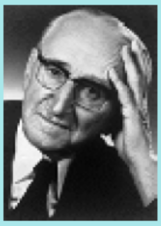
Ordnungspolitische Diskurse
Discourses in Social Market Economy







Erik Terk

Practicing Catching-up: a Comparison of Development Models of East Asian and Central-Eastern European Countries

Diskurs 2014 – 2

Erik Terk

Practicing Catching-up: a Comparison of Development Models of East Asian and Central-Eastern European Countries

Abstract

This article makes an attempt to compare the development patterns of the economies of the East Asian and Central and Eastern European (CEE) regions, which have been the fastest in catching up on the global arena. It observes both the internal features of the economies and economic policies and the parameters characterising their relation with the international background (openness, integration).The statistical materials used have been taken mostly from the World Economic Forum competitiveness reports and from the WB and IMF sources, while the descriptions of economic policy and its dynamic are based on materials concerning the regions under discussion and their individual countries. The goal of the article is not to reach conclusions characterising the behaviour of the economies of the entire East Asian or CEE regions, but the economic development models, specific features, development and performing of countries, which have displayed top performance in either region and have reached the level of developed economies.

Keywords: catching up, development models, developmental state

Erik Terk,
Tallinn University The Estonian Institute for Futures Studies and
Institute of Political Science and Governance;
Narva Rd 25, 10120 Tallinn, Estonia
erik.terk@tlu.ee

Erik Terk

Practicing Catching-up: a Comparison of Development Models of East Asian and Central-Eastern European Countries

Introduction

This article makes an attempt to compare the development patterns of the economies of the East Asian and Central and Eastern European (CEE) regions, which have been the fastest in catching up on the global arena. It observes both the internal features of the economies and economic policies and the parameters characterising their relation with the international background (openness, integration).The statistical materials used have been taken mostly from the World Economic Forum competitiveness reports and from the WB and IMF sources, while the descriptions of economic policy and its dynamic are based on materials concerning the regions under discussion and their individual countries. The goal of the article is not to reach conclusions characterising the behaviour of the economies of the entire East Asian or CEE regions, but the economic development models, specific features, development and performing of countries, which have displayed top performance in either region and have reached the level of developed economies.

There is no reason to presume that such definition of goal would allow for the determination of the features of a common model of success; there can be several successful models. Yet both the similarities and differences should provide materials for discussions on the economic policies of individual countries and contribute to further development of the general theoretical background of the treatment of catching up. A considerable problem in the detailing of the task of study was caused by the fact that the economic growth cycles of the countries under observation do not coincide in time.

In case of some East Asian countries we can speak of rapid growth lasting even more than 50 years with only minor setbacks (the beginning of sustainable economic growth in Taiwan dates back to 1958, in South Korea to 1978/79 and in Singapore to 1965) (Hermes N., 1997). In case of the CEE countries a change of political and economic regime occurred at the turn of the 1980s-1990s with significant setbacks in the volume of GDP; in their case we can speak of a growth cycle not longer than 20 years. Therefore the selection of the CEE regional champions was not based exclusively on economic growth rate, but also considered the index of quality of economic transition (containing economic, social political and governance-related components) and the economic competitiveness rankings in the latter years of the period under observation.

The article has been structured as follows. It opens with a description of the general catching-up situation. This is followed by a brief review of theoretical backgrounds related to the catching up subject. Further we present a general scheme for carrying out the comparison, dwell briefly on either region's special features, and then analyse the individual countries according to common criteria. Among the selected criteria especial attention is these considered crucial for success in the innovation-based economic development stage. (see Porter, M., 1990)

The article is concluded by a summary outlining the common features and differences of the economic development models of the two groups of countries analysed.

1. The Catching-Up Phenomenon and its Treatment

Although the present time is characterised by an increasing internationalisation/globalisation of economy and great opportunities are predicted to countries participating in international economy, including those initially less wealthy (the latecomer advantage), the number of countries, which have actually succeeded in reaching high development levels from modest starting positions, is quite limited, especially if we exclude the oil based economies. When observing the entire period since the end of WW2 until present day, the latecomers making it to the developed economies certainly include the so-called minor Asian tigers, which have been riding on Japan's coattails: Taiwan, South Korea, Singapore and Hong Kong. Whether Japan itself can be included in this group is questionable – its economy was in a miserable state after the war, but the same cannot be said about the 1930s. The People's Republic of China, although it has seen rapid economic growth in the past decades, cannot be described a developed economy as yet when considering the country as a whole rather than some of its coastal regions. If we conditionally consider as developed economies those with GDP per capita adjusted with PPP approaching at least 20,000 USD – roughly the economies among the world's 50–60 wealthiest – the "tigers" like Thailand and Malaysia cannot be included among developed economies. No suitable example of growth can be found in the American continent. Chile stands out as to its economic growth against the general background, yet its level of economic development does not meet the above criterion for the time being. In Europe, Ireland, Finland and Spain can be viewed as newcomers among the highly developed economies, but these countries launched their rising trajectory from a higher starting position. The final region, where highly developed economies can be looked for, is the post-socialist economies of central and Eastern Europe (CEE). Candidates for such economies could be the countries, which more than doubled their GDP during the decade and half preceding the latest international economic (financial) crisis: Slovenia, the Czech Republic, Poland, Slovakia, Hungary, Estonia, and Lithuania. (Russia, whose economic growth has been relatively fast as well, should be included among the oil based economies). With the exception of Slovenia they have narrowly crossed the lower bar of the "league of wealthy economies".

Accordingly, only some 10-15 economies of the world can be considered catching-up champions, dependent on the strictness of criteria, with a clear majority belonging to East Asia and CEE. While extensive literature covers the growth economies of either region, East Asia and CEE separately, there is a dearth of studies attempting to generalize the success experience of both regions. Even in cases where this has been done, the authors are rather careful in recommending one region's development experience to the other[1]. The reason is obviously the difference of development contexts in these regions, while at least a partial cause is also the peculiarity of the corresponding general theoretical framework. The mainstream economists have been generally having trouble interpreting the East Asian economic success. They tried to

[1] They are bolder in recommending the East Asian experience to central Asian countries (e.g. see Stark 2010).

interpret it for a long time as a triumph of market ideology and export orientation, while turning a blind eye to the peculiar features of the region's practice compared to the traditional economic theories and economic policy postulates. When it was no longer possible after researchers like Amsden (Amsden, A.H., 1989) and Wade (Wade, R.,1990) clearly outlined the region's economic models' specific characteristics, they tended to interpret the peculiarity as a temporary deviation due to culture and path dependence, which would be eliminated in time (the so-called Asian crisis of the second half of the 1990s provided some basis for such beliefs).
However, often there were honest admissions as in the article by the IMF economist M. Sarel: "Everyone agrees that the economies of the East Asia, and particularly the Four Tigers, have grown spectacularly over the past generation, but nobody seems to agree on why." (Sarel, M, 1996).

The theoretical concepts for the treatment of the CEE economic development after their leaving behind the communist past and the corresponding recommendations, the economic transition theory, were drafted in the end of the 1980s and the beginning of the 1990s. It was based on mainstream economics and considering the experience of macroeconomic regulation gained in Latin America in the 1980s. However, the theory gave setbacks in its practical implementation, especially regarding Russia, and needed ongoing regulation, especially towards greater significance of the development of institutions. One could stare about the more successful transition economies that by the turn of the century at the latest they had already completed the standard tasks required by the treatment of transition – i.e. the compulsory programme. The 2000s are also characterised by attempts to apply the treatment of varieties of capitalism (Hall, P. A. & Soskice, D, 2001) to the CEE economies, within which it was claimed that at least some more extreme examples like Slovenia and Estonia have adopted principally different paths in developing mature market economy (see Z. Norkus, 2012).

A common framework for understanding the problems of different regions' economies in catching up with the developed economies and the options for solving them could be provided in principle by the theory of development economics. However, there is the difficulty that although the basics of development economics were created during WW2 specifically in consideration of the expected requirements of the CEE countries after the war, it was later further elaborated, considering particularly the specifics and needs of developing countries (high share of rural population, low education level, needs for industrialisation etc.). While this situation could have been typical of, for example, South Korea of the late 1950s and early 1960s, it certainly does not characterise the advanced East Asian economies of the present period nor the CEE countries under discussion. It seems that instead of further elaboration of development economics in relation to the needs of more highly advanced growth economies, we should rather discuss new institutional economics as a branch of science, which today attempts to interpret the situations and challenges of “tiger economies”.

2. Constructing the Sample of 3+3

Out of the East Asian growth champions we have selected three countries for further detailed study: Taiwan, South Korea and Singapore. The inclusion of Japan in the sample would not have been practical as its economic growth period began significantly earlier than that of the others while Japan has not displayed spectacular growth recently. Hong Kong, after its transfer to China, can be viewed, despite the continuing economic and political special regime, not as a country leading traditional economic policy but rather as a specific connecting element between the People’s Republic of China and world economy. Therefore it cannot be easily compared to other countries on the same basis. The remaining East Asian countries cannot claim inclusion in the sample due to their too low per capita GDP. It can be argued that they have not yet reached the same stage of economic development where either region’s countries included in the sample have been for the past couple of decades.

