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Latin America and Central Europe compared

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The third wave: Democratisation in Latin America and Central and Eastern Europe compared

Hielke Vogelzang

Abstract: In the second part of the 20th century most Latin American countries and later many of the Central and East European countries went through a process of democratisation. The objective of this paper is to analyse the differences in the democratisation process in these regions. For this paper I conducted four different case studies about Uruguay, Cuba, Czech Republic and Belarus. During my research I found 8 differences: elites or civil society as driving force, pacte or non-pacte transition, self-imposed or external imposed authoritarian regimes, global, politics, supranational organisations, rigidity, and need for non-political reforms.

Keywords: democratisation, Latin America, Central and Eastern Europe, Cuba, Uruguay, Czech Republic, Belarus

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Introduction

In 1993 Huntington wrote about the third wave of democratisation. He put the democratisation processes in Latin America and in Central and Eastern Europe (CEE) both in the third wave. But some scholars like McFaul (2002) put the democratisation process in CEE in a separate fourth wave because Latin America because of differences in the democratisation process. An often mentioned difference is the pacte transitions in Latin

America compared the non-pacted democratisation in CEE. What makes some scholars see the democratisation process in CEE as a different wave and what makes others see it as the one and the same wave?

This paper focuses on the differences and similarities in the democratisation process of Latin America and CEE. First I will elaborate on the concept of democratisation, secondly I will describe the democratisation process in Latin America with help of the cases of Uruguay and Cuba, thirdly I will describe the democratisation process in CEE including cases of Czech Republic and Belarus, and I will end the paper with a conclusion about the differences in the democratisation process.

Democratisation

In his essay “The end of history and the last man” the philosopher Francis Fukuyama (2006) described the democratisation process in the world towards liberal democracies. According to Fukuyama in 1989 the fall of the Berlin wall led to the end of history in that the rivalry between ideologies has ended and liberal democracy was recognised as the only way to go which he called ‘the end of history’. Most Latin American countries made the transformation towards liberal democracies in the 70s and beginning of the 80s while the East European countries started this transformation in the end of the 80s and beginning of the 90s.

The wave of democratisation in Latin America and CEE is not the only wave of democratisation in history. Huntington (1993) describes two previous waves; the first wave took place during the 19th century when many countries in North-America and Western Europe turned into democracies. In the first half of the 20th century some of the European countries turned back towards authoritarian government types and after the end of the Second World War a new process of democratisation started leading to the second wave of democratisation. As mentioned before the third and Huntington’s last wave took place in Latin America and CEE in the 70s, 80s and 90s.

Democratisation is the process of moving from a (partly) nondemocratic towards a more democratic regime (Huntington, 1993). This is often not an abrupt process but more of a continuum in which countries move towards the democratic end. Scholars use multiple definitions to describe democracy: A narrow definition is the Schumpeterian one which only requires the citizens to be able to vote between leading elites. Nearly all countries in the CEE

and Latin American countries fulfil this requirement (Karl, 1990). But if we use a broader definition including different institutions used to translate citizen's preferences into public policy like freedom of expression, association and media not all of them can be seen as full democracies. In this paper we focus on a broader definition to look at the more practical perspective of democracy. Lipset & Rokkan (1967) see political parties as essential agencies of mobilisation of citizen's preferences but not the only one.

The end of dictatorship does not always lead to the birth of democracy. For example the end of the Tsarist autocracy in Russia led to the communistic dictatorship of Lenin. More needs to happen to secure the path towards democracy. The removal of the dictatorships in Latin America in the 70s and 80s and in CEE in the 90s unleashed social and political forces which in the majority of the cases led to permanent democracy. Local circumstances often determine the outcome of a revolution. In the beginning of the 20th century the Russian revolution didn't improve democracy while at the same time many West-European countries were strengthening their democracy by implementing general voting rights.

While writing this paper we won't discuss the flaws of democracy making it debateable that democratisation is always a good thing for developing countries. In this paper I assume more democracy to be an improvement both for economic development and well-being of the population. This way it follows Fukuyama idea that democracy is the only way to go.

Transition in Latin America

Latin America encompasses the countries with the Romanic languages in America south of the United States. The large majority of these countries started as colonies of the Iberian Peninsula. The countries are known for their cyclic pattern with alternations in movements forwards and backwards in democratisation (Huntington, 1993). Many of the countries already tried to democratise in the 19th century but failed and ended in dictatorships and oligarchs. After that they have been oscillating between democratic populist regimes and conservative military regimes. Both regimes kept failing in their promised economic development leading to reverse development towards the competing regime. The oil crisis in the 70s made it hard for authoritarian regimes to legitimacy their regime only by economic performance (Huntington, 1993). This was easier for the Soviet Union and Venezuela which

had their own oil and gas reserves. Many of the other authoritarian regimes in Latin America fall apart just after the oil crisis.

During the second wave of democratisation in the 40s Brazil and Costa Rica became democracies for the first time and Uruguay returned to democracy. In Argentina, Colombia, Peru and Venezuela elections did take place in the 40s but they returned to dictatorship shortly after the elections (Huntington 1993). In the 60s there was already a reversal of the second wave reducing the democracy in Latin America. Military coups took place in Peru, Brazil, Bolivia, Argentina, Ecuador, Uruguay and Chile. By 1973 Colombia and Venezuela were the only democracies in Latin America.

Because of the Cold War the United States feared the emergence of communistic regimes in Latin America during the turmoil and therefor intervened in some of the countries. It often helped to overthrow more leftist leaders and didn't care if they were democratic elected or not. This interference of the US has long history which started in 1823 with the Monroe doctrine where the US helped the Latin American countries to become independent of their colonisers Spain and Portugal. The democratic transitions in Latin America were in generally pacted transition were old non-democratic and the new democratic regime together agreed to a transition because both had an approximately equal balance of power.

The European Union (EU) is the most famous example of intraregional governance. But also Latin America had intraregional governmental organisations. In Latin America we have two different intergovernmental organisations for governance of the region. The thirst one is Andean with Bolivia, Colombia, Ecuador and Peru as its members and the other one is Mercosur which has Argentina, Brazil, Paraguay, Uruguay and Venezuela as it members. Unlike the EU which is more moving towards a political Union both these blocks act as economic unions. There are efforts to unite both trading blocs into the Union of South American Nations which is intended to be a more political union.

To measure the success of the democratisation I use the democracy index created by the The Economist Intelligence unit. The index measures multiple indicators of democracy and provides a weighted average. It includes the following indicators: electoral process and pluralism, functioning of government, political participation, political culture and civil liberties. The economist divides the countries into four groups: Full democracies, flawed democracies, hybrid regimes and authoritarian regimes. We find Latin American countries all of the four categories and *table 1* shows the scores of these countries. Because Uruguay and

Cuba have the highest and the lowest scores I will use these as case studies to analyse the success or failure of the democratisation waves.

Uruguay

The Economist classified Uruguay as a full democracy and it had the highest score of all Latin American countries. Besides Costa Rica it is the only Latin American country which falls in the Full democracy category. Until the 70s Uruguay was a democratic island in Latin America giving it the reputation of Switzerland of Latin America (Kaufman, 1979). Because of the short authoritarian regime we call Uruguay an interrupted democracy.

In the 70s Uruguay shifted away from democracy because it turned out to be not the best way of development. Other countries like Philippines and India showed that an authoritarian-bureaucratic way of development was better as a democratic one (Huntington, 1993). In 1973 a civilian-military overthrew the democratic elected president starting an authoritarian period. The military forces were supported by the non-democratic and powerful neighbours

Brazil and Argentina. Because of Uruguay's long history with democracy the authoritarian leaders were unable to do away with the democratic practises. In 1980 a big recession started in Uruguay leading to unemployment and high inflation putting regime under pressure. The civilian-military rule ended after 12 years in 1985 when negotiations between political and military leaders led to a new democratic civilian leader (Blake, 1998). Already before 1985 the main political parties and interest groups already gathered to design new government which should be implemented independent of who won the elections. But when Sanguinetti from the Colorado movement, which was part of this coalition, eventually won the elections the other involved parties didn't want to govern with him anymore and he had to make a coalition with the opposition parties. But there was broad consensus between the coalition and opposition parties that trade liberalisation was needed leading and with this goal also the political transition went smooth.

Country	Democracy
Uruguay	8.17
Costa Rica	8.10
Chile	7.54
Brazil	7.12
Panama	7.08
Mexico	6.90
Argentina	6.84
Colombia	6.63
Dominican	6.49
El Salvador	6.47
Peru	6.47
Paraguay	6.26
Guatemala	5.88
Bolivia	5.84
Honduras	5.84
Ecuador	5.78
Nicaragua	5.56
Venezuela	5.15
Cuba	3.52

Table 1: Democracy index Latin America

In 1990 the Lacalle government from the National Party took office and wanted to go on with the liberalisation program. Also the following governments showed their willingness to sustain the democracy making Uruguay the most democratic regime in Latin America. The agreements before the election are a good example of the so-called pacted transitions which took place in Latin America where the leading elite decided to democratise the country (Karl, 1993). Because both the authoritarian regime and the opposition had significant influences and to avoid violent conflicts which was bad for everyone, both sides agreed to a pacted transition.

Uruguay's consensual slow process towards democracy and privatisation worked very well giving it the highest score in the democracy index of the Latin American countries. This can also be seen in the public support rates for democratic institutions which are high in Uruguay compared to for example Argentina. According to the same public survey Uruguay's citizens are also more in favour of state intervention in the economy than Argentina making it a paradox because in general democratisation and liberal markets go hand in hand (Blake, 1998).

Cuba

The democracy index classified Cuba as an authoritarian regime. Although some recently some reforms suggest Cuba is relieving its strict rule but it is still seen as one of the most authoritarian countries in the world. In 1989 Cuba's economy was heavily affected by the break-up of the Comecon. Its economy was heavily tied to this economic cooperation and their economy was subsidised by the Soviet Union (Otero & O'Bryan). The period after in Cuba is called the *Special period* in which Cuba's economy was devastated especially because of the lack of energy which Cuba so far imported from the Soviet Union at the very low price. Although Cuba found some support from its oil rich neighbours Venezuela and Bolivia the economic problems put pressure on the government to follow the glasnost and perestroika of Gorbachev.

