The perfect neoliberal economic revolution

a critical reflection

Neoliberal revolution (1990) in East Central Europe (ECE: CZE, POL, HUN, SLK) a perfect shot of neoliberalism…

- ECE: fundamental **redesign** of economy, polity, society according principles of **Western market** economies…
  - Highest **legitimacy** and popular **support** (for 25 years);
- **Favorable** geographic (proximity, infrastructure), economic (industrialized, easily profitable) political (plur. democracy = market economy), social **conditions** (skilled, educated, egalitarian)…

What is (so far) the **outcome** of this historic opportunity?

CZE a perfect **planed economy**

- Level of state´s **control of the economy** second only to the USSR;
- By 1990 CZE: untouched by any **liberalization** (vs. YUG, POL, HUN, USSR);
  - 87% of product in **SOEs**, another 10% in socialist cooperatives (together 98,9% of employment);
  - **Export** to GDP: 19,4% (low for small economy), 70% through CMEA (i.e. official bilateral agreements);
  - **Foreign trade**: state-run monopoly;
  - Foreign investment negligible;
  - **Banking system**: single state-owned national bank…

CZE a perfect neoliberal reform

- **Neoliberal/monetarist** dominated:
  - **CZE policymakers and business**;
  - neoliberal doctrine **dominant in EU** (climax SEA 1987: deregulation as a solution for decreasing intern. competitive Vs. US)…
- **Accession** process of ECE into **EU** -> **rapid reforms** of political, socioeconomic, law **institutions**; compatible with EU;
  - Early 1990s: radical **privatization**; deregulation of foreign **trade**; currency convertibility;
  - Late 1990s: no **capital** controls, little industrial policies; domestic manufacturing industry, financial services, utilities – **sold** to **foreign investors**;
- Strong **incentives** to attract **FDIs** (investment protection, tax breaks, infrastructure development);
- CZE by 2014: 67% of **manufacturing** production and 96% of assets in **banking** sector under **control of foreign capital**.

ECE – a perfect **economic integration**
(a **distinct model**)

- **Independentist**: development of **domestic industrial base**, using domestic **capita**l, **graduating** economy (independent developed national economy); (**East Asia**)
- **Integrationists**: much of capital comes from abroad – **domestic industry** is developed through **spillovers** – learning, **upgrading** (goal: independent developed national economy); (**LATAM**, old **E periphery**) (*A. Amsden 2001*)
- **Hyper-integrationists**: domestic firms **overtaken** by **foreign capital**, put out of business or pushed to lowest value added segments (low tier suppliers); **spillovers**, **graduation out** of question; de facto discriminated compared to foreign investors; (**goal**: **western standard** of living); (**ECE**) (*Scepanovic 2013*).

ECE – a perfect **catch-up**

- **FDIs**: financial and physical capital, up to date technology, business organization;
- Result: r**apid growth** of **productivity**, strong **competitiveness** - **complex** industrial **goods** (cars, electronics);
- **Unlike other regions:**
  - mature goods for **domestic markets** (LATAM);
  - or **simpler** phase of prod. process for **international** market (SEA)
  - in **ECE**: final product **assembled** from **intermediates locally produced** – but by (follow up strategy) **foreign owned firms**;
- **Goal** of the operation: to use **skilled low cost labor** for **<u>production</u>** activities… in order to **supply WE** markets;
  - Vs. **headquarters** in core economies - keeps central **management**; **RD**; design; provision of financial and physical **capital** and **intangible** assets…

Czech trade with EU15 2016 – goods

(SITC 1 classification; value in thousands of USD)

[redacted]					
[redacted]	2,498,265	1.5	3,928,424	2.8	-1,430,159
[redacted]	930,420	0.6	512,440	0.4	417,980
[redacted]	2,062,152	1.3	1,146,874	0.8	915,277
[redacted]	1,244,272	0.8	1,848,437	1.3	-604,165
[redacted]	172,978	0.1	149,819	0.1	23,160
[redacted]	4,840,870	3.0	10,875,187	7.6	-6,034,317
[redacted]	15,292,121	9.4	13,666,540	9.6	1,625,581
[redacted]	61,276,432 12.00	37.6	30,156,172 10.20	21.1	31,120,260
[redacted]	14,587,232 8.61	9.0	7,463,362 7.39	5.2	7,123,870
[redacted]	227,811	0.1	147,720	0.1	80,091
[redacted]		63.4		49.0	33,237,578

