

*The Double Life of Globalization:  
Politics of Banking in Hungary and Slovenia*

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Out of the numerous debates surrounding globalization this enterprise takes part in the one which is formulated around the issue how globalization affects the internal policy choices of the state.

**Puzzle:**

Globalization of financial markets is understood by a large number of researchers (Cerny 1998, Frieden & Rogowski 1996, Keohane and Milner 1996) as a process, pressing governments equally to liberalize and privatize their national financial markets. In other words, globalization of finance is generated outside the national domain - in international markets - and the national settings are forced to adjust. In this respect, the two small transition countries of Hungary and Slovenia should be no exceptions. Yet, in the course of transition these two countries followed different developments in the arrangement of their financial markets. Hungary was the forerunner of the CEE countries in financial market liberalization and privatization whereas Slovenia only with a substantial delay - in the year 2001 - started negotiations with international investors. Given the similarities of the two countries combined with similar international constraints, it is puzzling that liberalization and privatization of the two financial markets occurred with a remarkable interval.

**Research question**

Hence, the research question of the proposal emerges: how have the banking sectors of Hungary and Slovenia stayed for long, in an era of ever intensifying globalization of international financial markets, so different?

**The different market patterns – empirical clarification of the puzzle**

In all post-communist countries, hence both in Hungary and Slovenia, the banking sector is the most important element of the financial market, and stock exchanges or other financial intermediaries are fairly underdeveloped. Therefore, the highlighted different patterns of financial markets should be outlined with regards to the banking sectors.

The differences in the internal structure of the banking sectors can be described along three dimensions: competitiveness, state ownership and foreign presence. The financial systems of Hungary and Slovenia differ along all three lines. First, the competitiveness of the two banking sectors differ substantially: the Slovenian banking sector is described as oligopolistic, the Hungarian as competitive (more in the wholesale and less in retail banking) (IMF Staff country report 2000). Second, in the Slovenian market the two state-owned banks controlled 41.7% of the market in 1999, at odds with the Hungarian banking sector in which the state ownership was 9.1%. (EBRD Transition Report 2000) Finally, the presence of foreign investors in the Slovenian banking sector is fairly low, whereas in Hungary in 2000 the majority of the assets was in foreign (private as well as public) hands. The non-residents' market share augmented to 67.6% of the total market (Hungarian National Bank Annual Report).

Out of these differences, this research concentrates on the different extents of state ownership and promises an explanation for the different nature and timing of the policy choices of the two states leading to different ownership patterns.

**Approach I. Explaining liberalization and privatization from within**

Financial market liberalization is a worldwide phenomenon of the 1990's, which take account of important policy changes of the states. (Loriaux et al 1996, Maxfield 1997, Perez 1997, Kurzer 1993, Haggard, Lee Maxfield 1993) However, in the same period, in post-communist countries' not only financial market policies but also state institutions had to be changed, often with differing

results. In the two selected countries institutional changes followed diverging logics for a number of reasons. The identification of these reasons will help to locate the explanation for the different financial market policy formation. Hence, it is important to conceptualize those formal and informal institutions of the financial market, which had an impact on the financial market policies of the state. Likewise, it is important to contextualize these internal changes. Globalization, regionalization (especially the impact of the EU) conditioned the way in which state could form financial market policies. Moreover, the internalization of external pressures occurred differently in the two countries. The explanation than would be formed around the consequences of the joint impact of external and internal factors: the institutional frameworks developed following different trajectories, the two states made different policy choices with regards to liberalization and privatization of the banking sectors. The results are different developmental pathways of the financial markets.

### **Approach II - Understanding liberalization and privatization from within**

The second approach is based on different metatheoretical foundations, namely the hermeneutic tradition. The justification for such an approach is that globalization of finance and its effects on politics cannot be truly understood by separating national and international phenomena, as it is done in the first approach. Because along the way of the operationalization of the external and internal impact, quite a few important aspects of the changes are deemed to be left aside. There is a need to provide a combined understanding of the two, one which sees internal and external as constitutive elements of each other. Therefore, there is a need to base the understanding of the cases on a redefined concept of globalization, which can be found within the hermeneutic tradition. Thus the second approach has to be outlined in post-positivist metatheoretical level. (Kelly and Olds 1999) Here, globalization is seen as an ongoing global process which materializes in national territories through national institutional arrangements and creates transnational social place. In other words, globalization is seen as both working within the parameters of existing institutions and attempting to modify these institutions, though in a way which allows substantial leeway for different institutional developments. (Higgott 1999, Sassen 2000)

This approach would look at the relevant actors' and institutions' – pointed out in the other approach - internal domain and would understand the research question: How have the two banking sectors become different? within a normative framework provided by the actors involved. Politics of banking, in this case, gains meaning through the struggles of overlapping political transnational authorities with different political goals. Their interests are not exogenously given but defined by globalization through a redefinition of their institutional environment. Thus, globalization can be seen as a heterogeneous process, creating transnational social space and redefining politics.

### **What is the theoretical contribution of the research?**

This research contributes to the existing literature in two important ways. First, it promises to fill a gap between transition literature and globalization literature. There is a missing link between the two fields of interest, because on the one hand explanations for global changes mostly gave insights to the various forms of adaptations and responses of the western state, hence few describe the role of the transitory states. On the other hand, scholars who were interested in transition paid little attention to the globalizing processes. Second, this research contributes to our understanding of globalization of financial markets by applying a non-individualist approach instead of the mainstream instrumental (cost-benefit) explanation for capital inflows and capital outflow. Therefore, the research might help to clarify concepts and methods regarding state behavior in international finance.

### **Case selection**

Hungary and Slovenia were chosen on the basis of the observation that among the transition countries of Central and Eastern Europe these two countries are the most peculiar with regard to the

differences between their financial markets. It means that in comparison to other possible country-pairs these two countries are at the same the relatively most similar in initial conditions in terms of financial market institutions and most different in outcomes.

### **Time period**

The time period analyzed is the period of 15 years from 1987 to 2001

### **Data and Sources**

The information for this research will be obtained on the one hand through the analysis of primary materials such as government documents, framework policy documents, etc. On the other hand I intend to analyze a variety of secondary sources. The latter group can be organized in the following way: First, there is a need to cover a wide range of general social science literature dealing with changes in the economies, politics and societies of the region in general and of the two countries in particular. Second, there is a vast applicable database source of a variety of international institutions such as BIS publication, the EU country reports on CEE countries, EBRD, World Bank, IMF reports. Third, in order to grasp the narrower process of policy formation I intend to analyze news paper archives (Financial Times, Economists, Business Central Europe, etc.). Finally, I hold it important to conduct in depth interviews with the relevant actors and observers.

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