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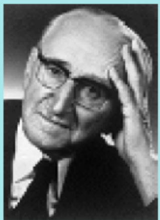

Herman W. Hoen

Emerging Market Economies and the Financial Crisis:
Is there Institutional Convergence between Europe and Asia?

Diskurs 2013 – 4

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Abstract

It is often stated that globalization makes a 'smaller' world by institutional convergence. Economic orders become alike across the world. This article addresses institutional change triggered by the global financial crisis of 2008/2009 and challenges this general conviction of worldwide convergence by comparing developments in emerging markets in Europe and Asia.

The rise of emerging markets, both in Eastern Europe and in Asia, entailed encompassing institutional reform. In analysing the extent to which there is institutional convergence, the article follows the approach of '*Varieties of Capitalism*'. This approach distinguishes two '*ideal*' types of capitalism: a liberal market economy and a coordinated market economy. In liberal market economies, firms are primarily driven by competition, whereas in coordinated market economies firms also coordinate with other actors by strategic interaction. The basic premise is that countries with a specific set of institutions develop institutional complementarities. Therefore, considering institutional change, liberal market economies and coordinated market economies are expected to respond in different ways to external shocks, such as the global financial crisis.

Being aware of the pitfalls that the approach suffers from by 'simply' pinpointing countries on a broad continuum, the article argues that the emerging market economies in Europe are on the liberal side of the scale. On top of that, it builds the argument of a tentative convergence towards further liberal institutional design. With respect to emerging markets in Asia, another development is observed. There is converging institutional change towards coordinated market economies characterized with strong state influence and an imperative bureaucracy. The expected convergence *in* the two groups of emerging market economies in Europe and Asia leads to the conviction of divergence *between* the groups.

Keywords:

Globalization, Institutional Economics, Varieties of Capitalism, Emerging Markets

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Emerging Market Economies and the Financial Crisis: Is there Institutional Convergence between Europe and Asia?

1. Introduction

After the collapse of communism in 1989, the Central and Eastern European countries took the challenge to implement a market economy embedded in a democratic order. Constituent element of the transition was a full-fledged integration with the global economy, for which accession to the European Union (EU) was understood as an important steppingstone. After a period of dramatic economic decline in the 1990s, the emerging market economies in Central and Eastern Europe experienced strong economic growth and a steady catch-up began with average welfare levels in the EU (Kołodko 2002).[1] Recently, however, the countries are severely hit by the financial crisis and many have suggested that it reveals the downside of a market economy (EBRD 2010; *cf.* Hoen 2011).

The difficulties that challenge Central and Eastern Europe deviate from developments in emerging markets elsewhere in the world. Many countries in Asia, for example, seem to outperform their European counterparts (Das 2011). Of course, economic performance is not to be confused with economic order, since different institutional settings may yield similar results (Wagener 1992, 24), but the substantial differences in performance between European and Asian emerging markets during the financial crisis may shed new light on the dynamics of institutional change. This article addresses institutional change triggered by the external shock of the financial crisis. The pivotal question is the extent to which globalization leads to converging economic orders or, stated differently, if there is still room for domestic policy manoeuvre that allows to '*make a difference*'.

[1] To emphasize the system switch, literature has often referred to these emerging market economies in Europe as transition countries (Lavigne 1999; Roland 2002). This article focuses on (i) Central European countries (the Czech Republic, Hungary, Poland, Slovakia, Slovenia), (ii) South-Eastern Europe (Bulgaria, Croatia, Romania and Serbia) and (iii) the Baltic States (Estonia, Latvia and Lithuania).

The development of a market economy, both in Eastern Europe and in Asia, entailed encompassing institutional reform. It is widely considered a complex form of institutional change, since it affected the whole economic order and could only be successful in case other elements of the political and social system changed at the same time (Roland 2002, 29–30). Following Douglas North, this article defines institutions as formal and informal '*rules of the game*' (North 1990, 3). Its basic premise is that institutions are neither self-generating nor self-sustaining. Economic, social and political institutions are moulded, employed, and renewed by individuals and organizations. The question, therefore, is: '*why and how do institutions change*?' In addressing and analysing the extent to which there is institutional convergence as a response to the financial crisis, this article follows the approach of '*Varieties of Capitalism*' (Hall and Soskice 2001), which concept in the remainder of this article is abbreviated as VoC.

In the VoC-approach, two '*ideal*' types of capitalism are distinguished: a liberal market economy and a coordinated market economy. Crucial in the distinction is the way in which firms resolve coordination problems (Hall and Soskice 2001, 33*ff*). In liberal market economies, firms are primarily driven by competition, whereas in coordinated market economies firms coordinate with other actors by strategic interaction. In the VoC-approach, institutions are not only shaped by legal design but also by informal rules and culture. The premise is that countries with a specific set of institutions develop institutional complementarities (*Ibid*, 17–19). Therefore, considering institutional change, liberal market economies and coordinated market economies are expected to respond in a different way to external shocks, such as the global financial crisis. It is the purpose of this article to follow this line of reasoning and to shed some light on evolving varieties in capitalism in emerging market economies across Europe and Asia.

The article is structured as follows. The next section addresses the encompassing institutional reforms of emerging market economies in Central and Eastern Europe that, after the collapse of communism in 1989, took the effort to implement a full-fledged market economy. It explicitly addresses the theoretical debates that underpinned the institutional design of the desired economic order. Following the VoC-approach, it reveals the desired design of liberal market economies.

Section 3, subsequently, focusses on the impact of the global financial crisis on the emerging market economies in Europe and, following a concise analysis of economic

performances in this region, pinpoints the possible effects that it triggers as an example of enforced institutional change. The leading threat is the question: '*Is there institutional convergence among the emerging market economies in Europe and, if so, which direction is it heading?*'

The succeeding two sections shift focus to emerging market economies in Asia. As is the case for Europe, it is impossible to denote a homogenous group of countries and, a distinction is made between East and Central Asia, whereas China is taken as group on its own.[2] The analysis resembles the one on emerging markets in Europe. Section 4 addresses the emerging type(s) of capitalism from a perspective of VoC, and shows the prevalence of more state interventionist coordinated market economies, whereas section 5 discusses the institutional responses to the global financial crisis. Essential question, again, is the extent to which there is convergence within the group of emerging market economies in East and Central Asia.

