

Socialism Vanquished, Socialism Challenged

Eastern Europe and China, 1989–2009

EDITED BY NINA BANDELJ
and
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CONTENTS

Acknowledgments vii
About the Contributors ix

Introduction: Postsocialist Trajectories in Comparative Perspective 1

NINA BANDELJ AND DOROTHY J. SOLINGER

PART ONE REINSTITUTIONALIZING POLITICS

1. 1989 and Its Aftermath: Two Waves of Democratic Change in Postcommunist Europe and Eurasia 23

VALERIE BUNCE AND SHARON L. WOLCHIK

2. China Politics 20 Years Later 44

JOSEPH FEWSMITH

PART TWO RECASTING STATE-SOCIETY RELATIONS

3. Postsocialist Cleansing in Eastern Europe: Purity and Danger in Transitional Justice 63

KATHERINE VERDERY

4. Responsive Authoritarianism and Blind-Eye Governance in China 83

ROBERT P. WELLER

5. Notes on the Geopolitical Economy of Post-State Socialism 103

JÓZSEF BÖRÖCZ

6. The 1989 Watershed in China: How the
Dynamics of Economic Transition Changed 125

BARRY NAUGHTON

PART FOUR TRANSFORMING ECONOMIC BEHAVIOR

7. The Rise of Consumer Credit in the Postcommunist
Czech Republic, Hungary, and Poland 149

AKOS RONA-TAS

8. Financing Constraints on the Private Sector
in Postsocialist China 176

YASHENG HUANG

PART FIVE RESHAPING SOCIAL INSTITUTIONS

9. Changing Family Formation Behavior in Postsocialist
Countries: Similarities, Divergences, and Explanations 195

THEODORE P. GERBER

10. Communist Resilience: Institutional Adaptations
in Post-Tiananmen China 219

WANG FENG AND YANG SU

Postscript: The Fate of the State after 1989: Eastern
Europe and China Compared 238

DOROTHY J. SOLINGER AND NINA BANDELJ

Index 247

ACKNOWLEDGMENTS

This volume is the product of a conference convened in November 2009 on the 20th anniversary of the fall of the Berlin Wall. The meeting was organized and held in commemoration of that event and to evoke the memory of the popular protests that broke out seven months earlier across China—with their largest manifestation at Tiananmen Square in Beijing. Our first objective was to appraise the longer-term outcomes of these spectacular episodes; a second aim was to draw comparisons across fields of activity—in politics, economics, culture, and state-society relations—in these two disparate parts of the globe. In one, state socialism as it had been known for decades was vanquished, obliterated; in the other, under the name if not really the substance of socialism, it limps forward, though under challenge. As editors, we have learned a great deal in the process; we hope that readers of this volume will have the same experience.

Of all those who must be thanked, the authors come first. We were fortunate to work with a group of creative and highly knowledgeable scholars whose contributions we celebrate along with the publication of the book. Much gratitude goes to these people, for their hard work, their insights, and their patience through a number of rounds of revision.

The original meeting included others whose papers, while stimulating and valuable, in the end did not fit as well into the project we envisioned as the ten papers we selected did. These scholars are Leszek Balcerowicz, Martin Dimitrov, Wade Jacoby, Antoni Kaminski, Bartłomiej Kaminski, David Laitin, Victor Nee, David Stark, Ivan Szelenyi, Daniel Treisman, and Jeffrey Wasserstrom. We thank all of them for their contributions, both written and oral, at the conference. We also appreciate the job done by discussants Ewa Balcerowicz, Thomas Bernstein, Lei Guang, Barbara Heyns, Kate Merkel-Hess, Kenneth Pomeranz, David Smith, and Yuliya Tverdova. Thomas Bernstein also assisted with the introduction to the volume and with writing

Notes on the Geopolitical Economy of Post–State Socialism

JÓZSEF BÖRÖCZ

The overall transformation of the external linkage structures of the economies of the erstwhile Soviet bloc was a crucial aspect of the disintegration of the state socialist “system” in eastern Europe and northern Eurasia.¹ The collapse of the Soviet bloc occurred in the context, and was in some important ways the historic culmination, of the most outstanding historical achievement of the neoliberal hegemony that so thoroughly penetrated the economic and political dimensions of suprastate relations for the preceding decades.²

After the collapse of the state socialist system of controls over cross-border flows of people, capital, commodities, and ideas in 1989-90, the relative proximity of the states of eastern Europe to western Europe and their pre-state socialist histories of insertion in the European circuits of capital made these societies particularly easy and obvious targets for foreign direct investment, especially from western Europe. Given the magnitude of intra-European inequalities in capitalization, the resulting property transformations in eastern Europe—which constituted relatively small outlays for western European capital—resulted in foreign direct investment of enormous domestic economic significance for the target societies, creating textbook examples of foreign investment dependence. In those parts of the former Soviet bloc that had had less significant and more tentative histories of exposure to west European circuits of capital—such as the successor states of the former USSR—the privatization of the state’s assets had more of a domestic-oligarchic character, setting those societies apart from east-central Europe from the onset of the transformation.

The post-state-socialist transformation took the form of a geopolitical “game” largely overdetermined by the mostly voluntary, sometimes forced, importation of governmentality from the EU and the iron embrace of the world’s mightiest military-strategic alliance, the North Atlantic Treaty

Organization (NATO)—with the two forces offering an opportunity no east-central European state could refuse. Again, except for the Baltic states, which steadfastly stuck to the east European pattern of geopolitical reorientation, most of the more distant successor states of the erstwhile USSR had recognizably different outcomes, marked by the creation of the Commonwealth of Independent States, the Shanghai Organization, and a number of local conflicts that erupted with great fervor, especially in the Caucasus.

It would be hard to overestimate the significance of global forces in institutional change in eastern Europe (Böröcz 2001). Important recent work has made great steps toward developing a nuanced understanding of how the local institutionalization of such global forces has taken place in east-central Europe, focusing either on the EU (see, for example, Jacoby 2001, 2004; Bohle and Husz 2005), on various organizationally concrete forces of multinational capital (see, for example, Bohle and Greskovits 2006; Bandelj 2008, 2009; Dražokoupil 2009), or both (Vliegenthart and Horn 2007) as nodes transmitting global transformative effects to the societies of the former socialist bloc, especially in eastern Europe. It is unfortunate that work in the same vein on the rest of the vast, and no less complex, former Soviet “space” is much sparser, if not entirely absent.

Framework and Trajectories

In this chapter, I focus on two important dimensions of the consequences of 1989 as a major transformation in the ways in which the erstwhile socialist states have been integrated into the capitalist world economy. In contrast to the well-nigh exclusive focus of the literature on the impact of economic performance on per capita rates—a feature I have criticized in detail elsewhere³—I open up the analysis of over-time trajectories to incorporate an additional dimension: Besides relative wealth (i.e., per capita rates of performance), I also observe changes in relative global economic weight (share in the gross world product).⁴ By including a dimension (relative global weight) that is geopolitical⁵ par excellence, I hope to be able to shed light on important patterns that remain hidden if observed exclusively through the “rates” lens.⁶

My analysis extends to all societies that underwent a post-state-socialist transformation since the late 1980s, including not only east-central and south-eastern Europe, but also the former Soviet area. I examine these cases against the backdrop of the increasingly diverse capitalist world economy as a whole, highlighting some relevant comparative angles. The empirical material comes from a data set initially published by the Organization for Economic Co-operation and Development (OECD) as an online supplement to a

magisterial compilation of *longue-durée*⁷ estimates of economic performance⁸ by British economic historian Angus Maddison (2006a, 2006b). For the years from 2002 to 2008, the OECD data set has been updated posthumously on Maddison’s online historical data archive (Maddison 2010).

