Budapest in Warsaw: Central European Business Elites and the Rise of Economic Patriotism since the Crisis

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Abstract

After the collapse of communism, political elites in Central and Eastern Europe (CEE) implemented economic reforms that were largely inspired by the prevailing neoliberal paradigm. One of the consequences of these reforms was that the region's economies became very open to foreign direct investment and their growth became increasingly dependent on the capital and technologies brought by foreign multinational companies. This developmental path has been gradually challenged since the global financial crisis. CEE policy-makers have indeed started introducing policies that give special advantages to firms controlled by domestic private capital or by the state. While conventional wisdom would have it that such strategies of 'economic patriotism' should be primarily promoted by political parties with a nationalist ideology, this paper argues that – whether governments have developed an explicitly nationalist discourse or not – the driving force behind these developments has been the political mobilization and growing influence of CEE domestic entrepreneurial and managerial elites. The argument is assessed with a comparative historical analysis of corporate governance reform in Hungary and Poland since the late 2000s.

1. *Introduction*

It has often been claimed that economic crises can facilitate processes of dramatic institutional change (Gourevitch 1986; Blyth 2001). The Global Financial Crisis of 2008 and the Great Recession that followed it could have been expected to become such turning points. Yet the emerging literature on the political economy of the crisis has tended to emphasize the rather limited extent of innovation in affluent democracies' recent economic policy-making. To be sure, governments went through a brief neo-Keynesian moment at the outset of the Great Recession, when they introduced fiscal stimulus packages. But, while increases in public spending were emblematic of demand-side policies in the 1970s, tax cuts have now become policy-makers' preferred tool of demand management. As a result, some scholars have talked about the emergence of a form of "liberal Keynesianism" (Pontusson and Raess 2012; see also Vail 2014). More importantly, governments' menu of policy options has now become much narrower since, in sharp contrast to the past, policy-makers have for example not resorted to currency devaluations or protectionist trade policies (Bermeo and Pontusson 2012; Haggard 2013). Grant and Wilson (2012: 13) have thus argued that "it is the enduring strength of neoliberalism that is now impressive". Similarly, Schmidt and Thatcher (2013) have highlighted the remarkable "resilience" of neo-liberal ideas in the wake of the crisis.

In this landscape of limited change, one region stands out for having gone against the current, namely East Central Europe (ECE). Recent political science studies have shown how, in a number of ECE countries – but most visibly in Hungary –, politicians have started questioning the dominant neo-liberal policy agenda and have increasingly favored interventionist policies that are more akin to East Asian countries' state-led development strategies. This trend has been best exemplified by Hungary because, since 2010, Viktor Orbán's Christian-conservative government has adopted an overtly nationalist discourse and pursued "unorthodox" policies that have targeted some of the core elements of the neo-liberal creed, including central bank independence or openness towards foreign investors (Orenstein 2013; Bohle 2014; Johnson and Barnes 2014). In his foreign policy, Orbán has also had increasingly tense relations with West European countries and has adopted a strategy of "Eastern opening", in particular towards China.

This is a very significant development because ECE countries were "global leaders in the adoption of neo-liberal ideas and policies during the 1990s and 2000s" (Orenstein 2013: 374). After the collapse of communism, these countries were subject to the influence of transnational actors such as international financial institutions, the European Union (EU) and

Western multinational companies (MNCs). This in turn had a substantial impact on the development path that the region followed. From the late 1990s, different ECE governments tried to outcompete each other in attracting foreign direct investment in order to modernize their manufacturing and financial industries (Bandelj 2008; Epstein 2008a; Drahokoupil 2009). As a result, Western MNCs became those economies' leading enterprises (Bohle and Greskovits 2006a; 2006b; 2012). The region's striking dependence on foreign capital and technologies has led some scholars to characterize ECE countries – in particular the so-called Visegrad Four (i.e. Hungary, Slovakia, the Czech Republic and Poland) – as "dependent market economies" with a comparative advantage in the assembly of goods such as cars or consumer electronics (Noelke and Vliegenthart 2009).

This paper aims to shed light on the paradigm change that has recently happened in these countries' economic policy-making. Few observers expected that the region's prevailing growth model might start being redesigned so suddenly. But studies of policy developments since the crisis have in fact tended to *underestimate* the extent of the transformation that has taken place. Although it has been argued that opponents of neoliberalism have followed suit in countries such as Bulgaria, Romania or Slovakia (Orenstein 2013: 376; 395), scholars have typically considered Hungary as the prime example of the rise of statist or nationalist economic policies (cf. Orenstein 2013; Bohle 2014; Johnson and Barnes 2014). This is unsurprising due to the Orbán government's openly nationalist rhetoric. However, what is more surprising is that the region's largest country, Poland, and its post-2007 government led by liberal politician Donald Tusk have been presented as "a model of stability" that "has not abandoned the neo-liberal development strategy" (Orenstein 2013: 390).

Such an interpretation of events in Poland is indeed wrong. As will become clear from this paper, Poland has, just like Hungary, implemented a strategy of "economic patriotism" – i.e. policies that give special advantages to firms controlled by domestic private capital or by the state – since the global financial crisis. It is true that there has been no frontal attack by the Tusk government on foreign investors or on central bank independence. However, Polish policy-makers have introduced mechanisms that protect some of Poland's largest domestic firms from hostile takeover bids. They have also tried to increase the market share of banks controlled by domestic capital. They have started introducing elements of a state-coordinated industrial policy. Finally, if they have not turned away from the rest of Europe, they have certainly opened their foreign policy towards Asia, including China. Why has this happened under a government whose main party – Donald Tusk's Civic Platform (PO – *Platforma Obywatelska*) – has traditionally had a "neoliberal" orientation towards economic policy?

Moreover, if one were to listen to the Orbán administration's "nationalist" discourse, some of its actions – or rather non-actions – may also seem puzzling: Why has it *not* decided to expel Western MNCs more forcibly (cf. Johnson and Barnes 2014: 28)? And why has it *not* pursued protectionist trade policies?