The last section, albeit very tentatively, concludes by comparing the developments of the two huge '*blocs*' of emerging market economies in Europe and Asia and discusses whether or not there is convergence between the two.

2. The Debate Underpinning Emerging Markets in Europe

This section sheds some light on the debates that were held after the collapse of communism to support the transition to a fully-fledged market economy.[3] Notably economists intended to address the system switch by looking at the decline of communism and the climate of rivalry between the co-ordinating mechanisms of the two systems. As a consequence, scholars have focused upon the taxonomy of '*demand-*' and '*supply-constrained*' systems (Kornai 1980). Planned economies are supply constrained, since managers tend to suction the economy in an attempt to maximise output (at any cost). The behaviour of the socialist firm inherently leads to a shortage economy. In a market economy, entrepreneurs do face hard budget constraints and,

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[2] For arguments explained in Section 4, the following four groups of emerging markets are assessed: (i) the '*Asian Tigers*' (Hong Kong, the Republic of Korea, Singapore and Taiwan), (ii) Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan), (iii) China, and (iv) some '*New Asian Dragons*' (Malaysia, the Philippines, Thailand, and Vietnam).
[3] This section relies heavily on Hoen (2011, 33–35).

therefore, maximise profits instead of output. There is no incentive to excess demand.

The transition from a supply-constrained to a demand-constrained system entailed, first and foremost, ending both the queuing caused by rationing and the policy of forced savings (Winiecki 1993). Therefore, the transition was primarily regarded as a matter of stabilization and liberalization. Stabilization implied the enforcement of restrictive fiscal and monetary policies. At the same time, the liberalization of prices, production, and trade was envisaged as a necessary precondition for a market economy, if not the actual institutional design of the market. Since the exchange-rate regimes were understood as an important device for stabilizing the economy, there was specific focus on the price of a currency (Lavigne 1999, 144*ff*).

The discussion of stabilization and liberalization was a constituent part of the so-called '*shock-versus-gradualism*' debate (Hoen 1996). At stake in this debate was the question of how to minimise transition costs and it concentrated on timing and sequencing of reforms. Adherents of the shock approach emphasised the importance of the simultaneous implementation of all the reforms at full speed, rather than a sequential implementation (Åslund 2002). Those in favour of a gradual shift stressed the importance of sequential implementation and were doubtful of the benefits of the rapid implementation of reform (Dewatripont and Roland 1992, 102; Murrell 1992).

Though the debate was not solely confined to stabilization and liberalization, but also included the speed and sequencing of the microeconomic restructuring of production and the implementation market rules, such as securing property rights, bankruptcy regulations and other economic legislations, the labelling of the strategies applied was usually based on the concepts of stabilization and liberalization rather than on the institutional matters which were also on the agenda of transition (Hoen 1996).[4] The emphasis on stabilization and liberalization, as it manifested in the beginning of the transition, was not solely due to systemic legacies. Of course, an inherited mone-

[4] At the beginning of the 1990s, Hungary was conceived of as a transition country that relied upon a gradual shift towards a market economy, building on the reforms of the 1970s and 1980s rather than rejecting them. In contrast, Poland was believed to be a textbook example of shock treatment. However, considering the issues of privatisation and institution building, there were grounds to change these conceptions. Poland was extremely slow in even initiating legislation for privatisation, whereas Hungary was relatively quick in both the transfer of ownership rights and the implementation of bankruptcy law, *et cetera* (Hoen 1996, 15–18).

tary overhang forced policy makers to tackle these problems, but there were other arguments as well to pay particular attention to stabilization and liberalization. It was the result of the dominance of neo-liberal economics underpinning transition (Bönker, Müller and Pickel 2003, 21*ff*), essentially indicating the endeavour to compete on world markets (Van Brabant 1998).

The first time that the benefits of neo-liberal concepts for transition to a market economy became contested was with the occurrence of the transition crisis, which manifested throughout the region of post-communist countries. In the beginning of the 1990s, stabilization and liberalization of the economies in Central and Eastern Europe were accompanied by an unprecedented decline in economic activity. Not only the successor states of the Soviet Union faced a deep transition crisis, but also the countries closer to the borders of the EU, which, for reasons of their location, were in a better position to create export-generated growth.

The decline in economic activity, measured in real changes of gross domestic product (GDP), was more severe and protracted than foreseen and its damaging effects even surpassed those of the Great Depression of the 1930s (Poznanski 2002, 61). A decade after the start of transition, only a few transition countries had been able to reach let alone exceed the GDP levels of 1989: Albania, Hungary, Poland and Slovenia. The successor states of the Soviet Union were particularly harshly hit. In some cases, there was a cumulative decline amounting to half of the economy in a time span of just a few years.

Evidently, the use of 1989 as a yardstick to measure the depth of the transition crisis was open to discussion. Besides index number problems – Poland was already suffering from a severe crisis in 1989 – the incompatibility of output registration in planned and market economies turned out pivotal as well. In the context of the shock-versus-gradualism debate, the mismatch of output registration triggered three different views on the transition crisis. Firstly, there were scholars who claimed it has been nominally overestimated. Centrally planned economies were characterized by the registration of output that did not exist.[5] With the transition to a market economy, in which the prevailing tax system may serve as an incentive to underreport production,

[5] Besides, whereas there was not just the result of lies arising because higher production was rewarded with a bonus, but was also due to greater or lesser degrees of honesty. Hidden changes in the output structure were often reported as growth, whereas they actually entailed a price increase (Winiecki 1993).

a nominal overestimation of the crisis was inevitable. Secondly, the view was put forward that although the transition crisis may have been deep, this was unavoidable. This point of view also relied upon systemic differences. It was not so much the registration of non-existent output but rather the production of unwanted if not obsolete output that was considered to be the major cause of the crisis. A centrally planned economy used its resources lavishly and supplied commodities for which, under conditions of a market economy, there was no demand. Therefore, the transition to a market economy coincided with a falling demand for these products.[6] The third view on the transition crisis expressed severe criticism of the sharp and protracted nature of the decline in economic activity. However, this perspective also ultimately relied upon system differences. In a market environment, radical stabilization and liberalization may effect a relatively quick convalescence in production, but in a situation in which market rules are not yet operational recovery will fail to occur. According to this view, the right policy measures were applied to the wrong system and, therefore, production that could have been viable after restructuring had disappeared (Murell 1995). This analysis was based on a sequencing argument: first markets, then liberalization.[7]

