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Strengths and Weaknesses of ‘Weak’ Coordination: Economic Institutions, Revealed Comparative Advantages, and Socio-Economic Performance of Mixed Market Economies in Poland and Ukraine

Vlad Mykhnenko

13.1. INTRODUCTION

My primary goal in this chapter is to explore and explain the major research questions that the nascent comparative political economy of post-communist Europe has been grappling with since the late 1990s, namely: ‘What type of capitalism has emerged in post-communist Europe?’ and, ultimately, ‘Does it work?’. In this I attempt to follow the research agenda formed around the VoC approach (Hall and Soskice 2001a; Amable 2003) and several attempted applications of the ‘comparative capitalisms’ framework to the study of post-communism (e.g. Lane 2000, 2005; Cernat 2002; Buchen 2004, 2005; Mykhnenko 2005a, 2005b). By using the VoC framework in particular, this chapter also intends critically to examine a question that concerns the suitability and applicability of essentially Western neoinstitutionalist theories of comparative capitalism for the study of post-communist phenomena.

On the basis of empirical evidence and comparative analysis of the two largest neighbouring political economies of Eastern Europe (Russia apart), I argue that, notwithstanding the worldwide neoliberalizing pressures, the changeable politics of post-communist transformation, and the unstable nature of Eastern European institutions, both Polish and Ukrainian national variants of capitalism can be described as mixed- or ‘weakly’ coordinated market economies (for definitional issues, see Hall and Soskice 2003, and the introduction to this volume). In spite of the prevailing perceptions and popular media praise given to post-communist nations for adopting a deregulated,

privatized, liberal type of capitalism, neither Polish nor Ukrainian political economy generally resembles the liberal market-based model. It is contended, however, that despite the apparent system-wise detachment of the Eastern European economies of Poland and Ukraine from the ideal types of a CME and, especially, of an LME, the institutional structures of the two post-communist countries are *not necessarily* of a 'low-level', 'dysfunctional', or 'suboptimal equilibrium' type.

On the contrary, I argue that the establishment in both countries of mixed market economies (MMEs or 'weak' CMEs) has correlated with a number of dynamic and positive macroeconomic and structural developments. Thus, this chapter challenges the dominant neoliberal discourse on the alleged inevitability of a one-way 'transition' to laissez-faire capitalism in post-communist Europe, as it attributes the dynamism of the two Eastern European economies not to their supposed approach to the free-market ideal but to the emergence of MMEs characterized by certain coherences and complementarities between the major institutional domains. Accordingly, I also question the validity of alternative assumptions and claims about the inescapably abnormal or impaired functioning of 'hybrid' market economies in Eastern Europe (and elsewhere).

This chapter proceeds by exploring the macroeconomic and social performances of the two Eastern European economies under post-communism and establishing the transformation's main trends with regard to economic growth, productive efficiency, social equity, and macroeconomic stability. It highlights a number of similarly positive (e.g. output growth) and negative (e.g. macroeconomic volatility) features in the transformation performance of Poland and Ukraine. The chapter also identifies a perplexing difference between the social outcomes of late post-communism in the two countries, described in the chapter as Poland's 'poverty paradox'. Consequently, in contrast with the dominant 'transition' paradigm that postulates the ever-deepening neoliberalization of post-communist economies, the chapter provides an alternative neoinstitutionalist explanation for the presented similarities and differences in the socio-economic performance of Poland and Ukraine. In the third part of the chapter, the main institutional features of the Eastern European economies of Poland and Ukraine are outlined and conceptualized within the (VoC) framework.

Fourth, concepts of institutional similarity and coherence (see Crouch 2005c; Morgan, Whitley, and Moen 2005) are used to discover how the emerging institutional forms of MMEs in Poland and Ukraine can account for the observed positive and negative performance similarities. To test my hypothesis, which attributes the observed similarities in the economic performance of the two countries to the emergence of (partially) coherent MMEs in Eastern Europe, the chapter explores potential linkages between the newly

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established institutions and structural change. It employs Bela Balassa's concept of 'revealed comparative advantage' (Balassa 1965) to examine what structural changes may have been generated by the newly established 'weak' CME system in the two countries.

Fifth, the chapter shows that Poland's poverty paradox and the apparent absence of it in Ukraine can be explained in terms of institutional complementarities and dynamic institutional breakaways experienced by the latter in the early 2000s. Finally, this chapter concludes with a discussion about the theoretical implications of explaining the post-communist phenomena through the VoC approach. It emphasizes the existence of exogenous shocks and influences which have had a profound effect on the performance of the two Eastern European economies but which lie outside the VoC analytical framework. The scope of this chapter is limited to the comparative analysis of two national political economies of Eastern Europe in the early 2000s and their general socio-economic performances between 1989 and 2006. The issues related to the politics of why and how such MMEs have been constructed in Poland and Ukraine are not addressed in great detail.

13.2. ESTABLISHING THE PERFORMANCE TRENDS

During the Cold War a considerable degree of consensus was established in the literature on 'comparative economic systems' with regard to specific criterion that can be applied to evaluate the performance of different economic systems. Four fundamental 'system goals' of economic growth, efficiency, equity, and stability (of growth, employment, and prices) since then have encapsulated the investigative domain of economists interested in comparing capitalism with state socialism (cf. Schnitzer and Nordyke 1971; Elliott 1973; Zimbalist 1984; Bornstein 1985; Gregory and Stuart 1999). This chapter uses the above set of traditional performance criteria to capture potential similarities and differences in the outcomes of systemic transformation in Poland and Ukraine. As we are interested in the process of capitalist reconstruction and the reintegration of post-communist Eurasia into the world economy, a number of relevant structural indicators have been added to examine the success of the two Eastern European economies in the continuous pursuit and accumulation of profit through trade and investment—the essence of capitalism according to the classics of political economy and economic sociology.

13.2.1. Post-Communist Transformation Trends: Old and New

A number of basic stylized facts have already been established in the literature about the macro- and microeconomic performance of post-communist

countries in the initial transformation period described by various authors as the 'Great Post-communist Depression', 'great transitional recession', or 'great output contraction' (e.g. Kołodko 1999a, 2000, 2002; De Broeck and Koen 2000; Rosefelde and Kuboniwa 2003). The following seven stylized facts of the first ten years of transformation (1989–98), put together by Nauro Campos and Fabrizio Coricelli, summarize everything about: 'what one should know about growth in transition: (a) output fell, (b) capital shrank, (c) labour moved in all senses, (d) trade re-oriented, (e) the economic structure changed, (f) institutions collapsed, and (g) transition costs (i.e. the sharp deterioration of various social indicators) appeared' (2002: 37). All the post-communist economies experienced these 'magnificent seven' developments, yet the magnitude of output collapse differed across Central and Eastern Europe and central Asia. As has been frequently emphasized in the literature on 'transition economics', Poland has experienced the shortest period of output decline and the country's transformation was characterized by the fastest recovery and the longest period of growth among the twenty-seven post-communist countries, whereas Ukraine's GDP performance was ranked by the international financial institutions among the worst—the third from bottom, above that of Moldova and Georgia respectively (EBRD 2005: 13; cf. Kolodko 1999b: 2; World Bank 2002: xiii–xv).

It has successfully been argued elsewhere that most of the difference between the initial output performance of Central and Eastern Europe compared with the former USSR is explained by: the inherited structural liabilities and exogenous 'transition shocks' caused by the collapse of state socialism and the communist trade bloc; the disintegration of the Soviet Union; and the associated effects of disorganization and trade implosion (Calvo and Coricelli 1993; Blanchard 1997; Blanchard and Kremer 1997; Roland and Verdier 1999; Campos and Coricelli 2002; Bezemer, Dulleck, and Frijters 2003). Given that the focus of this chapter is on the emergence, development, and functioning of capitalism in Eastern Europe, our primary concern here is with the second, 'post-depression' growth and recovery phase of the post-communist transformation, which occurred well after the initial exogenous transition shocks were settled.