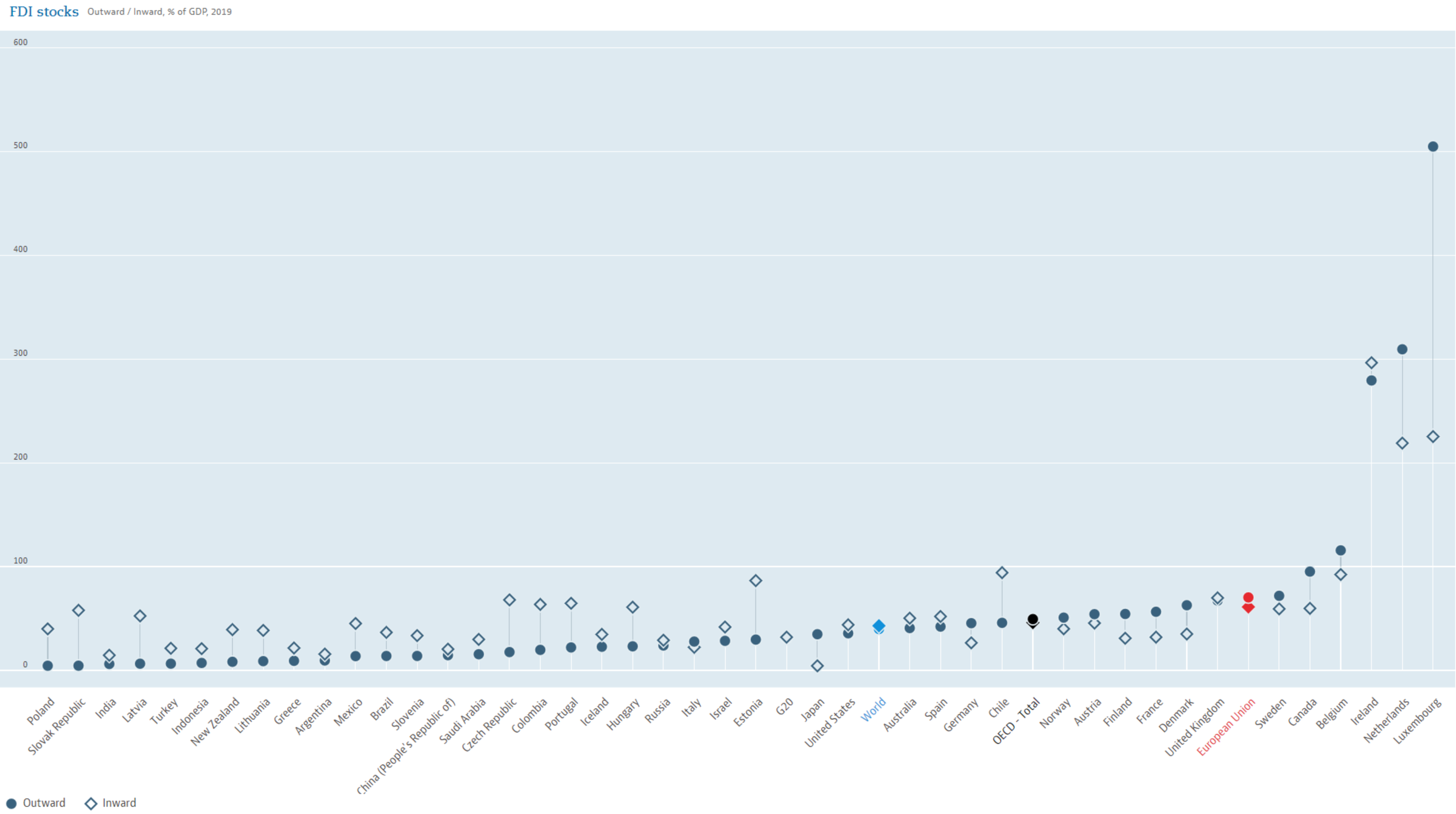
CZE - **EU15** (AICs) surplus: **17.23% GDP** (CH 4,55%; GER 8,22%; KOR 6,32%; JAP 0,77%)

Most traded items - Czech trade with EU15 in 2016 (SITC items groups 7 and 8; SITC 5)

[redacted]					
7522	[redacted]	1.1	268.13	0.4	299.99
75997	[redacted]	0.6	87.44	0.3	126.68
77316	[redacted]	0.5	6.54	0.3	5.93
77642	[redacted]	0.6	144.92	0.9	364.78
7812	[redacted]	7.9	11.05	1.8	11.53
78432	[redacted]	2.0	7.27	0.7	4.57
78433	[redacted]	0.9	7.81	0.5	6.45
78434	[redacted]	0.3	15.34	0.4	14.13
78439	[redacted]	2.6	8.80	1.5	7.92
82119	[redacted]	0.9	9.55	0.4	5.36
89399	[redacted]	0.5	8.30	0.7	6.75
[redacted]					
74159	[redacted]	0,.6	12.03	0.1	7.65
7422	[redacted]	0.6	29.77	0.1	22.41
7523	[redacted]	1.1	57.84	0.1	101.47
7527	[redacted]	0.6	224.41	0.1	200.04
7616	[redacted]	0.5	24.56	0.0	38.02
76411	[redacted]	1.0	981.58	0.2	752.15
76412	[redacted]	0.7	245.28	0.1	118.64
77261	[redacted]	0.5	47.12	0.3	53.70
77834	[redacted]	1.0	28.92	0.1	28.89
82112	[redacted]	0.5	9.47	0.0	5.36
8942	[redacted]	1.0	19.91	0.2	9.25

Perfect **domination** by **foreign capital**

- Despite large **trade surplus** (both goods and services) – **Current Account** of CZE in deficit untill 2013; reason: extremely **passive international investment position**;
  - Large deficit of **primary income balance**: most significant was **repatriation** of income from **FDIs** -> negative net balance equals **8,2% GDP** in 2016;
  - **Crisis 2008** led to rapid decrease of (already small) **earnings** from **CZE** investments Vs. no decrease for profits from foreign investments in CZE (**profits** the same story: 2009 big fall for domestic **companies**, profitability of foreign owned decreased little);
- **Net primary income per capita** is exceptionally negative… compared to all industrial AICs and DCs (exc. Ireland, Luxembourg…);
- Capital **inflows** are gradually **slowing** down – since 2012 there is an overall outflow of investments;
- …despite **highest profitability** of business in OECD (e.g. CZE **banks** easily most profitable in EU during 2008-2014);
- **Repatriation** of profits from CZE Vs. **reinvestment** of profits and **upgrading** of firms in CZE.


FDI stocks
Outward / Inward, % of GDP, 2019
600
500
400
300
200
100
0
Poland
Slovak Republic
India
Latvia
Turkey
Indonesia
New Zealand
Lithuania
Greece
Argentina
Mexico
Brazil
Slovenia
China (People's Republic of)
Saudi Arabia
Czech Republic
Colombia
Portugal
Iceland
Hungary
Russia
Italy
Israel
Estonia
G20
Japan
United States
World
Australia
Spain
Germany
Chile
OECD - Total
Norway
Austria
Finland
France
Denmark
United Kingdom
European Union
Sweden
Canada
Belgium
Ireland
Netherlands
Luxembourg
Outward
Inward

FDI Payments and receips 2019

	Payments	Receips	Balance
CZE	20,753	4,608	-16,145
POL	22,806	2,044	-20,762
HUN	9,404	2,083	-732
GER	53,052	121,903	68,851
USA	208,140	532,724	32,4584
SPA	26,860	35,978	9,118
ITA	17,824	28,628	10,804
GRE	1,868	935	-933

Primary income balance 2016 and 2019

(mill. USD; USD per capita)

CZ	-11,169	**-1,052.6**	-12,707	**-1,190.9**
	57,164	697.9	124,402	1,497.2
	54,078	835.6		
	-32,357	-491.8		
	180,589	560.5	236,344	719.9
	166,550	1,303.7		
	1,459	28.7		
Poland	-17,571	-459.7	-22,828	-601.2
	737	15.9		
	-8,991	-113.1		
	-33,598	-263.4		
	-41,080	-197.8		
	-44,013	-31.4		