López (2002) identified two important differences between the communism in Cuba and the CEE countries. First one is that communism in Cuba emerged from national revolution and not like in CEE where communism was imposed by the Soviet Union (López, 2002). This does not count the Soviet Union itself where communism emerged as national revolution as

well. These nationalistic revolutions in Cuba and the Soviet Union create more legitimacy for the regime. A second difference is the intense repression in Cuba. Cubans do not want to be watched by secret service for being member of civil group because everybody breaks laws in Cuba to survive. This makes it easy for the secret service to arrest someone who is only being suspected of being a member of a civil group. The third difference is that civil societies in CEE had foreign media from Western-Europe to communicate but this is lacking in Cuba which is separated from the US by water. The transition in Cuba did not happen because it did not have these independent means of communication like in most CEE countries in the 80s (López, 2002). For reaching large masses the oppositional forces need independent communication and to make the population believe change is possible they need it as well. Civil society is defined as the independent self-organisation of society (Weigle and Butterfield, 1992). This has a legal framework which permits self-organisation and an identity of the social actors and goals.

For transition towards democracy under the regime countries need pressure in period before transition to split leading bloc in hard liners and soft liners were soft liners need to get the overhand and start liberalisation (López, 2002). This conflict should be pushed by civil sphere could originate from economic problems (which was the case in Uruguay and Soviet Union) or other problems like diseases (Otero & O'Bryan, 2003). Currently in Cuba there is an increasingly organised and vocal opposition but is currently not enough to withstand communistic regime oppression. The course towards democratisation also depends on kind of civil society, ultranationalists or religious groups might replace authoritarian communistic regime just with another authoritarian regime while human rights and other pro-democratic movements can lead to democratisation (Otero & O'Bryan, 1999). Certainly information providers like artist and media can make significant contributions towards democratisation but these are suppressed in Cuba.

Weigle and Butterfield (1992) identified four stages of civil society development. The first one is the defensive stage in which private entities actively defend their autonomy against the government. The second is the emergent stage in which independent social groups try to widen the public sphere which is sanctioned by the government. The third stage is the mobilisation stage in which independent social groups undermine the legitimacy of the non-democratic government by offering alternative forms of governance. The fourth and last stage is the institutional stage in which publicly supported leaders implement laws guaranteeing autonomy of civil organisations. This last stage creates a contractual relationship between

state and society ensured by independent elections. In 2003 civil society in Cuba was still in defensive stage. A positive aspect of the Cuban authoritarian regime is that elections already exist for high-level officials but the one-party system prevents real liberal elections.

In 2006 Fidel Castro had to step down as leading figure in Cuban politics because of health problems and his brother Raúl Castro took over his position. Many diplomats expected it to lead to a worsening of democracy in Cuba. But when he eventually took office reformed the economy and politically liberalised giving confidence that Cuba will democratise. Raúl created institutions for a horizontal relationship between the civil society and the government. This resulted in the recent talks between the US and Cuba about starting diplomatic relations, removing the trade embargo and easing the travel restrictions. Since Raúl Castro took office there are signs that Cuba moved towards the emergent phase of civil society development because Cuban civil organisation are becoming more active although they are still sanctioned.

Otero & O'Bryan (2002) tried to explain reasons why the communistic regime in Cuba didn't fail after the collapse of the Soviet Union like in CEE. Their conclusion is that the communistic regime in Cuba came into place after a nationalist revolution which created a strong Cuban identity together with loyal military and effective security keeping the communist regime in power. This regime is very effective in keeping the civil society weak and is able to create an anti-US sentiment. A problem for Cuba to open its market is that the United States is their largest potential trading partner. The United States probably won't allow free trade with Cuba without democratisation and will put pressure on Cuba. This is all made worse by the anti US-imperialism sentiments in Cuba making it politically very hard to negotiate with the United States.

Otero and O'Bryan foresaw three different scenarios for Cuba: continuation of status quo or even more oppression under new leader probably Raúl Castro, political and market liberalisation like in the CEE countries or gradual democratisation. Now in 2014 we can say that Cuba didn't exactly followed one of these scenarios. As predicted in the first scenario Raúl Castro became the new leader of Cuba but it didn't led to continuation instead it led to a gradual liberalisation. Although the time Raúl is in power is too short to tell if the liberalisation will only be temporary or permanent but at least it is going in the right direction. It appears that Raúl Castro tries to copy the Chinese growth model with liberal market reforms and keeping the one-party system. The Cuban government also gets support from the Chinese government to invest in its infrastructure. But in China the liberalisation of the

economy didn't lead to political reforms yet. So we can assume won't political reform in the near future.

Transition in CEE

The historical conditions around the democratisation in CEE differed from those in Latin America. In CEE a wave of democratisation started straight after the collapse of the Soviet Union. But not all former Soviet republics in CEE ended up in democracy. Some of the transition processes failed and in other nations the democratisation never started. Differences in the relative power of democratic and authoritarian forces determined if the countries ended up as democracies, dictatorships or something in between (McFaul, 2002). McFaul puts in his analysis of the democratisation his focus on the elite steering the transition because according to him the lack of demonstrating masses proves the importance of the elite in the transition. This is different from the theory of Weigle and Butterfield (1992) who argue that a transition must come from the civil society. The most unequal distributions of power between the supporters of the authoritarian regime and the supporters of democratic led to the most stable forms of whatever ideology the dominating force supported. More equal distributions of power between the forces in general led to partial democracies. In contrast to the Latin American pacted transitions the transitions in CEE were non-pacted transitions. After the fall of the Soviet Union in most of the CEE countries an unbalance of power existed between the democratic and authoritarian forces. Before that the authoritarian forces were only able to stay in power because of the military power of the Soviet Union.

A historic difference between CEE and Latin America is that the Latin American countries were already sovereign before the transition while in Central and Eastern Europe countries were under Soviet influence for five decades and some of them even longer. During largest part of this Soviet era there was a planned economy and the Soviet Union tried to create a new Soviet nation in its influence sphere. This made the democratisation in CEE more complicated as in Latin America because at the same time they had to change towards bureaucratic coordination economic mechanism and nation building (Offe & Adler, 1991). Besides this they also had to create a welfare state to keep electoral support of the changes.

It is interesting to note that just like in Latin America in CEE democratic reforms were also reversed during the second wave of democratisation. CEE was liberated by the Russian army

during the Second World War and after the defeat of the Germans many military forces were still present in the CEE countries giving the Soviet Union a strong leverage over them. The Western countries also wanted to reward the Soviet Union for helping them to defeat the Germans that they allowed the Soviets to intervene in the CEE countries.

Already before the fall of the iron curtain it became easier in some of the CEE countries to organise a civil society. Hungary was the most in progressive by allowing an opposition party to exist besides the communistic party. In Poland the labour union *Solidarity* had a significant influence on the transition process showing the significance of the civil society. Although labour unions can sometimes also be seen as political actors instead of civil society. This is certainly the case in former Soviet republics where the labour unions were led by the communistic party they got the power status of civil organisations but not the autonomy. Both the movement in Hungary and Poland were caused by loser restrictions from the communistic party. This for example couldn't happen in Czech Republic where earlier protest were forced during the Prague Spring making the society afraid of liberalisation.

With the collapse of the Soviet Union also the Comecon and Warsaw pact disappeared leaving the small seized countries vulnerable and in need for new alliances. Most CEE countries sought market access and protection from the West-European countries by applying for EU and NATO membership. Democracy is an important value for these Western institutions and they made it a conditionality for the CEE countries to become a member. By doing this in several stages and over a longer time period they made sure the countries in CEE remained committed to democratic reforms. To become member of European Union the CEE countries had to keep the democratic reforms on track.

Now the countries have entered the EU this effect has weakened. The democratic index showed that the scores of the countries in Central and Eastern Europe are declining since 2008 just after Bulgaria and Romania entered the EU.

A complication in tracking the history of the nations in CEE is that it is hard to decide when the countries were really sovereign. Some countries were part of the Soviet Union during the Cold War and were certainly not sovereign like Ukraine while others like Czech Republic were not part of the Soviet Union but were heavily

Country	Democracy
Czech	8.19
Estonia	7.61
Slovakia	7.35
Lithuania	7.24
Poland	7.12
Latvia	7.05
Hungary	6.96
Bulgaria	6.72
Romania	6.54
Moldova	6.32
Ukraine	5.91
Albania	5.67
Russia	3.74
Belarus	3.04

influenced by it which makes their sovereignty disputable. The Soviet Union was very dominant within the Comecon and Warsaw Pact.

For the former communistic countries in Central and Eastern Europe we used the same democracy index from the Economist Intelligence unit to analyse their success in democratisation (*table 2*). I picked again the lowest and highest scores for the case studies which were Czech Republic and Belarus in CEE.

Czech Republic

After the First World War Czech Republic was a part of Czechoslovakia which was during the interbellum the only democracy in Central and Eastern Europe. This ended with the German occupation in the Second World War. After the Second World War there was a short revival of democracy with the elections in 1946 but that helped the communists in power who with the help of the Soviet army installed one party rule in 1948. Stalin saw in 1947 when communist parties failed in Italy and France that the parliamentary way towards communism failed so he military intervened to help the Czechoslovakian communist into power (Grogin, 2001). After the coup in 1948 Czech-Slovakia became a member of the Warsaw Pact and Comecon putting it under the Soviet Union hegemony.

