

EU enlargement: Managing globalization by managing Central and Eastern Europe

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Southeast Asia begins 70 kilometers east of Berlin

--German trade union official, 1993

A substantial literature focuses on EU efforts to manage the behavior of economic rivals, often at the cost of limiting EU members' own national room for maneuver in the name of a common trade policy. This memo focuses on a different phenomenon: the management of *prospective* members who are not yet major economic rivals to member states. Poor areas next door often inspire both hope and fear in rich areas. My memo is concerned with the Eastern enlargements of the EU in 2004 (ten states) and 2007 (two more) and how these enlargements fit with notions of managed globalization, as defined by the organizers.¹ In so doing, the memo takes up two questions posed in the introductory memo:

- Which management strategies have actors based in the EU-15 used in Central and Eastern Europe (CEE) since 1990?
- Have efforts at managing globalization led to any institutional convergence across member states or, alternatively, has more formal management actually been associated with a wider range of national institutional practices, even if coordinated and vetted at supranational levels?

My basic strategy is to cast an initial glance at the three most commonly cited areas of globalization, namely flows of capital, goods and services, and labor. In my account, actors from the EU's 15 pre-2004 "old member states" (OMS) plus EU officials are the managers, while the 12 new member states (NMS) are the managed. Where many of the memos in this workshop look at EU efforts to manage globalization by managing relatively distant practices, this memo looks at management of an area on the EU's immediate geographic periphery.² What this has to do with globalization is that the particular form that regionalization has taken is, arguably, a technique for

¹ The new members in 2004 were Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia; in 2007, they were joined by Bulgaria and Romania.

² Obviously, there's a crucial need to acknowledge that CEE actors are often partners in both offensive and defensive forms of management. I play down this theme here but play it up in Wade Jacoby. Inspiration, coalition, and substitution: External influences on postcommunist transformations. *World Politics* 58 (July 2006): 623-51.

coping with globalization. The intuition is that managing global challenges begins by managing your own backyard. To the extent there is a perception that much lower costs lie in close geographic proximity, this should induce some actors to try to exploit that and some to restrict it.

The rest of this memo lays out variants of offensive and defensive management and sketches the utility of these ideas for describing the basic contours of policy about capital, labor, and trade. The memo concludes with basic data on convergence and divergence in CEE and with thoughts on private, state, and supranational actors and the management of globalization.

I. Offensive diversification and defensive ordering

Most scholars have looked at CEE as a target of regionalization. I do not deny this is a valid approach and indeed have contributed a book to the booming literature on Europeanization of CEE.³ But my intuition here takes off from the idea of the EU as an agent of management in CEE. The basic idea is simple: if the EU can be a tool wielded by the OMS to manage globalization, then we ought to see them using enlargement to prepare the CEE region to help the OMS area compete globally (and not merely to help CEE states prepare to be good EU members).

Consistent with the offensive-defensive distinction in the introductory memo, however, there ought to be a range of contradictory ideas about what would most help the OMS compete. It stands to reason that our conference will need to probe the plausibility of several different accounts of what constitutes offensive and defensive management. In the CEE context, for example, offensive management might emphasize efforts to organize an economic region that brings advantages to the now combined European economic area in global competition.⁴ At minimum, this means gaining access to tens of million of new consumers, but it can also mean using lower costs in CEE to improve their competitive position on regional and extra-regional markets. The minimal kinds of management needed are the classic liberal measures to privatize firms, develop adequate payment systems to enable commerce, secure provisions for contract

³ A partial list of books from just the past two years would include Heather Grabbe, *The EU's Transformative power: Europeanization through conditionality in Central and Eastern Europe* (London: Palgrave, 2006); Elizabeth Pond, *Endgame in the Balkans: Regime change European style* (Washington: Brookings, 2006); Frank Schimmelfennig and Ulrich Sedelmeier, eds., *The Europeanization of Central and Eastern Europe* (Ithaca: Cornell University Press, 2005); Geoffrey Pridham, *Designing democracy: EU Enlargement and regime change in post-communist Europe* (London: Palgrave Macmillan, 2005); Milada Vachudova, *Europe undivided: Democracy, leverage, and integration after communism* (New York: Oxford University Press, 2005); John Pevehouse, *Democracy from above: Regional organizations and democratization* (New York: Cambridge University Press, 2005); For my take, see Wade Jacoby, *The enlargement of the European Union and NATO: Ordering from the menu in Central Europe* (New York: Cambridge, 2004).

⁴ I assume that the management approach focuses primarily on the costs and benefits to OMS actors and only secondarily, if at all, on the resulting costs and benefits for CEE actors. In other words, CEE actors need to look out for their own interests in these debates.

enforcement, and introduce measures for repatriating profits.⁵ The underlying logic is that OMS actors can use the physical, human, and legal assets of the CEE region to diversify (not abandon) their own economic model.

In the early period of the transformation, OMS private entities – mostly large Western firms – deployed both ad hoc strategies and offensive strategies that sought to enlist CEE policymakers in shaping reforms that went beyond the ad hoc by, for example, seeking propitious rules for FDI and a favorable tax environment. Below I describe offensive management through “diversification” and suggest that this kind of offensive management uses public policy differently than do advocates of what the introductory memo called ad hoc globalization. Essentially, where actors (mostly firms) simply take advantage of regulatory openings and variations in market conditions in ad hoc globalization, they seek to actively shape those conditions in offensive management.