Picking the CEE economies for the sample, however, was more difficult that the selection of the East Asian trio, since the region contains a significantly larger number of countries with relatively high growth rate during the past two decades and the differences between their success indicators are not large. The volatility of macroeconomic indicators caused by the latest economic crisis further complicates the task. Considering, as mentioned above, three indicators, namely the rate of economic growth, the index of success in accomplishing transformation and the competitiveness index of the period’s final years, three countries made the grade: Slovenia, the Czech Republic and Estonia. The comparison of the success indicators of these three countries and the East Asian countries can be found in Table 1. The omission of the countries was determined, in Lithuania's case, by the slightly lower economic growth rate, in Slovakia's case the low competitiveness index, while in Hungary's case both the growth rate and competitiveness index were lower, although the gap was not too wide. As for the complex index of accomplishing transformation, it was significantly higher in Slovenia, the Czech Republic and Estonia as compared to their rivals. This became decisive in the selection of Slovenia. Although Slovenia displayed higher per capita GDP level than the others and had enjoyed success for most of the past couple of decades, it faced a macro-economically difficult situation at the end of the period, which also lowered its competitiveness ratings.

Table 1. Basic parameters of development background, state of economy and dynamism of the analysed countries

	South Korea	Taiwan	Singapore	Slovenia	Czech Republic	Estonia
Population (millions)	48	23	4.6	2	10	1.3
Ethnic diversity	Extremely low	Majority han Chinese, but arrivals from mainland (1949) differ somewhat	Very high, different large ethnic groups	Relatively low	Moderate	Quite high share of non-ethnic Estonian residents due to Soviet regime
Statehood	Emerged as result of the Korean war (1950–1953) in the southern part of the country	Emerged in 1949 as a result of the civil war in China (officially Republic of China, not recognised by most countries)	Became independent of the Malaysian Federation in 1965	Became independent of former Yugoslavia in 1991	Emerged with the break-up of Czechoslovakia in the beginning of 1993	Independence restored in 1991
Start of sustainable growth cycle in economy	1978–1979	1958	1965	1993–1994	1995	1993–1994
Participation in intl. economic blocks and trading agreements	WTO from 1995; Free Trade Agr-t with USA from 2011	WTO from 2002; FTA negotiations with USA	ASEAN from 1965; FTA with USA from 2004	WTO from 1995; EU from 2004; Eurozone from 2007	WTO from 1995; EU from 2004	WTO from 1999; EU from 2004; Eurozone from 2011

Per capita GDP in 2012 (PPP) (thousands of USD)	32.0	38.6	60.8	27.9	27.0	21.7
Per capita GDP growth 1993–2007	2.8X	2.5X	2.6X	2.7X	2.4X	3.1X
Coping with international crisis starting from year 2008	Zero growth 2009, moderate growth restored in next years	Small decline in 2009, fast restoration of growth, but slowing down later	Minor decline of growth in 2009, fast restoration, but slowing down later	Steep fall 2009, followed by zero and low negative growth	Moderate fall in 2009, followed by low growth or small decline	Very steep fall in 2008–2009; followed by fast restoration of growth, later unstable growth
Share of industry in GDP	Very high (40%)	Moderate (30%)	Moderate (27%)	Moderate (27–28%)	High (38%)	Moderate (30%)
Dynamics of competitiveness index ranking of countries 2004–2012	Positive: 29 => 25	negative: 4 => 12	positive: 7 => 2	Highly negative: 33 => 62	Negative: 40 => 46	Negative: 20 => 32

All the countries in the sample were dealing with not only achieving economic growth, but also with developing their statehood, albeit in diverse conditions and during different periods. Significant changes in the political environment concerned all these countries as well. It is true that the political dynamic has been different in the CEE and East Asian countries. The first group saw at the end of the 1990s a rapid transition to multi-party democracy, while the East Asian countries during their first development period were characterised by authoritarian political regimes, yet the political regions of these countries has significantly democratised by the early 1990s. The building and reinforcement of statehood, in case of some countries in somewhat hazardous international environment, must also have been an important background factor for the national/social mobilisation necessary for economic development.

When interpreting the indicators in the table we should keep in mind that the initial level of the Singaporean economy as of 1993 was significantly higher than that of the others.The growth rates of all six countries in the 1993-2007 period can be considered relatively similar. Estonia's higher indicator can be partly explained by the fact that the country experienced a very steep fall of GDP in 1990-1993 due to the regime change, much steeper than Slovenia or the Czech Republic, and the following growth began from a lower starting level compared to the other countries. More significant differences could be found in the dynamics of competitiveness

3. Market Competition-based Approach and its Limitations

The subject of latecomer catching-up is by its nature interdisciplinary. It uses treatment schemes of economics, political science and sociology, while different emphases have dominated in different periods. Sociological approaches were quite popular on that subject in the 1960s and early 1970s. The concepts of integrative society and functional elites were developed. Many debates were held on the opportunities of development planning. The attention was focused, in the development planning and broader contexts, on the replacement of the traditional elites (in developing countries the large landowners as a rule) by responsible bureaucracy, representatives of modern spheres of entrepreneurship, managers and experts, assuming that these would be more capable of representing the national interests. It was presumed that the new elite would be able to choose between the various strategies for economic development; a classical example was the debate over whether a country should concentrate on narrower breakthrough areas in order to succeed in the international economy, or attempt to advance on a wide front. The predominant paradigm of theoretical treatment changed starting from the end of the 1970s and in the 1980s. In connection with globalisation the approach became significantly more economy- and especially market-centred with the problem being viewed predominantly through the prism of adjusting to the international market environment. Other factors were moved to background. If the political aspects of the issue were addressed, besides the economic ones, these were viewed as the paradigm of egoistic competition between various stakeholders rather than that of realisation of national interests. This approach has been practiced for more than 30 years by now and a number of empirical studies have been carried out under it.

Seeking to comprehend the behaviour of states (economies) in the increasingly globalising environment, economists have carried out comparative studies focusing specifically on the categories of openness and mobility, which attempt to observe the response to changes by private actors and the public sector (the state) and the ties between these responses. Such studies usually attempt to operate with a rather limited number of factors and expect to find some clear patterns in their interplay. The approach is usually emphatically market-centred. The central issues of these studies are, primarily, the response of firms, especially those operating internationally, to the tax situation of one country or another; secondly, the response of less dynamic factor of labour to the wage differences between countries. In case of the states the studies primarily observe their reaction to the flight of capital due to excessive taxation, their rapidity of receiving the disciplining signals of the market and responding to those (response is in most cases perceived as the curbing of the public sector spending, reduction of red tape and the lowering of taxes), as well as the implementation of active tax policy, i.e. inventing tax manipulations so as to attract desirable capital. Despite the general principle that labour as a whole is less mobile than capital, there is an increasing recognition of the need for measures allowing to win over the more mobile part of labour, the global common, by salary, taxation of the individual or other means, to buy its loyalty. For example, economists have concluded that the higher the concentration if power in a state, the faster and more efficient is the feedback between investments and politics. The high share of backward sectors in the state is seen as a major obstacle; their significance (possible social and political risks related to such sectors) prevents the politicians from responding to the market signals with the necessary flexibility.[2]

If the combination of factors described above were actually predominant in the world, it would mean a “race to the bottom” regarding the administrative and social expenses and a global levelling of economic conditions, where the only differences would be the rapidity and success of adjustment of individual countries.

It is true that economists admit the existence of some factors complicating the situation. They accept that in case of investing in a country capital is interested in the level of the corresponding technical infrastructure, the education level of labour (at least

[2] Among the countries observed in our article, the then agrarian South Korea and Taiwan faced that problem in the initial stage of their growth cycle, but both were able to solve it by introducing agrarian reforms. The problem of the European post-socialist countries was rather the excessive industrialisation as they needed to get rid of a large share of outdated industry of the state socialist era.

basic education) and the efficiency of the institutions important for business environment. Improving these conditions is largely the task of the state. Economists have to accept that for example the taxation level of a state and the development standards of the institutions tend to have positive correlation. It is also argued that some peculiarities of the target market or the agglomeration effect may be so influential that they could outweigh for the capital the simple arguments based on tax competition. In some cases when analysing the impact of globalisation attempts were made to extend the composition of markets under observation by covering both the economic and political markets (in the public choice theory sense) and by differentiating in both cases between the domestic and foreign markets (for details see A. Libman 2007, p.17-18). In such a case we would discuss, besides the domestic and foreign market of goods and production factors (commodities, investments and labour market) the domestic political market and the international market of harmonisation and integration projects. In the domestic political market the central issues are those of taxes, protectionism and support to various groups of the population. Traditionally the influence of the conflicts and negotiations between the social-democratic and liberal parties is emphasised here as the central mechanism, which helps to create a certain balance between the business efficiency motives on the one hand and the attempts to protect certain groups of population against market impacts considered too destructive on the other hand. It is also admitted, however, that the weakening of this balancing mechanism can be observed recently as the major parties' positions have drawn closer over the above issues and the parties tend to display cartel-type behaviour.