13.2.2. Growth, Efficiency, and Trade Integration

It is contended that the second phase of transformation in post-communist Europe can be characterized by the following new set of facts: (a) output grew, (b) the labour force shrank, (c) capital increased, (d) enterprise efficiency improved, (e) foreign trade expanded, (f) institutions were rebuilt,

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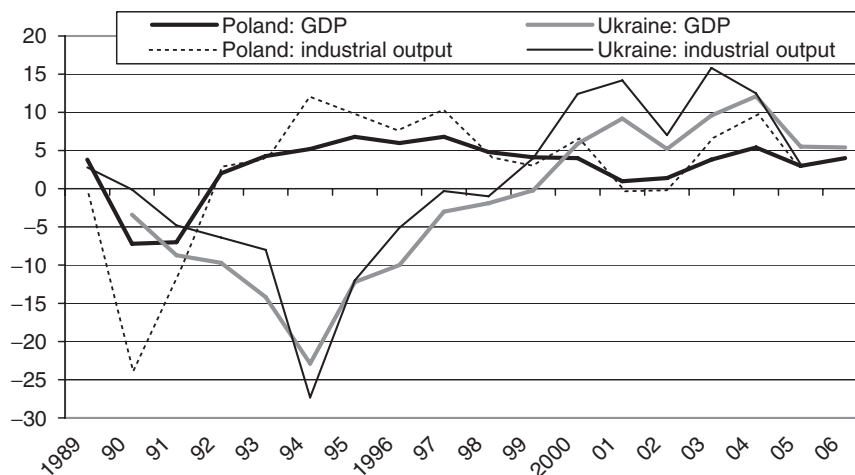


Figure 13.1. Real GDP and industrial output annual growth rates, percentage, 1989–2006

Note: 2005—preliminary data and 2006—forecast.

Source: IMF World Economic Outlook Database (2005), *GUS Statistical Yearbook* (various years), GUS Statistical Information Database (2005), *Derzhkomstat Statistical Yearbook* (various years), and Derzhkomstat Statistical Information Database (2005).

(g) transition costs fell, (h) positive structural changes appeared, and (i) macroeconomic volatility decreased but remained. Poland was the first post-communist country to enjoy these more encouraging developments by the first half of the 1990s. Yet by the end of the first transformation decade the overwhelming majority of post-communist nations had returned to growth.

Figure 13.1 shows annual changes in Poland's and Ukraine's real GDP and industrial output between 1989 and 2006, whereas Figure 13.2 presents real GDP volume index growth trajectories of the two countries for the same period. In addition, Figure 13.2 contains the national GDP per capita figures in US dollars on the basis of PPP. Notwithstanding the differences between GDP and real income evaluations presented, and between the timings of economic recovery, the overall upward growth trend enjoyed by both Poland and Ukraine in the second phase of transformation is evident. In real income terms, Poland's GDP at PPP grew by more than 2.5 times from its lowest of \$5,594 per capita in 1991 to about \$14,300 in 2006. Ukraine's post-depression recovery has been slower in volume index terms. However, the country's GDP at PPP still grew by 2.1 times from \$3,700 per capita in 1998 to about \$7,800 in 2006.

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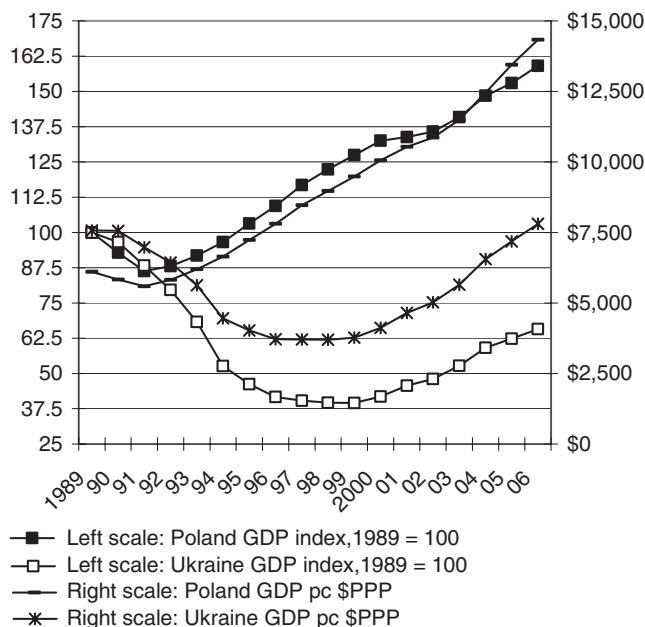


Figure 13.2. Real GDP volume index (1989 = 100) and real GDP per capita in \$PPP, 1989–2006

Note: 2005—preliminary data and 2006—forecast.

Source: Own calculations on the basis of IMF World Economic Outlook Database (2005).

The post-depression phase of transformation in the two Eastern European economies was characterized by significant efficiency improvements, as suggested by growing productivity and positive enterprise pre-tax profit rates. Figure 13.3 indicates continuous increases in labour productivity in Poland since 1992 and in Ukraine since 1997. Another indicator of efficiency concerns enterprise profits. Given the frequent examples of tax evasion and avoidance practices supposedly used by Eastern European firms, the reported enterprise profit data presented in Figure 13.4 are of disputable quality. However, at least they suggest that the majority of Polish and (to a larger extent) Ukrainian firms remained profitable within the period concerned.

The capitalist values of profit accumulation through investment have also appeared to be taking hold of the two Eastern European economies. Figure 13.5 shows the capital investment volume indices as well as annual changes in investment activity in Poland and Ukraine between 1989 and 2005. Generally, both economies experienced sharp increases in fixed capital

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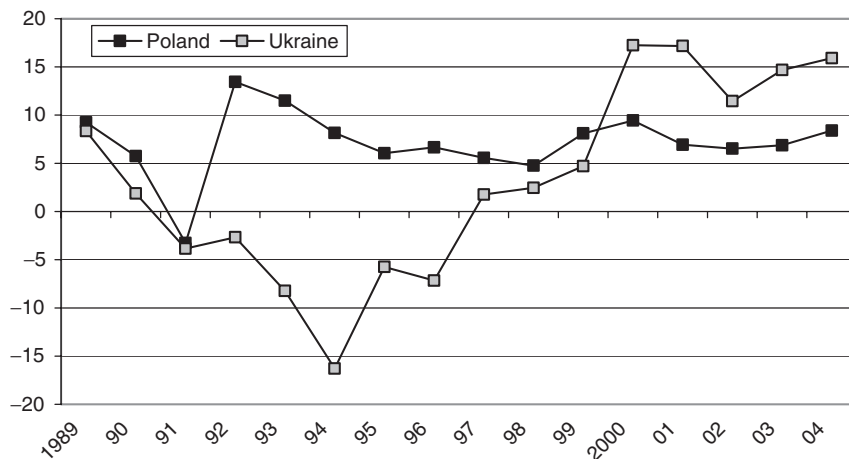


Figure 13.3. Labour productivity annual percentage growth (GDP in \$PPP per hired wage-earner/salaried employee), 1989–2004

Source: Own calculations on the basis of IMF World Economic Outlook Database (2005) and ILO Laboursta Database (2005).

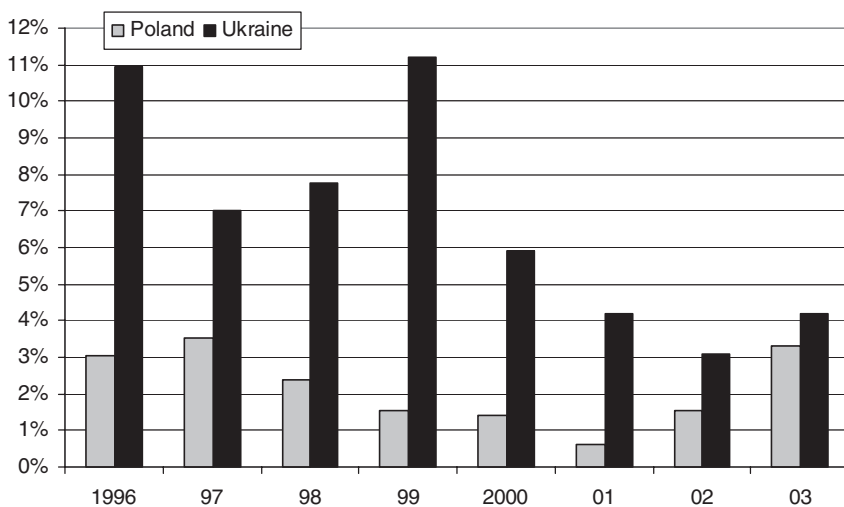


Figure 13.4. Gross enterprise annual profit rate (ratio of operating revenues to operating costs), 1996–2003

Source: Dezrkomstat Statistical Yearbook (various years) and own calculations on the basis of GUS Statistical Yearbook (various years).