Defensive management, by contrast, might emphasize organizing CEE to solidify it as a barrier against competitive pressures from outside Europe while also minimizing its comparative advantages vis-à-vis the OMS. Rather than diversifying the production conditions of OMS-based firms, one idea is to protect those OMS firms against challenges that emanate directly from CEE (perhaps taking advantage of lower costs there) or that move through CEE (particularly the flow of illegal goods and people across lightly-guarded frontiers). Techniques here would include strict bars against immigration, trade barriers, and measures to ensure that investment does not move from OMS to NMS sites. As CEE states gained momentum towards EU membership, OMS actors found opportunities to deploy some of these defensive strategies.

As noted in the introductory memo, there is a kind of “channeling” of the market here. Though at its limit, defensive management becomes nothing more than protectionism, some OMS defensive management vis-à-vis CEE had a different character, which I will call ordering. Just as offensive management goes beyond ad hoc deregulation, defensive management can – indeed must – mean more than building higher walls against external competition. The central idea behind ordering as a defensive strategy is that CEE is both an opportunity and a threat and that it requires OMS/EU management to get the balance right. More concretely, the intuition behind ordering is that some firms (and the jobs they create) are not worth having in a modern economy. A variant of the approach suggests that some sectors are doomed, and it makes little sense to try to save them

⁵ It’s not that offensive management advocates are the only ones who care about these measures, but just that these are their primary focus. These measures are, in that sense, minimal public goods and largely uncontroversial with the exception of privatization and perhaps the repatriation of profits. Note also that this agenda is more substantial (hence offensive *management*) than ad hoc globalization (see introductory memo for more on this distinction).

over the long run, though the state might ease the transition in the short run.⁶ Defensive ordering becomes a matter of using rules to make the distinction between commercial practices that ought to exist and those that ought not exist, at least not in modern Europe. The ordering approach would then use management tools to promote and/or defend the former but not the latter. In this sense, it differs from old industrial policy notions of “picking winners” primarily insofar as it tries to pick capacities – including the ability to pay wages with regular productivity gains plus cost of living increases – rather than picking individual firms or sectors.

Insights about order are a staple of the comparative political economy of Northern Europe and can best be demonstrated in debates about labor markets. In the national labor market, the central objective of ordering is to boost average economic productivity (thus the justification for overall wage growth) by “selectively squeezing corporate profits” through pressure on the lowest productivity firms, causing them to rationalize production or exit the market.⁷ Concerns about driving firms dependent on cheap labor out of business play a prominent role in the US debate, but in this approach, low wages are an ill-advised subsidy to inefficient firms. Different metaphors capture the reality: some refer to the German wage floor system as a form of industrial “hygiene,” while German collective bargaining partners often speak of a “modernization whip.”

Though the idea of ordering a national economy is thus an old one in several European states, it is a reflection of the domestic preferences and traditions of those states. The EU has few, if any, levers to influence the wage policies of prospective member states, so it could not foist this particular kind of ordering on CEE even it wanted to. But while it is not the prerogative of the EU to determine the microeconomic order of its member states, the strong desire of CEE states to become EU members has allowed the EU to exercise substantial control over their economies, often stretching the *acquis communautaire* in order to do so.⁸ Below, I develop some examples of the EU obliging some policies (tax reforms) and restricting others (state aids) that, taken together, strike me as efforts at defensive management through providing order.

Of course, private OMS actors mounted their own management efforts vis-à-vis CEE states, often seeking to use their investment potential to leverage policy accommodation from CEE governments. As a broad generalization, OMS private actors (who moved quickly) pursued offensive management through diversification, while the EU actions (which came later)

⁶ Whether or not there are “doomed sectors” is not this issue here, and indeed actors need not argue that there are doomed sectors in order for them to support an ordering strategy.

⁷ Jonas Pontusson, *Inequality and prosperity: Social European vs. liberal America* (Ithaca: Cornell University Press, 2005), p. 63.

⁸ See Grabbe 2006.

tended to look more like defensive management through ordering.⁹ Each of them, it goes without saying, sought to solidify their preferences in public policy passed by CEE states.

II. Diversification and ordering in capital, labor, and trade.

OMS private actors hit the ground running in CEE, and their effects have generally predated an active interest by the EU. But where private actors have had relatively decentralized policies, the EU, while coming late to the table, has enjoyed some impressive forms of leverage. Thus, one important question – which this memo can really only pose – is whether the EU (and at least some of its member states) are seeking to displace private offensive diversification strategies with defensive ordering as the dominant management approach in the region.

To the extent that they are – and this is by no means certain – it may still be that the two strategies can co-exist. The ordering approach has something for both offensive-minded and defensive-minded actors: for the latter, it defends against social dumping by raising standards in the neighborhood. For the former, it legitimizes some East-West gaps in market conditions that, when combined with the large initial differences across OMS and NMS, help induce new forms of production. Consistent with the introductory memo, in this section I note the behavior of actors who prefer offensive management and those who prefer defensive management. The former seek to use regionalization as a tool to promote globalization by diversifying European strategies. The latter seek to manage regionalism through ordering so that it aids in defending current arrangements against globalization pressures, while also containing elements of selective modernization. How do these strategies play out in debates about the three leading areas of globalization (capital, labor, and trade of goods and services)?

