forms of power. Tactical manoeuvring demanded the multinationals to make alliances with and the hiring of local brokers. In this process of translation, transnational capital became embroiled with local actors embedded in different language-jurisdiction and comprador service sector became the major organizer of the power bloc centred around the multinational capital.

As we have seen, the structural power of multinational capital — that is, its ability to locate their investment outlets in the regulatory environment of their choice and possibility of exit (at variable costs) — was crucial in reorienting state strategy in the Czech Republic. The incentives that the Czechs have rolled out then triggered aggressive competition for investors in the region with investment incentives, including generous grants and tax waivers. Soon after the incentive package was introduced, Hungary, Poland, and Slovakia brought in similar incentive schemes (Gandullia, 2004, pp. 15-16; Jensen, 2006). The structural power of multinationals is greatly enhanced by the lack of regulation of regime competition on the European level. By 1996, of 45 European countries, 35 offered FDI preferential tax rates, 26 offered tax holidays, 16 offered special accelerated depreciation schemes, 7 offered social security relief, 11 offered special tax-deductible items, and 20 offered exceptions from tariff payments (Zemplinérová and Benácek, 1996, in Pavlínek, 1998).
The strategies of multinationals, however, have demonstrated that exit and voice are by no means exclusive. On the contrary, the multinationals have been employing both exit strategies (including playing off the states against each other when making their investment-location decision) and agency through voice.[69] In the early nineties, the investors would concentrate their agency-based strategies on the level of the EU (see Holman, 1992, 2001). Later, with the shift of investors' strategies towards more long-term engagement and with the rise of the competition states, the multinationals would join the comprador-elite sectors in their effort to approach the state directly. After the state strategies reoriented, the multinationals did not leave the political agency to the comprador service sector only. On the contrary, they proved to be quite active in promoting their interests through direct agency. Their agency-based activities are very efficient in addressing investors' concerned and promoting favourable policies (see Bohle & Husz, 2005). Box 1 provides

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

an example of negotiations between Audi and the Hungarian state in 2006. It shows that the multinationals are quite active in direct lobbying, in which they would often use the threat of exit. Yet, Audi's high-involvement voice strategy, including flying its CEO to meet the Hungarian prime minister, indicates that the investment location matters to the investors in one of the most important industrial sectors controlled by foreigners.

Box 1: Audi and the Hungarian state in 2006

Germany's premium car maker Audi is Hungarian's biggest exporter. It has a long record of lobbying and negotiations with the government in order to obtain and preserve investment incentives, most notably tax concessions (see Bohle & Husz, 2005).

In June 2006, it announced it would increase its operation in Hungary, including expansion of production of the TT sports car to over 50,000 units a year by 2010 from a planned 20,000 in 2006.

As a part of an austerity package, Hungary introduced 4% of pre-tax profit, dubbed a "solidarity tax," on September 1, 2006. This tax applied also to investors who enjoyed tax exemptions. Audi had been granted exemption from corporate tax until 2011.

In October, Audi announced it would suspend future investments in Hungary because of the "solidarity tax." This decision followed talks with the government about the tax. Audi's executive was arguing that the tax would decrease the company's competitiveness compared with its plants in Poland and China. Subsequently, Hungary's Minister of Economic Affairs, János Kóka, declared that no foreign investor would be exempted from the "solidarity tax." However, the negotiations continued.

In November, the car maker and the government reached an agreement on a tax allowance. The government would allow companies to reduce the tax base of the new "solidarity tax" with research and development expenditure. Audi declared it would go ahead with the investment. Right after the deal was concluded, Audi's Chairman, Martin Winterkorn, visited Hungary to meet with Prime Minister Ferenc Gyurcsány.

Two days after the government approved an amendment to the "solidarity tax", Audi announced it would set up Research & Development Institution at the Budapest University of Technology and Economics. This will provide a significant boost to the already sizeable R&D spending of the car maker in Hungary.