In contrast to Belarus the Czech Republic was never a part of the Soviet Union but the Prague spring showed the influence Soviet Union in Czech Republic as a member of the Comecon and Warsaw Pact. The Soviet Union wanted to keep the communistic parties in CEE to remain in power. After the coup of 1948 Czechoslovakia remained a one party system until the fall of the Soviet Union in 1989. During the communistic there was no democracy except during the Prague Spring in 1968 where there were some liberalisation policies but these were soon reversed by intervention of the Soviet Union. Czechoslovakia paid the price for their uprising by Soviet Union intervention. But the involvement and suppression of the Soviet Union created civil society which was incongruent in its individual values and public behaviour (Weigle and Butterfield, 1992). To channel the civic society the parallel polis emerged which were partly state-sponsored organisations which organised activities for the civil society. These organisations were populated by people who did not completely internalise the values of the party and stopped the penetration of the state into the private sphere. It was a way for the regime to satisfy the Soviet Union and keeping some of their own

values. In 1989 this system was ended by 'The Velvet' revolution which was a peaceful student revolution and ended the communistic rule and led to the return of democracy in Czechoslovakia.

Until 1993 the Czech Republic was a federal state together with Slovakia but they broke up peacefully. The reason for the break-up can partly be explained by the experience of the Czech Republic with democracy making them more willing, compared to Slovakia, to reform towards democratic capitalism (Whitefield & Evans, 1999). After the break-up both countries adopted the parliamentarism with proportional representation with a low threshold with and derived all tier institutions directly from the Czechoslovakian state (Deegan-Krause, 2006). After the initial reforms during the break-up in 1993 there was one major democratic reform in the Czech Republic when they installed an upper house in the parliament.

Belarus

Belarus is an interesting case for this paper because it failed in all its expectations to democratise and liberalise. Political parties remain weak and economic restructuring have not been initiated yet (Korosteleva Lawson & Marsh, 2003). Belarus has a façade democracy with elections but can't guarantee the liberty of its citizens and the government is able to influence the public opinion. Their president Alexander Lukashenko rules their country on an authoritarian manner and Belarus is known to be the last dictatorship in Europe. Lukashenko has been president of Belarus since 1994 and has so far has been able to keep his position. During the Soviet time Lukashenko was a director of a state farm and served in the Soviet army. Belarus has so many defects in its electoral system that it in practise operates as an autocratic regime (Beichelt, 2004). One of the big defects is that the elections are completely steered from the top of the regime. But there are also defects in public arena and civic freedoms. Just like most of the other Commonwealth of Independent States countries Belarus is at the grey zone between democracy and autocracy. It is also member of the Eurasian Economic Community and the Collective Security Organisation Treaty all organisations in which Russia is the most influential member.

Just like the other former communistic countries in CEE Belarus started a process of democratisation after 1989. But in 1996 Belarus started to reverse the democratic reforms and turned back to autocratic rule (Beichelt, 2004). In 1996 the European Bank of Reconstruction

and Development admitted that the transition in CEE was not uniform and two groups have to be distinguished. Belarus, Russia and Ukraine were the countries which were slowly democratising and deviated from the other CEE countries in transition which were democratising at a much faster pace.

The Perestroika, the economic and political restructuring, never happened in Belarus oppositional forces were never allowed and the declaration of independence was actually send by Moscow in 1989. Belarus never wanted to be independent but wanted to keep the Soviet Union (Beichelt, 2004). During the first election of Belarus as an independent state in 1990 the Communist Party got 86 percent of the seats. The President was first elected in 1994 marking the height of the democracy in Belarus. The first elected president was Lukashenko who has so far won all presidential elections of independent Belarus. In 1995 the parliamentary elections had such a low turn-out that only 140 of 260 seats could be filled. Besides the low number of filled seats the low turn-out also significantly decreased the legitimacy of the parliament. The institution of the presidency had more legitimacy and so far the opposition in the parliament has been unable to combine forces and to block authoritarian regime. The low legitimacy reduces the informational opportunities for the opposition.

While the Czech Republic was only under influence of the Soviet Union Belarus was actually a part of it. Belarus was Republic within the Soviet Union and until 1990 Belarus never experienced real independence besides a short lived republic in 1918 but never experienced real democracy. It was one the only of the current autonomous CEE countries who never experienced independence before the collapse of the Soviet Union. In most of the CEE countries the civil societies played minor role in the transition. Solidarity in Poland was quiet an influential part of the civil society but further there were no big masses which led the transition but the communist leaders led the transition themselves like Gorbachev who saw it in their own interest to change regime (Poznanski, 1999).

Vachudova and Snyder (1996) identified dividing lines which affect nationalism in the domestic politics of the CEE countries. The nature of the regime change, degree of relative and absolute economic success, and ethnic geography all affect the nationalistic forces in these countries. In the Czech Republic the nationalistic parties were soon marginalised but in Belarus they still exist. According to Leshchenko (2004) Belarus has not a uniform nation building process but actually has two different nation-building forces at the moment. The first one is led by the president Lukashenko which tries to create a Slavic identity and actually

wants to integrate in Russia. The other nation-building process is led by the opposition party Belarus National front which emphasis the Belarus language and culture. The Belarus National Front wants to cut ties with Russia and pursues membership of the EU and NATO. In 1991 Belarus was a founding member of the *Commonwealth of Independent States* and With Lukashenko in power the regime started to progress towards more integration with Russia and in recent years Belarus and Russia were founding members of a custom and an economic Union. In Belarus the nomenklatura remained partly in place while the Velvet revolution in the Czech Republic led to a completely new regime. The planned economy in the Czech Republic was already allowing some market coordination allowing it to operate in the global market but this was not the case for Belarus. After the break of Czechoslovakia the Czech Republic became a homogeneous state while the Belarus ethnicity is hard to distinguish from the Russian ethnicity because Belarus was never an autonomous state before 1990.

Comparing the transition in Latin America and CEE

Now we have looked at the democratisation in both Latin America and CEE and discussed for both areas a positive and negative case we start to draw some conclusions. The economist publishes every year a ranking of the state of democracy in all the countries in the world. Cuba, Belarus and Russia stood only countries from Latin America and East European countries that were classified as authoritarian regimes, many as hybrid or flawed democracy regimes and Czech Republic, Uruguay and Costa Rica even reached full democracies (Democracy index 2012).

In the literature two streams of literature can be distinguished who differ in what they see as the driving force of the transition; the first one focuses on the civil society (Weigle and Butterfield, 1992) and the second stream focuses on the elite (McFaul, 2002). Although McFaul mentions that the transition in the CEE was steered by the elite he argues that this was not the case in Latin America. Poznanski (1991) argues that the in the CEE the transition was steered form the top because it was in the interest of the leading elite. The leading elite could benefit the most from the partial reforms giving great opportunities for corruption. The relevance of the civil society can be proven by the fact that both Belarus and Cuba are suppressing the civil society because they see the danger for their position if the civil society grows in strength. In Latin America the reforms came mainly from below and in CEE mainly

from above. This made the democratisation in the CEE countries a radical transition which happened all at once with the fall of the Soviet Union while in Latin America the democratisation process was more a continuous process going from one country to another.

During the democratisation process there is agreement needed between the relevant actors otherwise the discontent between the actors may lead to reversal of the democratic reforms (Blake, 1998). In the pacted democratisation in Latin American there was broad agreement between the authoritarian and oppositional leaders creating a stable environment for the transition. In Central and Eastern Europe in most countries the reforms were not pacted by both sides but the opposition took over the government and neglected the old elite who became irrelevant. The agreement within the opposition differed from country to country.

A difference between the countries within Latin America and CEE is if the authoritarian regime was self-imposed or not. We know that certainly in Cuba the socialist regime was self-imposed and within the Czech Republic it was imposed by the Soviet Union and within Uruguay the authoritarian regime in the 70s was supported by its authoritarian neighbours. For Belarus it is hard to decide if it was self-imposed or not because at that time it partly belonged to the Russian Empire besides a very short independent period in 1918. The relevance of the self-imposition of the authoritarian regime is relevant because it helps to establish a national identity while being imposed by an external force creates more resistance. Certainly socialist governments tend to remain longer if they are created by nationalist revolution than when it is imposed by an external force. Path dependence seems to be important. The historical regimes in a country seem to have a great influence on the future regimes because both Uruguay and the Czech Republic who both had a more democratic history before they turned into authoritarian regimes were already democracies. This must certainly have influenced further democratisation after the transition in a positive way.

The situation in the global politics also influences the democratisation process. When the CEE countries democratised in the 90s the global politics looked different from the global politics in the 70s and 80s when the Latin American countries democratised. The transition in Latin America happened still during the Cold with a still influential Soviet Union while in the 90s the Soviet Union had just fallen apart decreasing the international support for authoritarian regimes.

Immediately after the transition in CEE the EU kept pressure on the former communistic countries to democratise by promising membership if they would reform. The old members of

the EU in West-European countries had a lot of experience in creating democratic nations and used conditionality to create sustainable democracy in CEE with mixed success. In the 90s the predecessor of the EU the European (Economic) Community was also more an economic than a political union. The Mercosur and Andean in Latin America (which only became economic blocks after the transitions) are still only economic unions lacking the power to force democracy and there were no members with plenty of democratic experience. The effect of these unions can be proven by the fact in both continents the most democratic countries (Uruguay and Czech Republic) are both member of a influential supranational union while the both weakest democracies (Cuba and Belarus) are not. Belarus is participating in the so far smaller Eurasian Union and Cuba is a member of the Bolivarian Alliance for the Peoples of Our America but these unions only have limited power and still have to prove themselves. In many countries in CEE and Latin America the democratisation was partly led by the West but this is impossible in Cuba where there is a big anti-US sentiment. López (2002) advised the US not to comments on democratic reforms because this would only harm the process. But recently we can see diplomat attempts of the US to move Cuba in the right direction.

When the third wave of democratisation started in Latin America the countries there started democratising over several years each at a different moment. The democratisation in one country stimulated the process in its neighbour's countries but it was not like in CEE where the collapse of the Soviet Union led to a nearly immediate transition. Before the collapse of the Soviet Union it held the authoritarian regimes in place in all CEE countries. The collapse led to strict release of many oppositional forces.