FDI stocks; net primary income (percent of GDP, 2017, USD)

	Inward FDI	Outward FDI	Balance FDI stocks	Net primary income (mil.)	Net primary income
Italy	22	29	7	11,797	0,6
Spain	47	43	-4	49	0,0
Portugal	60	24	-36	-5,442	-2.5
Greece	16	10	-6	20	0,0
Czechia	72	11	-61	-11,424	-5.3
Poland	45	5	-40	-20,218	-3.8
Slovakia	58	4	-54	-2,255	-2.4
Hungary	65	21	-44	-5,756	-4.1

The profit rate of foreign investments situated in countries (OECD 2014)

CZE	16.2	10.0	10.7	17.5	13
	5.1	17.8	10.7	18.2	10
Poland	13.3	10.3	7.4	3.5	10
Hungary	15.2	8.4	5.7	3.9	9
	13.0	7.9	9.9	4.7	9
	18.7	9.1	3.5	7.7	9
	7.6	8.2	8.1	3.0	7
	4.4	3.0	7.4	-	7
	5.1	4.0	8.1	8.0	6
	6.2	4.7	5.7	6.6	6
	3.9	6.2	1.6	9.3	5
	4.2	2.9	3.9	2.1	3
	4.7	4.2	3.0	0.1	3
	12.7	-2.5	-17.7	-7.3	0
	-0.7	-0.9	-0.2	-0.7	-1
	24.7	5.8	-	0.0	-

CZE banks: easily highest RoA and RoE indicators in whole EU.

Foreign direct investment in the CZ – territorial structure 2014

(percentage), immediate and ultimate investors

[redacted]	[redacted]	[redacted]
[redacted]	**24.0**	**5.2**
[redacted]	13.2	9.5
[redacted]	**12.6**	**26.5**
[redacted]	12.1	3.0
[redacted]	6.1	6.4
[redacted]	4.7	2.8
[redacted]	3.9	3.2
[redacted]	3.8	2.8
[redacted]	3.6	8.9
[redacted]	2.6	4.6

Poor ability to retain FDIs

- CZE economy is extensively incorporated into **global value chains**;
- OECD input-output tables: CZE has the **lowest** and declining **value added** (VA) among members; lower than figure usual for DCs;
- Domestic VA only 35.5% in overall product (e.g. cars 18.3%); 54.7% in exports (e.g. cars 46.4%);
- In context of **complete** product **processing** (including intermediate parts… e.g. Skoda cars) on its territory – it raises questions about **transfer pricing**:
  - arbitrary set prices of specialized **services** provision or provision of **intangible** assets by concern headquarters; manipulation with cost of **financing** and credit).

Domestic value added as a percentage of gross output (motor vehicles, trailers and semi-trailers; and computer, electronic and optical equipment; in percentage)

[redacted]					
CZE	39.41	38.32	37.30	35.98	**35.54**
	18.18	17.09	19.70	20.36	18.25
	27.85	22.13	13.14	8.55	9.75
	54.48	51.68	51.41	49.33	48.98
	33.68	23.37	24.52	22.35	27.11
	41.73	37.82	41.16	39.19	42.94
	58.47	57.44	58.81	57.70	59.04
	32.27	34.18	34.32	34.09	33.97
	18.26	19.41	13.73	11.85	13.54
	48.05	47.92	48.39	46.94	48.20
	10.94	19.16	16.92	14.93	15.74
	23.59	22.30	16.52	15.77	20.62
	49.19	48.41	46.94	48.34	52.00
	22.59	19.56	18.95	18.72	19.55
	33.17	28.00	27.30	31.91	43.85
	53.15	54.84	43.43	44.89	44.56
	36.2	37.35	19.49	20.22	19.27
	52.55	40.49	17.80	21.80	25.97
	53.33	51.02	48.70	48.60	50.57
	23.01	20.81	15.16	17.53	17.58
	19.28	24.76	20.19	22.29	21.76
	52.10	49.90	51.63	51.38	51.86
	35.49	24.59	43.90	43.99	45.00
	24.29	30.47	35.43	35.43	35.46
	46.32	36.81	31.12	34.03	34.65
	35.90	20.83	15.02	16.03	17.60
	33.92	17.87	12.66	16.13	16.44

Foreign value added as a share of *gross exports*
(exports of “motor vehicles, trailers, and semi-trailers” and of “computers, electronics and optical Equipment;” in percentage)

[redacted]

CZE	30.47	38.73	42.55	42.31	**45.28**
	55.12	50.55	52.42	51.11	53.56
	45.49	49.76	70.13	65.18	67.08
	14.86	20.22	21.34	24.77	25.54
	20.03	27.29	28.32	32.36	31.43
	18.68	24.51	23.88	27.56	24.49
	27.34	34.39	33.03	32.75	31.71
	40.80	48.76	46.98	47.81	49.61
	62.01	64.20	69.37	69.72	64.11
	27.37	30.18	31.81	33.81	32.78
	56.47	55.12	58.23	60.13	58.33
	47.42	50.39	55.10	61.60	52.45
	19.16	25.83	26.28	27.58	26.88
	36.47	47.04	46.64	46.32	46.09
	28.12	39.75	40.72	34.95	29.12
	8.94	13.06	20.96	2499	25.73
	13.16	29.05	36.29	38.13	44.20
	18.13	33.61	40.63	37.44	38.93
	7.83	11.46	11.71	12.54	10.77
	12.68	17.88	20.14	22.31	19.92
	17.59	27.42	27.19	26.98	24.08
	12.57	17.37	16.56	14.62	11.97
	33.25	32.13	27.85	29.59	25.47
	34.82	27.76	26.55	29.72	27.11
	30.50	47.73	45.95	41.23	40.62
	38.65	50.20	62.34	59.91	59.11
	45.81	70.20	70.74	67.16	66.83

Poor convergence record

- Great **recession** (since 2008) unveiled some less evident **problems** of CZE (and ECE) convergence process;
- **Real consumption** in CZE stagnated 2008-2014; consumption grew slowly even before vs. solid **growth** of **GDP/capita** (outflow of profits);
- *For whole period **1990-2016** the CZE indicator improved by only **5.5%** towards US level (15.7% to GER)(1990=100).*
- If **extrapolated** – this pace would result in catch-up by **year 2814** (US) resp. 2146 (GER);
- Hyper-integrationist model delivered **limited** (CZE) or moderate (ECE) economic **convergence**;
- Doesn't outperform other **contemporary** nor historical **examples** of (partials) catch-ups (consumption, GDP/cap).