Let us place the societies of the world in a two-dimensional space (Figure 5.1 offers a visual aid for this conceptual exercise.)⁹ The vertical (*y*) axis represents per capita economic performance (computed, in order to make over-time comparison—the purpose of this exercise—visually feasible, as percentage of the world mean per capita GDP in any given year). In figure 5.1, I have subdivided the *y* axis into three categories and labeled them, respectively, “rich,” “medium,” and “poor.” As my empirical analyses refer to the twentieth century—a period after the spatial completion of the capitalist world-economy as a global system in the last decades of the nineteenth century—it is historically justified to use the familiar, Wallersteinian trichotomy of “core,” “semiperiphery,” and “periphery.” In this analysis, I define the semiperiphery, arbitrarily, as societies that have between 50 percent and 200 percent of the world mean per capita GDP in the given year.

The horizontal dimension (axis *x*) marks what I have called¹⁰ external economic weight, expressed as the share of a unit (here, a state or a group of states) in the total gross world product. I have also subdivided this dimension, just like the *y* axis, into three categories, and labeled them, respectively, as “lightweight,” “middleweight,” and “heavyweight,” with the one- and ten-percent marks serving as cutoff points among the three.

The three-by-three categorization created in this way allows the analysis to separate nine characteristic combinations of two geopolitical-economic factors, ranging from poor (or peripheral) lightweight (“PL” in the bottom-left corner of the graph) to rich (or core) heavyweight (“RH,” in the opposite corner).

Figure 5.2 contains some of the principal directions of possible movement within this trajectory space. It marks vertical movement as up- and downward mobility and changes in horizontal position as extensive growth and extensive

	lightweight	middleweight	heavyweight
rich	RL	RM	RH
medium	ML	MM	MH
poor	PL	PM	PH

Figure 5.1 Trajectory Space: Static View

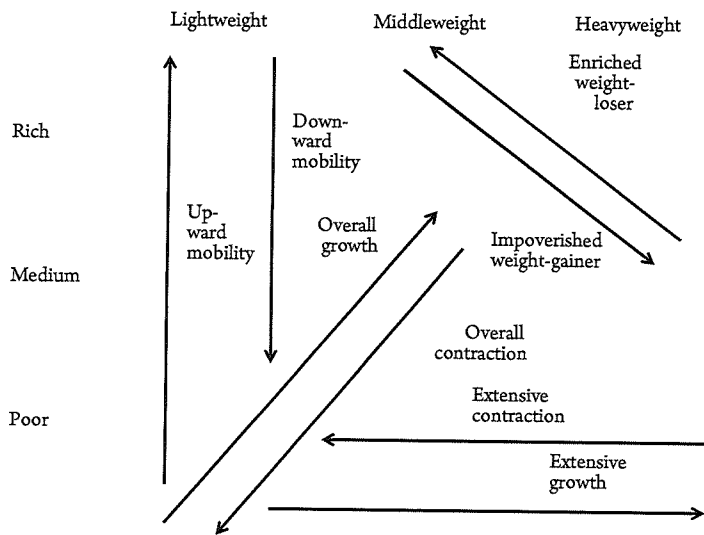


Figure 5.2 Trajectory Space: Dynamic View

contraction. A successful state would cover a diagonal trajectory, crossing the rectangle from the bottom left to the top right corner, or from the poor lightweight to the rich heavyweight position; I label this “overall growth” and its disastrous opposite as “overall contraction.” Finally, I call diagonal movement from the rich lightweight toward the poor heavyweight location “impoverished weight gainer” and its opposite “enriched weight loser.”

With this preparation, we are now ready for an overview of the trajectories of the formerly state socialist societies. Let us start with two composite pictures. The two of them together will allow us to visualize the trajectories of the Soviet bloc during the state socialist period.

Figure 5.3 indicates the trajectory of the Council for Mutual Economic Assistance (CMEA)—the Soviet bloc’s economic integration system¹¹—along with the multiple predecessors of the EU and a few important, additional states¹² in the two-dimensional trajectory space of the geopolitical economy of the global system between 1950 and 1989. CMEA begins the period at almost exactly in the middle of the semiperiphery (around 102 percent of the world mean GDP per capita), accounting for approximately 13 percent of the gross world product. The CMEA experiences a period of modest upward mobility, reaching the historic peak of its performance in per capita terms with 127 percent in 1961. CMEA’s relative global weight does not increase in proportion to its wealth; it reaches its apex, with 14.38 percent of the gross world product, in 1964. Since then, the history of the socialist supranational unit of economic integration has been a downward slide: CMEA slid to 91 percent of the world mean GDP per capita and 10.42 percent of the gross world product by 1989.

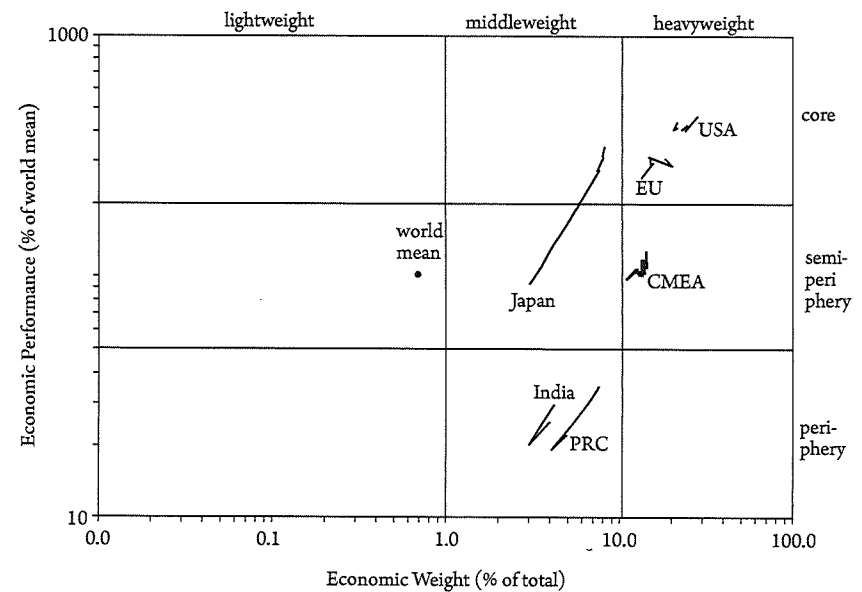


Figure 5.3 Trajectories of the Council for Mutual Economic Assistance, the European Union, and Some Large States: Gross Domestic Product per Capita as Percentage of World Mean and Gross Domestic Product as Percentage of Gross World Product, 1950 to 2008. Source: Computed from Maddison 2001. Note: Labels indicate earliest datapoint.

Four basic observations bear mentioning. First, treated as an aggregate of its member states, CMEA had been a resolutely heavyweight, semiperipheral phenomenon throughout its history, and it was the only such entity on the global map of systems of economic integration.