In the Latin American countries the transitions were pacted between the old and new regime but because the CEE countries also needed to go through an economic transition and needed to create nation-building it became hard to get a pacted the transition. The opinion of the old communistic regime and the oppositional forces differed so much that it was impossible to come to an agreement, although Poland and Hungary partly succeeded in this because of their liberal policy before the transition. The pacted transitions in Latin America helped to leave out the radicals but led to more unstable democracies. In Latin America it was impossible for the parties to put economic reforms on the agenda because they could endanger the pact. The compromises in the pacted transitions led to partial democracies which is the most unstable outcome. In CEE most countries ended up in clear democracy or authoritarian regimes.

All waves of democratisation have different characteristics because of regional, historical and circumstantial differences. Huntington distinguished only 3 waves but if we look at the details you find many differences within the democratisation in one of the waves. His waves only focus on the big differences. This paper should provide you with enough information to decide if the democratisation processes in Latin America and CEE were one wave or two different waves. I would be curious if Huntington would put the democratisation process during the Arab spring and the recent protests in Hong Kong in the third wave as well or create a new one. So far these latest processes were only effective in creating new regimes but often without democratic reforms. We also see that China takes a different approach to an economic transition which is more gradual as in the CEE and without a political transition. So far it looks an economic success but we have to wait for the democratic and social consequences (Szelenyi, 2008).

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Financial systems in Central and Eastern Europe

Bianka Urbanova – Armin Lucevic

Abstract: Regional financial system is a system that enables lenders and borrowers to exchange funds. In the ex-Soviet-bloc countries there was no need for financial intermediaries and financial institutions, but today regulations of commercial banks through central banks are more noteworthy. Hence, Serbian economy experienced severe difficulties due to its political situation and in Slovakia banking system plays a major role in the financial system, whose success depends on economy of the country. Its national bank is a part of ECB so it must obey its regulations. Considering that the global financial crises are not over yet, therefore it is extremely difficult to determine the possible future of today's financial system in Central and Eastern Europe.

Keywords: financial system, central banks, Serbia, Slovakia

Definitions of Financial Systems

Financial system is the system that allows the transfer of money between savers and borrowers.

A financial system can be defined at the *global*, *regional* or *firm* specific level. The firm's financial system is the set of implemented procedures that track the financial activities of the company. On a regional scale, the financial system is the system that enables lenders and borrowers to exchange funds. The global financial system is basically a broader regional system that encompasses all financial institutions, borrowers and lenders within the global economy. (Investopedia)

Two *main types* of financial systems:

- market
- bank

Elements of the financial system

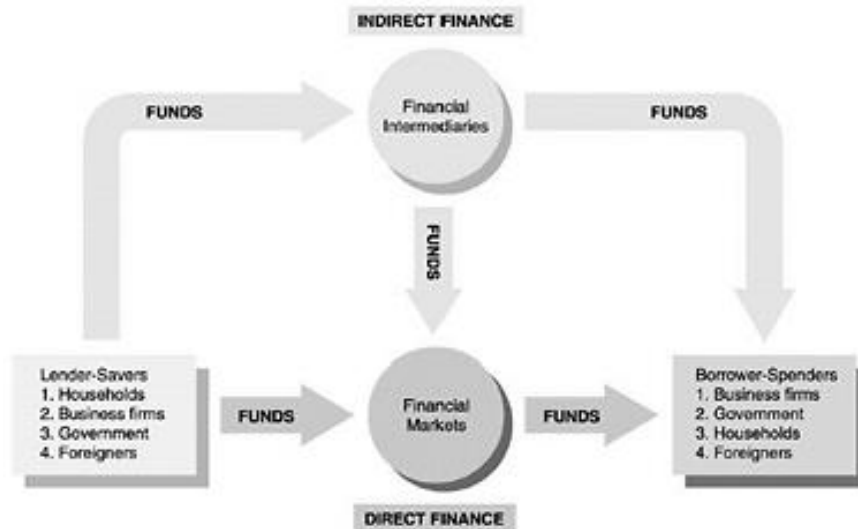
Money, Financial Markets, Financial Institutions, Financial Instruments, Central Bank.

Funds circulation in capitalistic Economy:¹

From: Households, Business firms, Government, Foreigners

To: Business firms, Government, Households, Foreigners

Via: Financial Intermediaries and Financial Markets



Soviet, post-Soviet Era

In the ex. Soviet bloc countries, banking system did not have a wide range of functions. The most important one was payment function, and in some cases this was only function that banking system performed. Central planning system (government) defined allocation of financial resources, so there was no need for financial intermediaries and financial institutions.

During 1980s, role of the central bank was taken by “monobank”, and all banking system had to rely on it. In some limited cases, the role of commercial bank was performed by specialised banks. Main function was financing long-run (term) investments, but bank managers were limited by central planning system. Limitations of central planning system considered interest rates, salaries (wages), prices (of goods)... In the beginning of 1990s and late 1980s liberation of central planning system by imposing market-based economy started. Central banks functions were separated from commercial banks functions. Central banks (from “monobanks”) started to have real functions in economy: monetary policy, issues

¹ Financial Systems In Transition – A Flow Of Funds Analysis Of Financial Evolution In Eastern Europe. Alexander E. Fleming and Marcelo Giugale, World Scientific Pub. Co. Inc., December 1, 2011.

banknotes/coins, regulates circulation of money, maintain the reserves, setting up interest rates...

Commercial banks (from specialised banks and/or “monobanks”) in most cases were created as state owned, but during the 1990s also privately owned banks started to play an important role in financial markets.

Table 1: Banking Systems’ Starting Conditions (source: Thorne, 1993)

	Hungary	Poland	CSFR	Bulgaria	Romania
Date of political opening	1989	April 1989	November 1989	November 1989	December 1989
Date of break-up of the mono-bank and start of the two-tier banking system	January 1987	January 1989	January 1990	January 1990	December 1990
Number of state-owned commercial banks 1/	4	9	2	59	4
Number of private or foreign-owned commercial banks 1/	2	5	0	0	2
Number of specialized banks (excluding foreign exchange banks). 1/	10	1	1	8	2
Number of banks specialized in foreign exchange transactions. 1/	1	3	2	1	1
Number of Savings Banks. 1/	1	1	2	1	1
Date of last revisions of last legislation. 1/	January 1987	January 1989	January 1990	May 1990	April 1991
Ratio of all specialized banks’ assets to total assets. 1,2/	47.7	79.1	32.2	54.0	52.3
Ratio of commercial banks’ assets to total assets. 1,2/	35.0	8.5	67.8	25.5	18.2
Ratio of total savings bank deposits to total deposits. 1/	52.5	12.1	52.3	46.2	80.8

Table 1: (ppt Financial System - Bianca Armin), source: Thorne, 1993

This table is important, as the competition prediction can be seen in the future.

We can notice that Bulgaria has the most interesting example, because in the year of 1989/1990 government created 59 state owned banks, with no privately/foreign owned banks. And Poland divided its monobank in to 9 state owned banks, and privately/foreign 5 owned banks.

Table also shows ratio of all specialised banks/commercial banks assets to total assets. Poland in this case had only 8.5% of assets in the commercial banks. In conclusion, in Poland specialised banks had big importance. As opposite, in Czechoslovakia, 67.8% of all assets was in commercial banks.

During the 1990s, and especially after some of the Central and Eastern Europe counties joined EU, structure of state owned and privately/foreign owned banks were changed. A huge amount of foreign money came in the new EU member counties through FDI, or some other type of investment.

In today's economy, regulations of commercial banks through central banks are taking more and more importance. Not only because of economic crises, but also because of bank's liquidity of funds and liquidity of all financial system (including small/medium enterprise, financial institutions, investment companies). Special attention governments give to sustainability and green investment. Substitution maybe can be found in Islamic banking?

Financial system in Serbia

The National bank of Serbia (Narodna banka Srbije / Народна банка Србије) is the Serbian Central Bank. It was founded on 2 July 1884 as the privileged National Bank of the Kingdom Serbia.

In recent history, it got huge importance after 5 October 2000, when democratic political forces took over the leadership in the country. At the same time Serbia re-established connections with the IMF, WB, IDA, London Club and Club de Paris.

The main functions of the Serbian Central Bank:

- Monetary policy
- Sole issuer of Serbian banknotes and coins
- Exchange rate policy

- Foreign currency reserves
- Price stability
- Stability of the financial system

In the year of 2012 elections took place in Serbia. A new government has been created, composed from parties that had been mainly in opposition after the democratic changes in 2000. Ivica Dačić has been elected for prime minister. Only his party was part of the previous government.² Majority of representatives in the Serbian Parliament were coming from SNS – Srpska Napredna Stranka / Serbian Progressive Party. Jorgovanka Tabaković was announced as new governor of the Central Bank (coming from SNS). With colleagues from government/party, she decided to create less flexible policy in connection to dinar exchange rate. Almost immediate critics come from IMF.

After the government was changed, another problem also appeared. In that time Minister of Finance Mlađan Dinkić said that Serbian budget is empty, and it is not sure if it is going to be able to make payments for public administration and pensions. The solution was found with Russian loan which supposed to be used for reconstruction of the Serbian railroads. After changing the agreement, it was used to cover the budget deficit.

During the mandate of Ivica Dačić, VAT increased from 7% (17%) to 20%. Serbian authorities predicted that with this rise, the huge budget deficit will be repaired.