In order to understand the nature of recent economic transformations in ECE countries, one needs to look beyond governments' discourse on their own economic policies. Due to the controversies that strategies of economic patriotism may engender with foreign investors or governments, such policies may be introduced in such a way that they escape public attention. This paper argues that – whether governments have developed an explicitly nationalist discourse or not – a crucial factor behind the rise of economic patriotism following the financial crisis has been the mobilization of domestic entrepreneurial and managerial elites. Indeed, the introduction of selectively protectionist regulations cannot be seen as a purely ideological reaction to the neoliberal path of development, but rather as the symptom of an inextricable link between political ideas and business interests. As the Great Recession depressed ECE countries' – primarily West European – export markets and increased the risk of capital flight, it is not only politicians, but also domestic business communities that have looked for new sources of economic growth. In this context, firms and governments have worked together in order to introduce new institutional arrangements that would help domestic enterprises to retain or regain control of their shareholding structure, to move up the value chain and to break into new markets at the global level. Businessmen had high stakes in the reforms. Politicians could act both for ideological and electoral reasons. But economic patriotism ultimately served as a "binding agent" between the two groups (cf. Woo-Cumings 2005).

In highlighting the central role of business in the rise of selectively protectionist policies since the crisis, the paper directly builds on the comparative political economy literature on business and institutional change (Hall and Soskice 2001; Deeg and Jackson 2007; Hall and Thelen 2009; Culpepper 2011; Martin 2012), but it also helps to put firms at the center of constructivist scholarship in international political economy (cf. Abdelal 2013; see also Woll 2008). Section two reviews the literature on economic nationalism/patriotism and presents the theoretical framework. Section three compares the evolution of business-government relations in Hungary and Poland since the crisis, and shows how these materialized in the area of corporate governance reform. The final section points to other areas of economic policy-making where business-government cooperation has been increasingly effective and considers the implications of the paper's findings for the future of ECE political economies.

2. *Economic Patriotism or the Inextricable Links between Ideas and Interests*

Economic globalization and the theoretical questions that it poses for political science have led constructivist scholars to develop a "nationalist perspective" on international political economy (cf. Abdelal 2001; Helleiner 2002; Helleiner and Pickel 2005). This approach has tried to solve puzzles pertaining to issues such as countries' preferred patterns of trade integration or institutional choices over monetary policy. For example, why, after the disintegration of the Soviet Union, did Baltic countries orientate their foreign economic relations towards the West, whereas Belarus stuck to Russia and the Ukraine hesitated whether to integrate with Western countries or the Russian economy (Abdelal 2001)? Or why have nationalists in some territories aspiring for independence – such as Quebec or Scotland – not wanted to create their own national currencies (Helleiner 2005)? The literature on "economic nationalism" has argued that the answer to such questions lies not in the examination of the (material) interests of state actors or of the social groups that governments have represented, but in in the study of particular (ideational) conceptions of national identity. Since identities can refer not only to national but also to regional or supranational entities, recent contributions have preferred to talk about economic "patriotism" rather than solely about "nationalism" (Clift and Woll 2012).

Scholars working with this approach have emphasized the causal influence of different identities, but they have repeatedly highlighted that the concept of economic nationalism/patriotism should not be equated with old-style mercantilist or protectionist policies and that it could very well be "associated with a wide range of policy projects, including the endorsement of liberal economic policies" (Helleiner 2002: 307). Indeed, politicians have often backed the liberalization of economic regulations with the more or less explicit aim of furthering the interests of firms based on their countries' territories (see also Harmes 2012). A classic instance is governments' liberalization of their own domestic stock exchanges and financial services industries in order to promote them as national champions in the global competition between financial centers (Callaghan and Lagneau-Ymonet 2012; Morgan 2012; Naczyk and Palier 2013).

But another characteristic example of the non-protectionist manifestation of economic nationalism/patriotism has been precisely the predominance of the neoliberal paradigm in

ECE countries following the collapse of communism. In the same way as nationalism was a driving force behind the region's opposition to foreign-imposed communist regimes (Bunce 2005; Darden and Grzymala-Busse 2006), conceptions of national identity – and in particular the willingness of many anti-communists to sever ties with the Soviet Union and to anchor their countries to the Western bloc – also played a decisive role in the widespread adoption of neoliberal ideas by political elites (Jacoby 2001; Orenstein 2013). Liberal economic policies – including the liberalization of trade relations with the West, the privatization of state-owned enteprises (Appel 2000), the attraction of foreign direct investment in manufacturing and financial services (Bandelj 2008; Epstein 2008a; 2008b; Drahokoupil 2009) – promised to offer greater access to badly needed capital, technologies or managerial know-how, and to foster economic growth. However, they were also perceived as the best way for ECE countries to fulfill their national visions of "returning to the West". More statist conceptions of economic development were articulated in the early 1990s (Stark and Bruszt 1998; Orenstein 2000; King and Sznajder 2006) and right-wing nationalist politicians denounced the shift from a dependence on the Soviet Union to dependence on the West throughout the 1990s and 2000s (Orenstein 2013: 383-384). But these alternative views were generally overcome by the quasi moral imperative of joining the Western World and the EU.

As has already been highlighted by recent studies (cf. Orenstein 2013; Bohle 2014; Johnson and Barnes 2014), the Global Financial Crisis of 2008 was a game changer because it revealed the vulnerability of the hitherto dominant development model. The Great Recession resulted in the collapse of ECE countries' overwhelmingly West European export markets. More importantly, it heightened awareness of the threats posed by excessive dependence on foreign capital (see also Bohle and Greskovits 2012: Chapter 6 and Conclusion). This was clear in the case of banking systems. In the late 2000s, typically over 70 per cent of ECE banking assets were controlled by foreign banks, while this figure was generally below 20 per cent in the old EU-15 member states (Epstein 2008b: 880). ECE banks' status as subsidiaries of foreign MNCs gave them easy access to foreign liquidity and helped them fuel credit booms in the 2000s. But the outbreak of the crisis led West European governments and regulators to put pressure on their domestic banks to continue lending at home and to deleverage from foreign markets. This caused fears about a withdrawal of international liquidity from ECE countries and a possible credit crunch in the region (Epstein 2013; 2014). Similarly, in the manufacturing industries, fears grew of a relocation of plants controlled by foreign MNCs after French president Nicolas Sarkozy pressured domestic car manufacturers to bring production back from the Czech Republic to France in early 2009 (Clift 2012: 219-221).

