

Research design

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The field of interest: internationalization of financial markets in social sciences

Internationalization of financial markets broadly and that of the banking sectors more narrowly, formulate a field of interest in several sub-tracks of social sciences. Most often economists, but also historians, political scientists as well as scholars of international political economy ask questions with regards to finance. Naturally, their inquiries differ substantially both in methodology and subject matter. This research is interested in politics and in the various connections between politics and finance. This section justifies the importance of the choice of finance and politics and also introduces a few of the most important contributors to the field.

As suggested by Alexander Gerschenkron, banking sector's lending policies have far-reaching impact on the evolution of the whole economy. It affects not only the productive structure of the economy (heavy or light industry) but also organizational structure of the whole economy. Also, Gerschenkron draw attention to the significance of the institutional structure of banking in shaping the role of the state in pursuing its developmental roles within the economy.¹ He distinguished among three different state – banking – industry relations and hence three different developmental models. First, he identified the English experience with stock exchange dominated financial market, second the large banks dominated German model and finally the state led Russian developmental model. In the banking dominated German model he hold crucial the understanding of processes of forced saving by the money creating activities of the banks. Consequently he hold, if one understands the development of the banking system one also gets closer to the understanding of the developmental paths an economy might face.

This was also the insight of John Zysman who likewise demonstrated that political analysis of financial markets has major resources to contribute to our knowledge with regards the way in which economies develop. Thus, his volume, *Governments, Markets and Growth* of the early 1980's constituted a land mark among the scholarly works on finance and politics. Based on the observation that the primary role of financial market is to channel savings to investments,

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Zysman's major claims were the followings.² Firstly, he hold that, it is the structure of the domestic financial market which limits the room for maneuver of the domestic and foreign companies as well as that of the governments in the national economy. Secondly, it is the structure of the domestic financial market, which determines how the external disturbances are translated into domestic disturbances. In other words, it is important to look at financial markets, since the domestic financial market conditions how international changes influence the local operation of firms and the coordinating capabilities of the state.

Zysman proposed a threefold typology of banking systems with regards to state involvement in distinguishing between three different roles state might play within the particular institutional framework of a domestic financial market. He stated that the state could be 'regulator', 'administrator' or 'player' depending on whether the dominant financial institution of the financial system stock-exchange, private banks, state owned banks, respectively.

Finally, Susan Strange drew our attention to the importance of the political aspects of not only national but also of international finance. While criticizing both IR and economics for not being sensitive enough to the politicized nature of international monetary issues, on the one hand, she proposed a structural framework to analyze financial markets, on the other hand, and more importantly she became the advocates of establishing International Political Economy as a distinct field of study with a central aim to establish the link between international economic and political issues. In her understanding the globalizing financial system is the field where the root of the mounting economic disorder and uncertainty can be found.³ Thus, she hold crucial to overcome the technical determinism of liberal economic understanding of finance and center the attention on questions of power within the field.

¹ Gerschenkron, A. (1962). Economic Backwardness in Historical Perspectives. Cambridge, Massachusetts, and London, England, The Belknap Press of Harvard University Press. p 14-18

² Zysman, John (1983). Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change. Ithaca, London, Cornell University Press.

³ Strange, S. (1986). Casino Capitalism. Oxford, New York, Basil Blackwell.

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This research design promises a contribution to the above outlined field of interest by looking at the politics of finance in Central and Eastern European countries. For this purpose the organization of the research design is as follows. First, I present an empirical puzzle and formulate the research's question. Then I justify for the historical and political relevance of the question as well as for its theoretical application. Here I present those explanations which are commonly applied in the literature to answer similar questions. Further, I indicate those points, I found inadequate with regards to these explanations. In the following section, I bring forward a more detailed description of the puzzling state of affairs as I found in the year 2000 in the two countries. Finally, I give reasons for the selected cases and describe the methods I see feasible to acquire relevant data for this research.

Theory / model. What are you trying to explain?

Question to be researched: what is your empirical question or puzzle?