Whatever the gravity of the transition crisis, the advocates of gradual transition remained facing tough resistance and kept fighting an uphill battle. Backed by neo-liberal concepts of economics, the necessity of shock treatment gave the impression to have a firm grounding. To further underline the arguments, the proponents were able to focus on the sustainability of recovery, although it remained a matter of dispute to what extent this sustainability was to be ascribed to policy or legacy (Havrylyshyn, Izvorski and Van Rooden 2001). In addition, the concept of gradualism continued to remain under pressure, since it was conceived of as a purely academic justification of the urgings. Even if there were sound arguments to lower transition costs by postponing certain elements of reform, for practical reasons it was still valid to implement them quickly. The political feasibility of painful economic reforms played a crucial role, with the underlying idea being '*Do what you can do!*'

[6] Besides, available stocks first had to diminish before new production could start. In centrally planned the costs of economies stocks were not taken into account. Due to supply constraints, stockpiling took place on the largest scale possible. Therefore, depleting old stocks took longer than envisaged, which further delayed the process of transition.

[7] In the third view on the crisis, also the argument for the stimulation of aggregate demand prevailed. Most commonly referred to in this respect was the Keynesian-inspired theory of the '*credit crunch*' (Calvo and Coricelli 1993). This suggested that high interest rates discouraged private economic activity, whereas state companies remained in a position to rely on inter-enterprise debts.

3. Different Modes of Emerging Market Economies in Europe Facing the Financial Crisis

In the second half of the 1990s, there was a wide-ranging improvement of economic activity in Central and Eastern Europe (Kołodko 2002). This improvement foddered the idea that the emerging market economies in Europe should proceed in applying neo-liberally underpinned policies. All the countries in Central and Eastern Europe tried to further integrate into world markets and were quite successful in doing that. At the same time, there emerged a shift in the debate. Whereas in the beginning of the 1990s, it purely focused on an implementation of an allegedly known economic order – a market economy – the emergence of diverging market economies was more and more taken into account (Pryor 2005). The view on emerging markets in Europe, as discussed in Section 2, shifted from an instrumental one about the '*means*' to one about the '*ends*' (Bohle and Greskovits 2012, 6). This Section addresses the varieties of market economies emerging in Central and Eastern Europe and discusses these in the context of global financial crisis.

On the way to the turn of the millennium, Estonia, Latvia and Lithuania became the best performing transition countries (EBRD 2001). For a number of subsequent years, they were able to accomplish astonishing GDP-growth and, therefore, came to be known as the '*Baltic Tigers*'. Within the group of quickly emerging Nordic market economies, Estonia was considered the brightest pupil in class. Many have claimed a direct link between the strict market-oriented reforms and outstanding performance (Havrylyshyn, Izvorski and Van Rooden 2001). The liberal strands of its reform policies were undisputed, despite the fact that, ironically, it had some difficulties in entering the World Trade Organization (WTO), because the country did not have tariffs. In order to be able to play the WTO-game of tariff reduction, Estonia was requested to implement a suitable tariff-system (Van Brabant 1998, 152*ff*). In other words, it was too liberal to commit to WTO-rules before it entered the organization in 1999. Within the group of emerging markets in Europe, Estonia, but Latvia and Lithuania as well, came to be known as liberal market economies, as defined in the VoC-approach (Ahrens, Schweikert and Zenker 2011; Ahrens and Toews 2013; Bohle and Greskovits 2012; Buchen 2007; Pryor 2005).

In the VoC-approach two contrasting types of capitalism are distinguished on a scale that reveals a continuum with clusters of countries. The pivotal distinction is the way

in which the coordination problem at the supply side, *i.e.* for the firms, is institutionally arranged. Liberal market economies are primarily coordinated by price signals and formal contracting in competitive markets. Coordinated market economies are to a large extent driven by non-market institutions. The VoC-approach focuses on coordination problem in the spheres of (i) industrial relations and the labour market, (ii) education and vocational training, (iii) corporate governance, (iv) inter-firm relations, and (v) relations with companies' own employees (Hall and Soskice 2001, 6–7). The principle VoC-claim regarding the institutional design and development is that liberal market economies and coordinated market economies cultivate institutional complementarities across the five spheres.[8]

The emerging market economies in the heart of Europe, notably Slovenia, Slovakia, Hungary and to a lesser extent the Czech Republic and Poland developed an economic order that relied more on the characteristics of a coordinated market economy, be it that diversity needs to be recognized (Knell and Srholec 2007). Within this group of countries, Poland and the Czech Republic are somewhat more on the liberal side, whereas Slovenia has often been indicated as an economic order most clearly aligning with a coordinated market economy (Buchen 2007; Pryor 2005).

The South-Eastern countries are an even more heterogeneous group. Literature suggests that the emerging markets in the region do reveal some features of coordinated market economies, be it that the state often lacks power to exert policies that belong to such a capitalist mode (Bohle and Greskovits 2012, 191*ff*). Bulgaria has to be seen as a bit of a liberal outlier though. That is not to say that it has a small albeit strong state but rather that it decided in the mid-1990s to shift policy to a more liberal market economy. In the second half of the 1990s, the role of the government was significantly reduced. Stabilization and liberalization became the main policy objectives (EBRD 2009). Romania had similar intentions, but was far less successful in the implementation of a liberal market economy (Papadimitriou and Phinnemore 2013). In the case the former Yugoslav Republics, Croatia and Serbia revealed a large role for the state and government intervention, which behaviour is common for countries

[8] It is beyond the scope of this article to discuss all the critiques on the VoC-approach. To that end, the reader is *e.g.* referred to Ahrens, Schweikert and Zenker (2011). In the context of this article, suffice it the say that the approach had been applied to developed countries belonging to Organization for Economic Co-operation and Development (OECD) as opposed to developing and emerging markets.

with a legacy of violence and war damage, but at the same time the states often failed to be effectively applying their role as coordinator (Bartlett 2007, 201).

Despite the emerging diversity of types of capitalism in post-communist countries in Europe, the beginning of the new millennium revealed a period of catching-up welfare levels for all the identified groups – Baltic liberal market economies, coordinated market economies in Central Europe as well as the hybrid forms of state coordination in South Eastern Europe (Hoen 2011). GDP-growth in Central and Eastern Europe was significantly higher than in the '*old*' member-states of the EU, a process that even accelerated after the accession of eight Central and Eastern European countries to the EU in 2004 and two in 2007 (EBRD 2009; 2010).

