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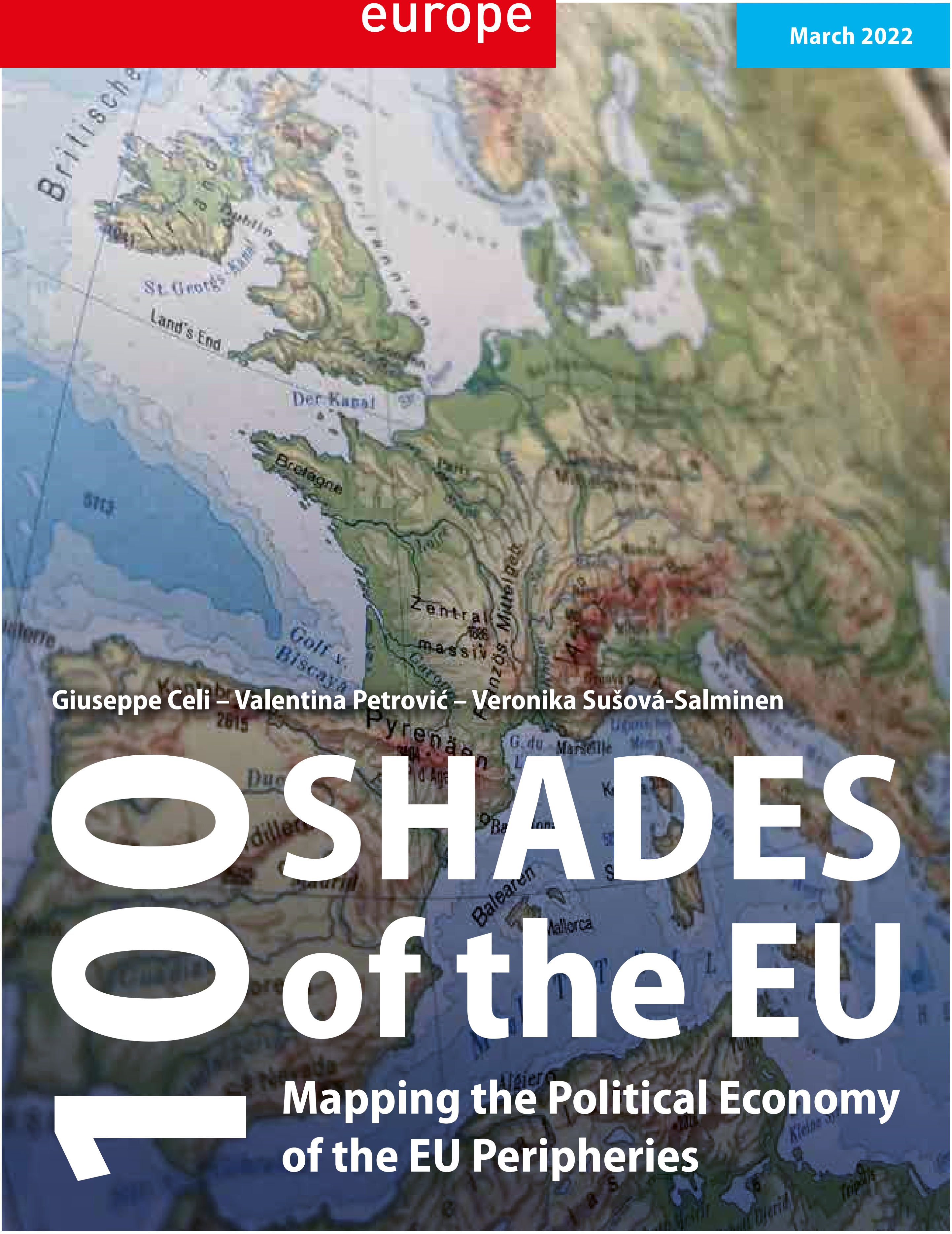

Giuseppe Celi – Valentina Petrović – Veronika Sušová-Salminen

100 SHADES of the EU

Mapping the Political Economy of the EU Peripheries

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Authors: Giuseppe Celi, Valentina Petrović, Veronika Sušová-Salminen

Junior Research Team: Mihai-Călin Căciuleanu, Dorota Kolarska, Ioannis Apostolos Sklias

Editors: Tatiana Moutinho, Dagmar Švendová

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PART III

List of abbreviations

CEE	Central Eastern Europe
CEMC	Central European Manufacturing Core
CEPR	Centre for Economic Policy Research
CME	Coordinated Market Economy
CMEA	Council for Mutual Economic Assistance
DG ECFIN	Directorate-General for Economic and Financial Affairs
DME	Dependent Market Economy
EC	European Commission
ECB	European Central Bank
EEC	European Economic Community
ECFR	European Council on Foreign Relations
EGD	European Green Deal
EMU	European Monetary Union
ESIF	European Structural and Investment Funds
ESB	European Strategy for the Bioeconomy
EZ	Eurozone
EU	European Union
EU 15	European Union with 15 Member States before expansion in 2004
EUCP	European Union's Cohesion Policy
FDI	Foreign Direct Investment
FIRE	Finance, insurance services and real estate
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GVA	Gross Value Added
GVC	Global Value Chain
ILO	International Labour Organization
LME	Liberal Market Economy
LTC	Long-Term Care
MEPs	Members of the European Parliament
MNC	Multinational Corporation
NATO	North Atlantic Treaty Organization
NE	Northern Europe (Denmark, Sweden, Finland)
NMP	Net Material Product
OECD	Organisation for Economic Co-operation and Development
PPP	Public-private partnership
PPS	Purchasing Power Standard
R&D	Research and Development
RRFP	Recovery and Resilience Facility Plan
SGP	Stability and Growth Pact
SE	Southern Europe
SEE	South-East Europe
TNC	Transnational Corporation
UK	United Kingdom of Great Britain and Northern Ireland
USA	United States of America
USSR	Union of Soviet Socialist Republics
V4	Visegrád Four
VOC	Varieties of Capitalism
WE	Western Europe (Benelux, France, Germany, Ireland)
WWI	First World War
WWII	Second World War

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Preface

Tatiana Moutinho, Dagmar Švendová

During the 20th century, the economic and political history of the European continent was one of turbulence. A number of wars dramatically shaped Europe: the First and Second World Wars, the Cold War and also the Yugoslav Wars, which cost millions of lives, devastated economies and had enormous social and environmental costs within Europe and beyond. The spectre of a world war haunts Europe once again and is set to worsen the existing social and environmental problems, as well as the process of post-pandemic reconstruction.

European integration has long been seen as a remedy for Europe's failures of the past.

In the aftermath of the Second World War, the idea began to emerge that, by strengthening trade transactions and economic cooperation between the different European countries, a lasting and prosperous peace could emerge for all countries. This was the founding idea of the European Economic Community project of 1958, which brought together six major economies of Europe – West Germany (later Germany), France, Italy, Belgium, Luxembourg and the Netherlands. In the years that followed, seven more countries joined the project of economic cooperation and integration of the economies into a common market – the single market – in a process known as 'enlargement'.

Hence, great powers' rivalry and the struggle for hegemony across the continent ought to have been replaced by deepening economic and political cooperation among European nations. This feeling was even reinforced by the end of the Cold War in 1989. The process of peacebuilding in Europe was based on the cooperation and reconciliation of France and Germany, on economic openness and, also, increasingly on the belief in a new type of politics, which would somehow overcome the power aspect of international relations.

Economy was always at the centre of the European integration and enlargement processes. The increasingly neoliberal direction, apparent since the end of the 1960s and triumphant after 1989, institutionally reconfigured not only the EU but also the Member States and their relations with Brussels. Eventually, it also changed the former (post-WWII) model of the social market economy through the creeping but clear deletion of the word 'social' in the contexts of individual Member States. Here lay the different historical roots of the democratic deficit and the missing social dimension (or pillar) of the European Union.

The global financial crisis of 2008 put the competition-based EU economic paradigm to the test and turned an economic crisis into the political crisis of European integration. The global financial crisis called into question not only the EU's governance mechanisms but also some important institutional pillars of the EU, such as its common currency and convergence. It has (again) been proven that there is nothing like an economy without politics and that economic and financial crises have profound political consequences (and causes). In short, the crisis helped to shed light on the political economy of the EU, in particular, on the existing inequalities and power asymmetries, 'short-lived and lasting' (inter)dependencies, and the conflicts and the dilemmas they create and put in motion.

The idea – or, perhaps better said – the ideal of the European Union is that of a common space where a continuous and never-ending process of European integration is underway. This process of European integration should lead to a kind of economic, social, and political convergence among all Member States, in full respect of their sovereignties and of the cultural diversity that exists within the European space. The official EU motto is 'United in diversity'. Indeed, Europe's diversity has shaped the social, economic and cultural history of our continent for centuries. For better or worse, we are all the same and different as citizens of the European Union. We share many experiences, while many experiences objectively divide us. Despite this rhetoric, the EU is a product of capitalist modernity, which inherently marginalises (and peripheralizes) different social groups, forms of labour and even cultures. Essentialism and racialisation are an integral but often unseen part of the EU functioning, and also permeate Member States and their societies.

To have a full understanding of the contemporary state of the European Union, one needs to focus on the question of peripherality **through the lens** of peripheral regions: the so-called 'old periphery' (Southern European countries) and the 'new periphery' (Central and Eastern European countries). This means asking a simple but quite complex question: how does the EU actually work for these societies?

Because a true European project will not be viable without internationalist solidarity, cohesion and mutual aid between all its Member States, *transform! europe* recognises the need to systematise and deepen our knowledge of the reality of the existing EU peripheries and, in collaboration with the Rosa Luxemburg Foundation, has over the past two years organised the study now published.

The study presented in the pages that follow, conducted by a multidisciplinary team of three researchers (an economist, a sociologist/political scientist and a historian/anthropologist), aimed to tackle the issue of peripherality and core-periphery relations in the EU as a multidimensional problem. This means that this work concentrates on the socio-economic, political and cultural (and ideological) dimensions of peripheral conditions.

The main tasks and goals of this work can be summarised as follows:

→ Make use of the political-economic mapping (i.e. analysis) of southern and eastern regions of the EU as a tool not only for building bridges and cooperation strategies between these EU peripheries, but also for policy-making within and beyond these regions.

→ Understand the current forms and manifestations of power asymmetries and dependencies, as a means of discussion and to put the political discussion on the European integration process and the future of the European Union, including its reform, centre stage.

→ Provide a contribution to the process of peripheries' self-representations, by contemplating visions of the *'East by the East'* and the *'South by the South'*, that may dispute and counteract the hegemonic narrative of the core as the only dependency and power mechanism in play.

It is our hope that this study will provide the reader (whether a general reader, an academic or a policymaker) with a comprehensive view of the current forms and manifestations of peripherality in the EU, as well as contribute to the process of peripheries' self-representations and political self-realisation (peripherality not as 'shameful' but as a distinctive form of critique from the sidelines).

Lastly, and importantly, we aim to accomplish (at least to some extent) the task of providing a relevant tool for building bridges for dialogue and cooperation strategies between regions, as well as for future decisions on policy-making and even providing possible hints for alternative reconstruction of the EU and reconfiguration of EU power relations.

Executive summary

Giuseppe Celi, Valentina Petrović, Veronika Sušová-Salminen

This comparative study focuses on two peripheries in the European Union: Southern Europe (the South), and Central Eastern and South-East Europe (the East) – i.e., 17 EU Member States. The study aims to understand how their peripherality is embedded economically and politically within the EU and in relation to the core countries (especially to Germany, as a paradigmatic core country of the EU). It focuses on the most recent developments covering the period from 1990-2020. The study concentrates on peripherality as a complex state of being peripheral, i.e. *being dependent* in the context of the country's interactions with the core. From this perspective, the research aims to understand the political economy of the contemporary EU, that is, the complex interplay between politics and economy. We argue that peripherality is multidimensional: it has a socio-economic dimension, a political dimension, and a cultural and ideological dimension.

The key research problem is to understand the structure of dependency underlying the peripheral position of these two EU peripheries in the European economy. The second research issue concerns the comparative view that permeates all the selected fields of investigation. Thus, while this study assumes peripherality as a relational problem of dependency on the core (in particular on Germany), it primarily focuses on the comparison of peripheral features among different groups of countries in Southern Europe and in Central Eastern and South-East Europe. The study offers an analysis and comparison of existing economic models in each of the peripheries, as well as an analysis of trade networks and global value chains (GVC), with a particular focus on the European automotive industry. Regarding the political dimension, the study explores political cleavages in each periphery and at the national and EU levels, paying special attention to the Left's political parties. It also focuses on the cooperation between peripheries based on perceived coalition potential in the EU institutional context, and on the question of representation in the governance structure of the European Union, i.e. the strength of their tools (potential) to influence the EU. Finally, with regard to the ideological and cultural dimension of peripherality, this study concentrates on the relation between peripherality and alterity (Otherness) from a comparative perspective.

KEY FINDINGS

Focusing on structural economic features, the study shows that both EU peripheries share a dependent position in terms of capital, investments and technologies (and their transfers), which determines an especially important constraint for their economic development. The dependence also leads to limited autonomy in decision-making processes, not exclusively confined to the economic sphere. However, these dependencies develop within differently structured economies or economic models, which are analysed in their historical contexts. In particular, the economies of Southern Europe, faced with the crisis of the 1970s, halted or prematurely slowed down the process of industrialisation. In the years that followed – marked by the deregulation and liberalisation of markets at a global level – they took the path of financialization and hypertrophisation of services and the public sector. The competition from the Eastern periphery, whose expansion in the production of intermediate goods for the German manufacturing industry partially displaced southern suppliers, contributed to the further weakening of the already fragile production base in Southern Europe. In this way, the incorporation of one periphery in the EU may have contributed to the decreasing economic development of the other.

Looking at the Eastern EU periphery, even the robust industrial development of the most dynamic Central Eastern European countries (mainly the V4 countries) shows its weaknesses, linked to dependence on foreign capital and technology, limited domestic markets and low wages. In other words, the substantial part of the Eastern success story is its dependence on mono-specialisation in the automotive sector, which, in turn, is tightly integrated into the German value chain, and therefore dependent on German foreign direct investment (FDI). This mono-specialisation is a distinctive feature of the region's economic peripherality and is somewhat reminiscent of the old characteristics of mono-specialisation known from other examples (e.g. Latin America). On the other hand, the development of less dynamic Eastern European countries reflects, to some extent, vulnerabilities that are similar to those encountered in the Southern periphery. In fact, foreign direct investments in the FIRE sphere (finance, insurance services and real estate) are important for the Baltic economies with their substantially financialised economies, or for Bulgaria and Croatia (in both cases with regard to the tourism industry).

When comparing both dependent economic models in Southern Europe and in Central Eastern and South-East Europe we can sum up that, in terms of convergence, there are serious problems of a different kind. The present economic model in Southern Europe does not provide drivers for sustainable economic and social convergence in the EU context. The European Monetary Union (EMU) membership may be a further explanatory factor for the divergence of the Southern European countries. The economies of the Eastern periphery are converging, although this convergence is uneven and creates gaps within countries and internal polarisation in Central Eastern and South-East Europe. The unbalanced regional development seems to be a side effect of general macroeconomic convergence. It produces not only economic problems in terms of increasing dualism in production (in technology, particularly) and in the labour market, but also political reactions (e.g. populism). Beyond the different trajectories in terms of convergence, the two EU peripheries share common elements of fragility. In general, we can say that in both the EU peripheries the dependence on foreign capital (in the form of credits or FDI) represents a major element of vulnerability that exposes the peripheral economies to external shocks that are difficult to control and lead to recurrent crises.

In the political sphere, we can observe several problems related to peripherality. The party system and political conflict lines have been greatly influenced by the economic crisis in 2008 in both peripheries. However, whereas the East has witnessed a strengthening of populist right-wing political forces with a strong emphasis on identity issues and 'welfare chauvinism' under the conditions of a weak political Left, we have seen the rise of new left-wing political options in Southern Europe. Italy represents an outlier nation, with a strong right-wing movement and a marginalised and weak Left. Southern European countries have experienced a slightly 'delayed' rise of populist or radical right-wing political options but with limited power, due to the strong position of the Left in the region.

Despite these regions being part of the EU's periphery, the different economic needs and policy constraints pose serious obstacles for a common alliance to emerge between them. The study has presented two salient issues at the European level, namely migration policy and EU funding, and highlighted the divergent position of the 17 Member States in relation to these issues. The current pandemic has presented another window of opportunity for political cooperation between the East and the South, but it remains to be seen if it will transform into lasting alliances between both EU peripheries. When focusing on experts' perception of coalition potential, there was a significant overlap of migration and fiscal policy for the East and the South, pointing to the possibility of cooperation in these two areas. On the other hand, cooperation seems more limited in the area of foreign policy, due to different geographical contexts and geostrategic allies of the regions. Finally, while the alliance potential between the South and the East remains limited, both peripheries seem to be eager to create alliances with Germany and France on major political issues. The dimension of representation in EU institutions reveals (partly) the peripheral status of the East and the South. Both EU peripheries are underrepresented in the EU institutions, which are still dominated by the core countries (esp. Western Europe). In the case of the Eastern periphery, the study notes massive underrepresentation in EU institutions, with the exception of the European Parliament.

When focusing on the cultural and ideological dimension of peripherality, the research – drawing on textual analysis and extensive published research – shows that Southern Europe and Central Eastern and South-East Europe have been construed as the Others, with the help of Orientalist stereotypes and elements within this type of ideological peripheralization process. The resultant implications are complex. For example, two contradictory elements emerge – exclusion and inclusion – based on the hegemonic discourses of the core, but also imitation as another feature of dependency. The construction of the Otherness of both peripheries is a particularly important instrument of core dominance in relation to these peripheries.

POLICY IMPLICATIONS:

The future reform of the EU should take into account existing inequalities shaping the EU in a negative way. Peripheral countries should not stay on the margins of the debate and should contribute substantially to the reform by boosting the cooperative dialogue. We argue that the existing obstacles to more profound cooperation between both peripheries are: i) objective (economic differences and competitive economic models), ii) subjective (produced by cultural and intellectual dependency and thus stem from their intrinsic peripherality or peripheral subjectivity), and iii) stem from the depoliticised character of the EU. Potential political dialogue, cooperation or even coalition-building between both peripheries must overcome these obstacles and limitations – or work with them.

Policymakers and politicians should focus on the following principles:

- A more resilient, socially oriented, sustainable and self-reliant European economy, which would unleash the social and economic potential of individual Member States, their domestic and local markets, and trade that is based on principles of reciprocity and fair exchange.

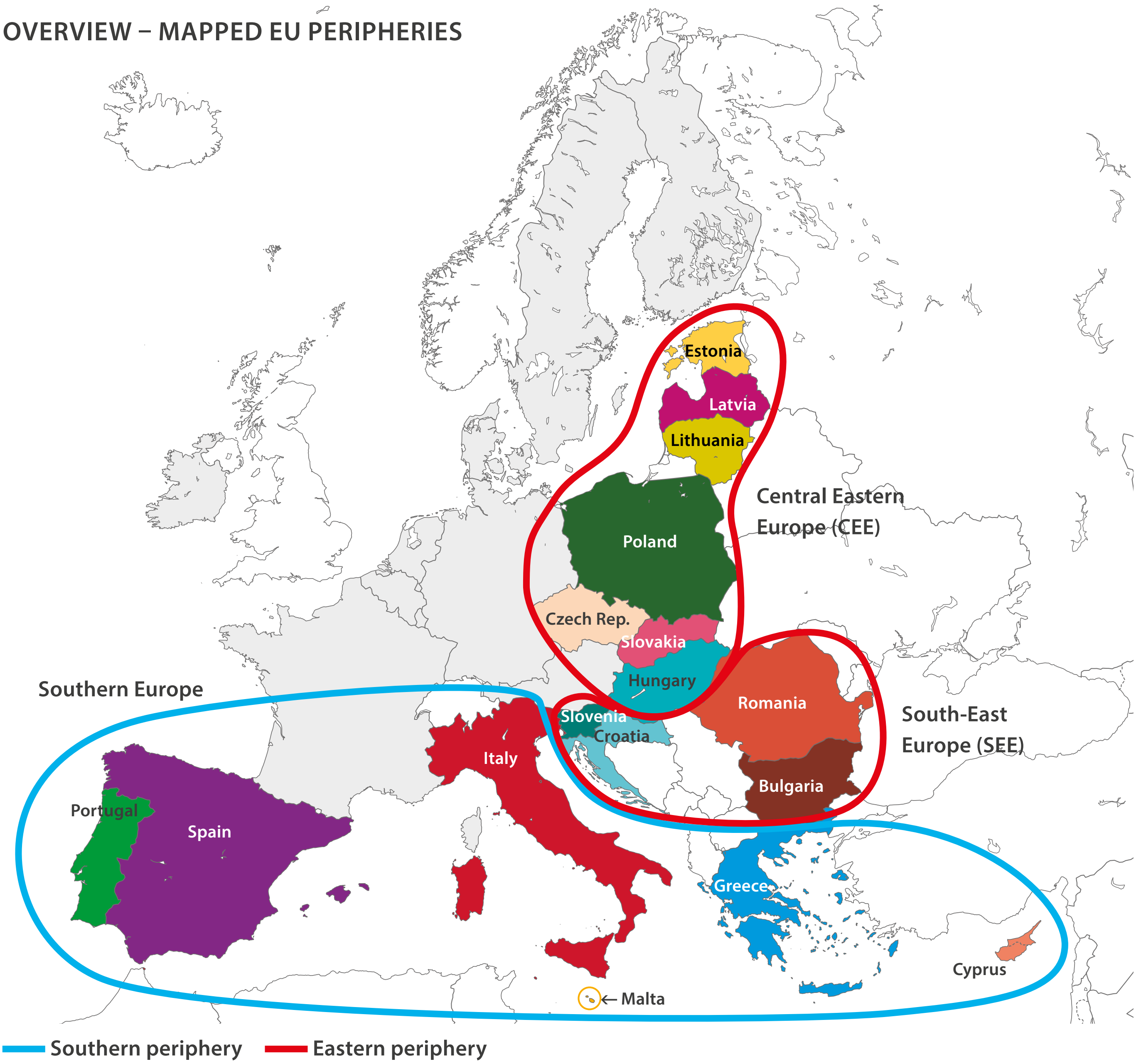
- A more cooperative and less competitive EU, which would abandon the negative consequences of the competition paradigm, such as the race to the bottom (or competitive state) with its largely divisive impacts that are detrimental to solidarity and cooperation both within the EU and within the Member States.

- A more open-minded EU, which would not stick to worn-out stereotypes and ideological abbreviations still reminiscent of the Cold War mentality of divided Europe. This means taking seriously the idea of the EU's internal diversity and moving away from moral hierarchies created during the time of colonialism, and, equally, away from Western-centric (central) views of countries that may be culturally different and spatially (geographically) distant.

- A more cohesive regional policy that would not tolerate huge socio-economic gaps within Member States as a corollary of their economic integration and position in the EU.

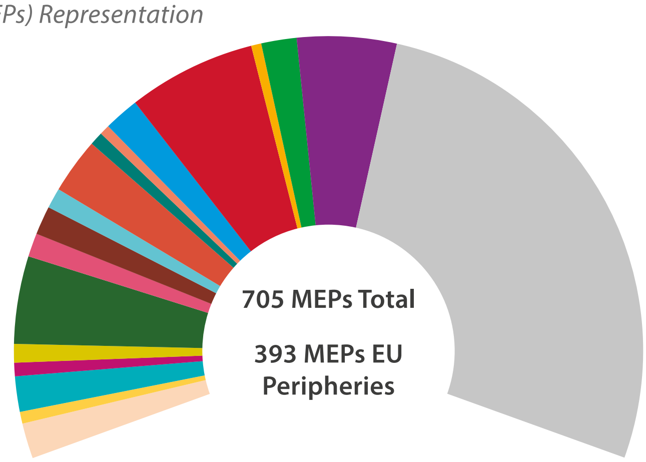
- A structural rebalancing of the European economy through a real industrial policy that goes beyond a 'competition policy' or 'structural policies'.

OVERVIEW – MAPPED EU PERIPHERIES



European Parliament – Members of the European Parliament (MEPs) Representation

CEE		*SEE*		*SE*	
Czech Republic	21	Bulgaria	17	Cyprus	6
Estonia	7	Croatia	12	Greece	21
Hungary	21	Romania	33	Italy	76
Latvia	8	Slovenia	8	Malta	6
Lithuania	11			Portugal	21
Poland	52			Spain	59
Slovakia	14				



EU27 | *Southern Europe (SE)*

European Union	Spain	Italy	Portugal	Malta	Greece	Cyprus
Area: 4,233,262 km²	**Area:** 505,990 km²	**Area:** 301,230 km²	**Area:** 92,212 km²	**Area:** 316 km²	**Area:** 131,957 km²	**Area:** 9,251 km²
Population: 447,007,596*	**Population:** 47,450,795 (2020)	**Population:** 60,317,116**	**Population:** 10,344,802 (2021)	**Population:** 516,100*	**Population:** 10,678,632**	**Population:** 1,189,265 (2018 est)
GDP per capita, in PPP: $40,995**	**GDP per capita, in PPP:** $46,413**	**GDP per capita, in PPP:** $50,215**	**GDP per capita, in PPP:** $40,805**	**GDP per capita, in PPP:** $54,647**	**GDP per capita, in PPP:** $35,596**	**GDP per capita, in PPP:** $42,832**

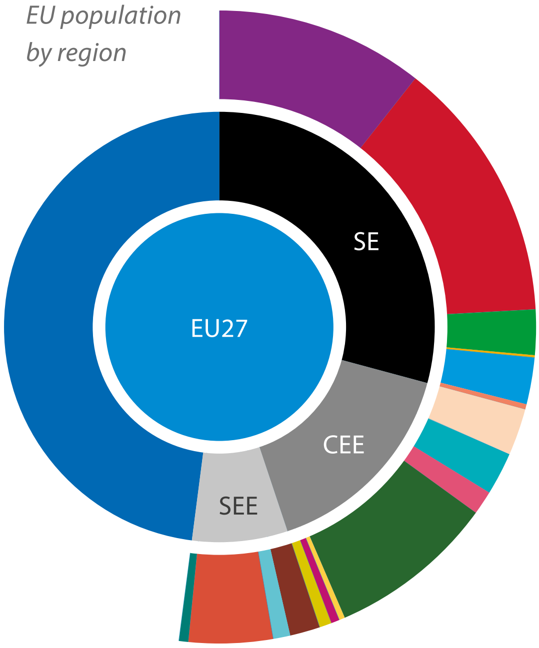
Central Eastern Europe (CEE)

Czech Republic	Hungary	Slovakia	Poland	Estonia	Latvia	Lithuania
Area: 78,871 km²	**Area:** 93,030 km²	**Area:** 49,035 km²	**Area:** 312,696 km²	**Area:** 45,339 km²	**Area:** 64,589 km²	**Area:** 65,300 km²
Population: 10,701,777 (2021)	**Population:** 9,730,000*	**Population:** 5,449,270 (2021)	**Population:** 38,179,800 (2021)	**Population:** 1,328,439**	**Population:** 1,907,675**	**Population:** 2,795,680*
GDP per capita, in PPP: $47,527**	**GDP per capita, in PPP:** $40,944**	**GDP per capita, in PPP:** $38,620**	**GDP per capita, in PPP:** $41,684**	**GDP per capita, in PPP:** $44,778**	**GDP per capita, in PPP:** $37,329**	**GDP per capita, in PPP:** $46,479**

South-East Europe (SEE)

Bulgaria	Croatia	Romania	Slovenia
Area: 110,993.6 km²	**Area:** 56,594 km²	**Area:** 238,397 km²	**Area:** 20,271 km²
Population: 6,863,422**	**Population:** 3,888,529 (2021 'cest')	**Population:** 19,186,201*	**Population:** 2,108,708*
GDP per capita, in PPP: $28,593**	**GDP per capita, in PPP:** $36,201**	**GDP per capita, in PPP:** $36,621**	**GDP per capita, in PPP:** $48,533**

EU population by region



**2021 estimate, **2022 estimate*

Source: World Economic Outlook Database (2022), Wikipedia (2022)

Introduction

Giuseppe Celi, Valentina Petrović, Veronika Sušová-Salminen

1. THE EU AND GEOGRAPHIES OF CAPITALISM IN EUROPE FROM A HISTORICAL PERSPECTIVE

The project of European integration has faced very serious challenges over the past decade or more. In 2008, the global financial crisis (GFC) cast into doubt the neoliberal model of the EU, the common currency of the euro and economic convergence in the EU. The crisis had serious economic, social but also political consequences for individual Member States, as well as for the EU and its cohesion. In 2016, the Brexit referendum represented another dramatic shock and a huge discontinuity for the EU. For the first time, Brexit successfully politicised the EU issues (we are not evaluating Brexit per se at this juncture) and interrupted the seemingly unchallenged process of EU enlargement and integration. Finally, the 2020 Covid-19 pandemic challenged several assumptions – among others, it shed a different light on neoliberal globalisation and the fragile interdependency it has created over the past forty years of global economic integration. The pandemic became a much more literal test of social welfare in the individual Member States, while it also challenged dogmas about the market as the only regularity force of economic and social development. All these three crises tell us something about the political economy of the European Union (EU). They helped to bring to the surface not only conflict lines but also revealed that these conflict lines are associated with existing power asymmetries in the EU and shape its dynamics. The core-periphery model represents one of the ways to grasp these power asymmetries in a compact and meaningful form. When we analyse the factors underlying the current configuration of core-periphery relations in Europe, we realise that they have distant roots. Historically, capitalist expansion has been wildly uneven in Europe over the last five hundred years, suggesting that the core-periphery pattern has a longer historical genesis that goes beyond the EU and its recent history. Europe was traditionally seen as an engine of capitalist expansion that was gradually integrating all parts of the world into one capitalist system. However, this process was very structured and unequal within Europe as well as in the global context. The colonial expansion of the late 1400s has been critical for Europe's growth and its uneven development in terms of trade and economic evolution. Until that time, Europe was indeed just one of the many subsystems of the medieval world system, as Abu-Lughod suggests (Abu-Lughod, 1989), and it has shared many of the economic characteristics with other non-European civilisations (see Hobson, 2004). Colonial capitalism and the capital accumulation that it provided, were, however, located nearly exclusively on the Atlantic shores of Europe. At the same time, other parts of Europe such as Central and Eastern Europe were largely absent from this endeavour, or they played a secondary role (for instance Baltic shores), even when they were previously a composite part of trade networks interconnecting Europe and Asia. Nevertheless, they have been gradually integrated into this modern and colonial world system as mostly agrarian peripheries organised within the huge, continental empire states. In short, colonial expansion and building empire states became very important factors of divergence in Europe. Indeed, we can argue that their legacies, i.e. the legacies of colonialism and empire, still shape our realities today.