Some authors supporting emphatically market economy positions have also expressed the opinion that great powers can still possess some strategic manoeuvring space in the environment of globalisation; they are able to develop some specific infrastructural and institutional structure of preparing for economic growth, while smaller nations with population below 20 million lack such opportunities (Y. Gaidar, 1997, p.317-318). If their existing traditions favour the emergence of national entrepreneurial sector and their citizens manage to spare and invest their income instead of spending it all on consumption, they would be able to exploit the opportunities emerging in the international markets and possess a chance of reaching decent economic growth; otherwise they would be doomed to the misery of "stagnation poverty". Y. Gaidar tries to cheer up the smaller countries by claiming that their choices are straightforward. The great powers' space for strategic choices is wider, but they are also facing greater opportunities for making fatal errors and get bogged down in market restriction and excessive state activism. However, it can be stated by now that although the approach based on adjustment to international markets brought new important aspects to the theory, the explanation capacity had been lower than expected. It is being increasingly emphasised, especially based on the East Asian experience, that besides the ability to adjust to markets, coordination of long-term policy efforts towards development is also significant. Proceeding from more advanced ideas of the social premises of economic development and the potential of institutional regulation, a search for the opportunities for creating such coordination mechanisms is going on.

Since this article discusses small relatively open economies, which are located in two highly different geographical regions and are quite diverse, but have all managed to adjust rather successfully to the conditions of international market, we can presume that the results of comparative analysis can shed new light on issues like the mobility of industrial factors, mechanisms of adjustment of economies and the accompanying dynamics of competitiveness.

4. Theories Describing Development Planning, Coordination and State Activism

Theories, which consider the adjustment to market strategy insufficient in the interpretation of the catching up phenomenon, have operated with keywords like social mobilisation/collective mobilisation, modernisation management, developmental state, neo-corporatism, varieties of capitalism.

A.Gerschenkron, one of the classics of economics theory, comparatively studied the countries, which could be considered early industrialisers or latecomers to industrialisation and found out that the latecomers must make specific efforts and use specific solutions in order to successfully catch up with the already launched and ongoing process (Gerschenkron, 1962). Paying the costs of development thus calls the actual collective mobilisation, which in turn requires greater central coordination. Such collective mobilisation primarily presumes the very setting of the (imperative) goal of catching up, advancing a concept necessary for its realisation, the concentration of resources, which presumes the forming of the facilitating mechanism, paying attention to the building of infrastructure and the training of labour and creating the political and social conditions allowing for accumulation (Palan R. et al 1999).

Viewed from the position of methodological individualism prevailing in mainstream economics approach, introducing the category **of social mobilisation** to development economics is a move not readily accepted. Achieving quite long-term agreement between a large number of actors with individual interests seems barely credible from that viewpoint. This contradiction can be explained to some extent by the fact that social mobilisation often occurs as a national-level mobilisation involving the entire ethnos. “Belonging to a definite nation can /.../ be regarded as a factor cementing the relationship between what is and what should be”, as M. C. Botez and M. Celac define it (1986). Within a nation-state, the political will can be mobilized for attaining collective goals derived from abstract societal images of the future. The impetus can be provided by the gaining of independence by a state, the related surge of motivation, as well as an outward challenge to the nation/ethnos or any other realisation of the criticality of the situation. All that may contribute to the curbing of excessive domination of particular interests and acceptance of the state’s coordinating role (developmental state, the competition state). In order to the motivation effect and mobilisation effect to emerge there must exist a sufficiently attractive desirable image of national development, formulated by the elite, which then can be detailed and perpetuated in a more or less democratic national dialogue.

Botez and Celac underline that this process cannot be treated proceeding from the primitive design-oriented approach: a) to imagine the desired state (not merely at the mechanisms level, but as a desirable objective state), b) to design and implement the necessary means in order to attain the given goals. Such approach may be suitable for performing some narrower goals, but in case of the economy or the society as a whole there will inevitably emerge a need for adjusting the goals or transitioning from performing the tasks of one development stage to those of the next. These transitions are always crucial as they reveal, whether the continuation of the catching-up policy can be ensured or the success would remain only temporary.

Although the use of the term “social mobilisation” in connection with the modernisation of economy has a rather long history, modern social scientists treat it with considerable caution, especially when emphatically national mobilisation is concerned. This attitude is caused by the fear that models of government and power structures emerging that way could mean the emergence of authoritarian and totalitarian regimes, the spreading of chauvinistic attitudes etc. It is true that the industrialisation latecomers studied by Gerschenkron, Germany, Japan and Russia, became troublemakers in the international stage. Yet social mobilisation on national basis in the reconstruction of post-war economy can be observed in highly pro-democratic countries like in Scandinavia and in a highly positive sense. Without discussing this phenomenon we would find it hard to understand the Irish so-called economic miracle, which began in the 1960s, or the economic rise of the East Asian countries.

It must be emphasised that although development planning from the viewpoint of the state as a whole is more topical in case of the East Asian countries compared to “regular capitalist economies”, such activity should not be equated to state planning previously practices in the communist countries or the long-term economic development plans used in some developing countries like India of the 1950s–1960s. The East Asian threesome’s case was rather one of focused policy for forming breakthrough sectors, which could compete in the international economy and creating necessary conditions for these sectors within the country (or outside, e.g. the development of the country’s brand). Such approach requires visionary strategic thinking, the development of corresponding policies and implements and capability in their realisation. At the same time it must be quite flexible, able to adjust to the changes of foreign markets as well as the needs of different stages of development.

When discussing the role of the state in the preparation and realisation of an economic growth leap, we cannot ignore the term of **developmental state.** This term was brought to scientific use in respect to Japan by Chalmers Johnson (Johnson, 1982). The term designates not just state interference with economy, but a type of policy directed to the contribution to the emergence of economic growth and new perspective economic sectors or clusters, e.g. high-tech sectors, by using corresponding policy instruments. (Woo-Cumings, 1999). In this sense the developmental state is contrasted not only to the predatory state, or the weak state, but also to the regulatory state, which does focus on various types of economic regulation via its agencies, but does not possess the ambition to accelerate specifically economic growth and to make corresponding choices.

It is especially the East Asian countries, which are described in literature as typical developmental states, although elements of this type of state have been identified also in countries on other continents: Ireland, some African and Latin American countries. It is theoretically an extremely intriguing question whether the developmental state will remain only a regional phenomenon or whether this model or its close variation would become a development economic alternative of broader significance. A restrictive factor is that this model requires from those preparing for its implementation both high qualification and motivation to act in the interests of the country as a whole, rather than individual stakeholders, as well as the presence of strong political support and determination from those implementing the policy.

The above is closely related to the issue of **industrial policy** as a tool for developing economy. Economic development implies structural transformation. Productivity varies across activities, a country's development potential and accordingly the potential to catch up are largely dependent on what it produces and sells in the world market. Market fundamental approaches proceed from the idea that such choices should be made exclusively by the entrepreneurs based on market signals. But there exists another point of view arguing that the countries keen on rising in the value chain need selective policies intended to promote specific industries. Part of the process of the structural transformation and technological improvement is autonomous and may be facilitated and promoted by the market as investors seek out profitable opportunities. But this may be too slow a process in relation to a country's own growth aspirations or in relation to technological improvements occurring elsewhere. Government intervention becomes necessary when competition alone does not propel business firms to innovate and undertake productivity enhancing investments (Irfan ul Haque, 2007). The success of Japan and the subsequent growth tigers is one of the basic arguments of the champions of the latter position, and, in a somewhat simplified manner, the developmental state has been defined as a state implementing industrial policy.

The popularity and acceptance of industrial policy in the toolbox of economic policies has greatly varied over time. It used to be a quite prestigious field of policy in the post-war years, but the situation changed with the beginning of the 1980s. As Rodrik (2004) points out: "The reality is that industrial policies run rampant during the last two decades – and nowhere more than in those economies that have steadfastly adopted the agenda of orthodox reform." Authors promoting industrial policy like Rodrik and Chang consider this situation strange, since in their opinion industrial policy had given positive results in East Asian and several other countries, and, furthermore, it would be hard to find any country in the practice of latest decades, which has achieved notable success in economic development without its government leading active development policy and promoting industry (Rodrik, D., 2004; Chang, H.-J., 2002).

It seems that a new turn, this time towards the recognition of industrial policy, has occurred in the years 2004-2005. This included the change of the European Union's official position towards that policy (Török, A. et al, 2013, p.2).. On the one hand this was caused by the return of the understanding that manufacturing and manufacturing jobs are highly significant even in today's economy and employment and require, due to their complexity, special and selective attention.[3] On the other hand, it is typical of the present-day world that industrial policy principles are applied outside its traditional sphere of implementation – manufacturing (e.g. in relation to keywords like cultural industries, creative industries, green growth etc.). Yet we probably cannot hail the rebirth of industrial policy in its previous form and extent. It has to be admitted that the international context of industrial policy implementation has significantly changed: new rules governing international trade, the ban on export subsidies and quantitative restrictions (WTO, EU internal regulations), the rise of global value chains and marketing networks. The governments' freedom of manoeuvre ("policy space") has therefore become more restricted. The methods of industrial policy have changed as well. Policymakers also frequently emphasise the unwillingness to return to the so-called state-dirigisme approach and the "picking of winners" ideology of the previous industrial policy. They are seeking for new and more flexible methods allowing for cooperation with various stakeholders: experimental economics, providing acceleration

[3] Discussions on industrial policy should differentiate between the developmental direction, promotion of the development of new sectors and supra-sectoral spheres contributing to economic growth as a whole, and between the defensive (shield-type) industrial policies, e.g. several countries' attempts to preserve by state interference their automobile industries, hit by the latest economic crisis. In some countries, e.g. in Scandinavia, the combined use of these policies can be observed (Palan R. et al, 1999, pp, 103-120). This article focuses on the developmental type of industrial policy.