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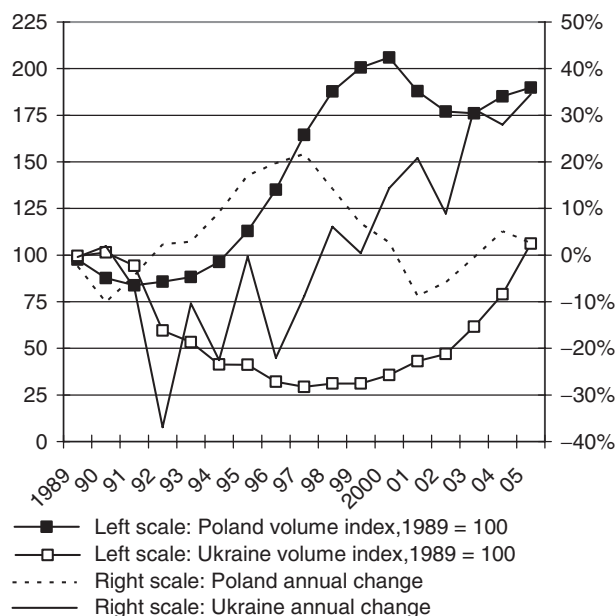


Figure 13.5. Capital investment volume index (1989 = 100) and capital investment annual growth, 1989–2005

Note: 2005—preliminary data.

Source: Own calculations on the basis of *GUS Statistical Yearbook* (various years), *GUS Statistical Information Database* (2005), *Derzhkomstat Statistical Yearbook* (various years), and *Derzhkomstat Statistical Information Database* (2005)

formation in the post-depression phase of transformation. However, the upward slope of investment activities in Ukraine was more stable, whereas the Polish economy suffered from a three-year-long period of investment decline, which began in 2001 in the aftermath of the 11 September terrorist attacks against the USA and the ensuing FDI slowdown.

In addition to the global FDI flows, the Polish economy has become more open to foreign trade. Figure 13.6 shows that the amount of Polish exports and imports of goods and services in comparison to GDP grew between 1992 and 2003 from 43 to 69 per cent, reaching the level of foreign trade dependence analogous to those of the average developing country in Africa and similar to the average Western European EU member-state. The Ukrainian economy’s increasing reliance on the global trade in goods and services has been even more dramatic: its share of overall foreign trade turnover to GDP increased from 72 per cent in 1992 to 116 per cent in 2003.

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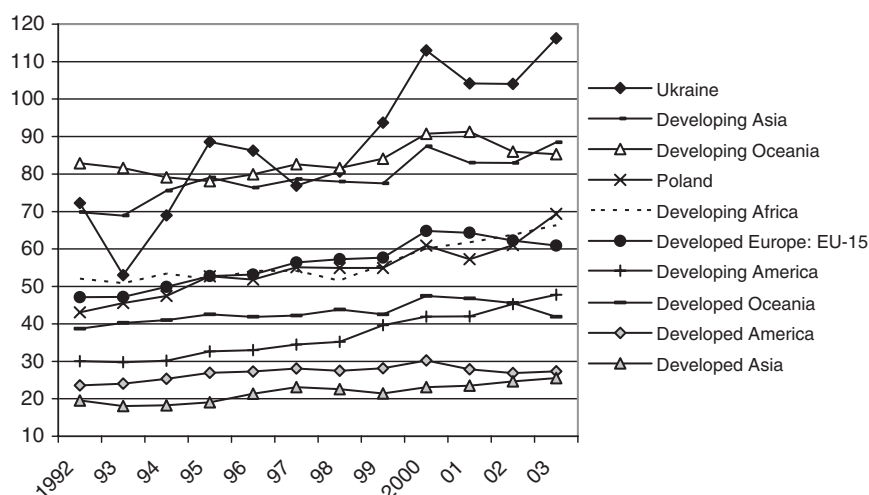


Figure 13.6. Foreign trade turnover (exports and imports of goods and services) as percentage of GDP, 1992–2003

Source: Own compilations and calculations on the basis of *UNCTAD Handbook of Statistics On-line* (2005).

13.2.3. Equity and Stability

The economic performance trends generated by both Eastern European economies since the late 1990s have been both similar and have shown certain signs of convergence. The continuous presence of macroeconomic volatility is another major similarity in the late transformation performance of the Polish and Ukrainian economies. Even in the second phase of transformation, neither Eastern European economy has managed to escape wide fluctuations in the rate of economic activity. As Figure 13.1 has indicated, levels of production in both Poland and Ukraine have remained very cyclical, especially in the latter. Figure 13.7 presents annual inflation rates of Poland and Ukraine between 1997 and 2006. It shows that Poland has generally managed to achieve relative price stability in the process of approaching the EU single currency qualification criteria: the average inflation rate in the country between 2002 and 2006 was about 2.2 per cent per year. In the same period, annual increases in the level of prices in Ukraine amounted on average to 8.3 per cent.

Poland's success in achieving relatively low fluctuations in the level of prices has been undermined by the country's lingering labour market instability. Figure 13.8 indicates that according to the national labour-force surveys, the average rate of unemployment (calculated on the basis of the International

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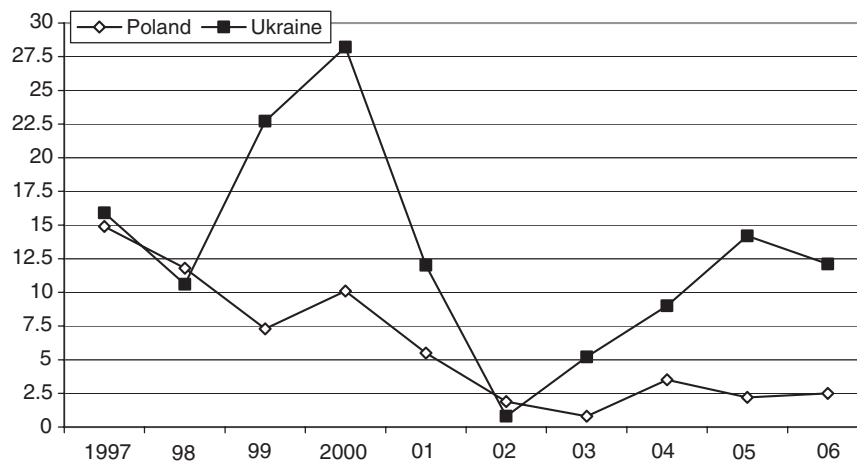


Figure 13.7. Inflation, annual percentage change, 1997–2006

Note: 2005—preliminary data and 2006—forecast.

Source: IMF World Economic Outlook Database (2005).

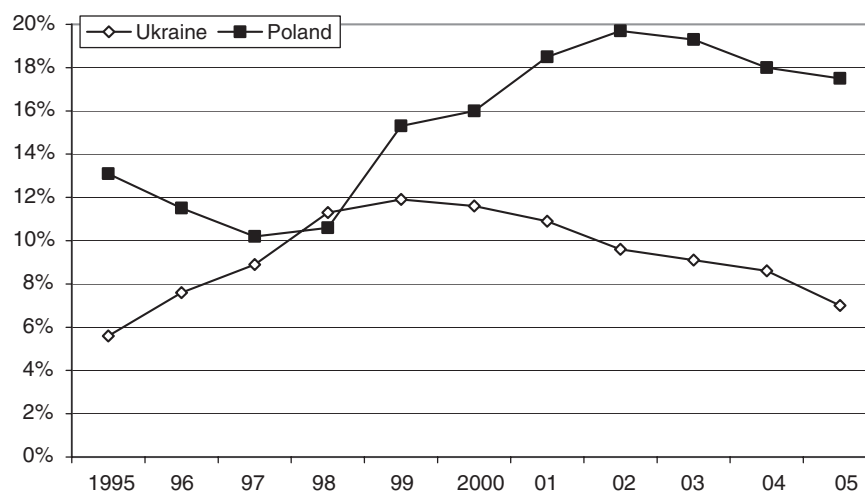


Figure 13.8. Real unemployment rate, share of active labour force (ILO methodology), 1995–2005

Note: 2005—2nd quarter figures.