GDP/capita (PPP, thousands of 2017 constant USD)

	1990	2000	2008	2010	2018	2019
Czechia	23.66	25.05	34.71	33.51	39.45	40.31
Poland	11.32	16.23	22.46	23.98	31.77	33.09
Hungary	16.54	19.55	25.98	24.49	31.07	32.62
Slovakia		16.09	26.14	26.07	32.07	32.79
Italy	36.77	43.27	44.84	42.87	42.20	42.41
Spain	27.60	34.83	39.32	37.00	40.33	40.88
Portugal	23.59	30.42	32.35	31.84	34.01	34.80
Greece	24.46	29.37	37.70	33.97	29.71	30.32

Standard of living, V4 and SE comparison (2017, USD)

	GDP per capita	GNI	Consumption
Italy	39,421	39,421	21,535
Spain	38,006	37,990	19,661
Portugal	31,673	30,980	18,047
Greece	27,602	27,620	17,095
Czechia	36,327	34,450	15,634
Poland	29,124	27,970	16,145
Slovakia	31,616	30,880	15,555
Hungary	28,108	26,960	12,710
EU 28	41,192	41,074	20,938
limit for CF		36,967	

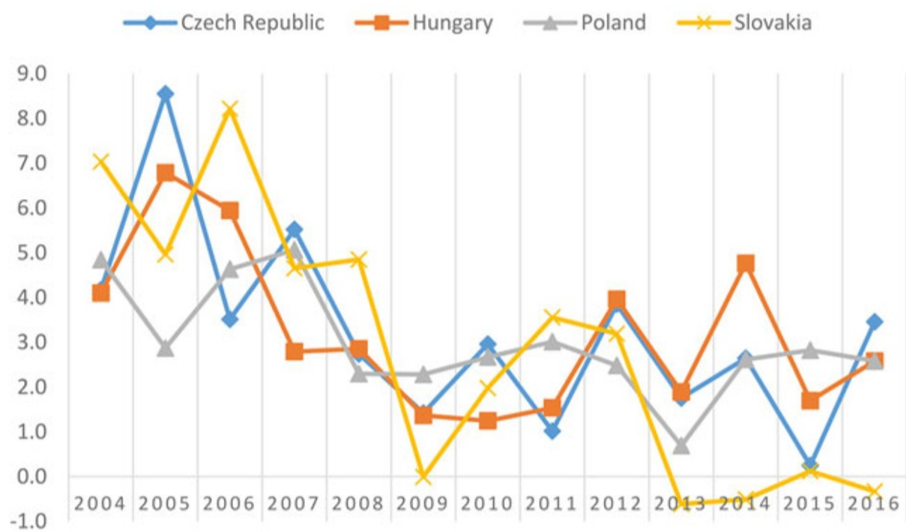


Figure 2. FDI inflow per GDP, 2004–2016.

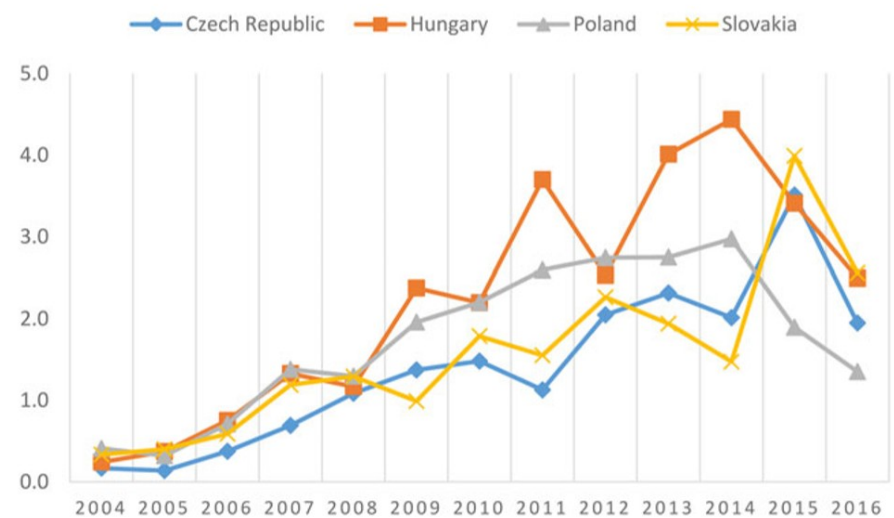


Figure 3. EU cohesion and structural funds per GDP (2004–2016).

Dorothee Bohle & Béla Greskovits (2018): Politicising embedded neoliberalism: continuity and change in Hungary's development model, West European Politics