In capital, there are two divisive debates, one about tax holidays and one about general tax levels on corporate profits. Offensive managers were generally attracted to investment in CEE as a place to build a low-wage platform that complements OMS high-cost production. But very low taxes and, in many cases, long “tax holidays” added important additional inducements. CEE policymakers were generally responsive to their priorities. Analogous to the wage compression example given earlier, tax incentives to the most productive firms could encourage growth in the most efficient areas of the economy and thus, over time, raise the overall efficiency of the economy. This rationale might then be used to justify tax subsidies to highly efficient firms on the grounds that these are exactly the kinds of firms CEE governments want to encourage. Defensive

⁹ For what it’s worth, this is what happened in German unification as well: the public authority strove to implement minimum standards (often at the behest of private *collective* actors) while *individual* private actors probed for new opportunities, some of which presumed a weakening or hollowing out of those minimum standards.

managers, by contrast, should seek to prevent capital from flowing from the OMS to the NMS by pressuring CEE states to raise standards quickly so that CEE tax rates soon approximated those on capital in the OMS and to end or reduce very attractive tax holidays. Purely defensive OMS actors – e.g. actors who would prefer simple old-style protectionism if it were legitimate – have so few tools for preventing capital movement that they have gravitated to the “ordering” variant, in part, because it legitimates some restrictions on policies to induce capital movement.

Several major findings give us a picture of mixed offensive and defensive strategies.¹⁰ On the one hand, enlargement suited offensive managers in the OMS by providing OMS firms with favorable treatment by CEE states, including for example Hungary’s ten year tax holidays for foreign investors. As the leading target (on a per capita basis) of FDI, Hungary’s policies have come in for particular scrutiny, but obviously other CEE states have also sought foreign investment.¹¹ OMS corporate tax rates have come down markedly in recent years, at least partly in response to CEE tax competition, and this development presumably is welcomed by offensive managers. On the other hand, and more in keeping with defensive management, the EU screening process stripped the NMS of some potentially useful national tools for managing the political economy – tools that were judged by the Commission to be in contradiction to the *acquis*. Some tax tools were outlawed altogether as violations of the state aids section of the *acquis*; others were trimmed substantially – such as the length and extent of tax holidays – though not eliminated. These defensive moves came despite the fact that relative to their own capital depth, OMS states have not seen major capital outflows to CEE (except, perhaps, Austria).¹²

To the extent that FDI in CEE is attractive to OMS countries, it is important to know more about the extent to which firms from these countries are attempting to buy complementary strengths. That is, without fundamentally changing their own national model of capitalism, are these firms able to do things complementary to (not alternative to) production at home? Suzanne Berger notes that some OMS firms (her examples are drawn from Italian textiles) tend to use CEE

¹⁰ This paragraph follows David Ellison. *Competitiveness strategies, resource struggles, and national interest in the new Europe*. Draft Working Paper, Carl Beck Papers, 2007. See also Hilary Appel. International imperatives and tax reforms: Lessons from postcommunist Europe. *Comparative Politics* October (2006): 43-62.

¹¹ For example, Volkswagen accounted for about 15% of both Czech and Slovakian exports in recent years. Petr Pavlínek. Regional Development Implications of Foreign Direct Investment in Central Europe. *European Urban and Regional Studies* 11(1) (2004): 63-65.

¹² Occasionally, CEEs states have pushed back. For example, Estonia has annoyed the EU by holding to a 0% tax on reinvested corporate profits (profits distributed as dividends are taxed at 23%). The EU has been critical, but Estonia has insisted the policy contravenes no regulations.

investment for new business and expansion while their core business stays in the home location.¹³ For offensive actors, CEE is a platform for new business; for defensive ones, it can be a pressure valve to diminish tension over domestic regulations on the grounds that investors can escape some regulations by going to CEE. CEE politicians play to both sides of this: they try to attract the former with preferential terms for OMS investment, defend those deals against skeptical EU Commission officials, and hope to use the resulting investment to catch up to OMS standards.

In labor, recourse to old-style walls has been much more possible. Offensive managers place priority on getting access to labor (especially skilled labor) from CEE. Defensive managers have focused on walling off “deep” Eastern Europe from CEE and erecting mobility barriers against NMS workers. Initially, it seemed as if the primary management would involve the Commission walking the CEE states through a welter of well-established (if patchwork) regulations regarding free movement of persons, which had become a core principle of the single market in both theory and deed by the 1990s.¹⁴ But technocratic debate over mutual recognition of things like professional certificates was soon swamped in the late 1990s by the high politics of member states. Germany and Austria, in particular raised strong objections to immediate free movement of CEE workers, and the EU was ultimately obliged to negotiate the right of individual OMS to limit entry for up to seven years after membership. Here, one could say the Commission was an unsuccessful advocate for offensive management.¹⁵ Frits Bolkestein, Internal Market Commissioner, was blunt about the defensiveness of this move: “In a healthy economy it is better to prepare for competition than to draw up new barriers.”¹⁶ The EU also had substantial influence over the CEE states’ efforts to control their own external borders to the East. Here, they largely shared the defensive position of the member states. Though the EU had little experience in guiding the development of external border policies – traditionally the domain of the nation state – there is good evidence that they pushed CEE states to seal those borders in a variety of ways. More fine-grained analysis would be required to determine if any of this looks like ordering.