North Atlantic Europe has transformed since the end of the 1500s into the engine of modern capitalism and Western modernity as a particular embodiment of capitalist subjectivity. Its early capitalist centre shifted due to colonial expansion and capital accumulation. Even before that, during the medieval period, Italian city states and their merchants engaged in the colonising process targeted geographically at the Mediterranean Sea, especially the Adriatic Sea and beyond. The situation, however, changed – in part because of the western expansion of the Ottoman Empire. At the beginning of the 1500s, first Portugal and Spain then, soon enough, their northern neighbours and competitors, France, England and the Netherlands, participated in this transformative endeavour. The expansion of Portugal and Spain marginalised the importance of Italian merchants and banks, while England, France and the Netherlands marginalised Portugal and Spain at the end of the 1500s. Consequently, the Mediterranean area (or, later, Southern Europe) was gradually peripheralized, while the new core began to expand globally. Large parts of Europe in its centre and the eastern and south-eastern parts were absent in these colonising processes or, better said, they were gradually reconfigured economically as European peripheries of the colonial centre on the shore of the Atlantic Ocean. These were centres of colonial empires, which extended their trade, power and influence to the Americas, Africa and Asia. The sources of accumulation of capital were associated with several sources of the colonial enterprise in the 1500s and beyond. These were, for example, gold and silver mining, plantation agriculture, trade with Asia in spices or cloth, slavery and, finally, piracy (Blaut, 1993:188). Needless to say, neither of these accumulative mechanisms was available to the inhabitants of Bohemia, Poland, Hungary or the Baltic shores and Balkans (perhaps with the exception of mining). As Kenneth Pomeranz and many other authors argue, the exploitation of non-Europeans in the colonies became important, although not the only factor in the rise of (Western) Europe on the global scale (Pomeranz, 2001, Blaut, 1993). However, we should point out that it was also critical for the development within Europe (Boatcă, 2013).

In the eastern, more continental parts of Europe, several imperial projects, the Habsburg monarchy and Russia, and the Ottoman Empire, were established by expansion, conquest and dynastic integration. Neither of them was primarily engaged in the trans-Atlantic colonial accumulation. These countries were a composite part of medieval and early modern trade networks in Europe. But they were slowly integrated into the capitalist world system from the 1500s onwards. The integration of these regions was made possible not through colonial trade but using commercialised agriculture, one of the results of early capitalist development and its newly emerging division of labour. This development was mostly dictated by geography. The position of these empires was soon peripheral to the newly formed centres in Europe and the economic peripherality deeply impacted their economic models and social structures, including an early model of forced labour (serfdom) or "*coerced-cash-crop labour*" as Immanuel Wallerstein named it to distinguish it from an earlier feudal form of serfdom (Wallerstein, 1974/2011). In fact, and this is often forgotten, serfdom as a forced labour form had its juxtaposition in the colonies, where slavery was established as another form of forced labour and flourished (Boatcă, 2014).

Economic historians speak about two important processes of divergence within Europe related to this larger picture of capitalist/colonial expansion and accumulation. The first occurred when North Atlantic countries, England and Holland, took over Mediterranean Europe (especially Central and North Italy, Spain and Portugal). The process of original accumulation of capital was related to the trade and its expansion as well as to the process known as expropriation. This shift from the South to the North began the long-term peripheralization of Southern Europe.

The second divergence is dated to the middle of the 1700s or 1800s with a massive gap between West European centres and Central Eastern and South-East Europe as a part of "great divergence" on the global level (Pomeranz, 2001, Broadberry & Malinowski, 2021). Furthermore, this divergence trend contributed to the peripheral status of this region in Europe's East. For instance, some argue that Central and Eastern Europe as a whole was lagging behind Western European economies for 200 years. In terms of income levels, this region remained at the level of 30% to 50% of West European average incomes, despite the fact that these countries "have tried out any possible economic policy framework available to them, from feudalism to (more or less) liberal capitalism in the 19th and early 20th centuries, to four decades of state socialism, to today westward-leaning liberal democracies" (Morys, 2021:8). In fact, the integration within the EU (and before the state-socialist economic modernisation) was seen as a composite part of the next effort to overcome the divergent trends, converge at the European level and bury the peripheral status and problems. To understand the recent European integration we have to understand its shifting global contexts and forces, which have shaped the current capitalism and its genesis.

2. NEOLIBERAL GLOBALIZATION AND EUROPEANISATION

2.1 From the Keynesian era to the neoliberal globalization

The 'thirty glorious years' generally identify the period of maximum (and never again achieved) economic expansion of Western countries, from the end of the Second World War to the beginning of the 1970s. Despite the existence of a different economic system in the Soviet camp, it was possible to observe very similar trends of economic growth and subsequent decline there too – that is, the post-war economic expansion (largely due to heavy industrialisation) and the period of stagnation in the 1970s and 1980s (caused inter alia by technological backwardness, Berend, 2016). In retrospect, after many years marked by repeated economic crises of various kinds, it has become clear that this period of economic prosperity in Western countries was not replicable and that it incorporated exceptional characteristics. The fundamental circumstances that characterised that particularly expansive phase of capitalist development were identifiable, in extreme synthesis, in a series of factors.

1. A stable international economic order guaranteed by the institutional architecture of Bretton Woods, which provided for a system of fixed (but adjustable) exchange rates, freedom in trade and substantial control over capital movements.
2. The economic, technological and military hegemony of the United States, which, also providing the liquidity necessary for international transactions, acted as guarantor, for better or worse, for the functioning and resilience of the system.
3. The availability of cheap energy sources.
4. An abundance of unemployed labour that could be engaged in reconstruction.
5. A development mechanism based on the virtuous interaction between the two engines of growth, namely investments and exports.

With regard to the latter factor, the dynamics of economic growth in each country proceeded with the expansion of the domestic market via investments that, thanks to their import content, activated the exports of trading partners who, in turn, enlarged their domestic market with the growth of income, increasing investment, imports (i.e. the exports of others) and so on. In this way, through the unfolding of the Keynesian multiplier in an open economy, the virtuous interaction between investment and exports ensured international growth and prosperity (Ginzburg et al., 2019).

Towards the end of the 1960s, however, the circumstances that had assured Western capitalist countries almost three decades of sustained and stable economic growth began to falter.

Firstly, the development mechanism based on the mutual influence of investments and exports began to break down. Of the two growth engines, only one remained, exports, occasionally supported by private consumption, which – given the chronic stagnation of wages in the following years – was debt-financed and therefore unsustainable in the long run. Investments and capital accumulation therefore ceased to play a decisive role in growth and their retreat, as we shall see, opened the way to the financialization of the economy.

Secondly, the economic supremacy of the US was being progressively eroded as a result of intensifying international competition: American firms now had to compete harder with German, French and Japanese firms for their respective shares in a market that had become a replacement market and was no longer expanding due to the saturation of demand for durable mass consumer goods.

In addition, the seigniorage of the US, i.e. its role as a country whose national currency was universally used as an international reserve currency, was beginning to be challenged: "the exorbitant privilege", in the words of Giscard d'Estaing in the 1960s, when he was Finance Minister of France. These objections gradually took the form of actions – for example, France's conversion of its dollar reserves into gold in the second half of the 1960s – which triggered a process of financial instability that culminated in Nixon's declaration of inconvertibility of the dollar into gold in 1971, which effectively sanctioned the end of the Bretton Woods system.

Finally, the gradual absorption of unemployment encouraged social upheavals for income distribution and a more inclusive socio-economic model. Social conflicts led to inflation, fuelled by the devaluation of the dollar (following Nixon's declaration of 15 August 1971, mentioned above) and, subsequently, by the rise in oil prices.

Inflation in the 1970s paved the way for three significant discontinuities in the evolution of capitalist development after the Second World War; they crucially marked the transition from the 'age of the Keynesian state' to that of neoliberal globalisation.

Firstly, there was a shift from a discretionary and 'politicised' approach to economic policy to a 'depoliticised' approach based on the automatism of rules (Burnham, 2001).

Secondly, from the inflationary phase of the 1970s, a move occurred towards *financialization*, defined by Krippner (2011) as a process in which financial activities became increasingly important in the formation of the economy's profits.

Thirdly, as mentioned above, the process of accumulation was slowing down and decoupled from exports, which remained the only engine of economic growth. The decline in industrial investments was consequently accompanied by the rise of financialization.

With regard to the first point, *depoliticization* – which does not mean a lack of politics, or non-political, but, rather, an 'indirect' form of exercising political power – can be declined in various forms. Here we essentially recall two of them (Ginzburg et al., 2019).

i) The progressive transfer of responsibility for governance/government issues from *elected officials* to *non-elected officials*, as in the case of the creation of an independent central bank or the transfer of competences from the government to private companies (in both cases, public scrutiny of decisions is lost).

ii) The attribution of more objective competence and 'higher knowledge' (of the problems and issues to be solved) to technicians and experts (in essence, the primacy of technocracy, which creates social distance in public decisions).

Both forms exempt policy makers from responsibility for direct and sometimes difficult choices concerning thorny issues such as, for example, income distribution (because such choices, if unmasked, could alienate social consensus). This avoidance of political responsibility – which is also reflected in the automatism of rules, a peculiar feature of the modus operandi of EU policy, as we shall see – is also connected to the second point mentioned, that of the seamless transition from inflation (of the 1970s) to financialization (of the 1980s). Greta Krippner, in fact, highlights the similarities between inflation and financialization, in the sense that both played the role of 'solvent for social conflicts,' avoiding direct forms of confrontation between social groups.

Finally, moving on to the third discontinuity mentioned above, there are many explanations for the decline in industrial investments and the relationship between this decline and the rise of financialization (Ginzburg et al., 2019). The latter, according to a widespread narrative, is usually associated with the political choices of the Reagan administration in the United States and Thatcher in the United Kingdom and the replacement of Keynesian ideas by monetarism. However, in the 1970s (under the Carter administration), persistent inflation and pressure from the banks had already led to the elimination of the administrative controls that had come into being with the New Deal (credit rationing, interest rate ceilings, segmented and specialised credit supply). In other words, since the 1970s the structural and socio-political foundations were already in place to allow a new ideology working as an antidote to the Keynesian view of economic policy to become dominant. Bhaduri and Steindl (1983) pointed out that the rise of monetarism did not come out of nowhere but was preceded by a continuous shift of power from industry to the banks, facilitated by the expansion of the banks' international activities (linked to the Eurodollar market developed in the late 1960s to recycle oil revenues). This led to a series of consequences: independence of banks from national governments; national policies of high interest rates that favoured banks that borrowed on international markets under more favourable conditions, increasing margins on interest differentials; penalisation of domestic industries because of the more unfavourable credit conditions. In the US, and later in Europe, the deregulation of interest rates in the 1970s was the prelude to the emergence of the financialization process. However, it was only in the 1980s that the combination of high interest rates due to monetary restraint and strong fiscal expansion (the Reagan administration's policy mix) created a favourable environment for the full unfolding of financialization. High interest rates and, later, in the period from 1995-2000, the high growth of the US economy attracted large capital flows that reinforced the financialization process. However, returning to the question of the relationship between industrial investment decline and financialization, it is worth mentioning two theses here, which are 'heterodox' explanations compared to the mainstream 'secular stagnation' theory (Summers, 2014). The first states that, in a context of declining profits, investment decisions are diverted towards the higher returns offered by finance. The second thesis argues that organisational changes in finance inhibit non-financial investments because finance absorbs funds that could have been used in non-financial investments. According to the first interpretation – supported, for example, by Magdoff and Sweezy (1987) and Foster (2007) – the trend of falling profit rates in the US non-financial sector would have been associated with stagnation in the production system, due to income inequality and under-consumption, or the exhaustion of profitable market outlets. This trend would have been temporarily buffered by the state through financial concessions and deregulation, but at the cost of financial bubbles. A variant of this thesis places the long-term stagnation of the American economy in the historical alternation of hegemonic phases in the world system (Arrighi, 1994, 2007).

The second interpretation – proposed by Lazonick and O'Sullivan (2000) and Lazonick (2011) – does not refer to the fall in the profit rate but attributes the fall in investment entirely to finance. It is argued that in the financialization phase, which corresponds to the introduction of new ICT-based business models, firms aim to maximise shareholder value. This has two consequences: the dominance of short horizons (short-termism, with negative repercussions on jobs in terms of insecurity and instability); the granting of compensation to managers in the form of stock options. In both cases, the objective of maximising shareholder value contributes to diverting resources from long-term innovative investments to purely short-term financial transactions, which aim to artificially inflate the value of shares. The two theses about the relationship between investments and financialization are not mutually exclusive: according to the former, the growth of finance derives from unsolved endogenous problems in the real economy; in the latter's view, the intrinsic logic of finance exogenously contributes to the decline in investments and the crisis in the real economy. However, the numerous examples of the financialization of non-financial firms show that the distinction between real and financial aspects can be artificial (Ginzburg et al., 2019). Indeed, Greta Krippner points out that the income from financial activities – which includes dividends, capital gains and interest – of non-financial firms (industry and large retailers) grew enormously in the 1980s, by as much as 500% compared to post-war levels. This evidence significantly supports the idea that the growth of finance would be driven by firms rooted in the real economy and, more generally, is part of the important transformations that the structural crisis of the 1970s entailed for the way in which international competition took place. The crisis represented the crucial shift from an international competition regime based on price (*price-led competition*) to one based on qualitative differentiation and product innovation (*product-led competition*). The saturation of markets for mass consumer durables pushed firms (which, at this point, were largely operating in a substitution market) to increase the number of varieties and to vertically differentiate goods. The accentuation of quality-based competition implied that firms increasingly engaged in non-industrial activities: instalment credits, maintenance and rental services, after-sales service, etc. Numerous contributions (e.g. Froud et al., 2006) have documented the spreading out of *captive finance* among industrial firms. The reference is to those activities initially intended to assist consumers in purchasing manufactured goods (by offering, for instance, instalment finance) but then turned into activities of fully fledged financial giants. However, the shift from an international competition regime based on price to one based on product quality and innovation should not only be interpreted from a microeconomic perspective (in terms of the financialization of industrial companies, as we have seen) but also as a crucial turning point that has profoundly affected the development trajectories of different economies. In this transition, while some countries seized the opportunity to upgrade their production structure with the support of targeted industrial policies (e.g. Germany), other countries lagged behind and found themselves unprepared to deal with this dramatic change in the competition regime in an international context that was becoming increasingly liberalised.

2.2 Europeanisation and core-periphery relations in Europe

The path of neoliberal international integration set in motion by the three discontinuities that we have discussed – and which have led to the irreversible abandonment of the modus operandi of the 'Keynesian' international economic order built up over the glorious thirty years – has also profoundly affected the dynamics of European economic and monetary integration. Indeed, limiting the time horizon to the last fifty years, we could define the process of *Europeanisation* as the decline in Europe of *Globalisation* and the deregulation of markets that originated in the United States from the late 1970s onwards and that traced the path towards the EMU. At the heart of this process, leading to the creation of the monetary union, was the interpenetration of two models. The German model, which, bolstered by Germany's success in combating stagflation, asserted price stability as the primary strategy for employment and growth; and the American model, which, legitimised by the good economic performance of the United States in the first half of the 1980s, advocated deregulation and the liberalisation of markets (labour, goods and capital). Indeed, in a relatively short space of time, European countries, in line with the American model, abolished control over capital movements (1985-1990), removed non-tariff barriers to create the single market (1993), and entrusted the regulation of competition to a supranational entity. At the same time, in line with the German model, they started to follow a disinflationary economic policy stance based mainly on monetary restrictions. According to McNamara (1998), monetarism would not have had the same influence in Europe if Germany had not been considered a model to emulate: the German economy had passed the test of the two oil shocks of the 1970s with a restrictive monetary policy and with much lower levels of unemployment and inflation than other countries. A 'pragmatic' version of monetarism was emerging in Europe, because the 'facts' seemed to support academic monetarism: the aforementioned success of Germany, the absence of a trade-off between inflation and unemployment, the existence of the NAIRU (*Non-Accelerating Inflation Rate of Unemployment*), etc. This pragmatic connotation of monetarism, rather than its power of theoretical persuasion, may explain why even economists of a progressive (non-monetarist) orientation eventually accepted restrictive monetary and fiscal policies in Europe. European integration, despite its neoliberal connotations, was also accepted by progressives (left-wing economists) precisely because it was the bearer of the salvific 'external constraint', the *deus ex machina* that would correct national vices: the liberalised capital movements themselves would have functioned as a whip to punish 'dissolute' behaviour. The process of Europeanisation, therefore, followed a predominantly neoliberal agenda, leading to the progressive narrowing of welfare, the increase in inequalities and the phenomena of economic polarisation between countries. The declaration of intent, sometimes expressed, to preserve the 'European social model' has remained only on paper. With such different trajectories of industrial development of member countries since the 1970s, an economic and monetary unification project with a strong neoliberal connotation such as the EMU (and the EU), and with convergence criteria referring to financial rather than real indicators, inevitably led to problems of sustainability over time. In other words, the EMU was from the outset an institutional construction with problems of embeddedness, i.e. uprooted from the specific socio-economic and institutional contexts of the member countries and indifferent to the divergence in their levels of development, which is at the origin of a different capacity to respond to change and external shocks. By breaking the original promise of the European project – to promote the prosperity and the convergence of economies – the process of economic and monetary integration has resulted in a growing divergence between the core and the periphery.

3. CONCEPTUALIZATION, RESEARCH QUESTIONS AND METHODOLOGY

3.1 Terminology and concepts

This study deals with two different macro-regions of the European Union. Now, European geography often reflects the huge diversity of the continent. Especially the end of the Cold War enabled more nuanced geographical naming beyond established Western, Eastern, Southern and Northern Europe (Lewis-Wigen, 1997). This is true for the region that, during the Cold War, was known simply as Eastern Europe and that encompassed enormously wide parts of Europe, including Russia, the Balkan countries, Baltic countries as well as Central European neighbours of Germany and Austria. Later, the notion of Central and Eastern Europe was established to give more nuances to the post-state-socialist and post-Yugoslav and post-soviet Europe. The political framework of this study is given by the European Union. Therefore, we work with Southern Europe, and with Central Eastern and South-East Europe as regional names which differentiate our area of interest from the larger region of Central and Eastern Europe. Central and Eastern Europe also involves countries such as Belarus, Moldova, Ukraine and even Russia, which are not EU Member States. This concept can be found within the study as the general name for the entire region (or based on the use in other literature when we quote it). In the case of Central Eastern Europe, we accentuated *Central* (given the long tradition of

Table 1 Geographical terminology and abbreviations used:

Southern Europe (the South, southern Member States, southern EU periphery	The East, eastern Member States, eastern EU periphery	
	Central Eastern Europe, Visegrád Four-V4/Baltics-Baltic States	South-East Europe Balkan countries, Balkans
Cyprus, Greece, Italy, Malta, Portugal, Spain	Czech Republic, Hungary, Poland, Slovakia/Estonia, Latvia, Lithuania	Bulgaria, Croatia, Romania, Slovenia
SE	CEE	SEE

local self-identification as Central Europe[1] going back to local intellectuals like Milan Kundera, Jenö Szücs or Czesław Miłosz; Sušová-Salminen, 2015) while we are aware of East-Central Europe as another, perhaps more established, option. Central Eastern Europe represents a neologism that tries to settle the internal diversity of this region while reflecting the recent political geography. Table 1 reports is the summary of geographical terms used within our study.

The dual term of core (centre) and periphery indicates the type of power-based hierarchy between countries – or political societies, or larger regions – that is relational (there is no core without periphery), spatial and historical. Moreover, the key constitutive process for core-periphery relations is dependence, which is usually very internally and structurally asymmetric. In short, it suggests that the periphery is in a weaker or more vulnerable dependent position, while the core's dependency can exist, but it is less pronounced economically or politically. The peripheral position or peripherality is a complex phenomenon that influences and forms economic and social development (or varieties of capitalism, VoC), as well as the political system and its features. This relational and interdependent dynamic between core and periphery is not static; it is in flux. Modern history knows several examples of changing position from periphery to the core (or to an intermediate status between the two), and vice versa; the most well-known are perhaps the USA or Japan. In summary, the peripherality is the situation of dependence that influences both politics and the economy; it gives fewer opportunities for autonomous decisions as well as more endogenous development. The academic research also acknowledges the next two notions related to both periphery and core – semi-periphery and semi-core. (Wallerstein, 1985; Arrighi, 1990; Boatcă, 2006; Morales Ruvalcaba, 2019). The two terms describe situations in which some countries or regions demonstrate both peripheral and core characteristics at the same time. We are aware of these important nuances, which are especially relevant on the global level, while we work with the core-periphery model for understanding the EU contexts. Of course, the core-periphery dynamic does not only concern nation states but can exist within one country. Even the core of the EU (Western and Northern Europe) has its own internal peripheries, which can share many characteristics with peripheral states of the EU.

The core-periphery relationship has yet another very important characteristic related to interdependent relations – as Wallerstein argues, "The more one zone became 'core-like', the more another became 'peripheral'" (Wallerstein, 1985:33). The relations between core and periphery turn out to be a zero-sum game.

Today, there is a long tradition of social, economic, historical and geographical research dedicated to the problems of the core-periphery model. Its origins are associated with the work of Argentinean economist Raul Preibisch and, together with him, the authors of the 'dependency school'.[2] Thus, one can argue that the origins of this theory are actually peripheral, i.e. developed by peripheral scholars for understanding the problems of peripheral socio-economic development. This approach is based on the systemic and structural views, which means it usually privileged macro-social analysis over micro-social approaches. Perhaps the most prominent author working with the core-periphery model was sociologist Immanuel Wallerstein. Wallerstein, by education Africanist, used the core, periphery and semi-periphery as hierarchical components of the modern (and capitalist) world system. For Wallerstein, the dynamic between these three components of the world system was a very important instrument for grasping the emergence and rise of the global economy. The world system relied on two pillars: i) worldwide division of labour, and ii) bureaucratic state machinery (Wallerstein, 1974/2011). Wallerstein also argued that the core, periphery and semi-periphery were a product of the historical and spatial expansion of capitalism. The relations of dependency are crucial for understanding the core-periphery model because the periphery is dependent on the core while the core does not exist without the dependent periphery. In this tradition, dependency is approached by means of the metaphor of core and periphery, but also structurally, i.e. the attention is paid to the actual forms of dependence and domination. The related phenomena such as underdevelopment, uneven/unequal development, or unequal exchange have been studied in different (but mostly Latin American) contexts since the 1960s (Baran, 1962; Frank, 1967; Cardozo & Faletto, 1979; Amin, 1973).

The European dependency school started to focus on the core-periphery relations in Europe as early as the 1970s. One of the key issues of their interest was to focus on the European integration (and enlargement) process. This line of thought was rather heterogeneous, with an interest in uneven development, political decentralisation or regional policies, industrial and technological dependency, and dependent integration into the European division of labour (Weissenbacher, 2018). Not surprisingly, the European dependency school focused on the Post-Keynesian Economics and its discontents from the late 1970s onwards. More interestingly, the Southern enlargement of the European Economic Community was an important topic of its analysis. Dudley Seers, one of the prominent representatives of the European dependency school, argued that enlargement without major reform of the Community would have created "a serious dualism, indeed a kind of colonial system". He warned: "In the poorer group, which already suffers whenever a government of the core adopts financially restrictive policies, the effects could be more severe if they gave up the possibility of adopting measures to protect their national economy." (Seers, 1982:11). However, Seers was not the only one who was proven right in their analysis based on the core-periphery approach. In 1994, Andre Gunder Frank, another important representative of the dependency school, reflected on the ongoing integration of Central Eastern Europe. He wrote: "In medium run, parts of Central Europe (East Germany, Bohemia, Hungary, Slovenia) may well be incorporated into the 'Common European Home,' but in a dependent position at the back of the ground floor where they will compete with other recently incorporated parts of Southern Europe" (Frank, 1994: 162). The scholars from the dependency tradition were able to predict several problems of the future, thanks to their sensitivity to structural asymmetries and imbalances, which makes their approach both timely and highly relevant.

The global financial crisis (2008) was a booster for the next wave of interest in core-periphery relations in the European Union. This is no surprise, considering the very asymmetrical impacts of the crisis in the EU, on its peripheries and on the European economy as a whole. The study of the crisis was also one of the first opportunities to focus on both EU-peripheries since the EU enlargement took place in 2004 and 2007. Among many contributions to the study of the core-periphery relation in the EU after 2008, we can mention just a few which were revisiting structuralist or neo-structuralist perspectives. Magone et al (2016) focused on the problems from different angles, paying attention to the comparison or interconnection between the South and the East in the EU. Pascariu and Da Silva Duarte (2017) also use the core-periphery model as an interpretative lens of integration processes in the EU. Baimbridge et al. (2017) explored economic development across Europe (not only the EU) in relation to the problem of segmentation and widening disparities between core and periphery. Finally, Celi et al. (2018) concentrated on core-periphery relations within the European Monetary Union (EMU) in relation to the euro crisis, with a special focus on Germany (core) and two peripheries: Southern Europe and the Visegrád countries. Weissenbacher (2019) revisited the concepts of core and periphery divide and dependency in the context of the EU and in relation to the global financial crisis too (Weissenbacher, 2019).

3.2 Problem statement and research questions

This comparative study focuses on two peripheries in the European Union. Our essential interest is to understand how their peripherality is embedded economically and politically within the EU and in relation to the core countries (especially to Germany, as a paradigmatic core country of the EU). Our research focused on the most recent developments covering the period 1990-2020. The study concentrates on peripherality as a complex state of being peripheral, i.e. *being dependent*; by means of this perspective, it tries to understand the political economy of the contemporary EU, i.e. the complex interactions between politics and economy. We argue that peripherality is multidimensional: it has a socio-economic dimension, a political dimension, and a cultural and ideological dimension. The study addresses all three dimensions using individual case studies, highlighting mutual interconnections and keeping a comparative approach. The key research problem for us is to understand the structure of dependency, which, as we argue, constitutes the peripheral position of these two macro-regions in the EU and in the European economy.[3] The second research problem concerns the comparative view that permeates all the selected fields of investigation. Thus, while this study assumes peripherality as a relational problem of dependency on the core (in particular on Germany), *it primarily focuses on the comparison of peripherality among different groups of countries in Southern Europe and in Central Eastern and South-East Europe*.

In particular, we are interested in a series of research questions.

What are the differences and similarities of socio-economic, political and ideological peripherality in the EU? In particular: what are the recent socio-economic characteristics of Southern Europe and Central Eastern and South-East Europe?

With reference to the second question, based on three case studies mapping the situation in the selected peripheries and using uniformly a certain number of indicators (see further), we will compare the socio-economic models that exist in each peripheral area. The comparative focus should help us to understand existing similarities, differences, potential conflicts and potential cooperative platforms between peripheries in the EU focusing on the socio-economic structures of their dependency. A historical background will accompany the mapping of the current situation, enabling us to understand the essential changes and the genealogy of different peripheral situations in the EU. Subsequently, after considering the case studies of the three peripheries, we will consider the interactions between them and between the peripheries and the core countries, by looking at the trade network and participation (of EU peripheries) in global value chains, with a particular focus on the automotive sector in Europe. This will help us to understand the significant reshuffling of hierarchical relations between core and peripheral economies over the last two decades in the context of the European manufacturing industry.

When we turn to the political dimension, we focus on three key points. Firstly, we are interested in political cleavages in each periphery, paying special attention to the Left's political parties. We also ask the question about the political cleavages at the EU level. Secondly, we focus on the cooperation between peripheries based on perceived coalition potential, again at the EU level. Finally, we ask how well EU peripheries are represented in the governance structure of the European Union, i.e. how strong are their tools (potential) to influence the EU.

Finally, we also pose the question related to the ideological or cultural (i.e. social) construction of peripherality in the EU, since we believe that economic and political structures matter, but culture matters too. Namely, we are interested in the relation between peripherality and alterity (Otherness) from a comparative perspective and in its relevance in the EU. Are EU peripheries seen as places of Otherness? The otherness is a notion and phenomenon related to the peripherality – it actually often accompanies peripherality. Being different or other, while this difference is classified within the hierarchical way, is frequently seen as a way of explaining objective or perceived political, economic and cultural differences of peripheries from the hegemonic position of the core. In short, they paradoxically help to produce and reproduce the peripherality of the periphery using the authority of the core (Dussel, 1994; Paasi, 1995).

3.3 Methodological criteria and indicators

The concepts of core and periphery are characterised by three properties: relational, spatial and non-static (Gräbner & Hafele, 2020, Magone et al., 2016). Relational, because without a core, there is no periphery. Spatial, because geographical distance is the manifestation of a historical process leading to a widening gap between core and periphery, in which the growth and improvement of political communities were driven by the core areas, which were politically, administratively, economically and educationally more advanced than the periphery (Deutsch et al., 1957). The concepts of core and periphery are also non-static, as economic (as well as political) characteristics can change over time, and therefore a state's core-periphery position may evolve with the passage of years, within the broader regional and global system. Based on these assumptions, we have selected several indicators that determine the classification of being core or (semi-) periphery. The first three chapters, dealing with the country groups (SE, CEE, SEE), focus exclusively on economic properties. The selection of the indicators was driven by existing literature and studies on core-periphery relations.

We start from the premise that competition and growth are driven by the economic structure of a country (see Storm & Nastepaad, 2015). In this context, historical legacies play a decisive role for a country's initial position once EU integration has begun. We therefore introduce to the reader a short summary of the different historical (imperial) and economic legacies of the countries in the study, focusing on the legacies' consequences on the economic structure at the time when EU integration started. The bulk of the country chapters focuses on several economic indices, paying special attention to the three core-periphery properties aforementioned. Furthermore, we strongly believe that, without taking the structural imbalances and country-specific characteristics into account, it is difficult to formulate adequate policy recommendations. What are the indicators that play a key role for macroeconomic developments, and through this, for a country's classification as being core or periphery? Naturally, depending on which indicators we use, different classifications of core-periphery arise. The most often used indicator is GDP per capita (Weissenbacher, 2019, Caraveli, 2017 Gräbner & Hafele, 2020, etc.), GDP growth rates (Caraveli, 2017), debt (Magone et al., 2016), FDIs (Caraveli, 2017) and / or unemployment rates (Bartlett & Prica, 2017).