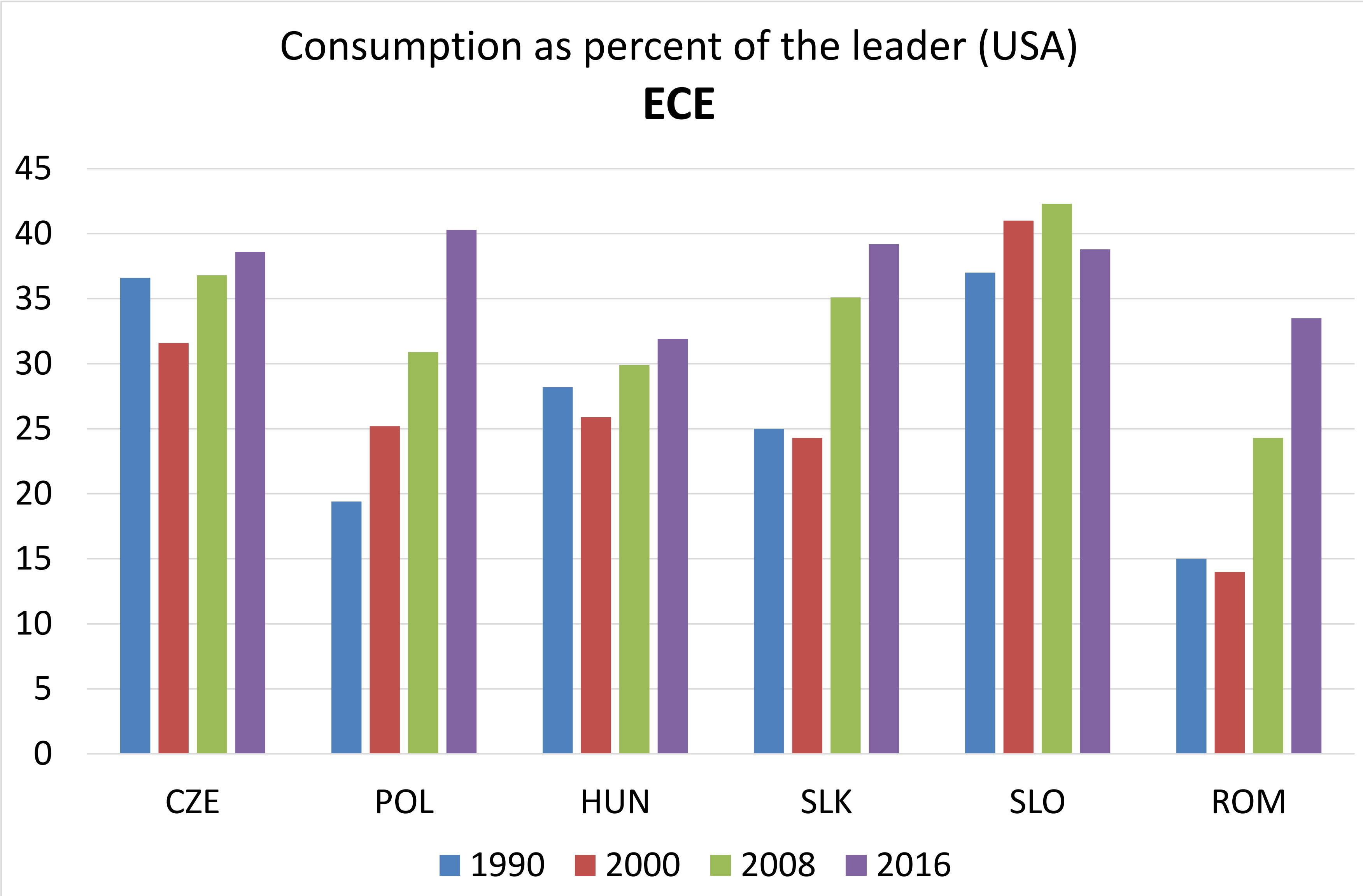
Poor perspective of graduation

- **Division of labor** between particular **activities** within one chain of activities inside one **corporate structure** – but on territories of **different national economies**;
- **Headquarters** can **assign value** to particular **activities** -> decrease **value added** and reported **productivity** in controlled firm -> decrease in reported productivity -> can justify **low wages**;
  - **Graduation unlikely**: **productivity** (higher VA content) increase leads to growth of **wages** = **inconvenient** side effect;
  - **Goal** of foreign investors: keep **profitability** of activities conducted in investors´ **home** (**high wage**) country;

- **Private** business **expenditures** on **RD** in CZE low as share of GDP and per capita; fragment of investments by core economies…. (hard to imagine how CZE could converge…).

Selected R&D indicators (2019, 2020)

	R&D, percent of GDP	**R&D per capita** (USD, PPP)	**Researchers per million inhabitants**	**Universitie s** in top 500 (top 800)	**H2020 allocation** (mill. Euro)	**H2020** (Euro per **capita**)
Sweden	3.34	1798	6875	11 (11)	1,970	195.1
Austria	3.17	1752	4947	7 (11)	1,630	181.0
Czechia	**1.93**	**754**	**3402**	1 (3)	423	39.5
Poland	1.21	381	2064	0 (1)	633	16.7
Italy	1.40	581	1956	26 (48)	4,830	79.9
Spain	1.24	494	2613	7 (21)	5,350	114.4
Portugal	1.37	452	3662	3 (8)	972	95.3
Greece	1.18	355	2791	2 (7)	1,410	135.3