Second, during its history the CMEA did not experience a radical change of position. Even though in 1989 the CMEA occupied an overall less advantageous global position than in 1950, its decline in GDP per capita, relative to the world average, was moderate at worst, and the less than 4 percent weight loss experienced over the second half of its existence was, while noticeable and likely a cause for concern for those in charge, certainly not a catastrophic collapse.

More important, third, as a comparison to the curves representing the soaring two-dimensional growth pattern of Japan, on the one hand, and the two-dimensional contraction and modest rebound of India and China, on the other, will reveal, the CMEA’s curve shows a relatively moderate amount of change, portraying the CMEA as a large, semiperipheral, supranational organization with little, gradual movement in either direction.¹³

Fourth, as compared to the EU—the only economic integration throughout this period that occupied a core heavyweight position—the CMEA was

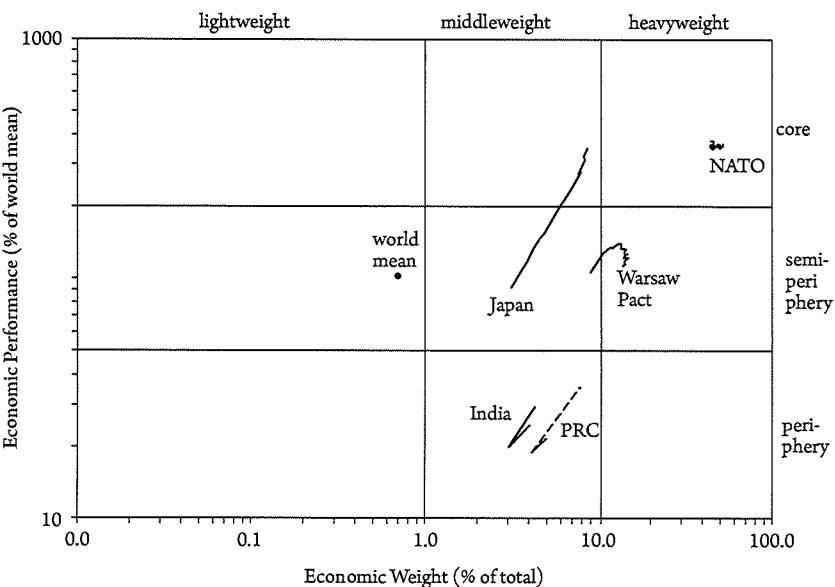


Figure 5.4 Trajectories of the Warsaw Pact, NATO, and Some Large States: Gross Domestic Product per Capita as Percentage of World Mean and Gross Domestic Product as Percentage of Gross World Product, 1950 to 2008. Source: Computed from Maddison 2001. Note: Labels indicate earliest datapoint.

never on par with it in terms of wealth, and it almost matched the EU's global economic weight (it had a global economic weight of about 1 percent less than the EU) only up to 1960. A major difference between the CMEA and the EU has been the latter's history of enlargements,¹⁴ resulting, in turn, in significant weight gains. As a result, the gap between the CMEA and the EU kept widening so that, by the time of the CMEA's dissolution in 1990, the EU's proportion of the gross world product was almost double that of its state socialist counterpart.

We can obtain another angle on the global position of the socialist bloc by comparing, as Figure 5.4 does, the trajectory of the Warsaw Pact (computed as composite of its member states) to its counterparts worldwide.¹⁵ This picture tells a strikingly different story.

Starting from a point just slightly above (at 114 percent) the world mean GDP per capita and commanding 13.4 percent of the world product, the Warsaw Pact climbed to 141.4 percent of the world average by 1975, while covering around 13 to 14 percent of the gross world product throughout the same period. The Warsaw Pact's loss of global economic weight begins around 1971. By 1991—the year of its dissolution—the Warsaw Pact's overall contraction had put it at a mere 8.8 percent of the gross world product, having fallen back to around the world mean GDP per capita. By contrast, its main Cold War

adversary, NATO, never had less than 44 percent of the gross world product and was never poorer than three and a half times the world average GDP per capita during the same period. In the year of the dissolution of the Warsaw Pact, NATO states represented 44.4 percent of the gross world product and 377 percent of the world average GDP per capita.

The Warsaw Pact was a bloc firmly anchored, like the CMEA, in the semi-periphery. However, as it becomes obvious when we compare the curve for the CMEA (in figure 5.3) to that depicting the Warsaw Pact (in figure 5.4), the two had radically dissimilar trajectories. Specifically, the inverted U of the Warsaw Pact diverges from CMEA's curve in two ways. First, the Warsaw Pact started an overall contraction sometime around the mid-1970s, causing a precipitous drop in its global economic weight—a decline the CMEA never experienced.

The second, and geopolitically crucial, difference has to do with the structure of the global adversaries against which the CMEA and the Warsaw Pact were to be compared. The EU comprised a just slightly higher percentage of the gross world product than the CMEA until 1960, and even by 1990, after numerous steps of expansion, the EU's total global economic weight was barely twice the weight of the CMEA. In contrast, the global economic weight of NATO was around 3.3 to 3.6 times greater than that of the Warsaw Pact between 1958 and 1976. By 1980, this ratio increased to 3.71, passing the mark of 4 in 1985. By 1991, NATO represented almost exactly five times greater a share in the gross world product than the Warsaw Pact. As the main purpose of the Warsaw Pact was to a large extent maintenance of the Soviet bloc as an intricate system of political dependencies, this strikes me as a powerful piece of indirect geopolitical-economic evidence that goes a long way in explaining Mikhail Gorbachev's decision to dismantle the bloc as such.

Against this history of "system-competition," we can then examine the trajectories of individual socialist states,¹⁶ starting with the period of 1950 to 1989 (portrayed in figure 5.5). The trajectories contained in the CMEA and Warsaw Pact graphs were composed of a varied set of state-by-state experiences. This variation calls into question a number of widely held assumptions concerning the degree to which the Soviet bloc should be considered a monolith.

One typical trajectory is that of the USSR, the largest state of the Soviet bloc. Its curve depicts a history consisting of three phases. The first is marked by overall growth—an upswing in both dimensions—lasting from 1950 to the mid-1970s, when the USSR went from 135 percent to around 150 percent of the world average GDP per capita and managed to push its own global share from 9.5 percent to 10 percent in the post-Sputnik years of 1958 to 1961. This is followed, second, by a period of stagnation in terms of GDP per capita, and, third, the erosion of global weight so that the USSR's share in the gross world product fell below 9 percent by 1979 only to drop below 8 percent by 1987. By

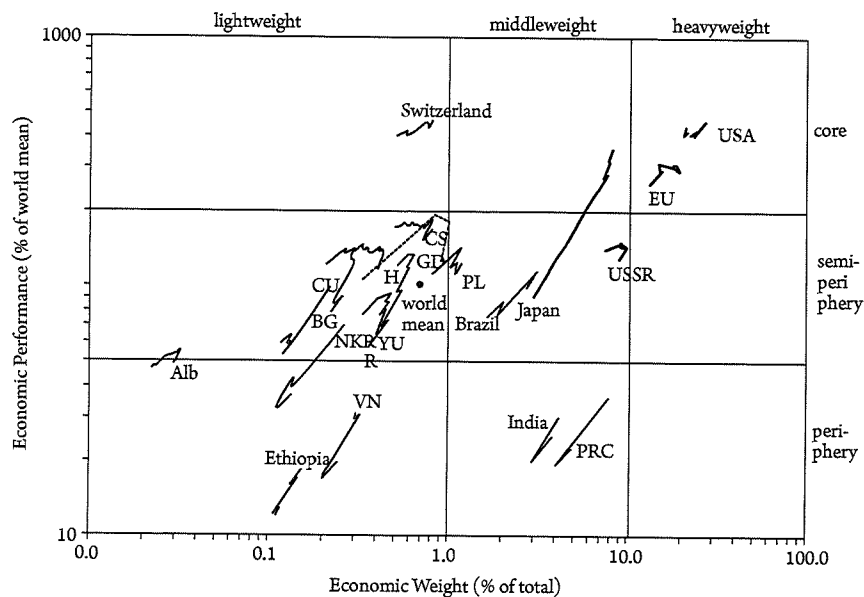


Figure 5.5 Trajectories of the States of the Socialist Bloc and Some Other States: Gross Domestic Product per Capita as Percentage of World Mean and Gross Domestic Product as Percentage of Gross World Product, 1955 to 1991. Source: Computed from Maddison 2001. Note: Labels indicate earliest datapoint.