The puzzle I intend to study is as follows: Globalization of the economy is understood by a large number of researchers, journalists and policy analysts as an irresistible, inexorable process, or even as a 'fact' of reality, which presses governments equally to liberalize and privatize their domestic markets⁴. Even more than other sectors, globalization of financial markets is described as an inevitable process, generated outside the national domain - in international markets - and expected to force national settings to equally adjust. In this respect, the financial markets of two relatively similar transition countries, Hungary and Slovenia, should be no exceptions. Yet, in the course of transition these two countries followed different developments in the arrangement

⁴ See for example, Frieden, Jeffery, Ronald Rogowski(1996). *The Impact of the International Economy on National Policies: An Analytical Overview*. Internationalization and Domestic Politics. Robert O. Keohane, Helen V. Milner. Cambridge, Cambridge University Press, Cerny, Philip G. (1998). "Politicizing International Finance." Millennium: JIS 27(2): 353-361., Garrett, Geoffrey, Peter Lang (1996). *Internationalization, Institutions, and Political Change*. Internationalization and Domestic Politics. Robert O. Keohane, Helen V. Milner. Cambridge, Cambridge University Press: 48-79.

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of their financial markets. Hungary was the forerunner of the CEE countries⁵ in financial market liberalization and privatization whereas Slovenia only substantially later - in the year 2001 - started negotiations on the selling of the large state-owned banks with international investors. Given the similarities of the two post-communist countries, in key aspects of economic policy making in the past, combined with similar international constraints, it is puzzling that liberalization and privatization of the two financial markets occurred with such a remarkable delay.

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

Historical/ Political/ Economic relevance: Why is this question / puzzle important to research?

Firstly, the study of finance is important, not only from the aspects of efficiency, but even more so from the perspective of democracy and politics.⁶ The organization of finance, its relation to states and firms generates controversial understandings and manifests paradoxes⁷ in public and academic debates. These debates focus, on the one hand, on the sources of stability of the international financial system and its several links to the operation of international financial

⁵ In this research Central and Eastern European countries refer to Check Republic, Hungary, Slovakia, Slovenia, and Poland.

⁶ For instance, Luis Pauly presented some of these perspectives in a systematic way in: Pauly, L. W. (1997). Who Elected the Bankers?: Surveillance and Control in the World Economy. Ithaca and London, Cornell University Press.

⁷ For example, while liberalization and privatization are strongly supported by economists as the most effective ways of achieving economic growth and stability, however, these very same processes render open small economies more vulnerable to international financial crisis and hence decreases stability. The case of the Russian financial crisis illustrates this claim: as a consequence of the crisis in Hungary stock markets temporarily fell sharply (in fact it was the greatest here among the CEECs) while the sheltered economy of Slovenia was practically unaffected by the crisis and its stock market even reached record highs by the end-1998. (IMF Working Paper 01/141: Nancy Wagner and Dora Iakova (2001): Financial Sector Evolution in the Central European Economies: Challenges in Supporting Macroeconomic Stability and Sustainable Growth, IMF p.39)

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institutions⁸, on the other hand, states are interrogated in their exercise market actors' regulation and supervision. This research combines the two levels of analyzes and understands both states as well as banks within their international environment, and hopes to relax some of the manifest contradictions of finance stemming form the forced separation of the two levels.

Secondly, as presented in the puzzle, globalization is often constructed as an impersonal and inevitable force and applied in order to justify certain policies or behaviors. In the same current, globalization parlance is used in many cases, and especially with regards to finance, to depoliticize formerly debatable, political issues.⁹ The example of the disengagement of monetary policy from the domain of governments (disregarding here for these decisions positive or eventually negative impacts on the growth and stability of the economy) illustrates this claim. Consequently, there is a need to express and analyze other views of globalization of finance, such that allow us to see globalization as a heterogeneous process, dependent on actors decision, and working within national institutional domains.

Thirdly, it is important to show differences in economic policy making in a systematic way among the most successful transition countries and candidates of EU enlargement. At the same time, outcomes should be regarded as moments in a continuum of changes, which is indeed a basic condition of social relations. Nevertheless, on the bases of differences – all leading towards increased welfare and stable democracy – one can argue for differentiated developmental pathways and assistance to it for other countries of the region.

⁸ One can consider here for example the writings of Helleiner, Eric (1996). *Post-Globalization: Is the Financial Liberalization Trend Likely to Be Reversed?* In: *States Against Markets: The Limits of Globalization*. Robert Boyer, Daniel Drache. London, New York, Routledge: 193-211., and Randall D. Germain (1997): *The International Organization of Credit: States and Global Finance in the World-Economy*, Cambridge University Press, Cambridge
Strange, S. (1986). *Casino Capitalism*. Oxford, New York, Basil Blackwell., Kahler, Miles, Ed. (1998). *Capital Flows and Financial Crises*. Ithaca, New York, Cornell University Press.