“nudge” for some sector etc. However, despite their novelty, these approaches nevertheless remain more or lessselective instruments in the shaping of economic structure.

A somewhat broader construction for the discussion of the impact of the state on economy and the development policies used for this is the **varieties of capitalism** concept, which has won considerable popularity in the last decade. Hall and Soskice (Hall, P., Soskice, D., 2001), some of the founders of this approach, differentiate between two “ideal types” of capitalism: liberal market economies and coordinated market economies. In the former case firms operate through competitive markets in all areas of economic life (including the labour market), with price signals, supply and demand being crucial. In the second form of economy firms are coordinated through many non-market relationships, both in the relations between enterprises and between the firms and the state. Other authors have later added further elements to this coordination-centred model, e.g. differences in corporate governance and the extent and structure of welfare systems.

The treatment of Hall and Soskice developed from comparative studies of the developed Western countries, where a clear difference could be noted between the working of economy in the “Anglo-Saxon” societies on the one hand and continental Europe (Germany, France) on the other hand. Later, further groups were identified among the latter: e.g. the Scandinavian-type capitalism (with social-democratic influence) and the South European capitalism. For example, studies concerned the development of innovation in such groups of countries or the advantages granted to the specialisation on particular sectors of industry by one type of capitalism or the other.

It appears that liberal market economy with its dynamism and market-centred nature is a favourable environment for information technology business, while coordinated market economy is suitable for automobile industry.

There have been considerable difficulties with the fitting of Asian and Central and Eastern European economies in the above groups. Hall and Soskice initially placed Japan in the same group as the continental European capitalism, although Japanese capitalism differed from that of e.g. Germany by various important features. East

Asian countries have been later grouped separately as the Asian capitalism or Asian corporative capitalism, emphasising such features of the group as developmental orientation or low level of welfare spending.

In numerous cases regarding Central and Eastern Europe it is not yet possible to talk about clearly developed models of capitalism, yet some differences can already be identified. The greatest tendency towards the coordinated market economic model has been observed in Slovenia and to a somewhat lesser degree in the Czech Republic. The Baltic states, especially Estonia, are considered to tend towards liberal market economy. Slovenia and Estonia are in fact considered the most extreme examples of these two orientations in the region (Damian and Knell, 2005; Buchen, K. 2007).

Z. Norkus in his book (Norkus, Z. 2012, p. 268) does not yet classify any CEE countries in the coordinated or liberal capitalism groups. He treats these countries as different varieties of post-communist capitalism. He describes the variety including the Baltic states as Weberian-Friedmanian capitalism, designating by that term a combination of so-called constructive bureaucracy on the one hand and market and financial fundamentalism on the other. He designates the group including Slovenia and the Visegrad countries as Weberian-Porterian capitalism, emphasising with the latter the competitiveness development ideology promoted by M. Porter.

5. Development Indicators and the Countries' Scores

The different aspects of development and the related factors could be measured by an extremely large number of indicators. For the sake of clarity we have selected for the following analysis a limited number of more significant indicators and grouped them in four blocks, each of which performs its definite role in ensuring the development process. (The RES abbreviation in the figure designates result). The first block in the figure depicts the connection of the country's economy with the global environment. We concentrated in this block the connections occurring at the international level as well as the indicators of actual internationalisation level of business organisations. The second block displays the progress in achieving a favourable and well-operating domestic business environment. The third block concentrates the mechanisms enabling the country's economy to modernise itself and, figuratively speaking, to launch itself on a new and higher trajectory. We are not arguing that primarily the state agencies develop economy, but the elevation to a new level of development can occur only in cooperation of entrepreneurs, universities, state representatives and other actors. And the state can play an important role as the organiser of this cooperation. An important aspect of our treatment is the issue of the mutual links and balance between two blocks, the ones covering development policies and social welfare policies. Both blocks are largely financed from the state budget and they are often lumped together as public expenditures. Yet essentially these are two different, although partly overlapping functions. The overlapping part includes, for example, education, which is a factor influencing economic development on the one hand, but a public benefit on the other hand. The same applies to health-related services. An important issue is striking the right balance between the financing of developmental and welfare functions. But it must also be kept in mind that the welfare block plays an important role in ensuring the continuity of development by supporting the coherence and stability of the society.

The landscape of development determinants of the leader countries of the CEE region is dominated by a pair of elements. These are firstly INTEGRATION and secondly MACROECONOMIC & BUSINESS ENVIRONMENT. As for integration the dominating factors are the EU, where all three countries belong, and the European Monetary Union, which joins two of the three. There is a clear interconnection between the elements – the desire to belong to the EU or the eurozone created the need to observe the set rules quite closely and strongly disciplined the macroeconomic policy of the countries (the MACROECONOMIC component).

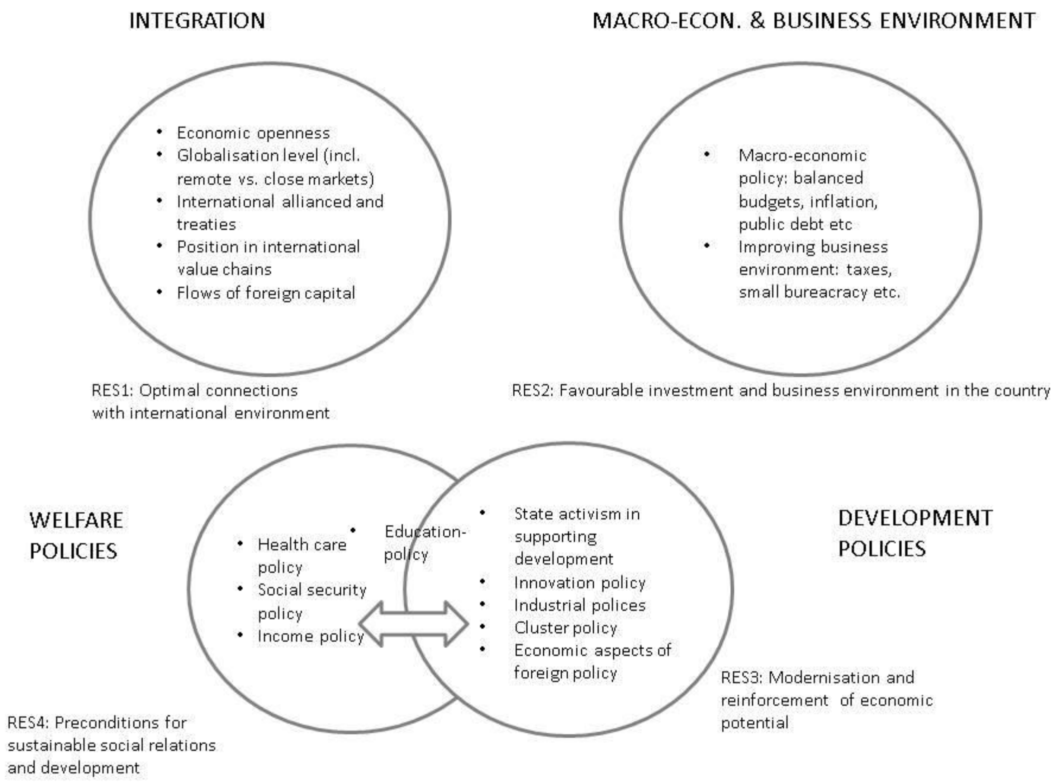


Figure 1. Conceptual framework for the classification of development indicators.

The EU membership significantly boosted the economic growth of the countries under observation, while the prospect of accession, which increased their reliability and attractiveness among foreign business partners, began to have its effect even several years before the accession. The INTEGRATION (with EU) component is highly significant for all three countries due to the opportunity to make use of the EU structural measures in development (especially in the building of technical infrastructure, as well as in research and innovation policy etc. (the DEVELOPMENT POLICIES component). Integration with countries outside EU is not well developed.

Although access to the EU markets and the expansion of this opportunity in the future (the services market) is important for the CEE-3 countries, the use of this opportunity is limited not by the entry barriers but the scarcity of strong domestic firms and limited control over international marketing channels. As a result, their companies work for mediators rather than the end consumers of the target markets and the domestic firms' investments in the integration partners' markets are small (especially in comparison with the rather large investments received as the host country). The realisation of export capability is also obstructed by the low clustering level of domestic enterprises, often including the capable ones. There are attempts to overcome these drawbacks to some extent by using development policies (DEVELOPMENT component).