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

Obviously, the influence of foreign investors through agency cannot be seen in isolation from the structural power they continue to exert and make use of. Thus, the dramas of bidding for investments keep respective state officials busy and continue to entertain newspaper readers in the region. Moreover, the multinationals employ the threat of exit in their negotiations with the governments (e.g. Bohle & Husz, 2005). It is no surprise that the combination of structural and agency influence gives the multinationals considerable leverage in promoting their interests and obtaining various sweeteners. For instance, Schoenman's (2005) analysis shows that the multinationals in Poland were able to obtain similar tax concessions as those of domestic businesses well connected to the government(s). The structural power of capital is crucial to understanding the privileged position of the multinationals in the power blocs underpinning the competition states. In the pursuit of the "voice" strategies described above, the investors use the threat of exit in their negotiations with the government. In the Czech Republic, even the most embedded investor, Škoda-Volkswagen, would use threat of relocating to the East. Recently, it has used this threat during wage negotiations and when the European Commission discussed a scheme reducing limits on car emissions (which has been already scaled back after intense lobbying by car manufacturers).[70] Hungarian examples include Audi's pressure described above and the pressure of multinationals for the government to obtain transitional concessions from EU's competition policy in order to maintain generous incentives (Box 1 and Bohle & Husz, 2005).

The investors would use a number of channels of direct political influence. First, they use associations bringing together government officials and investors. These include AFI in the Czech Republic and the Investors Council in Hungary. While both AFI and the Investors Council were established as initiatives of the comprador services sector, the investors are happy to use the opportunities for approaching state officials at different events organized by such associations. Second, the investors use various business organizations representing foreign investors. Most notably, the American Chamber of Commerce (AmCham) proved to be very active and efficient in promoting investors preferences in the V4 states. It focuses mainly on influencing legislature which is "in the pipeline" through activities such as direct lobbying, producing position papers, and organizing press conferences. It focuses on the problems that are found by the investors as most burning in the respective states. In the Czech Republic, it has concentrated on the issues of

[70] "Jahn: Škoda Auto zvýší mzdy o 12,7 procenta, navíc dá příplatky [Jahn: Skoda to increase wages]," *iHNed.cz,* 18 April 2007; "Tlak z Bruselu zdraží auta [Brussels' pressure to make cars expensive]," *iHNed.cz,* 7 February 2007; "EU to impose new limits on car emissions," *FT.com*, 5 February 2007.

corporate governance, bankruptcy regulation, and the regulation of portfolio investment.[71] In Hungary, it has substantially intervened in favour of preserving the tax concession scheme (see Bohle & Husz, 2005). In Slovakia, one of its major priorities was to promote flexibility in labour regulation.[72] Third, direct negotiations with the government officials are an important channel of influence that the investors often make use of. Some of the investors would exercise influence by simply buying politicians or officials whom they deem relevant. A notorious example of such practice is privatization of Česká spořitelna in the Czech Republic. There, Die Erste bank paid 10 million koruna (approx. €330,000) to Miroslav Macek of ODS for "advisory service." It was very unlikely that Macek would be able to influence the privatization process, neither could he probably posses knowledge of such value. The common interpretation that Die Erste simply wanted to secure the deal by buying politicians from both major parties seems most plausible.[73]

The locational competition for foreign investment allows multinationals to collect concessions in the form of investment subsidies. While some claim there is a close connection between FDI and (tax) incentives (e.g. Csáki, 1995; Hunya, 1998), others question the link between subsidies and investment inflows (Beyer, 2002) or put doubt on incentives' ability to crowd in investment as the former is found not to be a primary factor in location decisions of the investors (Mallya, Kukulka, & Jensen, 2004). However, at least some investors do include the possibility of securing *additional* benefits by receiving subsidies into their location decisions.[74] Once endowments among competing locations are similar, investment incentives play an important role in investors' locational decisions (Kolesár, 2006; cf. Bohle, 2008). The V4 region offers more than one equally good investment location for many investors. Thus, they are able to choose among investment locations in more than one country, which allows them to play the respective states against each other. Moreover, investors with such ability are often those targeted by investment support as they are considered to be strategic by the policy makers in the V4. This was the case of large electronics and automobile manufacturers in the early 2000s. In sum, while it is possible that only a minority of investors do really base their location decisions on the provision of subsidies, it is important that foreign investors in general, and the comprador service sector that represents it, do require investment

[71] AmCham's notable impact on policy-making was noted, for instance, by Mertlík (interview, Prague, 24 October 2005) and Havelka (interview Prague, 30 December 2005).
[72] E.g., "Report on the activities of the Labor Law Task Force of AmCham Slovakia" (2002), downloaded from www.amcham.sk on 20 February 2005.
[73] See, e.g., "Všimné pro Macka [Advance tip for Macek]," *Respekt 38/01,* 17 September 2001, p. 9; Havel (2004, p. 31).
[74] Interviews with Kazutami Ando, CzechInvest Honorary Advisor and advisor to Japanese investors, Prague, February 2006, and Jan A. Havelka. Prague, 30 December 2005.

incentives and actively push the policy makers to provide them. It would be actually quite irrational not to collect material concessions when virtually no costs are entailed.