1989, the USSR stood at 138 percent of the world mean GDP per capita, with a mere 7.7 percent share in the gross world product.

The German Democratic Republic's (GDR) dashed line resembles the inverted *U* of the Soviet pattern in an exaggerated form. East Germany experienced impressive overall expansion until 1972 when, with more than 190 percent of the world mean GDP per capita, it arrived at the doorstep of the core of the world economy. From 1954 to 1963, the GDR contributed approximately 1 percent to the gross world product. In 1972—its peak in per capita terms—the GDR still registered a .87 percent share in the world product, only to experience a precipitous decline, along both dimensions, from the mid-1970s until the late 1980s, so that, by the time of the fall of the Berlin Wall in 1989, the East German economy accounted for no more than .31 percent of the gross world product while, in per capita terms, it had fallen back to the world average, approximately 30 percent below its earliest available post-World War II figure (132.4 percent in 1950). The decline of its state socialist economy put the GDR in a global position worse than the one it had occupied after World War II (when it was of course part of defeated Nazi Germany).

During its state socialist period, the trajectory of Poland also replicated the Soviet pattern, reaching its apex in terms of global economic weight around

1958, with 1.4 percent of the gross world product while peaking, in per capita terms, with 141 percent of the world average GDP per capita in 1975. By 1989, Poland had fallen back to 110 percent of the world mean and to .81 percent of the gross world product. Albania, too, shows the same pattern, only at a much lower level, peaking in terms of GDP per capita at 55 percent of the world mean in 1975, followed by a precipitous decline into the periphery well before 1989.

An inverted *J* pattern—a variant of the inverted *U* where the decline is shorter and less severe than the preceding upswing—can be observed with respect to a larger group of states, all of them in eastern-central Europe. Bulgaria, Romania, Yugoslavia, Hungary, and Czechoslovakia each experienced longer and more radical upswings than the USSR and the GDR, followed by declines in global economic weight and, to a lesser extent, in per capita terms. The reduction in global economic weight is, in all of these cases, more persistent and of greater magnitude than the loss of position in terms of per capita incomes.

A different pattern involves what could be referred to as the “Third World” socialist states: the PRC, Cuba, North Korea, and Vietnam. Vietnam and North Korea endured major wars, Cuba was under a US economic embargo for more than a generation, and the PRC underwent the Cultural Revolution, not to mention its involvement in several regional wars during this period. Despite the radically different histories, the four curves appear to form a shared pattern: precipitous declines followed by a “rebound” that takes them back, almost exactly along the same lines, but to nowhere near the position from which they started. The emerging trajectory of the “Third World” socialist states is, notably, by and large the opposite of the predominant pattern for the states of eastern Europe and northern Eurasia.

Two marked regularities with regard to the states of eastern Europe and northern Eurasia are observable during the socialist period. First, and most strikingly contradicting standard neoliberal critiques, if not dismissals, of state socialism as an inherently unfeasible economic system, its onset did not result in measurable initial drops in economic performance in a vast majority of the cases. To the contrary, the early period of state socialism is marked by measurable, significant improvements both in per capita terms and in the dimension of global economic weight. Three things are in common among the cases that show this pattern: 1) they are a geographically contiguous bloc of predominantly semiperipheral states; 2) the cases are closely associated with the USSR, forming a geopolitical network clique (the Soviet bloc) manifested not only in coordinated international behavior but also in such organizational forms as the CMEA and the Warsaw Pact; and 3) their improvements unfold during peace time. (The widely used metaphor of the “Cold War” is, hence, somewhat misleading here.)

Second, as table 5.1 indicates, the economic woes and the erosion of the global position of the Soviet bloc states began well before their transformation to capitalism between 1989 and 1991. Two periods stand out: the oil shock years of the mid-1970s (also marking the first wave of indebtedness for the economies of east-central Europe) and the mid-1980s (the time of the second wave of debt obligations, largely aimed at refinancing the first wave).

Figure 5.6 is the first in a series of graphs depicting the trajectories of the former socialist states since 1989.¹⁷ The overwhelming pattern in the figures, focusing on the eastern-central European members of the Soviet bloc, is clear. A series of italicized Vs—a trajectory composed of two phases—becomes evident: a period of overall contraction (marking a drop in global position in terms of both the world mean GDP per capita and shares in the gross world product), followed by a rebound of sorts. Whether the second, upswing phase brings the curve back to the level of relative wealth at which the transformation began varies among the states in the region: Albania (Alb), Bulgaria (BG), *Czechoslovakia* (*CS*), and Hungary (H) had, finally, by 2008, reached their starting positions of 1990. *Yugoslavia* (*YU*) and Romania (R) are far behind even that modest growth.

Poland (PL) stands apart from its fellow eastern European former state socialist economies as a case unto itself. Here, the initial post-regime-change contraction is short, followed by a near-perfectly vertical climb, placing Poland at about 50 percent higher in terms of world mean per capita GDP than its starting position in 1990.

Meanwhile, loss of global economic weight is a pattern that applies uniformly to all postsocialist states, even if the losses of weight due to the dissolution of

Table 5.1 Beginning of the Downturn in Terms of Per Capita Gross Domestic Product in the States of the Soviet Bloc (expressed as percentage of the world average)

State	Year
Albania	1973
Bulgaria	1985
Czechoslovakia	1985
German Democratic Republic	1973
Hungary	1985
Poland	1977
Romania	1973
Yugoslavia	1987
Union of Soviet Socialist Republics	1987

Source: Computed from Maddison 2010.