Consumption as percent of the leader (USA)
ECE
45
40
35
30
25
20
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10
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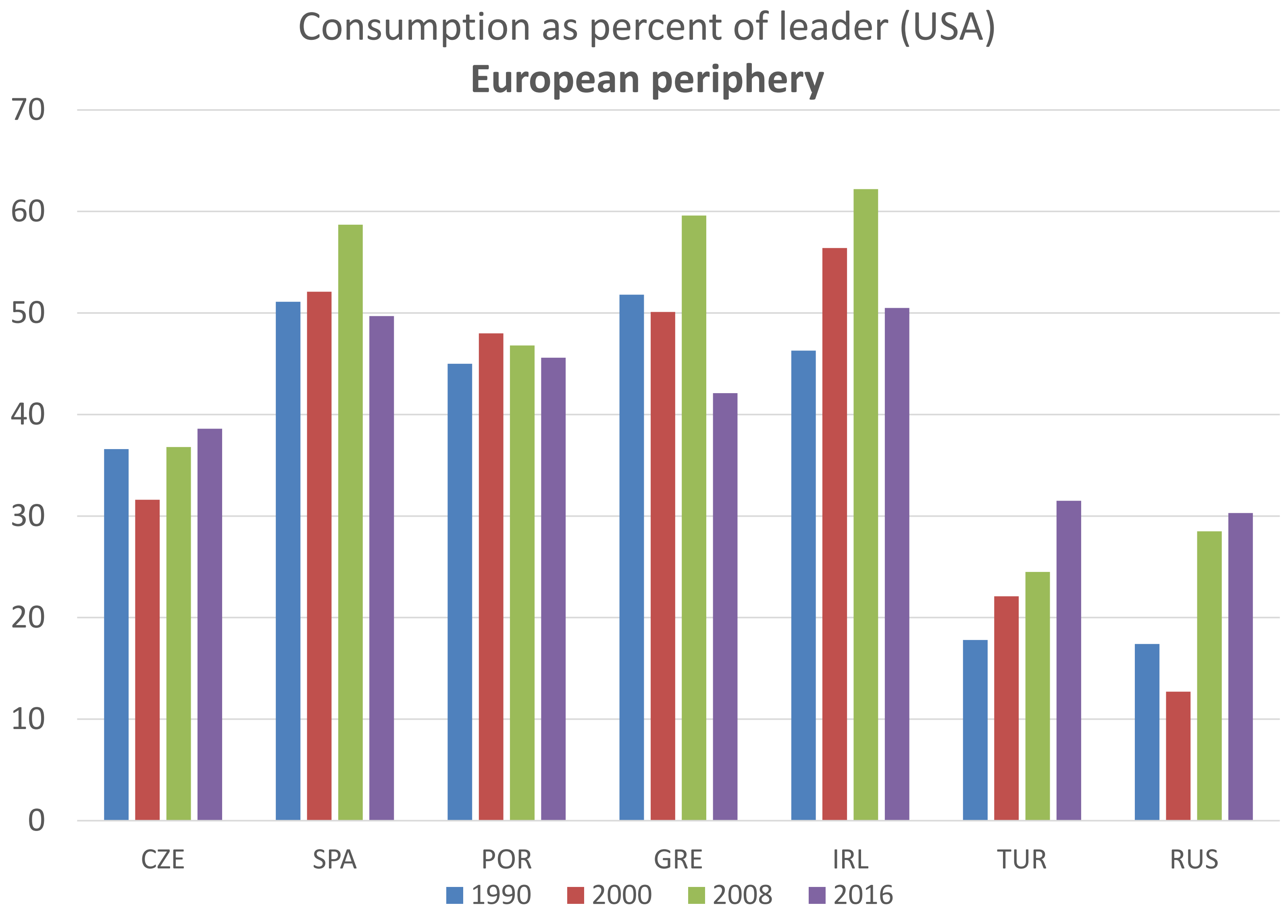
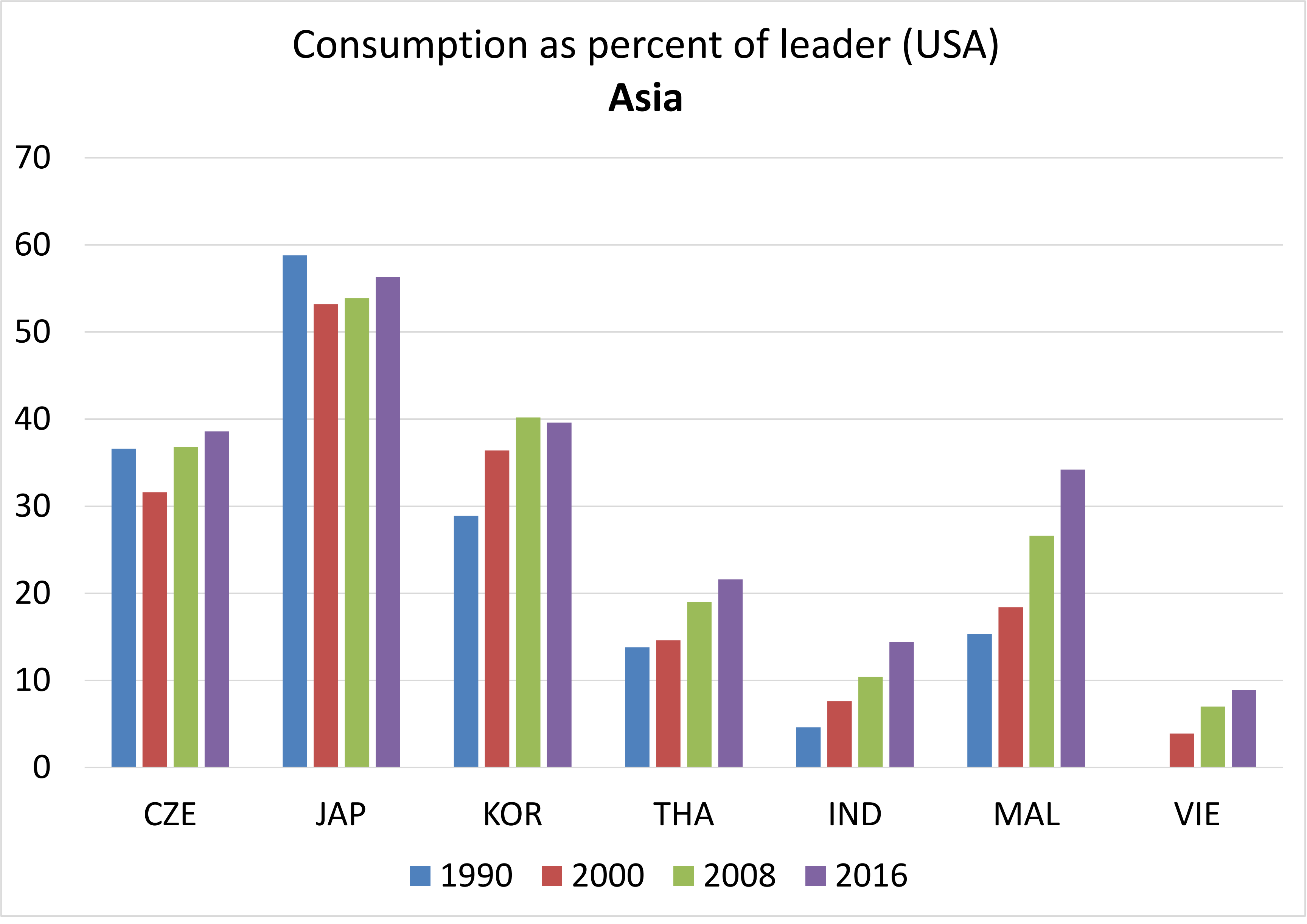
0
CZE
POL
HUN
SLK
SLO
ROM
1990
2000
2008
2016


Consumption as percent of leader (USA)
European periphery
70
60
50
40
30
20
10
0
CZE
SPA
POR
GRE
IRL
TUR
RUS
1990
2000
2008
2016