The global financial crisis, which began in 2008, set a temporarily halt to this process of catching up. As can be seen in Table 1, with the notable exception of Poland, all European emerging markets faced negative growth rates in 2009 and two of the Baltic States suffered from negative growth performance already in 2008. It also reveals the GDP-level of 2012 (1989 = 100) and indicates the exchange-rate regimes and creditworthiness. However only very tentatively, the table may reveal a possible link between economic performance and the mode of capitalism. The GDP-level and recent growth performance disclose long-term and short-term performance, whereas creditworthiness as an indicator for financial stability is always seen as an import precondition for economic growth in the post-communist countries (Roland 2002).

Regarding financial stability, the Baltic States made more efforts than other transition countries. Soon after their independence, they had introduced a currency board.[9] With such an exchange-rate regime, the authorities do have only limited degrees of policy freedom, since growth of domestic money supply is made dependent upon the stock of foreign reserves. In South-Eastern Europe, the Bulgarians followed the Baltic example in 1997. Elsewhere the introduction of a currency board was not implemented. Initially, in an attempt to enhance stabilization, fixed exchange rate regimes were implemented in Central Europe, but subsequently these were substituted with managed floats.

[9] A currency board is a monetary authority that has to secure a fixed exchange-rate. The Central Bank is subordinate to this authority. The institutional device is meant to show the outside world commitment to restrictive monetary and fiscal policy. Latvia soon abandoned the currency board and introduced a system of fixed exchange rate. But given the extra restrictions that were implemented, the regime *de facto* remained a currency board.

Table 1. GDP-level of 2012 (1989 =100), annual GDP-growth in Central Europe, South-Eastern Europe and the Baltic States (2008–2012 in percentages), and core data on the financial sector (2012)

Year	GDP 2012 1989=100	2008	2009	2010	2011	2012*	Exchange-rate regime	Credit-rating #
Central Europe								
Czech R.	140	3.1	-4.7	2.7	1.7	0.1	Floating	AA+
Hungary	125	0.6	-6.8	1.3	1.6	-1.5	Floating	BBB-
Poland	200	5.3	1.6	3.9	4.3	2.0	Floating	A+
Slovakia	190	6.4	-4.9	4.2	0.6	-2.1	€uro (2009)	AAA
Slovenia	142	3.8	-7.8	1.2	0.6	-2.1	€uro (2007)	AAA
South-Eastern Europe								
Bulgaria	110	6.0	-5.5	0.4	1.7	1.1	Currency board	A
Croatia	100	2.4	-6.9	-1.4	0.0	-1.9	Floating	BBB+
Romania	120	7.1	-8.0	-1.7	2.5	0.3	Floating	BBB+
Serbia	65	5.4	-3.5	1.0	1.6	-1.9	Floating	BB-
Baltic States								
Estonia	145	-1.0	-14.1	3.3	8.3	3.3	€uro (2011)	AAA
Latvia	105	-4.6	-17.7	-0.9	5.5	5.4	Fixed	A
Lithuania	122	2.8	-14.8	1.4	5.9	5.2	Currency board	A

Source: European Bank for Reconstruction and Development (various years), *Transition Report* (London) and Standard & Poor's (www.standardandpoors.com).

Note: * Figures for 2012 are estimates.
The best rating is a Triple A (AAA), which indicates highest confidence in creditworthiness. In order of declining confidence, the range is : AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, D. With a D-rating, a country is unable to service its debts.

Meanwhile, Slovenia (2007), Slovakia (2009) and Estonia (2011) have joined the euro. To be able to so, these countries had to successfully join the exchange-rate mechanism for a period of two years. The trial showed that budget deficits were under control (less than 3% of GDP), there were low inflation rates (less than 1.5%-point above the rates in the three countries with the lowest inflation), and a modest government debt (less than 60% of GDP).[10] Given the currency board that Estonia was so far relying on, the trial was not a serious proving, since *de facto* they did already have the euro.

Considering the impact of the financial crisis on the distinguished groups of emerging capitalist's modes in Europe in terms of long-term and short-term performance, it is important to distinguish external shocks from domestic failures, In Central-Europe, Hungary is an abysmally performing country. It did not so much suffer from the exter-

[10] These are the so-called '*convergence criteria*', also known as '*Maastricht criteria*', referred to in Article 121 of the European Communities. See *European Central Bank*, http:www.ecb.int/ecb/orga/escb/html/convergence-criteria.en.html (assessed April 2013). In the context of this article, the long-term interest rates are not taken into account.

nal financial crisis, but first and foremost faced the consequences of erroneous policies in the past. Due to a political stalemate, budget deficits have risen enormously over an extended period of time. Long before the financial crisis materialized during the course of 2008, the country suffered from lower growth rates and it could by no means qualify for the stabilization-pact of the euro. The Hungarian forint rapidly lost its value since the autumn of 2008 and, therefore, it became harder and harder for the Hungarian to service mortgages which were set in Swiss francs. On top of that, since interest rates on Swiss credits were low, many Hungarians also borrowed francs for private consumption. Therefore, Hungary faces hard times, which manifests in a large negative growth of GDP (-6.5% in 2009) and declining creditworthiness (EBRD 2009, 172–175). Considering a longer time perspective, Hungary is falling back. Its GDP is 125% of the 1989-level. All the other Central European countries did perform better, while Poland even doubled its real GDP since the collapse of communism in 1989.

Slovenia, Slovakia and the Czech Republic are in a slightly better position than Hungary, be it for different reasons. Slovenia and Slovakia benefit from having the euro. It gives the countries better credit ratings. At the same time, this seems to be offset by severe losses in export markets. A relatively expensive euro makes these countries less attractive. Being the largest car producer in the world (over 100 cars per 1000 inhabitants in 2008) and exporting 90% of the produced cars, Slovakia severely suffers from the global decline in car sales (Hoen 2009). The Czech Republic does not suffer from expensive exports, but it lacks the standards of Slovenia's and Slovakia's creditworthiness. That may have consequences for attracting foreign direct investments.