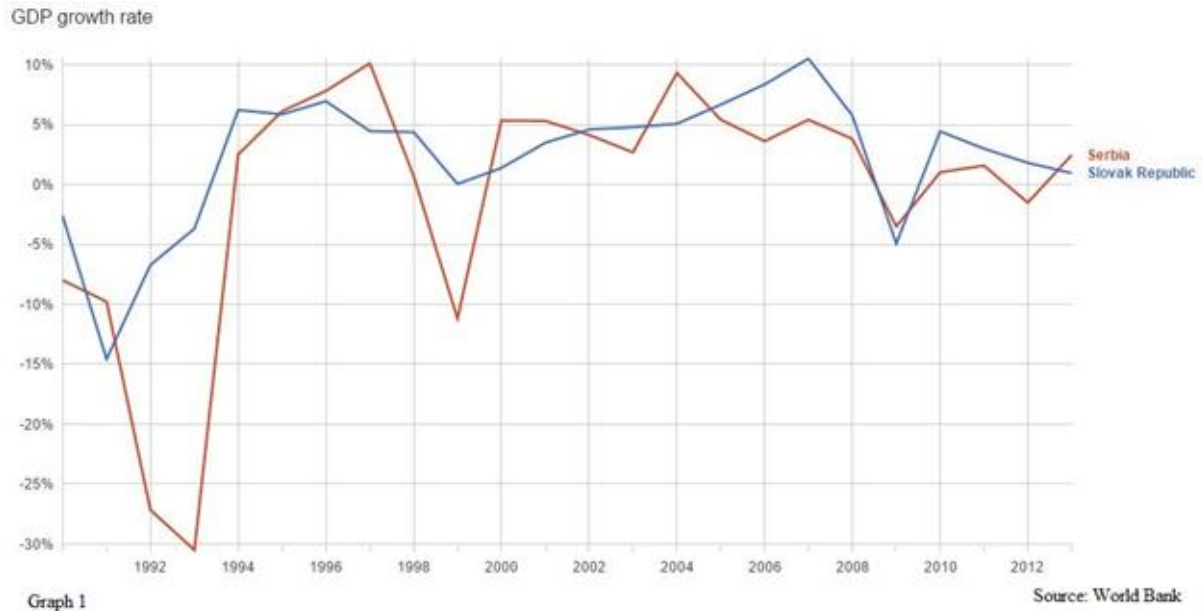
In order to create better micro-financial stability, and sustainability of Serbian financial system, new Prime Minister³, Aleksandar Vučić recently imposed long postponed reforms. This includes cutting down the pensions and salaries in public sector, (re)privatisation of public companies which are in big financial problem since the 1990s, and attracting new FDI in banner of better business environment.

Illiquidity of Serbian economy (companies) is highly exposed. Approximately one third of all enterprises in Serbia cannot cover their expenses. This problem is like a vicious circle, because it involves firms, banks, government, and also foreign partners. A lot of firms apply for bank loans just to cover their operational costs.

² Not taking in consideration smaller parties.

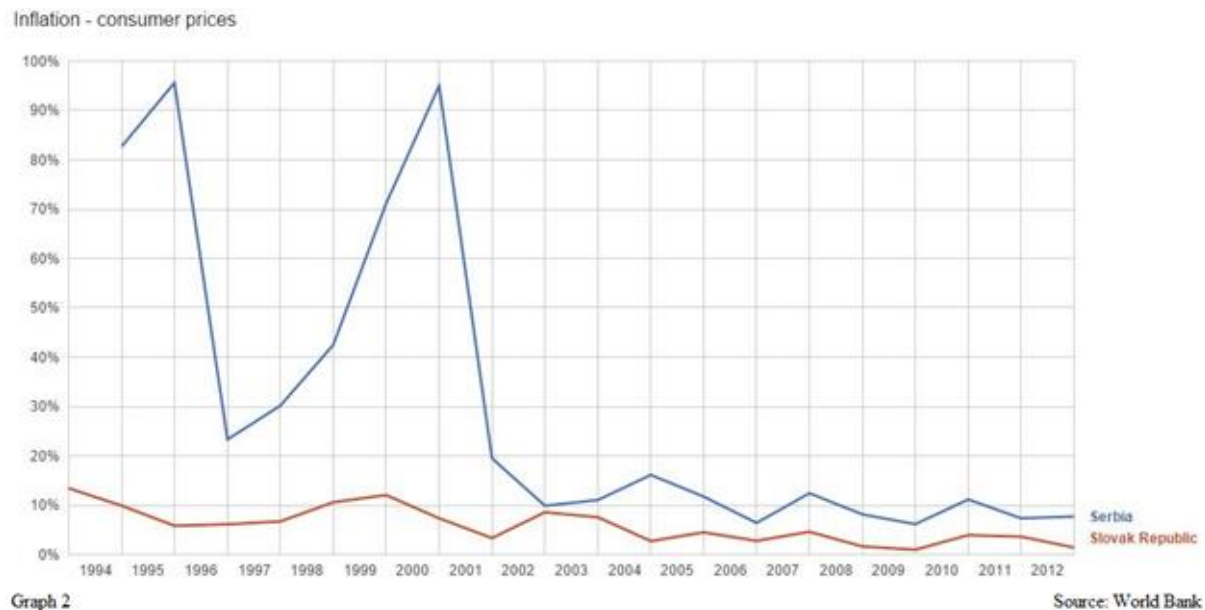
³ Government elected in 2014, Majority with Serbian Progressive Party.

GDP growth rate: Serbia – Slovakia



When we look at the graph, we can see that huge decline happened with GDP in Serbia from beginning of the 1990s to the year of 1993. The main cause for this decline was the war in Yugoslavia (especially with Bosnia and Croatia), the sanctions from the UN, and decline of export activities. After the end of the war the economy (GDP) seemed to recover, but in the year of 1999 Kosovo crisis started. Another war broke out in which NATO got involved. That resulted the total collapse of the Serbian economy. All main factories were closed, and trade with EU and regional counties was really low. The only exception was Russia, because of the traditional Serbian-Russian relations. Approximately in the year of 2009, when global economic crises came to the EU and Balkan counties, Serbian economy was attacked by bad influences. According to the graph, Serbian economy started to recover after 2012. But on the other side, it is too early to calculate devastating consequences of floods in May 2014 and influence of recently imposed reforms.

Inflation – customer price (Serbia, Slovakia)



Very similar as in the previous case, things that happened in Serbia in the last 20 years – war, sanctions, Kosovo crisis – have left a mark also in the customer prices. The government tried with stamping money to cover all the expenses. As growth of money supply in the country was not controlled, it led directly to inflation. After the political changes in the year of 2000, Serbian prime minister (Zoran Đinđić) and Governor of Central Bank (Mladen Dinkić) implemented anti-inflation measures, and put dinar into the stable frame. Until now, government still tries to control prices of staple food (bread, milk, oil, etc.), but a much bigger problem is that dinar exchange rate directly reflects the situation in Serbian economy. The national currency is constantly getting weaker despite interventions of Central Bank on foreign exchange market.

Future flows of the financial market cannot be predicted, but despite that Serbian people and Serbian government believe that accession to the EU will help to solve not all, but at least huge problems that the Serbian economy confront.

Serbian authorities may start with reform of financial market by allowing euro as paying currency in the stores and shops (dinar is only possible currency that goods can be paid for).

Financial system in Slovakia

The financial system of Slovakia consists of financial markets, financial institutions and intermediaries, financial instruments, creditors and debts and financial transactions. The financial markets are the most important part of the system and therefore they are often referred to as “the heart” of financial system. Financial market is defined as a marketplace that allows people to participate in buying and selling financial securities. The financial market can be divided into capital and money market, and further from the point of view of the participants it can be divided into banking, sharing and stocks.⁴

The growth or failure of the financial system depends on the economy of the country (political, social issues etc.). The main task of it is to relocate money from creditors to debtors. Financial system influences our everyday lives and people depend on it and therefore it needs to be quick, effective and qualitative. Therefore, it should be set up in a way that it encourages economic growth and decreases unemployment.

The banking system in Slovakia

In Slovakia, banking system plays a major role in the financial system and therefore the rest of the report will mainly focus on it. The main function of banks is to act as an intermediary between the debtors and creditors. The banking system in Slovakia is so called two-tier banking system. That means that the system consists of the central bank, which is the National Bank, and the commercial banks. However, the commercial banks differ from the central bank with its functions and objectives. Further, the commercial banks can be divided according to three main criteria: the extent of their business activities, the ownership and the legal form. According to the first criteria they are divided into universal and specialised banks. The majority of the country has universal commercial banks that carry all the types of banking transactions. The specialised commercial banks can be divided into: acceptance bank, deposit banks, foreign banks, mortgage banks, investment banks, municipal banks and guarantee banks. The second division is according to banks' ownership. They can be private,

⁴ Euro Ekonom, <http://www.euroekonom.sk/financie/financny-trh/financne-trhy-a-financny-system>

state owned or combined (ownership consist of state and private people). The last division is made according to their legal statuses which in Slovakia are always stock corporations.⁵

Narodna Banka Slovenska

The National Bank of Slovakia is called Narodna Banka Slovenska (NBS). It was established due to the division of Czechoslovakia on 1 January 1993. It functions as an independent institution that became a part of the Euro system on 1 January 2009 as Slovakia accepted and started to use the Euro currency.

In 1998, there was a statute created with the help of treaty of establishing the European Community and the European Central Bank (ECB) together with European System of Central Banks (ESCB). The European Central Bank is the major player in the Euro system. ECB is responsible for conducting the monetary policy within the whole euro area (countries that use Euro currency). The European Central Banks works in close cooperation with the other national banks and its corresponding to the public international law.⁶

NBS is governed by the Bank Board that consists of four members. The Governor and Vice-Governor are appointed by the president and the other two members are chosen by the Slovakian Government. The Bank Board is responsible for the organisational units when implementing common European monetary policy (according to given regulations) and for the procedural principles as well as the principles of conduct. In the same time, the Bank Board takes responsibility for the bank's supervision on financial markets and other issues that are entrusted to the central bank.

According to the amendment about NBS (act no. 149/2001 Coll.) the new objective and the main function of this bank is to maintain the price stability with. This objective is part of the harmonisation of the Slovak legislation together with the EU legislation. In order to achieve this goal successfully, the bank is responsible for the supervision of financial markets which helps to secure the operations in financial markets. In the same time it maintains the credibility of the market and protects its consumers.