This new context undoubtedly strengthened those ECE politicians who were ideologically opposed to neo-liberalism already before the crisis (Orenstein 2013). Nationalist – meaning here, anti-Western – appeals could garner even greater support due to the roots of the crisis in an international financial system shaped mainly by Western nations (Johnson and Barnes 2014: 6). Yet this paper argues that political parties with a nationalist or statist orientation are neither the only, nor always the main, political carrier of strategies of economic nationalism – here considered not as an explanatory factor (cf. the causal impact of specific conceptions of national identity), but as the dependent variable (cf. policies that selectively discriminate in favor of domestic firms). Domestic business elites play a crucial role both in bringing such strategies on the political agenda and in implementing them. Although the "extraordinary politics" of the early post-1989 transition period had allowed economists and radical policy ideas to wield much greater influence than they would have in "normal" times (Balcerowicz 1994), the entrenchment of capitalism has allowed business to become one of the most strongly organized interests two decades after the collapse of communism (Bohle and Greskovits 2006b; Schoenman 2014).

The domestic owners of companies – both small and large – and their managers have a strong *a priori* interest in wanting to obtain favorable regulations from their home governments. But, strikingly, the managers of subsidiaries of foreign multinationals may also contribute to the reorientation of policies away from the predominant neo-liberal paradigm. Indeed, in the context of the crisis, the protectionist pressures from West European governments have created uncertainty regarding these managers' professional position. If an MNC pulls out from these managers' home country, this directly threatens both the business operations over which they have had responsibility and their own career advancement. Interests and ideas are thus inextricably intertwined since crises may lead some corporate actors to reinterpret their interests (cf. Blyth 2001).

Business interests and political ideas are also intertwined because the business community and party politicians *need each other* for putting their respective plans into effect. Entrepreneurs and managers cultivate relations with politicians so that governments introduce their preferred regulatory changes. But their demands for selective protections are not necessarily translated into governments' official discourse because they can generate negative reactions from foreign investors or governments. Due to the increasingly freer movement of goods, services and capital across national borders since the 1970s, firms and governments are now constrained by relatively well entrenched international free-market regulations. Consequently, policy-makers have had to invent new modes of interventionism for the promotion of domestic firms in global markets (Woll and Clift 2012: 309-312), and business groups have typically pressed for institutional changes in relatively low salient areas such as corporate governance, investment in research and technology, vocational training or business diplomacy. An example of such “quiet politics” where government discourse and practice do not systematically coincide is corporate governance, and in particular the issue of anti-takeover protections (Culpepper 2011). The introduction of technical devices such as “poison pills”, “voting caps”, “dual-class shares” (i.e. not respecting the “one-share-one-vote” rule), “golden shares” or “cross-shareholdings” – which give managers the ability to protect their companies from hostile takeovers – does not generally make the headlines and remains largely unknown to the general public (see also Barca and Becht 2001; Gourevitch and Shinn 2005).

While business needs politicians to implement some of its demands, those politicians whose ambition is to reorient their country’s model of development towards greater participation of domestic capital have powerful incentives to collaborate with domestic entrepreneurs and managers for two main reasons. First, in market economies where state ownership of firms has decreased considerably, domestic business elites control the technical and financial resources that can help politicians to implement their strategies (Lindblom 1977). In that sense, business-government relations become almost symbiotic when it comes to the introduction of selectively protectionist measures. Second, as party politicians pursue new strategies of economic development, they may also use it to try to build or strengthen an electoral constituency among the business community (Martin 2011; 2012). If the domestic business community has a preference for selectively protectionist regulations, the introduction of such institutional arrangements is electorally advantageous. This type of political dynamic could be all the more expected in ECE countries where political parties have fostered links with their own allied segments of business since the early 1990s (McMenamin 2004; Schoenman 2005; McMenamin and Schoenman 2007; Stark and Vedres 2012; Schoenman 2014). Governments may or may not develop a nationalist discourse in order to appeal to broader segments of the electorate (Kitschelt et al. 1999; Kriesi et al. 2008), but, in the first instance, the pursuit of strategies of economic nationalism serves as a “binding agent” between business and political elites (Woo-Cumings 2005).

In sum, if neoliberalism and radical openness towards foreign investors could be seen as the expression of the pro-Western nationalism of most ECE countries, the Global Financial

Crisis showed the threats associated with too high a reliance on foreign control of the economy. This new political context could strengthen the position of political parties that were traditionally skeptical of the dominant neo-liberal paradigm. However, more importantly, the crisis led ECE business elites to mobilize and press for policies that would selectively benefit domestic firms. Many of such protectionist arrangements could be introduced away from the spotlight. But even politicians who would try to shape a political discourse around the issue of economic nationalism would cultivate close relations with business both in order to be able to implement their strategies and in order to capitalize electorally on them. The next section assesses this theoretical argument by examining both the Hungarian and the Polish cases.

3. *Economic Patriotism in Discourse and Practice: The Hungarian and Polish Cases*

Since 2010, Hungary's Prime Minister Viktor Orbán and his Christian-conservative Fidesz party have pursued policies that have partly reversed the country's previously neoliberal and pro-Western course. In reality, as early as 2002, Orbán fought a legislative election on a platform that emphasized the need for what he himself called "economic patriotism" (e.g. MTI 2002a; 2002b; see also Duman and Kureková 1221-1222). Similarly, during the 2006 election campaign, the politician declared that "our philosophy is that there are economic opportunities in Hungary and these should be above all for Hungarians" (Agence France Presse 2006). When Fidesz got back to power in 2010, Hungary faced a severe economic and fiscal crisis. As the Orbán government tried to renegotiate a loan agreement with the International Monetary Fund (IMF), the Prime Minister said he would "not accept diktats" from the institution (New York Times 2010). The government's Minister of National Economy, György Matolcsy, started introducing "unorthodox" economic policies such the nationalization of the country's – largely foreign-controlled – private pension fund industry or the introduction of special taxes levied on mostly multinational banks, energy companies, telecommunication firms or retail companies. Viktor Orbán did not hide that he was trying to "build a country in which foreign banks and bureaucrats don't tell us what to do" (MTI-EcoNews 2013a).