Poland is the genuine exception in the region of Central Europe. For quite some time now, it meets the conditions of the stabilization-pact and, therefore, has low budget deficits and moderate inflation. This also indicates the shift to a more liberal policy over the last decade and the demise of post-communists who shaped the economic order after the collapse of communism (Bohle and Greskovits 2012, 243). But due to the fact that it did not join the euro, it could also benefit from a relatively cheap złoty. Even as a large steel producer, Poland was able to expand it exports. Given the fact that the global demand dramatically declined since the global crisis in 2008/2009, it implies that it has gained market shares (EBRD 2009, 204–207).

In the cluster of South-Eastern Europe, all the countries are disproportionately hit by the recession. Declining economic activity replaces a period of excessive growth in the beginning of the new millennium (EBRD 2005). Since it only faced negative growth in 2008, and regained moderate growth afterwards, Bulgaria seems to be in a slightly better position than the other South-Eastern European countries. Moreover, it is able to sustain relatively favourable credit ratings due to its currency board, which institutional arrangement guarantees low budget deficits and, therefore, small debt burdens. The overall conclusion is nevertheless that the counties perform out of sorts both from a long-term and short-term perspective.

All the Baltic States were certainly hurt by the crisis and performed badly especially in 2009. Estonia was the first member-state of the EU that suffered from a recession and, due to popular unrest, Latvia was urged to ask for IMF-support (IMF 2013). Within these countries, the other side of a currency board manifested. When operating with such an exchange-rate regime, governments cannot opt for monetary financing and, consequently, one is to rely upon private credits. It has been done so at a very large, with all the well-known negative results. The economies have tremendously deteriorated and experienced a collapse which was comparable to that in the beginning of the 1990s right after independence.

All in all, it is save to conclude that the post-communist emerging markets in Europe have inherently become more vulnerable to market shocks. The moulded market systems, in whatever form it was shaped, allowed the countries to benefit during the booming period at the end of the 1990s and the beginning of the new millennium. Growth figures were higher than elsewhere in Europe and these could to a large extent be ascribed to participation in world markets.

The downside of a market economy was revealed by the financial crisis that spread out over the transition countries rather quickly after 2008. During the economic upswing the performance of the emerging market economies was better than elsewhere. However, the countries faced gloomy perspectives during the sudden downturn. Whereas the '*old*' EU-members realized growth figures of on average -4% in 2009 (World Bank 2013), the '*new*' member-states did perform much worse. That holds especially for the liberal Baltic states (nearly -16%). At the same time, Estonia, Latvia and Lithuania also experienced a quick and very strong recovery with which they outperformed all the other emerging markets in Central and South-Eastern Eu-

rope. Apparently, the liberal nature of the countries' economic order made them more vulnerable to worldwide recessions as well as more conducive to growth. This observation seems to run runs counter to the idea that varieties of capitalism do not so much differ in economic performance but rather in the extent to which incomes are incomes are redistributed (Pryor 2005).

The markets that emerged in Europe after the fall of communism strongly committed to become member of the EU. With the accession of Croatia as from the first of July 2013, Serbia is the only non-member of the countries under scrutiny in this section. Despite EU-membership different modes of capitalism developed. The diversity in modes of capitalism and, as a conceivable result of that, the variances in economic performance underline the importance of domestic intuitions in a globalised economy. It is save to conclude that the best performing emerging market economies in Europe – both short-term and long-term perspectives taken into account – are the ones that are on the liberal continuum of VoC. These are the Baltic States and Poland. Given the economic performance, a likely change in institutional design among the emerging markets in Europe is one moving in that direction. It implies a prospective convergence towards the ideal type. Despite all the theoretical and empirical qualms that the VoC-approach goes along with, the converging institutional development is visualised in Figure 1, in which it is pointed out by the dotted arrow.

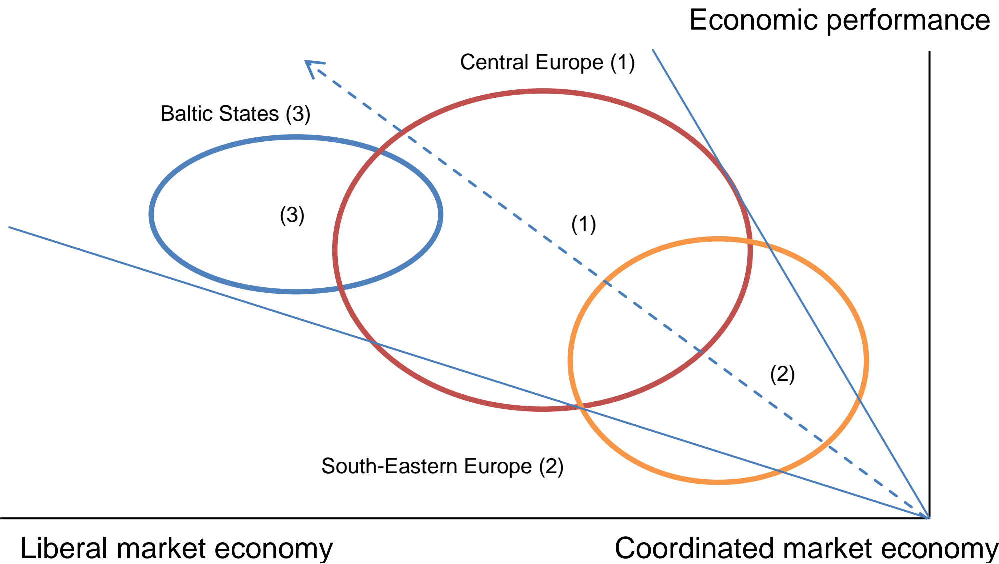

Figure 1. European emerging markets in the VOC-framework.

4. Debating the Design of Emerging Markets in Asia

It is hard, if not impossible, to conceive emerging market economies in Asia as a homogenous group of countries. As a matter of fact, as is the case for Europe, there are no pure groups, let alone that there is one group to be clearly identified on the VoC-scale. Institutional structures cannot be defined owing to the different initial conditions that all emerging market economies face in terms of development, economic structure and political culture (Ahrens 2002).