Gräbner et al. (2019) have used seven different economic variables for a country's core-periphery classification. These indicators are unemployment rate, GDP growth, the current account balance as a percentage of GDP, the share of the financial sector in total value added (as a percentage), the wage share (as a percentage of GDP to factor cost), GDP per capita (in 1000 dollars at purchasing power parity), the public debt to GDP ratio and exports to GDP. They justify this selection of variables as playing a key role for macroeconomic developments (ibid,:8). Using these variables, the authors emphasise four (country group-specific) characteristics for four core-periphery categories. The European core distinguishes itself by high GDP per capita levels, the importance of the industrial sector, the manufacture of complex products, and relatively low unemployment rates. In contrast, peripheral countries show lower export shares, relatively high public debt, current account deficits and relatively high unemployment. The third group, the 'catch-up economies,' display relatively low levels of wages and low GDP p.c., a high degree of foreign ownership, a small service sector but relatively important manufacturing sector. Finally, the last group records high debt levels of private firms, important share of finance in terms of gross output, a high share of FDIs and large income from wealth taxes (ibid. 15, see also Gräbner & Hafele, 2020).

Alongside the economic criteria, Magone, Laffan and Schweiger also take into account the political criteria of being part of the core or periphery. The authors look at GDP per capita (using the EU28 average in 2013 as a baseline), social benefits in euro and sustainable governance indicators. In their view, core countries can be described as rule makers, net payers and creditors in the Eurozone, as well as innovation leaders; while the peripheral countries are typically rule takers, net receivers, debtors and moderate innovators or even innovation laggards (Magone et al., 2016:2-3). In addition, Weissenbacher (2019) also refers to GNI at current prices per capita, as well as to the share of manufacturing in the industry (next to the GDP per capita).

We therefore decided to look at Gross Domestic Product (GDP) per capita at constant prices from 1995-2020 as well as the growth rate from 1995-2020, as a way to look at growth and whether divergence or convergence with the European core (represented by Germany) can be observed. The discussion on growth is then followed by the introduction of the Gini coefficient as a way to interpret whether and how growth was distributed in the respective country, and whether the country experienced rising inequality levels. We then move on by discussing the general structure of the GDP's composition, including the share of the manufacturing sector and current account balance. While the European periphery also experienced a rise in the service sector in recent decades similar to the structural changes in core countries, the process of tertiarization is very different in Southern and Eastern Europe, as the country group chapters will show.

We then move on to a discussion of public and private debt, as peripheral countries exhibit higher debt levels, being mostly debtors, while core countries are lender countries. Levels of Foreign Direct Investments and taxes serve to illustrate the dependent reindustrialisation process in CEE and SEE, as well as to illustrate the 'race to the bottom' between peripheral countries regarding wage costs and taxes, competing for FDIs and the entry of TNCs.

In order to illustrate the labour market and socio-economic conditions in the peripheries, a section follows with data on (youth) unemployment rate, wages, sectoral employment, trade union density rates and several indicators on socio-economic hardship. Finally, we dedicate the last section to a discussion of export-import patterns, in order to grasp the relational aspect of core-periphery taxonomies. In particular, we analyse the sectoral composition of exports, paying special attention to what kind of products a country exports (i.e. its share in technologically intensive sectors in the overall exports), and the geographical composition of trade, looking at a country's major trading partners (on both the export and import side).

4. STRUCTURE OF THE STUDY

This study consists of seven chapters and three parts, which correspond to the methodological view on peripherality's problems that we have briefly outlined previously.

Part I (the socio-economic dimension) and chapters 1, 2 and 3 analyse the socio-economic situations in EU peripheries considered over the last thirty years. We observe dynamic changes and shifts based on the above-explained indicators. All three chapters offer also synthesizing conclusions, which help to provide a comprehensive and cohesive view. In a nutshell, they offer a perspective on distinctive economic models emerging, as result of economic integration, in Southern Europe and in Central Eastern and South-East Europe. Chapter 4 focuses on the dynamics of economic interaction between EU countries (core and peripheral), looking at the network of their trade relations (also with other important non-European partners, such as China and the USA) and their participation in global value chains (GVC). The focus on GVC related to the automotive sector shows a clear shift in production linkages managed by core countries in favour of the Eastern periphery and to the detriment of the Southern periphery. Chapter 5 concludes the first part, providing a comparison between EU peripheries under consideration. It helps to contextualise their economic models before comparing them and naming the most important commonalities and differences. Furthermore, it uses the impacts of the GFC as a litmus paper of the sustainability of these economic models in terms of their convergence/ divergence trajectories within the EU. Finally, the chapter focuses on regional development and within-country inequality inside the peripheries themselves.

Part II (the political dimension) contains chapter 6, which focuses on selected aspects of political peripherality in the EU. Firstly, it focuses on different political cleavages shaping national political spaces (and, secondarily, also on European political space, which is however still rather depoliticized), and with regard to the political Left. In this case also, we maintain a comparative approach. Secondly, we are interested in the existing cooperative and coalition potentials between southern and eastern EU peripheries in the context of the EU. We also try to answer questions such as what kinds of limits and obstacles such cooperation is presented with, what potential spaces for coalition-building exist, etc. Finally, the chapter analyses the question of representation in the EU, which is related to the problem of democratic legitimacy and influence projection.

Part III (the ideological and cultural dimension) contains chapter 7 and focuses on less structuralist but more post-structuralist approaches to the problem of core-periphery relations. This chapter, again in a comparative way, studies larger social and cultural aspects of peripherality in relation to the concept of alterity, or Otherness. We observe how the core, as a seat of authority, constructs hegemonic perceptions of peripheries as 'essentially' other or different. These hegemonic perceptions and constructions of Otherness are, however, still linked to the political (i.e. representational) and socio-economic spheres in the EU.

Last but not least, Conclusions and Policy Implications sum up the findings of this research and also offer some material to inform a future political agenda.

PART I

Socio-economic characteristics of peripherality in the EU and global interactions

Chapter 1 – Southern Europe – SE

Spain, Italy, Portugal, Malta, Greece, Cyprus

Giuseppe Celi

1.1 INTRODUCTION

The observed group of the countries that form the area of Southern Europe[4] is not homogeneous. In terms of economic development, all countries are latecomers compared with core European countries (UK, Germany, France), but Italy (followed by Spain) stands out for having embarked earlier than the others on the process of industrialisation and for being a founding country of the EEC. As remarked by Gräbner and Hafele (2020), the core-periphery classification of countries should not be conceived as a static one but should envisage the possibility that a country can move from one category to another. This is the case for Italy, a G7 member since 1975, whose continuing economic decline since the 1990s has moved the country to the periphery. Therefore, in accordance with Ginzburg and Simonazzi (2015), we will consider Italy as a latecomer country and the remaining countries of Southern Europe as *late-latecomers*. However, even taking into account the substantial differences in the time profile of their development and the size of their economies, the countries of Southern Europe show similarities and common traits that have been highlighted under different perspectives, more or less convincing, by scholars who have studied them. According to the perspective followed by the studies on the varieties of capitalism, the countries of Southern Europe are not fully capitalist but present the features of a mixed economy, with socio-economic formations characterised by the progressive dominance of services, after a short period of industrialisation (or even skipping it). According to some authors, the *premature tertiarization* of Southern European countries fits well with a social context in which impending market forces are subordinated to cultural values and power systems based on patronage and reciprocity, and not on a modern legal system based on contracts (Sapelli, 1995). Although the premature tertiarization thesis captures some important features of the value system and institutions of Mediterranean societies, overemphasis on the pre-modern traits of these socio-economic formations risks sliding towards an *essentialist* interpretation. As remarked by Ginzburg and Simonazzi (2015), such an interpretation is a variant of the *modernisation theory*, which has as its ideal-type the development of nineteenth-century England or that of the United States in the twentieth century. This framework merely flags deviations from a single model of 'optimal development' based on rational decisions of economic agents operating in perfect competition and favoured by a coherent institutional context. "Like all 'essentialist' models," Ginzburg and Simonazzi (2015: 111) wrote, "also the optimal scheme tacitly assumes the end of history, as well as that of geography".

In effect, the essentialist view cannot explain both the first phase of industrialisation in the countries of Southern Europe and why it was abruptly interrupted in the 1970s. To understand the acceleration of the process of industrialisation in Southern European countries and its sudden stop, we must look at the dynamics of economic integration of these countries into the EEC and their dependency relationships with core countries in the post-WWII period. Rather than through the lens of the (essentialist) premature tertiarization thesis, which emphasises some pre-modern characteristics of Southern European societies, the different transitions to tertiarization should be explained in terms of specific choices of *premature liberalization* that each Southern European country has undertaken within its own political context. In the case of a latecomer country like Italy, for instance, its openness to European markets in the aftermath of World War II has represented an opportunity to accelerate its rate of growth but, at the same time (as we'll see), a potential constraint on the development and completion of its productive structure. Compared to other Southern European countries, Italy faced post-WWII trade liberalization with a more diversified industrial base inherited from the interwar period[5]. This manufacturing base allowed the Italian economy to take off in the post-war period. In fewer than 20 years (in the period from 1948-1962), Italy went through an intense phase of industrialisation that transformed the country. Until the mid-1950s, Italian growth was driven by domestic demand and private investment (public investment only from 1961-62), stimulated by high profitability and strong consumption growth[6]. Consumption was growing because of the increase in average per capita income due to strong changes in inter-sectoral, demographic and spatial mobility (in 1951-63, more than 3 million people moved from agriculture to industry and services; 6-7 million people from the countryside to cities). From the mid-1950s onward, exports also grew significantly. Accession to the EEC reinforced the dependence of Italian exports on the European economic cycle and, above all, the *asymmetrical productive complementarity* of the Italian economy with the German economy (De Cecco, 1971; Ginzburg, 1984). As a latecomer country, Italy, in order to serve foreign markets, needed machinery, intermediate goods and technologies supplied by the core countries (primarily Germany). These dynamics, on the one hand, favoured a type of Italian productive specialisation crystallised in final consumer goods (or goods close to the final stage of production) and, on the other hand, consolidated the role of Germany as a leading country in the international division of labour in Europe. In 1962, with the current account still in surplus, Italy reached the culmination of its *economic miracle*. The monetary squeeze of 1963 in response to wage growth (due to the resumption of trade union militancy) and balance of payments deficit (due to the excessive growth of consumption and imports, as well as capital flights) emblematically put an end to the Italian economic miracle (Celi et al., 2018). Thereafter, the intense phase of industrial development petered out and the years that followed saw a fall in investments and a destruction of productive capacity (Celi and Guarascio, 2020). Like Italy, the other Southern European countries also linked their post-WWII economic growth to the process of European economic integration and, in particular, to the intensification of their economic ties with the core countries. By the late 1950s, with the exception of Greece (which invested in construction), all other countries focused on basic industries that were seen as essential to expanding sectors of comparative advantage. The state supported investment either directly (through its public companies) or indirectly through subsidies and incentives to domestic or foreign firms. While in Spain, the state tried to take the place of private oligopolies in heavy industries (in the steel, coal and electricity sectors) through direct public investment (via the *Instituto Nacional de Industria*, *INI*, established in 1941), in Portugal, domestic groups, with state support, invested in mechanics and chemistry. In Greece, foreign firms controlled basic industries (metallurgy, chemistry, plastics and electricity) to provide inputs for the domestic market or to export to their affiliates.

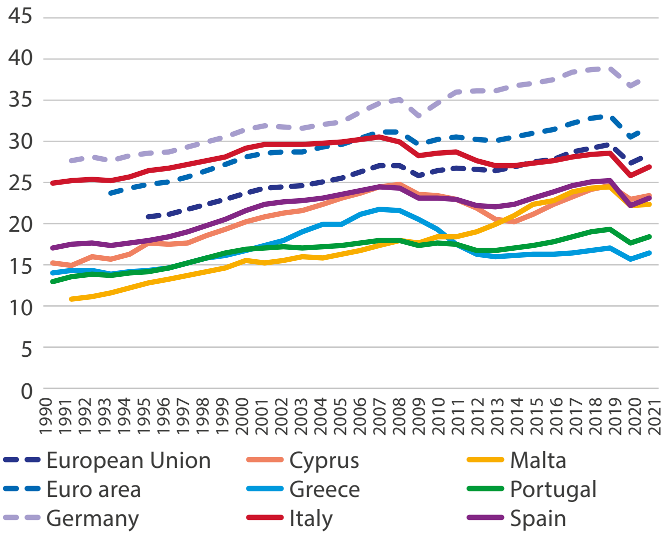
Lower wages in peripheral countries attracted foreign direct investment (FDI) from the core to produce (and re-export) cheap intermediate inputs for the capital goods and consumer durables industries of central countries, or low-price final goods. The progressive opening up of peripheral countries to foreign markets intensified their ties with core countries and made their economic growth increasingly linked to the European cycle. This process of international integration changed the structure of the economy of Southern European *late-latecomer* countries as well. The weight of industry grew in all countries, especially in Spain, where the expansion of consumption supported industrial growth. In this country, notwithstanding trade union repression under the Franco regime, wages increased in line with productivity growth, helping to sustain the expansion of the domestic market and consumption. In Spain, from 1961 to 1972, private consumption registered a growth rate of 7% per year, and industry's share grew by 10 percentage points. However, behind the apparent success of growth rates, the industrialisation of Southern European countries suffered from a series of structural weaknesses. Giorgio Fuà, in a report from 1980 entitled *Problems of lagged development in OECD Europe: a study of six Countries*[7], neatly highlighted the structural fragilities that afflicted the countries of Southern Europe. Compared to the early stages of economic development of firstcomer countries, these latecomer economies must endure a technology gap, competition from more advanced countries, and a 'demonstration effect' related to consumption. These disadvantages were reflected – especially in the case of Southern European late-latecomers – in a series of structural fragilities: large productivity differentials between industries and regions (dualism), difficulties in ensuring regular employment, higher propensity for price instability and public deficits, chronic imbalances in the balance of payments. Retrospectively, we can say that the preliminary creation of a competitive manufacturing base remained unfulfilled, whereas it would have been necessary to support and accompany the fast trade liberalization of Southern European countries. The result was a dualistic model of industrialisation, with "modern" sectors characterised by a high capital-labour ratio and high productivity, and traditional sectors populated by small, unproductive firms. Overall, however, the technological content of production remained low, and FDI had the effect of increasing the specialisation of these countries in low value-added sectors. Industrial production and consumption growth were increasingly dependent on imports of capital goods, intermediate goods, and sophisticated consumer goods, whose value was not compensated by a sufficient level of exports. Current account deficits were financed mainly by tourism and emigrants' remittances. The same migratory outflows towards core countries represented a ploy to solve both the problem of the excess labour supply that the productive system of these countries could not absorb and the financing of balance of payments deficits through remittances. Especially in countries with a less developed industrial structure, such as Greece and Portugal, the high levels of consumption and the *demonstration effects* signalled a model of consumption (quantitative and qualitative) completely detached from the productive matrix to the point of revealing the paradox of a 'consumer society without a productive base' (Ginzburg and Simonazzi, 2015). This fragile and dependent pattern of the industrial development of Southern European countries was interrupted as a result of the global crisis of the mid-1970s, which raised the standards required to compete in international markets. The structural shock of the seventies (and the liberalization policies of the eighties) represented, in fact, a turning point in the modalities of international competition. Demand for consumer goods now concerned substitution, rather than sales expansion. Product differentiation based on quality and innovation was a reaction to the saturation of the demand for mass consumer durables. In this transition from a *price-led competition* to a *product-led competition* (Best, 2013), some countries (such as Southern European countries) fell behind – interrupting or slowing down the process of industrialisation – while other countries (core countries, like Germany) faced the changing regime by innovating the industrial structure. This premature deindustrialization (and the financialization that followed) made peripheral countries even more fragile with respect to external changes. In the 1970s, the transition to democracy in Spain, Portugal and Greece coincided with the global crisis. In these countries, expectations of greater economic and social equality – triggered by the democratisation process – occurred in a challenging macroeconomic context characterised by declining domestic and international demand, high inflation, high trade deficits, high oil prices; a critical situation that required substantial adjustments of the productive structure. New international competitors with low labour costs in basic sectors (steel, coal) induced dramatic cuts in production capacity and employment in Southern European countries. In addition, the deterioration of price competitiveness of their exports – also due to wage claims favoured by democratic transition – pushed core partners to search for new low-price suppliers. Furthermore, the European core countries themselves were engaged in restructuring and requalifying their productive structures, a circumstance that drastically reduced the possibility of absorbing the labour force emigrating from Southern European countries. In this difficult situation, instead of accepting the challenge of the transition from an international regime of price-led competition to that of product-led competition and promoting innovation and upgrading of productive structures, the governments of Southern European countries simply played the role of supporters of consumption, with the aim of avoiding mass unemployment and perpetuating the consumer society. The result was an increase in the number of people employed in the public sector (but without substantial growth in the provision of education, health or social security services), leading to a deterioration in fiscal balances and external debt. As remarked by Ginzburg and Simonazzi (2015), the crisis of the 1970s represented a turning point for the peripheral countries of Southern Europe. Their restructuring without re-industrialization (for some of them also coinciding with the democratic transition of 1975-1985) led these countries to diverge from the core countries again. In the following decade, the liberalization of capital movements and the financialization of the economy contributed to a further widening of the divergence between core and peripheral countries. The opening up of financial markets in Southern European countries attracted increasing flows of capital from the core, partly due to higher interest rates in the periphery. Contrary to the neoclassical model's view that capital mobility leads to a convergence of countries' growth, financialization has contributed to delaying, distorting, and undermining the development of peripheral countries. The decline in profits and industrial investments starting from the 1970s in the US and Europe contributed to diverting funds – that would have been vital for the requalification and upgrading of the productive structure of peripheral countries – towards sectors linked to financial activities that foreshadowed higher returns in the short term. The process of Europeanization – i.e., the translation into Europe of the dynamics of deregulation and liberalization of markets that were initiated in the United States at the end of the 1970s (Celi et al., 2018) – also envisaged the gradual withdrawal by the state from the strategies of control in allocating financial resources. For the Southern European countries, this process led to a series of important consequences: i) the diversion of finance from industry to construction, commercial distribution and consumption; ii) privatisations; iii) market concentration and the growing importance of foreign players in the banking sector; iv) greater exposure to the formation of bubbles, especially in construction (Celi et al., 2018).

The 1990s and subsequent years of participation in the European Monetary Union (EMU) consolidated the trend towards financialization and deindustrialization of Southern European countries. In the following sections, we provide an overview of the economic transformations that have affected these countries over a thirty-year period, from 1990 to 2020. After looking at the evolution of per capita GDP and production structure in terms of macro-sectors, we move on to consider the trends in public budget balances and public debt, which have greatly conditioned the economic policies of these countries. Subsequently, we shall analyse trends in the labour market, with particular regard to wage dynamics, levels of precariousness and implications in terms of inequality. An analysis of the structure of trade flows and external financial flows concludes the chapter.

1.2 STRUCTURE OF THE ECONOMY

Figure 1.1, page 34 shows the evolution of GDP per capita of the six Southern European countries considered over the period 1990-2020. For the sake of comparison, the graph also shows the growth of GDP per capita of Germany, the Eurozone and the EU as a whole (the dotted lines). With the exception of Malta, which in effect shows an upward convergence trajectory in the entire period under consideration (even more evident if we consider Figure 1.2, page 34, in which the growth of GDP per capita is considered in terms of index number and not in absolute values), all the other peripheral countries show a stagnant or declining trend after 2008. The gap with Germany's GDP per capita widens substantially, especially in the case of Italy and Greece. While in 1990 Italy's GDP per capita was slightly lower than that of Germany (25,200 vs 27,700 euros) and far above that of the other Southern European countries, in 2020 it differs considerably from the German level (28,000 vs 38,000 euros) and is more consistent with that of the other peripheral countries (except Greece and Portugal). This evolution testifies to the peripheralization of the Italian economy, which is especially evident after the great financial crisis of 2008 but, as some scholars have pointed out, began well before then, at the time when Italy undertook the transition to monetary union under the Maastricht regime, following a rigid path of fiscal discipline that strangled domestic demand and growth[8]. In general, for Southern European countries, the expectations of convergence associated with the formation of the EMU did not materialise or, when convergence occurred (e.g. in the period from 2002-2008, see Figure 1.1), it functioned as a veil covering the existing and growing structural divergences among Eurozone economies (Landesmann, 2015). As soon as the 2008 crisis hit the Eurozone, real GDP per capita started to diverge dramatically (see Figure 1.1 and Figure 1.2). The slowdown of growth in Southern Europe (excluding Malta) has been accompanied by a structural transformation that has seen the persistent growth of services and the contraction of industry. Figure 1.3, page 35 and Figure 1.4, page 36 show the evolution of employment and value added by macro-sector (as a percentage of the total) respectively. While Germany shows a substantial stability in manufacturing employment (and value added) over the period from 1995-2020, the countries of Southern Europe show a steady decline. The continuation of the tertiarization process has been accompanied by a certain degree of maintenance of agricultural employment in some countries (Greece and Portugal) or by the expansion of construction employment – after the euro's inception and before the 2008 crisis – in other economies (Cyprus, Portugal and Spain).

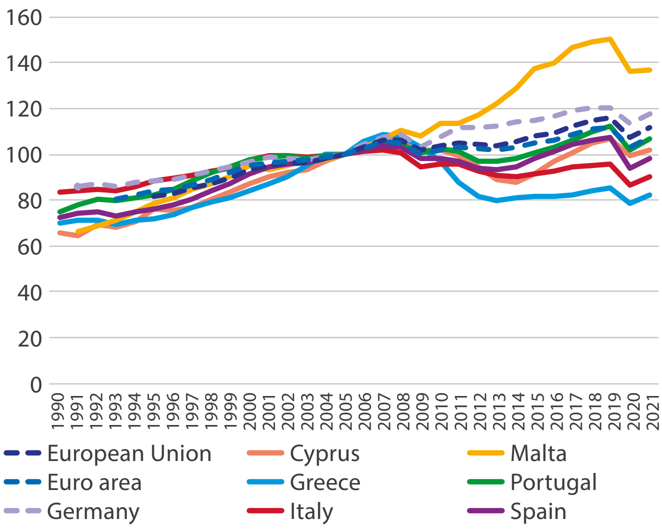
Figure 1.1 GDP per capita at constant prices *(1990-2020, Absolute values in thousands of euros)*



Source: author's elaboration on Ameco data

The process of internationalization, which, from the 1980s onwards, has been characterised by the progression of financialization and the complete liberalization of capital movements in Europe, too, has exacerbated the fragility of peripheral countries, which, as we have argued above, after the end of World War II undertook the choice of opening up their economies without completing their productive matrices. From the nineties onwards, the risks linked to the premature liberalization of Southern European countries continue to have dramatic consequences – perhaps even more serious – because they are now embedded in an international context where global value chains become pervasive and new low-cost competitors erode market shares and entire lines of industrial production. Figure 1.5, page 37 shows the current account balance as a percentage of GDP for Southern European countries and Germany in the period from 1995-2020.

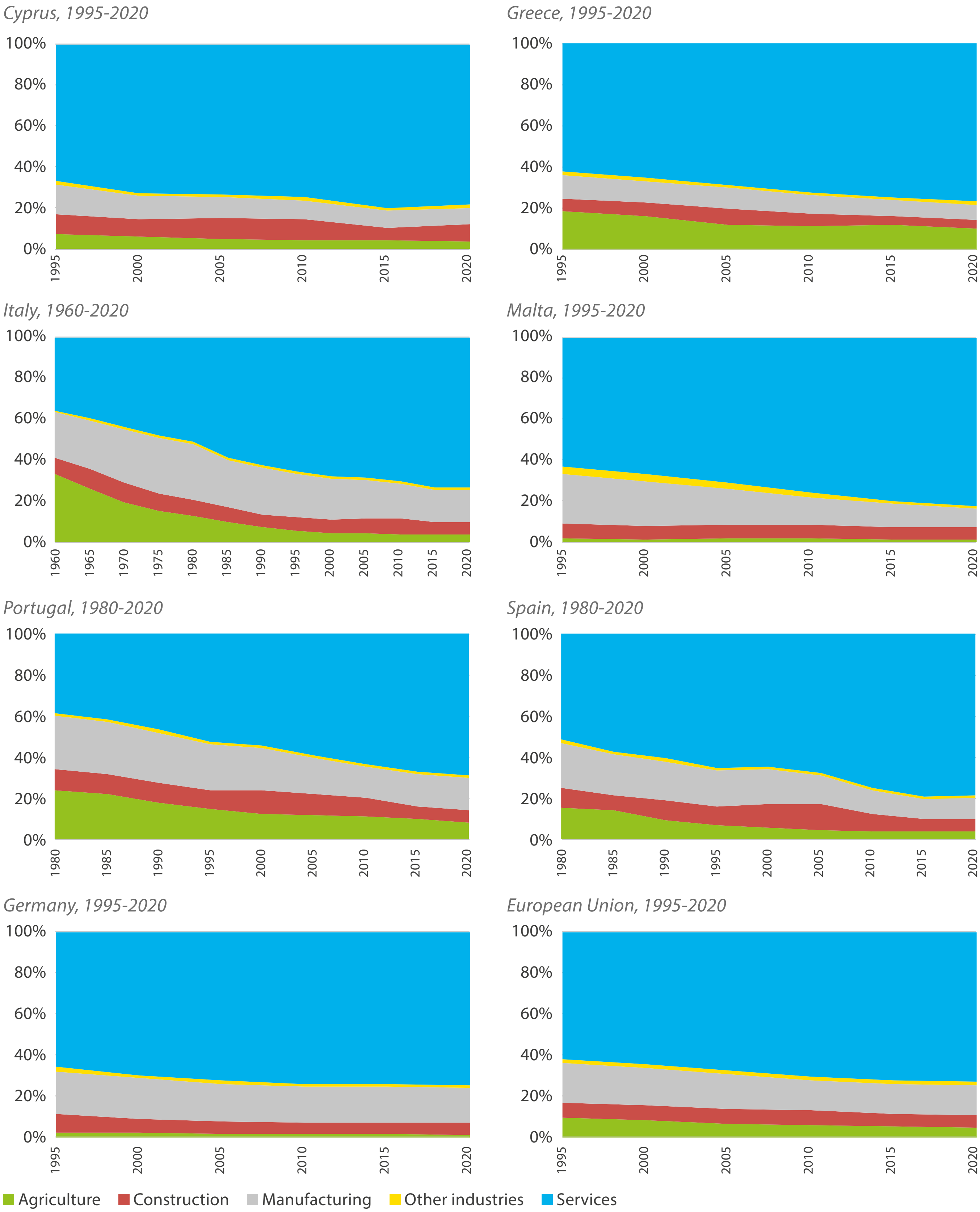
Figure 1.2 GDP per capita at constant prices, *(1990-2020, index number, 2005=100)*



Source: author's elaboration on Ameco data

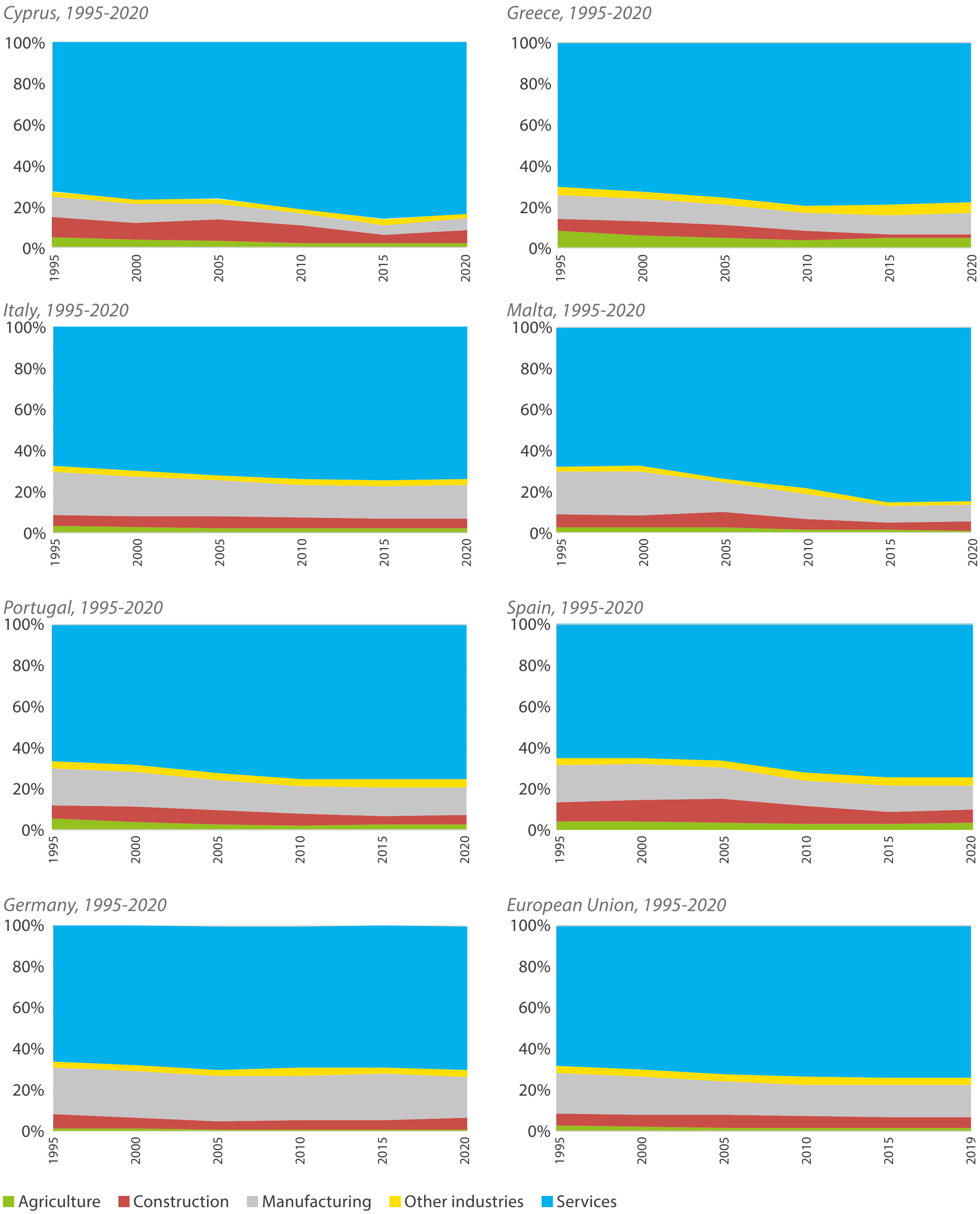
While Germany, starting from the birth of the EMU, has accumulated continuous and huge current account surpluses, Southern European countries have recorded continuous deficits. Only Italy, even compared to Germany, shows a current account surplus from 1995 to 2000. From 2001 to 2012, all Southern European countries show current account deficits. Some of them show dramatic imbalances: in 2008, Cyprus, Greece and Portugal showed deficits ranging from 10% to 15% of GDP. After the outbreak of the great financial crisis in 2008, deficits begin to decline as a result of austerity policies that squeezed aggregate demand and imports.