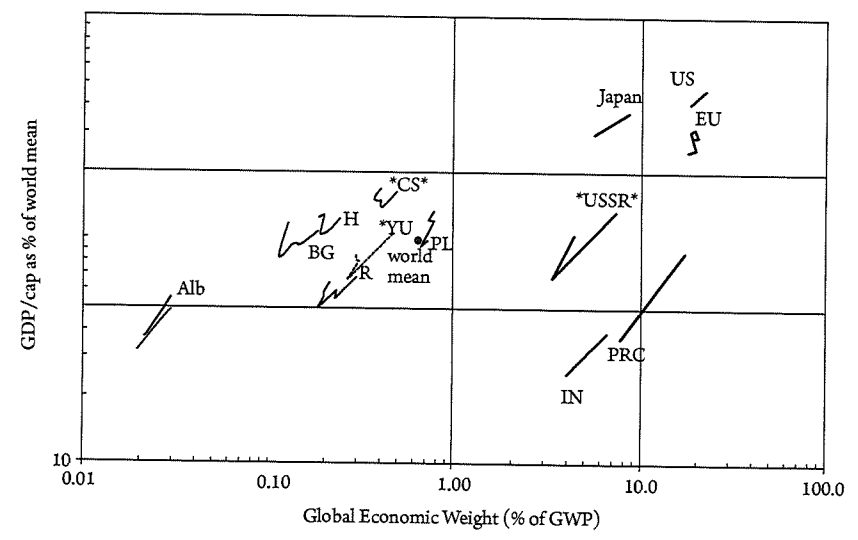


Figure 5.6 Trajectories of the East-Central European States of the Former Socialist Bloc and Some Other States: Gross Domestic Product per Capita as Percentage of World Mean and Gross Domestic Product as Percentage of Gross World Product, 1990 to 2008. Source: Computed from Maddison 2010. Note: Labels indicate earliest datapoint.

the former federal states of the *USSR*, *Yugoslavia*, and *Czechoslovakia* are accounted for. While there is considerable variation in terms of relative wealth, the geopolitical dimension of economic performance shows a near-uniform pattern of contraction; only the degree of the contraction shows some mild variation.

Figure 5.7 reviews the same period, focusing on the successor states of freshly dissolved *Czechoslovakia* (*CS*) and *Yugoslavia* (*YU*).¹⁸ Again, the patterns are strikingly similar, with three outliers; Slovenia (SL), Bosnia-Herzegovina (BiH), and Slovakia (SK) had reached, by 2008, the already quite reduced levels of per capita GDP with which they started the era of their independent statehood in 1990 and 1991. The effect of wars can be observed in the magnitude of the collapse in the cases of Croatia (CRO), Macedonia (FYROM), and Serbia-Montenegro (SM). Of the two successor states of the former *Czechoslovakia*, only smaller and poorer Slovakia has surpassed its initial wealth in global per capita terms by a minuscule percentage. The trajectory of the Czech Republic (CZ) shows an involuted pattern just below the threshold of the core of the world economy. Slovenia (SL) seems to have entered the core sometime in the closing years of the twentieth century, while Serbia-Montenegro, Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia, slid into periphery status for various amounts of time during the two decades that elapsed after the collapse of the Socialist Federal Republic of *Yugoslavia*.

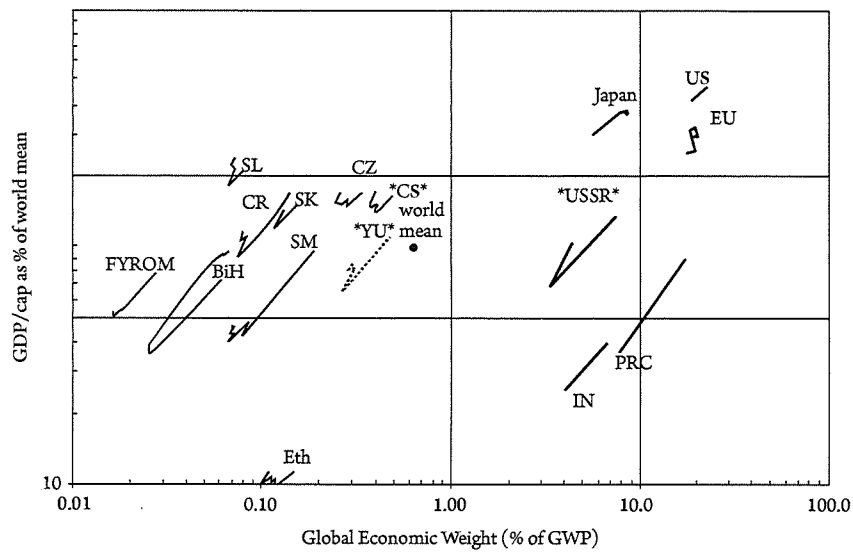


Figure 5.7 Trajectories of the Successor States of the Former Czechoslovakia and Yugoslavia and Some Other States: Gross Domestic Product per Capita as Percentage of World Mean and Gross Domestic Product as Percentage of Gross World Product, 1990 to 2008. Source: Computed from Maddison 2010. Note: Labels indicate earliest datapoint.

There is a fascinating political message concerning secession in the last graph. To the extent that at the heart of the political calculus leading to demands for secession was the idea of taking a certain loss of global weight in exchange for a better world-system position in terms of national income, and an expectation on the part of the relatively wealthier federal states that they would grow in per capita terms faster than the fellow republics they would leave behind, that expectation was met in only one case: Slovenia. Neither the Czech Republic nor Croatia—the two additional wealthier secessionist republics whose political elites may well have had a similar set of expectations—have experienced any major increase in their global position in per capita terms. As for war as a means of state building, in aggregate, the successor states of the former Yugoslavia dropped from 121 percent to approximately 65 percent of the world mean GDP per capita in four years (1989–1993) and barely managed to return to the world average by 2008. The two successor states of the former Yugoslavia that have managed to improve on their initial position are Slovenia—that was by and large saved from the ravages of civil war—and Bosnia-Herzegovina, whose postwar recovery since 1996 has occurred in a period during which the former Yugoslav republic was a de facto protectorate with sharply reduced sovereignty.

As for global economic weight, each of the successors of the federal states of east-central Europe commanded—just like their intact neighbors—less

global economic weight in 2008 than they did at the point of the dissolution of the states from which they seceded. Their total loss of global weight (a drop from Yugoslavia's .48 percent of the gross world product to an average of .06 percent for the successor states of Yugoslavia and a reduction from Czechoslovakia's .49 percent to an average of .20 percent for its two successor states) has, thus, two causal components: 1) the carving up of the federal states and 2) their further, *sui generis* post-state-socialist decline afterward.

Figure 5.8 shifts the focus to the post-Soviet context. The dissolution of the USSR produced 15 post-Soviet republics. The figure portrays the trajectories of those three successor states of the USSR—Estonia (EE), Latvia (LA), and Lithuania (LI)—that in 2004 became members of the EU. All three show essentially the same trajectory, one that is also by and large the same as the one for the societies of eastern-central Europe: a steep initial overall decline followed by an upswing. Estonia's and Latvia's upswing vaulted them above their starting positions (although the Latvian case shows only one year, 2007, when its per capita GDP stood at a point higher than in 1991) by 2008. Lithuania's curve also replicates the J-pattern associated with eastern-central and south-eastern European polities.