Macroeconomic policy (MACROECONOMIC) is generally of the type allowing all three countries to be viewed as a reliable, predictable and stable economic environment (positive contrast with some South European EU member countries). This is viewed as important in the economic policies of Estonia and the Czech Republic as for the aspect of attracting foreign investments. The general image is marred by deviations caused by the impact of the latest international economic crisis, which led to corrections in the regular macroeconomic policy, e.g. by influencing the balance of budget. In Slovenia's case the situation has been influenced in recent years by a complex mix of economic difficulties and domestic policy problems

In case of the East Asian countries we can notice a different (sequential) logic between the blocks depicted in the figure. In Asia regional integration has been driven more by markets than by governments. Economic integration has been largely driven by the development of increasingly sophisticated production networks that span the region and enable companies to benefit each countrie`s comparative advantages (Capanelli G., 2009, p. 2). It is possible here to identify the starting push for transition to economic growth trajectory the move the individual countries to export promotion policy in the 1960s. Admittedly, this was accompanied by a need for greater adjustment to international trade regulations, but it did not mean formal integration into any economic association, adoption of its rules or even rapid opening of one's domestic market. The opening of the market to foreign goods and investments in Taiwan and South Korea occurred gradually and these countries use moderately high import tariffs even now. Export promotion policy in the East Asian countries led, either immediately or with a brief delay, to serious efforts in the DEVELOPMENT POLICIES block, so as to develop preconditions and capability for producing goods demanded in the world markets and characterised by as high value added as possible. The scale of dependence on domestic resources or the attraction of foreign capital depended on the individual countries. The latter option meant major efforts in creating positive branding to the country. The gradually rising cost of economy confronted the development policies with new tasks (transition to high technologies etc.). As for the

MACROECONOMICS (and business environment block), gradualism can be observed here as well. Important moves within that block had to be made even in the period preceding economic growth, e.g. the suppression of inflation. Approaching the ideas defined in the Washington consensus has taken place during a relatively long period and not necessarily by accepting all requirements at once. Yet it can be argued that the Asian threesome has presently reached well-balanced and business-friendly economies.

By using the above conceptual scheme, we have derived a number of indicators for measuring the various aspects of development and attempted to use them for rating the development models of different countries. Generalisations about the various East Asian region's and CEE region's models can be found in the next chapter.

One might ask, whether 20 years is not too long a period to claim that a country has lasted throughout it on account of a single strategy or development model. However, a more detailed analysis allows claiming that strategies and methods changed together with circumstances, these changes occurred within the framework of the existing model rather than representing its radical replacement. Only the change of course of the Czech Republic in 1995 can be cited as an exception, during which Premier Vaclav Klaus' Czech-type (domestic) construction of capitalism was replaced by a strategy mainly oriented at foreign investments. As Drahokoupil (Drahokoupil, J, 2007) claims, it marked a principal change of the market economic model, a transition to the competition state paradigm, which meant significant curbing of welfare spending in order to turn the business environment acceptable to foreign investors. Whether this change of direction can be described as a radical U-turn, remains nevertheless questionable, since there are other views. It seems that changes in other countries under observation, including those occurring in Korea with the large concerns (chaebols) due to the Asian crisis, can be interpreted as a radical change of development model to an even lesser degree. As was mentioned by R. Sharma (Sharma R., 2012, p.160): „After 1998 the big Korean corporations brought in more professional managers to oversee day-to –day operations , but with the founding families still in charge the long-term strategical decisions were no less bold".

Table 2. Basic indicators of the development models by countries

	South Korea	Taiwan	Singapore	Slovenia	Czech Republic	Estonia
Index of globalisation of economy[4] (rankings)	Low ranking (86)	Index not available	Extremely globalised (ranks 1st in the world)	Moderately globalised (ranks 33)	Highly globalised (ranks 14)	Highly globalised (ranks 8)
Regional markets vs. global markets	Both regional and world markets	Both regional and world markets (share of PRC increasing)	World markets	Mainly regional markets	Mainly regional markets	Mainly regional markets
Share of foreign investment in economy	Low	Relatively low at last period (more outward than inward investments)	Very high	Low	High	High
Characterisation of economic model	Corporative type of coordinated economy. Developmental state	Developmental state. Network type of coordination (to connect resorce flows and multiple agents)	Developmental state with strong governmental level coordination (via governmental agencies)	Coordinated market economy. Welfare corporatism	Intermediate type between coordinated and liberal market economy with small shift towards the former	Liberal market economy with "competition state" ideal. Weberian-Friedmanian model (Z. Norkus)
Macroeconomic balance	Well-balanced	Satisfactory balance	Improving, generally good (except for high govt. debt)	Worsened in recent years, currently unsatisfactory (govt. debt, budget balance)	Problematic (govt. budget balance, govt. debt)	Relatively good, improved since peak of crisis
Share of taxes in	Relatively low	Extremely low	Extremely low	High (43%)	High (42%)	Moderate (37%)

[4] Usually lower for large economies

GDP	(25%)	(17%)	(16%)			
	South Korea	**Taiwan**	**Singapore**	**Slovenia**	**Czech Republic**	**Estonia**
Index of economic freedom (rankings)	Average (34)	Relatively high (20)	Extremely high (2)	Low (76)	Average (29)	Relatively high (13)
Strategic export sectors	Electronics, telecom, automobile, shipbuilding	Electronics, ICT, instruments	High-tech products as electronics and telecom, pharmaceuticals. Financial services, entrepôt services	Machinery and equipment, automotive, chemicals	Machinery and equipment, automotive, chemicals	Diversified profile. IT and some services have on important position
Use of industrial policy instruments	Strong	Strong	Strong	Moderate	Moderate	Weak
Innovation policy and innovation capability(rankings)	Well-developed (16)	Well-developed (14)	Well-developed (8)	Average (32)	Average (34)	Average (30)
Level of education	Very high	Very high	Very high	High	Moderate	High
Business sophistication index (rankings)	High (24)	Very high (15)	Very high (17)	Low (58)	Moderate (38)	Low (51)
Level of unemployment in the past decade	Low (below 5%)	Low (below 5%)	Very low (approx. 2%)	High (above 10%)	Moderate (6–7%)	Relatively high, fluctuating (approx. 10%)
Population income level differences (Gini)	High (42%)	Moderate (34%)	High (47–48%)	Low (24%)	Moderate (31%)	Moderate (31%)

At the same time, especially when observing a longer time period, a gradual “shifting” of the development models’ individual parameters, including those of key importance, can be noticed. While a low level of income differences in the society was considered one of the typical features of Taiwan and South Korea in the 1970s-1980s, it is no longer so at present. It is nevertheless remarkable that all three East Asian countries have managed to keep their unemployment levels very low in the latter period, despite changes like giving up life-time contracts in South Korean large firms and Taiwan’s loss of a significant share of jobs to mainland China.

6. Region *vs* Region: Similarities and Differences Between Development Models

Similarities

Both groups of countries represent strongly export-oriented economies. Although these are typical modern service economies, the share of industry in GDP is actually higher in comparison with other developed economies, especially in case of South Korea and the Czech Republic. With the exception of South Korea, which could be considered a medium-size economy, the rest are small economies with highly limited capability of domestic markets to balance the disturbances caused by foreign markets. When observing the period as a whole one could argue that all economies involved in the study have managed to create a balanced macro-environment necessary for investments and normal economic development; the ratings of its quality are quite close in all cases. Yet as export-oriented economies they are strongly dependent on the state of foreign markets. Its deterioration, especially in case the negative effect of some further factor should be added, can deteriorate the economic environment quite suddenly. However, as the experience of the Asian crisis and the latest global economic crisis show, they have nevertheless managed to overcome such situations relatively rapidly.

Although the economic growth rate of the countries under observation has been closely linked to the international market situation and growth in their primary export markets, their growth rate throughout the period as a whole has outpaced the international background. Fastest economic growth in that period was displayed by Estonia, while the growth rate of Slovenia could also compete with those of the East

Asian threesome. It has to be admitted, however, that the EU support financing played some role in their economic growth during the second half of the period.

Both the CEE and East Asian countries included in the sample are characterised by high education level of the working population and high assessments of education quality. This applies, with some nuances and differences as to the countries, to basic, secondary and university education. It is worth reminding that at the time when the East Asian countries started their economic success story, their education indicators were not at all high. While the education level in the CEE countries has been historically high, it has been growing in the East Asian countries parallel with the economic growth process.

When comparing the situation in the first and second half of the study period, a convergence of some features of both groups' development models can be observed. While the economic models of two East Asian countries, South Korea and Taiwan, could be considered strongly state-centred at the beginning of the period, these countries have undergone some liberalisation during the period. As of now, according to the summary indicator of the Index of Economic Freedom, rather than any individual indicator, all the East Asian countries covered by the study (together with Estonia and the Czech Republic, but not Slovenia, whose corresponding index has deteriorated lately) can be clearly included in liberal economies, enjoying greater freedom than majority of the EU countries.

While the countries of the East Asian region under observation clearly stood out at the beginning of the period as to their greater deposits and investments in fixed assets as share of GDP, such wide gap no longer exists. While one could state regarding the beginning of the period that the export of the CEE countries in the study was greatly directed at neighbouring markets and that of the East Asian countries in the sample mainly at the remote markets, the present analysis of those countries' dominant export partners no longer displays a noticeable difference. Yet the reason for the vanishing of the difference is not the expanding export geography of the CEE countries, but the increasing share of the PRC as the target market of East Asian countries' export, especially since the beginning of the international economic crisis. The export of all countries under observation basically depends very strongly on one or two dominating target markets. In case of the Czech Republic and Slovenia this is Germany, in Estonia's case Sweden and Finland and in the East Asian export tigers' case the PRC (especially if the latter is viewed together with Hong Kong).