Figure 1.3 Employment by sector as a percentage of total employment



Source: author's elaboration on Ameco data

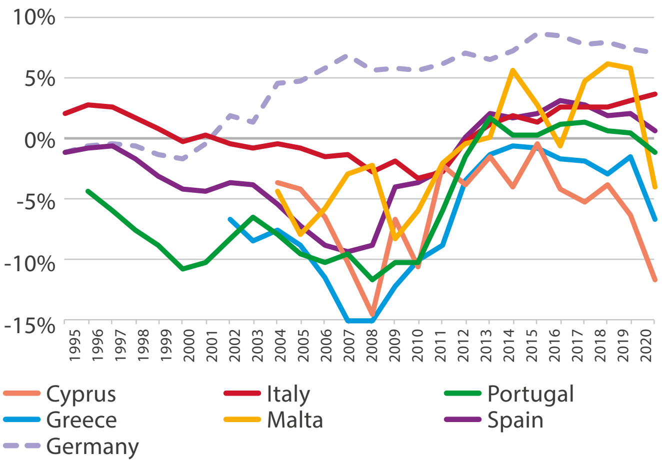
Figure 1.4 Value added by sector as a percentage of total value added



Source: author's elaboration on Eurostat data

After 2012, some countries, such as Italy, Malta and Spain, achieved significant surpluses (as did Portugal, albeit to a lesser extent), while other countries, like Cyprus and Greece, continue to record persistent imbalances. The structural weaknesses of the lagged development of Southern European countries – which Giorgio Fuà acutely highlighted in his 1980 report – do not seem to have been overcome in the last thirty years. The countries of the Southern European periphery continue to show a shrinking industrial structure coupled with persistent structural current account deficits that signal a historical inability to overcome production bottlenecks and complete the productive structure.

Figure 1.5 Current account balance as a percentage of GDP *(1995-2020)*



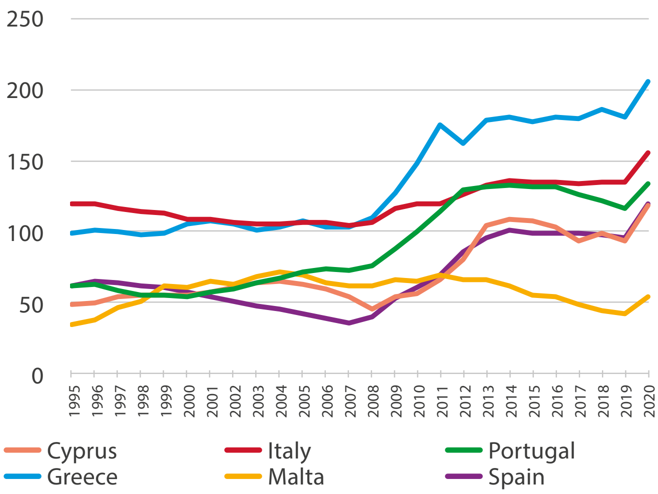
Source: author's elaboration on Eurostat data

If the crisis of the 1970s represented the first post-WWII global shock that seriously undermined the development of Southern European countries, the following decades were marked by an international context in which market deregulation, financialization, the retreat of the state in the conduct of industrial policies (although for some countries they remained 'under the radar') and the emergence of new low-cost competitors represented a series of challenges that have further weakened the already fragile productive structure of the countries of the Southern European periphery. The EMU itself has represented a substantial constraint on peripheral countries' growth, albeit that in its initial years of operation it created the illusion of a convergence of prosperity levels (see Figure 1.1, page 34) through a distorted debt-led development of consumption. The institutional flaws of the EMU transformed the 2008 financial crisis into a sovereign debt crisis that has severely limited the room for manoeuvre in the economic policy of peripheral countries.

1.3 DEBT, TAXATION AND FDI

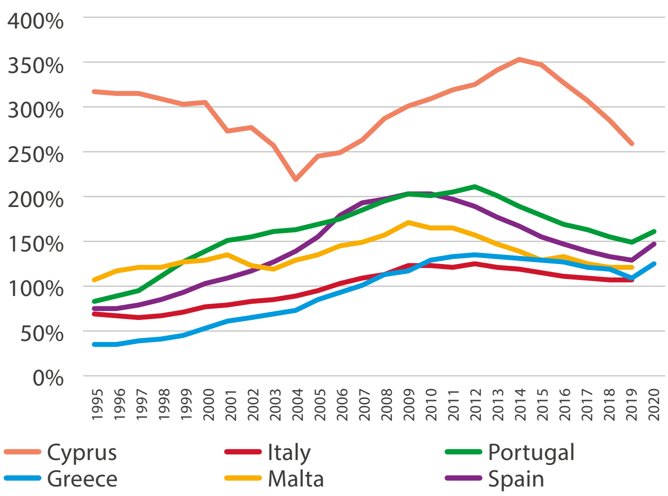
Figures 1.6 and 1.7 show, respectively, public and private debt (as a percentage of GDP) in Southern European countries over the period from 1995-2020. In the time preceding the birth of the euro and in the years afterwards, but before the great financial crisis of 2008, Cyprus, Malta, Portugal and Spain show a limited public debt/GDP ratio (Spain's ratio is even below 50%; see Figure 1.6). During the same period, Greece and Italy record a higher ratio compared to the other countries, above 100%. However, Italy shows a declining trend in the public debt/GDP ratio until 2008 (Figure 1.6).

Figure 1.6 Public debt as a percentage of GDP in Southern Europe *(1995-2020)*



Source: author's elaboration on Eurostat data

Figure 1.7 Private debt as a percentage of GDP in Southern Europe *(1995-2020)*



Source: author's elaboration on Eurostat data

After the collapse of the European Monetary System in 1992, Italy had undertaken a very rigid course of fiscal consolidation. Under the constraint of debt sustainability, primary surpluses close to 3% of GDP were generated between 1995 and 2008, albeit that a large part of these savings was systematically eroded by the payment of high interest rates on Italian public debt (Storm, 2019). It is not surprising that the harsh deflationary consequences of fiscal consolidation – both in terms of compression of aggregate demand and low GDP growth rates – triggered the debate in the mid-1990s among Italian economists on *Italy's economic decline*[9]. However, fiscal consolidation allowed Italy to reduce its public debt/GDP ratio from 120% in the mid-1990s to around 100% on the eve of the great financial crisis of 2008[10]. In general, before the 2008 crisis, the countries of the Southern European periphery, with the exception of Greece, did not record squandered public budgets or excessive public debts, disproving the idea that the 'sovereign debt crisis' was due to the behaviour of states that, after joining the EMU, systematically lived beyond their means. Rather, the real problem was private debt (as a percentage of GDP), which, especially after the creation of the EMU, rose well above 100% in many peripheral countries. Without considering the outlier case of Cyprus, which showed a peak of over 350% in 2014, due to its position as an offshore country, Figure 1.7, page 37 shows that countries such as Spain and Portugal experienced a steady increase in their private debt in relation to GDP, reaching values close to 200% (until the outbreak of the great financial crisis of 2008). On the one hand, this evidence signals the availability of abundant credit in peripheral countries that was also due to the inflow of funds from central countries (boosting financial bubbles); on the other hand, it suggests that the sharp distinction between the *banking crisis* (the subprime crisis) in the US and the *sovereign debt crisis* in Eurozone countries is an artificial distinction. In both cases, the primary cause was a banking crisis that required government intervention to avoid dramatic systemic consequences. In both situations, the presence of 'financial innovations' allowed banks to transfer (through SPVs, special purpose vehicles) credit risk to non-bank security holders. These operations have increased banks' lending capacity and financial leverage. Therefore, it is more appropriate to refer to 'private financial profligacy', rather than to profligacy in the conduct of public budgets. Nevertheless, the conventional narrative of the Eurozone crisis links the *sudden stop* (i.e. the reversal of capital flows from the European core to the European periphery) to a standard balance of payments crisis triggered by the revelation, by the newly elected Greek government (in Autumn 2009), that previous governments had hidden the size of the budget deficit (see CEPR[11], 2015). This partial narrative fails to consider the dual role played by German and French banks in the years preceding the great financial crisis of 2008[12]. Before the collapse of Lehman Brothers (September 2008), on the one hand French and German financial institutions held nearly 25 per cent of the US debt owed to foreign banks: European banks had accumulated speculative positions by buying US mortgage securities. On the other hand, until mid-2008, French and German financial institutions were also the main creditors of Southern Europe: 60% of the amounts owed by Italy, 45% by Spain, 42% by Greece, and 33% by Portugal (Lindner, 2013; O'Connell, 2015). Due to the US subprime crisis, German and French financial institutions suffered huge losses (partially and opaquely documented later) and, to restore their capital, they re-entered loans they had made to the countries retrospectively termed 'crisis countries' (mainly Southern European countries). As Lindner (2013) wrote, "In this way, through the banks, the subprime crisis contributed very significantly to the euro crisis". Therefore, the sovereign debt crisis of European countries was not a local crisis but a mutation of a banking crisis that started in the United States and, given the triangular links between American financial institutions, those of central European countries and those of peripheral European countries, infected the Eurozone[13]. The contagion and the following *doom loop* between banks, governments (sovereign debts) and international institutions were also the result of a *political choice*: that of not letting the burden of adjustment fall on the banks of the central countries[14]. The contagion would have stopped if governments and European institutions had proceeded immediately with the natural solution to the Greek crisis, namely the restructuring of Greek debt. Yet, as noted above, the conventional narrative of the euro crisis (like that of CEPR economists) has focused on the balance of payments crisis of 'undisciplined' peripheral countries and the sudden stop in capital movements. The shortcoming of this story is that it has failed to take into account what happened before the sudden stop. That is, the massive inflow of financial resources and credit from central countries to peripheral countries in Europe, which enabled some upward convergence of peripheral country incomes (see Figure 1.1, page 34), but which prefigured, at the same time, a debt-driven growth model implying an intrinsic weakness. The sense of this inherent vulnerability is well-represented by the metaphor of "big fishes in a small pond" provided by Haldane (2011). In other words, the seeds of crises in emerging countries spread in the initial phase as inflows exceed the absorptive capacity of the capital markets of the recipient countries. Malta and, especially, Cyprus are two emblematic cases of Haldane's metaphor. Incidentally, these two small countries stand out from other Southern European countries for emulating, in a certain sense, corporate tax competition that some Northern European countries (such as Belgium, Luxembourg and the Netherlands) have been pursuing in recent years in order to attract capital and investments. Table 1.1 shows statutory and effective corporate tax rates in EU countries. The table signals large differences in the taxation of corporate income, with some countries imposing particularly favourable taxation regimes. The European Commission classifies them as 'fiscally aggressive countries', but this has no practical consequence, except through a generic 'name and shame' process.

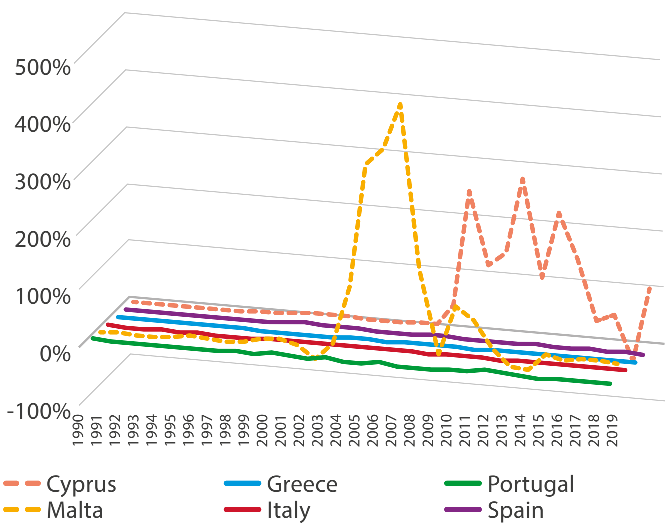
Table 1.1 Statutory and effective corporate income tax rates in Europe *(2021)*

Region	Country	Statutory corporate income tax rate	Lowest available corporate income tax rate	Percentage difference
SE	Cyprus	13	0	-100
	Greece	24	24	0
	Italy	28	26.9	-3
	Malta	35	5	-86
	Spain	25	25	0
	Portugal	32	30	-6
CEE	Czech Republic	19	19	0
	Hungary	9	9	0
	Estonia	20	0	-100
	Latvia	20	0	-100
	Lithuania	15	15	0
	Poland	19	19	0
	Slovakia	21	21	0
SEE	Bulgaria	10	10	0
	Croatia	18	18	0
	Romania	16	16	0
	Slovenia	19	19	0
other	Austria	25	25	0
	Belgium	25	2.958	-88
	Denmark	22	22	0
	Finland	20	20	0
	France	26	26	0
	Germany	30	22.83	-23
	Ireland	13	0.005	-100
	Luxembourg	26	0.3	-99
	Netherlands	25	2.44	-90
	Sweden	21	21	0

Source: Tax Haven Index 2021 and KPMG

These countries are Cyprus, Hungary, Ireland, Luxembourg, Malta and the Netherlands. The rate of corporate taxation can be very low: Hungary has a rate of 9%; Bulgaria 10%; Cyprus and Ireland 13%. Consider that France, Italy and Germany have rates of 26%, 28% and 30% respectively. Specific treatments (tax ruling) may be granted to multinationals. Deductions can reduce the tax base and the taxes actually due. According to the 'Corporate Tax Haven Index 2021' study by the Tax Justice Network, the statutory rates that each country declares in some cases differ greatly from the rate actually applied, due to the effects of deductions and the application of tax rulings (see the maximum possible divergence between statutory and effective rates in Table 1.1). The small countries are those that reduce rates to a greater extent, sometimes to zero or slightly more (as is the case with Cyprus and Malta; see Table 1.1, page 34). The large cross-country differences in effective tax rates encourage multinationals to artificially shift profits to low-tax countries through aggressive tax planning, for example, by using transfer pricing practices. These practices are facilitated by the possibility offered by some countries, such as Malta, of granting tax residence without any real economic activity in the country. An indicator that can be used to highlight the presence of aggressive fiscal planning in a country is the inflow of foreign direct investment (FDI), when it is particularly abnormal and cannot be explained otherwise.

Figure 1.8 Foreign direct investment in Southern Europe
Net inflows, % of GDP (1990-2019)



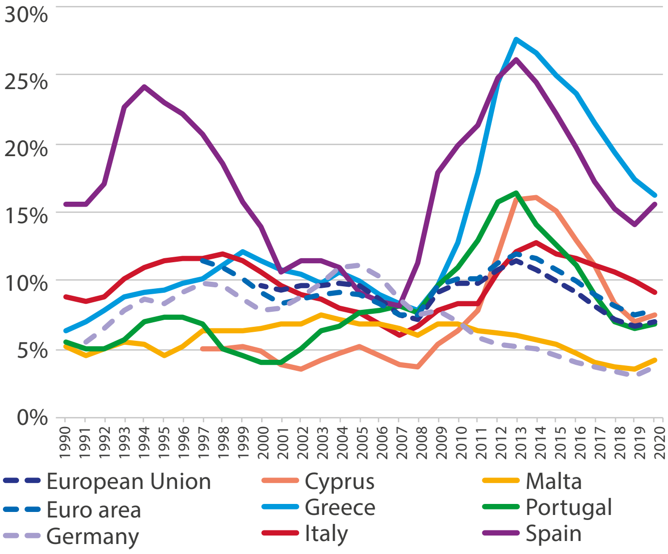
Source: author's elaboration on the World Bank data

Figure 1.8 shows the net FDI inflows in relation to GDP in Southern European countries. As can be seen, Cyprus and Malta present disproportionate values in terms of GDP, significantly higher than those of the other Southern European countries. There is full consistency between the low effective corporate tax rates applied in Cyprus and Malta (Table 1.1) and the abnormally high FDI inflows into these countries (Figure 1.8, see the dotted lines). As highlighted by Torslov et al. (2020), aggressive tax planning practices by multinationals lead to large losses of tax bases for many countries[15].

1.4 LABOUR MARKET AND SOCIO-ECONOMIC CONDITIONS

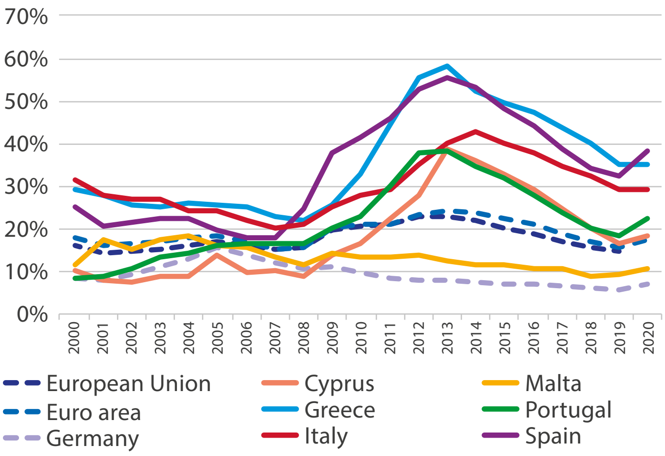
As documented by Eurofound (2017), the decade that preceded the great financial crisis of 2008 saw a trajectory of *between-country* income convergence in Europe, although *within-country* income inequality remained almost unchanged. The economic success of Eastern European countries in particular contributed to the convergence process. However, since the great recession of 2008 onwards, not only did the convergence process grind to a halt, but within-country inequality also began to worsen dramatically. Immediately after 2008, the relative incomes of some peripheral countries – especially the Southern European countries, the Baltic States and Ireland – declined significantly, while those of core countries showed resilience. After 2011, the Visegrád group countries and the Baltic States resumed sustained economic growth, while Southern European economies continued to decline (Eurofound, 2017). As mentioned above, this halt in economic convergence among European countries came with a dramatic widening in income inequality *within* countries. The great bulk of the studies on within-country income inequality referring to the two or three decades before the great financial crisis of 2008 – see, for instance, OECD (2011) – typically identified the *wage gap* (e.g., based on the education or skill levels of the workforce) as the principal driver of inequality. Instead, since the great financial crisis of 2008, as Eurofound (2017) has emphasised, the most important explanatory factor for the growth in income inequality in Europe is the rise in unemployment (mainly concentrated in Southern periphery countries). Figure 1.9 shows the unemployment rates of Southern European countries, and, for the sake of comparison, it also reports those of Germany, the EU and the Eurozone. After the euro's inception and before the 2008 crisis, unemployment rates in Southern European countries remained below 10% (with the exception of Spain until 2004). In the early years of the EMU, Germany itself – considered the 'sick man of Europe' until 2004-2005 – had higher unemployment rates than other countries. After 2008, the picture changed dramatically. Unemployment rates in Southern European countries (except Malta) grew significantly and in the case of some countries, such as Greece and Spain, they skyrocketed, reaching peaks of over 25% (in 2013). Only after 2014 did unemployment rates begin to fall in Southern European countries (in Germany they had been falling since 2009-2010). However, in 2020, Greece and Spain still showed unemployment rates above 15%. In these countries, but also in Italy, youth unemployment in particular is at dramatic levels (in 2020 it was still at 38% in Spain, 35% in Greece and 30% in Italy, while it was only 7% in Germany; see Figure 1.10, page 41).

Figure 1.9 Unemployment rates in Southern Europe, Germany, EU, EZ *(1990-2020)*



Source: author's elaboration on Ameco data

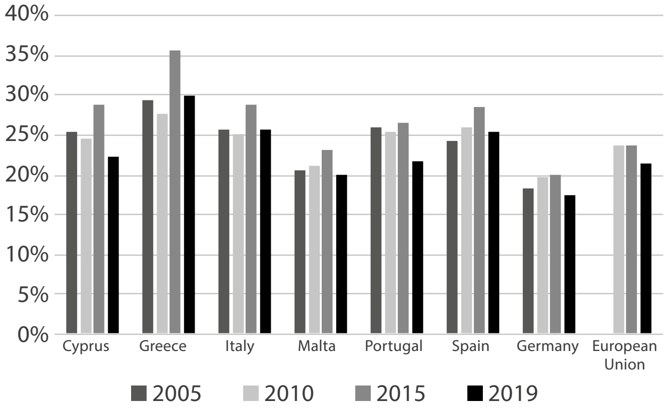
Figure 1.10 Youth unemployment rates in SE, Germany, EU, EZ *(2000-2020)*



Source: author's elaboration on Eurostat data

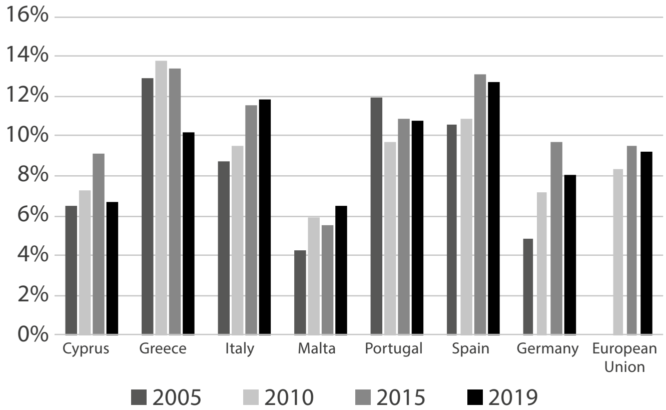
The severe economic deterioration that affected the countries of Southern Europe in the aftermath of the 2008 crisis, in conjunction with the impact of austerity policies undertaken to deal with the sovereign debt crisis, has had serious repercussions on the socio-economic fabric of these countries. Figures 1.11-1.14 show a number of indicators of social and economic hardship: people/employed at risk of poverty; severe material deprivation rates; inability to face unexpected financial expenses.

Figure 1.11 People at risk of poverty or social exclusion, *% of total population*



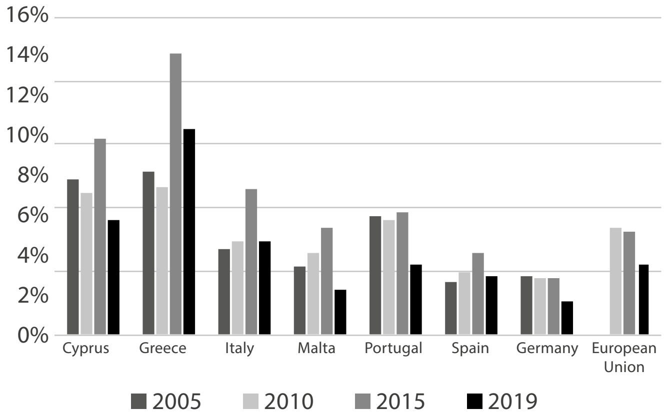
Source: author's elaboration on Eurostat data

Figure 1.12 In work yet at risk of poverty rate, *% of employed, 18 and over*



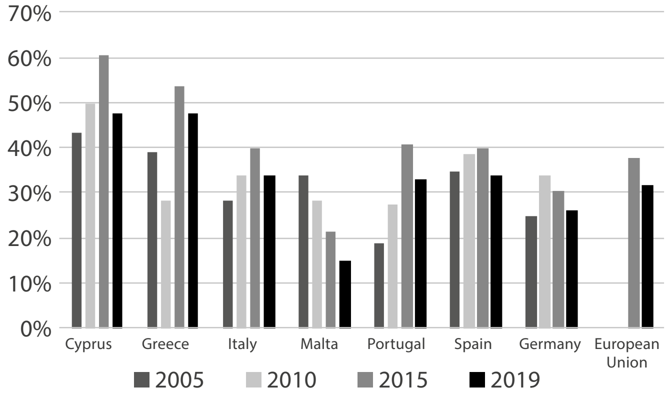
Source: author's elaboration on Eurostat data

Figure 1.13 Severe material deprivation rate, *% of total population*



Source: author's elaboration on Eurostat data

Figure 1.14 Inability to face unexpected financial expenses, *% of total population*

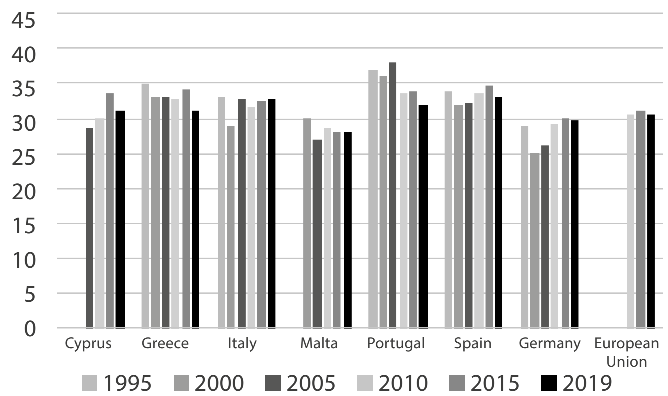


Source: author's elaboration on Eurostat data

In all of these indicators of socio-economic distress, Southern European countries show higher values than Germany and the EU as a whole (with the exception of Malta). In particular, Greece shows the highest values in almost all the indicators considered. However, Cyprus, too, shows a high percentage of people unable to face unexpected financial expenses (Figure 1.14), while, in Italy and Spain, relatively high percentages of these countries' overall populations and employed populations are at risk of poverty (see Figures 1.11-1.12, page 41).

The deterioration in the social and economic situation of Southern European countries is reflected in higher indices of inequality as well. Figure 1.15 shows the Gini coefficient of equivalised disposable income for Southern peripheral countries, Germany, and the EU as a whole. In the case of Southern European countries, the Gini index values are between 30 and 35 per cent (not including Malta), whereas those of Germany and the EU are below or close to 30 per cent[16].

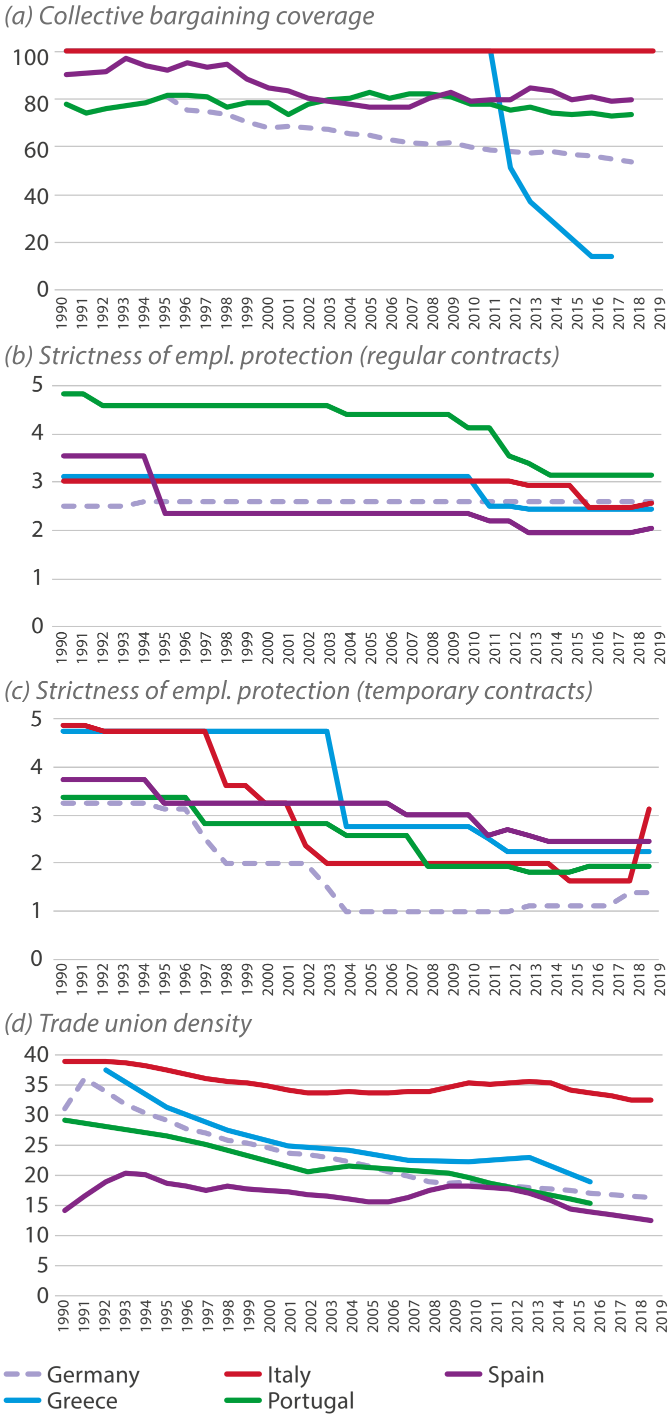
Figure 1.15 Gini coefficient of equivalised disposable income



Source: author's elaboration on Eurostat data

The above evidence with reference to Southern European countries reflects not only the dramatic impact of the 2008 crisis, but also, and above all, the effects of the deflationary policies adopted to contrast the risks associated with the worsening of sovereign debts in South Europe. The austerity policies – which for some countries involved the signing of Reform Programmes (RPs) with conditionality (i.e. for Greece, Ireland, Portugal and Spain, but not for Italy) – went well beyond simple budget balancing. The overall design of the austerity-driven economic policy strategy not only envisaged cuts in public spending and tax increases in order to reduce deficits and public debt, but also the privatisation of public assets (not always aimed at fiscal consolidation), and *structural reforms* intended to render the labour market more flexible, stimulate price competitiveness and exports, and rebalance current accounts. As part of this overall strategy, the labour market has represented a privileged area of conditionality. In the crosshairs of labour market flexibilization policy there was the identification of all possible (and presumed) causes of rigidity: restrictions on dismissal, generous social benefits, strong trade unions, high minimum wages, and so on. All these factors were blamed for high unemployment, poor competitiveness, mismatch between labour supply and demand, misallocation of resources, etc. Absolutely in line with this neoclassical view of the labour market's (mal)functioning in Europe (especially in Southern Europe), the DG ECFIN[17] of the European Commission has formulated its design of *structural reforms*. The European Commission's official document on country-specific recommendations (listed under the heading *Employment-friendly reforms*) provided the following list: reduction of legal and contractual minimum wages; reduction of contractual coverage; reduction of the (automatic) extension of collective agreements; reform of the bargaining system in the direction of a less centralised system; possibility of derogating from higher-level agreements (European Commission, 2012:103-104). In summary, the strategy of labour market flexibilization in Europe aimed to achieve two fundamental objectives. On the one hand, by reconsidering (downwards) the degree of protection against dismissals and the level of unemployment benefit coverage, it aimed to reduce costs and legal constraints on worker layoffs. On the other hand, it intended to reduce the coverage and relevance of bargaining at the sectoral or national level in favour of decentralized, individual or firm-based bargaining. In recent years, both of these objectives – albeit with due differences between countries – have been achieved in Southern Europe. Moreira et al. (2015), for instance, offer evidence that Southern European countries have significantly reduced protection against layoffs and assistance to the unemployed. Schulten and Müller (2014), on the other hand, show in detail that, from 2008 to 2013, Greece, Spain and Portugal experienced a progressive decline in sectoral agreements and in the number of extensions to collective agreements. Figure 1.16 shows the evolution of four institutional labour market indicators with reference to Southern European countries and Germany over the period from 1990-2019[18]: collective bargaining coverage; index of restrictiveness of labour protection both for regular and temporary contracts; trade union density. Except in Italy, where it remains at 100%, the degree of coverage of collective agreements (panel a) records a general decline over the period (a collapse in the case of Greece). The index of restrictiveness of labour protection for both regular (panel b) and temporary contracts (panel c) also follow a downward trend, especially after the great financial crisis of 2008. In the case of Germany, the decline in labour protection for temporary contracts has been particularly sharp since the second half of the 1990s (the downward trend consolidated in subsequent years, also thanks to the Hartz reforms). The percentages associated with trade union density (panel d) likewise follow a downward trend. At the end of the period, only Italy has a ratio of union membership above 35%, while all other countries have percentages of under 20%. In past decades, *erga omnes* norms and the extension of collective agreements have distinguished the labour markets of Southern European countries, which have traditionally exhibited a high level of collective bargaining coverage (80-90 per cent). But, as we have seen, with the exception of Italy, the coverage of collective bargaining has declined in Southern Europe. The conditionality imposed by the Reform Programmes has encouraged a process of decentralization, with the result that bargaining procedures with individual employers have become the dominant mode of wage determination. Italy itself – although it did not sign a formalised RP – similarly to the other Southern European economies embarked on a trend of deregulation (long before the outbreak of the crisis, as documented by Cirillo et al., 2016), even if this process took place with the partial involvement of the trade unions, along the lines of a model of *organised decentralization*.