Source: GUS Statistical Yearbook (various years), GUS Statistical Information Database (2005), Derzhkomstat Statistical Yearbook (various years), and Derzhkomstat Statistical Information Database (2005).

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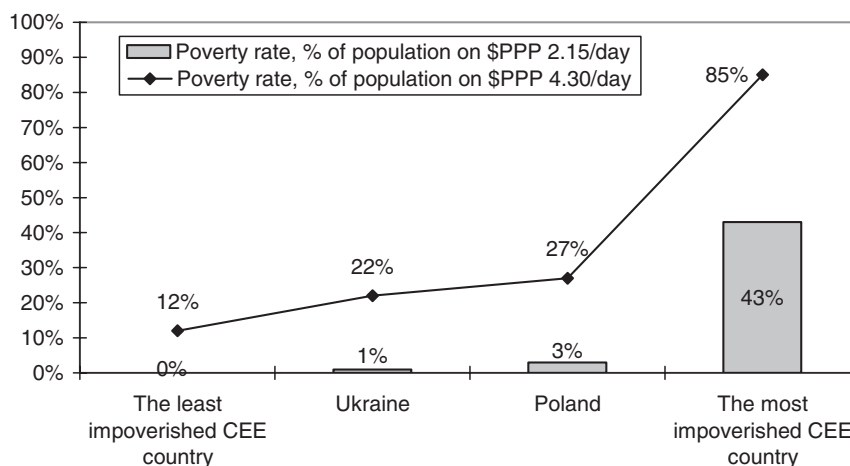


Figure 13.9. Absolute poverty rates, percentage of total population on \$PPP 2.15 per day and on \$PPP 4.30 per day, 2002–3

Note: The most/least impoverished post-communist country is ranked on the basis of all the available poverty indicators for the relevant year. Data exclude countries of Transcaucasia and central Asia.

Source: Asad et al. (2005: Appendix).

Labour Organization methodology) in Poland in the 2001–5 period amounted to 18.6 per cent of the workforce, which was more than double the Ukrainian average of 9 per cent. The fundamental dichotomy between the growth record of the Polish economy, considered to be the best in post-communist Eurasia, and the country's crisis of joblessness is emphasized further by what can be described as Poland's 'poverty puzzle'. Figure 13.9 shows a set of comparable and reliable household survey-based figures (verified by the World Bank), measuring absolute poverty in Poland and Ukraine in US dollars based on national PPPs. The first poverty line developed by the World Bank poverty team includes the percentage of total population with the level of consumption below \$PPP 2.15 a day. Figure 13.9 also includes a higher poverty line (\$4.30 a day), which, according to the World Bank authors, is 'a proximate vulnerability threshold to identify households that are not suffering absolute material deprivation, but are vulnerable to poverty' (Asad et al. 2005: 229).

To compare social deprivation in Poland and Ukraine with the wider region, Figure 13.9 contains poverty indicators for two Central and Eastern European countries which have the lowest and highest absolute poverty headcounts respectively.¹ Generally, the poverty indicators in both Poland and Ukraine indicate relatively low levels of absolute material deprivation and moderate

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levels of poverty vulnerability observed in the two countries during the latest available household surveys (in 2002 and 2003 respectively).² The most puzzling finding that emerges from the data presented in Figure 13.9 is that although both the lower and higher poverty rates in Poland and Ukraine are relatively similar: Poland's GDP per capita in the respective year was \$PPP 10,868, while Ukraine's GDP amounted to \$PPP 5,647 only. This brings us to the most fundamental difference between the 'second phase' social outcomes of the post-communist transformation in the two Eastern European countries: inequalities of wealth and consumption.

There are a large number of different indicators and assessments of levels of income and consumption inequality in the world (for a conceptual discussion of different principles behind income and consumption Gini coefficients, see UNI-WIDER 2005). Figure 13.10 contains comparable consumption Gini coefficients that can be used to assess temporal changes in consumption inequality in Poland, Ukraine in the early, middle, and late transformation phases. Figure 13.10 also presents the extremes of consumption equality and inequality observed in Eastern Europe in the 1990s and early 2000s. It appears that the initial rapid increase in consumption (and income)

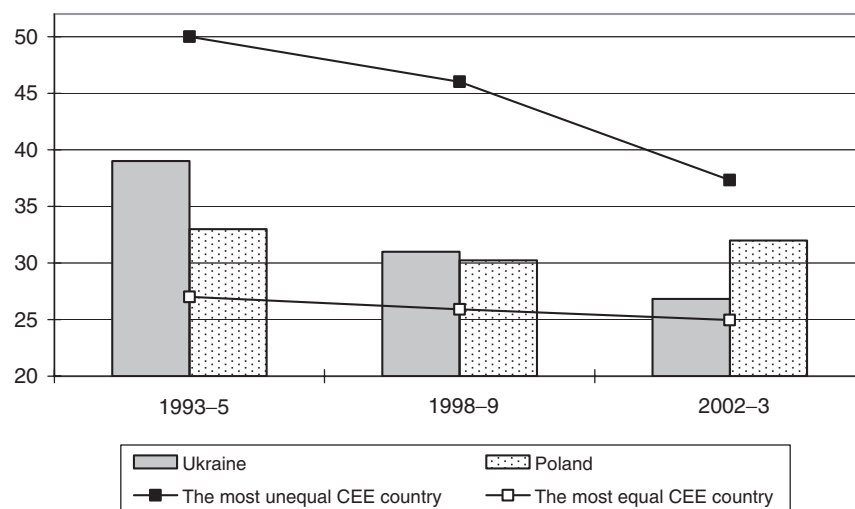


Figure 13.10. Distribution of consumption, national Gini coefficients in percentage points on a scale of 0 (perfect equality) to 100 (absolute inequality), 1993–2003

Note: The most un/equal post-communist country is ranked on the basis of all the available national Gini indicators for the relevant year. Data exclude countries of Transcaucasia and central Asia.

Source: World Bank (2000: Appendix D), Asad et al. (2005: Appendix), and WIDER World Income Inequality Database (2005).

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inequality in post-communist countries was followed by a general equalization of consumption distribution patterns across the post-communist region (for the presentation and discussion of this phenomenon, see Asad et al. 2005). Ukraine has been a trendsetter in this regard: the national consumption Gini coefficients were continuously dropping in the second half of the 1990s, as well as in the early 2000s. In sharp contrast with the overall regional tendency, the inequality in the distribution of consumption in Poland increased between 1998 and 2002. In a complete reversal of the early transformation patterns, by the early 2000s Ukraine found itself among the most equal post-communist countries, whereas Poland appeared to be among the most unequal in terms of the distribution of consumption.

Thus, the Polish 'poverty puzzle' has constituted a major difference between the socio-economic outcomes of the late transformation period in the two Eastern European countries. Poland's poverty paradox is directly and positively related to the country's chronically high levels of unemployment and growing inequality in wealth and income distribution. By contrast, by the beginning of the twenty-first century, the Ukrainian political economy has apparently managed to succeed in lowering unemployment, inequality, and poverty. Yet Ukraine's business and trade cycles have been even more pronounced than those experienced by its western neighbour. The next sections provide a critical neoinstitutionalist account for possible causes of the observed similarly positive growth and efficiency developments in Poland and Ukraine in the late 1990s–early 2000s, as well as of potential sources of the macroeconomic and social volatility experienced to a different extent by both post-communist political economies.