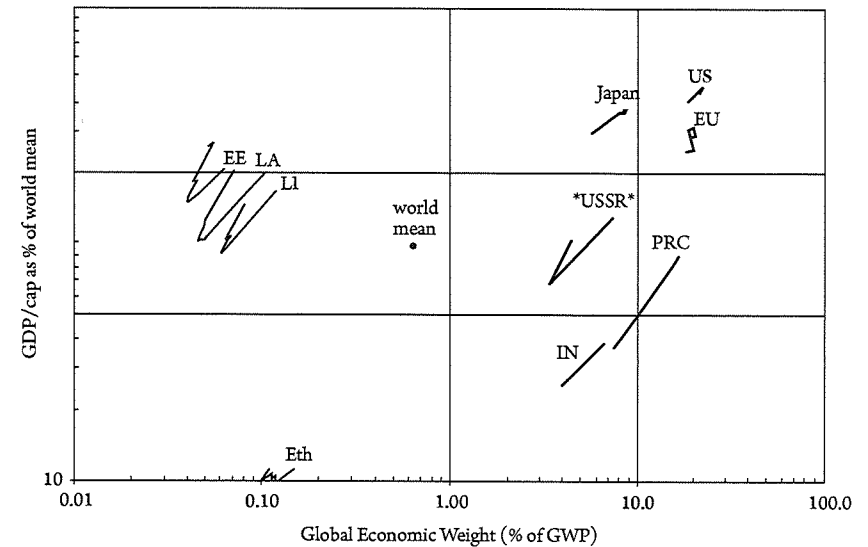


Figure 5.8 Trajectories of the European Union Member Republics of the Former USSR and Some Other States: Gross Domestic Product per Capita as Percentage of World Mean and Gross Domestic Product as Percentage of Gross World Product, 1990 to 2008. Source: Computed from Maddison 2010. Note: Labels indicate earliest datapoint.

In terms of global economic weight, all three post-Soviet EU member states conform to the by now all too familiar single pattern of contraction followed by a shorter and less powerful expansion.

As is discernible from Figure 5.9, even the largest and most powerful of the successor states of the USSR, Russia (Rus), has considerably less global economic weight than the USSR at its weakest. More striking, Maddison's estimates suggest that most of the USSR's non-EU-bound successor states—a vast majority of the former USSR's population—underwent a reduction in terms of both per capita income and global economic weight after the end of the USSR that approaches the catastrophic. Again, eight J patterns emerge, with only four Vs: Armenia's (Arm), Azerbaijan's (Aze), Belarus's (Bel), and Kazakhstan's (Kaz) global position in terms of the per capita GDP of 2008 exceeds their standing in 1991.

The post-1991, post-Soviet world produced such new entrants to the global periphery as Ukraine (with its GDP per capita sinking to 43.9 percent of the world average in 1999), Belarus, Azerbaijan, Tajikistan (Taj), Georgia (Geo), Moldova (Mol), Kyrgyzstan (Kyr), and Turkmenistan (Tur), listed in decreasing order of global economic weight. Of those, Kyrgyzstan, Moldova, and Tajikistan did not, until 2008, re-emerge from the periphery. Particularly severe is the case of Tajikistan, whose per capita GDP stood, in 2008, at 20.2

percent of the world average, almost half of India's percentage and barely above Bangladesh's.

The first years of the transformation were, clearly, disastrous for most post-Soviet societies. Armenia, Kyrgyzstan, and Turkmenistan saw their per capita GDPs cut by approximately half. Even more catastrophic was the transformation in Azerbaijan (dropping from 90 percent to 34 percent of the world mean), Moldova (120 percent to 36 percent), Ukraine (117 percent to 45 percent), Georgia (148 percent to 41 percent), and Tajikistan (59 percent to 14 percent). Making matters truly calamitous is the fact that those drops occurred suddenly, within just four to eight years after the dissolution of the USSR.

The aggregate of the successors of the former USSR sank from 7.7 percent to 3.3 percent of the gross world product between 1989 and 1998. The *USSR*'s 15 successor states combined registered a drop from 133 percent to 67 percent of the world mean GDP per capita between 1990 and 1998. At its dissolution, the USSR contributed a much reduced 7.3 percent of the world economy; by 2008, its 15 successor states had an unweighted average global economic weight of .29 percent.

A loss of half or more of a state's world-system position in terms of GDP per capita over a four- to 10-year period is unprecedented in peacetime. It is also important to note that the earliest point of comparison in the numbers previously quoted (from 1990 or 1991) is already, without exception, a point by which approximately five to 15 years of economic stagnation or contraction had already taken place.

No less significant for an adequate understanding of the global trajectories of the societies of the postsocialist context is the issue of global economic weight. In 1989, the most powerful state of northern Eurasia was the USSR, already reduced to 7.7 percent of the gross world product from the 9.5 percent it had during much of the state socialist period, followed by Poland (.81 percent), and Czechoslovakia (.513 percent). In 2008—the most successful year for the three largest postsocialist economies in the two decades following 1989—the region's economic powerhouse, the Russian Federation, registered a mere 2.51 percent of the gross world product, followed by Poland (.77 percent) and Ukraine (.45 percent). Thus it is obvious that the states of the former Soviet bloc became severely marginalized in terms of their ability to exert influence on the global economy and project their geopolitical power onto the outside world.

The global geopolitical-economic weight of northern Eurasia as a whole has been considerably reduced, not only compared to the peak of the state socialist period but also to the already diminished global economic weights that prevailed at the end of state socialism. Of the 27 states on which this chapter focuses, only two—Russia and Poland—displayed economic weight greater

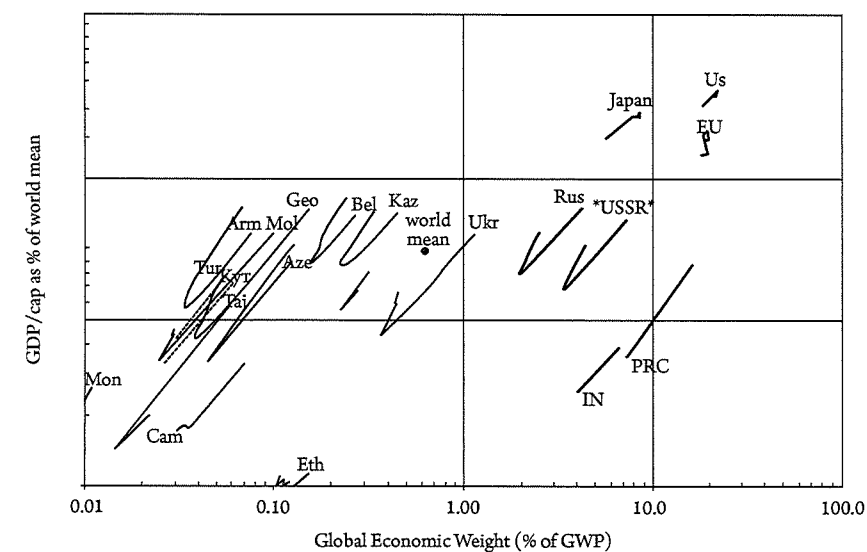


Figure 5.9 Trajectories of the Non-European Union Member Republics of the Former USSR and Some Other States: Gross Domestic Product per Capita as Percentage of World Mean and Gross Domestic Product as Percentage of Gross World Product, 1990 to 2008. Source: Computed from Maddison 2010. Note: Labels indicate earliest datapoint.

than the world mean in 2008, and all except Russia were, at that point, light-weight powers in global terms.

Implications

The implications of this overall reduction in the global sway of the states of the region, especially in the context of the recently ever more spellbinding increase of the global geopolitical-economic weight, and the resulting return to global prominence of a number of large Asian economies, especially China and India, are far reaching. The overall contraction of the former Soviet Bloc not only posed a stark counterpoint to the spectacular rise of parts of east and south Asia, it also served a closely related, crucial geopolitical function. For, given the zero-sum technique of computing percentage shares of gross world product, *ceteris paribus*, the increases in the global economic weight of the PRC and India would have to entail parallel reductions somewhere—likely, at least to some extent, in the global economic weights of other polities that are large and powerful actors in global geopolitics today.