Domestic capital and bourgeoisie

With the emergence of foreign-led economies, domestic capital became increasingly internationalized and/or dependent on foreign investors. Even in Poland, where a significant section of the economy is owned by domestic capital and by the state, major leading sectors, such as the automobile industry, are controlled and completely dependent on multinationals (cf. Pavlínek, 2006). In Slovakia, now one of the most FDI-dependent economies in the region, large enterprises acquired by Slovakian industrial tycoons of the nineties, including VSZ and Slovnaft, were taken over by foreigners without resistance. These structural changes transformed shapes, outlooks, and collective capacity of the domestic bourgeoisie.

The Czech experience is representative of the trends in transformation of domestic capital in Poland and Slovakia. There was relatively vocal opposition from some of the representatives of Czech capital to CzechInvest's efforts at attracting foreign investors in general, and to investment incentives in particular.[75] However, after the outward-oriented project became dominant, it found strong support among Czech capital. First, economic restructuring, including failures and bankruptcies, has not left many strong large Czech enterprises in place. Transformation and internationalization of those that survived changed their outlook. The large enterprises that remained did not show much interest in influencing economic policy-making. The main representative body, the Confederation of Industry (CICR), has seen the representatives of Czech-owned manufacturing disappear from their membership base (see

Table 4). Many of the companies that were privatized through one of the internally oriented ways and managed to thrive went through spontaneous internationalization. As Mertlík describes, "A lot of enterprises privatized through vouchers were — if successful — later bought out by a foreign investor, most likely a German one. The managers — if they managed to keep their positions — started to change their political-economic outlook."[76] This process is also relevant for the subjects that were born out of the Czech Way-style of primitive accumulation through redistributive games and looting. As characterized by Ganik, "After they got rich and big, it did not matter anymore. […] Now I can give you an example of a Czech group, which was taken over by Canadians. Now, when entering the country, they pretend they are Canadian. It does not matter anymore whether a

[75] Interview with Jan A. Havelka. Prague, 30 December 2005. See Drahokoupil (2007c).
[76] Interview with Pavel Mertlík, Prague, 24 October 2005.

company is Czech or foreign. Czech capital often pretends it is foreign and the other way round. Depending on what is more advantageous for them."[77]

Table 4 Individual members of the Presidium of the Confederation of Industry of the Czech Republic by sector of employment.

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

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

Second, a class of managers with an international outlook emerged not only through internationalization of domestic capital but also by socialization of the new generation of managers. These young managers find it attractive to pursue "standard" careers within multinationals such as Unilever or successful domestic companies such as the energy giant CEZ. As characterized by Kudrna, "If you look at the support [for the outward oriented project] among the interest groups. […] These are people who could be productive and outward oriented, who could cooperate with the multinationals, who were EU and FDI compatible. They took the productive path, where they had career prospects. Today, the Czech managers direct these regions like Europe, the Middle East, and Africa. They have no reasons to play Czech stupid games."[78] Similarly, Ganik explains, "Now, you have no difference among experts. With a slight exaggeration, GE Capital would send a financial

[77] Interview with Milan Ganik, Prague, 21 November 2005.
[78] Interview Zdeněk Kudrna, Brno, 22 December 2005.

manager form Prague to Brazil to conduct restructuring there. After 15 years, the differences have levelled. As a consequence, it's very open now."[79]

Third, many of the Czech managers realized the importance of foreign investors for the economy in general. Moreover, many companies indeed started to benefit directly from domestic activities of the multinationals as they became integrated in their supplier networks (Pavlínek, 2003; Pavlínek & Janák, 2007). Fourth, some of the successful companies started to invest on such scale that they could reach the threshold for receiving investment subsidies.[80] What is more, Czech capital has successfully pushed for lowering the threshold so that more domestic companies could benefit from it.[81] Understandably, after the bigger domestic companies started to receive direct material benefits, they demanded their representatives, most notably the CICR, to support the investment-subsidies scheme.[82] Thus, there emerged a cleft among domestic companies in relation to investment support: while the large companies joined the supporters of investment subsidies, smaller enterprises tend to oppose this policy. As discussed above, the structure of representation translates this rift into the policy process in a way that subordinates the small companies.