13.3. INSTITUTIONS AND THE TRANSFORMATION PERFORMANCE

In post-communist or 'transition' studies, as the title of the discipline itself suggests, positive and normative concepts and judgements are intricately entangled. Since the very beginning, post-communist studies have been characterized by a protracted clash of well-informed but often diametrically opposed opinions as to whether the transition/transformation is (or ultimately will be): a triumphant success (e.g. Sachs 1993; Åslund 1995, 2002, 2004*b*); a miserable but preventable failure (e.g. Galbraith 1990*b*; Nove 1990, 1993; Stiglitz 1999, 2002), an inevitable yet long-expected tragedy (Burawoy 2001*b*, 2001*c*), or something even more sinister (Gowan 1995, 1996). In addition to the individual author's perception of the end-result, the empirical

analysis of the post-communist phenomena has been highly dependent on the understanding by a particular observer and participant of what actually constitutes a modern successfully functioning market economy, or, alternatively, what a successful but non-capitalist post-communist order could have been like.³

13.3.1. In Praise of Free Enterprise: The Dominant Transition Paradigm

From the neoliberal transition perspective, any other type of political economy except for the liberal market-based model ought to jeopardize the self-organizing Pareto optimum of free markets in Eastern Europe and elsewhere (for a discussion on the transition paradigm, see Mykhnenko 2005*b*: part 2). Therefore, mainstream neoliberal commentators typically focus on the successes of transition towards an LME in (some) post-communist countries, whereas any negative developments in the region are interpreted as the result of incomplete or failed neoliberalization (e.g. Balcerowicz 1995; World Bank 1996; Hernandez-Cata 1997; Klaus 1997; Fischer, Sahay, and Végh 1998; Dąbrowski and Gortat 2002; World Bank 2002).

Throughout most of the 1990s, it was Poland—the first Eastern European battleground of liberalization, marketization, and privatization—which was praised for becoming a ‘European tiger’, a neoliberal role model for the entire continent. Most of the formerly Soviet republics were usually described then as ‘transition laggards’ or outright ‘transition failures’ (e.g. Åslund 2000). However, in the early 2000s the dominant neoliberal transition theoreticians-cum-practitioners declared that their (economic) policy struggle has been won even in Russia and other previously ‘lagging behind’ cases (e.g. Shleifer and Treisman 2003). According to Anders Åslund, the most active and vocal neoliberal adviser, in 1998 the former Soviet republics were ‘woken up’ by the Russian financial crash and had no option but to finish the implementation of the radical ‘Washington consensus’ package of economic reforms that had been previously abandoned halfway through. As a result:

In a development that has gotten little notice amid the EU expansion hoopla, the post-Soviet countries further to the east have been booming since 1999. The nine market economies in the former Soviet Union (Russia, Ukraine, Kazakhstan, Moldova, Georgia, Armenia, Azerbaijan, Kyrgyzstan, and Tajikistan) have on average grown annually by no less than 7 per cent for the last five years. The new tigers are Kazakhstan, Russia, and Ukraine—far more so than Poland, Hungary, or the Czech Republic. Why are the post-Soviet market economies doing so much better than the Central European

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ones? The truth, which may shock you, is that the post-Soviet countries have a more efficient economic model than the Central European ones because they are free from the harmful influences of the EU. (Åslund 2004a)

The newly gained economic and social dynamism of the post-Soviet countries has been accredited to the establishment in those countries of LMEs based on open markets, home-grown entrepreneurial talent, limited state intervention, low public expenditures, slashed personal and corporate taxes, privatized social security systems, and 'Chilean-style' pension reforms. By contrast, it is the EU bureaucracy and the imposition of the 'European social model' which are claimed to be responsible for the economic slowdown and high unemployment suffered by some of the largest Eastern European EU member-states. The neoliberals' list of the harmful influences of the EU is no different to the one which is usually produced to account for the malaise of the 'Old Europe'. It includes 'protectionism, labour market inflexibility, intimidating regulations, unsustainable fiscal profligacy, harmful subsidies, heavy tax burdens, excessive welfare transfers, bloated public sectors, and other competitive constraints' (see Åslund 2004a). Conservative critics of the 'deviant' and 'pathological' form of capitalism believed to be taking hold in Central and Eastern Europe add an 'unduly activist state agency' and foreign-dominated property structures to the above mentioned list of grievances (see Poznanski 2001).

13.3.2. From 'a Flea Market' to 'Dynamic Hybrid' Capitalism: Alternative Views on Post-Communist Economies

A number of radical as well as conservative critics of neoliberalism have focused on the failed attempts of forced neoliberalization and the consequent macroeconomic instability, extremely high 'transition costs' and developmental consequences of the 'Washington consensus' (e.g. Przeworski 1992; Bresser Pereira, Maravall, and Przeworski 1993; Murrell 1993, 1995; Hirschler 1998; Lane 2002). Their core argument is that rather than evolving towards modern Western capitalism, post-communist countries have ended up with 'a flea market rather than a free market' (Burawoy 1992: 783). In addition to what is described as the 'deficient but rational-bureaucratic' LMEs of the 'New Europe', the rest of post-communist societies are claimed to be locked in the gloomy 'low-level/dysfunctional equilibrium' of a disorganized, 'pre-modern', political, 'neopatrimonial' capitalism (Zon 2000, 2001; Lane 2000, 2005; King 2001, 2002 cf. Hunter 2003; Burawoy 2001b, 2001c).

In sharp contrast with the above-mentioned critical understanding of post-communist economies as being defunct due to their transitory, abnormal,

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or unrecognizable character, a number of empirical studies have emphasized a significant positive potential in the adaptable, 'recombinant', and diverse nature of the institutions of post-communist capitalism (Stark 1996, 1997; Stark and Bruszt 1998). Lucian Cernat (2002) has found evidence of a diverse capitalism à la carte present in Eastern Europe, with some countries becoming LMEs, whereas the others adopt CME models (Continental European or developmental Asian types). He has argued that the macroeconomic performance of Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Bulgaria, Romania, Latvia, Estonia, and Lithuania between 1992 and 1999 suggests that the institutional and economic features of LMEs were more growth-enhancing in the region than the alternative institutional arrangements and policies. By contrast, comparing Estonia and Slovenia, Clemens Buchen (2005*a*, 2005*b*) has found that despite certain deviations from the ideal-type LMEs and CMEs respectively, both countries can be regarded as successful transformation cases (cf. Feldmann 2005).

Elena Iankova has described the creation of a 'dynamic hybrid' Eastern European capitalism based on 'tripartism'—the tripartite forum for social dialogue between governments, labour, and business in Central and Eastern Europe (2002). By critically approaching the VoC thinking as regards the wage-labour nexus and industrial relations, she has argued that post-communist tripartism is a dynamic subtype of neocorporatist capitalism and accredited it with institutionalizing conflict and preserving social peace under the adverse circumstances of economic depression. Bernard Chavance and Eric Magnin have emphasized the significance of institutional embeddedness and self-reorganization in post-communist countries and welcomed the emergence of what they describe as MMEs of Eastern Europe—'path-dependent national capitalisms, displaying general similarities, and persisting national peculiarities' (2000; cf. 1997).

13.4. THE RISE OF MIXED MARKET ECONOMIES IN POLAND AND UKRAINE

It is argued in this chapter that the outcomes of the post-communist transformation in Poland and Ukraine can be explained by the emergence of partially coherent MMEs. Furthermore, it is contended that the disappearance of the 'poverty puzzle' in one of the two eastern European countries is attributable to the interplay of complementary institutional dynamics. In Mykhnenko (2005*a*, 2005*b*, 2005*c*), I have presented the empirical analysis of Polish and Ukrainian political economies during the post-communist transformation

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and outlined major features of the emerging capitalist systems in both countries as of the early 2000s. On the basis of my previous discussions as well as recent political and legal developments in the two countries, this section provides a summary of the core institutional characteristics of capitalism in Poland and Ukraine. The description of the relevant institutional domains presented in Table 13.1 broadly follows Bruno Amable's account (2003) of different models of modern capitalism. This labelling exercise has been conducted using the OECD and World Bank terminology. Thus, it embodies a number of built-in neoliberal biases against 'heavy' market regulations or 'inflexible' labour markets.