Figure 1.16 Indicators of labour market institutions in Southern Europe and Germany *(1990-2019)*



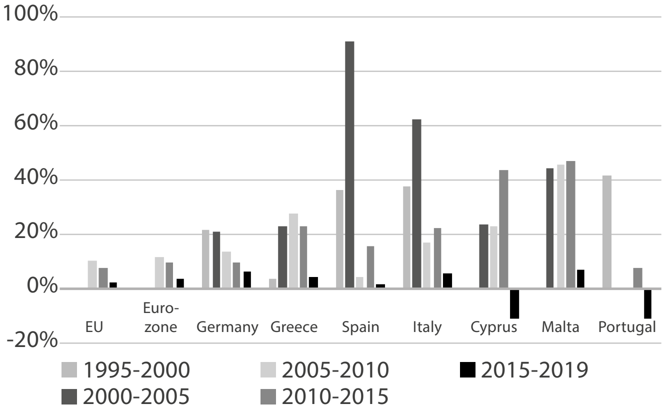
Notes: (a) Number of employees covered by a collective agreement as a percentage of the number of eligible employees. (b), (c) Synthetic indicator of the strictness of regulation on dismissals and the use of regular/temporary contracts. For each year, indicators refer to regulations in force on 1 January. (d) Number of net union members as a percentage of the number of employees.

Source: author's elaboration on OECD, ICTWSS database

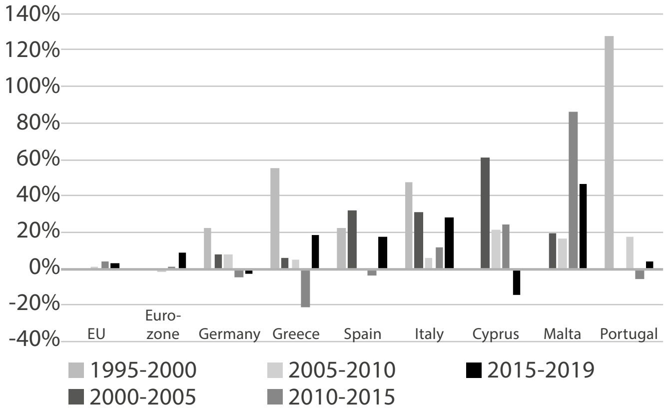
The evidence reported above indicates that labour market flexibilization policies in Europe have eroded the conquests achieved by workers in previous decades in terms of job security, union organisational capacity, and extension of contracts to the collective level. Even in a core country like Germany, these dynamics have led to a stronger segmentation of the labour market, with substantial growth in the share of low-wage employment in total employment since the second half of the 1990s (Bosch, 2009; Bosch, 2014). However, while Germany has maintained employment levels, Southern European countries have experienced, as noted, dramatic job losses, especially after the great financial crisis of 2008. Moreover, in the case of these countries, job losses have combined with an increase in labour precarisation. Figure 1.17 shows that Southern European countries, albeit with different intensities and at different times, recorded a substantial increase in the number of part-time and temporary workers. These processes of flexibilization and segmentation of the labour market were also reflected, in the end, in a lower profile of remunerations.

Figure 1.17 Growth in the number of part-time and temporary workers in SE, the EU and EZ, *percentage changes (1995-2019)*

(a) Part-time workers

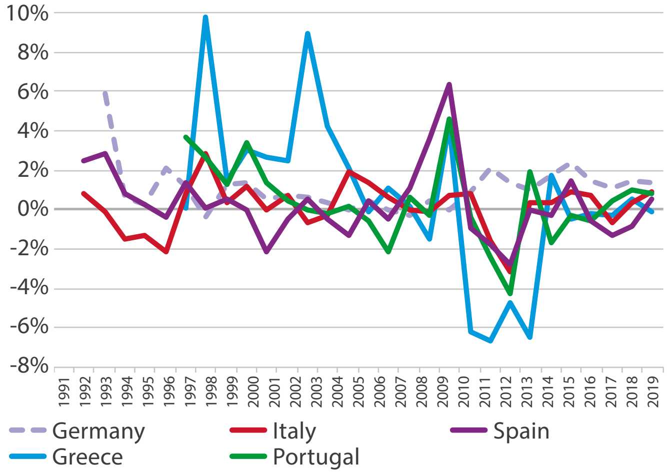


(b) Temporary workers



Source: author's elaboration on Eurostat data

Figure 1.18 Changes in annual average wages at constant prices *(1991-2019)*



Source: author's elaboration on OECD, ICTWSS database

Figure 1.18 shows the year-on-year change in average annual wages at constant prices (2019 euro). Excluding the somewhat erratic trend in Greek wages (and Spain's peak in 2009), the other countries show stagnant or declining wages. After the crisis of 2008, while German real wages have maintained positive rates of growth, those in the other countries have recorded figures close to zero or negative growth. Finally, Table 1.2 shows some indicators concerning the shadow economy and informal employment. In general, compared to the core countries (Germany and France), the Southern European countries, although with differences between them, show significantly higher percentages of undeclared employment (or remuneration).

Table 1.2 shows information collected from ad hoc studies since there are no systematic statistics on the shadow economy. However, the relatively high presence of the informal

Table 1.2 Indicators of informal economy in Southern Europe, Germany and France, *percentage values*

	Undeclared work in terms of the labour input [a] (2013)	Shadow economy [b] (2015)	Informal work (% of extended labour force)[c] (2008-2009)	Envelope wages (% of employees receiving envelope wages EBS 2013)/% of gross salary received as envelope wage [d] (2013)
Cyprus	13.8	24.8	53.0	2/50
Greece	12.4	22.4	46.7	7/10
Italy	12.9	20.6	22.4	2/65
Malta	n.a.	24.3	n.a.	n.a.
Portugal	6.6	17.6	22.4	3/100
Spain	8.8	18.2	18.8	5/100
Germany	4.4	12.2	11.9	1/30
France	8.8	12.3	10.3	1/6

Source: a) Williams et al. (2017); b) Schneider (2015); c) Hazans (2011); d) Williams and Horodnic (2017).

economy and employment is a structural feature of Southern European countries. This circumstance entails the relatively greater socio-economic exposure and vulnerability of the countries of the European Southern periphery to the recent pandemic crisis. This is for two reasons. On the one hand, the informal economy is mainly concentrated in the service sectors, such as accommodation and catering, retail trade and, in general, tourism-related activities, all of which have been heavily affected by the containment measures with respect to the SARS-CoV-2 virus and the pandemic[19]. On the other hand, these activities have a relatively high impact on the GDP of Southern European countries. Consequently, the characteristics of the productive structure of the Southern periphery, that expose it more to the impact of the pandemic in relative terms, are compounded by the greater presence of an informal economy/employment. This unfavourable situation makes the effects of the SARS-CoV-2 virus even more dramatic in terms of resilience of the socio-economic fabric, also due to the difficulty of putting in place adequate measures to protect undeclared workers.

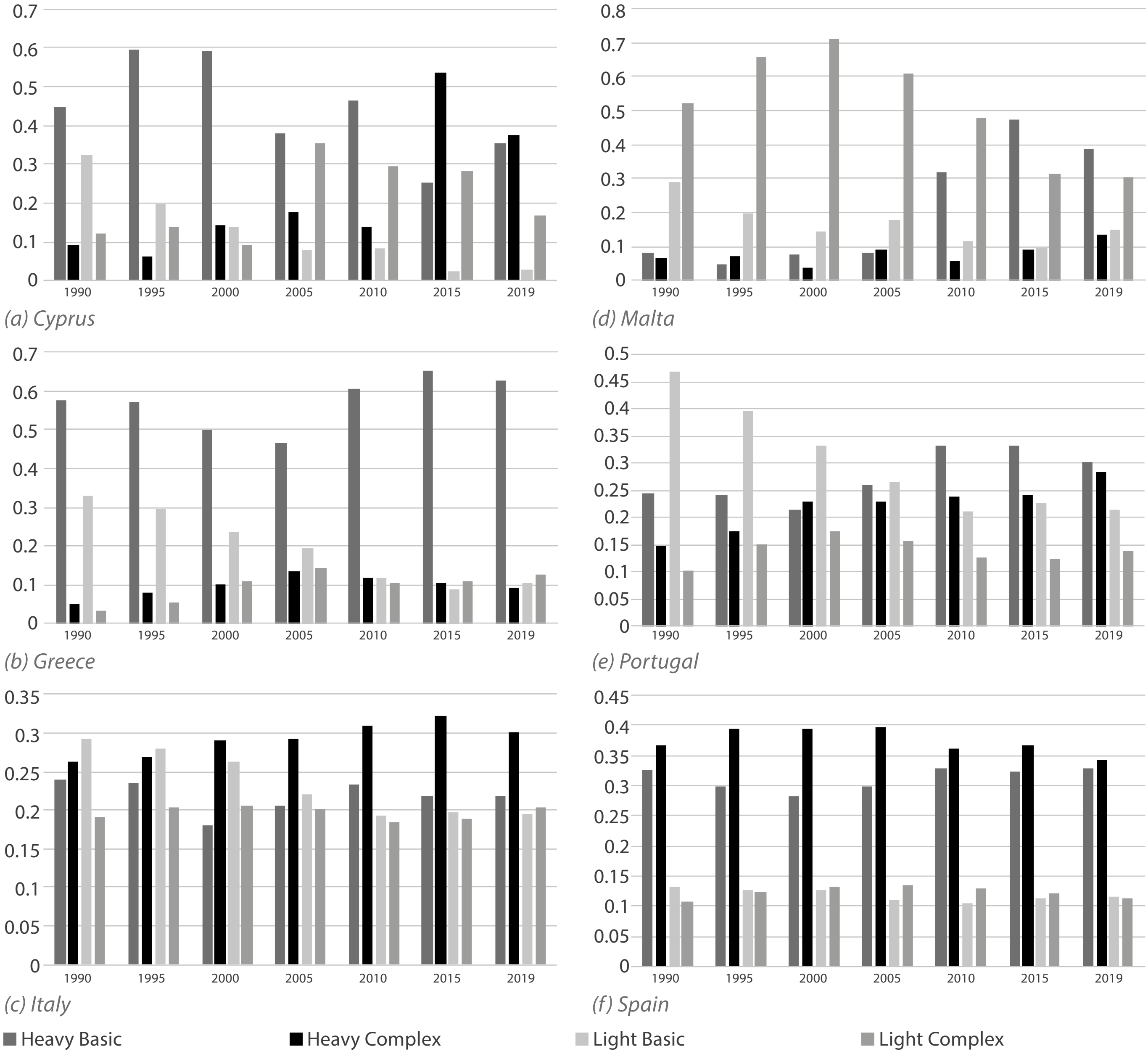
1.5 INTERNATIONAL TRADE

As we noted in the previous section, in recent years one of the objectives of labour market flexibilization policies in Europe has also been to aim to boost international competitiveness through a lowering of labour costs, achieved primarily through internal devaluation. The obsession with competitiveness and the emphasis on the almost exclusive promotion of *tradable* sectors (sometimes at the expense of *non-tradable* sectors) has been a leitmotif of the rhetoric of European institutions during the years leading up to the pandemic crisis. However, the debate that developed around the causes of Germany's trade surplus after the mid-2000s highlighted that labour costs and wage moderation were not the decisive elements behind Germany's export success (and, in reversal terms, behind current account deficits of peripheral countries). Although some authors have placed great emphasis on outlining wage moderation and internal devaluation as the foundations of a virtuous model that even peripheral European countries should have adopted (like Germany)[20], other authors have highlighted different explanatory factors. For instance, regarding the underlying causes of German trade surplus, Danninger and Joutz (2007) rejected the monothematic explanation in terms of wage moderation (that would have boosted the price competitiveness of exports) and emphasised the importance of other determinants: German firms' linkages with high-growth emerging markets, Germany's increasing exports of capital goods to meet growing investment demand in emerging economies and the expansion of the German value chain towards Central and Eastern European countries. Storm and Naastepad (2015) and Storm (2016) extended Danninger and Joutz's (2007) view on the role of non-wage factors in the expansion of the German surplus, highlighting two points: the low elasticity of German exports (and Southern European countries' exports) to changes in the unit labour cost (ULC) and the lack of evidence about downward pressure on nominal wages of German workers[21]. If the ULC in Germany fell relative to the rest of the Eurozone, it was imputable to Germany's exceptional productivity: i.e. it was not wage moderation but

German engineering brilliance that reduced the ULC. Overall, according to Storm and Naastepad, the behaviour of both exports and imports can explain Germany's surplus and the deficits of the Southern European countries. With regards to exports, the excellent compatibility of German production specialisation in high-tech and high-quality products with high-growth markets (where non-price and technology-based competition is strongest) has played an important role. Regarding imports, large capital flows from central to peripheral countries – which have seen a debt-driven boom since the euro inception to the 2008 crisis – represented a relevant explanatory factor. Resulting trade deficits in peripheral countries were due more to an increase in imports associated with a demand shock (i.e. to an income effect) than to a decrease in exports due to a decline of price competitiveness (Gaulier and Vicard, 2012). The arguments of Danninger and Joutz, Storm and Naastepad, and Gaulier and Vicard, which we have briefly recalled, have been important in demystifying the general thesis that unit labour costs drive competition and are the main determinant of international competitiveness. For many years, this thesis (which has not entirely disappeared) has supported the idea that the only way to activate the Eurozone's recovery would have been a reduction in ULCs in the periphery through *structural reforms* consisting of, as we have already noted in the previous section, growing doses of wage flexibility and a worsening of working conditions. By legitimising the implementation of wage containment measures in a context of generalised austerity, this thesis produced tremendous damage without achieving appreciable results in terms of growth and employment recovery. The adjective 'structural' itself, when used to refer to labour market reforms in Europe, is completely misleading because it is at the antipodes of a vision aware of the complex economic connections that affect the productive structure of a country. The monothematic (and simplistic) explanation of trade deficits/surpluses in terms of ULC gaps is also inherently dangerous because it is like a misdiagnosis that leads to harmful therapies. In more general terms, trade deficits are often interpreted as a macroeconomic problem, an indicator of excessive demand (or inefficient use of resources), which justifies measures to restrain domestic demand in order to reorient resources towards higher net exports. However, when the origin of trade deficits concerns a particular sector of the economy – the problem is a *microeconomic* one, such as, for instance, the relocation of production abroad – the non-acknowledgment of the microeconomic nature of trade imbalances and the implementation of aggregate measures would create additional problems without offering solutions to the initial issue. In this example, the problem would be the impoverishment of the domestic productive structure (due to the relocation of production abroad), and deflationary policies with demand restraint and wage compression would worsen the situation by increasing social costs (in terms of rising unemployment, falling incomes and so on). Looking at a country's trade, not only in aggregate terms but also by examining its sectoral and geographic composition, can help to better understand the structural dynamics underlying macroeconomic problems[22]. Figure 1.19 shows the composition of exports from Southern European countries by industry type.

The classification includes four groupings of export sectors: *basic* and *complex heavy* sectors, *basic* and *heavy light* sectors[23]. Within both *heavy* industries (more capital intensive) and *light* industries (less capital intensive), a distinction is made between those that are technologically more advanced (*complex* industries) and those that are technologically less advanced (*basic* industries). Cyprus and Greece present an export structure polarised towards *heavy basic* industries. In the case of Cyprus, the composition of the heavy basic group itself appears polarised, with two sectors dominating the others since 2005: 'Food and live animals' (SITC 0) and 'Petroleum and petroleum products' (SITC 33). However, since 2015 the predominant group in Cypriot exports has become the *heavy complex* group (see Figure 1.19, page 47), but for the substantial increase in exports of only one sector, 'Other transport equipment' (SITC 79), which in 2015 reached a 48% share of total Cypriot exports. This abnormally high percentage is imputable to the limited economic size of a small country such as Cyprus (even a single order of a certain size, in a certain sector, can have a significant incidence on the total). The Cypriot economy is obviously very open to international trade and, above all, is dependent on imports, from which a structural trade deficit derives. The economy is oriented, as we have seen, prevalently towards services such as tourism, transport and finance, which represent almost 80% of GDP/employment. The high incidence of SITC 79 sector on total exports is associated, presumably, with transport services. Also, in the case of Greece, the dominance of the *heavy basic* group in total exports depends substantially, as in Cyprus, on trade flows associated with 'Food and live animals' (SITC 0) and 'Petroleum and petroleum products' (SITC 33). These two sectors alone account for almost 45% of total Greek exports in 2019,

Figure 1.19 Composition of exports by industry characteristics, Southern European countries, *1=100% (1990-2019)*



Source: author's elaboration on COMTRADE data

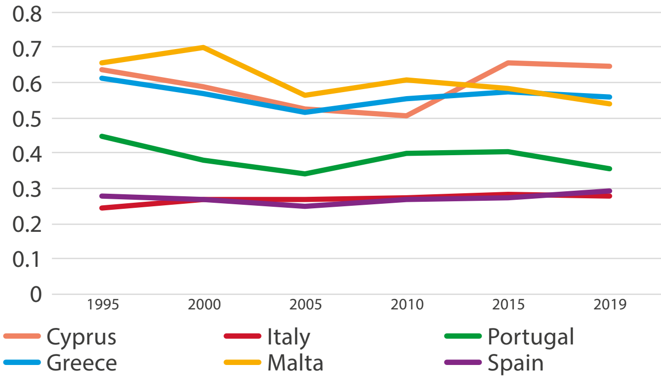
and the oil sector alone accounts for 30% of the total. In recent years, Greece has been very active in the oil industry, also through the efforts of a state-owned company, Hellenic Hydrocarbons Resources Management (HHRM), which has revitalised a declining sector and initiated partnerships with foreign companies (e.g., ExxonMobil and Total)[24] in order to obtain technological support for the search of hydrocarbons in the Mediterranean Sea[25]. However, figure 1.19 also shows that, in 1990, the *light basic* industry group held a significant share of Greek exports, 33%. Over time, this share has gradually shrunk to only 10% in 2019. The group's decline is mainly attributable to two sectors: 'Textile yarn, fabrics, made-up articles' (SITC 65) and 'Articles of apparel and clothing accessories' (SITC 84). In 1990, these two sectors alone accounted for 27% of total Greek exports, while in 2019 their share fell to just 4%. This decline in Greek textile and clothing exports is due to growing competition from low-wage emerging countries. Anticipating what will be examined next (see Table 1.A3 , page 55) shows Greece's top five trading partners, both in terms of destination markets for Greek exports and origin countries of Greek imports. As Table 1.A3 shows, since 2010 China is among the top five as an origin country of Greek imports and, while in 2010 China was ranked fourth, in 2018 it ranked second. This evidence is in line with the idea that low-price/low-quality consumer goods produced (exported) by China (e.g. in textiles/clothing) have displaced Greek productions (of intermediate quality level) in both domestic and foreign markets. As we shall see, the same situation is generalisable to other countries in Southern Europe, especially Italy. In fact, in the case of Italy, the group of *light basic* sectors reduced its share of total Italian exports from 29% in 1990 to 19% in 2019 (see Figure 1.19, page 47). In addition, if we look at Table 1.A4 (in the Appendix), also in the case of Italy, since 2010, China has become one of the main source countries of Italian imports (it is in third position in the top five ranking). In some ways, the persistent crystallisation of the Italian production structure in traditional sectors has finally started to recede, not as the result of innovation policies aimed at transforming the productive matrix of the country, but as the consequence of competition from emerging countries. However, in the case of Italy, the group of light basic industries is not polarised internally (as in the case of Greece) but appears diversified, with a significant presence across the whole range of medium-high quality *made in Italy* products (fabrics, clothing, footwear, furniture, travel goods, leather, and so on). Figure 1.19 also shows that the decline in the Italian light basic industries group is partially offset by significant growth in the *heavy complex* group, whose share of total Italian exports becomes dominant (30% in 2019). Two sectors are mainly responsible for the high share of the Italian heavy basic group: 'General industrial machinery' (SITC 74) and 'Road vehicles' (SITC 78). The high degree of specialisation of Italian industrial districts in the production of machine tools has succeeded in tackling international competition. With regard to the automotive sector, however, the level of data disaggregation considered here (2-digit SITC) does not allow a distinction between final and intermediate goods. Although, in aggregate, the share of this sector in total Italian exports is holding up, the intermediate goods segment may have suffered setbacks and partial displacement effects from Eastern European competitors (Visegrád countries), due to their growing production interdependence with Germany in the automotive sector. However, in general, Italy, compared to Cyprus and Greece, shows a less polarised and more balanced export structure. This evidence is not surprising, given the country's larger economic size, which is associated with a more diversified production structure. Among Southern European countries, Spain comes closest to Italy with respect to economic size. However, Figure 1.19 shows that Spain's export structure is mainly concentrated on *heavy industry*. In particular, the share held by the industries of the *heavy basic* group remains essentially stable (apart from a slight decline in the period from 1995-2000, which recovered in the years that followed). Within the group of heavy basic industries, there are various sectors with significant shares of total Spanish exports: 'Food and live animals' (SITC 0), 'Petroleum and petroleum products' (SITC 33), 'Iron and steel' (SITC 67), 'Non-metallic mineral manufacturers' (SITC 66), 'Non-ferrous metals' (SITC 68), 'Beverages and tobacco' (SITC 1), and so on[26]. Therefore, there is a diversified (and non-polarised) internal structure for the Spanish heavy basic group. Regarding the Spanish heavy complex group, Figure 1.19 shows that, from 1990 to 2005, this group grew to reach a peak of almost 40% in 2005, and then decreased and settled at 34% in 2019. This trend was essentially due to the performance of a single sector, the automotive sector (SITC 78), which, in 1995, held a share of more than 24% of total Spanish exports and, in 2019, recorded a share of just 15%[27]. When we look at the structure of Portugal's exports, Portugal follows an evolution that combines the trend followed by Italy and that followed by Greece (see Figure 1.19). On the one hand, as in Italy and Greece (but with greater intensity), the share of total exports held by the *light basic* group falls from 47% in 1990 to 21% in 2019. On the other hand, this decline is offset by the growth in the share held by the *heavy complex* group (as in the case of Italy) and the growth in the share held by the *heavy basic* group (as in the case of Greece). Overall, in the period from 1990-2019, unlike the other countries (especially when compared with Cyprus, Greece and Spain), Portugal is the country that has followed a trajectory leading to a more balanced export structure. However, all Southern European countries we have considered so far have shown a limited presence (and dynamics) of the *light complex* group in the structure of exports. In fact, only Malta shows a 'disproportionate' growth in the share held by the industries of the light complex group: in 2005, this group reached a share of more than 70 per cent! This disproportionate growth was driven by a single sector, 'Electrical machinery, apparatus and appliances' (SITC 77), which, in 2005, alone accounted for 50% of total Maltese exports. In the case of Malta, in order to explain this anomalous high percentage, the same considerations that we made about Cyprus apply (the limited economic size of Malta). These considerations are also supported by the strong and sudden growth in the share held by the *heavy basic* group (accounting for 47% of total Maltese exports in 2015; see figure 1.19). Again, this growth is due to a single sector within the group, the 'Petroleum and petroleum products' (SITC 33)[28] sector, which found itself in the eye of the storm and in the comments of the press, because Malta was used as a base to smuggle Libyan oil (Eurobsit, 2018). Overall, this brief overview of the sectoral structure of Southern European countries' exports has shown differences and similarities among these countries. On the one hand, a common feature for some countries (Greece, Italy and Portugal) has been a decline in those sectors where competition from emerging economies is strongest (the sectors of the *light basic* group). On the other hand, some countries have shown a more polarised sectoral structure (Greece, Cyprus, Malta and Spain), while other countries have displayed a more balanced structure (Italy and Portugal). All countries (with the exception of Malta, but with all the caveats of the case) have shown a relatively low share of the *light complex* group. So far, as already remarked, we have examined the export structure of Southern European countries looking at the characteristics of exporting sectors in terms of factor intensities (*heavy* industries are generally more capital intensive than *light* industries) and technological complexity (*basic* versus *complex* industries). Another way to examine the structural positioning of the exports of the countries under consideration is to compare them with those of a benchmark country, for example a core country such as Germany. Figure 1.20 shows an *Export Dissimilarity Index* for each Southern European country versus Germany. The value of the index reveals how distant the sectoral structure of a country's exports is from that of Germany's exports. The index is formulated as follows:

(1) $$1/2\sum_i \left| \frac{X_{ij}}{X_j} - \frac{X_{iger}}{X_{ger}} \right|$$

where j = country, i = sector, X = exports, ger = Germany

A higher value of the index (1) indicates that the sectoral structure of the country's exports differs more from that of German exports.

Figure 1.20 Dissimilarity index of exports, relative to Germany. Southern European countries *(1995-2019)*



Notes: Higher values of the index indicate more dissimilarity between each SE country and Germany in terms of sectoral composition of exports.

Source: author's elaboration on COMTRADE data

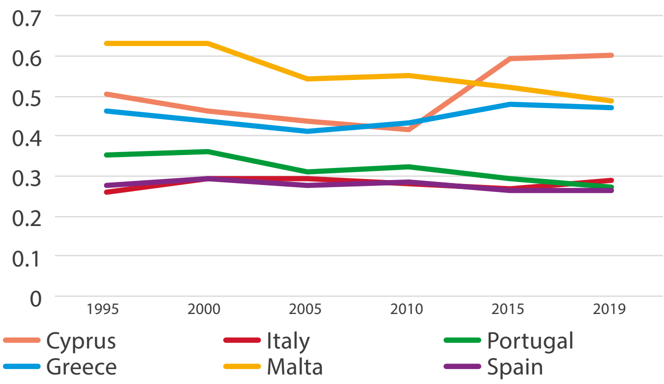
Figure 1.20 clearly shows that the index divides Southern European countries into two distinct groups. One group with a sectoral export structure that differs more from that of Germany. The countries in this high dissimilarity index group are Cyprus, Greece and Malta, countries that, as we noted earlier, have a polarised and poorly diversified export structure. The other group presents a lower value of index (1), therefore an export structure more in line with that of Germany. These countries include Italy, Portugal and Spain, whose economies, as remarked above, present a relatively more balanced and diversified export structure. We can transform index (1) by replacing the structure of Germany's exports with that of its imports. In this way, the export dissimilarity index (1) becomes an *Export-Import Matching Index*:

(2) $$1/2\sum_i \left| \frac{X_{ij}}{X_j} - \frac{M_{iger}}{M_{ger}} \right|$$

where j = country, i = sector, X = exports, M = imports, ger = Germany

Now, index (2) measures the dissimilarity between the sectoral composition of a country's exports and the sectoral composition of the benchmark country's (Germany) *imports*. In other words, index (2) indicates the degree to which the structure of a country's exports fits (lower values of the index) or does not fit (higher value of the index) with the structure of Germany's imports.

Figure 1.21 Exports-Imports matching index, relative to Germany. Southern European countries *(1995-2019)*



Notes: The index measures the dissimilarity between the sectoral composition of SE country exports and the sectoral composition of the benchmark country's imports (Germany).