⁹ As Bourdieu and Wacquant argue, there is a serious consequence of the misapplication of certain topics and themes of globalization. Because they often function as the description of “the” political order, which further obscure the specificity of an investigated social realm, hence depoliticize certain issues through overlooking them. Bourdieu, P., Loic Wacquant (1999). “On the Cunning of the Imperialist Reason.” *Theory, Culture and Society* 16(1): 41-58.

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Theoretical Relevance: What has been written on the question / puzzle?

By now, a lot of researches have been conducted with regards to market development in Central and Eastern European countries. Financial markets were also scrutinized by many analysts¹⁰, however the questions asked were mainly focusing on the ‘success’ or ‘failure’ of a specific type of regulatory reform. Therefore, the development processes were investigated from the point of view whether and how they have contributed to the general growth of the economy¹¹ or to the stabilization of democracy. In fact, in many cases, the different degrees of financial market liberalization were seen as closer or further proxies of an ideal ‘market economy’ which would manifest all the laws and predictions, that neo-classical economics assigns to it. Hence, the findings of these research projects only marginally contribute to the understanding of my research’s question.

A very similar question to the one which is in the focus of my research, namely why formerly interventionist countries have liberalized their financial market, has drawn the attention of many scholars working within the field of international political economy.¹² According to the leading concepts in order to explain liberalization, privatization or in general the opening up of the domestic financial markets, it is necessary to look at the development of international markets

¹⁰ Abel I., and Szakadat A.(1998). “ Bank restructuring in Hungary.” *Acta Oeconomica* 49: 170., Abel, Istvan; Siklos, Pierre; Szekely Istvan(1998): *Money and Finance in the Transition to Market Economy*, Edgar Elgar, Cheltenham

¹¹ Bartlett, D. L. (1997). *The Political Economy of Dual Transformations: Market Reforms and Democratization in Hungary*. Ann Arbor, The University of Michigan Press.

¹² Stallings, B. (1992). *International Influence on Economic Policy: Debt, Stabilization, and Structural Reforms. The politics of economic adjustment: international constraints, distributive conflicts, and the state*. Stephan Haggard and Robert R. Kaufman with contributions by Peter Evans Princeton, N.J., Princeton University Press., Keohane, Robert O., Helen V. Milner, Ed. (1996). *Internationalization and Domestic Politics*. Cambridge Studies in Comparative Politics. Cambridge, Cambridge University Press., Kahler, Miles, Ed. (1998). *Capital Flows and Financial Crises*. Ithaca, New York, Cornell University Press., Cerny, Philip G. (1998). “Politicizing International Finance.” *Millennium: JIS* 27(2): 353-361., Epstein, Gerald (1996). *International Capital Mobility and the Scope for National Economic Management. States Against Markets: The Limits of Globalization*. D. D. Robert Boyer. London, New York, Routledge: 211-227., Garrett, Geoffrey, Peter Lang (1996). *Internationalization, Institutions, and Political Change. Internationalization and Domestic Politics*. Robert O. Keohane, Helen V. Milner. Cambridge, Cambridge University Press: 48-79.

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and connect changes in the degree of integration of international markets with the regulatory development of domestic institutions.

As Keohane and Milner argued the abandonment of various forms of interventions of the state as in Spain, South Korea, France, Japan or Sweden, etc., was a result of the positive political influence of the exposed sectors. The argument was formulated in the following way: the actors of the exposed sectors aiming to benefit more from the integrated international markets pushed governments to remove barriers of capital mobility, which then enhanced their ability to compete internationally. By the end of 80's, early 90's not only the organization of production of the firms as such shifted towards a post-Fordist flexible method, but also and connectedly the scope of their trading areas enlarged, and their profitability depended more and more on their competitiveness in the international markets. Hence, the state which formerly provided them with necessary protection and was indispensable in the organization of the economy, gradually became an obstacle in their business conduct. Frieden and Rogowski extended this argument to show that actors of the export oriented groups were lobbying not only for the removal of financial market defined barriers but also for any institutional arrangements that impeded their ability to reap the full benefit of market liberalization.