In trade, offensive and defensive managers had relatively smaller grounds for disagreement. For offensive managers, especially those looking to send parts of the production

¹³ Even here, however, Berger stresses the low productivity in CEE sites like Romania, while noting that firms there are often obliged to build much of their own infrastructure. Suzanne Berger. *How we compete*. (New York: Currency, 2005), p. 122-125. She shows that offensive managers have often found hidden costs cut heavily into their anticipated benefits.

¹⁴ This paragraph is based on Grabbe 2006, chapters 6 and 7.

¹⁵ In the first Eastern enlargement, Sweden took the same approach as Britain and Ireland, and Finland had joined them for the 2007 enlargement. The UK received far more immigrants than they anticipated (according to the BBC, 600,000 total rather than 13,000 per year, with Poland, by far, the biggest sender). Spain, Italy, Greece and Finland are now opening to original CEE states, but not Bulgaria or Romania.

¹⁶ Quoted in Grabbe 2006, p. 146.

chain with higher labor costs to CEE, it was important that CEE states have a perspective on free trade with the OMS. With the Europe Agreements of the early 1990s, this threshold was reached.¹⁷ Thereafter, offensive managers seem to have had little need to pursue any further agenda on trade and perhaps have concentrated on supporting various of the liberalizing measures from the Lisbon catalog. Still, offensive managers have to be wary of creating their own competitors in CEE, and there is evidence that they have been concerned. For example, though illegal under EU law, many OMS investors imposed “vertical restraint agreements” prohibiting their CEE affiliates from using technology transferred to them for any production activities outside the framework of their joint-venture agreement with their OMS partners. More legally, Volkswagen seems to have limited reimports to the OMS of its Skoda products out of fear of cannibalizing its VW brands there.¹⁸

Offensive actors can thus play defense when it is in their interests to do so, but defensive actors have clearly managed the trade agenda carefully. They have done so in two major ways, both of which looks much more like pure protectionism than the ordering spoken of in investment and, to a lesser extent, labor. Returning to the Europe Agreements, the EU drove a very hard bargain in 1993-94. On the surface, the series of bilateral deals between the EU and the CEE states seemed tilted towards the latter: Europe would remove its trade barriers within five years, while the CEE states would get ten years to comply. The fine print, however, contained exclusions for virtually every product where the CEE states were competitive, including iron, steel, some chemicals, and several agricultural products.¹⁹ The second strategy has been the assignment of relatively low quota levels for agricultural production to the CEE states.²⁰

Similar to the labor story, what is needed is a much more careful sorting of the extent to which the EU’s aim in the Europe Agreements was solely to restrict direct competitive pressure from CEE producers versus getting CEE states inside the EU so that they could not cut bilateral trade deals with more distant partners. The first may qualify as defensive management – the concept’s boundaries require more clarity – but the second, it seems to me, surely would.

¹⁷ Indeed, according to Schimmelfennig, it would have been preferable for many OMS actors to stop there and not move on to full membership. Frank Schimmelfennig. *The EU, NATO, and the integration of Europe* (New York: Cambridge University Press, 2004). For the Europe Agreements, see Ulrich Sedelmeier. *Constructing the path to Eastern enlargement* (Manchester University Press, 2005).

¹⁸ Jochen Lorentzen and Peter Mollgard. Exclusive Agreements and Technology Transfer: Competition Policy and EU Enlargement, unpublished paper, Copenhagen Business School, June 2000. I thank Bob Hancké for the point about Skoda.

¹⁹ For details, see Alan Mayhew. 1998. *Recreating Europe: The European Union’s policy towards Central and Eastern Europe*. Cambridge: Cambridge University Press.

²⁰ For details, see Jacoby 2004, chapter three.

III. What kinds of convergence and divergence?

If anecdotal induction suggests that neither pure offensive nor defensive management best characterizes what is going on in CEE, so too do some of the quantitative indicators. Broadly, indications of diversity between NMS and OMS fit best with the proposition that OMS actors may find it attractive to use CEE as a more cost-competitive region inside an enlarged EU. Indications of convergence conform better with the proposition that the EU has sought to prevent social dumping by obliging CEE states to bring regulatory conditions “up” to EU standards.²¹

Unfortunately, there is no space here for any detailed summary of the hoary convergence debate or even a list of the indicators of convergence and divergence in CEE. At minimum, however, it would be good to know if CEE states are even being subjected to strong competitive pressures. The Swiss Institute for Business Cycle Research (KOF) compiles annual indices that measure the economic, social and political dimensions of globalization on the basis of 25 variables. The KOF *economic* index measures long distance flows of goods, capital, and services as well as information and perceptions that accompany market exchanges.²² In addition to actual flows of trade and foreign investment, it captures the degree to which a specific country restricts capital and trade flows. The *social* index measures the spread of ideas, information, images and people, while the *political* index captures the diffusion of government policies.