Differences

On the other hand, there are quite noticeable differences, which do not allow discussing a common success model of the East Asian and CEE countries.
An inevitable collateral effect of catching up is the economies becoming more costly. Continuing successful exporting at more expensive production input requires elevation to a higher value added level, production of more sophisticated, innovative and expensive output and selling it directly to the end user whenever possible. The East Asian countries are clearly more successful than the CEE trio in that respect and have also created greater potential for further development of these activities in the future. International comparative studies use as the assessing instruments two synthetic indicators: the innovation potential index and the business sophistication index. The latter essentially reflects the positioning of the country's firms in the international value creation chains: focusing on unique operations, sophistication of business models and processes, existence of local supplier networks, control over distribution channels, the establishment of local clusters. The countries of the East Asian trio are, judging by the innovation potential index, usually among the top ten of the world. Small countries find it hard to compete with large ones in business sophistication. The world's leading nations in that respect are the great economies like the USA, Japan and Germany, although the positions of our East Asian threesome in these rankings are not at all bad. The innovation potential ratings of the Czech Republic, Slovenia and Estonia are better than those of the other CEE region countries, but remain significantly below those of the leading nations. The situation with business sophistication is worse still. The indicators are low all over the CEE countries and show no sign of improving. The low position in the value chain obstructs the actual implementation and effect of both educational and research levels and the innovation potential (Terk et al, 2013).

The higher level a country's economy occupies, the greater is the role of the universities' potential in continued economic growth. Although the universities of the CEE threesome hold relatively strong positions to the region's general background, their level is significantly lower in comparison with the top universities of the East Asian trio, which can compete with the world's leading players. This holds especially true regarding technological higher education.

Although, as we pointed out above, the three East Asian countries display a tendency towards liberalisation, movement towards greater consideration of marker regulation, their economies nevertheless differ from the CEE countries' ones as to the greater role of the state in the direction and regulation of long-term economic development as well as the general aspiration to coordinate the actions of economic agents in advance rather than to rely on ex-post regulation working via the market. The East Asian countries correspond even now to the definition of developmental state (see …) Yet the mechanisms implementing the developmental functions are quite different in all three East Asian countries.

The above is closely related to the issue of the grade of "strategicity" of state-level development planning. It is characteristic of the East Asian countries to base their development policy on ambitious strategic visions, which aim at strengthening the country's geopolitical positions and /or creating new competitive advantages in the international business environment, For instance, the APROC programme (APROC-Asia-Pacific Regional Operations Centre) developed in Taiwan in the late 1990s, which involved not simply plans for strengthening Taiwan's positions as a high-tech manufacturing centre (Taiwan as a "science and technology island"), but turning it simultaneously into maritime and air transport, off-shore banking, telecommunication and media centre and creating leverage between these different functions. The key issues of the "Singapore 21" programme included "knocking at global and regional firms' doors" for finding new capital, technologies, ideas and markets and attracting the HQs of international business leaders to Singapore, but also further development of the existing value chains and promoting the globalisation of business based on domestic capital. It is clear that the realisation of such ambitions goals requires the championing activity by the state, cooperation between firms and their close cooperation with the state institutions. The development of such visions and development planning as a whole need not remain within the framework of state bureaucratic practice; it has involved the launching of broader discussions of socially and culturally sensitive issues like, in Singapore, the extent of desirable immigration, the balance of domestic and foreign entrepreneurship, the need for “creativity import” or conflicts over values between generations and the opportunities for considering these values.

In case of the three CEE countries we can discuss significantly less visionary and more technical development planning, which involves no ambitions or visions for major development leaps, strategic shifts and changes in the positioning of the country’s economy; instead the plans concern the development of individual aspects of economy along the traditional established lines of the European Union: balancing the macroeconomic environment, developing infrastructures, supporting small business etc. The limiting factors are, on the one hand, the shortage of budget resources for carrying out major strategic manoeuvres (the lion’s share of the budget is tied up in funding the tasks set by legislation, including social spending), and on the other hand, the need to consider the possible financing from the EU structural funds, its goals and rules. As it is, the structural funds have become for the new member countries a main source for making major strategic investments. As a result, the strategic development materials no longer reflect the country’s development vision, its specifics, but rather development goals forced into a standardised format, which have prospects for finding EU financing during any given period.[5]

It can also be argued that the concept of the role of the state in the CEE countries predominantly remains in the limits of an eliminator or compensator of market failures, while developmental functions transcending these limits are rarely accepted. It is true that the concept of a market failure eliminator contains the state’s activities in supporting R&D and the vertical-type innovation policy, e.g. in distributing development grants among high-tech small firms regardless their field of activity. On the other hand, horizontal innovation policy for the development of certain new business sectors or supporting some kind of export are “grey areas” at best, where involvement could result in accusations of violating market economy dogmas or even the competition regulations established by the EU. Thus industrial policy, at least in the

[5] The above obviously does not mean a total absence of more radical visions related to economic development in the CEE countries. For example, in the first half of the period under observation discussions in Estonia involved a vision of the country as an international transit gateway and the “Test site Estonia” idea, advanced by technical scientists and entrepreneurs. Yet in either case we can talk only about a “one-idea vision” rather than a complex development vision for the country as a whole and neither proposal turned into a central idea for national development strategy.

more openly liberal CEE countries, has not become one of economic policy key-words, unlike the East Asian countries.

A central parameter of the development model – the share of GDP redistributed via taxes – is cardinally different in the East Asian and CEE threesomes. While the indicator remains between 16-17 percent in Taiwan and Singapore (true, it has reached 25 percent in South Korea), it amounts to more than 40 percent of GDP in the Czech Republic and Slovenia. Since the East Asian countries do not spare budget resources for economic development, it is obvious that supporting economic development in the countries of the region largely occurs on account of welfare spending. Whether the gap in the welfare systems is actually as wide as the statistics show is of course arguable. As Kim (Kim, Pil Ho, 2010) shows in his article, a part of the welfare spending in East Asian countries is met not only by individuals or their families, but also by firms or the state provides disguised forms of subsidies to the population. In any case the financing of welfare costs by the state in the East Asian countries has been shifted to the orphan’s role compared to other priorities. If their priority should significantly increase, this could strongly influence the whole situation in these countries.

What could be said about the **future prospects** of either region’s development models, which have so far brought success to them? Regarding the East Asian three, it can be claimed that besides achieving remarkable economic growth, they have also created a very strong potential for further progress in the shape of high-level universities, high innovation capability and remarkable level of business sophistication. Problems could arise with long-term retention of the developmental state features favouring economic growth in an environment of political rivalry between political parties, typical of a pluralistic society, and in a situation, where social (welfare) spending must inevitably increase (partly due to the fact that the share of compensating mechanisms not entirely suitable to market economy is declining). Nor is it clear whether the national social mobilisation tools, aimed at long-term goals and favouring corresponding compromises, will keep operating as efficiently as previously. Since the successful development models of the CEE countries are more heterogeneous than the East Asian ones, it is more difficult to advance a generalising hypothesis about their future. It seems that the main problem will be the issue of whether they can rise in the international economy to performing higher value added functions in an environment of probably rising costs. There are certain premises regarding the education and innovation potential, although these cannot be compared with the East Asian ones, but the relatively weak position of the leading CEE countries in the international value chains gives reasons for concern. The situation has shown no signs of improvement in recent years. It is not certain that Slovenia and the Czech Republic, which have created expensive welfare systems, will be able to retain them. Considering the more individualistic mentality compared to East Asia, the CEE countries various elite groups will certainly find it more difficult to agree on long-term development strategies and priority fields of investment necessary for promoting future economic growth.

Whether the rapid economic growth of the CEE three or its individual countries could continue after the exhaustion of its initial factors – the initial effect of entering open market economy from the basis of low production costs and the impact from EU accession – or whether they can create economic growth engines required for continued success, remains open for the time being.

When attempting to guess the direction of development of the governance model in the countries under observation, we can use the classification proposed by Claus Offe (C. Offe 1975), which differentiates between three forms of public policymaking: rule-based bureaucratic decision making, goal-oriented public planning and participatory governance. Let us try to adjust this classification to the situation of the catching-up countries. As experience has shown: bureaucratic routines are unsuited for complex public programmes requiring the mobilisation of diverse resources and commitments. Purposive actions require acceptance of goals as well as social and fiscal costs. Democratic participation tends to generate demands that are inconsistent with capital accumulation and is prone to politicise the process of administration. Which combination of these three variants is possible and preferable in a country strongly depends on cultural background and path dependence. If we presume that the first option would be insufficient for the CEE countries for maintaining high economic growth and narrow focusing on the development of competitiveness elements specific to an individual country would be needed, we should find ways and suitable forms for linking goal-oriented approach to greater involvement of various stakeholders and the public. This need not be easy, but it is necessary. Considering the peculiarities of history and culture, the options of development models suitable for the CEE countries should probably contain a larger share of horizontal rather than vertical coordination when compared to the East Asian countries. This was at least shown by the results of a survey of economic, political and cultural elite carried put in Estonia in early 2013; it appeared that the respondents wanted significantly more focused and goal-oriented governance, yet not the corporatist or state-centred version, but the option involving the wider public (Estonia…2013)

References

2013 Index of Economic Freedom, The Heritage Foundation.

Alesina A. A.; La Ferrara E. (2005) Etnic Diversity and Economic Performance. Journal of Economic Literature, vol XLIII, sept,pp 762-800.

Amable, B. (2003) The Diversity of Capitalism. Oxford, Oxford University Press.

Amsden, A.H. (1989) Asia's Next Giant: South Korea and Late Industrialization, New York and Oxford, Oxford University Press.

Botez, M. C.; Celac, M. (1986), Undesirable Versus Desirable Societies, Technological Forecasting and Social Change, Vol.30, pp. 50–91.