⁵ <http://www.stvrtab-oape.estranky.sk/clanky/bankova-sustava.html>

⁶ European Central Bank, <http://www.ecb.int/ecb/orga/escb/html/index.en.html>

A good example that points out the importance of the supervision of financial markets is the problem of commercial banks. The commercial banks work based on the system called the system of fractional reserves. This simply means that banks are borrowing more money than they have in reality and therefore so called fiat money is created. Fiat money are money that cannot be exchanged for real money which means that it has no intrinsic value and it is not backed by the reserves. The risk occurs when customers want to take out money from the bank because as already said the money that the bank has is fiat money. This means that the risk is represented by not having enough money that is required by its customers and therefore there are only two options left for the commercial banks. Either, they go bankrupt as they do not have sufficient amount of money to exist or they are forced to borrow from the central bank. Unfortunately, if too many commercial banks borrow from NBS it results in inflation. Therefore, the central bank is trying to decrease the amount of fiat money created as well as the number of bankruptcies. To be able to do so, NBS created set of rules and obligations that commercial banks have to obey to. The central bank is supervising commercial banks' liquidity, the amount of risk they are taking or their strategies how to deal with stress.⁷

The main functions of NBS are:

- Maintain price stability (economic and currency analysis)
- Common monetary policy (EBC)
- Issuing Euro banknotes/coins
- Regulating the amount of money that is circulating in the economy
- Maintain the reserves
- Establishing the borrowing conditions for other banks
- Manipulating liquidity and interest rates in the financial market
- Supervising financial markets (banks, investment, insurance and pension funds) (ESFS)

However, as mentioned above, NBS is part of the Euro system and therefore its competencies are limited by the European Central Bank. In a way, the National Bank of Slovakia is dependent on ECB's regulations. For an example, even though NBS can be issuing euro currency, it is only a certain amount that it can be issued, and the exact amount is given by ECB. Therefore, the circulation of money within the economy is really controlled by the ECB.

⁷ Narodna Banka Slovenska, <http://www.nbs.sk/en/home>

Due to being a member of the Eurozone and so the part of the Euro system, the banking system is depending and must obey to the regulations and laws given by the ECB. Some economist would say this is a big disadvantage for the country as we do not have hundred percent control over the development of our economy. On the opposing side, some would argue that the ECB is aware of its action and is acting in the best interest of the country.

GDP annual growth rate in Slovakia and Euro Area

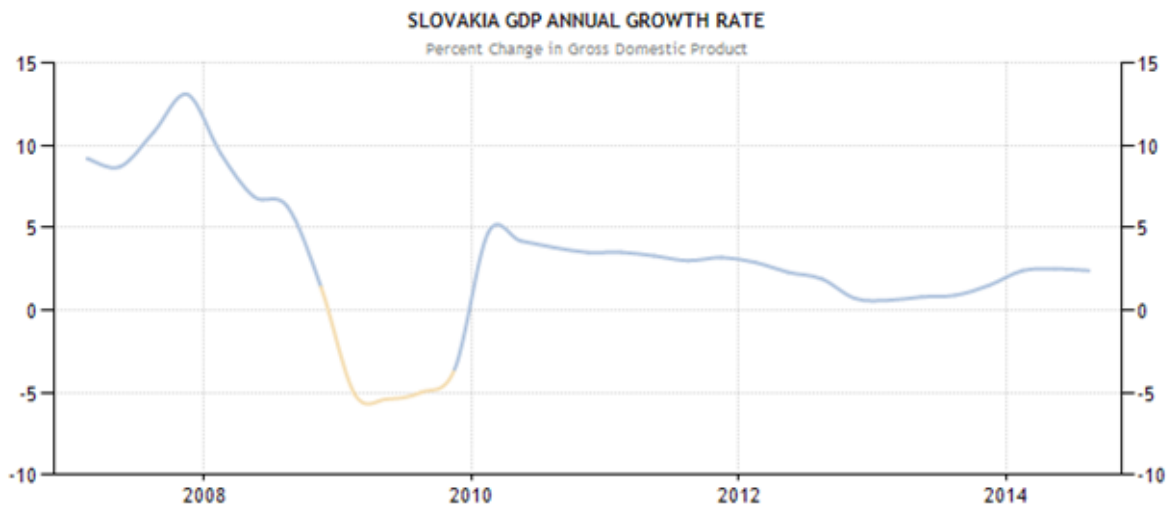


Figure 1

SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICAL OFFICE OF THE SLOVAK REPUBLIC

The highest GDP annual growth rate in Slovakia occurred in 2007 and it was 13.1%. The lowest annual GDP growth rate was negative and appeared in 2009, when it was -5.4%. Slovakia joined the European Union in 2004 and before its GDP annual growth rate had highly fluctuating and did not go over 5%. Since the country became the member of EU, the growth rate stabilised and increased every year until it reached its highest point in 2007 (see Fig. 1). The following slowdown of the GDP growth is mainly explained by the Greek financial crisis in 2008. At the beginning of 2012, Greece needed a bailout that was worth of approximately €130 bn. As Slovakia is a member state of the EU, it also had to contribute with a significant amount of money. This money could have been used for the development of the country instead. However, as the given away contribution was missing in the amount of money that was circulating in the economy, the economic growth rapidly slowed down. The domestic demand decreased which caused the increase in unemployment which resulted in

lower consumption and higher savings. After a while, the country started to slowly recover and exports, investments and profits started to increase and GDP annual negative growth rate was becoming smaller and at the end of 2010 it turned positive. Unfortunately, as the given bailout for Greece was not enough there was a need for second one. Therefore, in 2011, Greece received their second bailout package which effected the GDP annual growth of Slovakia negatively.^{8,9}



The Figure 2, shows the GDP annual growth rate of the Euro Area. The highest growth was in 1995, when it reached 5% and the lowest in 2009 when it had -5.2%. The GDP growth rate of the Euro Area moves together with the GDP growth rate of Slovakia. This is simply because Slovakia is the part of the Euro system and uses Euro currency. Therefore, the same situations, such as financial crises of one country, have the same effects on Slovakia and the Euro Area.

⁸ The World Bank, http://www1.worldbank.org/finance/assets/images/Slovakia_FSA_web.pdf

⁹ The New York Times, http://www.nytimes.com/2012/03/15/business/global/greece-gets-formal-approval-for-second-bailout.html?_r=0

The inflation rate in Slovakia and the Eurozone



Figure 3

SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

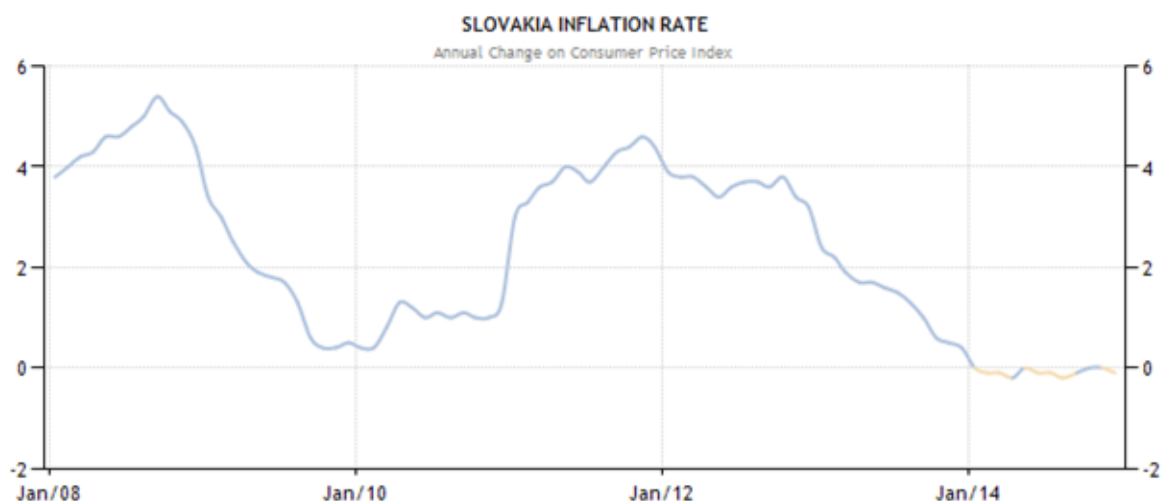


Figure 4

SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICAL OFFICE OF THE SLOVAK REPUBLIC

In the same way like GDP annual growth rates of Slovakia and Euro Area move together, the same way it is with inflation. Both pictures that show the inflation (see Fig.3 and Fig.4) prove that the inflation was very high throughout 2009 and beginning of 2012. Once again, the Greek financial crises are mostly responsible for it. Greek crises and bailout caused the devaluation of the Euro currency which increased the inflation.

Afterwards, when the Euro Area was recovering and decreased the inflation, one more bailout was necessary which triggered the increase of inflation again. However, there are many more economical factors that affected the inflation rate. The increase in commodity and energy prices played a huge role in inflation. In the beginning on 2011, the energy prices increased

together with non-energy industrial goods and commodity prices ($\uparrow\text{€sugar} \rightarrow \uparrow\text{€beverages}$). The increase in food prices caused the increase in services such as restaurants and the increase in oil prices caused the further increases for transportations.

Nowadays European Union and Slovakia are facing deflation, which is much bigger problem than inflation

The future prospects of the financial system in Central and Eastern Europe

Sadly the global financial crises are not over yet and therefore it is extremely difficult to determine the possible future of today's financial system in Central and Eastern Europe. However, there are two main possible outcomes. The first one is that the system will recover and the second possibility is that it will collapse.

In the first case scenario, if the financial system would recover, it would have to be restructured and especially more focus would have to be shifted on risk. In the same time, all the members of the Euro Area have some regulations and obligations that are given by the ECB and must be fulfilled. Sadly, not all the countries are obeying these laws and therefore it causes inequalities and crises.

The second scenario, the financial system collapses; a new financial system would have to be designed.