Consumption as percent of leader (USA)
Asia
70
60
50
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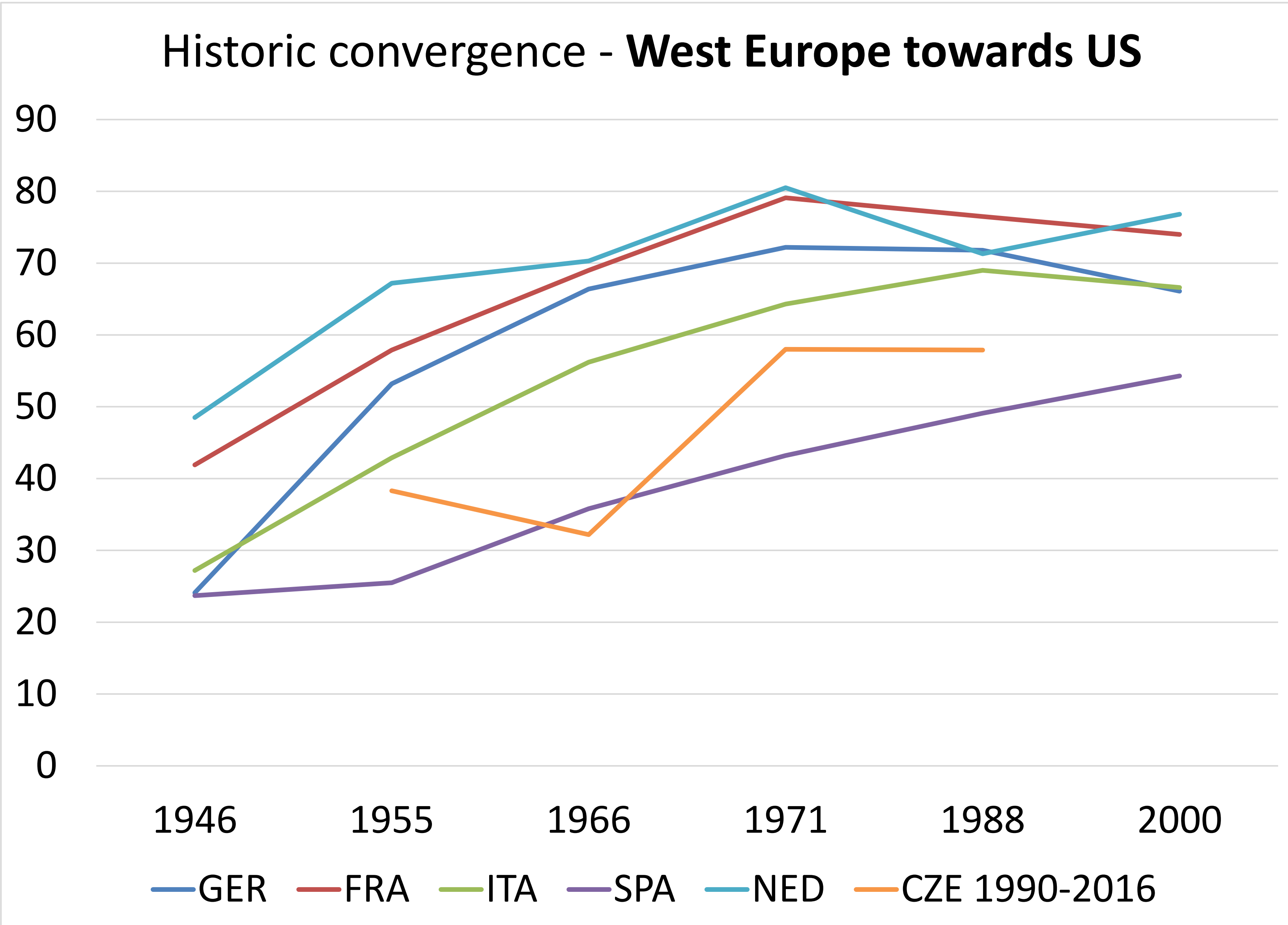
CZE
JAP
KOR
THA
IND
MAL
VIE
1990
2000
2008
2016