Restructuring of dominant social interests in Hungary took a distinct path. Having embarked on the externally oriented strategy early on, Hungary has seen the emergence of a strong domestic export sector and, in particular, a strong sector of domestic firms subcontracting from the multinationals. These companies, the electronics manufacturer Videoton being one of the most important, acted as vocal representatives of the whole exporting and import-competing sector within the state (Greskovits, 2006). They organized in the National Alliance of Employers and Industrialists (MGYOSZ), with Gábor Széles, Videoton's owner, as its president. In comparison to multinational exporting and import-competing companies, these Hungarian firms found it more difficult to upgrade their production activities (in order to deal with rising factor costs and appreciating forint) and were less able to relocate production elsewhere than the multinationals. Therefore, they were more inclined to use "voice strategies" of direct political intervention to promote their interests.

[79] Interview with Milan Ganik, Prague, 21 November 2005.
[80] Interviews with Jaroslav Míl, president of the Confederation of Industry of the Czech Republic, Prague, 17 June 2006; Oldřich Körner and Boris Dlouhý, researchers of the Confederation of Industry of the Czech Republic, Prague, 23 June 2006.
[81] The threshold was first lowered from USD 25 million to USD 10 million by governmental decree #844 already in December 1998. It was lowered further by amendments to Investment Incentives Law: from CZK 350 million to CZK 200 million 2004 and to CZK 100 million in 2006. All regulations stipulated significant cuts of the threshold in areas with high unemployment. The first Czech investor benefited from the investment incentives in 1999.
[82] Interview with Oldřich Körner and Boris Dlouhý, Prague, 23 June 2006.

These included, for instance, the weak forint, flexible and cheap labour, and tax reliefs (see Bohle & Greskovits, 2006, pp. 12-16). Interestingly enough, the economic policy of Viktor Orbán, who was elected Prime Minister in 1998, gave rise to another fraction of domestic business. The beneficiaries of Orbán's "Hungarian model" based on strong forint and various measures to stimulate domestic demand included property and construction businesses, other producers of non-tradeables, large-scale importers, and, increasingly, Hungarian transnational investors in neighbouring countries (e.g., property developer Trigránit, telecommunication company Matáv, and savings bank OTP[83]). The two domestic fractions would then struggle to influence economic and social policies (see Greskovits, 2006).

While it could be expected that the differences between the multinational and domestic capital will vanish with the increasing internationalization of domestic capital, contemporary records shows that these two fractions, despite congruence of their interests, continue to be relatively separated, as far as their socialization is concerned, and use separate channels of influence.[84] Moreover, the political agenda of the multinationals, in comparison to the companies with more geographically limited operations, proved to be narrower. The fact that their operations are spread among several regulatory environments gives the multinationals room to manoeuvre to minimize adverse implications of policies (e.g., the value of currency) through various "optimization measures."[85]

Labour: Aligned with the investors?

Major academic assessments of the position of organized labour in the V4 provide a relatively gloomy picture: labour is weak and tends to represent foreign investors rather than the workers. First, while the late nineties have seen some consolidation of union power and outcomes in individual countries differ, the power of unions and tripartite institutions is rather weak all around the V4 (Avdagic, 2005). The "double whammy" of organized labour continues to paralyze the unions (Crowley & Ost, 2001). It continues to suffer from the disabling political legacy of the past. The new economic challenges, including neoliberal market reform and integration into the global economy, provided further blows to the organizational and political capability of the unions.

[83] As the only large Hungarian bank, OTP does not have a single strategic foreign investor. This is because foreign investors were not allowed to participate in its privatization, and the state has retained a shareholding in OTP.

[84] Interview with Jan Vrba, Prague, 21 October 2005. This is also indicated by the membership structure of the business organizations. According to the records of the Confederation of Industry of the Czech Republic, only 31 of its 1508 members are foreign owned or with mixed ownership (www.spcr.cz, retrieved on 15 January 2007.

[85] Interview with Jan Vrba, Prague, 21 October 2005. See Greskovits's (2006) study of monetary policy-making in Hungary.