In parallel, Poland seemingly continued steering its traditional neoliberal course. Since late 2007, the country was ruled by a coalition government whose senior partner was the Civic Platform (PO) party – a party that had traditionally defended liberal economic policies (Markowski 2006). Since the whole ECE region was severely affected by the global financial crisis, the Polish government tried to distance itself from other countries and negotiated a special "flexible credit line" with the IMF for strongly performing economies. Finance Minister Jacek Rostowski said that this would help "strengthen Poland's role as a pillar of stability" in the region (Associated Press 2009). The country was eventually the only EU member state to sail through the crisis without sinking into recession and Prime Minister Donald Tusk was keen to emphasize that Poland had remained a "green island on a red background of falling GDP" (Rzeczpospolita 2009).

Even though the Tusk government did not radically change its discourse on economic policy, there were nonetheless growing signs that it was slowly changing its doctrine on this issue. Thus, in 2010, Prime Minister Donald Tusk claimed that his government's success in maintaining growth was attributable to its "common sense" rather than to the "pseudoexpertise" of often "doctrinaire" economists (Gazeta Wyborcza 2010b). As political parties were about to start the 2011 legislative election campaign, Tusk wrote that: "In the wake of the crisis, one may consider just returning to the previous growth trajectory. But one may also use this particular moment to pursue a more ambitious agenda that will allow us to bring Poles and the Polish economy a new competitive advantage" (Tusk 2011). Simultaneously, Jarosław Kaczyński – the leader of the main opposition party, i.e. the Christian-Conservative Law and Justice (PiS), and an admirer of Hungary's Orbán administration – openly called for a "new economic patriotism" in order to support "the nation as a project: A Great project – Poland!" (Kaczyński 2011). When his party lost the election, Kaczyński announced: "There will come a day – when we will succeed – that we will have Budapest in Warsaw" (Rzeczpospolita 2011).

After the 2011 election, the Tusk government continued to present itself as a beacon of stability. However, it became clear that some of its members were ready to promote strategies of selective discrimination in favor of domestic firms. In late 2011, Mikołaj Budzanowski, the Minister of the State Treasury – i.e. the administration traditionally in charge of the privatization of state-owned enterprises – declared: "I believe in the principle of economic patriotism. We should support and promote Polish firms" (Gazeta Wyborcza 2011). Already in 2010, Jan Krzysztof Bielecki – head of the Tusk government's Council of Economic Advisers – had started talking about the need to promote "national champions" (Parkiet 2010). A liberal politician and Poland's Prime Minister during most of 1991, Bielecki said: "The thinking so far was this: sell everything quickly. We are these good internationalists and liberals who will sell" (Tokfm.pl 2012). Now, Bielecki defined himself as a "pragmatic liberal" (Kultura Liberalna 2014).

The next subsection will show how both the Orbán and the Tusk governments were in close contact with the business community and how domestic firms also called for selective discriminations in their favor. The following subsection then shows how business and government have collaborated to put such strategies of economic patriotism into practice in one core area of economic policy-making: corporate control.

Links between political parties and the business community

Nationalist discourse has often been used by right-wing parties to mobilize those voters who can be considered as the "losers" of economic transformation and globalization (Kitschelt et al. 1999; Kriesi 2008; Herzog and Tucker 2010). This was clear when Viktor Orbán's Fidesz party adopted a more nationalist and statist rhetoric in the early 2000s and tried to attract voters in rural areas (Bozóki 2008; Vachudova and Hooghe 2009: 198). In Poland, Jarosław Kaczyński's Law and Justice party has also emphasized "the failure of the liberal reforms and the general injustice done to (…) the losers of the transformation" so as to appeal to county constituencies (Markowski 2006: 821). However, the core audience of Donald Tusk's Civic Platform has been the urban middle classes who traditionally have a more cosmopolitan outlook. Despite these differences in their core electorates, all three parties have also tried to cultivate close relations with the business community, and have not necessarily hidden their electoral motives in doing so.

Since the early 2000s, Fidesz has openly cooperated with the Hungarian Chamber of Commerce and Industry (MKIK), an association representing Hungarian small entrepreneurs. In 2001, Viktor Orbán and László Parragh, the MKIK's president, signed an agreement under which the first Orbán government vowed to consider the business association's proposals on all economic issues. Prime Minister Orbán declared that he had "gained a cooperative partner in the MKIK, while entrepreneurs will get a government that is open and supports Hungarian enterprises" (IFXHB 2001). Although, under the agreement, the MKIK was to remain politically neutral, the cooperation between Fidesz and the business group continued ever since. In a programmatic book on Hungarian economic policy, the future Minister of the National Economy, György Matolcsy, wrote that he had "heavily drawn upon their [the MKIK's][1] analyses in describing the current era" (2008: 313). Prior to the 2010 election,

[1] Elsewhere, Matolcsy talked about his preference for small and medium-sized companies: "I definitely think that, for the economy, North Italian, Bavarian, Baden-Württemberg, Austrian, Slovenian or Catalan medium-sized family enterprises can be the model" (Matolcsy 2009: 206).

Viktor Orbán promised that "If Fidesz wins the confidence of voters, the economic chapter of the government programme will be prepared together with MKIK" (MTI-EcoNews 2010b). After a year of rule by the Orbán government, the MKIK expressed its support for its economic policy, saying that "Hungary's current government has built the chamber's proposals into its programme", including the introduction of a special Széchenyi credit card for small entrepreneurs, changes in public procurement rules, in vocational training or in trade promotion (MTI-EcoNews 2011a). In the days following his electoral victory in 2014, Orbán thanked the MKIK for its "principled and dedicated" help to the government over the past few years (Nol.hu 2014).