Table 13.1. Major characteristics of capitalism in Poland and Ukraine, 2000–5

Institutional arena	Poland	Ukraine
Product-market competition	'Relatively restrictive' product-market regulation Administrative burdens for corporations Barriers to entrepreneurship Public sector Barriers to trade and investment	'Relatively restrictive' product-market regulation Administrative burdens for corporations Barriers to entrepreneurship Public sector Barriers to trade and investment
Wage-labour nexus	'Restrained tripartism' Mildly regulated labour market Moderate employment protection Informal tripartite fora for social dialogue Weak trade unions Defensive union strategies	'Hard tripartism' Coordinated and regulated labour market High protection of regular employment Formal tripartite fora for social dialogue High rates of union membership Cooperative industrial relations
Financial sector	Small, bank-based system Small financial market Low sophistication of financial market Limited banking concentration Poor business environment Low conformity to the standards of corporate governance Limited market for corporate control Importance of direct foreign investment by multinationals	Small, underdeveloped, bank-based system Very small financial market No sophistication of financial market Limited banking concentration Poor business environment Little conformity to the standards of corporate governance Limited market for corporate control Importance of investment by domestic business groups

(cont.)

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Table 13.1. (cont.)

Institutional arena	Poland	Ukraine
Social protection	Contracting conservative 'Latin' Welfare state Decrease to lower-moderate levels of social protection Decrease to moderate involvement of the state Importance of old-age, survivors, and incapacity-related expenditures	Expanding liberal-'universalist' Welfare state Increase to higher-moderate levels of social protection Increase to moderate involvement of the state Limited public health expenditures Emphasis on pensions, poverty alleviation (social safety net), and means-tested benefits Some employment-based social protection
Education sector	'General skills' public education system Moderate public expenditures, chiefly for primary education Lower-moderate enrolment rates Limited vocational and lifelong learning and training Weakness in science and technology tertiary education Weak R&D	'Polytechnic' public education system Moderate public expenditures, primarily for tertiary education Lower-moderate enrolment rates Importance of vocational training Limited lifelong learning and training Strength in science and technology tertiary education Small R&D
Overall	MME/'Weak' CME	MME/'Weak' CME

13.4.1. Poland's Capitalism

First, the Polish national variant of capitalism is characterized by: heavily regulated product markets with a considerable public sector, administrative burdens for corporations, barriers to entrepreneurship, and a high level of protection against foreign trade and investment. Second, in the sphere of labour markets and industrial relations, the main attribute of capitalism in Poland is a mildly regulated labour market with a moderate degree of employment protection. Although certain informal relationship between the government, labour, and business in Poland has been maintained (see Iankova 2002), the national political economy is characterized by: little formal centralization and coordination for wage bargaining, no mandatory state involvement, weak trade unions, wage flexibility, non-adversarial industrial relations, the absence of active employment policy, and a low level of passive labour market policy. Third, the financial-intermediation sector in Poland is elementary and

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bank-dominated. It generates a very low amount of private domestic credit and is characterized by: high ownership concentration, low protection of external shareholders, a small and inactive financial market, no role for institutional investors, very low sophistication of financial markets, a low degree of banking concentration, poor business environment, low conformity to the standards of corporate governance, no active market for corporate control (takeovers, mergers, and acquisitions), and the relative significance of FDI.

Fourth, the social protection sector in Poland is built around the Conservative Continental European model, close to its 'Latin subsidiarist' subtype (see Ebbinghaus and Manow 2001). However, since the late 1990s Poland's welfare state has been contracting in size. It is characterized by (lower-)moderate levels of social protection and public spending. Social expenditures are generally oriented towards pensions, disability benefits, and poverty alleviation, whereas other social services are of less significance. Finally, the Polish education sector is publicly funded and oriented towards general skills. It is characterized by a moderate degree of public expenditure on education, the bulk of which is allocated for primary and lower-secondary education. Other major characteristics of Poland's educational system include: (lower-)moderate enrolment rates; weak vocational training; no importance of life-long learning and training; emphasis on basic skills and the quality of primary education; weak science and technical education; and weakly state-funded research and development activities.

13.4.2. Ukraine's Capitalism

In turn, the Ukrainian national variant of capitalism in Eastern Europe is characterized, first, by heavily regulated product markets, involving a large public sector, administrative burdens for corporations, barriers to entrepreneurship, and barriers to foreign trade and investment. Second, as regards the wage-labour nexus, the core feature of post-communist capitalism in the country is 'tripartism' or 'tripartite co-ordination' of the labour market defined by Iankova as a new post-communist species of institutionalized compromise among social actors in the industrial arena which: 'developed as a dynamic hybrid characterized by political negotiations (rather than Western Europe's neocorporatist bargaining over purely social and economic conditions); represents a broad civic arrangement (rather than a classic tripartite formation for coordination of the interests of labour and business with those of the state); and is a complex multilevel bargaining structure that links together national, regional, and sectoral actors for the resolution of problems with national and local importance' (2002: 11). On the one hand, Ukraine's

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'tripartism' includes high-employment protection, state involvement, moderately strong trade unions, and consensual industrial relations. On the other hand, Ukraine's industrial relations and labour market institutions are characterized by inter-sectoral variance in the degree of centralization and coordination of wage bargaining, limited active employment policy, and a low level of passive labour market policies.

Third, the sector of financial intermediation in Ukraine is exclusively bank-based and underdeveloped. It is characterized by: high ownership concentration; reportedly low protection of external shareholders; a small and inactive financial market; no role for institutional investors; no sophistication of financial markets; a low degree of banking concentration; poor business environment; low conformity to the standards of corporate governance; no market for corporate control (takeovers, mergers, and acquisitions); a low level of FDI; and the overall importance of reinvestment of profits by large national business groups. Fourth, the welfare system in Ukraine is of a liberal-'universalist' form (see Ebbinghaus and Manow 2001), with its emphasis on poverty alleviation and means-tested benefits, limited public expenditure on health care, contribution-financed social insurance, and a mixed pension system. Since the early 2000s, among the major developments in the Ukrainian system of social protection has been an increase to (higher-)moderate levels of social protection and more involvement of the state. Finally, the Ukrainian education system is characterized by: a moderate level of public expenditure; high enrolment rates in secondary education, strong vocational, professional, and technical education; low importance of life-long learning and training; an emphasis on specific skills and the quality of university education; high importance of technical higher education; and a small research and development sector.

13.5. ACCOUNTING FOR SIMILAR OUTCOMES OF POST-COMMUNISM IN POLAND AND UKRAINE

13.5.1. Institutional Similarity, Complementarity, and Coherence

The original VoC idea attributes the relative socio-economic success of various LME/CMEs to institutional complementarity understood as an interdependent and mutually re-enforcing systemic mechanism under which the presence (or efficiency) of one institution increases the returns from (or efficiency of) another institution (Hall and Soskice 2001*b*: 17–21; cf. Milgrom and Roberts 1995; Amable 2003: ch. 2). Colin Crouch (2003, 2005*b*, 2005*c*)

and others (see Morgan, Whitley, and Moen 2005) have critically elaborated the concept of institutional complementarity by distinguishing at least three different logics behind the concept: (a) the logic of coherence through *similarity* or *Wahlverwandschaft*—elective affinity; (b) the logic of 'partial' complementarity or complementarity in the VoC sense of *synergy*, where 'coherence embodies the mutually reinforcing effects of compatible incentive structures in different subsystems of an economy' (Deeg 2005: 24); and (c) the logic of strict or 'perfect' *complementarity* (opposite to that of similarity) 'where components of a whole mutually compensate for each other's deficiencies in constituting the whole' (Crouch 2005c: 50). In this sense, Crouch's concept of 'perfect' complementarity helps distinguish complementarity between different institutions from obstructive incongruity between them, since 'a difference becomes a complementarity when it "works"' (2005c: 52).

In sharp contrast with the dominant neoliberal transition paradigm, Table 13.1 has shown that the overall designs of both Eastern European political economies share the logic of similarity typical of CMEs which include relatively 'restrictive' product market regulations, bank-based financial-intermediation sectors, and public education systems. In addition, Poland's social protection system resembles the conservative Continental European model, whereas Ukraine's labour market institutions and industrial relations contain 'tripartite' neocorporatist features—all CME characteristics (cf. Knell and Srholec 2005).

However, one institutional arena in each of the two Eastern European economies—the 'soft tripartism' of the wage-labour nexus in Poland and the liberal-'universalist' welfare state in Ukraine—are dissimilar from the ideal-typical CME model of the VoC approach (Hall and Soskice 2001a) or from what Amable (2003) has identified as 'Continental European' and 'Mediterranean' models of regulated capitalism. Another distinctive difference of the two Eastern European economies from the CME ideal-type lies in the financial-intermediation sector. Although both Polish and Ukrainian finance sectors are currently bank-based, they remain immature and weak in comparison with any of the existing models of modern capitalism. Hence this chapter's description of the two post-communist economies not as CMEs but as mixed-market or 'weakly' coordinated-market economies.

