

The impacts of foreignerization: the political economy of foreign investment in post-socialist Eastern Europe

A revised proposal for EPIC by Zoltán Ádám

July 2001

The structural necessity of capital import in the course of post-socialist transformation resulted in the strengthening of foreign investors in a number of key economic sectors across Eastern Europe. This tendency has been researched by a vast literature of economic analyses, most of which has found that foreign investments are rather beneficial for East European economies, largely increasing efficiency, export-capacity and overall technical skills. Foreign ownership of economic assets, however, is a complex social phenomena, involving various social, political and economic questions.

With regard to the matters of global capitalist development, one can differentiate between two idealtypically opposite streams of political economy which have, so far, developed opposing viewpoints on foreign investments: (1) The approaches of radical anti-capitalism, socialism and economic nationalism regard global capitalist development and economic integration detrimental to the well-being of local communities and nation states. This is a theoretical stream that has recently appeared in an anti-globalist discourse. The intellectual roots of this approach stem from the Marxist and structuralist traditions of the Latin-American *Dependencia*-literature and from the economic nationalism of state-centered mercantilism. Foreign investments in these views endanger local economies, exploiting local resources and serving the exclusive interests of external asset-holders. (2) The idealtypically opposing liberal approaches regard global capitalist development and economic integration beneficial for local communities and national economies. Foreign investments are considered to be the agents of inter-connected, mutually profitable economic activities. There has been, however, a long-standing debate on the role of the state (in contrast to that of the market) in economic coordination among those who promote capitalist development and international economic integration.

Streams of political economy, while maintained ideologically and normatively embedded approaches to global capitalism and foreign investments, have operationalized their respective views on particular development paths by focusing on the following problems: (1) The inclusive versus exclusive feature of development in terms of social inequalities of income-distribution, employment and regional differences. (2) The position of a national economy in the global division of labor in terms of local value-added and research. (3) The development of economic and political institutions, including the legal and institutional infrastructure of the economy and the quality of

political governance. (4) The distribution of economic rents among foreign and domestic asset-holders, including the state.

The classical dependentista view has emphasized the negative role of foreign investments that increase social inequalities and reinforce underdevelopment in the Third World. Due to foreign investments, the majority of population is left to be poor and underemployed, the local economy internationally dependent and inferior, the institutional developments insufficient, and the domestic asset-holders, including the state, defenselessness against foreign economic (and political) interests.

A liberal view, in turn, has emphasized the positive social and economic impacts of additional economic resources and the ever-existing room for maneuvering of state officials while dealing with foreign investors. State institutions, moreover, can develop themselves while being exposed to a continued bargain with foreign investors.

While economic aspects of foreign investments have been widely researched in post-socialist Eastern Europe, the above mentioned aspects of political economy have not been really discussed so far. My dissertation seeks to extend inquiry into this direction, by comparing the macroeconomic and macro-sociological developments of two post-socialist countries that have exerted different policies on foreign investments during the past decade. In order to obtain more concrete and comparable findings, developments of a specific industrial branch and its foremost companies are to be also examined.

I intend to choose two countries that initially had relatively similar social and economic circumstances but, due to various historical and political factors, opted for significantly different economic policies, including procedures of privatization and regulations on foreign ownership. These countries are Croatia and Hungary. Having elaborated on their respective transformation paths, I can analyze the development of a particular economic sector in the two countries within the political, social and macroeconomic contexts that have emerged.

This economic sector is to be the pharmaceutical industry, which plays a particularly significant role in both the Croatian and the Hungarian economy. Although the Croatian and the Hungarian pharmaceutical industries are both dominated by foreign-owned companies, the industrial structure and the type of foreign ownership involved are considerably different. The Croatian pharmaceutical industry is dominated by one particular company, Pliva, whose majority owners are foreign institutional investors and whose management, therefore, actually controls effective ownership. The Hungarian pharmaceutical industry, in turn, is dominated by at least five companies, of which Richter has a similar structure of ownership to that of Pliva, while Egis, Biogal, Chinoin and Alkaloida are all bought up and controlled by various foreign pharmaceutical companies. These differences, alongside with the differences in the respective macroeconomic

policies and the relationships between the pharmaceutical industry and the governmental institutions across the two countries, should have evoked dramatically different consequences.

The analyses should proceed on a macroeconomic/macro-sociological and a sectoral/company level. On the one hand, I can compare economic and sociological developments in the two countries in the light of their historical developments in the 1990s and their respective governments' economic policies. In addition, institutional capacity of state agencies dealing with the pharmaceutical industry should be examined by assessing the quality of effective regulation.

On the other hand, I can examine corporate developments of the pharmaceutical producers in terms of growth of sales, performance on domestic and external markets, vulnerability towards external shocks, creation of value-added, evolution/devolution of research capacities, integration into global production and distribution networks, merger and acquisition activities, and employment policies.

An extension of the comparison can include Slovenia, whose foremost pharmaceutical producer, LEK is mainly owned by domestic institutional investors and state agencies. Yet another subject of comparison might be Ireland whose foreign-dominated economy has been developing in a totally different political context in the past decades, but which has faced similar challenges of industrial upgrading and EU integration to those of post-socialist Eastern Europe.

Examining economic and social developments of neighboring East European countries that have had similar social and economic conditions but have gone through dramatically different development paths in the past decade can make comparable the outcome of different transformation-paths in terms of political economy. Among which the consequences of different types of foreign investment – or the actual lack of it – should be considered to be key components.