As a quick calculation, I took data from the 15 OMS plus the 12 NMS (I left in Malta and Cyprus). The next two pages show the composite index, followed by the individual economic, political, and social indices.²³ The data reveal two important points. First, by all three individual measures, indices of globalization are lower in the new member states than in the old. Second, in all three areas, the gap has been closing in impressive ways over the past fifteen years. Indeed, the composite index of globalization, which again includes sub-indices for economic, political, and social forms of globalization, has narrowed from a 76 (OMS) – 48 (NMS) gap in 1993 (the first postcommunist year for which complete data were available) to 84-62 in 1999 and 84-70 in 2004 (the last year for which data are available). In other words, the gap has dropped from 28 points to 14. At minimum, this means that CEE states are increasingly exposed to global forces.²⁴

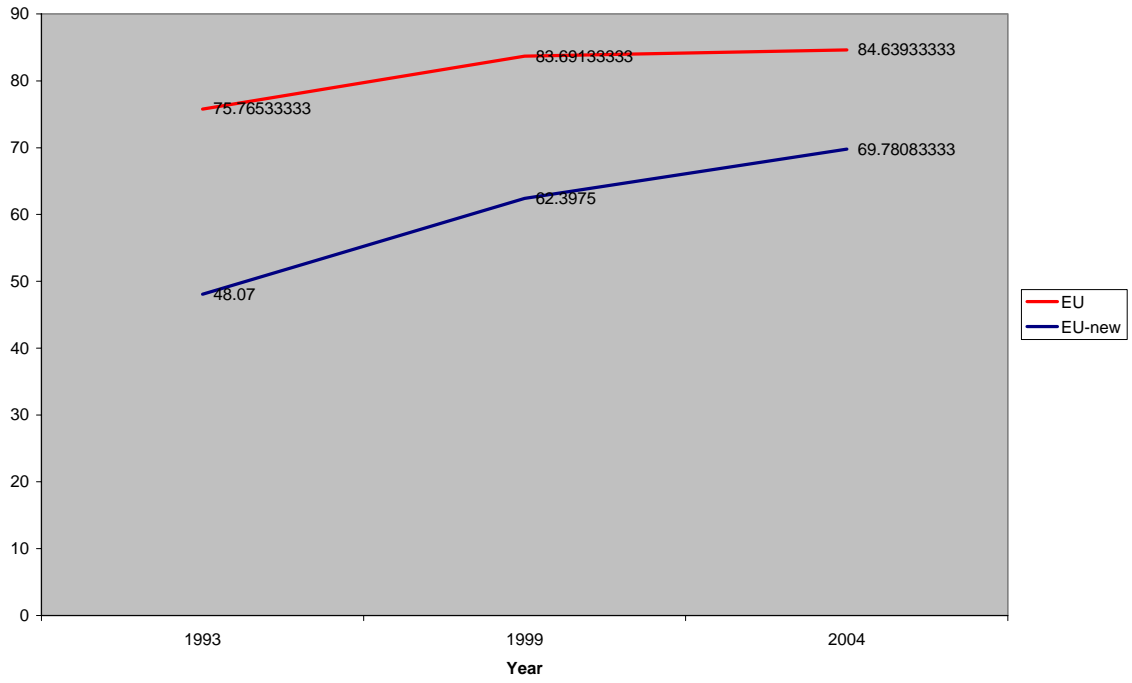
²¹ Re: “up.” A robust research tradition in postcommunist political economy sees EU regulations as toxic (e.g. Anders Åslund. The misguided blame game. *Transition Newsletter*, 14/15(2004): 25-26).

²² For detailed breakdowns of the component data, see <http://www.globalization.kof.ch/>.

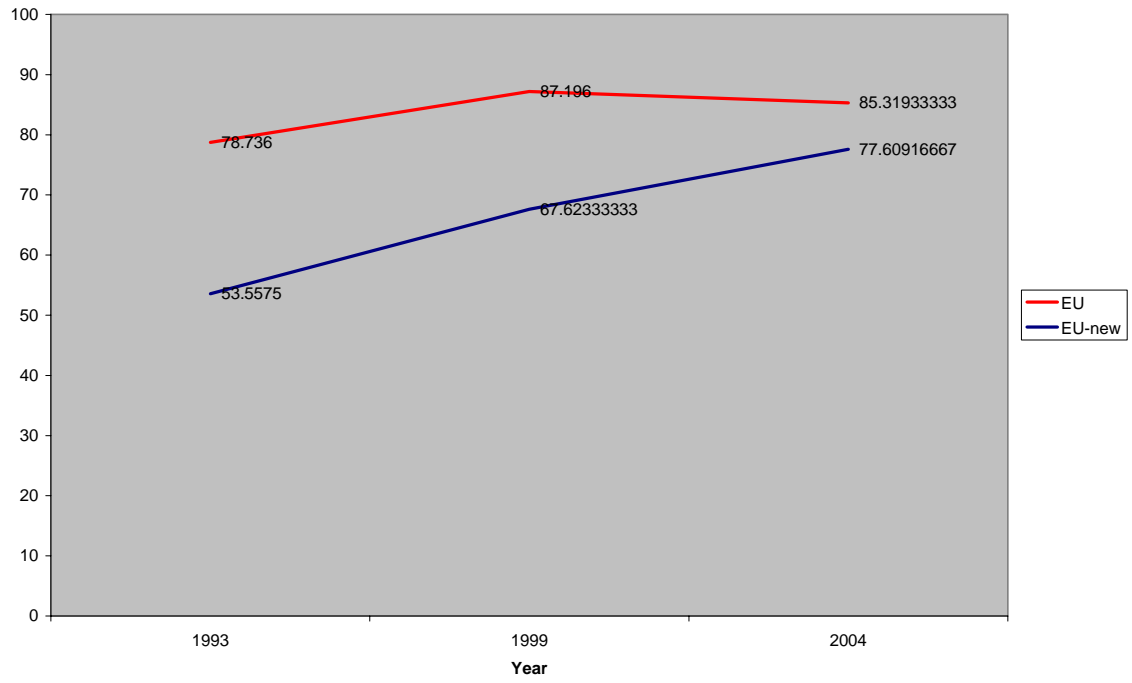
²³ I took the first post Cold War year for which postcommunist data were widely available (1993) and then took the last year for which data are available (2004) and then used 1999 as a middle point. This means the light and dark lines are not based upon data points for the intervening years and should be ignored, except as crude indicators of the overall rate of change. In each case, the differences between the index scores for OMS and NMS are significantly different from zero (t-test p-values are all less than 0.01).