Paulette Kurzer, in an institution centered version of these explanations¹³, focused on financial and business communities as representatives of the exposed sector and explained the different timing of the liberalization and privatization policies on the one hand of the Belgian and Dutch and on the other of the Swedish and Austrian states with the different entrenchment of the financial communities in international markets.

Finally, another version of these explanations put the liberalization initiating governments into the central of their analyses. As Maxfield and Haggard¹⁴ explained the increase of exit option of

¹³ Kurzer, Paulett (1993). Business and Banking: Political Change and Economic Integration in Western Europe Ithaca, Cornell University Press.

¹⁴ Haggard, Stephan, Chung H. Lee, Sylvia Maxfield, Ed. (1993). The Politics of Finance in Developing Countries. Ithaca and London, Cornell University Press.

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certain economic actors as well as increase in the possibility of rule evasion decreased the viability of state controls in formerly interventionist developing countries. As a consequence, governments, whether or not in favor of liberalization, were forced to adapt their policies to take into account the interests of liquid asset holders, therefore governments became the initiator of banking sector reforms even if it decreased their scope of influence.

To sum up, in all these cases the mechanism through which the interest of the exposed sectors become a pressing force on governments policy choices, is the changing conditions in the international financial markets which provide the owners of domestic liquid asset holders with greater flexibility in investment decision hence greater power above governments and local fixed asset holders.

- **What is ‘inadequate’ that prompts the researcher to research it?**

In Central and Eastern European countries in general and in Hungary and Slovenia in particular, the exposed sectors were in a very different situation than in those countries which were characterized as highly interventionist by the above research project. The reasons behind this lie with the simultaneous shift of both political and economic relations in the CEECs, the high interconnectedness of trade relations and specialization within the former CMEA, and consequently the problems of reorientation of trade directions. Moreover, the trade orientation and especially reorientation of the Hungarian and Slovenian actors were heading similarly towards EU markets, hence they presumably pushed governments for the implementation of similar steps, yet the outcomes differ. In fact, there is quite a wide agreements in the transition literature, that in CEECs, governments were the initiators of financial market liberalization. However, the question remains, why they preferred different developments.

Moreover, in the above explanations, the end product of liberalization is seen as homogeneous, functionally equivalent outcomes, and the power relations within national domains are reduced to the simple framework of governments’ and labor owners’ loss and capital owners’ gain. Such consequences of liberalization as shift of power within state institutions from governments

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towards bureaucracy, hence the transformation of the scope of democratic control or the reallocation of the different sources of power among liquid asset holders with regards to their origin¹⁵ are rarely discussed.

In the above approaches, meanings of the key concepts - assigned by the involved actors - such as 'liberalization', 'privatization', 'globalization' or even 'market economy' are rarely discussed. However, in post-communist countries at the beginning of transition process these concepts are subject to diverging interpretation, their content is not fixed but recurrently interpreted with the help of the dominant discourses. (contested concepts) Nevertheless, the dominant discourses are not identical in each country (it is not necessarily the neo-liberal discourse), but can be formulated around the newly independent statehood, glorious historical past, place in Europe.

Proposed alternative theoretical solution:

Therefore, this research holds that globalization of finance and its effects on politics cannot be truly understood by separating national and international phenomena, as it is pursued in the above explanations. 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. Thus, there is a need to base the understanding of the cases on a redefined concept of globalization.¹⁶ 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

¹⁵ Barteltt, David and Anna Seleny (1998) 'The Political Enforcement of Liberalism: Bargaining, Institutions, and Auto Multinationals in Hungary', *International Studies Quarterly* 42, pp. 319-338.

¹⁶ Kelly, Philip and Kris Olds (1999): *Questions in a crisis: the contested meanings of globalization in the Asia Pacific* Globalization and the Asia Pacific K. Olds et al., eds London, Routledge

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the parameters of existing institutions and attempting to modify these institutions, though in a way which allows substantial leeway for different institutional developments.¹⁷

This approach looks at the relevant actors' and institutions' internal domain and understands 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 identities and their institutional environment. As a consequence, policies, markets, states and globalization are not fixed but evolutionary and contextually related to time and space. Context becomes a major explanatory factor, a framework for interpreting the ways in which different processes of change play out in each context. Hence, this project gets closer to what Collier calls the more interpretative side of social sciences. The aim of this type of comparative research according to Collier is to unravel the underlying meaning of political phenomena and to see how this meaning is rooted in a particular context.¹⁸

Clarification of the puzzle

A first step in the above indicated direction starts with a closer clarification of the puzzling difference between the shape of internationalization as exhibited by the two financial markets. If we are to gain meaning of globalization in the two settings in distinct ways it is important to sketch the structural underpinnings of the two financial fields.