Recent decline of oil prices, sanction from both EU and Russia side make very difficult to predict what is going to be outcome and consequences on the financial markets. Serbia as country who did not impose sanction on Russia currently records higher export than before. But is this situation long lasting as Brussels is forcing Belgrade to harmonise foreign policy with EU?

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Interview

H. E. Valter Pecly Moreira, Ambassador of the Federal Republic of Brazil to Hungary

Laura Alles

Introduction: In spring, 2015, the ICRP conducted an interview with Brazil's Ambassador to Hungary, H.E. Valter Pecly Moreira, about the Hungarian-Brazilian relations, the relations between Brazil and the European Union, and the politics in Brazil. He gave us his insights of the mentioned topics, thanks to the personal experiences he collected through his long career of diplomat. Therefore, we focused onto the bilateral relations between the countries, the cooperation of Brazil with the European Union, and onto the politics of President Dilma Rousseff in several topics.

Before we get started with questions about Brazil, could you please say some words about your professional career? Where were your previous postings? How did you end up in Hungary? What are your impressions about the country?

I was very young when I started my diplomatic career, I was 21, and so I am 45 years experienced now. Starting from the beginning, I served the Buenos Aires' agency.

Then in Bonn in Germany, at that time, it was still Federal Republic of Germany (West Germany). After that I worked in Geneva in Switzerland, Asuncion in Paraguay and finally I became ambassador which is the highest rank in diplomatic relations. I worked in the OAS (Organisation of American States) based in Washington DC. This organisation is composed

of 44 countries, and I hope that, with the warming of relations between Cuba and the United States, we will soon be 45 again. As an ambassador, I then worked in Asuncion Paraguay from 2004 to 2008, and then as a General Consul in London until 2010.

I came back to Brazil for almost three years, where I was working as the Head of the Foreign Minister's Regional Office in Rio de Janeiro. Since 2013, I am the ambassador in Hungary. I am now 66, almost 67, and as we have to retire after 70, I have 3 years remaining as a diplomat.

I love being here. I never went to Hungary before my designation as an emissary. In my long career, I have never worked with this part of the world. I was a little bit surprised, in a good way. It is a nice country and Budapest is a wonderful city, very beautiful indeed. My wife and I are very happy here.

What are the characteristics of Brazilian-Hungarian relations (be it economic or cultural relations)?

Hungarian-Brazilian relations are traditionally very good, we never had any problem, and since 2010 we can see a visible and notable expansion of this relation which coincide a little bit with the government's opening policy here first with Eastern countries (Middle East and Asia), and then they extended the opening with South Africa and Brazil of course.

Since then, it is very clear how our relations were improved: we have many exchanges or visits of the highest level. Recently, the president of Hungary was here with the vice-president of Brazil.

We also organise a lot of visits between ministers of our two countries and our bilateral Economic Commission met three times in this building.

We have a big scholarship program called "Science without borders and we [the Brazilian government] sent here [to Hungary] more than 200 students since 2012, however only in the scientific field. It has been surprising because in the beginning, Hungary was not a part of this program and two years later, Brazilians suddenly started to come in Hungary. These exchanges can increase first of all the human relationship, because Hungary is not a very well know country in Brazil and now we can see the augmentation of tourism here with a lot of Brazilians. Every day when I walk back to my home I can hear Portuguese in the street. We

were a little bit afraid at the beginning about our students' behaviour and the potential troubles they could cause and we would have to solve, but finally they were really nice, they fitted really well although they like parties a lot. They behave themselves and we only see them for passports.

In which fields should they be improved?

The policy in Hungary is to increase trade which coincide with our policy, instructions has been given last year to have a special care with trade. Relations in science are really good too; the Minister of Technology was here with the Minister of Agriculture and Fishing. Besides these fields we are trying to improve relations in culture, with the visit of the Minister of Education.

Ministries made memorial of understanding, but also with organisations like APEX in Brazil (which is our expert entity and chamber of commerce) and banks here in Hungary.

Lastly, Hungary just inaugurated its House of Trade – which is an intermediary for companies to get in touch and do business – in Rio, in the continuity of the other openings all over the world.

The human relations are fundamental too, and all these students coming here must improve that field and help us building strong bonds between our two countries.

Can we talk about major changes or milestones in the recent years? What can be said about the relations between Brazil and the European Union?

They are very good. Europe is a major root of our own population; a lot of people come to Brazil among the countries including Hungary. There is a big community of Europeans in Brazil, about 100,000 people.

Moreover, since 1960, the European Union and Brazil established political relationships so relations between both regions are quite old, already 55 years, and in 2007, these relations were reinforced by the establishment of a mechanism partnership between both regions. Negotiations for an agreement between associations are now conducted.

There are also several meetings in every year on the highest level; the last one was in 2014 in Brussels. However finding agreement is not always easy, and are mainly conducted in agriculture; On the 10th of June in 2015, a CELAC meeting will take place between several presidents of European Union and Dilma Rousseff in Brussels. And of course, the European Union is an important economic partner besides China and United States.

I am not talking about economic relations specifically but rather scientific and cultural relations. Is there any kind of cooperation in this field?

There is a strong relation because we have a strategic partnership, especially in science and technology but there are many fields of cooperation, for example agriculture or trade. But the partnership between the European Union and Brazil is quite recent, so they organise meetings to create groups of research. Moreover, the European Union provides funds for specific researches in Brazil; they have ideas and they establish projects that they try to implement.

Staying in Europe, but talking about another country, we know that Spain is the main European investor in Latin America. Do you think the declining potential of the Spanish economy could have an effect to its economic relations in the region? How could it affect the Brazilian economy?

It is true that we could think that, but, according to the studies of ECLAC (Economic Commission for Latin America and the Caribbean), it is actually the opposite. Spain is the second investor and it even increased its investment in 2013 and 2014, while these two years are not really good for Brazilian economy. Therefore, I assume that the crisis in Spain does not affect negatively Brazilian economy. I do not know about other Latin American countries but I would say it does not affect. Latin America is Spanish speaking so we have a natural connection. I think that the crisis affects people in Spain – everybody knows that – but maybe not our business, our banking policy and services.

Economic relations between the People's Republic of China and nearly all Latin American countries have been in a boom phase recently. What are the main tendencies and recent developments of these Sino-Latin American economic relations in Brazil's context?

China is really important for Brazil. We have good relations with this country; we belong to the same group, the BRICS that gathers Brazil, Russia, India, China and South Africa. Therefore we are doing many meetings together, which are led by different member countries each year. Last year, the president of China visited Brazil for a BRICS meeting and then we organised a meeting for the Chinese president and all Caribbean presidents.

Just on month ago (in May 2015), the Prime Minister of China was in Brazil for an official meeting and they signed 35 agreements and announced investments for 53 billion US dollars, so the relations with China are really important in every field including the launch of satellites.

We also have a joint project with China and Peru to build a road from the Atlantic to the Pacific Oceans, and, as our three countries are involved, China might participate in the project by financing a part of the infrastructures and by providing workers. It is not a simple thing because they have to cross the whole continent so they have to be really careful about people who live here and cautious about the environment and make a lot of studies about it. This is an old project, we always wanted to connect the Atlantic and Pacific, but hopefully, we will see it happen eventually.

Could you say some words about the CELAC? How would you describe its role in international relations? President Dilma Rousseff has proposed that it should expand its functions and seek increasing the trade relations between its member countries. Do you agree? What have been achieved so far in this matter?

CELAC is a group of Latin American and Caribbean countries, therefore the United States and Canada are not part of it. It is a relatively new organisation. It was created in 2010. Its aim is to fulfil common projects in many subjects; the countries are in charge to organise everything. This organisation is becoming really important: it has its own "personality" and will have its next meeting on 10 June in Brussels. It has been created to unite all the Latin American and Caribbean countries in opposition to OAS, where I have been ambassador, and which is willing to gather all the American countries apart from Cuba; but as relations

between Cuba and the United States are better, this aspect will not be so important anymore. The idea is to get closer and closer to integration, a physical one, but also to improve cooperation in many fields, policy and of course to create projects together.

This organisation is really important for us because other Latin American countries, which are Spanish speakers, always had a kind of cooperation and Brazil was in the past a little bit apart from it. But for 15 years, it changed because we put all of our efforts and focused our foreign policy on the integration of South and Latin America. Things are now changing, I hope for the best for Latin America.

About the trade relations, our priority is now to invest in infrastructures. In June Dilma Rousseff is launching a series of investments in port, railroad, energy and other things we do not know as it is not public yet, and we hope that European Union and Hungary will be interested in it too.

Talking about President Dilma Rousseff, has Brazil's external policy changed since her election? If yes, how so?

Since her election, the president's foreign policy is really something that remained steady with some principles. They have a precise idea and it does not change too much but it changed in certain ways and she is continuing on the path of President Lula as they are representing the same party. Maybe a bit different, but regarding last year, her policy is quite the same as her predecessor. Lula opened a lot of embassies and she is trying to keep on improving the relations with those countries.

I believe that the football World Cup and the Olympic Games will certainly help our foreign policy because those kind of international events always help to give a good image to the world and, as journalist were really impressed, I think it can only bring good consequences to foreign relations, and moreover, sport is really important to gather people.

Last, but not least: we know that she is the first woman in your country holding the office which can be considered – I think – as a very positive first sign of a new trend in the world of politics, a still-masculine field. Has something changed since 2011, her election as president?

Is there – for example – more female deputy in the Brazilian National Congress? Are there any signs that Brazilian women have been more interested in politics, political career?

Women rights increased since 15 years, an example of it is the opening of the Secretary for Women, which is a ministry directly related to presidency. It opened under Lula's presidency and President Rousseff, of course, maintained it. She talks about women's rights often, and she had a very strong speech against violence committed on women, which contributed to change the related law.

Sadly, the proportion of seats held by women in the parliament is very low; however it is the same in many countries all over the world, except maybe the Scandinavian countries. The difference of incomes is also an issue, since men are generally paid more for the same job. It is a problem that apparent even in the United States and in European countries, so it is really crucial to change it. Dilma Rousseff is the first female president and she is really fighting to change the regulation. There were many women candidates at the last presidential election and there were three women running for presidency.