Without claiming to do the impossible, this section nonetheless intends to come to grips with some differences in institutional design *vis-à-vis* the emerging markets in Europe. Given the communist and Soviet legacy of the five Central Asian countries – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan – it makes sense to consider these as a group for which there is a common denominator. That communist legacy need also be taken into account for China, be it that this huge and astonishing fast developing country stands more or less as a case on its own. Whatever criterion is taken, the choice of East Asian emerging market economies is problematic. One could align with the concept of '*Newly Industrializing Economies*' (Amsden 1989) and indicate Hong Kong, Korea, Singapore, and Taiwan as a group, but meanwhile many other countries seem to qualify as '*emerging*' as well. In this paper, Malaysia, the Philippines, Thailand and Vietnam have been included as a separate group of late industrializers, whereas Indonesia and India have not.[11]

The five Central Asian successor states of the Soviet Union have received much less attention by transition economists than, for example, countries in Central and Eastern Europe or the Russian Federation. In addition, the region distinguishes itself by at least four other characteristics. Firstly, Central Asia is extremely well-endowed. The proven stocks of oil and gas, and other natural resources can be perceived as a special legacy that makes the region distinct form other emerging market economies. Secondly, these countries' endowments give the region a special geo-political position. Exports of natural resources are becoming an important tool to gain political influence in the world. Thirdly, all the countries are land-locked and far away from ma-

[11] This is a debatable choice, but one that is based on the following arguments. India, being one of the BRICS (an association of emerging national economies: Brazil, Russia, India, China and South-Africa), is too large to be included in a group, whereas for Indonesia the same holds. Moreover, Indonesia does not have a strong trade integration with the United States of America (USA), whereas the chosen Asian countries do.

jor international markets, but they may gain an economic importance as transit countries. Fourthly, and in contrast to the transition countries in Europe, the Central Asian countries are non-democracies, or in the case of Kyrgyzstan contested democracies. Credible commitments to establish liberal democracies do not exist and cannot be expected (Ahrens and Hoen 2012, 6*ff*).

The Central Asian countries seem to have the characteristics of a dual economy. There is a state dominated core and a periphery consisting of small-scale enterprises and informal businesses. Contrary to what '*classic*' literature suggests about a dual economy (Lewis 1954), market conditions do prevail in the periphery, whereas in the state-dominated core the coordination mechanisms is completely different. There are extensive non-market incentives, such as tax advantages and price controls, as well as bureaucratic procurements and, very important, there is coercive political power.

This mode of institutional design in Central Asia fits in the debate about the emergence of state capitalism, for which notably China stand as a successful example. Since the collapse of communism at the end of the 1980s and the beginning of the 1990s the term lost its appeal. At that time, a '*third way*' of organizing an economic order with a mixture of socialist planning and liberal market economy was utterly disproved. Some scholars even expressed the idea that what was observed at the end of the 1980s designated '*not just the end of the cold war, or the passing of a particular period of post-war history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government*' (Fukuyama 1992, *xi*). The liberal market economy as the final state of political and ideological evolution made the discussion about alternative economic orders obsolete.

Recently, state capitalism as a new form of political and economic organization became socially acceptable again and returned on the agenda of politicians, journalists and academics (Bremmer 2009; The Economist 2012). The revival is due to the global financial and economic crisis in liberal market economies and it seems to triumph since the incontestable success of the world's largest economy: China. In other words, state capitalism is on the march. It remains unclear, however, what kind of politico-economic order is actually perceived as state capitalism.

The Economist (2012) dissociates itself from '*old*' state capitalism. It indicates that it can no longer be understood as a form of capitalism in which the state owns and controls most of the means of production and, therefore, is in control of the industry and natural resources, as it was functioning in Central and Eastern Europe. Without defining '*new*' state capitalism more specifically, it deliberately coins it as a '*meld of the power of the state with the power of capitalism*' (The Economist 2012, 2–3).

However difficult, a few remarks on defining the rivaling new and oncoming economic order are to be made. Firstly, the way in which states – as pivotal actor in the economic order – interfere in business is quite distinct from the organization and behavior of a centrally-planned economy (Lavigne 1999, 10–15). Planning and control is non-mandatory and the state refrains from decreeing orders regarding what, how much and for whom to produce. The state, however, is visible in the management of enterprises. Managers need to be a member of the ruling political parties. Besides, the state is lending a willing ear to cheap loans, favorable prices or guaranteed demand. In all the varieties of capitalism, ranging from Russia's '*Kremlin capitalism*' or China's '*metropolis capitalism*' to '*energy capitalism'* conducted in Brazil and the Middle East, politicians do have more power than in a liberal market economy. Most of the respective states can be referred to as authoritarian, with the exception of Brazil, and as such the system often serves the interest of the elites (Bremmer 2009, 52).

Secondly, the businesses in which the state seems to be the dominating power are often export-oriented, contrary to what is known from the behavior of centrally-planned economies (Holzman 1987, 91–109). Considering the performance of the enterprises, state capitalism can by no means be characterized as autarkic. On the contrary, many of the best performing and globally competing companies are state-owned. Many of these are oil firms or natural-gas companies, but they also operate in the field of consumer goods, *e.g.* mobile phones. State-owned companies are amongst world-wide well-performing enterprises. In short, state capitalism is outward-looking, be it that the global firms are predominantly in the energy sector.[12]

Thirdly, state capitalism does not imply the exclusion of private enterprises. In the countries that are seen as state capitalist there are significant or large private sectors. What is more, these private sectors seem to coexist very well with the flourish-

[12] Russia's '*Gazprom*' is the largest natural-gas company in the world and the biggest oil firms are all state-backed (The Economist 2012: 4–5).

ing state sectors. Whereas in centrally-planned economies the small private sector – to the extent that it was allowed – suffered from supply constraints (Kornai 1980), the private businesses in state capitalist countries do not. Crucial, however, is the extent to which these sectors benefit from booming business of state-owned companies. Do they mutually benefit or is there a crowding-out of the two sectors? This question brings back state capitalism as a particular form of a dual economy to the fore.