13.5.2. Structural Changes and Comparative Advantages of the Post-Communist MMEs

In addition to severe exogenous shocks, similarly sharp periodic fluctuations in the rate of economic activity (e.g. capital investment, prices, and output

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growth) experienced by the two 'weak' CMEs of Eastern Europe can be attributed to their weak financial systems which are unable to provide a stable and sufficient amount of domestic credit.⁴ Yet it is claimed that the overall similarity of the institutional designs of the two MMEs has already been able to provide a certain level of coherence for economic agents to grow by engaging in increasingly productive activities.

To test this hypothesis of positive economic developments in Poland and Ukraine due to the presence of institutional complementarity as synergy, one might search for beneficial structural changes occurring in the two economies. I examine the presence of positive structural changes by discovering and comparing potential changes in comparative institutional advantages of Poland and Ukraine. This section proceeds by applying Bela Balassa's RCA index (Balassa 1977; 1989). The RCA index compares the export share of a given sector in a country with the export share of that sector in the world market as follows:

$$RCA_{ij} = \frac{X_{ij} / \sum_i X_{ij}}{\sum_j X_{ij} / \sum_i \sum_j X_{ij}}$$

The numerator represents the percentage share of a given sector in national exports, where X_{ij} are the exports of sector i from country j ; $\sum_i X_{ij}$ are the total exports of country j . The denominator represents the percentage share of a given sector in the total world exports, where $\sum_j X_{ij}$ are the world exports of sector i , and $\sum_i \sum_j X_{ij}$ are the total world exports. Thus, when the RCA index equals 1 for a given sector in a given country, the export share of that sector is identical with the world's average. When RCA is above 1 (ranging from 1 to ∞) the country is said to have a relative comparative advantage in that sector; when RCA is below 1 (ranging from 0 to 1) the country is said to have a relative weakness in that sector.

The UNCTAD database (2005) provides the three-digit SITC product code of annual exports and imports comprising over 230 types of products from the total of 67 branches of agriculture, mining and quarrying, manufacturing, and gas, water, and electricity supply. The first year for which the Ukrainian data are available is 1992, whereas the last year is 2002. Poland's detail foreign trade statistics are available since the late 1980s. To examine the (potentially beneficial) shifts in RCAs of the two countries under post-communism, while minimizing possible ad hoc changes in the national foreign trade structures, I use the exports average figures for the 1992–3 period as the starting point and for the 2001–2 period as the end point of transformation.

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Table 13.2. Revealed comparative advantage index (2001–2 average) and RCA percentage change between 1992–3 and 2001–2

Type of exports	Poland		Type of exports	Ukraine	
	RCA index 2001–2 average	Index change (%) 1992–3 to 2001–2		RCA index 2001–2 average	Index change (%) 1992–3 to 2001–2
Low-technology exports	1.8	17.6%	Low-technology exports	1.6	74.2%
Resource-based manufactured exports	1.3	–20.9%	Resource-based manufactured exports	1.5	–19.9%
Medium-technology exports	1.1	50.7%	Medium-technology exports	1.1	25.3%
Primary commodity exports	0.6	–43.9%	Primary commodity exports	1.1	–27.2%
High-technology exports	0.4	31.6%	High-technology exports	0.2	61.6%

Note: The technological classification of trade is based on the Standard International Trade Classification, Revision 2. The type of exports is defined according to the UNIDO Scoreboard Database technology classification of exports Table (2004: 205).

Source: Own compilations and calculations on the basis of *UNCTAD Handbook of Statistics On-line* (2005).

Table 13.2 contains the RCA indices for Poland and Ukraine for 2001–2 as well as percentage changes in the two respective indices since 1992–3. It shows that both countries have developed extremely similar RCAs in terms of technological intensity which are structured in the same ranking order as well. Poland's and Ukraine's major strengths lie in low-technology products and resource-based manufacturing, whereas the countries' weakest sectors are high-technology products and primary commodities, with the medium technology branch located in between.⁵ In addition to the current RCA resemblance between Poland and Ukraine, the structural shifts in the RCA of the two countries have been similarly positive as well. Table 13.2 shows that under post-communism both countries have registered major comparative advantage index losses in primary commodities and resource-based manufacturing. In turn, the Polish and Ukrainian economies have improved their competitiveness in low-, medium-, and high-technology products. These positive and incremental structural changes in the two Eastern European countries have, thus, correlated with the establishment of (partially) coherent capitalist institutions.

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The RCA evaluations presented above suggest that some institutional incoherencies can be more unhelpful than the others. By the early 2000s, the difference between Poland's and Ukraine's science and technology education and training systems—relatively weak in the former and strong in the latter—had not generated different relative comparative advantages in economic activities. Neither have they influenced the direction of the change in the countries' RCA under post-communism, since—according to the institutional complementarity theory (see introduction)—Poland should have experienced growth in low-technology exports, while Ukraine's core gains should have come from medium-technology exports. Given the large amount of investment needed for a technological upgrade of formerly centralized planning economies, the similarly incremental structural changes in the two Eastern European MMEs can be explained again by the immaturity (i.e. small size) of their domestic credit-creation mechanisms.

13.6. EXPLAINING POLAND'S POVERTY PARADOX

It is contended here that Poland's inequality-cum-poverty puzzle is the result of the institutional incongruity between, on the one hand, the country's wage-labour nexus which is based on the 'soft' regulation of an effectively uncoordinated labour market, and, on the other hand, the overall logic of the national CME-type of economy. According to Amable (2003: ch. 3), competitive labour markets can make structural adjustment less costly if the released labour force is quickly absorbed by (low-wage) small and medium firms and business start-ups; yet, those are constrained in Poland by economic and administrative barriers to entry. Therefore, this chapter's earlier findings support the VoC hypothesis that decentralized and deregulated ('flexible') labour markets cannot function properly along with regulated product markets; otherwise such an institutional incoherence should result in higher levels of unemployment (as in the case of Poland) than one would expect in a country with centralized or coordinated labour markets and regulated product markets (as in the case of Ukraine). Given chronically high levels of unemployment in Poland and contracting levels of public social spending, Poland's conservative Continental welfare state has been unable to provide an adequate amount of social protection and poverty alleviation. On the other hand, in addition to its generally resurgent economy, Ukraine's relatively low inequality and poverty outcomes are claimed to be the result of a politically constructed complementarity between, on the one hand, strongly coordinated labour market institutions and cooperative industrial relations, and, on the other hand, a liberal-'universalist' welfare state.

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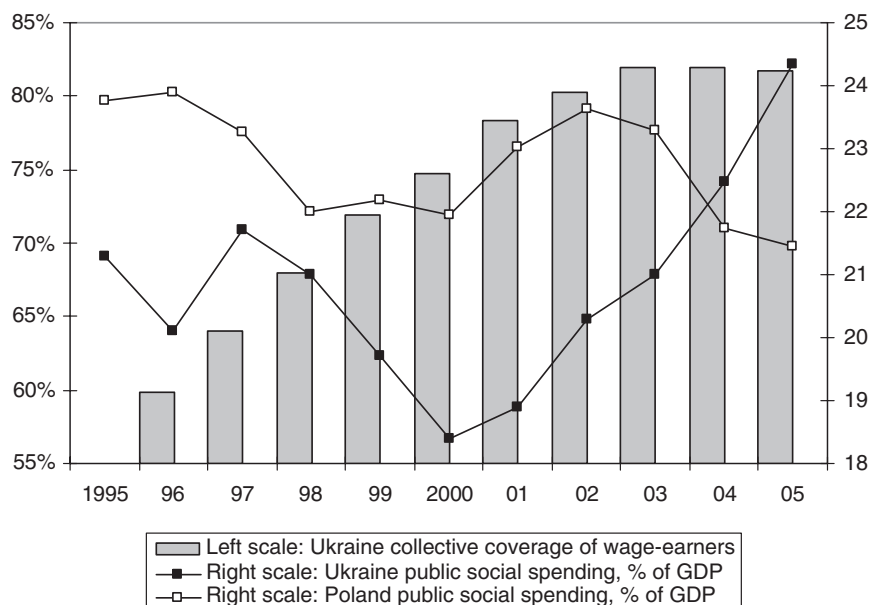


Figure 13.11. Collective wage-bargaining coverage (percentage of wage earners) and public social spending as percentage of GDP, 1995–2005

Source: *Derzhkomstat Statistical Yearbook* (various years), Ukraine Ministry of Labour and Social Work Social Labour Relations On-line (2005), own calculations on the basis of IMF Public Information Notice, No. 05/156 (November 2005), OECD Factbook (2005), OECD Economic Outlook 77 Database (2005).