Buchen, C. (2007) Estonia and Slovenia as Antipodes, in: Varieties of Capitalism in post-communist countries.

Chang, H-J. (2001) Kicking Away the Ladder. Development Strategy in Historical Perspective. Anthem.

Capannelli C. (2008) Asian regionalism: How does it compare to Europe`s? East Asia Forum Papers.

Comisso, E. (1998) Implicit Development Strategies in Central East Europe.

Damian and Knell (2005) How important is Trade and foreign ownership in closing the Technology Gap. Evidence from Estonia and Slovenia. "Review of World Economics", 141, 271-95.

Drahokoupil, J. (2007) Political support of competition state inthe Visegrad Four: The comprador service sector and its allies. Garnet Working Paper No. 22/07.

Estonia in the world. (2013) Estonian Human Development Report 2012/2013. Tallinn.

Gerschenkron, A. (1962) Economic Backwardness in Historical Perspective: A Book of Essays, Cambridge, MA, Belknap Press of Harvard University Press.

Hall, P. A.; Soskice, D. (2001) Varieties of Capitalism.Oxford, Oxford University Press.

Hermes, N. (1997) New explanations of the economic success of East Asia.Lessons for developing and Eastern European countries. June 1997 Thorbecke, Erik & Henry Wan Revisiting East and South Asias Development Model.

Irfan ul Haque (2007) Rethinking industrial policy, UNCTAD.

Gaidar, J. (1997) Anatomija ekonomitseskogo rosta, Moscow, Yevraziya.

Johnson, C. (1982) MITI and the Japanese Miracle. The growth of Industrial Policy, 1925–1975, Stanford, CA, Stanford University Press.

Kim, Pil Ho (2010) The East Asian welfare state debate and surrogate social policy: an exploratory study on Japan and South Korea, Socio-Economic Review, 8, 411–435.

Kuusk, K. (2012). Eksperimenteeriv majanduspoliitika. Tallinn: Estonian Development Fund.

Lane, D.; Myant, M. (2007) Varieties of capitalism in post-communist countries. Palgrave, 278 p.

Либман А. **М**. (2007). Фискальная политика в условиях глобализации. Информационное-аналитический бюллетень ЦПГИ ИЭ РВН No 4 2007.

Molitor, G.T.T. (2008) Visionary National Economic Planning. Plans, Potentials and Progress. Journal of Futures Studies, May 2008, 12 (4) pp. 93-108. Singapore, Coherent and integrated national planning.

Myant, M., The Czech Republic. From “Czech” Capitalism to”European” Capitalism.

Norkus, Z. (2012) On Baltic Slovenia and Adriatic Lithuania. A qualitative comparative analysis of patterns in post-communist transformation. Apostrofa & CEU Press, Vilnius, 375 p.

Offe, C. (1995) Berufsbildungreform. Eine Fallstudie über Reformpolitik, Suhrkamp, Frankfurt

Palan, R.; Abbot, J.; Deans, P. (1999)., State Strategiesin the Global Political Economy, Pinter, London & NY.

Pascha, W. (2004) Economic integration in East Asia and Europe. A Comparison.

Pinto, H.; Tiago Santos Pereira (2013) Efficiency of innovation Systems in Europe: An Institutional Approach in the Diversity of National Profiles. European Planning Studies, Vol. 21, No 6, pp 755-779.

Porter, M. (1990) The Competitive Advantage of Nations, London, Macmillan.

Rodrik, D. (2004), Industrial Policy for the Twenty-first Century, CEPR discussion paper 4767.

Sarel, M. (1996) Growth in East Asia. What we can and what we cannot infer. IMF, sept 1996

Sharma, R. (2012) Breakout Nations. In Pursuit oft he Next Economic Miracles. W.W. Norton, NY, London

Sorensen, G. (2004) The Transformation of the State. Beyond the Myth of Retreat.Palgrave, 213 p.

Stark, M. (2010) The East Asian development state as a reference model for transition economies in Central Asia.

Terk, E.; Männik, K.; Lassur, S. (2013) Innovation. In: Estonia in the world. Estonian Human Development Report 2012/2013. Tallinn.

Török, A. *et a*l (2013) The "resurrection" of industrial policy in the European Union and its impact on industrial policy in the New Member Countries. European Commission Working Paper No. 26.

Wade, R. (1990) Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization, Princeton, NJ, Princeton University Press.

We Need Coherent Vision of our Future. Interview with Dr. Peter Kraljic. The Slovenia Times. 2012, Volume 10, pp 8-9.

Woo-Cumings, M. (1999) The Developmental State, Cornell University Press.

Appendix 1. Openness, social cohesion and the ghost of state activism – the dilemmas of Estonian elite anno 2013

Estonia's economy already has turned into an example of liberal capitalism, which is attracting even some international interest. Yet the outcomes of this Weberian-Friedmanian model as designated by the Lithuanian researcher Z. Norkus, are contradictory. As shown by a survey (Estonia in the world, 2013) carried out in the beginning of 2013 among different groups of Estonia's elite (economic, political, cultural, scientific elite), these groups , which generally rated Estonia's development of the past 20 years as successful, are concerned, among other problems, about the declining competitiveness of economy, insufficient rate of technological development, vague focusing of state policies on the solving of priority problems, but also the increasing income difference gap. Are the representatives of the Estonian elite looking for the developmental state model known from East Asia and would that mean turning away from economic openness?

In order to understand better the mental world of the respondents, sociologists have constructed on the base of answers to various questions two general indices – an index of satisfaction with the preceding trends and an index of openness.

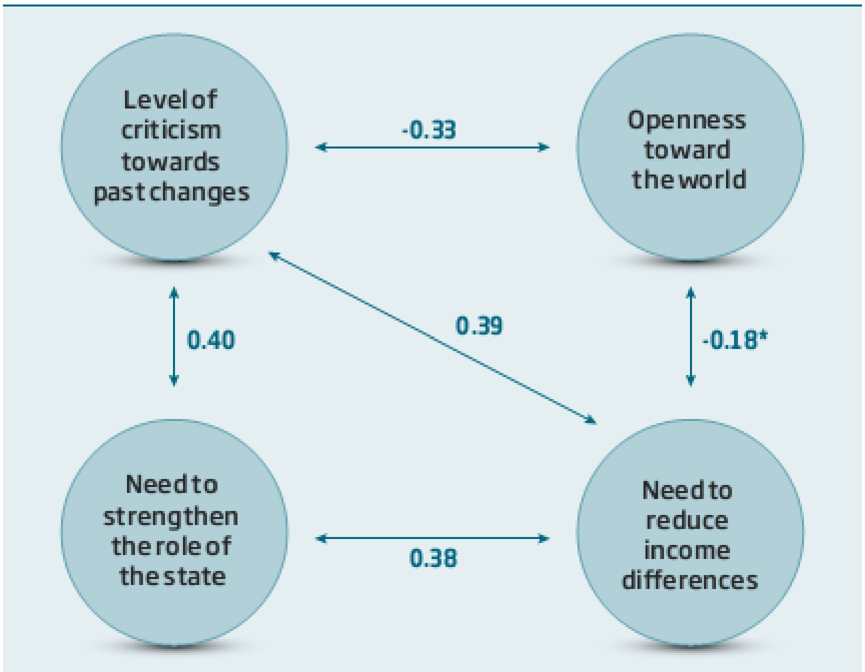


Figure 2. Links between important development parameters (based on estimations of elite groups' members)

Fig. 2 shows how these two composite indicators relate – firstly, to the idea of reduction of income differences as a precondition for successfully coping with globalisation, and secondly, to the respondent's wishes to strengthen the role of the state in various spheres of activity.

Do the correlations of Fig. 2 confirm the cliché about the contradiction between the people who are rejecting global trends, disappointed in market economy developments to date and supportive of an increased role for the state; and, on the other hand, the people with open views who are satisfied with the market economy reforms and supportive of the strengthening of the state's role? Actually, they do not. Based on the figure we can conclude that the desire to strengthen the role of the state is associated with a critical attitude toward the development, which has taken place, as well as an inclination to consider the reduction of income differences to be important; but the openness index has no statistical connection to the idea of strengthening of the state's role (nor with the desire for more focused policies).

Considering the significance of the aspiration for openness and the equalisation of incomes as broader indicators, let us take a closer look as the connection between the two attitudes. When combining these two indicators, the respondents were divided in four groups:

- A – the "globalists" (support Estonia's continued integration into global economy and the EU), who support the reducing of the income gap – 37% of the respondents;
- B – the "globalists", who reject the need for reducing the income gap – 33% of the respondents;
- C – the "Estonia-centred" supporters of income gap reduction. They are critical of integration with the world and the EU, as well as support the reduction of income differences – 23% of the respondents.
- D – the "Estonia-centred" rejecters of income gap reduction. They are not happy about the policies, which promote globalisation or income equality – 11% of the respondents.

The „globalists" favouring the income gap reduction include an above-average share of scientists and below-average share of politicians, whole the group of „globalists" rejecting income equalisation has a greater representation of economic elite and especially entrepreneurs. We find a large number of cultural figures, but also politicians among this Estonia-centred group, which favours income equalisation. Yet of both cultural figures and politicians a minority (less than a third) belong to the above group. Among the economic elite this combination of attitude is clearly unpopular.