In all post-communist countries' financial markets, hence in the Slovenian and in the Hungarian, the banking sector is the most important element, and stock exchanges or other financial

¹⁷ Sassen, Saskia (2000). "Excavating Power: In Search of Frontier Zones and New Actors." Theory, Culture and Society 17(1): 163-170. And Higgott, Richard (1999): The political economy of globalization in East Asia: the salience of 'region building'. Globalization and the Asia Pacific K. Olds et al., eds London, Routledge.

¹⁸ Collier, D. (1991). The comparative method: two decades of change. Comparative Political Dynamics. Rustow and Erickson, Harper Collins. p14.

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intermediaries are fairly underdeveloped. These markets developed more in the direction of ‘bank based’ – as in Germany or Austria – than towards ‘stock-exchange based’ systems of the United States and the United Kingdom.¹⁹ Therefore, the highlighted different patterns of financial markets should be outlined with regards to the banking sectors.

Economists found no conclusive evidence that the type of system matters for economic growth performance. As Levine argues countries at the same stage of economic development and with similar rates of long-run growth retain a different mix of financial institutions²⁰. However, political scientists argued convincingly that the type of system did matter as it allocated power among actors differently and provided benefits to different kind of political agents²¹. Moreover, in order to show that globalization of finance creates multiple outcomes and globalization indeed a heterogeneous process, there is need to assess somehow the differences of the kind of internationalization the diverging policies lead. Two important levels of analyses call for separation to show the differences of the state of affairs in the two countries.

1) Ownership of assets:

Internationalization of a sector is most widely understood as a manifestation of the mixed origin of actors with regards to their home base. Scholars arguing in favor or against the importance of the “nationality” or “origin” of owners usually draw two dividing lines which separate the asset owners.

- The first line is between foreign versus domestic ownership.
- The second line lies between private versus public ownership.

¹⁹ Banking sector assets in the CEECs account for 85 to 95 percent of overall financial assets, compared to a little over 50 percent in the United Kingdom. In the CEECs, bank monitoring plays a more important role in firm governance as opposed to the threat of hostile takeover in more securitized, ‘stock-exchange based’ systems. Claims on banks are more important in household portfolios than securities.¹⁹ Thus, banks dominate the provision of financial services.

²⁰ Levine, Ross (2000): “Bank-Based or Market-Based Financial Systems: Which is Better?”, University of Minnesota, June 2000

²¹ Zysman, John (1983). Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change. Ithaca, London, Cornell University Press.

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In these regards the following differences can be displayed: 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). The presence of foreign investors in the Slovenian banking sector is the lowest in CEECs (less than 20%), 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 2000).

However, ownership patterns tell us the less interesting part of globalization. Since only knowing the origin of asset owners we don't learn much about their motives and scopes of actions because that is more importantly conditioned by the actual institutional framework within which they operate.

2) The source of design of regulating institutions:

Thus, a second level of analysis can be identified: the level of the design of regulating institutions. One can argue, that this level is logically prior to the level of ownership, since investment depends on the prior state's decisions of market liberalization. In the year 2000, the states of affairs in the two countries were showing dissimilar regulating priorities. In post-communist countries, the crafting of laws and shaping of institutions were based on a close study of regulations stemming from western countries with distinct type of institutional background. Some of the key elements of the design are bank laws, structure of taxation - tax allowances for investors, loan-loss provisions, bank specific taxes, capital gain taxes, but also bankruptcy laws, recovery of collateral, creditor rights, preferential treatment of certain actors, reserve requirements, interest rate ceiling, lender of last resort mechanism, the shift from direct to indirect regulating instruments, the choice of interest rate regime, etc, which ask for a systemic analysis.