Moreover, we have gender quotas in the parliamentary election, at least 30% of the candidates have to be women and this quota was reached the last election for the first time.

Sadly, not all of them were elected and only 9% are finally Brazilian citizens.

Dilma Rousseff also tries to surround herself with women; she has five or six female ministers in her government.

And in the 5,000 cities that Brazil counts, we have a large amount of women as mayors who are responsible for leading these cities. We also have a lot of women in justice, as judges and lawyers.

I also think that her election inspired the young generations and that we have more and more female students in politics, justice and other noteworthy fields; her election allowed youth to believe in itself and to have ambition. On the other hand, women are still really important for "poor people", because women are in charge of money, of taking care of children and so they are playing an important role in the society.

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Economy of Central Europe

dr. Adrienn Prieger

Introduction

As far as the Central European economies are concerned, they have been gaining footing in recent years. First of all I need to mention that the countries have transformed from raw materials suppliers of the European countries to be an important part of the automobile industry. This change has been possible by developing manufacturing capabilities.

Though the change is highly encouraging but at the same time region has created over-dependency on few countries and sectors. Example Czech Republic's trade has become focused towards Germany and its growth is related to automobile sector. The extent of this dependence can be understood from the fact that Czech Republic exports to Germany account to nearly 29.68% of its total exports which is more than 4 times the second closest trading partner. While imports from Germany, account to 25.8% of its total imports.¹

In recent years, the Central European economies have increased their intra-EU trade, for instance between 2003 and 2013, countries like Czech Republic, Hungary, Poland, and Slovakia more than doubled their intra-EU exports. For Poland there was an increase from euro 35.4 billion in 2002 to euro 113.8 billion in 2013 (Eurostat, 2014).

In the end of 2014, growth in central Europe had been impacted by geo-political factors like the Ukraine crisis.

¹ To learn more about trade in the Czech Republic visit: <https://atlas.media.mit.edu/en/profile/country/cze>

The European Union has a great deal of influence for the Central European economies, it determines the present and the future prospects as well. (Serbos, 2008, p.97) Now the EU has 28 member states. Hungary joined on 1 May in 2004. With the entry of 9 other countries, this has been the biggest enlargement in the EU's history.

The single market was the EU's first achievement, completed in 1993. Companies are able to sell their goods anywhere and professional services can be offered in any member state. The single market has led to increased competition of business resulting in lower prices and a greater choice of goods and services. The objective of the EU is to enhance competitiveness in the world market.

In the EU 6 million jobs were created between 1999 and 2003. The aim is to raise the employment level, guarantee equal opportunities and encourage job-creating investments. (European Commission, 2014)

The EU has established a comprehensive framework for environmental protection, and EU participates in a lot of international environmental programs. The EU's objective is to involve the public in protecting the environment. (Convention PECL, 1998) These made huge effects of the Central European economies as well.

Human rights, democracy and the rule of law are the EU's core values. Since 1992, all agreements on trade and co-operation contain a clause on safeguarding human rights. Beside financial help, the EU promotes economic growth which can be noticed in Central Europe too. (Accession criteria, n.d.)

As part of this document, I look into some of the central European economies and attempt to analyse the future prospects for the region.

Central European economies

The region is home to various economies which though situated very closely but differ in their policies and have their own set of strengths and weaknesses. While some of these economies are part of the Eurozone, others are yet to adopt it. I look into some of these economies namely, Czech Republic, Hungary and Poland.

In connection with the Central European economies, needs to mention about the globalisation, what is a basic of the case. Three major institutions were established after the 2nd World War. Firstly, The World Bank, which aim is to provide low-cost loans for developing countries. Secondly, The International Monetary Fund (IMF), which objective is to maintain the value of currencies and to ensure the stability in exchange rates. Thirdly, The World Trade Organisation (WTO), which goal is to lower taxes on imported goods.

The object of globalisation is to solve different economic, social, political, cultural and environmental problems in the world and also in Central European economies. Some of the most important issues are the following: optimal regulation of markets, reducing income and wealth inequalities, protecting the worker's rights, major environmental problems, addressing health issues. (D&B Global Economic Outlook, 2013)

Czech Republic

The country is recovering from record long recession. The recovery is fuelled by the increase in exports which have become attractive thanks to the weakening of currency koruna. Manufacturing and household consumption is boosting the growth. In Sept 2014, retail sales grew by 6.2% when compared to the previous year. (Ponikelska, 2014)

The central bank measures to set a cap on koruna near 27 have really helped in increasing business confidence and provided stability. Economic growth is attributed to increasing household consumption and development of inventories for production activities.

Though the economy is moving towards stability; a lot is left to be desired. Country's economy is exposed to external factors esp. foreign demand and mainly its trade with Germany. Germany is the largest trade partner of Czech Republic and the trade between two accounts to roughly \$ 77 billion. Measures are required to diversify exports.²

Country needs to focus on infrastructure development. This should involve improving connectivity between the cities by developing high speed rail links and highways. Construction projects are delayed and generally run out of deadlines. Example: Highway link between Prague and south Germany is still not complete even after 16 years. (Nixon, 2014)

² To learn more about trade in the Czech Republic visit: <https://atlas.media.mit.edu/en/profile/country/cze>

Though low cost manufacturing has worked out for the country in recent years but efforts are required to keep up the momentum. For this, country needs to invest in research institutions and attract specialists. However this is a challenge being a small populous nation. To meets these requirements there is a need to improve educational institutions, infrastructure and capital to fund research projects.

With increase in business confidence and growing demand, the economy is expected to grow.

Hungary

Hungary is showing positive signs of growth. In January 2015, the number of people in employment was up by 180,000 year on year. Hungarians bought 20% more cars in 2014 compared to 2013. (Eddy, 2015)

But despite the above growth indicators, country faces possible economic impact due to Ukraine crisis, weakening of euro, oil prices among others. Government has also been in the news for all the wrong reasons like taking populist measures of cutting household energy bills, interference in judiciary and central bank. Also, there are many instances where corruption and misappropriate allocation of funds has been observed.

In order to generate revenue, government has imposed extraordinarily high taxes on various sectors like banking, retail, energy and telecom which have got the foreign investors concerned about the discriminatory policies. This had badly impacted the investors' confidence and triggered FDI outflow. (Simon, 2014)

All these are concerning signs for businesses. Government is taking measures to improve the economy. There are plans to phase out foreign currency mortgages and correcting the bank tax. In addition, government plans to raise wages.

However the economy is expected to be benefited with improvements in EU's economy. European commission along with government plans to invest in improvement of small and medium enterprises as part of the "Economic Development and Innovation Operational Programme". This would help provide the necessary funding to create jobs, support start-ups, carry out research activities and promote renewable resources of energy. (European Commission, 2015)

Poland

Poland has been growing for quite some time now. Since 1989, country has shown tremendous improvement in the economy. Example: Country's GDP per capita more than doubled during the period while exports stand close to \$250 billion which is more than 25 times the exports figure in 1989. Since joining EU, unemployment has decreased from 20% in 2003 to 13.4% in 2013. (Gotev and Kokoszczynski, 2014)

This growth has been possible because of country's focus on integration with EU, development of educational institutions and infrastructure. Country's market oriented reforms have really helped. The domestic market is strong and has helped the country survive the global recession of 2008–2009. (Piatkowski, 2015)

The country has the opportunity not only to continue with current growth figures i.e. GDP growth of 2.6% per year but also to accelerate it and possibly become third largest manufacturer in the EU. (Radio Poland, 2015) But in order to sustain this growth country must focus on driving innovation and research and carry out development of remote areas.

The country needs to adapt to renewable energy but the mining of coal and coal power plants needs to be phased out gradually as they currently employ sizable population and account for 90% of the power generated in the country. This growth is expected to continue and would only be benefited by the EU recovery. Country has secured 82 billion euro in the EU budget for 2014-2020.

The future of Central European economy

Adoption of euro currency to take time

Central European economies like Czech Republic and Poland have shown reservations in their plans to join the euro. In Poland, the support for joining currency is low. Around 68% of the Poles do not want to join the euro. (Swidlicki, 2014) Also government lacks 2/3 majority required in parliament to make such a constitutional change.

Other central European countries are not eager either. Euro area looks fragile and the area is at risk of falling into deflation. Keeping this in mind, ministry of finance and the Czech national

bank realise that the country would need time to adopt the euro. (Ležatka and Zimmermann, 2014)

Shared vision for EU energy union to create energy security

Though regional economies are yet to join Eurozone but they do share EU's energy union vision. The goal is to create energy alternatives, the need of which has mainly been felt after the Ukrainian crisis. The region plans to increase clean energy based power. Poland has taken up initiatives towards formulation of energy union and looks forward to development of efficient network. Tusk, prime minister of Poland has suggested that EU pay 75% of the bill for gas infrastructure. (Gotev, 2014)

Working towards research based growth model and business friendly environment

For continued growth the region needs to change its approach and focus on research and development; creating high quality products and services. Creating business friendly environment with favourable policies and access to capital will help. Efforts are required to improve infrastructure and educational institutions. (Bogdan, 2015) The region needs to work on removing regulations and control and instead promote investment and provide tax incentives.

The region needs to liberalise its market and encourage privatisation and competition. Some sectors like telecom, postal services would benefit greatly by this change.

Creating domestic sources of capital

The region needs to decrease over-dependence on foreign funds but instead create domestic sources of capital which would require encouraging savings. Currently citizens' lack saving habits as a result of government funded education, health care and pension.

Having mentioned above, the region has lot of growth potential. It has access to low wage and highly skilled work force. By focusing on innovation, research and harnessing this potential, the region can move towards development of high quality products and services. The region

also needs to diversify and reduce over-dependence on particular sectors and trading partners. By providing access to capital, easing regulations and control, region can become attractive to the investors.

Finally, I suppose that in the future Central Europe will be more successful, and will improve a lot.

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