Historic convergence - **West Europe towards US**
90
80
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1946
1955
1966
1971
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2000
GER
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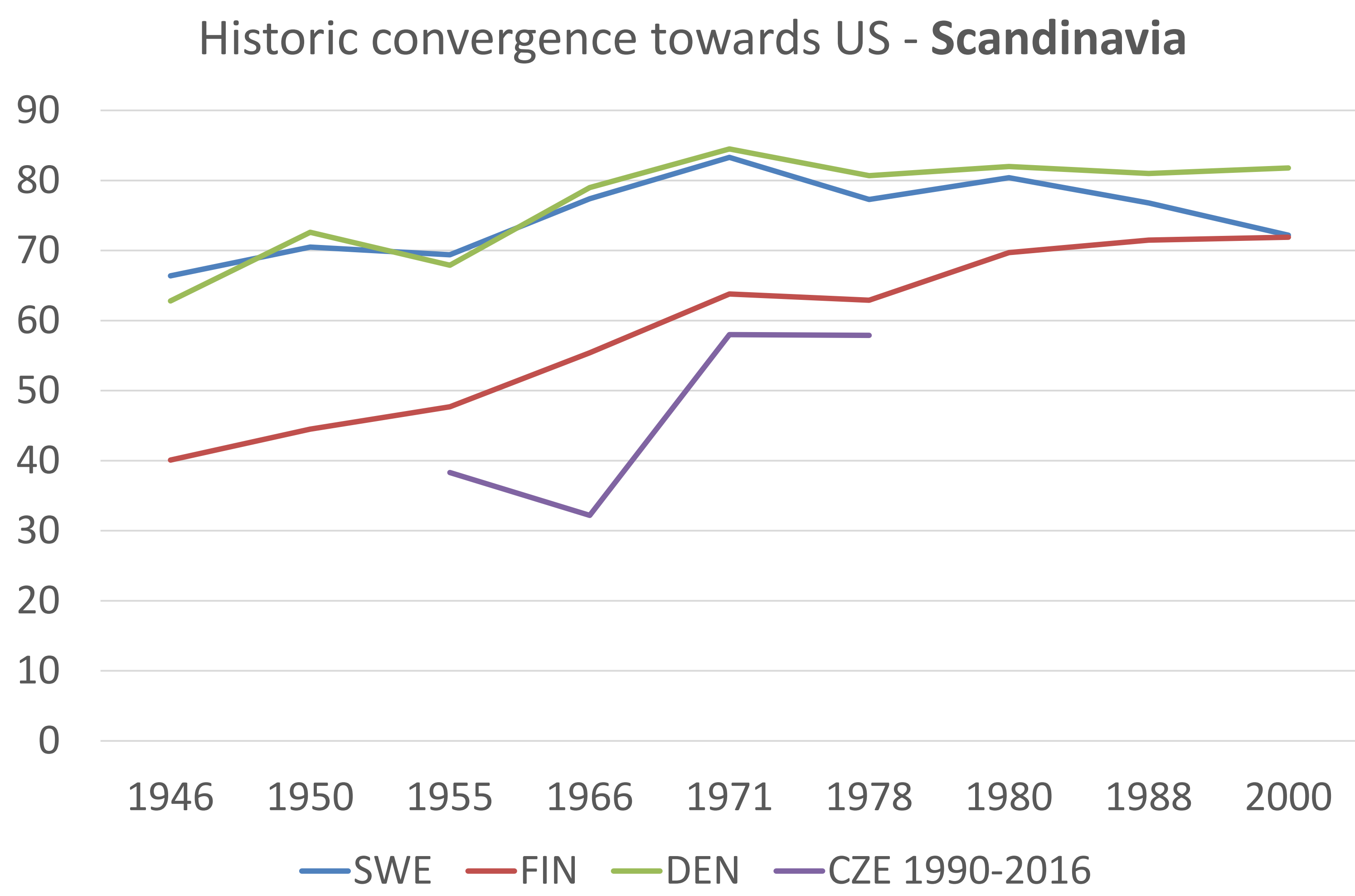
ITA
SPA
NED
CZE 1990-2016


Historic convergence towards US - Scandinavia
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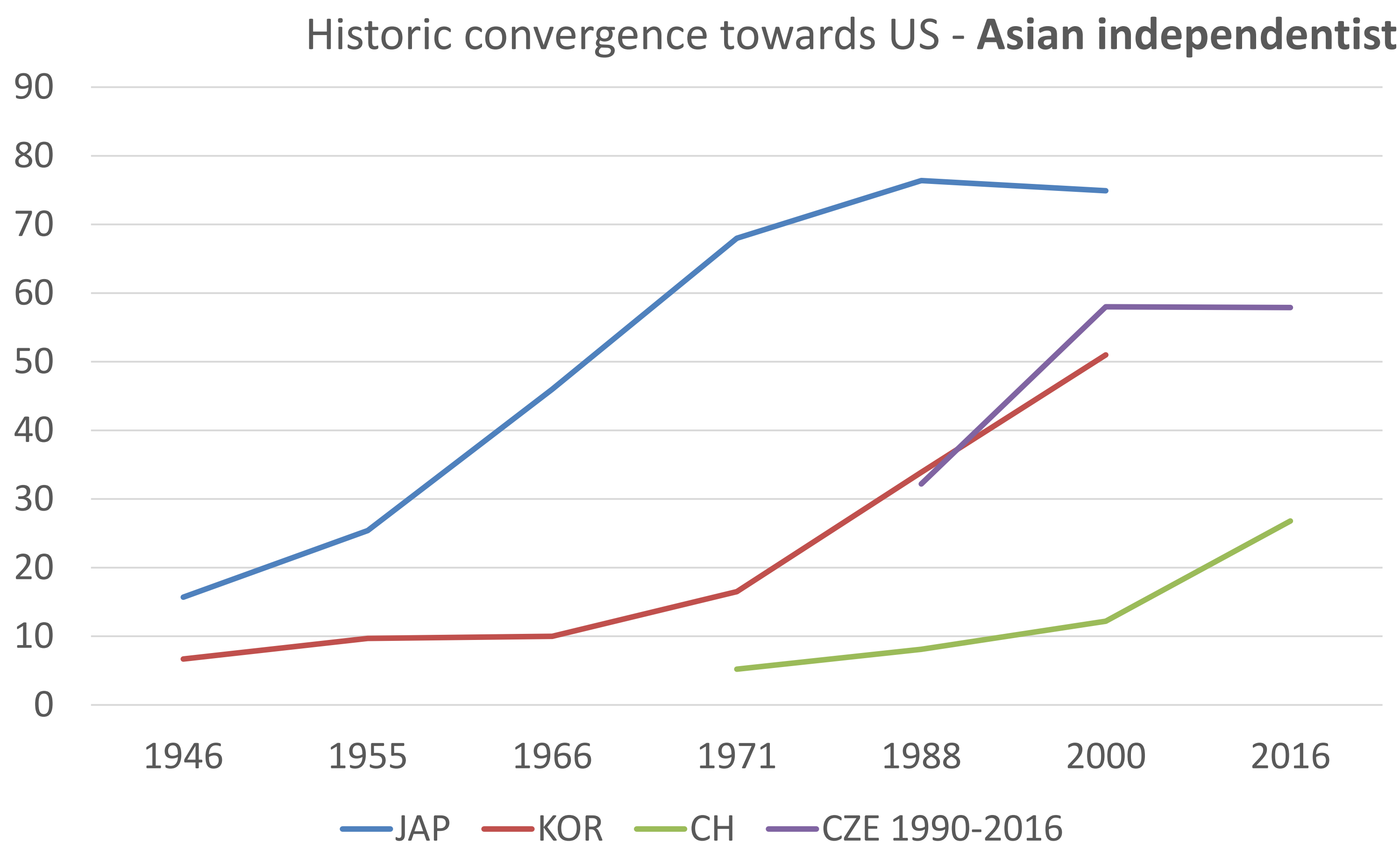
DEN
CZE 1990-2016



Historic convergence towards US - **Asian independentist**
90
80
70
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0
1946
1955
1966
1971
1988
2000
2016
JAP
KOR
CH
CZE 1990-2016