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Obviously, international organizations have been for long producing standards as for the ‘good’ conduct of finance. These include the *Core Principles for Effective Banking Supervision* of the Basle Committee on Banking Supervision, the *Objectives and Principles of Securities Regulation* of the International Organization for Securities Commission (IOSCO), the IAIS *Insurance Supervisory Principles*, the *Core Principles of Systematically Important Payment Systems*, and the *Code of Good Practices on Transparency in Monetary and Financial Policies*. Principles, whose accomplishment are keenly surveyed by the International Monetary Fund and the World Bank.²² The implementation of these principles serves mainly to enhance data communication and transparency as basis of financial market stability and curtails vulnerability. However, as they are implemented by many western countries with strikingly different organizations of financial markets, these principles besides the general surge towards neoliberalism, rarely dictate specific priorities and targets for government policies formulated in distinct institutional environments.

If we assume – unlike many of the analysts - that there are no “western” types of regulations, but regulations stemming from distinct modes of capitalism, which benefits different social groups, the investigation of the source of design of the regulating institutions become crucial.²³ It is crucial since it indicates an important dimension to the given internationalization.

The exploration of this level of analysis will be the next step in the course of my research.

Theoretical significance 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

²² IMF Working Paper 01/141: Nancy Wagner and Dora Iakova (2001): *Financial Sector Evolution in the Central European Economies: Challenges in Supporting Macroeconomic Stability and Sustainable Growth*, IMF, p44.

²³ Zysman, John (1983). *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*. Ithaca, London, Cornell University Press.

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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.

Methodology: How to explain? Or what evidence you marshal to prove your point.

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 and most different in current patterns. Having in mind that the notion of “similar” and “different” are relative, three points are necessary here to make the above claim clear. First, in the literature on the transition economies²⁴ there is a strong consensus that the post-Soviet republics, on the one hand, and other post-socialist countries on the other, experienced significantly different initial conditions of the economy as well as different influence from the international setting.²⁵ This implies that whether or not they arrived at different or similar outcomes, the course of

²⁴ Greskovits, B, Bohle D. (2001): "Developmental paths on Europe's Periphery: Hungary's and Poland's Return to Europe Compared", Polish Sociological Review, 2001, Bruszt, L. D. Stark (1998). Post-socialist Pathways: transforming politics and property in East Central Europe. Cambridge, Cambridge University Press., Linz, Juan J., Alfred Stepan (1996). Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe. Baltimore and London, The John Hopkins University Press., Offe, C. (1996). Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe. Varieties of Transition. Cambridge, Polity Press.

²⁵ One of the most important difference, from this research perspectives, was the experience with market socialism of some of the non-post Soviet countries, more importantly that of Poland, Hungary and the Yugoslavia. These countries experienced many economic reforms before the transition has unfolded and consequently this experience

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events were largely following independent logics (e.g. Estonia-Hungary). Second, among the non-post-Soviet Central and Eastern European countries the following four are the most advanced countries in terms of economic and political transition as well as closest to EU integration: Poland, Czech Republic, Hungary, and Slovenia. It means that in order to reduce the number of bias among explanatory variables, this research design had to select either out of the latter four countries or from the rest of the non-post-Soviet block. Since in this research proposal focuses on the interplay of the international and national factors and since the success stories of post-communist countries were exposed to more similar international influence (e.g. EU trade relations, early EU association, geographical location, etc.) the selection was made from the last four countries. Finally, in order to provide evidence and hence contribute to the debate on the effects of globalization of financial markets, it was important that out of these countries the research concentrates on those having the most contrasting features in financial markets.

Time period: which historical period(s) will you analyze and why?

The time period analyzed is the period of 15 years from 1987 to 2001. The research embarks on a synchronic analysis of the two countries. In 1987 the Hungarian two tier-banking system was introduced, which marked a fundamental step on the course of reform towards market economy, as understood by the reform economists: economy where the dominant property form is private property.²⁶ In 2001, the Slovenian government started negotiations with foreign investors as potential procurers of the two large state-owned banks. Hence, a datum which indicates a decisive move towards a banking sector with dominant foreign presence.

The selection of the two endpoints of the analyzed period shows also an interest in exploring the difference between the perception of “market economy” of the two countries’ decision-makers.

formed basis for a more stable and successful transition of the early 1990’s.

²⁶ Kornai, J. (1996). Adjustment without recession: A Case Study of the Hungarian Stabilization. Budapest.

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Moreover, significant turning points emerge in the economic policy making of the two states: 1994 and 1995, in Slovenia and in Hungary, respectively. These dates of governments' policy change, indicate possible analytically important dividing lines.

Data and data sources: where will you get the necessary information?

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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