With respect to the '*classic*' Asian tigers – Hong Kong, Korea, Singapore and Taiwan – institutional design of the economics was distinct and it is problematic to typify these economies as a specific mode of state capitalism.[13] One simply cannot (Chowdhury and Islam 1993, 46–52). The early developers of an export-oriented strategy, which dates back to the 1960s, did not so much rely on a strong state, but first and foremost on a strong and efficient bureaucracy (Amsden 1989; Stark 2012). In neoliberal thought, bureaucracy is often perceived as a burden to market development. The underlying premise of the Asian tigers has been that bureaucracy not just coincides with market development but rather that it is a precondition for the developments of markets. Furthermore, the strong conglomerates of family business, such as the '*chaebol*' in Korea, revealed the importance of close ties between businesses and bureaucrats. These ties guaranteed financial credits in times of recession.[14]

Due to the long-term economic success of the Asian tigers, they stood model for a large number of other East and South-East Asia. In a vastly globalizing world economy, these countries have tried to catch up. In their export strategies they have tries to join a process of '*upgrading*'. Malaysia and Thailand are examples of countries that appeared as newly emerging economies two decades ago, whereas currently the Philippines as a country which a very large number of inhabitants is seen as one of the '*new dragons*'. In some way or another, all these countries do rely on a large role of the state bureaucracy (Tigno 2012). That holds for communist Vietnam, which seeks to implement market reforms in a model of state planning (Anh 2012).

[13] In this article, the Republic of Korea, also known as South Korea, is referred to as Korea.
[14] The Asia crisis of 1997 is beyond the scope of this article. It is important to note, though, that in particular these close triggered the financial crisis and declining economic activity in Korea and other emerging markets in East Asia (Mishkin and Eakins 2012, 225–226).

5. Different Modes of Emerging Markets in Asia Facing the Financial Crisis

Just as anywhere else in the world, the emerging markets in Asia suffered from the global financial crisis (Das 2011). The year 2008 revealed hardship, even more so since a number of these countries were still recovering from the blow of the Asia crisis a decade earlier. Having indicated that, the economic performance of the Asia emerging market economies is better than their European counterparts.

Table 2. GDP level of 2012 (1989=100), annual GDP-growth in emerging market economies in East and Central Asia (2008–2012 in percentages), and core data on the financial sector (2012)

Year	GDP 2012 1989=100	2008	2009	2010	2011	2012*	Exchange-rate regime	Credit-rating #
The four 'Asian Tigers'								
Hong Kong	361	2.4	-2.9	6.8	5.8	1.3	Currency board	AAA
Korea	490	2.2	0.2	6.1	3.6	2.0	Floating	AA
Taiwan	396	0.1	-1.9	10.8	4.0	1.6	Managed float	AA+
Singapore	647	1.1	-1.3	14.5	4.9	1.2	Currency board	AAA
Some new 'Asian Dragons'								
Malaysia	540	4.6	-1.7	7.2	5.1	4.6	Managed float	A+
Philippines	218	3.8	1.1	7.3	3.7	4.2	Floating	BBB-
Thailand	361	2.6	-2.9	7.8	0.1	6.2	Managed float	A
Vietnam	512	8.4	3.1	7.0	5.9	7.5	Multiple rates	BB-
Central Asia								
Kazakhstan	175	4.3	1.2	6.0	7.5	5.5	Floating	BBB+
Kyrgyzstan	110	6.5	2.5	-1.4	5.7	-1.1	Managed float	..
Tajikistan	110	5.0	3.4	6.5	7.4	6.0	Managed float	..
Turkmen.	335	12.0	6.1	9.3	14.7	10.0	Fixed	..
Uzbekistan	220	9.0	8.1	8.5	8.3	7.5	Multiple rates	..
China								
China	1460	9.0	9.1	10.3	9.2	7.8	Managed float	AA-

Source: European Bank for Reconstruction and Development (various years), World Bank (http://www.worldbank.org/data) and Standard & Poor's (www.standardandpoors.com).

Note: * Figures for 2012 are estimates.
The best rating is a Triple A (AAA), which indicates highest confidence in creditworthiness. In order of declining confidence, the range is : AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, D. With a D-rating, a country is unable to service its debts.
.. No data available.

Table 2 shows annual GDP-growth for the emerging markets in East and Central Asia under scrutiny. It shows that, with the notable exception of Kyrgyzstan, none of the Central European countries suffered from negative economic growth.[15] Their economic performance seems to be steady over more than a decade. It goes without saying that in the case of Central Asia one has to take reliability of the official statisti-

[15] Kyrgyzstan's negative growth rates have first and foremost to be ascribed to domestic political upheaval.

cal data into account, especially for Turkmenistan (Pomfret 2012, 65), but economic performance seems strong. The same holds for China, which country experienced a nearly 10 percent annual growth for more than a decade and it was only in 2012 that it faced somewhat more '*moderate*' growth.

The picture for the other emerging markets in Asia is more diffuse. Considering the more developed newly industrializing market economies, referred to as four Asian tigers, most of the countries suffered from negative growth rates directly after the outbreak of financial crisis, Korea being the noticeable exception with a very modest positive growth. But there was a strong recovery in 2010, which was moderated in the years after. The new dragons also suffered from economic decline and their recovery was robust. Regarding the financial stability one can clearly observe that international markets did have more trust in the more developed markets of the classic for Asian tigers. This can be ascribed to a more mature status of development. On top of that, it can be observed that the countries with a currency board – Hong Kong and Singapore – do have triple A-status. Where the emerging markets in Europe find stability by tightening up with the EU, either by having a currency board of by actually joining the euro, the Asian emerging markets do so by focusing on the USA and the dollar.

Where does it leave us in terms of expected institutional change triggered by the global financial crisis? It can be concluded that (i) the Asian emerging markets seem to be performing better than their European counterparts, among which latter the best performing seem at least more volatile in their economic achievements; (ii) the best performing emerging markets in Asia are those countries for which state interventionism is the biggest. The role of the state, and in particular a state bureaucracy, is much more taken for granted to realize sustained economic growth. Despite all the problems involved with qualifying such a huge and heterogeneous region one can position the Asian emerging market economies as coordinated market economies on the VoC-continuum. What is more, the best-performing state capitalist countries are the most straightforwardly categorized. Given their success, a convergence in institutional change can be expected. This is conceptually exposed in Figure 2.