Second, it is observed that foreign investors often bring better conditions for workers than struggling domestic companies (see, e.g., Lewis, 2005); thus, it is argued that unions would actually ally with foreign investors or would not make much effort to organize workers in the subsidiaries of multinationals (Kubicek, 2004). On the level of factory, Ost describes the situation at a General Motors plant in Poland as follows: "For its young and hopeful workforce, Opel offered a much smarter and shinier community than any of the available unions could provide. And the unions seemed to agree. Far from developing innovative strategies to gain access to the site, local officials stayed away, seeing it as one of the hope of the future where unions do not belong" (Ost, 2002, p. 45). In sum, unions continue to be weak and actually represent the interest of foreign investors rather than workers. Kubicek goes even as far as concluding that the "Marxist mantra of worker solidarity has been replaced by one that argues that what is good for business is good for workers" (Kubicek, 2004, p. 204).

In the Czech Republic — where the position of organized labour is probably strongest among the V4 (Avdagic, 2005) — the unions had rediscovered their Leftist identity by the mid nineties.[86] Along with Klaus's attack on the social welfare system and corporatist-style negotiations, the unions broke their support for the Klausian project and aligned with Social Democrats (see Orenstein, 2001, p. 86). Union membership, however, fell below 20 percent in 2006, and collective bargaining is only slightly higher. With the Social Democratic governments, the unions were able to gain access to policy-making and exert notable influence.[87] They provided (tacit) support for the externally oriented project that the government implemented.

The thesis on alignment of labour and investors should not be overemphasized. In fact, the nationality of ownership (domestic/foreign) is not a major factor determining workers' and/or unions' situation in the plant or alliances on the national level. The experience of the unions around the CEE shows that neither foreign nor domestic owners/management necessarily bring better/worse conditions. The situations in respective plants indeed vary, largely independently of the nationality of their owners/management.[88] For instance, in 2005, Jane Hardy visited the same GM plant in Poland that was observed by Ost. She observed a very different situation. "Solidarity claimed Opel as one of its big success stories. It had recruited 40 percent of the workforce, established negotiating structures and spawned a new layer of activists" (Hardy & Zebrowski, 2005,

[86] Interview with Martin Fassmann, Prague, 26 October 2005.
[87] Ibid.
[88] Ibid. Also confirmed by Kubicek's (2004) research.

p. 43). Similar situations were observed in other foreign-owned plants in Poland. Similarly, unions have been comparatively strong in the Skoda-VW plant in the Czech Republic. Even though the outcomes of wage-bargaining have been mixed, the unions repeatedly proved to be less aligned with the management than in industrial disputes in the Czech Republic.[89] Thus, in order to analyze the politics at the workplace and the politics of social compromises on the national level, it is necessary to look at their broader determination, such as the nature of industrial sectors (Greskovits, 2005; Bohle & Greskovits, 2006).

Conclusion

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

The eventual convergence towards the competition state in the V4 underscores the importance of the structural constraints — material, institutional, and ideational — that produce a field of force that not only provides constraints on possible strategies, but also makes the externally oriented strategy a "comprehensive programme" for societies in the region. Nevertheless, the comparison with Slovenia shows that the structural constraints allowed for relatively open outcomes. While the Visegrád states converged towards what I call the Porterian competition state, aiming at upgrading industrial basis by attracting high-value foreign investors, Slovenia — as discussed in Chapter 2 — developed a distinctive model of the competition state, putting more emphasis on promoting competitiveness of domestic capital and on social inclusion. Slovenian deviation from the neoliberal

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

strategy, along with its favourable legacies, produced structural preconditions allowing for a different model in the same international political-economic context.

The actual policy outcomes are products of the agency of particular social forces mediated through structures of representation. In particular, the competition state is promoted by a power bloc centred around the multinational investors and organized by the comprador service sector. The comprador service sector helps to translate the structural power of transnational capital into tactical forms of power that enable agential power to work in sync with the interests of the multinationals. The comprador bloc also includes significant fractions of domestic capital, which are becoming largely internationalized and/or subordinated to international investors. Moreover, some large domestic companies have joined the power bloc after it started to deliver direct economic benefits in the form of investment subsidies.

Hegemony of the externally oriented project and the predominance of the comprador service sector and its allies within the state — in the bodies directly involved in formulating economic strategies and FDI-related developmental policies in particular — creates an important accountability problem. In Hungary, Bohle and Husz (2005) observed the apparent lack of interest among state officials in evaluating costs and benefits of subsidies and various concessions provided to the multinationals. This, as will be further documented in the next chapter, is a general pattern in the V4. For instance, CzechInvest — which many consider being the most politically autonomous and economically embedded investment promotion agency in the region (cf. MIGA-FIAS, 2005; Trník, 2007) — has not conducted any systematic evaluation of its promotion.[90] The congruence of interest between the investors and respective state managers thus makes the adjustment of the FDI-reliant strategy to developmental needs of respective societies less likely.