The total magnitude of the losses of east-central and southeastern European and northern Eurasian former socialist states during the 1990s—approximately 5 percent of the gross world product—more than matched the then still relatively modest gains made by China and India (altogether 4.43 percent) during the same period. The precipitous contraction of the global economic weight of the former Soviet bloc thus provided a geopolitical buffer that absorbed China's and India's gains and postponed what appears to be an inevitable geopolitical conflict between the rise of the two Asian giants and the current heavyweights of the capitalist world economy. However, this post-Soviet buffering process was a distinctly short-term phenomenon; for, during the first decade of the twenty-first century, the combined gains of China and India grew by more than 8 percent, while the former Soviet bloc stopped contracting and even registered a modest 1 percent overall growth. China's and India's percentage increases will have to be, therefore, absorbed by geopolitical locations other than the former Soviet bloc and through geopolitical means other than the collapse of state socialism, which is of course an unrepeatable historical event.

A second corollary reflects the fact that the collapse of the imperial power of the USSR and the dissolution of the region's federal states redrew the map of power relations in the region itself. What was in 1989 a group of nine socialist states is now 27 smaller, in some cases much smaller, capitalist states, a transformation that one would expect to increase the complexity of international relations exponentially, even if one had no knowledge

of the historical tensions that exist among various sets of these states. This is particularly relevant to the issue of the relationship between the states of east-central Europe and the Baltic region, on the one hand, and Russia, on the other. Membership of some, but by far not all, of the postsocialist states in the EU and NATO further complicates the new global geopolitics as it applies to the former Soviet Bloc.

Meanwhile, the possibility of at least one new kind of inequality has appeared, one that involves the processes of state formation on the ruins of what used to be the socialist federal states. This transformation is specific to the post-state-socialist history of the region, owing to the fact that, while some states have been carved up into several successors—and each of these successors marshal, by definition, considerably less global power than their former federal state—other states did not undergo such a process of dissolution. Having avoided this round of dissolutions and its corollary, the drastic reduction in global economic weight, such states as Poland, Hungary, Romania, and Bulgaria have found themselves in somewhat more powerful positions vis-à-vis their subdivided neighbors. From a geopolitical perspective it is crucial to note that each of these four states exists in a context in which at least some, if not, as in the case of Poland, all of its neighbors have undergone radical changes in their global economic weight in the aftermath of state socialism.

The uncomplicated modernizationist expectations that the post-state-socialist states would rapidly catch up with the rest of Europe were simply wrong. This, by itself, comes hardly as a surprise to global analysts.

What is most striking about the post-1989 transformation is the uniformity with which the global economic positions of a vast majority of the region's states collapsed, along basically a single precipitous pattern, followed by a somewhat feeble rebound. It appears that, ironically, the state socialist period showed much more variation among members of the Soviet bloc than post-state socialism. Whether they are predominantly western Christian, eastern Orthodox, or Muslim, whether their governments pursue policies that are neoliberal, embedded neoliberal, or neocorporatist (Bohle and Greskovits 2007), whether they are poorer or richer, small, medium-sized or large, whether they privatized their assets primarily to foreign multinationals or domestic oligarchs, whether their current economy depends on exports of machine products, agricultural goods, or energy and raw materials, each lost global positions, to a significant degree, along both of the dimensions previously surveyed. At best, some could boast only of having regained their already reduced positions of 1990 in GDP per capita terms; others have not succeeded in making even that dubious achievement. Even more striking, none among the 27 postsocialist states surveyed here had by 2009 recuperated its already significantly reduced global economic weight of 1989.

As for the exceptions, a much more thorough investigation would be required to find a model specifying the concrete mechanisms that produced them. This is not something I could attempt in this chapter in a systematic manner.

As for Poland, the clear outlier case in terms of per capita GDP, the one thing that set it apart from most former eastern-central European members of the socialist bloc is that approximately half of its foreign debt—approximately \$33 billion (Farnsworth 1994), primarily that part which was owed to foreign governments—was forgiven in 1991 (Callaghy 2004). All other postsocialist states of east-central Europe have been duly paying their debts ever since, and the only form of debt relief available to them is turning privatization revenues to debt repayment, a process that ends up coming close to the debt-equity swap schemes that ravaged a number of Latin American economies in the late 1980s. But this is, clearly, neither a well-worked out, nor a logically sufficient, explanation for Poland's exception. Further weakening the power of this argument as a monocausal explanation, Russia was subject to no fewer than five (Callaghy 2004) similar acts of debt forgiveness during the nineties (1993, 1994, 1995, 1996, and 1999). Yet its per capita GDP shows no upswing similar to that of Poland. Slovenia, on the other hand, also had a discernible net increase in its global position in per capita terms, despite the absence of a debt writeoff.

It is possible to argue that what Maddison's data capture is the first phase of a pattern in which more robust economic change will happen in a later, second phase. A number of considerations prompt me to be skeptical about this reading. First, the only argument I am familiar with that would propose such a development in a systematic fashion suggests that concerted efforts by a developmental state, requiring serious retooling for national development as a large-scale sociopolitical project, might produce a dynamic whereby initial contraction is followed by sustained growth.

The first problem is that there is no discernable evidence of such a developmental state anywhere in the vast postsocialist space that stretches from the Elbe to the Pacific Ocean. Time is a second problem with this argument: It is difficult to claim that retooling the economy by the developmental state would take two decades in a context, like that in the former Soviet bloc, in which a fully literate, well-trained and disciplined labor force is abundantly available and in which a fairly well-organized and coherent economic infrastructure exists, characteristic of semiperipheral economies specializing in export-oriented industrial strategies of growth. In addition, there is no known history of a developmental state that operated under the following set of external conditions: a globally hegemonic neoliberal ideology, high levels of foreign direct investment, and the relinquishment of sovereignty to two meddling supra-state public authorities, the EU and NATO.

Meanwhile, the cases of China (see So 2009) and Vietnam seem to serve as powerful examples of socialist developmental states that operate with a considerable degree of global success. If anything, as Barry Naughton's incisive study—chapter 6 of this volume—confirms for China, the differentiation of property ownership (into central-state and local-state-owned, as well as party-owned patterns) and the expansion of nonprivate forms of ownership suggest the reassertion and solidification of the predominantly state socialist character of profit making.

Another optimistic reading could argue that the losses of position the data depict are merely "transformation costs," an idea patterned after the notion of transaction costs. János Kornai argued this position in 1994, introducing the term *transformational recession*. The problem with this interpretation centers on magnitudes. Losses of more than half of the GDP per capita rates and even greater proportions of global economic weight—too large even for periods of war, famines, or natural catastrophies—appear much more significant than diminutions that could be ascribed merely to passing difficulties of adjustment or "transformation costs." If we accept the notion of transformation cost, we need, at a minimum, some additional factors that will help explain the enormity of the losses.

For lack of any convincing argument suggesting that the drastic setbacks outlined in this chapter are short-term and transitory steps toward a brighter future, I am forced to conclude, at least tentatively, that the reductions in global economic performance previously described are the parameters of a new status quo. What the extreme right-wing forces of the region will do with this state of affairs is an open-ended question.