The Orbán government also had a close working relationship with representatives of Hungarian big business, e.g. Sándor Demján – chairman of real estate development firm TriGranit and president of the National Association of Entrepreneurs and Employers (VOSZ) – who, before the 2010 election, declared that "it is in all Hungarians' interest that the Fidesz team wins" (Fidesz.hu 2010). A key demand of the VOSZ was that "by 2012, Hungarian-owned firms be winners in domestic public procurement in the same proportion as German- and French-owned enterprises in their own countries" (VOSZ 2010). Another businessman with whom Viktor Orbán had in regular contact was Sándor Csányi – chief executive officer (CEO) and chairman, since 1992, of the country's largest financial institution, Hungarian-controlled OTP Bank. A year before the 2010 legislative election, Csányi declared that Socialist Prime Minister Ferenc Gyurcsány was "far less interested" in his opinion than opposition leader Viktor Orbán, and justified their meetings by the fact that, in his position, "one follows closely the movement of parties" (MTI-EcoNews 2009).

In Poland, Donald Tusk's Civic Platform has traditionally had close links[2] with PKPP Lewiatan, the country's largest employers' association. But its relations with small entrepreneurs' associations have not been institutionalized to the same extent as between Fidesz and MKIK. Personal connections have nonetheless mattered. Thus, the Polish Chamber of Commerce (KIG) – i.e. the MKIK's Polish counterpart – has been headed ever since its creation in 1990 by Andrzej Arendarski who also founded the Liberal-Democratic Congress (KLD) – Poland's first liberal party after the collapse of communism – together with politicians such as Jan Krzysztof Bielecki and Donald Tusk. Since 2006, the KIG has published a "barometer of the Diet's [i.e. lower chamber of Parliament] legislative friendliness towards the economy and entrepreneurship" (Gazeta Wyborcza 2006). Just before

[2] Author Interview, PKPP Lewiatan, Warsaw, February 6, 2010.

the 2007 legislative election won by Donald Tusk, the barometer showed that two opposition parties – the Civic Platform and the Alliance of the Democratic Left (SLD) – were the ones that had "most strongly supported the economy in the last eight quarters" (Gazeta Wyborcza 2007). After the election, Arendarski declared that, in previous years [under the 2005-2007 Kaczyński administration], economic policy had been shaped "without taking into account the views of stakeholders themselves", but that "the Prime Minister's inauguration speech suggests that this situation will finally change" (KIG 2007). Throughout the 1990s and the 2000s, the KIG had pressed for greater government support for Polish small entrepreneurs. Ten years after the democratic and economic transition, Arendarski had for instance deplored that "we cannot boast a single product that would be unequivocally associated with Poland" (Parkiet 1999). In 1996, the KIG had created an Institute of the Polish Brand (*Instytut Marki Polskiej*) whose activities were premised on "a modern national egoism" (KIG 2014). Like the MKIK, the business group highlighted the need to lift barriers for small and medium-sized enterprises (SMEs) so as to "increase their participation in public procurement" (Rzeczpospolita 2013).

After the global financial crisis, it also became visible that managers of large Polish firms emphasized strategies of "economic patriotism". Debates on this issue gathering the business community and representatives of the Tusk government were organized by organizations such as the Polish Institute of Directors (*Polski Instytut Dyrektorów* – see e.g. Rzeczpospolita 2010b), the Ministry of the Economy (Gazeta Wyborcza 2013) and newspaper *Puls Biznesu*[3]. During one of these debates, Adam Góral, the head of Poland's largest IT company (Asseco Poland) and a long-time[4] critic of excessive openness to foreign capital, declared that it had been a "mistake" to "sell many significant institutions without [the participation of] Polish capital" and that this had resulted in the country having "too few very large firms (…) [which would be] capable of taking big risks (…) [and could] pull small and medium-sized enterprises along" (Puls Biznesu 2014). Senior managers nominated by the Tusk government to run large state-owned enterprises made similar statements. For example, Andrzej Klesyk, Harvard- and McKinsey-trained CEO of insurance company PZU said that "it would be important for PZU's decision-making center to be in Poland. I am now saying this quite patriotically" (Radio PiN 2011). In 2012, together with Harvard Business Review Polska and other management organizations, state-owned copper producer KGHM Polska

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[3] See webpage: http://patriotyzm.pb.pl/

[4] For example, in 2007, Góral called for the promotion of Polish-owned firms: "This is something I have been talking about for years. We have not defined a conception of patriotism in the new era. (…) We should be open to foreign capital, but after all we can have the same ambitions as that capital" (Rzeczpospolita 2007)

Miedź created a think tank called *Poland, Go Global!* whose aim was to promote the international expansion of Polish-owned firms. KGHM's CEO, Herbert Wirth, said that, in doing this his firm wanted "to act a little bit on the basis of that pride and patriotism. I am not ashamed of saying this. (…) [Patriotism] gives us inner strength to act – a strength that can really help us to achieve success" (Rybiński 2014: 111).

While the Tusk government was in constant contact with representatives of business, the opposition Law and Justice (PiS) party made attempts to foster good relations with domestically-owned firms. From 2011, the Sobieski Institute (*Instytut Sobieskiego*), a think tank that has closely collaborated with PiS, started organizing an annual conference called "Poland Great Project" (*Polska Wielki Projekt*)[5]. Speakers included heads of family-owned enterprises such as construction chemicals company Selena and bus- and tram-maker Solaris. In a "sketch for PiS's 2015 strategy", the conference's main organizer contended that "entrepreneurs – small and medium ones – are clearly overrepresented in PiS's electorate. Yet one cannot see this in any way in the party's activities (…) PiS has an opportunity to catch the 10 per cent of voters that are missing for it to be able to take power. Entrepreneurs represent at least 4 million of voters who, together with their families, can give a durable and solid social basis to PiS as the party of Polish capitalism" (Staniłko 2011).

The striking similarities in the views of business elites and politicians on "economic patriotism" were not only apparent in these actors' declarations, but also materialized in close business-government collaboration for example in order to retain or regain control over large domestic firms.