Source: author's elaboration on COMTRADE data

Figure 1.21 reports the *Export-Import Matching Index* (relative to Germany's imports) of Southern European countries in the period from 1995-2019. The picture is very similar to that in Figure 1.20. A group of countries consisting of Cyprus, Greece and Malta have an export structure that differs greatly from that of German imports (the value of the index is higher). A second group, consisting of Italy, Portugal and Spain, have lower index values (2) and thus reveal a greater degree of adaptation of their export structure to German import structure. In very general terms, the evidence discussed so far on the sectoral structure of Southern European countries is reflected in the geographical composition of trade flows. Tables 1.A2–1.A7 (in the Appendix) show the top five destination countries for exports of each Southern European country and the top five origin countries of imports for each Southern European country. Without going into details, countries with a more diversified export structure export to the most important markets and the ranking of destination countries remains stable (this is the case for Italy, Portugal and Spain; see Tables 1.A4, 1.A6 and 1.A7, page 56 and 57). Italy, for example, over the entire period considered, maintains the same countries as its 5 main destination markets: Germany, France, USA, Spain and UK (see Table 1.A4, page 56). On the import side, the picture changes. Since 2010, for the first time, China has entered the ranking of the main countries from which Italian imports originate, taking third position. The shift towards the import of cheap (and lower quality) consumer goods from China was also a consequence of the 2008 crisis and the austerity policies that were undertaken to deal with the sovereign debt crisis. The increase in unemployment, the segmentation of the labour market with an increase in low-wage employment and the working poor, the impoverishment of large strata of the population have also led to this change in the composition of imports. After all, David Ricardo himself argued more than 200 years ago that foreign trade could be a stratagem to increase profits and keep real wages low through cheap imports[29].

1.6 CONCLUDING REMARKS

The present chapter has examined the evolution of the socio-economic characteristics of Southern European countries over a thirty-year period (1990-2020). In the introductory section, we pointed out that this group of countries is not internally homogeneous but consists of economies that differ in size and development trajectories. Italy, which appears as the largest economy, undertook its industrialisation process earlier than the other countries. Spain, Portugal and Greece – the latter two countries have smaller economies than Spain – were all experiencing a democratic transition that, for all three countries, took place over roughly the same period of time (1975-1985), and which had similar economic repercussions. Finally, two economies, those of Cyprus and Malta, which have in common their very small size, their geographical characteristics and their propensity to act as tax havens. Apart from their geographical position, what do these six very different economies have in common? A tentative answer might be to see in these economies a character of peripherality closely linked, for better or worse, to the process of integration into the European Union (formerly the EEC). In the introductory section, we have found unconvincing the 'essentialist' explanations linking the economic performance of Southern European countries to pre-modern traits of the value systems and institutions typical of Mediterranean societies (bureaucracy, patronage, reciprocity, corruption, etc.)[30]. The post-socialist countries of Central and Eastern Europe have also inherited barriers to modernisation as significant as the ones attributed to Southern European countries (state bureaucracy, favouritism, one-party rule, etc.). Yet these countries expanded their industrial base and overcame the 2008 crisis before the others by restarting economic growth. Therefore, leaving aside the essentialist thesis (which nevertheless captures some interesting aspects of Southern European societies), the reasons behind the explanation of the kind of economic evolution that has characterised Southern European countries must be found elsewhere. As we have said, the process of European integration has played an important role because, on the one hand, it has allowed Southern European countries to accelerate their growth in the years following the Second World War but, on the other hand, especially since the crisis of the 1970s onwards, it has relegated Southern European countries to a peripheral role. The shift from an international competition regime based on price to one based on quality and innovation of product (as a result of the saturation of demand for mass consumer durables) made it increasingly difficult for Southern European countries to sustain international competition. This crucial passage showed how premature the choice of complete trade (and then financial) liberalization had been for Southern European countries, not having equipped themselves with the necessary instruments to operate in the new international context (industrial policy, innovation policies, selective import control). The consequences for Southern European countries have been a slowdown or interruption of industrialisation, and disproportionate growth (also aiming at political consensus) of the service sector. After the 1970s, the process of *Europeanization* – i.e. the European version of the process of globalisation and market deregulation that originated in the United States and subsequently paved the way to global finance and monetary integration in Europe, profoundly influencing the nature of the EMU – did not favour Southern European countries. In fact, the process of Europeanization coincided with a change of paradigm in the conduct of economic policy, *monetarism*, and a series of unfavourable discontinuities with respect to the factors that had characterised the high economic growth of Western countries in the thirty years following the end of WWII. In a nutshell, the caesura with the golden age, *the thirty glorious years*, consisted of three fundamental discontinuities: (i) the interruption of the economic development mechanism based on the virtuous interaction between investment and exports, the two engines of growth, with a general decline in investments and accumulation; (ii) the consequent shift towards financialization, i.e. the process in which financial activities become progressively more important in the formation of profits in the economy (Krippner, 2011); (iii) the concomitant transition (suggested by monetarism) from an economic policy approach based on discretional measures to one based on the automatism of rules (Burnham, 2001)[31]. These circumstances could not favour the economic convergence of countries with different levels of development and different production capacities (such as Southern European countries) with respect to firstcomer economies. At the origin of the path that led to the constitution of the EMU, there was the intertwining of two models: the German model which, based on Germany's success in combating the stagflation of the 1970s, affirmed price stability as the primary strategy for employment and growth; and the American model, which, legitimised by the good economic performance of the United States in the first half of the 1980s, advocated deregulation and the liberalization of markets (labour, goods and capital)[32]. Thus, since the 1970s and 1980s, the process of monetary integration in Europe has followed a neoliberal agenda, and the often declared intention to preserve the key elements of the 'European social model' has been systematically disregarded, with the progressive narrowing of welfare, the increase in inequalities and the phenomena of polarisation. In other words, the EMU was, from the outset, an institutional construction with problems of *embeddedness*, uprooted from the specific socio-economic and institutional contexts of the member countries and indifferent to the differences in their levels of development, which were at the origin of a differing capacity to respond to change. Contradicting the constitutive purpose of the European project – to promote communion between peoples and convergence and harmonization between economies – the process of economic and monetary integration has resulted in a growing divergence between the centre and the periphery and a growing acrimony between peoples. The core (centred around Germany) has increased its productive, technological and growth capacity. Above all, two peripheries – the Southern and the Central Eastern ones, with the Visegrád group economies playing a prominent role – show different fragilities, which result, however, in an equal condition of economic and financial dependence on the centre. Navigating by sight with only the compass of the market, the Southern European periphery is experiencing a restriction of its manufacturing production capacity and a development model driven by low-tech sectors, populated by small enterprises that are struggling in a context of product competition within the EU and cost competition on globalised international markets. The structural weakening of the Southern European periphery results in stagnating economic dynamics. As reported in section four, the increase in the number of low-wage and poorly protected workers is contributing to the stagnation of domestic demand. Fiscal rules have imposed restraint on public spending and led to a deflationary environment that discourages investment. Low growth reduces revenues and increases government borrowing and financing needs, triggering a vicious circle that further worsens the relative position of the Southern European periphery. In the meantime, competition in the common market from companies in the other periphery, the Eastern European periphery (especially V4), has been increasing over time and they play a predominant role as suppliers of intermediate goods for German industry. Between the end of the 1990s and the beginning of 2000, the Eastern European periphery became a key component in Germany's manufacturing matrix, hosting subsidiaries (and supply chains) belonging to the main German multinationals, mainly operating in the automotive sector, and becoming a vital source for the supply of intermediate goods (of medium and medium-high quality). Low labour costs, a well-qualified workforce, generous subsidies and tax breaks, as well as geographical proximity and historical ties, are among the determining factors in the enormous flow of foreign direct investment, especially from Germany. While this has led to rapid growth of manufacturing capacity in the East, it may also have contributed to the 'displacement' of Southern European supplier companies, further weakening their manufacturing base[33]. The weakening process of the Southern European periphery is closely linked to the type of development of the Eastern European periphery. However, the development driven by the production decisions of the large German multinationals (in particular the car industry, followed, to a lesser extent, by the other European, American and Asian car manufacturers) has also made the Eastern European periphery fragile and highly dependent on the centre. The industrial trajectory of the East is one of *mono-specialisation*, with the automotive sector taking the lion's share. Around the latter, however, there has not yet been an equal development of other productive sectors. Policies to curb wage growth, despite a growing shortage of skilled labour, drive young people with high educational qualifications to emigrate, weakening the country's skills base[34]. The domestic market remains limited, so that the high growth rates recorded by these countries are due to the growth of exports of local production by foreign multinationals (the reference is to 'integrated peripheral markets')[35]. Moreover, their strong specialisation in the car industry makes them dependent on the health of the German car industry. Foreign control of production decisions, innovation processes and outlet markets make it extremely difficult to undertake a path of autonomous development, less unbalanced and able to guarantee greater and equally distributed economic (and employment) opportunities. The pandemic crisis has unequivocally demonstrated the fragility of the dependent model of both European peripheries. The crisis caused by the SARS-CoV-2 virus is not the first to reveal the unsustainability of the Union's growth model and the institutions that regulate it. The financial crisis of 2008 showed how Europe is the place where global crises mutate into regional crises and become existential threats to the whole project of European integration. In the institutional context of the Eurozone, the financial crisis soon turned into a sovereign debt crisis, which dragged the banks down with it. The solution proposed (and imposed) was austerity, but this has not proved *expansive* at all. Above all, public investments and social spending in the Southern European periphery were cut. After the crisis of 2008, the gap in public spending on education and health between Germany and the countries of the Southern European periphery widened dramatically: in the decade from 2008-2018, it collapsed or stagnated in Southern European countries, while it increased in Germany[36]. This shrinking of public health spending resulting from austerity policies severely burdened Southern European countries when the pandemic crisis arose. Indeed, the first European destination for the SARS-CoV-2 virus was the Southern European periphery and, in particular, Italy. The heavy (and immediate) health and economic effects of the virus highlight the fragility of the periphery. While the fundamental importance of public health is becoming clear to all, the effects of austerity and cuts that have affected all expenditure categories since 2010 (including health), have emerged in their brutal specificity. Many hospitals have been closed, beds reduced, and medical and nursing staff cut back. The comparison with Germany, where, as mentioned above, per capita health spending was not hampered by fiscal constraints, may help to explain the different capacities to respond to the crisis. The consequences associated with the weakening of production capacity in the Southern European periphery and the international relocation of production – which, in pursuing the logic of lowest cost, has made production based on very long global value chains extremely vulnerable – are also becoming evident. Personal protective equipment, respirators, medicines: the emergency makes it clear what it means to lose the ability to produce, both in terms of quantity and quality, what is needed urgently. The obsession with competitiveness and the promotion of the export-led growth model have been a constant feature of the European integration process in recent decades. In the rhetoric behind the process of Europeanization, the emphasis on 'tradable' sectors and the lesser importance attached to 'non-tradable' sectors (housing, health, education) have favoured, in the long run, a context where the gap between central and peripheral countries has widened and the dynamics of polarisation and impoverishment within countries (both central and peripheral) have become more radical. If the 2008 crisis had already highlighted the unsustainability of this model and the need for a change of direction, the crisis caused by the Covid-19 emergency is making European countries face even more radical choices. Even Germany's powerful manufacturing platform, so disproportionately export-oriented and, therefore, so dependent on imports of intermediate goods, turns out to be vulnerable to a type of shock (the SARS-CoV-2 virus) that renders global value chains fragile[37]. In this situation, European countries should seriously move beyond the export-led model pursued so far. With the recent 'Next Generation EU' (NGEU) plan, the EU countries have, for the first time, decided to take on common debt. Although celebrated as a 'Hamiltonian moment', it remains to be seen how the plan will perform in practice and whether it will actually prove to be a precursor of a common fiscal capacity at EU level or, once the pandemic has passed, whether it will not reintroduce the usual conditionalities. The main instrument for its implementation at the national level, the Recovery and Resilience Facility (RRF) plan would have, on paper, the potential to act as a driving force for the expansion of the internal market, especially if the guidelines (the three strategic axes), emphatically suggested by the EU – digitalisation, ecological transition and social inclusion – were to materialise. In any case, four elements are crucial: expansion of the German and European domestic market, balancing of production capacity within the EU, partial industrial reconversion towards sectors aimed at satisfying social needs (such as education, health and care) and shortening of value chains. Although the shift from an industrial platform designed for export to one for the domestic market is a formidable challenge[38], this transformation would be beneficial to Germany itself, considering the narrowing margins of trade with the United States and China and the fragility of the value chains mentioned above[39]. This is perhaps a utopia. However, it would be interesting to rediscover and experiment, in the case of Europe, with state-led globalisation (as conceived by Myrdal, 1960), in which productive complementarities between countries are enhanced without damaging the achievements of the welfare state. In the case of SARS-CoV-2, such an approach would resolve the 'trade-off between human health and market shares'.

APPENDIX

Table 1.A1 Classification of industries

SITC	**Heavy Basic**
0	Food and live animals
1	Beverages and tobacco
21	Hides, skins and fur skins, raw
22	Oilseeds and oleaginous fruits
23	Crude rubber (including synthetic and reclaimed)
25	Pulp and waste paper
27	Crude fertilisers, other than those of Division 56, and crude minerals (excluding coal, petroleum and precious stones)
28	Metalliferous ores and metal scrap
29	Crude animal and vegetable materials, n.e.s.
32	Coal, coke and briquettes
33	Petroleum, petroleum products and related materials
34	Gas, natural and manufactured
35	Electric current
4	Animal and vegetable oils, fats and waxes
64	Paper, paperboard and articles of paper pulp, of paper or of paperboard
66	Non-metallic mineral manufactures, n.e.s.
67	Iron and steel
68	Non-ferrous metals
	Heavy Complex
51	Organic chemicals
52	Inorganic chemicals
53	Dyeing, tanning and colouring materials
55	Oils and perfume materials; toilet and cleansing preparations
56	Fertilisers, manufactured
57	Explosives and pyrotechnic products
58	Artificial resins and plastic materials, and cellulose esters, etc
59	Chemical materials and products, n.e.s.
71	Power generating machinery and equipment
73	Metalworking machinery
74	General industrial machinery and equipment, n.e.s., and parts of, n.e.s.
78	Road vehicles
79	Other transport equipment
	Light Basic
24	Cork and wood
26	Textile fibres (other than wool tops and other combed wool) and their wastes (not manufactured into yarn or fabric)
61	Leather, leather manufactures, n.e.s., and dressed furskins
63	Cork and wood manufactures (excluding furniture)
65	Textile yarn, fabrics, made-up articles, n.e.s., and related products
81	Prefabricated buildings; sanitary, plumbing, heating and lighting fixtures and fittings, n.e.s.

82	Furniture and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings
83	Travel goods, handbags and similar containers
84	Articles of apparel and clothing accessories
85	Footwear
89	Miscellaneous manufactured articles, n.e.s.
	Light Complex
54	Medicinal and pharmaceutical products
72	Machinery specialised for particular industries
75	Office machines and automatic data-processing machines
76	Telecommunications and sound-recording and reproducing apparatus and equipment
77	Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof (including non-electrical counterparts, n.e.s., of electrical household-type equipment)
87	Professional, scientific and controlling instruments and apparatus, n.e.s.
88	Photographic apparatus, equipment and supplies and optical goods, n.e.s.; watches and clocks

Table 1.A2 Top 5 trade partners of Cyprus in exports and imports, *% of total exports, imports (1995-2018)*

Exports	**1995**	**2000**	**2005**	**2010**	**2015**	**2018**
1	UK/15.5	UK/17.0	UK/16.3	Greece/21.4	Egypt/9.7	Cayman/13.9
2	Russia/11.8	Germany/13.5	Greece/15.8	Germany/9.5	Greece/8.2	Greece/8.6
3	Bulgaria/7.9	Greece/7.2	Germany/9.3	Egypt/9.1	Israel/6.0	Libya/8.4
4	Germany/6.3	Syria/5.7	Netherlands/5.0	Italy/6.4	UK/5.0	UK/3.5
5	Greece/5.3	Russia/4.5	Belgium/3.4	UK/4.7	Cayman/4.4	Egypt/3.4

Imports	**1995**	**2000**	**2005**	**2010**	**2015**	**2018**
1	Germany/11.9	Russia/18.6	Russia/18.5	Greece/12.6	Greece/17.5	Greece/13.6
2	UK/10.9	Greece/8.4	Germany/10.1	China/9.6	Germany/6.9	S. Korea/9.2
3	Italy/8.7	UK/8.3	Greece/7.8	Russia/7.7	China/6.5	Turkey/8.1
4	Greece/7.3	Italy/6.5	Italy/7.6	Italy/7.3	UK/6.3	Italy/7.1
5	Japan/6.4	Germany/5.6	S. Korea/7.5	Turkey/7.0	Italy/6.2	Germany/5.0

Source: The Atlas of Economic Complexity

Table 1.A3 Top 5 trade partners of Greece in exports and imports, *% of total exports, imports (1995-2018)*

Exports	**1995**	**2000**	**2005**	**2010**	**2015**	**2018**
1	Germany/20.8	Germany/12.8	Germany/12.6	Germany/9.7	Italy/10.3	Italy/9.3
2	Italy/14.0	Italy/10.8	Italy/11.0	Italy/9.3	Germany/7.4	Germany/6.5
3	UK/5.8	UK/6.3	UK/6.7	Cyprus/6.5	Turkey/6.8	Turkey/6.1
4	France/5.7	USA/5.4	Bulgaria/5.7	Turkey/6.0	Cyprus/5.7	Cyprus/5.6
5	Bulgaria/4.2	Turkey/4.5	Cyprus/5.3	Bulgaria/5.5	Bulgaria/5.1	Lebanon/4.7

Imports	**1995**	**2000**	**2005**	**2010**	**2015**	**2018**
1	Italy/17.3	Italy/15.4	Germany/14.4	Germany/12.4	Germany/11.0	Germany/10.6
2	Germany/15.0	Germany/13.1	Italy/13.6	Italy/11.4	Italy/8.7	China/9.2
3	France/8.4	France/7.3	France/7.0	Russia/8.2	China/7.4	Italy/8.4
4	UK/6.3	UK/6.0	Russia/6.2	China/6.2	Russia/6.7	Iraq/7.6
5	Netherlands/6.3	Netherlands/5.4	Netherlands/5.1	France/5.5	Iraq/6.6	Russia/6.6

Source: The Atlas of Economic Complexity

Table 1.A4 Top 5 trade partners of Italy in exports and imports, *% of total exports, imports (1995-2018)*

Exports	1995	2000	2005	2010	2015	2018
1	Germany/18.8	Germany/15.1	Germany/13.1	Germany/12.9	Germany/12.3	Germany/12.5
2	France/13.0	France/12.6	France/12.2	France/11.6	France/10.3	France/10.5
3	USA/7.3	USA/10.2	USA/7.9	USA/6.0	USA/8.7	USA/9.1
4	UK/6.2	UK/6.9	Spain/7.4	Spain/5.7	UK/5.4	Spain/5.2
5	Spain/4.9	Spain/6.2	UK/6.5	UK/5.2	Spain/4.8	UK/5.1

Imports	1995	2000	2005	2010	2015	2018
1	Germany/21.0	Germany/18.3	Germany/17.8	Germany/16.5	Germany/16.0	Germany/17.0
2	France/14.5	France/11.7	France/10.7	France/8.8	France/8.9	France/8.8
3	UK/6.0	UK/5.8	Netherlands/5.4	China/6.5	China/6.3	China/6.1
4	Netherlands/4.7	Netherlands/5.2	Belgium/4.6	Netherlands/5.6	Netherlands/5.5	Spain/5.5
5	USA/4.7	USA/4.7	Spain/4.3	Spain/4.6	Spain/5.2	Netherlands/5.3

Source: The Atlas of Economic Complexity

Table 1.A5 Top 5 trade partners of Malta in exports and imports, *% of total exports, imports (1995-2018)*

Exports	1995	2000	2005	2010	2015	2018
1	Italy/30.7	USA/20.6	France/11.2	Egypt/15.4	Egypt/16.6	Germany/8.7
2	Germany/13.5	Singapore/15.9	Singapore/9.2	France/7.3	China/6.4	France/7.1
3	France/9.7	Germany/10.4	UK/9.1	China/6.9	Germany/6.4	Italy/6.3
4	USA/7.3	France/7.8	USA/8.8	Germany/5.9	Italy/5.8	Singapore/6.2
5	Singapore/7.1	UK/7.4	Germany/8.5	Italy/5.1	UK/4.6	China/5.3

Imports	1995	2000	2005	2010	2015	2018
1	Italy/33.8	Italy/16.1	Italy/14.9	China/13.5	Russia/13.4	Russia/24.4
2	UK/11.1	Singapore/14.2	France/10.7	S Korea/12.1	China/12.8	Italy/11.1
3	Germany/7.2	France/13.4	UK/7.7	Italy/10.9	S. Korea/11.8	Singapore/8.8
4	France/6.6	USA/7.2	S. Korea/7.5	Russia/9.4	Italy/9.5	China/7.5
5	Singapore/6.4	UK/7.0	Germany/7.0	India/7.3	Singapore/4.6	S. Korea/5.0

Source: The Atlas of Economic Complexity

Table 1.A6 Top 5 trade partners of Portugal in exports and imports, *% of total exports, imports (1995-2018)*

Exports	1995	2000	2005	2010	2015	2018
1	Germany/21.7	Germany/19.8	Spain/26.3	Spain/25.3	Spain/23.2	Spain/21.5
2	Spain/15.1	Spain/18.1	France/12.9	Germany/12.6	France/12.0	France/13.0
3	France/14.1	France/12.3	Germany/12.5	France/12.0	Germany/11.8	Germany/12.2
4	UK/10.7	UK/11.0	UK/8.5	UK/5.6	UK/6.8	UK/6.4
5	Netherlands/5.2	Belgium/5.9	USA/5.3	Angola/5.3	USA/5.2	USA/4.8

Imports	1995	2000	2005	2010	2015	2018
1	Spain/22.8	Spain/26.6	Spain/29.6	Spain/29.6	Spain/31.0	Spain/29.2
2	Germany/14.1	Germany/14.5	Germany/14.5	Germany/13.9	Germany/13.0	Germany/13.9
3	France/12.0	France/10.8	France/9.2	France/7.4	France/7.3	France/7.4
4	Italy/9.8	Italy/8.3	Italy/6.6	Italy/6.1	Italy/5.8	Italy/5.8
5	UK/6.6	UK/6.5	UK/4.0	Netherlands/5.0	China/4.2	Netherlands/4.9

Source: The Atlas of Economic Complexity

Table 1.A7 Top 5 trade partners of Spain in exports and imports, *% of total exports, imports (1995-2018)*

Exports	**1995**	**2000**	**2005**	**2010**	**2015**	**2018**
1	France/20.5	France/19.4	France/19.1	France/18.1	France/15.4	France/15.4
2	Germany/15.4	Germany/12.4	Germany/11.4	Germany/10.5	Germany/10.8	Germany/11.0
3	Italy/9.1	Portugal/9.4	Portugal/9.6	Portugal/9.0	Italy/7.4	Italy/8.1
4	Portugal/8.3	Italy/8.8	UK/8.4	Italy/8.8	UK/7.3	Portugal/7.6
5	UK/8.0	UK/8.3	Italy/8.3	UK/6.2	Portugal/7.2	UK/6.8

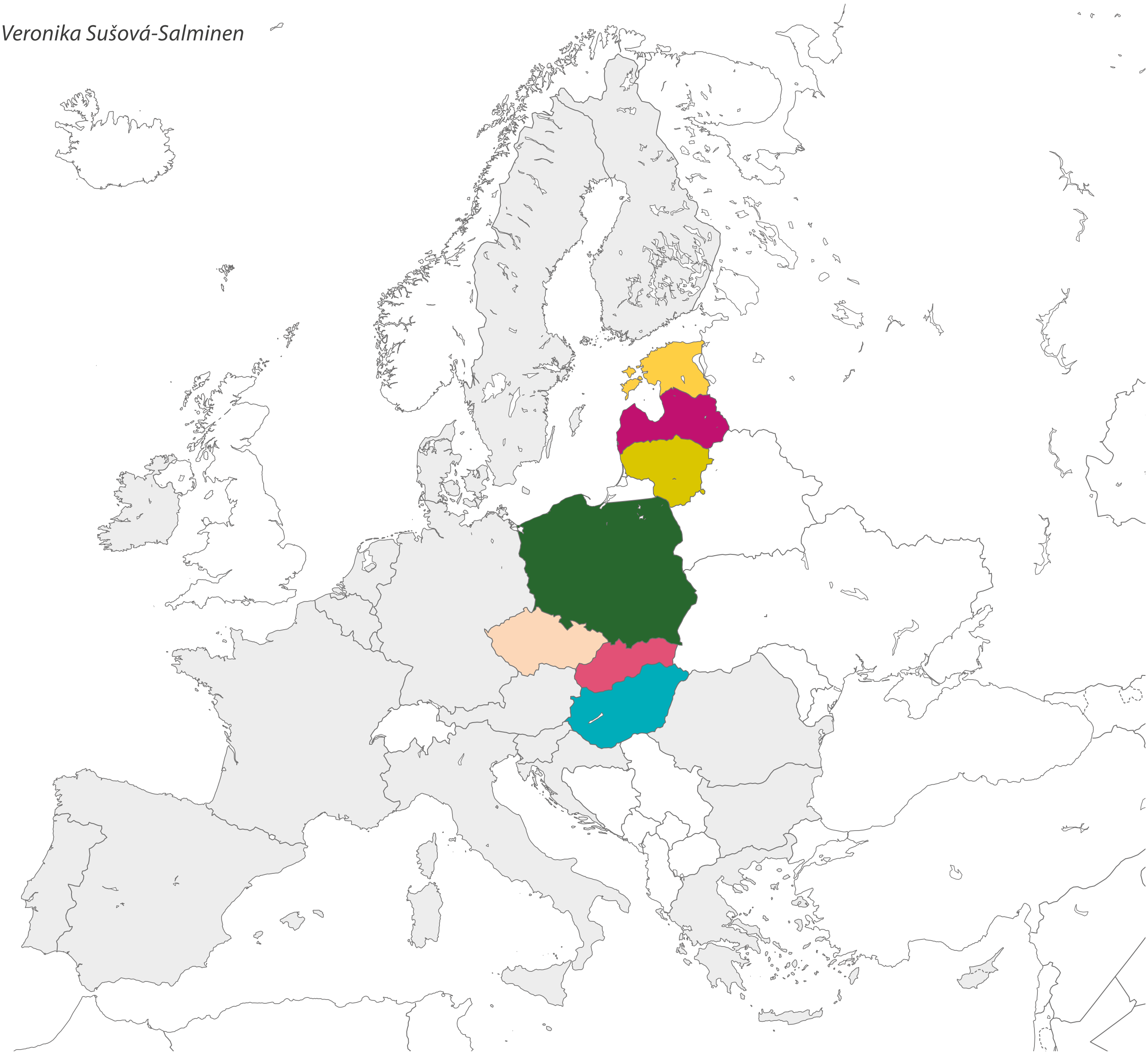
Imports	**1995**	**2000**	**2005**	**2010**	**2015**	**2018**
1	France/18.6	France/18.4	Germany/17.0	Germany/14.5	Germany/14.7	Germany/14.3
2	Germany/16.2	Germany/16.1	France/15.3	France/12.1	France/12.1	France/12.0
3	Italy/10.2	Italy/9.6	Italy/9.5	Italy/8.2	Italy/7.5	Italy/7.8
4	UK/8.0	UK/8.2	UK/6.5	Netherlands/4.8	China/7.3	China/6.9
5	USA/5.1	USA/4.1	Netherlands/4.3	UK/4.7	UK/4.6	Netherlands/4.2

Source: The Atlas of Economic Complexity

Chapter 2 – Central Eastern Europe – CEE

Czech Republic, Hungary, Slovakia, Poland, Estonia, Latvia, Lithuania

Veronika Sušová-Salminen



2.1 INTRODUCTION

Central Eastern Europe (or the Visegrád Four/Group and the Baltics) is often perceived as a coherent region despite many differences. In this study, we follow the established classification while trying to point out the essential differences. Central Eastern Europe (or CEE) consists of seven different countries. The biggest in population and size of the economy is Poland, which is also the most important country on the Eastern wing of the EU. The Czech Republic is the second biggest country, Hungary is slightly smaller, and Slovakia is the smallest country within the Visegrád Four (V4) Group, when taking population and size of the economy as criteria. All four countries are often seen as constituting parts of Central Europe (rather than Central Eastern Europe), together with southern Germany and Austria.

Today, three Baltic states represent the smallest Member States of the EU. They are also considerably smaller than the V4 Group and are located on the shores of the Baltic Sea and tend to share interests and cultural influences with the Nordic countries. In terms of population and size, Lithuania is the biggest Baltic state, situated between Poland, Belarus and Russia. On the other hand, Estonia is the smallest state in terms of population size, while its economy's size is more significant than Latvia (which is more populous). In this case, too, there exists an alternative regional classification. The Baltic states are seen as the Baltic part of Northern Europe.

The group of these seven states became EU members in 2004 after over a decade of accession, thus being early achievers if we consider the larger post-socialist region. Their economic, social and political developments cannot be adequately understood nor conceptualised without understanding the historical context. The V4 and Baltics share a common exit history from Soviet dominance in (Eastern) Europe. Lithuania, Latvia and Estonia renewed their independence after the dissolution of the Soviet Union in 1991. All three countries were, historically speaking, Soviet republics. The Visegrád Group states were never part of the Soviet Union but were, as independent states, a composite part of the Eastern bloc or Soviet external 'empire' after 1945/1948. Therefore, the Visegrád countries share post-socialist (command economy) legacies with the Baltic states but cannot be seen as post-Soviet.

In civilizational terms, the Central Eastern European region is often constructed and perceived as the Eastern edge or periphery of the West because it is historically dominated by Western Christianity (both Roman Catholicism and Protestantism) with 'border' influences of Eastern Christianity (Orthodox). In economic terms, the economies of Central Eastern Europe have been integrated into the modern world system since the 16th century as agricultural peripheries (Wallerstein, 2011/1974; Bideleux & Jeffries, 2007/1998.) and their economic peripherality was a continuous feature of regional development. As agrarian peripheries, they were industrialised relatively late (with exceptions such as Bohemia), often through foreign capital. In political terms, we can conceptualise this region as post-imperial as well as post-colonial. The modern statehood of Czechoslovakia (the predecessor state of Czech Republic and Slovakia), Poland, Estonia, Lithuania and Latvia was a product of post-First World War developments that enabled the decolonisation of these nations – their emancipation from the political framework of three continental supranational (universalist) empire states (Russia, the Habsburg monarchy/Austria-Hungary, and Germany). Only Hungary can be seen as a post-imperial nation state, built from the ruins of the Hungarian multi-national empire (Austria-Hungary). It was this decolonial process at the beginning of the 20th century that 'inspired' neoliberal 'revolt' against its consequences (nationalisation and agrarian reforms), as Quentin Slobodian has argued (Slobodian, 2018).