²⁴ Most of the indicators do not differentiate between economic interactions at great distance and those arising from interactions with close neighbors. Here, Colin Hay’s cautionary note comes to mind.

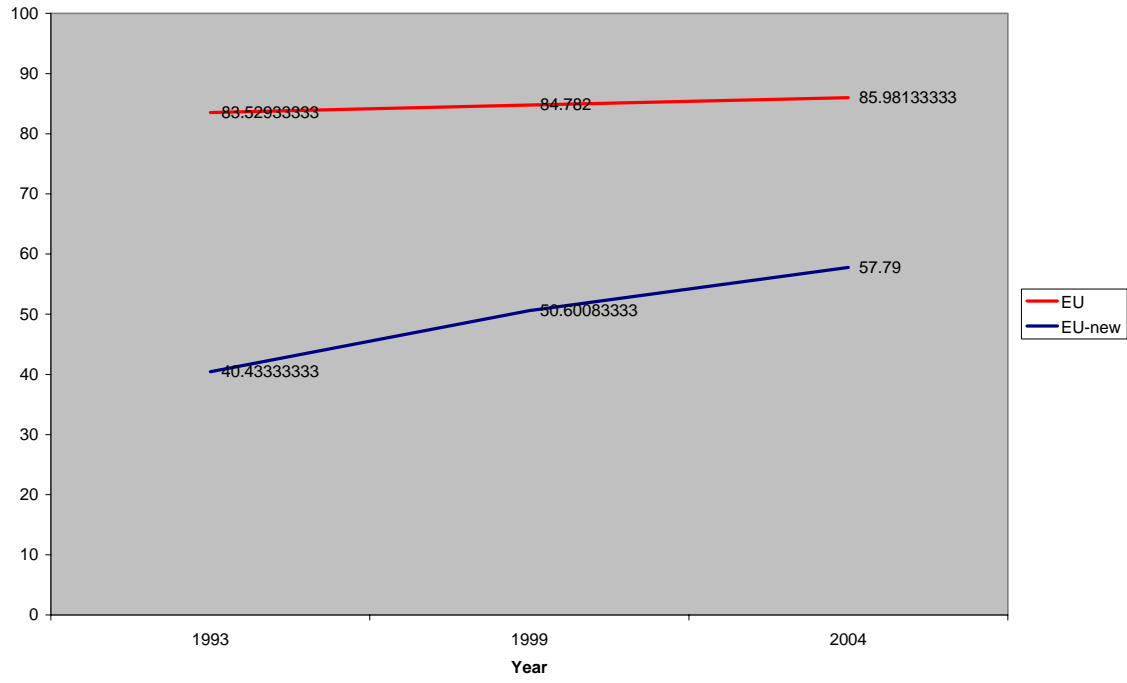
Index



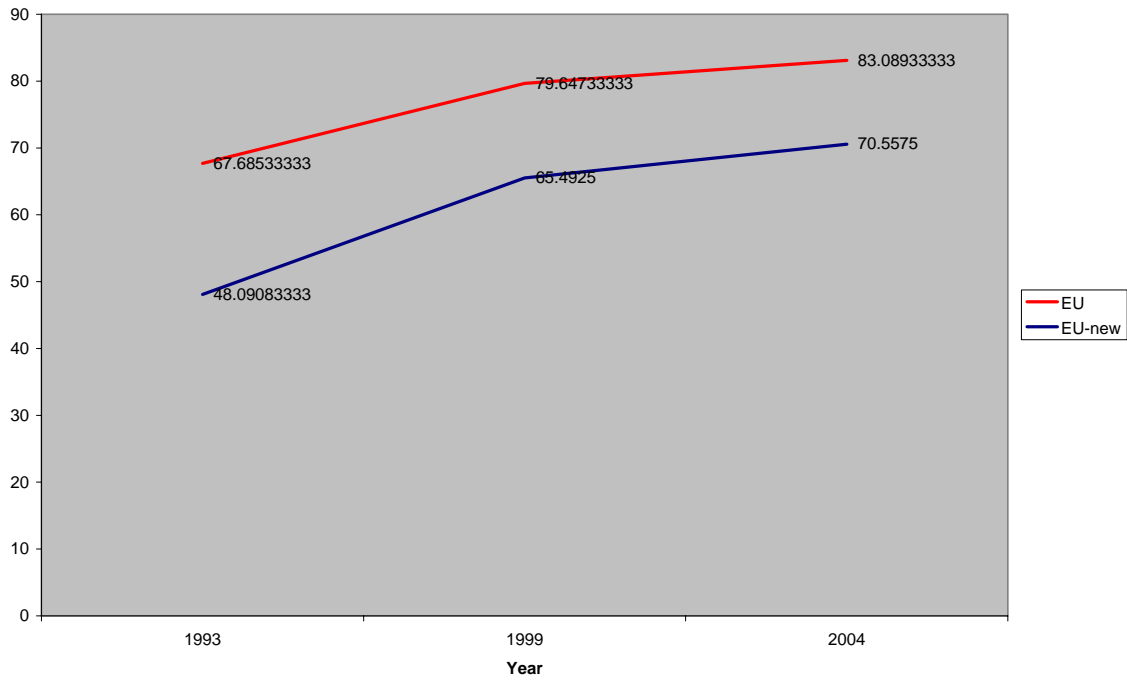
Economic



Political



Social



But exposed to global forces though they may be, the degree of convergence remains an open question. In policy terms, there is increasing evidence that the policy differences between initially slow and initially rapid CEE reformers have now diminished. This is due mostly to reform laggards adopting most of the liberalization policies of the early reformers. Similarly, revealed comparative advantage data suggests that CEE states with very different growth levels still showed (in 2001-2002 data) similar comparative advantages over global markets (namely, low technology exports, resource-based manufacturing exports, and medium-technology exports), while also sharing competitive disadvantages on primary commodity exports and high technology exports.²⁵ On the other hand, fine-grained economic analysis by Béla Greskovits shows that behind these broadly liberal policy regimes exist fundamentally different economic structures.²⁶ Distinguishing capital intensive and non capital intensive production regimes as well as skilled versus less skilled production produces a typology with four combinations: capital intensive-low skilled (e.g., mining, Bulgaria), capital intensive-high skilled (e.g. autos, Slovakia), non capital intensive-low skilled (e.g., textiles, Romania), and non capital intensive-high skilled (e.g., electronics, Hungary).

Three implications follow for the management idea: first, to the extent that economic strengths are as deeply structural as Greskovits implies, they may be unresponsive to EU efforts to manage them. Second, however, since these economies most need capital deepening, they might thus respond better to investment from the Structural Funds than to further exhortations to deepen their commitment to Lisbon-style reforms. Third, and perhaps most intriguing, these states might benefit from EU efforts to stiffen their resolve against domestic rent-seeking (like state capture by purely defensive heavy industry) or excessive liberalization (which, absent sufficient investment is unlikely to produce growth all on its own).

IV. Actors: Who manages?

Who are these offensive and defensive managers? The most plausible answers are firms, domestic business and labor organizations, national states (or groups of national states), and EU officials.²⁷ One would generally assume that most OMS firms are too small to affect CEE regulatory strategies alone. This assumption may, however, be wrong in some cases. The data on