As arresting as the catastrophic drops in per capita GDP is the drastic and generally uniform reduction in the global economic weight of the former socialist states. Economic crises before 1989, the dissolution of the federal states, and the reduction in shares in world product after 1989 have all lessened the ability of these states to exert sovereign influence on the world outside their borders, thus diminishing their ability to be independent geopolitical actors. All other things equal, this trend increases the relative power of all other, already powerful actors in the space of geopolitical power in which the former socialist states operate and makes it more likely that the postsocialist states, especially the smallest ones, will undergo significant pressures to experience increased levels of external political and economic dependency on more powerful public authorities, especially those in their geostrategic proximity.

Notes

The first version of this chapter was prepared for presentation at the 1989 Anniversary Conference, organized by Nina Bandelj and Dorothy Solinger, at the University of California at Irvine, November 6–8, 2009.

Data used in this study have been accessed electronically through Rutgers University's Alexander Library. The original, conference version of this paper was prepared while I benefited from two residential fellowships: one at Collegium Budapest/Institute for Advanced Studies, the other at the Jawaharlal Nehru Institute of Advanced Study at the Jawaharlal Nehru University, New Delhi, India, and it received its final touches while I held fellowships at the Zentrum für Höhere Studien and the Geisteswissenschaftliches Zentrum für die Geschichte und Kultur Osteuropas, both at the University of Leipzig, Germany. Financial support from Collegium Budapest, JNIAS, and the University of Leipzig are gratefully acknowledged. I am truly grateful to Mahua Sarkar for her encouragement, comments, and criticisms.

1. In order to avoid the Cold War-inflected convention of reifying these geographical areas as internally homogenous, externally distinct "regions," I do not capitalize the adjectives that point at them. By "northern Eurasia," I refer to the successor states of the former USSR; "eastern Europe" includes the remainder of former state socialist societies in Europe.
2. Of the many, valuable approaches to understanding the history of neoliberal hegemony, let me quote here the most relevant one, which puts it squarely in the center of an analytical framework developed in the context of the supranational project of the European Union: van Apeldoorn et al., 2003, especially pp. 37–39.
3. See Böröcz 2010, especially the chapter titled "Global Economic Weight in the *Longue-Durée*: Nemesis of West European Geopolitics."
4. No doubt, there is a large number of important dimensions along which this transformation could and should be analyzed, so that these two represent—in my mind, very important, but still—a partial subset of the relevant "angles."
5. By *geopolitics*, I mean simply the ways in which organizations project their power into the world outside their borders.
6. For more on the implications of this two-dimensional view of the global trajectories of states, see Böröcz 2010, especially the chapter titled "Global Economic Weight in the *Longue-Durée*: Nemesis of West European Geopolitics."
7. Maddison's data set provides estimates for economic performance and population for more than 2,000 years of world history.
8. Geary-Khamis USD. For more detail on the estimation procedure, see Maddison 2006a, 2006b.
9. This section, explaining the logic of the presentation of the empirical data, follows closely the way in which the technique is introduced in Böröcz 2010. For more detail, please consult the chapter titled "Global Economic Weight in the *Longue-Durée*: Nemesis of West European Geopolitics."
10. Ibid.
11. Maddison's data set does not provide estimates for CMEA, the EU, the Warsaw Pact or NATO; these figures were produced by summing up the global economic weight (measured as percentage share in the gross world product) of their member states and by computing the unweighted mean of their per capita GDP (expressed as percentages of the world average). The CMEA figures have been computed by summing up the estimates for Bulgaria, Czechoslovakia, the GDR, Hungary, Poland, Romania, and the USSR for the entire period and adding the scores for Albania (until 1961), Mongolia (from 1962), Cuba (from 1972), and Vietnam (from 1978). Yugoslavia—which never attained full membership status in CMEA—is not included in the estimates.
12. I have omitted from this figure, as well as all subsequent figures representing "real-life" data, most of the world's more than 200 states. This was necessary because their inclusion would make some parts of the graph, especially the peripheral-lightweight and semiperipheral-lightweight cells so cluttered that it would be impossible to discern the patterns I seek to focus on here. It is important, therefore, to keep in mind that, were this a fully inclusive graph, most of the world's states would be found in the left bottom and left middle cells.
13. The divergence between the trajectories of the CEMA and the PRC clearly outline China's specific geopolitical status in contrast to the rest of the state socialist world. Its

differentia specifica is the absence of what I have described earlier as dual dependency. Instead, socialist China has occupied what Barry Naughton accurately describes in chapter 6 of this volume as a room for maneuver between the USSR and the United States, without any major degree of dependence on either.

14. For a more detailed analysis of the global geopolitics behind the EU's strategy of growth, see Böröcz 2010.
15. The temporal cutoff points (1955 to 1991) are slightly different than in figure 5.3, reflecting the establishment and dissolution of the Warsaw Pact. The Warsaw Pact figures have been obtained by adding the scores for Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and the USSR.
16. For reference, I have included in this and all subsequent graphs the trajectories of Switzerland, Brazil, and Ethiopia as representatives of characteristic trajectories within the core, the semiperiphery, and the periphery.
17. Figure 5.6 shows the federal states of the socialist bloc—dissolved during the period observed here—as if they had remained intact, for example, as composites of their successor states. To signal this fact, the labels referring to the composite numbers of the now defunct, former federal socialist states are marked with asterisks, such as *CS* (for erstwhile Czechoslovakia), *YU* (for former Yugoslavia) and *USSR* for what used to be the Soviet Union.
18. The starting dates for the lines in this graph vary slightly, owing to differences in the times when the successor states were established.
19. See Kornai 1994. The main factors he outlines (and calls "causes") are descriptively accurate, empirical features of the transformation: "(1) the shift from a sellers' to a buyers' market, (2) the transformation of the real structure of the economy, (3) the disturbances in the coordination mechanisms, (4) the macroeconomic consequences of the hardening of financial discipline, and (5) the backwardness of the financial system" (39). How they qualify as causal explanations in a truly comparative-historical sense is left, lamentably, to the reader to decide.

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The 1989 Watershed in China

How the Dynamics of Economic Transition Changed

BARRY NAUGHTON

The year 1989 in China was marked by the defeat of a group of reformists in the Communist Party leadership and the shattering of hopes of continuing political liberalization that were held by many. In retrospect, it is clear that 1989 also marked the end of one era of cautiously managed economic reform. Economic reform, as such, did not die, but when reforms resumed in earnest around 1992, they took on a new form, more resolute and in some ways harsher. The new reform pattern reinforced state and Communist Party interests, while exposing some social groups to major losses. Income grew dramatically, but inequality increased and economic life became more precarious. The post-1989 model of economic reform was one of concentrated power wielded more effectively and led to a remarkable recovery in the power of the Chinese state.

This chapter addresses the change in China's reform and development model before and after 1989, from a primarily economic standpoint. Both the before and after periods were characterized by gradual marketization and incremental institutional change. Nevertheless, they differed in the priority given to government interests and the willingness to allow specific social groups to bear the costs of marketization. The contrast between the periods should be understood with reference to the international political context, as well as the domestic political framework, within which Chinese reform developed. Before 1989, China had an unusual degree of international space, or room for maneuver. Domestically, by contrast, reformers faced tight political constraints, but they managed to carve out space for reforms by following policies that maximized their own room for maneuver. After 1989, the calculations of policy makers changed dramatically. China frequently felt "crowded" (especially by the United States), but domestically the leaders achieved a new authority to restart economic reform according to a different template. As a