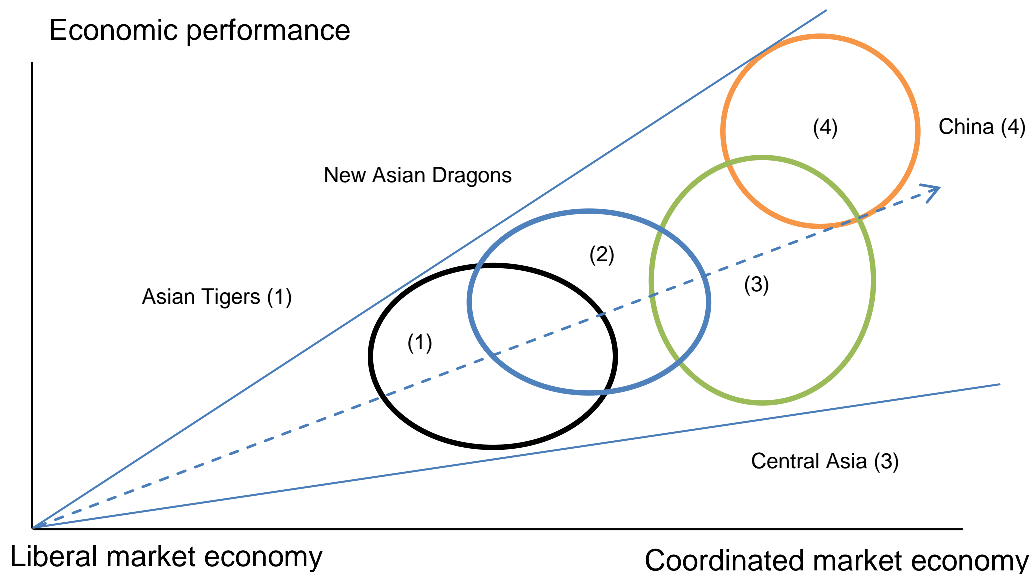

Figure 2. Asian emerging markets in the VOC-framework.

6. Conclusion: Is there Convergence between the Blocs of Emerging Market Economies?

This article focuses on institutional design of economic order and zooms in on emerging market economies in Europe and Asia. These are understood as distinct from fully-developed market economies in terms of (i) volatility in economic performance, (ii) vulnerability to global economic shocks and (iii) the ability to shift the track of reforms as response.

It addresses the question to which extent a convergence of institutional change can be observed as a response to the global financial crisis. It needs to be stated explicitly that the article, therefore, is rather stocktaking or hypothetical in nature than assenting in its conclusions. Taking all these uncertainties into account, the following can be established.

Firstly, in relative terms, the emerging market economies in Europe seem to be designed more as liberal market economies rather than coordinated market economies, whereas in Asia it is rather the other way around. The Asian emerging markets are better tagged as coordinated market economies.

Secondly, the Asian emerging market economies have performed better than their European counterparts in the period immediately following the financial crisis that

started in 2008. The decline in economic activity was rather moderate, though significant for the '*classic*' Asian tigers, or absent in the case of China and the Central Asian countries (excluding Kyrgyzstan).

Thirdly, the best-performing emerging market economies in Europe were those most genuinely following the institutional track of a liberal market economy – Estonia, Latvia and Lithuania – and those heading towards that capitalist mode – Poland. As such these countries set an example for other less well-performing emerging market economies in Europe. Therefore, a hesitant convergence in institutional change is likely to materialize of the next years.

Fourthly, the best-performing emerging market economies in Asia are those most genuinely following the institutional track of a coordinated market economy. As such these countries might set an example for other less-well performing countries. The word '*might*' needs to be stressed, since the four Asian tigers seem much more mature in their institutional design and, therefore, less willing or able to redesign. It is also important to note that the four tigers

Fifthly, whereas one can hesitantly conclude that there is a convergence in institutional change within the two blocs of emerging market economies, it seems justified to conclude that there is no institutional convergence between the blocs. On the contrary, a most likely pattern is one that discloses divergence, in which the European emerging markets tentatively converge to a more liberal market economy, without however closing the gap, whereas the Asian emerging markets move timidly and little by little toward the opposite design of a coordinated market economy. This development is pictured in Figure 3.

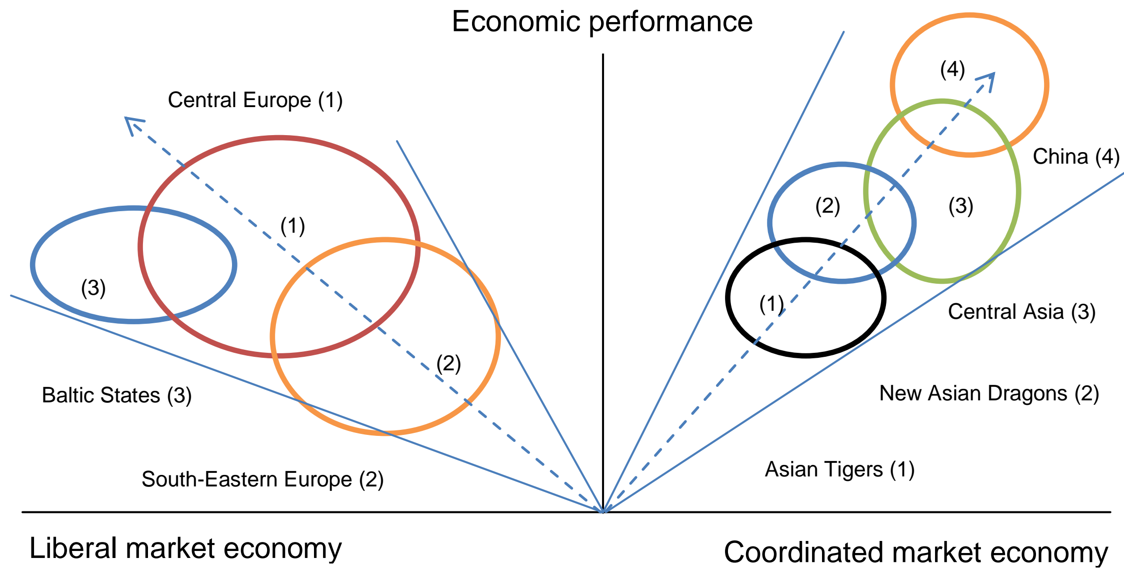

Figure 3. Divergence of Emerging markets?

It is important to keep in mind that this article's conclusions can only be tentative and should be considered conjectural rather than confirmative. The expressed need for further research is, however, not to be taken as just another disclaimer. The article plainly reveals that, despite an ongoing process of globalization, there are firm grounds to expect room for national institutional deviations that stem from legacies that are poles apart.

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