²⁵ Vlad Mykhnenko. Strengths and weaknesses of ‘weak’ coordination. In Bob Hancké, Martin Rhodes, and Mark Thatcher (eds). *Beyond varieties of capitalism: Conflict, contradiction, and complementarities in the European economy* (Oxford: Oxford University Press, 2007), p. 373.

²⁶ Béla Greskovits. Leading sectors and the variety of capitalism in Central and Eastern Europe. Unpublished paper, Central European University, 2006.

²⁷ Within the latter category, there remains the issue of determining whether EU officials are acting solely at the behest of a qualified majority of member state governments or whether there is also an element of “entrepreneurial” activity on their part.

single firm shares of national exports has already been given.²⁸ To that, one could add anecdotes such as the ability of Audi to resist recent Hungarian efforts to impose a 4% “solidarity tax” on foreign capital and ultimately to scuttle the whole measure.²⁹ I am aware of no evidence that OMS business organizations have been effective actors in CEE, but the literature is thin and perhaps has not yet caught up with developments on the ground. The literature on unions is (as usual) more robust. While some OMS trade unions, in particular German ones, have been active in CEE and have broadly followed a defensive strategy, again I am aware of no evidence that they have the kind of leverage to shape events in fundamental ways. To the contrary, recent research shows that labor law in the region has not become stricter as a consequence of organized labor.³⁰ King goes farther and refers to the “fake corporatism” of the region, though Iankova is much more sanguine about labor’s ability to shape at least some regulatory parameters in CEE.³¹ Thus, for private actors, a tentative conclusion is that both offensively and defensively oriented action may *affect* regulation in CEE but perhaps without rising to the level of *management*, at least as outlined in the introductory essay.³²

If accurate, that leaves states and EU actors as the key agents of management. Here, two very different perspectives are plausible. The first might emphasize the extent to which management preferences could vary widely by OMS state. The various varieties of capitalism typologies imply that there is no EU regional system but rather that Europe contains up to four fairly coherent economic models: 1) Nordic SMEs; 2) Continental SMEs; 3) LMEs; and 4) a southern European model.³³ A potentially useful line of research would ask the extent to which countries from each part of the typology have a distinct relationship with CEE. One hypothesis would be that the LMEs have the least to gain from CEE in terms of diversification (since their economies are already more liberal) and that they therefore invest less in CEE. A corollary might, however, be that LMEs have allowed more immigration from CEE, suggesting they want something different, but not that they are less interested in CEE. In other words, OMS likely use

²⁸ See note 11.