Retaining/regaining corporate control

During the 1990s and early 2000s, many of Central Europe's largest state-owned enterprises were privatized and sold to foreign "strategic investors" – i.e. typically Western MNCs (Noelke and Vliegenthart 2009). Hungary largely completed its privatization process by the late 2000s. By contrast, the Polish state still retained relatively significant stakes in a number of financial and industrial enterprises. In order to continue having a veto power over decisions considered as strategic for the domestic economy, the Hungarian state traditionally possessed "golden shares" with preferential voting rights in about three dozens of firms, primarily utility companies. However, ever since EU accession talks in the early 2000s, the

[5] See webpage: http://polskawielkiprojekt.pl/

country was pressured by the European Commission to abolish such restrictions on the grounds that they contravened EU legislation on the free movement of capital (Budapest Business Journal 2006; Höpner and Schäfer 2010: 357; Blauberger 2014). In 2007, the Hungarian Parliament eventually passed a law scrapping golden shares (MTI-Econews 2007). But the severe political and economic crisis that Hungary was facing since 2006 meant that publicly listed domestic companies could become easy prey for foreign competitors interested in a takeover. In Poland, the Tusk government was at same time considering whether to complete the country's privatization process. In that context, the issue of control over domestic companies took on new significance in both countries from the late 2000s. Hungarian and Polish business elites joined forces with domestic politicians in order to introduce stronger protections against hostile takeovers in those publicly listed companies that were still owned by domestic capital and so as to have more sway over the countries' banking industries.

In 2007, soon after the Hungarian state abolished its golden shares, Austria's state-owned oil and gas company OMV started increasing its participation in the capital of its Hungarian competitor MOL and submitted a merger proposal. As the bid was considered hostile by MOL's management, Socialist Prime Minister Ferenc Gyurcsány declared that he did "not consider it a friendly step when a state-owned company buys a stake in another company without prior notice" and added that he would "use any means necessary to thwart this [action]" (Budapest Business Journal 2007). In order to prevent OMV from acquiring more shares, MOL launched a share buyback program and "lent" its own stock to allied Hungarian companies, including an 8 per cent stake to OTP Bank – whose head Sándor Csányi was also deputy chairman of MOL's board – and 10 per cent to MFB Invest, a subsidiary of the state-owned Hungarian Development Bank (MFB) (Economist Intelligence Unit 2009). The Hungarian oil company had to resort to this lending tactic because under domestic company law it could not hold more than 10 per cent of its own shares.

Simultaneously, MOL executives lobbied the government to change company law so as to have greater leeway in fending off hostile takeovers (Butler 2011: 636-638). Despite considerable tensions between Ferenc Gyurcsány's socialist-liberal parliamentary majority and the Viktor Orbán's Fidesz opposition party, the Hungarian Parliament voted almost unanimously in favor of such legal changes (Financial Times 2007). A law popularly called "Lex MOL" allowed publicly-listed companies to include in their articles of association various types of "poison pills" that were until then forbidden. Companies could now buy back their own shares without restriction. They were allowed to set permanent limits on the voting rights of an individual shareholder or group of shareholders. They could also set minimum – e.g. 75 or 90 per cent – voting thresholds for shareholders seeking to unseat a board. Not only MOL, but also other Hungarian companies could benefit from these legal changes. In 2009, the shareholders of Hungary's largest drug maker Gedeon Richter – in which the Hungarian state has continued holding a 25 per cent stake since the early 2000s – accepted to limit shareholders' voting rights, regardless of holdings, to 25 per cent of all voting shares. The management of OTP Bank tried to decrease a similar voting cap from 25 per cent to 10 per cent at its 2009 and 2010 annual general meetings, but failed to get the approval of its shareholders – overwhelmingly foreign investors (Reuters 2010).

Once Viktor Orbán came to power in 2010, his government not only supported such anti-takeover protections, but also went on the offensive to try to regain control of companies that had been privatized earlier. Part of this strategy was implemented through a direct state acquisition of shares – albeit with the approval of the firms' incumbent managers. Thus, in 2011, the government purchased a 21 per cent stake in MOL. Similarly, it bought a majority interest in automotive group Rába and used some of the cash generated by the nationalization of private pension fund assets to do so (MTI-EcoNews 2013b). However, the strategy of increasing Hungarian ownership in domestic companies was also executed in close collaboration with domestic capital-owners. This was clear in the case of the banking industry where Orbán had announced that "50 percent of the banks in Hungary should be Hungarian-owned" (MTI-Econews 2012a).

Thus, via the Hungarian Development Bank (MFB), the state bought in 2012 a 38.5 percent stake from German DZ Bank AG in Takarékbank, the "central bank" for Hungary's savings cooperatives. These mostly rural financial institutions had a lending market share of roughly 5 per cent, but controlled about 40 per cent of all bank branches in Hungary, thereby offering great potential for growth (Reuters 2012). In 2014, the Orbán government nonetheless decided to *reprivatize* Takarékbank by selling a 55 per cent stake to Magyar Takarék, a holding company whose owners were a dozen of Hungarian savings cooperatives as well as Hungarian-owned FHB Bank. In 2013, the Orbán government also helped small lender Gránit Bank to expand its balance sheet by acquiring a 49 per cent stake in it. While Gránit Bank was previously known as Milton Bank and was owned by Germany's WestLB, its majority owner since 2010 has been the "Hungarian Capital Company" (*Magyar Tőketársaság*) – a holding company established by construction industry magnate and VOSZ business group chairman Sándor Demján in order to help Hungarian SMEs recover from the crisis (Világgazdaság Online 2010).

Contrary to Hungary, the Polish state still held substantial stakes in a number of large financial and industrial companies before the global financial crisis. When Donald Tusk's Civic Platform came to power in 2007, it promised to continue the privatization of state-owned companies (PO 2007: 21). However, by 2010, the government started modifying its doctrine. A key role in this change of tack was played by Jan Krzysztof Bielecki who became Donald Tusk's chief economic adviser in early 2010. Before assuming that position, the liberal politician had been CEO of Bank Pekao SA – Poland's second largest bank and a subsidiary of Italian group Unicredit. In late 2009, he resigned from his post because he opposed his majority shareholder's plans to limit the decision-making powers of Pekao's Polish-based executive committee (e.g. Parkiet 2009; Puls Biznesu 2009). Bielecki soon started contending that "our state-owned firms are chicken that lay golden eggs" (Gazeta Wyborcza 2010b) and cited the example of Nokia, which "was state-owned, but modernized itself, just like Brazilian, Chinese and Indian firms" (Rzeczpospolita 2010a).