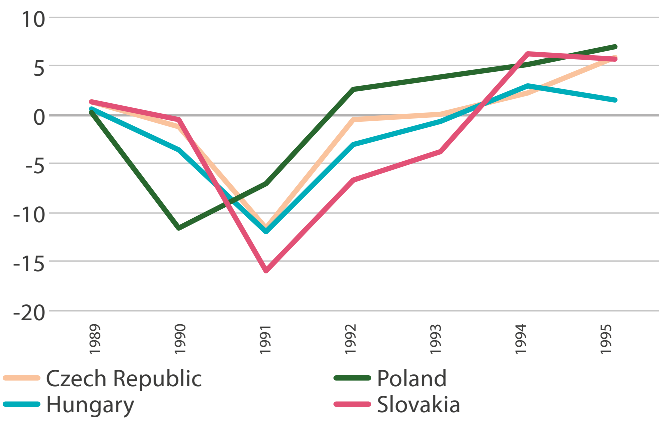
The years from 1945-48 (the building of Soviet hegemony in Central and Eastern Europe) and then 1989 might be considered a subsequent continuation of discontinuous regional history with specific local nuances. On the one hand, there was a process that we can call 're-imperialization' (Motyl, 2004). On the other hand, it was followed by decolonisation in 1989. The rise of the socialist state systems had complex roots: it can be seen as a geopolitical process (Yalta),but we should not forget the emancipatory drive existing in these peripheral societies, which wanted to 'break the chains' of their peripheral position. As Ivan Berend suggests, the year 1989 and afterwards can be seen as a detour from periphery to periphery (Berend, 1999).

Central Eastern Europe exited Soviet dominance suddenly and quite radically, especially when compared to other countries in the broader post-socialist/post-soviet region. These states represented the most advanced part of the Soviet bloc with high levels of industrialisation and urbanisation. They were often involved in fulfilling technologically based roles in the division of labour in the Soviet-led CMEA. Also, the Soviet republics of Estonia, Latvia and Lithuania were the most prosperous in the Soviet Union. In addition, Czechoslovakia (more precisely the Czech part of the federation) belonged to the most industrialised regions of Austria-Hungary. This industrial tradition continued and further expanded under the socialist regime. Industrialisation was seen as a modernisation tool in the 'Second world' in remarkably similar ways as in the 'Third world'. Therefore, the new reintegration of Central Eastern Europe into the European and global economy was not based on 'greenfield'. Instead, it has often re-moulded local traditions or, more accurately, it was based on the important degree of *path dependence*. The 'post-communist transformation' was a set of processes with very mixed results that often did not meet politicians' promises and citizens' expectations. Also, it is a composite part of the process of accession to the European Union (and thus also the process of 'Europeanisation'). Therefore, it is not possible to separate the post-communist transformation and EU integration, since these are two bounded processes.

Post-socialist (or, alternatively, 'post-communist') transformation was primarily based on the principles of the Washington Consensus (Švihlíková, 2022), which embodied the new economic orthodoxy of the early 1990s, which broke up with Keynesianism. As Berend and Bugaric note, this set of economic principles was initially developed in Western institutions, such as the International Monetary Fund (IMF), World Bank and US Treasury, to tackle the economic crisis in Latin America in the 1980s (Berend & Bugaric, 2015:771). After 1989, the same Western institutions took it as fit for different contexts of post-socialist Europe. And this was no coincidence. As Bohle and Neunhöffer explain, in the case of Poland, 'a third way' (market socialism) could not have been developed in the region taking into account the role of neoliberal networks and thinktanks at the end of the 1980s and the early 1990s (Bohle & Neunhöffer, 2006). The soil for neoliberal transformation was prepared before 1989. Indeed, besides Latin America, the post-socialist world became the leading laboratory for differently radical and domesticated orthodoxies of the neo-classical economic school (often shortened to 'neoliberalism') (Bohle & Greskovits, 2012). It is also the region where neoliberal orthodoxy remained surprisingly resilient after the global financial crisis in 2008 (Madariaga, 2020). Concerning the Washington Consensus and transformative development after 1989, most analysts accentuate the combination of four interrelated policies – stabilisation, liberalisation, institution-building and privatisation – as the backbone of transformation (see, for example, Csaba, 2020). These policies were, however, wrapped in a rapid internationalisation process.

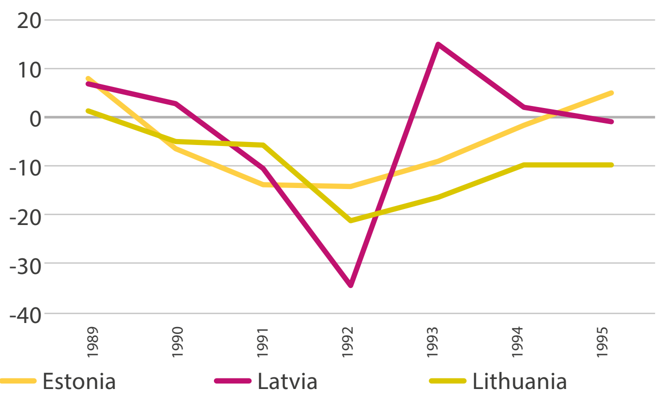
The leitmotif of the developments after 1989 can be identified as the convergence with Western Europe (often romantically labelled as a 'return to Europe', suggesting that the socialist story was 'non-European', or that the region is less European by itself). Convergence should be achieved quickly, by radical or gradual processes depending on the various countries and their differing contexts. The main instrument of convergence in economic policy became the model of open export-oriented economy, internationalisation and reliance on FDI. However, the early optimism about rapid convergence was proven wrong. Instead, the entire post-socialist region sank into unprecedented 'transformational recession' (Kornai, 1994), which took away between 20% to 50% of economic output (GDP), figures only comparable to the economic consequences of WWII (Csába, 2020: 413). The loss of economic output went hand in hand with rocketing unemployment in Central and Eastern Europe – a phenomenon unknown in the socialist regimes, which provided virtually the entire working population with a job (of some kind). The V4 countries and the Baltics were luckier and experienced small, or smaller losses (just reaching a maximum of 20%; in the case of the Baltic states there was a sharper decline) of economic output (see Figures 2.1 and 2.2). However, their starting position in the first half of the 1990s was impacted by this unprecedentedly deep economic recession experienced in different ways by each individual country. In fact, and this needs to be heavily emphasised, the region spent the following decade returning to socialist economic output, before it could start to even converge with the EU (Berend & Bugaric, 2015, Csaba, 2020).

Figure 2.1 Transformational recession in the Czech Republic, Hungary, Poland and Slovakia, *as a percentage of GDP change in real terms (1989-1995)*



Source: Myant-Drahokoupil, 2011: 334.

Figure 2.2 Transformational recession in Estonia, Latvia and Lithuania, *as a percentage of GDP change in real terms (1989-1995)*



Source: Myant-Drahokoupil 2011: 334

There were various reasons for the recession. One such reason was the fatally incorrect choice of 'shock therapy', according to imported recipes of neoliberal economists. In 1989, *a systemic collapse* occurred, which, in economic terms, meant the collapse of the entire macroeconomic coordination mechanism of the command economy (Csaba, 2020). The 'post-socialist transformation' was not just a political regime change, as could be observed in Southern Europe or Latin America (known as the 'third wave of democratisation') in the 1970s and 1980s; it was a systemic change, largely founded on a belief in *social engineering*, i.e., that capitalism can be reinstalled by democratic design (Offe, 1991). However, soon enough, this project turned into a crisis management with unexpected consequences for the economy and the quality of democracy. So, as for the systemic change, the transformation processes involved, simultaneously, not just the economy but also society and politics (and culture), causing a series of dramatic changes with no less dramatic and long-term ramifications (many of them, indeed, 'unintended'). To mention one type of change as an illustration: privatisations covered 50%-80% of the national wealth in the post-socialist context, which is again an unprecedent level of wealth redistribution in global comparison (Csaba, 2020: 419).

As in any situation involving huge systemic changes, the transformation brought positive and negative changes and legacies that still influence the economy and politics of the region. The question of convergence and divergence remains on the table after thirty years. The paradox of the historical development of the last eighty years is imminent in Berend's metaphor of a detour from the periphery to the periphery in the European context. This detour or, better said, *return* from one peripheral status to another peripheral status was, perhaps, unconscious but very real even when rarely reflected in the local contexts. Historian Quentin Slobodian, in his brilliant analysis of neoliberal thinking, reminds us that, actually, nothing this unexpected has happened since: "*Integration is not the creating of something new but the restoration of something lost"* (Slobodian, 2018: 272).

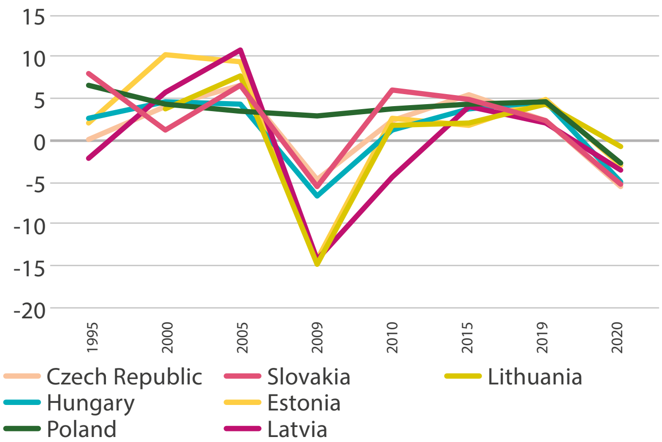
Central Eastern Europe accessed the European Union in 2004. This year is often seen as the end of the transformation period. Considered as an achiever, the region is often presented as a model to be followed by others (for example, Ukraine). The integration of Central Eastern Europe in the global economy and in the European Union was an ambivalent, conflictful, and contradictory process that needs to be carefully evaluated. In this study, we focus on selected aspects of this development, before and after 2004, to grasp the most critical socio-economic criteria that can help us understand the region's economic landscape.

2.2 STRUCTURE OF THE ECONOMY

After the end of the transformational recession in the early 1990s, Central Eastern Europe experienced relatively higher levels of GDP growth typical for (post-recession) emerging economies. The higher levels of growth are usually explained by the fact that these economies are in the process of 'catching up' with 'advanced' economies. The region accessed the EU with a high level of GDP growth, especially in comparison with Western Europe. Nevertheless, the great financial crisis (GFC) of 2008 had very visible negative impacts for the majority of these states. The most affected were the three Baltic states, which experienced economic decline of circa 14 per cent in 2009 (this was the year when the global financial crisis really hit the region with full force). These were levels unseen in the EU – with the exception of Greece – and somewhat comparable with the transformational recession of the early 1990s. On the other hand, V4 countries were impacted less severely by the global crisis (close to EU average levels), while Poland was the only country in the region able to keep economic growth at modest levels even at the peak of the global financial crisis. The economic recovery in the region was slow, with the exception of Slovakia. Therefore, the recovery questioned the post-crisis sustainability of these countries' largely export-oriented, open and neoliberally flexible economic models. Figure 2.3 shows the general trend of GDP growth in annual per cent change since 1995. The year 2009 was added to show the discontinuity that the global financial crisis represented for these regional economies. It is possible see that the region has not returned to the same levels of growth after 2010. The GFC hit Baltic economies especially hard, in particular Latvia.

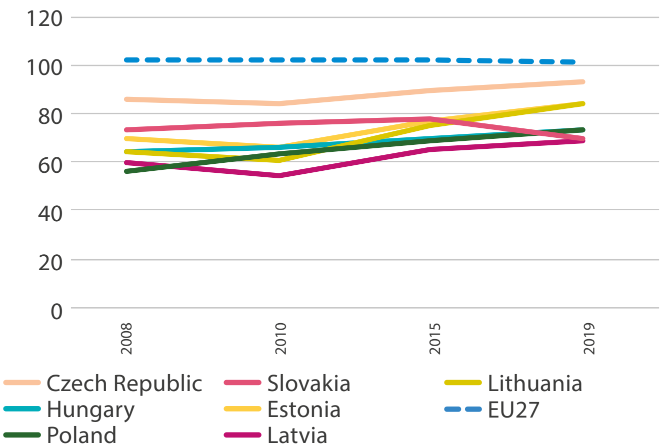
How does the size of GDP 'translate' into the living standards of Central Eastern Europeans, or how is the region converging with the living standards of the EU? The EU index of purchasing power standard determines the European Union's average as 100 (in 2020). In comparison with the EU average, we can sum up that, despite an increasing/converging trend, all V4 and Baltic countries lag behind the EU average in the period after 2008 (for which data is available). The closest country in the V4 region to the EU average is Czech Republic, while the country furthest from the EU average is Latvia. Slovakia began to diverge after 2015. Convergence to the EU average has not been yet achieved by any country in the region despite relative dynamic growth, which only confirmed the thesis about sluggish, if not impossible, convergence of the periphery under the current conditions.

Figure 2.3 Real GDP growth, *annual percentage change (1995-2020)*



Source: IMF (2021), for the Czech Republic in 1995 data from Czech Statistical Office

Figure 2.4 GDP per capita in PPS, *EU27_2020 = 100 (2008-2019)*



Source: Eurostat (2021)

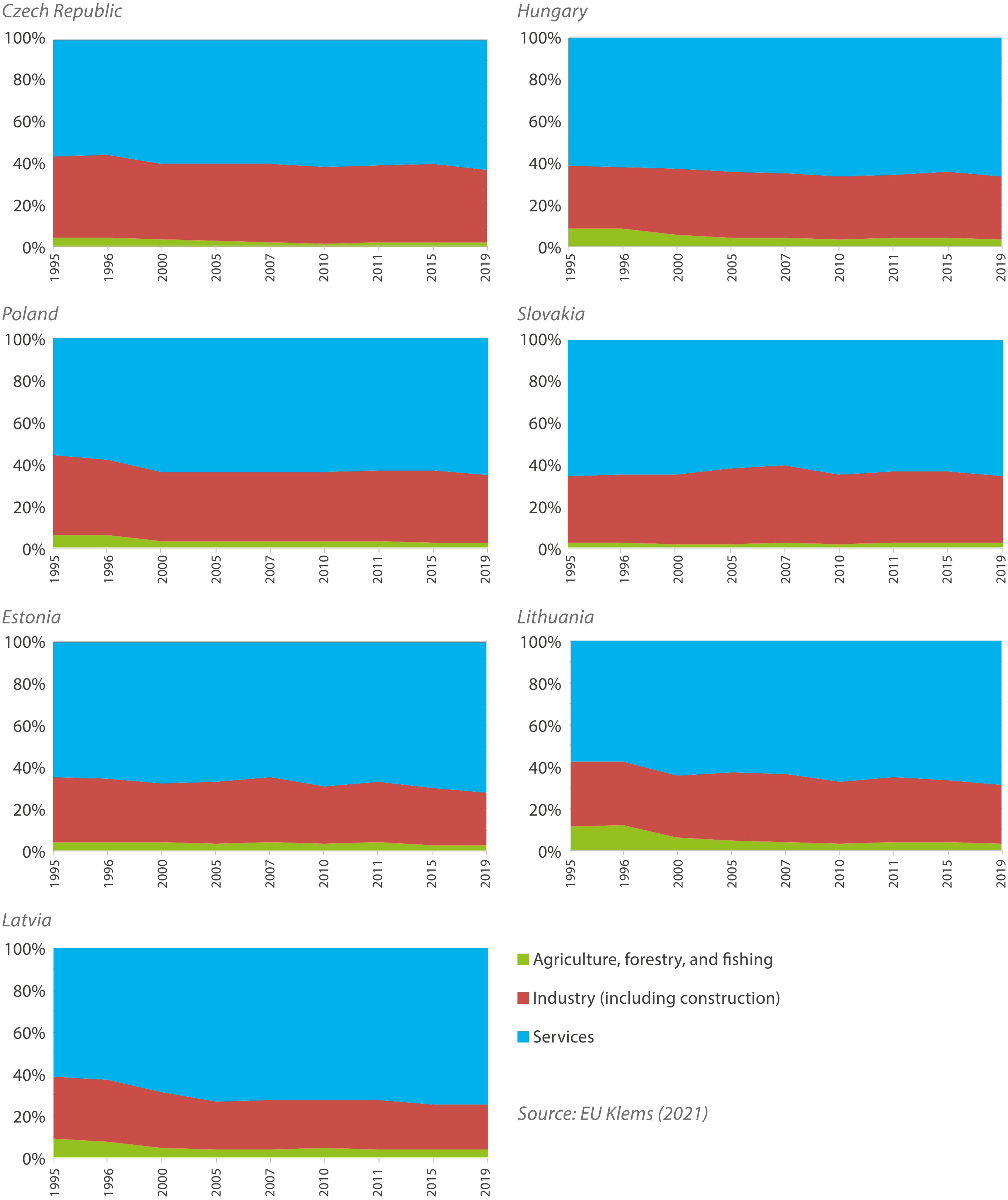
To better understand the structure of the region's economy we shall focus now on gross value added in percentage of GDP from the perspective of different sectors of the economy. We can see total net addition to a country's stock of wealth created by production in different sectors of the economy during the period from 1995 to 2015 (available data). The composition of gross value added (GVA) shows the different economic importance of sectors for local economies. Figure 2.5, page 78 shows the composition of GVA between 1995-2015 with clear trends: the declining importance of agriculture (except in Estonia and Slovakia), different levels of reindustrialisation and deindustrialization in the region, and quite expressive changes in the service sector (with clear expansion in Estonia, Latvia and Lithuania). There is a clear intra-regional border between the Visegrád Group and the Baltic states in the industry sector and services, and visible impacts of the GFC too. Complementary to this, Figure 2.6 shows the development of gross value added as a % of total gross value added between 1995-2020.

2.3 DEBT, TAXATION AND FDI

One distinguishing feature of the V4 region and the Baltics in the larger EU context was, and still is, the relatively stringent fiscal policy which translated into relatively lower levels of public debt. This policy can be explained predominantly by strong fidelity to the rules of the Washington Consensus, an unfortunate 'cradle' for economic models of these countries after 1989, and by the European framework. Neoliberalism in Central Eastern Europe demonstrated considerable resilience after the experience of the global financial crisis (Madariaga, 2020). In fact, many countries in the region were increasing their indebtedness; however, their public debts were much lower when compared to the economies of both Southern Europe and also core economies such as France, Belgium, Austria, Germany or Finland and the Netherlands. The low level of public debts is not just an expression of the region's neoliberal identity (and often associated with eurozone accession rules and with a less 'favourable' position in the ratings of private agencies) but also tells a story about the public sector and its quality, i.e., they are part of a diverse regional story of neoliberal reconfiguration of the public sector.

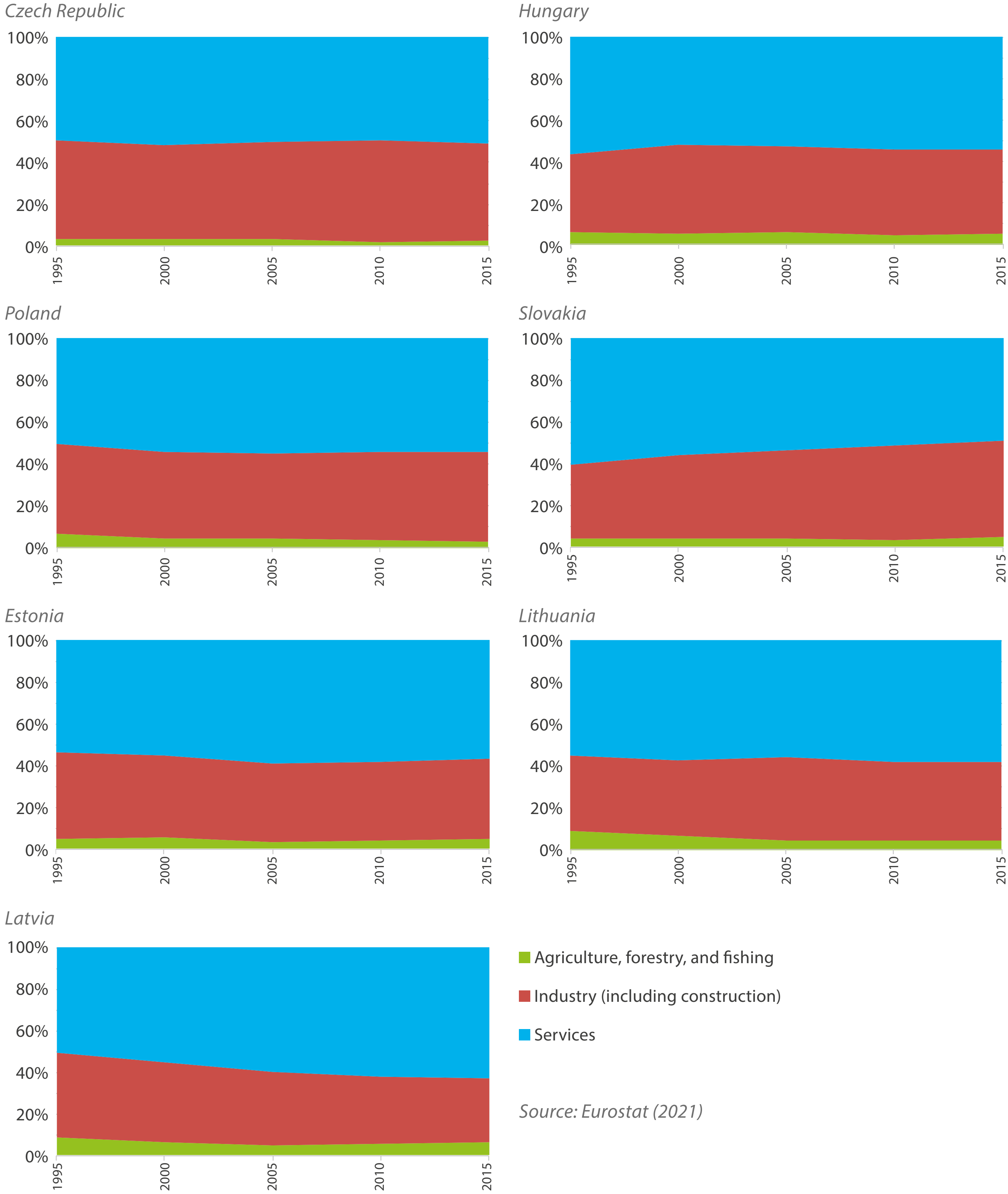
With the exception of Hungary and Poland (both countries had high external debts in the 1980s), all countries in the V4 and Baltic region had extremely low public debts in the middle of the 1990s. The fiscal impacts of the global financial crisis in 2008/9 are quite visible if one compares the figures from 2005 (one year after EU accession) and 2010, (as shown in Figure 2.7).

Figure 2.5 Gross Value Added *as a % of GDP by sector (1995-2019)*



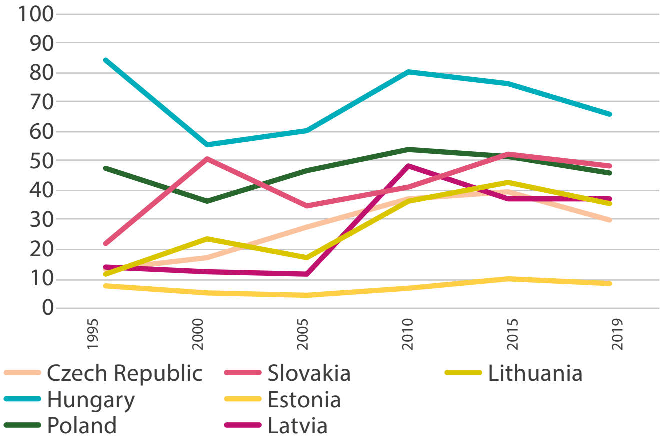
Source: EU Klems (2021)

Figure 2.6 Gross value added by sector *as a % of total value added, (1995-2020)*[40]



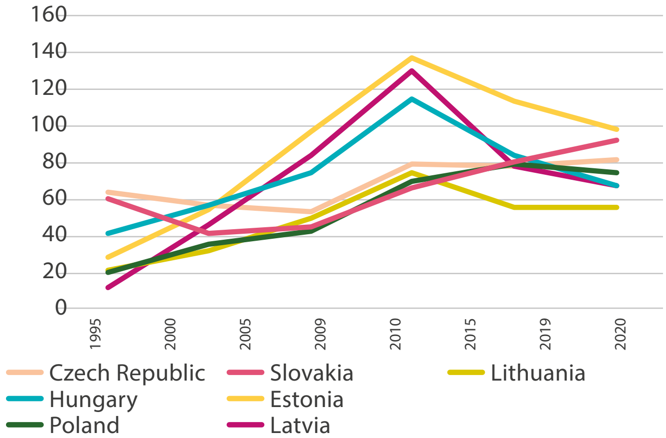
Source: Eurostat (2021)

Figure 2.7 Public debt *as a % of GDP, annual (1995-2019)*



Source: Eurostat (2021)

Figure 2.8 Private debt as a *% of GDP, annual (1995-2019)*

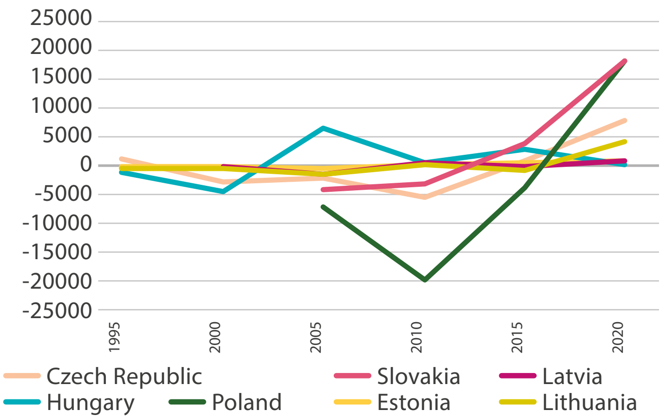


Source: Eurostat (2021)

The view on private debt is different, although it is again showing a growth trend in the private sector relative to GDP, and acceleration dynamics between 2000 and 2010 (see Figure 2.8). In the V4 and the Baltics it is noticeably higher than public debt, showing that the indebtedness is predominantly located in the private sector in this region. Private debt is not less important than the public debt. As the global financial crisis demonstrated, the private debt can be not only a source of economic problems but also easily socialised. Figure 2.8 shows the growing trend of private debt in Central Eastern European economies after 1995, together with the impacts of the global financial crisis (between 2005 and 2010). Again, the most dramatic increase of private debt was in the Baltic countries, especially in Latvia and Estonia, which is consistent with the dramatic consequences of the financial crisis in this part of the region, and with their emphasis on financialization of the economy. In general, we can sum up that the private debt was growing continuously in the region until 2015. After 2015, private debt relatively stabilised.

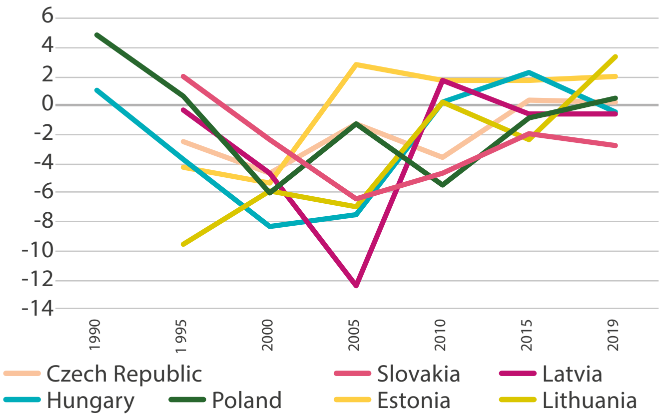
All four V4 countries and the Baltic states experienced relatively high deficits of current account balances between 1990-2020, as Figures 2.9 and 2.10, page 66 show. The deficit of the current account means the disproportion between domestic savings and investments. It can weaken the national currency and, in general, higher deficits as a % of GDP (over 5% of GDP) are seen as a sign of macroeconomic imbalances. But the same goes for excessively high surpluses in the current account, which is the next symptom of imbalances in the economy. As Figures 2.9 and 2.10, page 66 show, deficits were highest at the time of EU accession, especially between 2000 and 2010. Particularly high deficits of current balance were experienced by Latvia (12.4% of GDP), Lithuania (9.5%) and Hungary (7.5%) at the time of the peak of their Foreign Direct Investments (FDI) inflows (for Lithuania in 1995, but again in 2005). According to Aristovnik (2008), economic growth of the region negatively influences the current account balance because domestic growth is linked to a larger increase in domestic investments and less to savings. The gradual growth of the current account deficits in these countries was caused by a combination of long-term growth and structural factors, external shocks and domestic policies: growth of merchandise trade deficits, downward trends in the service balance, rising indebtedness and profit repatriation, and the consequence of the continuous real appreciation of domestic currency in most of the examined cases (Aristovnik, 2008: 26). Aristovnik's study also indicates the partial effect of demographic factors and the strong influence of the growth rate of EU-15 countries on external imbalances (Aristovnik, 2008). Tang (2019) suggests that deficits were caused by the higher bank credit flows after EU accession, while the increase in size of the stock market due to EU accession caused current account surpluses. In general, the primary determinant of current account deficits was financial integration, which facilitated these deficits in the Central Eastern European (CEE) region. Foreign capital inflows helped to finance domestic consumption and investments, which created more significant current account deficits. (Tang, 2019). The economic growth in CEE was reflected in the higher current account deficits.

Figure 2.9 Current account balance, *in millions of euros (1995-2020)*



Source: Eurostat (2021). For Poland and Slovakia data from 2005 only. For Latvia from 2000 only.

Figure 2.10 Current account *as a % of GDP (1990-2019)*



Source: Myant-Drahokoupil 2011:345 for the years 1990-2005, for the years 2010-2019 Eurostat (2021). For the Czech Republic, Slovakia, Estonia, Latvia and Lithuania data for 1990 was not available.