²⁹ Ellison 2007, p. 25.

³⁰ Beate Sissenich. *Building states without society*. (Lexington Books, 2007). Lawrence King. Central European capitalism in comparative perspective. In Bob Hancké, Martin Rhodes, and Mark Thatcher (eds). *Beyond varieties of capitalism: Conflict, contradiction, and complementarities in the European economy* (Oxford: Oxford University Press, 2007).

³¹ King 2007, p. 309. Elena Iankova. *East European capitalism in the making*. (New York: Cambridge University Press, 2002).

³² This tentative conclusion would, of course, be consistent with private efforts to affect OMS or EU public policy towards the NMS.

³³ Pontusson 2005. For earlier iterations, see Michel Albert. *Capitalism vs. Capitalism* (New York: Four Walls Eight Windows, 1993); Peter Hall and David Soskice. *Varieties of capitalism* (New York: Oxford University Press, 2001).

regionalization differently: Britain hosts CEE workers, while Germany prefers to invest there instead.

The second perspective might emphasize the extent to which variation in CEE – not in the OMS – determines relevant outcomes. Recent research in the varieties of capitalism tradition has tried to place countries in the CEE region into the LME and CME camps. Some argue that we ought to see CEE states as a variant of liberal market economies that are, however, “dependent” upon outsiders, especially in their role as providers of FDI. If CEE is characterized by LMEs, that is consistent with the notion of using CEE as a broadly liberal sphere. By contrast, others place CEE economies in the camp of the continental coordinated market economies, though they also add an important qualifier by noting that coordination is still “weak.”³⁴

Finally, EU officials might be managers of globalization. Examples of efficacious EU actions (e.g., the stripping of various competitiveness strategies of CEE states prior to membership) and inefficacious ones (the Commission preference for no barriers to CEE migrant workers after membership) have been discussed. The interesting questions about the past period revolve around distinctions between EU efforts to get CEE ready for membership (where there is already a robust literature) and their efforts to promote OMS strategic interests in meeting the challenges of globalization. Interesting questions about the current agenda revolve around the EU’s reduced leverage for pursuing managed globalization over the heads of CEE states now that they are full members.

V. The way ahead

In terms of the five mechanisms outlined in the introductory memo, the conclusions so far might look like this in CEE: First, the EU has had a relatively easy time *exercising regulatory influence* over CEE, which is hardly surprising given its membership conditionality and the deep discredit of the prior communist regulatory system. The EU has, however, sometimes been tempted to go beyond its own *acquis* in regulating CEE. Here, its defensive measures may be designed to attenuate forms of comparative advantage enjoyed by CEE member states and firms located there. Second, the EU has sometimes *empowered other IOs* in their dealings with individual CEE states. For example, when an election brought to power a Bulgarian government committed to seeking EU membership, this increased the effect of IMF conditionality in Bulgaria

³⁴ For LME, see King 2007. For CME, see Mykhnenko 2007. These typologies also disagree about commonalities across the post-communist region. Mykhnenko is a “lumper” who sees substantial commonality across economies that are among the most (Poland) and least (Ukraine) prosperous in the region. King is a “splitter” who sees a big break between the “liberal-dependent” market order just noted for CEE and a “patrimonial” and state-dependent capitalism in post-Soviet states.

as well.³⁵ Third, *enlarging the sphere of EU influence* has meant a screening process that contained elements of offensive management but which, on balance, has probably emphasized defensive management that stripped CEE states of tools they had been using to attract foreign capital. Fourth, *redistribution of the costs of globalization* has been funded in CEE out of the same account – the Structural and Cohesion Funds – that redistribute the costs of regionalization. The allocations have not been notably generous, at least not when compared with prior allocation for Ireland, Spain, Greece, and Portugal.³⁶ Fifth, the EU has not faced much pressure for mergers driven by CEE capital and so have not had to *legitimate economic patriotism* in response.³⁷

There are at least three major barriers to operationalizing the research sketched above. First, it's not clear what gain will come from the standard research strategy of comparing cross-national indicators of globalization. If Europe wants to manage globalization by managing CEE, one wouldn't really expect a differentiated strategy there so that country by country comparisons may not yield much. Second, EU efforts to manage CEE for globalization purposes would be easy to confound with EU efforts to manage CEE so that they could be socialized as good members. In other words, EU member states have incentives to manage CEE for reasons other than economic benefits or costs associated with globalization. Third, many CEE developments obviously have to be explained with reference to indigenous factors, rather than to EU efforts to manage them. Some CEE reforms have little or nothing to do with their being managed by the EU and its member states. For all these reasons, disentangling the strategies of OMS actors to manage globalization by managing CEE will be a tremendous challenge.

³⁵ Vachudova 2005.

³⁶ Jacoby 2004, chapter three.

³⁷ There have been an interesting set of derogations running the other direction with some scope for CEE states to limit the purchase by foreigners of certain kinds of property, especially agricultural land.