In this context, the State Treasury – i.e. Poland's privatization agency – started collaborating with the management of state-owned enterprises in introducing anti-takeover defenses in these firms. For example, Andrzej Klesyk, the CEO of insurance company PZU, declared: "I don't have an issue with adding to the articles of incorporation something that in the West is called '*poison pill*', a pill that one cannot swallow or, in other words, that prevents a hostile takeover of PZU" (Radio PiN 2011). In order to protect its role in promoting Warsaw as an international financial center (see also Naczyk and Domonkos 2014), the Warsaw Stock Exchange introduced such provisions in its own corporate charter in late 2010. It was then followed, in spring 2011, by PZU and PKO BP – Poland's largest bank (Epstein 2013: 534-536). All three companies made it impossible for any shareholder – except for Poland's State Treasury – to have more than 10 per cent of voting rights at annual general meetings. This allowed the Polish state to continue having de facto control over the companies, even if its equity stake would fall below 50 per cent. A similar poison pill had already existed for some time at PKN Orlen (Polish News Bulletin 2004), but was then introduced at power company PGE in 2011, at gas firm PGNIG, oil company Lotos as well as chemicals conglomerate Grupa Azoty in 2012.

Unlike the Orbán government, the Tusk government did not try to renationalize enterprises that had been previously privatized. However, the idea of a "repolonization" (*repolonizacja*) or "domestication" (*udomowienie*) of the banking industry was widely discussed by Polish bankers (Stańczuk 2011) and even by economists Stefan Kawalec (2011) and Krzysztof Rybiński (2011) – two former collaborators of Leszek Balcerowicz, the architect of Poland's neo-liberal "shock therapy" in 1990 (cf. Orenstein 2013: 378-379). In spring 2010, Jan Krzysztof Bielecki flew to Dublin in order to negotiate with Allied Irish Banks Plc (AIB) a possible takeover of its Polish subsidiary BZ WBK by a consortium composed of Polish financial institutions such as PKO BP and PZU. Although BZ WBK was ultimately sold to Spanish Banco Santander, PKO's CEO Zbigniew Jagiełło said: "With our ambition to become to the leader of Polish banking, we are following the trend towards consolidation attentively" (Gazeta Wyborcza 2010a).

The Tusk government was much more careful in its strategy to regain control over the domestic banking industry as illustrated by Bielecki's declarations: "it is worth doing it when there will be an opportunity. This means: we don't introduce ideology. We don't invent that now the government or the central bank will create artificial methods or make it difficult for foreign banks to be active in Poland" (Salon24.pl 2012). But Poland's efforts in restructuring its banking system became nonetheless visible in late 2012 when the Tusk government announced it would sell the state's stake in a few firms including PKO BP – now protected by anti-takeover devices – and partly use the proceeds to expand the balance sheet of BGK – Poland's state-owned development bank. Said Bielecki: "with the recapitalization of BGK, we can run operations that are seven times bigger [than currently]" (Tokfm.pl 2012). Another part of the proceeds was used to create a new company called "Polish Investments for Development" (*Polskie Inwestycje Rozwojowe S.A.*) and jointly owned by the State Treasury and BGK. Its role would be to set up joint ventures with other firms in order to finance long-term and high-tech infrastructure projects in Poland. The first projects to be approved were implemented together with state-owned enterprises such as Tauron Polska Energia, oil company Lotos and chemical producer Grupa Azoty (PIR 2014).

Both in Hungary and Poland, changes in corporate governance and in property rights were thus made through the business community and politicians working together. While Hungary seemingly pursued a more radical strategy of renationalization of formerly privatized companies, *both* countries were intent on increasing domestic control of the commanding heights of their economies, and in particular of their banking industries. This did nonetheless not mean that the two countries were now closed to foreign direct investment. For example, in Hungary, the Orbán government made a continuing effort to attract or retain foreign investments in the country's manufacturing base. Before the 2010 election, the Fidesz party's economic expert, György Matolcsy, had written that the automotive industry, which had been "Hungary's most successful economic branch in the last two decades", should be helped "with every possible instrument" (Matolscy 2008: 303). A few months before his election in

2010, Orbán met with the board members of the powerful German Engineering Association (VDMA) and asked them "to be patient and remain confident in Hungary, don't leave the country" (Dow Jones Newswires 2010). A year after Orbán's election, the managing director of Audi Hungaria said that he was "convinced" that the Hungarian government "would achieve targets set in the interest of modernising the country" (MTI-Econews 2011b). The company had just been granted a subsidy by the Hungarian state in order to expand its Győr plant (Economist Intelligence Unit 2012) and had signed a "strategic cooperation agreement" with the Orbán government as had other large industrial MNCs such as Daimler, Suzuki, General Electric, Coca-Cola or GlaxoSmithKline. Both Hungary and Poland were also increasingly open to Chinese FDI since the Global Financial Crisis (Jacoby 2014).

4. *Conclusion: "Pole and Hungarian - Two Good Friends"*[6]

In their seminal article on the emergence of "dependent market economies" in ECE countries, Noelke and Vliegenthart (2009: 694) contended that the "weakness of domestic bourgeoisies after the demise of communism" was one of the key reasons why the region had been so open to foreign influence, especially to investment from Western MNCs. This paper has argued that it is precisely the growing activism of these countries' entrepreneurial and managerial elites that explains the recent introduction of policies of selective discrimination in favor of domestic firms. As the global financial crisis led some West European politicians to put pressure on MNCs to repatriate their physical of financial assets to their home countries, ECE business communities and governments agreed on promoting new strategies of economic patriotism. This was apparent in the field of corporate governance where these actors workers together to keep domestic control over some of the largest financial and manufacturing companies. Business-state cooperation happened regardless of whether governments adopted a more nationalist or a more "orthodox" – liberal – discourse to describe their economic policies.