Throughout the 1990s, Ukraine's limited social protection system was (at least theoretically) incompatible with the overall institutional logic of a CME. A minimal public-funded social protection system does not protect against unemployment and, thus, fluid labour markets are necessary. However, at the same time, the country's tripartite coordination of the domestic labour market was expanded. The formal protection of regular employment has prevented excessive levels of unemployment, whereas the expansion of collective wage bargaining (see Figure 13.11) has resulted generally in higher and more equal wages, which have compensated for initially limited social protection. Consequently, Ukrainian welfare politics have changed dramatically.

The disappearance of George Gongadze, a Ukrainian opposition journalist, on 16th September 2000 and consequent allegations about the involvement of Ukraine's government and President Leonid Kuchma himself in the affair, provoked a long period of political turmoil in the country which culminated on 9th March 2001 in mass demonstrations and violent clashes between riot police and thousands of anti-Kuchma protesters who stormed the presidential

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headquarters in the centre of Kyiv (*The Ukrainian Weekly* 2002). In May 2001, Anatolii Kinakh, then president of the Ukrainian League of Industrialists and Entrepreneurs, was appointed by President Kuchma to the post of prime minister with the major goal of combating poverty (USPP 2001). A national anti-poverty strategy was developed and adopted on 15 September 2001, followed by a series of other executive and legislative measures aimed at improving the national social safety net and increasing public social expenditures (CMU 2001, 2002; Kuchma 2001; Ukraine President 2001). As Figure 13.11 indicates, the amount of public social spending was continuously growing both before and after Ukraine's contentious presidential campaign of October–November 2004. Before the 2004 presidential elections, the governing coalition under Prime Minister Viktor Yanukovich, Kuchma's designated successor to the presidency, had been increasing public social spending levels in an attempt to induce more public support. After Ukraine's Orange revolution, which brought Viktor Yushchenko to power—Yanukovich's main rival—public welfare spending has continued to grow. These politically motivated and constructed complementary institutional dynamics between labour market and social welfare policies have resulted in the significant decline in consumption inequality and extreme poverty that was registered in Ukraine in the late 1990s–early 2000s. In the same period, Poland's political economy was focused on combating public budget deficits, which resulted in a relative decline in the capacity of the welfare state.

13.7. CONCLUSION

It has been argued that the similarly positive socio-economic developments experienced by Poland and Ukraine between the mid-1990s and mid-2000s can be attributed to the emergence of mixed- or 'weakly' CMEs and explained as the outcome of positive returns on a set of (partially) coherent and complementary institutions established in both post-communist countries by the early twenty-first century. It has also been contended that, notwithstanding certain dissimilarities between the two Eastern European capitalisms and the ideal-types established in the literature, under certain conditions, institutional 'hybrids' of MMEs can function successfully and escape previously established traditions and allegedly predetermined pathways.

It is believed that the attempted application of the VoC framework and several concepts of institutional complementarity for exploring and explaining divergent socio-economic outcomes of late transformation in Eastern Europe has provided a valuable, complex, and powerful alternative to the dominant neoliberal transition paradigm. However, a number of transformation puzzles remain to be resolved, if they are to be analysed solely through the VoC prism.

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For instance, this chapter has discovered no particular linkage between the strengths and weaknesses of the national public education systems in fields of science and technology and the technological intensity of revealed comparative trade advantages generated by the two Eastern European MMEs. The immaturity and small size of the post-communist capital markets as well as the overall peculiarity of the financial-intermediation and corporate governance sectors in Eastern Europe merit further investigation in this regard.

It appears also that the exclusive focus on the institutional forms of the two national models of production, consumption and distribution, and on their endogenous logic only provides us with part of the explanation for the trajectories and variations in the macroeconomic performance of post-communist countries. According to this chapter's description of the two Eastern European capitalisms, product-market regulations in both Poland and Ukraine have been characterized by a relatively high level of protection against trade and investment. Yet the data presented concerning international trade have indicated extremely high levels of actual openness of the Polish and Ukrainian economies (see Figure 13.6), posing the question of the relevance of formally 'heavy' and 'restrictive' regulations to the actual business and trade development.

On the other hand, high levels of macroeconomic volatility observed in the two post-communist economies can be at least partially attributed to (a) the actual degree of dependence of Polish and Ukrainian firms on foreign markets for goods and services and to (b) specific relationships by which each of the two national economies is inserted into the international economy. The importance of the mode of international integration is usually emphasized in the works of the French *Régulation* School (see Brenner and Glick 1991; Grahl and Teague 2000). However, the entire global dimension—actors and structures which are exogenous to the institutions of national political economies—appears to be absent from the VoC-framed picture. In the case of middle-income, post-communist economies, the lack of attention to such explanatory, if only intervening, independent variables may impoverish one's research efforts. Hence the need to integrate the currently exogenous variables and concepts concerning internationalization, globalization, and Europeanization into the present national state-oriented perspective.

NOTES

1. According to data presented in the World Bank 2005 report (Asad et al. 2005) on poverty in post-communist countries, Hungary has the lowest poverty rate in Eastern Europe, whereas Moldova has the highest. Across the entire

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post-communist region, Tajikistan appears to be the most impoverished state. One has to emphasize, however, that the World Bank was not able to present poverty data for five post-communist countries (the Czech Republic, Slovakia, Croatia, Slovenia, and Turkmenistan) either because of major inaccuracies and serious flaws in household survey designs (the former two countries) or because national statistical agencies refused to provide access to the poverty data-sets (the remaining three cases). For the full data-set description and methodology, see Asad et al. (2005: Appendix).

2. It emerges from the World Bank 2005 report that 2002 was the latest year, for which the poverty figures were available in Poland and other Central-Eastern and South-Eastern European countries, whereas the most recent household surveys were conducted in the former USSR republics in 2003. Ukraine's lower- and higher-poverty rates in 2002 were 3% and 31% respectively (Asad et al. 2005: Appendix, Table 2).
3. Some have suggested that a whole new trade of ideological advocacy was born in the early 1990s. Adam Swain (2005) has described it as a 'transition industry'—a network of interlocking organizations and individuals engaged in academic and professional economic research, public policy, education, and consulting, which is based on the production, acquisition, accumulation, storage, geographical transfer, and management of abstract neoclassical economic knowledge, and is aimed at realizing 'transition' in post-communist Europe by forcing economic practices 'in the field' to conform to the premises of abstract economic thought. For a discussion on the rise of the 'political transition' paradigm, see Carothers (2002).
4. For a similar conclusion on weak financial markets in Central and Eastern Europe as a source of macroeconomic volatility and vulnerability, see Coricelli and Ianchovichina (2004).
5. By the type of industry (defined as a three-digit ISIC Rev. 3 branch), the Polish economy has generated: strong revealed comparative advantages (RCA indices > 2.0) in ship-building, furniture, fabricated metal products (non-machinery), rubber and plastics, and wearing apparel; and standard comparative advantages (RCA indices $> 1 < 2$) in other non-metallic mineral products, pulp and paper, wood and cork, non-ferrous metals, railway and transport equipment not classified elsewhere (n.e.c.), electrical machinery, basic iron and steel, printing and publishing, food and drink, machinery and equipment (n.e.c.), and motor vehicles. The Ukrainian economy's strong RCAs (> 2.0) were in basic iron and steel, railway and transport equipment (n.e.c.), coke, refined petroleum and nuclear fuel, and non-ferrous metals. The country's standard comparative advantages (RCA indices $> 1 < 2$) were in wood and cork, wearing apparel, food and drink, and chemicals and chemical products.