The groups A and C tend to favour increasingly the role of the state, more than the others do. Both of these groups very strongly support increasing the role of the state in regional policies and the promotion of educational activities. Group C, characteristically, places greater emphasis on the role of the state in social security, in the organisation of ethnic relations and in health care policies, but also in the development of economic structures. For this part of „globalists”, who favour equalisation, the corresponding spheres of activity are the promotion of innovation, migration control and the improvement of the environment. The “globalists” who reject income equalisation also indicate less than average support for increasing the role of the state in the spheres of activity under observation. However, more than 50% of them still support the strengthening of the state’s role in regional development and the organisation of education.

Ordnungspolitische Diskurse
Discourses in Social Market Economy

2007 – 1	Seliger, Bernhard; Wrobel, Ralph – Die Krise der Ordnungspolitik als Kommunikationskrise
2007 – 2	Sepp, Jüri - Estland – eine ordnungspolitische Erfolgsgeschichte?
2007 – 3	Eerma, Diana; Sepp, Jüri - Competition Policy's Role in Network Industries - Regulation and Deregulation in Estonia
2007 – 4	Claphman, Ronald - Welche Bedeutung haben nationale Wirtschaftsordnungen für die Zukunft der EU? Der Beitrag der sozialen Marktwirtschaft
2007 – 5	Strunz, Herbert – Staat, Wirtschaften und Governance
2007 – 6	Jang Tae-Seok - South Korea's Aid to North Korea's Transformation Process - Social Market Perspective
2007 – 7	Libman, Alexander - Big Business and Quality of Institutions in the Post-Soviet Space: Spatial Aspects
2007 – 8	Mulaj, Isa - Forgotten Status of Many: Kosovo's Economy under the UN and the EU Administration
2007 – 9	Dathe, Uwe - Wettbewerb ohne Wettbewerb? Über die Bedeutung von Reformen im Bildungswesen für die Akzeptanz der Wettbewerbsidee
2007 – 10	Noltze, Karl - Die ordnungspolitische Strategie des Landes Sachsen
2008 – 1	Seliger, Bernhard - Die zweite Welle – ordnungspolitische Herausforderungen der ostasiatischen Wirtschaftsentwicklung
2008 – 2	Gemper, Bodo Rheinische Wegbereiter der Sozialen Marktwirtschaft: Charakter zeigen im Aufbruch
2008 – 3	Decouard, Emmanuel - Das „Modèle rhénan“ aus französischer Sicht
2008 – 4	Backhaus, Jürgen - Gilt das Coase Theorem auch in den neuen Ländern?
2008 – 5	Ahrens, Joachim - Transition towards a Social Market Economy? Limits and Opportunities
2008 – 6	Wrobel, Ralph - Sonderwirtschaftszonen im internationalen Wettbewerb der Wirtschaftssysteme: ordnungspolitisches Konstrukt oder Motor institutionellen Wandels?
2009 – 1	Wrobel, Ralph - The Double Challenge of Transformation and Integration: German Experiences and Consequences for Korea
2009 – 2	Eerma Diana; Sepp, Jüri – Estonia in Transition under the Restrictions of European Institutional Competition
2009 – 3	Backhaus, Jürgen – Realwirtschaft und Liquidität
2009 – 4	Connolly, Richard – Economic Structure and Social Order Type in Post-Communist Europe
2009 – 5	Dathe, Uwe – Wie wird man ein Liberaler? Die Genese der Idee des Leistungswettbewerbs bei Walter Eucken und Alexander Rüstow
2009 – 6	Fichert, Frank - Verkehrspolitik in der Sozialen Marktwirtschaft
2009 – 7	Kettner, Anja; Rebien, Martina – Job Safety first? Zur Veränderung der Konzessionsbereitschaft von arbeitslosen Bewerbern und Beschäftigten aus betrieblicher Perspektive
2009 – 8	Mulaj, Isa – Self-management Socialism Compared to Social Market Economy in Transition: Are there Convergent Paths?

2009 – 9	Kochskämper, Susanna - Herausforderungen für die nationale Gesundheitspolitik im Europäischen Integrationsprozess
2009 – 10	Schäfer, Wolf – Dienstleistungsökonomie in Europa: eine ordnungspolitische Analyse
2009 – 11	Sepp, Jüri – Europäische Wirtschaftssysteme durch das Prisma der Branchenstruktur und die Position der Transformationsländer
2009 – 12	Ahrens, Joachim – The politico-institutional foundation of economic transition in Central Asia: Lessons from China
2009 – 13	Pitsoulis, Athanassios; Siebel, Jens Peter – Zur politischen Ökonomie von Defiziten und Kapitalsteuerwettbewerb
2010 – 01	Seliger, Bernhard – Theories of economic miracles
2010 – 02	Kim, GiEun - Technology Innovation & Green Policy in Korea
2010 – 03	Reiljan, Janno – Vergrößerung der regionalen Disparitäten der Wirtschaftsentwicklung Estlands
2010 – 04	Tsahkna, Anna-Greta, Eerma, Diana - Challenges of electricity market liberalization in the Baltic countries
2010 – 05	Jeong Ho Kim - Spatial Planning and Economic Development in Border Region: The Experiences of Gangwon Province, Korea
2010 – 06	Sepp, Jüri – Ordnungspolitische Faktoren der menschlichen Entwicklung
2010 – 07	Tamm, Dorel - System failures in public sector innovation support measures: The case of Estonian innovation system and dairy industry
2010 – 08	Clapham, Ronald - Wirtschaftswissenschaft in Zeiten der Globalisierung
2010 – 09	Wrobel, Ralph - Geldpolitik und Finanzmarktkrise: Das Konzept der „unabhängigen Zentralbank“ auf dem ordnungspolitischen Prüfstand
2010 – 10	Rutsch, Andreas; Schumann, Christian-Andreas; Wolle, Jörg W. - Postponement and the Wealth of Nations
2010 – 11	Ahrens, Joachim; Jünemann, Patrick - Transitional Institutions, Institutional Complementarities and Economic Performance in China: A ‘Varieties of Capitalism’ Approach
2010 – 12	Kolev, Stefan; Der bulgarische Weg seit 1989, Wachstum ohne Ordnung?
2011 – 1	Wrobel, Ralph – Energiewende ohne Markt? Ordnungspolitische Perspektiven für den deutschen Stromsektor
2011 – 2	Rõigas, Kärt – Linkage between productivity and innovation in different service sectors
2011 – 3	Sepp, Jüri – Institutionelle Innovationen im Infrastrukturbereich: Beispiel Post in Estland
2011 – 4	Effelsberg, Martin – Measuring absorptive capacity of national innovation systems
2011 – 5	Jänsch, Janina – Die Anrechnung natürlicher und anthropogener Effekte auf terrestrische Ökosysteme im Rahmen des Kyoto-Protokolls
2011 – 6	Platje, Joost – Institutional Change for Creating Capacity and Capability for Sustainable Development – a club good perspective
2011 – 7	Tamm, Dorel; Ukrainski, Kadri – Functional Approach to National Systems of Innovation: The Case of a Small Catching-up Country
2011 – 8	Nusser, Michael – Optionen zur Stärkung der Leistungsfähigkeit von Innovationssystemen

2012 – 1	Kolev, Stefan – Wider die „Après nous le déluge “-Logik. Ordnungspolitik, Innovation und Nachhaltigkeit.
2012 – 2	Varblane, Urmas - National Innovation Systems: Can they be copied?
2012 – 3	Reiljan, Janno / Paltser, Ingra - Struktur und Zusammenhänge des staatlichen Innovationssystems und der Innovationspolitik
2012 – 4	Lenz, Justus - Innovationssystem Internet: Eine institutionenökonomische Analyse der digitalen Revolution
2012 – 5	Chang Jai Chun - Erfolgsfaktoren für "Internationale Projekte"
2012 – 6	Gerl, Jörg – Global denken, lokal handeln: Gebäudesanierung als Beitrag zum Klimaschutz am konkreten Beispiel
2012 – 07	Seliger, Bernhard – Grünes Wachstum in Südkorea – Etikettenschwindel, Neo-Keynesianismus oder ein neues Paradigma der Ordnungspolitik?

2013 – 1	Wrobel, Ralph – Economic Models for New Industrializing Countries in Comparative Perspective
2013 – 2	Park, Sung-Jo – Developmental State in Korea (60-70ties) Revisited: Institution-Building for the Making of 'Coordinated Market'
2013 – 3	Reiljan, Janno & Paltser, Ingra – The Implementation of Research and Development Policy in European and Asian Countries
2013 – 4	Herman W. Hoen – Emerging Market Economies and the Financial Crisis: Is there Institutional Convergence between Europe and Asia?
2013 – 5	Kroos, Karmo – Developmental Welfare Capitalism in East Asia with a Special Emphasis on South Korea

2014 – 1	Joachim Ahrens, Manuel Stark - Independent organizations in author-itarian regimes: contradiction in terms or an effective instrument of developmental states
2014 – 2	Terk, Erik – Practicing Catching-up: a Comparison of Development Models of East Asian and Central-Eastern European Countries

Herausgeber:

Prof. Dr. Stefan Kolev - Erfurt
PD Dr. habil. Bernhard Seliger – Seoul
Prof. Dr. Ralph M. Wrobel – Zwickau

www.Ordnungspolitisches-Portal.de