But this cooperation was not exclusively confined to the issue of corporate control. It extended to other important areas of economic policy-making as ECE businessmen and governments also tried to foster higher value-added economic activities and to promote

[6] Both the Hungarian and the Polish language have a very similar saying, which highlights the historically good relations between the two countries. In Hungarian, the saying goes as: "*Lengyel, magyar – két jó barát, együtt harcol, s issza borát…*" (literally "Pole, Hungarian — two good friends, together they battle and drink their wine…."). The Polish version is: "*Polak, Węgier, dwa bratanki, i do szabli, i do szklanki.*" (literally, "Pole and Hungarian — two nephews, both for the sword and for the glass").

domestic firms' expansion into global markets. One very important focus of business-government collaboration was thus on upgrading these countries' skill and production bases. Noelke and Vliegenthart (2009: 695) had argued that ECE countries' extraordinary degree of external dependency limited the chances of their "graduating" into the "core of the world economy". After the crisis, ECE policy-makers became much more assertive about the need to improve the countries' systems of education. According to the head of PKPP Lewiatan – Poland's largest employers' association, the crisis had showed that "those who have the greatest comparative advantage in world trade are not those who produce most cheaply, but those who produce the best in terms of quality and technology" (Bochniarz 2008). The business group published a "manifest for education" in which it called for changes in Poland's systems of higher education and vocational training (PKPP Lewiatan 2011). One of its members, PZU's CEO Andrzej Klesyk, wrote a much discussed op-ed article in which he made a scathing critique of Polish university education (Klesyk 2012). In Hungary, the Orbán government launched in 2011 a new "dual" – i.e. both theory- and practice-based – system of vocational training based on the German model of skills training. This reform had been one of the top policy priorities of the MKIK Chamber of Commerce and Industry (MTI-Econews 2010c; 2012b).

Efforts to move up the value chain also resulted in a much greater role for industrial policy. One of the key aims of the "strategic cooperation agreements" that the Orbán government signed with various MNCs – but also with Hungarian drugmaker Gedeon Richter – was to create incentives for those firms to increase their investments in research and development. In Poland, the financing of infrastructure projects by the "Polish Investments for Development" company was to push various public- and private-sector firms to work together and improve their technologies. The Minister of the Economy also collaborated with the KIG Chamber of Commerce to create a Polish representation in the Silicon Valley in order help to Polish start-ups accelerate their growth (Polish Embassy US 2012; Silicon Valley Acceleration Center 2014). Both in Hungary and Poland, the new emphasis on industrial policy and technological improvement led state actors to reorganize their defense industries. Thus, in 2012, the Hungarian Ministry of Defense prepared an "Armaments Industry Modernization Plan" (*Hadik-terv*) while, simultaneously, Hungarian defense industry enterprises set up a "Hungarian Defense Economy Network" to help them win tenders (BBC 2012). The Polish Ministry of Defense sent signals that it would now give preference to those firms that would be most ready to "polonize" the production of military equipment, that is also use Polish subcontractors and tools (Wyborcza 2013b). In 2013, various Polish firms were merged into a "Polish Defense Holding" (*Polski Holding Obronny*) while other ones were amalgamated in 2014 to form a "Polish Armament Group" (*Polska Grupa Zbrojeniowa*). As he was informally put in charge by Polish President Bronislaw Komorowski to build greater cooperation between the army and the defense industry, Jerzy Buzek – a former Polish Prime Minister and a President of the European Parliament between 2009 and 2012 – declared that "cooperation within a triangle composed of the Polish army, Polish industry and Polish science will be (…) a flywheel of the Polish economy" (wnp.pl 2014).

Significantly, the strategies of retaining control over domestic firms and of upgrading their productive capacities did not go hand in hand with protectionist trade policies. ECE countries did not adopt Latin-American-style import substitution industrialization, but rather pursued an export-oriented industrialization with a stronger component of state-business cooperation (see also Johnson and Barnes 2014: 28). A key corollary of this policy orientation was a major priority given to economic diplomacy. When Viktor Orbán announced that he would pursue a policy of "Eastern opening" (cf. Orenstein 2013), he declared that "we sail under a Western flag, but it is an Eastern wind that blows *in the world economy*" (own emphasis) and added that he was "convinced that, during the next decade, it is one's economic position that will constitute one's most important international or political bargaining power. [That position will not be] of a military, of a religious, or of an ideological nature, but of a fundamentally economic nature" (Index.hu 2010). During his first official visit to China, Orbán was accompanied by VOSZ president Sándor Demján (MTI-EcoNews 2010d). Earlier that year, during Expo 2010 in Shanghai, the real estate developer had signed a cooperation agreement with the China Council for the Promotion of International Trade (CCPIT) (cf. KMÜT 2014). In 2011, the VOSZ and CCPIT created a "Chinese Hungarian Business Council" (KMÜT - *Kínai Magyar Üzleti Tanács*) whose chairman became OTP Bank's CEO Sándor Csányi (MTI-Econews 2011c). At the behest of the MKIK, a Hungarian new consulate had been opened in Chongqing by the Gyurcsány government in 2010 (MTI-Econews 2010a).

Very close business-government cooperation in the field of economic diplomacy was also visible in Poland. In 2012, the Tusk government launched a new strategy called "Go China" whose role was to support Chinese FDI in Poland, but also to promote Polish enterprises in China. For the first time, representatives of Polish – state-owned and private – firms started accompanying Polish members of government or the President on their official visits abroad, including to Asian, Arab and Latin American countries. Under the influence of Poland's wealthiest businessman, Jan Kulczyk (Dziennik Gazeta Prawna 2012; Gazeta

Wyborcza 2013; Financial Times 2014), the government also launched a program called "Go Africa". Donald Tusk's 2013 visit to Nigeria was the first official visit of a Polish head of state or government to an African country in more than two decades. Kulczyk had made investments in the exploration of oil and gas in Africa, including in Nigeria, since the late 2000s. In 2013, together with the Katowice-based European Economic Forum, the businessman helped launch an "Africa – Central Europe Economic Cooperation Forum", which would gather annually government officials and businessmen from Central Europe and Africa. Significantly, Jan Kulczyk also founded a think tank – called *Central and Eastern Europe Development Institute* (CEED Institute) – whose aim has been to promote the achievements and economic potential of ECE countries. The Institute's six board members were Kulczyk himself, former Polish President Lech Wałęsa, Estonian financier Indrek Neivelt, Czech investor Zdeněk Bakala, Lithuanian businessman Arūnas Šikšta and Hungarian construction magnate Sándor Demján (CEED Institute 2014). Given the existence of such transnational links between the region's business elites, it should not be surprising if domestic business communities in other ECE countries help promote the same type of strategies of "economic patriotism" as those implemented in Hungary and Poland since the crisis.

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