[90] The evaluation of FDI promotion by the Czech state includes only aggregate descriptions produced by the Ministry of Industry and Trade and unsystematic case-studies outsourced to consulting agencies (MIT, 2003, 2004, 2006; Deloitte, 2006; Zahradník & Jedlička, 2006; NextFinance, 2005). None of them meets basic analytic standards.

Appendix A: Association for Foreign Investments' Membership as of 2007

General partner

ČSOB (insurance, bank activities, business enterprise and assets valuation, corporate financing)

Main partners

Ingersoll Rand (innovation and solutions provider)

Sumitomo Corporation Europe (project & construction management, financial consultancy and services, industrial consultancy)

Takenaka Europe (project & construction management, architecture & design)

Partners

Metrostav (project & construction management, additional service activity, architecture & design)

Zátiší Catering Group

Supporting Partners

Accor Hotels Prague

Česmad Bohemia (management consultancy, other professional services, insurance)

O2 (telecommunications)

Tributum Consulting (tax and legal services)

T - Systems Pragonet (information technology support)

Members

ABB Lummus Global (project & construction management, architecture & design)

ABL (security in industrial facilities)

Accord Group (professional valuation and related consulting services)

Adecco (human relations)

Advokátní kancelář Pokorný, Wagner & spol. (attorneys-at-law)

Allen & Overy, Praha Advokátní kancelář (attorneys-at-law)

Alpha Management Consultants

American Appraisal (professional valuation and related consulting services)

ARCADIS Project Management (consulting company)

ASB Prague (consulting company)

Atelier Tsunami (architecture & design)

AYS Placements & Workshops (personnel consultancy and recruitment)

B.I.G. (public relations and investor relations service)

B.I.R.T. GROUP (real estate development)

Bovis Lend Lease (project and construction management)

Bureau Veritas Certification Czech Republic (consultancy)

CB Richard Ellis (real estate consultancy)

CHEMING (engineering and contracting)

Chemoprag (design, engineering, consulting and management)

CTP Invest (real estate developer)

Cushman & Wakefield (real estate consultancy)

CzechInvest

Deloitte Czech Republic (management consultancy)

DELTAX Systems (business process reengineering, IT)

Earth Tech CZ (environmental consulting and engineering)

EBO Reality

ENVIROS (environmental consultancy)

Ernst & Young Tax & Transactions (taxation consultancy and services, auditing, management consultancy)

GLEEDS Česká republika (construction consultancy)

Grafton Recruitment (personnel consultancy and recruitment)

GrECo (insurance and reinsurance broker and consulting company)

HAVEL & HOLÁSEK (law firm)
Hays Czech Republic (personnel consultancy and recruitment)
Investorsko inženýrská (property development)
Jones Lang LaSalle European Services Limited (real estate and investment management services)
Kocián Šolc Balaštík, advokátní kancelář
Kovoprojekta Brno (design and engineering activities)
KPMG Česká republika (audit, tax, and advisory services)
Linklaters (legal and tax services)
LMC s.r.o. (personnel consultancy and recruitment)
NÖRR STIEFENHOFER LUTZ (legal and tax services)
Norton Rose (legal and tax services)
Peterka & Partners v.o.s.(law firm)
PricewaterhouseCoopers ČR (assurance, tax and advisory services)
PSG (engineering, construction and services company)
PST Ostrava (logistics, forwarding and customs services)
RAVEN Consulting (corporate and municipal consultancy)
Red Group (real estate developers)
RENOMIA (insurance broker)
Skřivánek (translation, localization, interpreting and teaching)
SOPHIA, tlumočnické a překladatelské služby (translation and interpreting)
Synergie, s.r.o. (personnel consultancy and recruitment)
TACOMA Consulting (business enterprise and assets valuation, taxation consultancy and auditing)
Tebodin Czech Republic (planning, engineering and consulting)
Technoprojekt (consulting, design and engineering)
The Charnwood Company s.r.o. (real estate consultancy)
THE SOURCE NETWORK (CZ) s.r.o. (management consultancy)
TMF Czech (financial consultancy and services)
Trenkwalder KAPPA people (personnel consultancy and recruitment)
Weinhold Legal (legal services)
WHITE & CASE (legal services, taxation and consultancy)

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