Taxes are usually a good indicator of the political economy of the state. The level of taxation in particular spheres, as well as the tax burden, says a lot about the power distribution of, in a given society, the capacity of the state, its economic policy, as well as the relations between the state and its citizens. Indeed, any tax system has an important political role, related to the question of democratic legitimacy, representation and, therefore, justice and equity (Hettich & Winer, 2005). The tax reform became an important aspect of post-socialist changes. Under state socialism, the tax system was relatively easy, and it usually accentuated taxation of consumption (indirect tax), taxation of huge state firms' profits and, to a much lesser extent, the taxation of personal income. Next came the revenues from taxation of exports and profits of foreign trade monopolies, etc. The post-socialist rise of personal income taxes was introduced as a new element of taxation during the transition of Central and Eastern Europe, which differentiated this region from the Commonwealth of Independent States (CIS) countries (Myant & Drahokoupil, 2011).

Taxation policy in Central Eastern Europe was significantly influenced by the global trends. The region's reintegration into the international economy was related to the processes of globalisation, and also impacted the sphere of taxes. The rise of cross-border trade, capital dyscontrol, currency convertibility and other symptoms of global deregulation have contributed to the newly created competition since the 1980s. The trend was not only tax 'flexibilization' (decentralisation by means of globalisation) but also tax cuts in the sphere of economic competition, often with ideological arguments about the 'small and effective state' and the 'free market'. The belief in the myth of limited economic role of the state was an important element of capitalism restoration in the region. However, as already mentioned, Central Eastern Europe became an intersection of global trends and, perhaps, in some respects more radical. Regarding cutting taxes for capital and for corporate business, the region was no exception. There were, however, some important and specific differences for the V4 and Baltic countries (for discussion about tax competition see Genschell & Schwarz, 2011).

What sharply differentiates this region from Southern Europe and Western Europe is the widespread 'flat tax'. More precisely, the region was diverging from its Southern and Western peers gradually between 1994-2011, when the majority of states (with the exception of Poland) introduced a flat tax after leaving their progressive taxation system. The concept of a flat tax belongs to the thesis of neoliberal orthodoxy as it fits well with the ideology of low taxes and an effective and minimal state, both seen as an engine of economic growth (Hall & Rabushka, 1983). In theory, the flat tax should apply the same rates for personal and corporate incomes, but this is not, however, the case for the majority of Central Eastern European economies where different levels of progression were kept or introduced. In short, there is no pure flat tax system in any European countries. Besides simplification theses, the flat tax system is also seen as an economic incentive for higher labour supply, which fits in the regional economic models relying on FDI and foreign capital. Table 2.3 summarises the situation in the region in 2021. The flat tax system was introduced in two waves. This type of tax regime was introduced in three Baltic states between 1994-1995. A second wave continued between 2004 and 2011, when the flat tax system was established in three of the V4 countries apart from Poland, which continues to have the progressive system. Table 2.3 shows that only Estonia has the same rate for personal and corporate incomes, while all other countries continue with a mixed system. Only Czech Republic and Slovakia introduced a system in which corporate tax rates are higher than personal income tax. Latvia, Lithuania and Hungary follow a different path with a higher personal income tax rate and a low corporate tax rate. It is important to note that Slovakia later introduced a progressive element in the flat tax scale, having two rates for personal income (19% and 25%) according to its annual level revenue. Finally, Poland never introduced the flat tax system and remains a regional exception. Politically, the flat tax systems in the region were related to centre-right governments (which usually means more neoliberally oriented) in the region. It is only in Lithuania that the establishment of the flat tax was related to the government led by the centre-left (Democratic Labour Party of Lithuania).

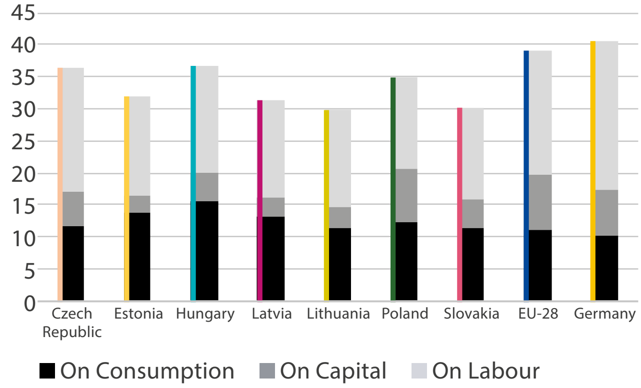
Table 2.1 Flat tax in the V4 and Baltics *(for more information see chapter 1, SE, page 30)*

	Flat tax rate: personal/ corporate	year of introduction	government
Czech Republic	15/19	2008	Centre-right
Estonia	20/20	1994	Centre-right
Hungary	15/9	2011	Centre-right
Latvia	31/20	1994	Centre-right
Lithuania	20/15	1995	Centre-left
Poland	No flat tax	---	---
Slovakia	19/21	2004	Centre-right

Source: Own elaboration based on OECD data

If we look at a more general picture of tax distribution relative to GDP (Figure 2.11), we can very clearly observe that tax on labour and consumption (this includes, among others, VAT) tends to be predominant in Central Eastern Europe in 2019. Relative to GDP, the tax on labour is lower, with the exception of Czech Republic, and tax on capital is much lower compared to the EU average. On the other hand, the region has a higher share of taxes on consumption, which is valid also for Poland without a flat tax system. Structurally, we observe a slightly lower level of taxation (relative to GDP) in the region.

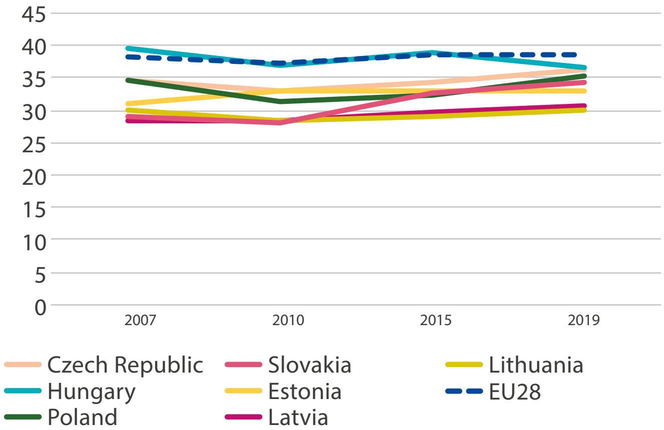
Figure 2.11 Tax on Labour, Capital and Consumption in 2019 *as a % of GDP*



Source: Eurostat (2021), tax on capital for 2018

Figure 2.12 shows that seven Central Eastern European countries kept their amount of total taxes as a percentage of GDP somewhat below the EU average between 2007 and 2019.

Figure 2.12 Total taxes (including compulsory social contributions) *as a % of GDP*



Source: Eurostat (2021)

Due to their economic models, the V4 countries and the Baltic states are engaged in the process, which critics have called 'the race to the bottom', which slowly but eventually erodes the sustainability of state budgets and, as a consequence, the capacity of the state to fulfil its basic functions opening the doors to the next wave of privatisation and rent-seeking practices under the neoliberal system. The Baltic states, which associated their nation-state building with radical neoliberal recipes, were among the first in the region to enter the path of asymmetric tax competition because, being small economies, their tax revenues losses were smaller, relatively speaking. Nevertheless, the Baltic neoliberal consensus of the 1990s was founded in nationalist, rather than social or welfarist, discourses. This situation meant that the political constraints were smaller and the manoeuvring space larger. On the other hand, the case of Czech Republic illustrates the dilemma of flat tax system introduction. In 2008, the Czech right emphasised flat tax as the key to the reform strategy, repeating that "A small state does not need so many resources to operate itself and, thus, it can afford to significantly reduce today's high taxation" (ODS, 2006). Behind this idea was hidden the ideological belief in the essential contradiction between state and market, which would lead to the removal of the state from the economic sphere (and open the public sphere to rent seeking or privatisation, we should add). However, the flat tax introduction caused a huge gap for the revenues of the state budget and, in the end, turned out not to be as 'affordable' as anticipated. Thus, there was a need to find a compromise. The '*superhrubá mzda'* (literally translated as 'super-gross wage') was invented as a phenomenon, which has no global comparison. In fact, *superhrubá mzda* meant nothing else but the manipulation of the tax base to compensate for the losses from the flat tax on personal income. In practice, this meant that the income tax at the flat rate of 15% was also paid, including all social contributions (those paid by the employer as well as the employee), by the taxpayer. This case further shows that the tax rate is not the only important element, since the tax base plays a key role. Furthermore, it colourfully illustrates the problem of tax injustice, and the ideological 'originality' of Czech neoliberal imitators.

The race to the bottom in tax policy is more radically pronounced when we notice corporations' tax rates in Central Eastern Europe. The lowering of these tax rates was related to the competition for FDI, seen as a backbone of 'economic strategy' of growth and 'convergence' for the region. To attract foreign investors in a harshly competitive environment, governments were not only lowering corporate tax rates, but they often also offered substantial tax holidays and other incentives (such as employment grants paid from public budgets). In Table 2.2, we compare corporate tax rates in the V4 region and in the Baltic states with two core economies (Germany and the Netherlands). We also depict the change in taxation between 1995 and 2019 to understand the main changes. The table shows that Hungary represents an exception, with an extremely low rate (9%), while Poland, Slovakia and Czech Republic keep nearly the same level of tax rate, but their losses from tax cuts were huge. In the Baltic states, Lithuania offers the lowest rate in the region, while Estonia and Latvia keep their rates at the same levels.

Table 2.2 Corporate tax rates in the V4 and the Baltics in 2019 compared with 1995

	Rate in % in 2019	% change: 1995 and 2019
Czech Republic	19	-22
Estonia	20	-6
Hungary	9	-9
Latvia	20	-5
Lithuania	15	-14
Poland	19	-21
Slovakia	21	-19
Germany	29.89	-25.19
Netherlands	25	-10

Source: Tax Foundation, no data before 1995

FDI is perceived as a critical phenomenon of the entire region's economic development (and 'transformation'), one of the most important and volatile *external* sources of economic growth. In fact, FDIs became a predominant feature of Central Eastern European capitalism especially in the V4 region, where they represent the main source of investment in the context of the foreign owned bank system (which also meant that the credit is an investment under foreign control, Nölke & Vliegenhart, 2009). For years, the V4 group of countries in particular have attracted large amounts of FDIs to their economies. While there is an ongoing academic debate about the actual impacts of FDI on economic and social development; we shall limit ourselves to a few general observations. Firstly, we can argue that the economic importance of FDI is not uniform in the region; however, FDIs have been a key instrument of economic interaction between the West (core) and Central Eastern Europe since the end of the 1990s (Drahokoupil, 2009, Myant & Drahokoupil, 2011, Pavlínek, 2004, Šćepanović, 2013).

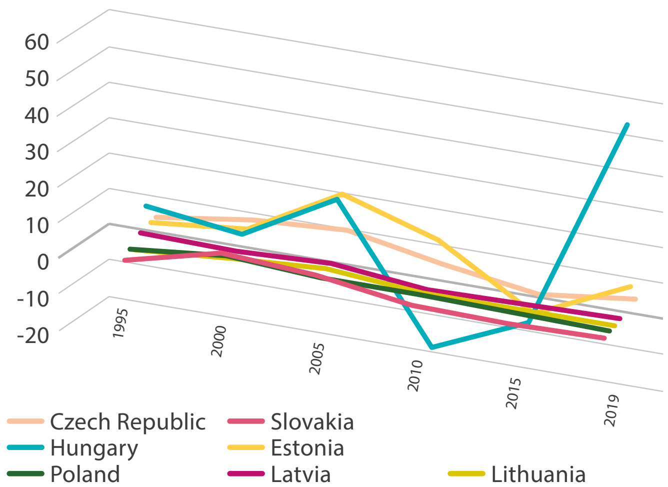
Several types of FDIs are generally defined as investments by a firm or an individual from one country in a business located in another country. In general, there are three types of FDIs: horizontal (establishing the same business in another country), vertical (establishing different but related businesses in another country), and conglomerate (establishing unrelated businesses in another country). It is essential to underline that FDIs are also primarily related to business activities of transnational corporations (TNCs), which become critical investors in the region and, as such, also become especially important political actors. Finally, FDIs have been associated, on different levels, with privatisation (or 'capitalism restoration') and market capture in the region. They have been largely seen as an instrument of economic and social stabilisation of the region after 1990 and 1998 (Asian and Russian crisis and its impacts) by local political elites. The EU accession process, together with liberalising reforms and investment incentives (and intraregional competition for investments), played a pivotal role in further expansion of FDI in the region. Finally, as Vera Šćepanović (2013) suggests, FDI became synonymous with 'development' in the region. This is in sharp contrast to investors' interests, which are more concerned with the pure economic benefits associated with profit-making and geographical location. While politicians emphasised a political and social role of FDI, foreign investors were primarily interested in new business opportunities, market potential/market capture, low costs and a highly skilled workforce in relative geographical proximity to Western Europe. Nölke and Vliegenthart (2009) stressed the role of corporate governance in the region by bluntly saying "TNCs always strive to create an institutional setup conducive to their needs" (Nölke & Vliegenthart, 2009: 676). This means that the role of FDI and TNCs goes far beyond the economic sphere.

Concerning FDI, we can next observe the regional diversity, which is typical for the Baltic region and Central Europe (V4), both between and within countries. The story of FDI in the region is not as straightforward as it would seem. Indeed, the process of 'transformation' was largely a bumpy and contradictory process with a series of unintended consequences, mistakes and successes. As in other cases, we can also observe the importance of 'path dependency' in the post-socialist development, both in negative and positive ways. Firstly, we can say that V4 countries have been the dominant centre of gravity for FDI inflows. The Baltic region was slightly lagging when compared to Czech Republic, Hungary, Poland and Slovakia, especially in relation to investments in the manufacturing sector (Bohle-Greskovits, 2012). But the internal rhythm of FDI inflows in V4 countries was remarkably different. At the same time, the attraction of FDI in the economy became a competing space for intraregional rivalries, which were often favourable for foreign investors. All four countries have been competing for FDI using different investment incentives since the beginning of the 21st century, when FDI-based development became a crucial economic instrument in the region. The key reason is the same as in the case of trade: the structural profiles of these post-socialist economies were remarkably similar, which also supported harsh internal competition between these countries.

The 1990s are important for understanding the diverse path to FDI-based development of Central Eastern Europe. Hungary and Poland were pioneers of FDI in the early 1990s in the context of sharp economic downfall (transformational recession) and their high foreign debts, limiting the manoeuvring space of economic policies in both countries. Both countries, each in a different way, were also regional pathfinders of early capitalist (liberalisation) reforms (some of them implemented at the end of the 1980s) which gave them certain advantages. Hungary in particular can be seen as an early achiever regarding FDI attraction due to the implementation of early reforms. This is well demonstrated in the early statistics – in 1993, FDI inflows in the economy as a percentage of GDP were nearly 6% in Hungary, 1.7% in Poland, just under 2% in Czech Republic, and about 1% in Slovakia. As already mentioned, FDI inflow was also related to the privatisation process, mainly in terms of the privatisation of state-owned enterprises. Therefore, it was a composite part of wealth redistribution and of re-shaping economic structure in the region. For instance, between 1990-1993, foreign investors accounted for 80% of state property sales in Hungary. In total, some 2/3 of privatisation efforts were linked to foreign investment in the Hungarian economy in the 1990s (Dmochowski, 1995: 307). In fact, today's predominance of foreign ownership in Central Eastern European economies is one corollary of the systematic reliance on foreign capital and TNCs from Western Europe.

On the other hand, Czech Republic and Slovakia – for different reasons – chose the path of FDI-based development later. Both countries were able to catch up with their Visegrád peers by transforming themselves into 'competition states' (Drahokoupil, 2009) at the end of the 1990s. Both countries preferred domestic building of capitalism with a limited role played by foreign capital (voucher privatisation) in the early 1990s. The Czechoslovakian economy was in stagnation in the 1980s, but it was not largely indebted, as Poland and Hungary were, and early reformers tried to use (largely unsuccessfully) this breathing space. In summary, in the Czech and Slovak cases the new emphasis on FDI resulted from an unsuccessful path to create a domestic capitalist class due to economic (scarcity of capital) and political reasons (corruption, non-transparent legal framework, rise of Mečiar's authoritarianism in Slovakia). This relatively brief period was followed by what can be called 'global capitalism' building, with a large share of foreign ownership in the national economy. The dissolution of Czechoslovakia underlined the diverse directions in terms of foreign investment and privatisation strategies and rhythm that followed. In terms of FDI inflows, Czech Republic overtook Slovakia at first, since 80%-90% of FDIs in the 1990s were located to the Czech part of the former federation. This situation changed between 2002-2004, when Slovakia surpassed Czech Republic in FDI inflows (in % of GDP) by adopting a radically competitive neoliberal agenda. In short, the V4 countries tell us quite different stories of their earlier reliance on FDI and TNCs, as their development and convergence paths were based on quite different preconditions. Nevertheless, all four countries eventually converged on a foreign-led capitalist model (Bohle & Greskovits, 2012).

Figure 2.13 Foreign Direct Investment, *net inflows as a % of GDP (1995-2019)*



Source: World Bank (2021)

When comparing the Baltic case with V4 countries (see Figure 2.13), we can argue that similar preconditions ended in rather different paths but with the same ending. The economic profiles of Baltic republics of the USSR were relatively similar to Central Europe due to the socialist division of labour. Also, these countries played the role of manufacturing (technological) centres of the Soviet economy. However, the Baltic region did not capitalise on it at the same level as Central Europe due to several factors, such as delays in reform policies, higher labour costs and existing policy barriers in the 1990s. As Bohle and Greskovits argue, TNCs continued to prefer investments in the Visegrád region's manufacturing even when Baltic countries caught up with their reform efforts as a part of the EU accession process. At the same time, the industrial sector in the Baltic states could not withstand the global competition. The radical (neo)liberalisation of the economy in the Baltics contributed to the factual collapse of complex local industries. While Central European states implemented policies of 'embedded neoliberalism', which mitigated some of the most damaging social impacts of transformation, their Baltic peers chose radical neoliberalisation and were also less concerned about the future of their industry (Bohle-Greskovits, 2012). In other words, the question of timing and policy strategy was an important factor. On the other hand, this does not mean that Baltic countries did not rely on FDI and that they would not be attractive to foreign investors. Also, in the Baltic case, FDIs were an essential instrument of privatisation of state-owned enterprises and in the service sector. The bulk of FDIs were directed into service sectors, such as banking and telecommunication of these small economies, via privatisation. Nevertheless, the manufacturing sector was relatively attractive in Lithuania in the 1990s. Still, FDIs went dominantly to low technology sectors – such as food and beverage production, textiles, and medium technology sectors, such as the petroleum and chemical industries (OECD, 2021).

Although this region of Europe is usually perceived through the lens of its productive base, there has been a growing process of financialization during the last three decades. The region is not highly financialized if compared with the Anglo-Saxon financial system; however, it exhibits forms of financialization such as impatient capital, the significance of carry trade operations and risky lending to homeowners, consumers and government rather than to the productive sector. CEE also has the highest level of foreign bank ownership in the world, which is just one of the features of its dependent, peripheral financialization. In general, the V4 and Baltic countries rely heavily on TNCs for financial production; they also assume a low position in the international currency, which means that their macropolitical policies are heavily constrained (Ban & Bohle, 2019). As already suggested, the enormous chunks of inward FDI in Estonia, Latvia and Lithuania have been targeted to the so-called FIRE sector (finances and insurance services and real estate) and less to manufacturing, which is predominant in the V4 countries. The combination of dependencies on external finances (via the foreign banking system and FDI) represents an important source of regional vulnerabilities, as the GFC demonstrated in Hungary and Latvia. In short, we can speak of a bifurcation within the V4 and Baltic dependent economies. The V4 group based its economic model on export (re-)industrialisation with financialization, while the Baltic group on financialized growth model (see Becker-Četković-Weissenbacher, 2016).

The indicator of FDI stock per capita (or population) is a good (although relative) way of comparing the attractiveness of the country for foreign investors. Table 2.3 shows that the most attractive countries include Estonia, Czech Republic, Slovakia and Hungary.

Table 2.3 Stock of inward FDIs in US dollars at current prices per capita

	1995	2000	2005	2010	2015	2019
Czech Republic	710	2103	5914	12196	11001	15968
Estonia	470	1891	8256	11674	14382	20272
Hungary	1092	2238	6059	9168	8821	10103
Latvia	245	709	2197	5129	7373	9413
Lithuania	97	667	2527	4910	5405	7396
Poland	204	868	2250	4894	4890	6242
Slovakia	241	1291	5482	9313	8465	10949

Source: UNCTAD

There are also differences in FDIs' country of origin in the V4 region and the Baltics, at least according to the incomplete data we can use in this case. In general, we can argue as Filip Novokmet does that "Eastern European countries are largely foreign owned, but the owners tend to come from EU countries (in particular from Germany). So in some sense it is not entirely different from the situation of peripheral regions that are being owned by more prosperous central regions in a large country." (Novokmet, 2017: 468). But the regional view is indeed more diverse. Germany is a dominant investor country in the V4 group, but not in the Baltic region, which was and still is dominated by investors from Scandinavian countries (Sweden and Finland). The role of Germany in the Baltics is fairly limited. But the investors' geographical origin is quite diverse despite the predominant German position even in the V4 countries. For example, the Netherlands has been an important investor in Central Europe, sometimes even surpassing Germany. In Slovakia, between 2005 and 2015, the Dutch FDI represented between circa 20%-25% of all investments (Národná banka Slovenska). The same goes for Poland, where Dutch direct investment flowed in after 2010: between 25%-29% of all inward FDI (Narodowy Bank Polski). Between 1996 and 2000, the USA was an important investor in Lithuania (in 1996 over 28% of all FDI) (OECD, 2001:18). Therefore, the geographical origin of FDI is not without interest, even when we have unfortunately very non-systematic data, since individual countries take very different approaches to communicating their FDI. It is not a coincidence that many of the main investor countries often represent predominant trade partners for the Visegrád and Baltic states.

2.4 LABOUR MARKET AND SOCIO-ECONOMIC CONDITIONS

Central Eastern Europe has also witnessed dramatic changes in the structure of employment since the 1990s (see Figure 2.14 and compare with Figure 2.6, page 64), as part of its transformation from state socialism towards neoliberal capitalism. In industry (including construction), there have been huge changes in the employment structure, even if we cannot speak straightforwardly about 'deindustrialization'. The region can be divided in two plus five groups concerning this topic. The successor countries of the former Czechoslovakia, the Czech and Slovak Republics, were very industrialised countries as a corollary of the strong position of Czechoslovakia in the division of labour of CMEA, which only continued local industrial traditions (historical Czech lands were already the most industrial parts of Central Europe in the 19th century, and Slovakia was industrialised as part of Czechoslovakian modernisation).

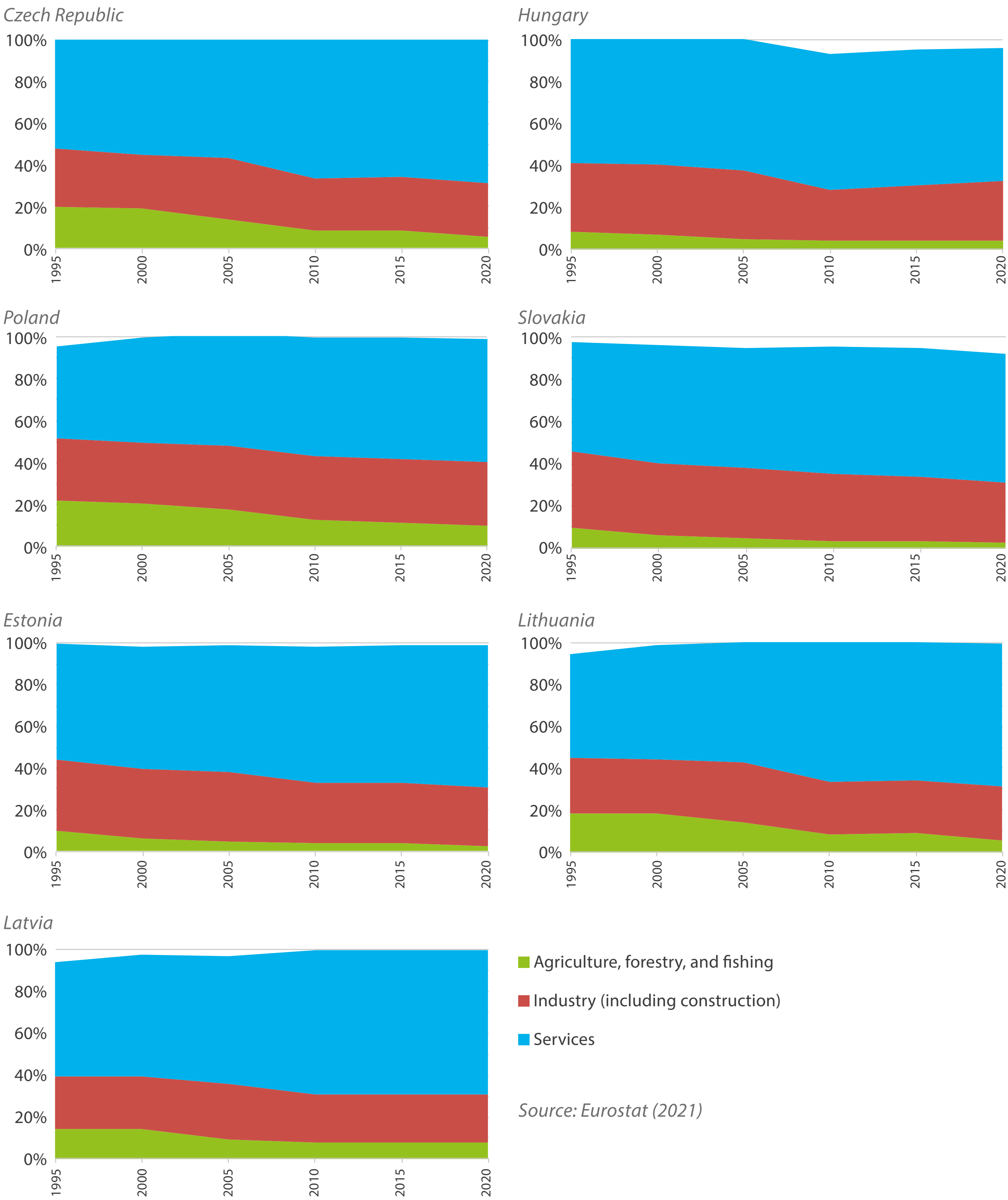
In recent years, the strong (relative) position of industry has been intensified by the preferences of FDI as well as by the historical traditions, which were instrumentalised and commodified by transnational corporations (TNCs). However, this did not represent massive industrialisation, but rather a slower pace of deindustrialization measured as the allocation of labour force to this sector. On the other hand, Estonia, Poland and Hungary had only between 34% and 29% of employees working in the industry in 1995. These numbers were just slightly over the average in EU-15 (26% in 1995). Latvia and Lithuania had around 25% of the population employed in the industry (including construction) in 1995, which was consistent with the EU-15 average. In sum, deindustrialization in employment was less dramatic in the region of the V4 and the Baltics. In the EU-15, the decline was about 7% between 1995 and 2019, as is demonstrated by Figure 2.13. However, the region maintains a robust employment rate in the industry in comparison to the EU-15.

Probably the biggest changes in allocation of the workforce occurred in agriculture, which was in line with global trends, but enforced the region's dependency on agricultural imports and also represented huge changes for regional development within each country (internal migration, underdevelopment, depopulation of villages). Besides this, the agricultural sector was relatively strongly impacted by the transformational recession of the 1990s. The region can be divided into two groups: Estonia, Slovakia and Hungary had around 8%-10% of the share of agriculture in the employment structure in 1995. Czech Republic was a regional exception: in 1995, only about 5% of the Czech workforce earned its living in agriculture, which was the smallest share in Central Eastern Europe, reflecting the industrialised and urbanised character of this country. Estonia witnessed the sharpest decline in agricultural labour, about 7% between 1995 and 2020. In terms of employment, agriculture diminished in importance in all four countries of the V4 + Estonia as Figure 2.14 shows.

Over the last three decades, the region of the V4 and the Baltic states witnessed a boom in the service sector. The main reasons for this were that the service sector was the most underdeveloped (with some important nuances in the region before 1989), as well as the dynamics of neoliberal capitalism, which is reflected by the expansion of services (tertiarization) to the detriment of productive forces. Again, we can see different regional patterns in this sector, transcending the standard division into the V4 and the Baltics. In 1991, the most service-oriented economy in terms of employment share was Hungary, with about 52% of the workforce in the service sector. Baltic Latvia had about 50% of employees in the service sector in 1991, according to the accessible data. On the other hand, Estonia and Poland were among those countries in the region with a weaker service sector in 1991. In 2019, the situation changed and the employment share in the service sector boomed. Except for Poland, all V4 and Baltic countries have a share of workforce in the service sector of 60% or more (see Figure 2.14, page 73). The most dynamic growth was in the case of Estonia, Poland and Latvia. After 30 years, Baltic countries especially became economies with a predominant service sector in terms of employment (but also exports). The Baltic figures are close to the EU average, about 70% in 2019. The V4 region shows higher levels of service employment, with Hungary at the top, Czech Republic and Slovakia in the middle and Poland last.

Unemployment became a 'new' phenomenon after 1989 because the state socialist system formally guaranteed full employment. In the V4 countries and the Baltic states unemployment was an essential indicator of macroeconomic stability during transformation. Unemployment rose in all Central Eastern European countries during the early 1990s. Later it stabilised, or even fell (Myant-Drahokoupil, 2011). The exception is the Czech Republic, which has shown shallow unemployment levels since the early 1990s, which some commentators refer to as the 'Czech miracle'. But there was no miracle. The Czech workforce in the industry fell by 35 per cent (31% in Poland), coal mining employment fell by 51% (28% in Poland) between 1989-1993. Thus, there were comparable losses. The explanation of the apparent conundrum is given by Myant and Drahokoupil: "Apart from the wage-employment trade-off, the distinctive Czech features were the lighter unemployment effects of employment declines. Part of the labour force had been made up of pensioners who simply lost their jobs and of Slovaks and even Poles who returned home, putting the cost on another country" (Myant-Drahokoupil, 2011: 190). The strategy to deal with job loss through early pensions was also applied in Poland and Hungary, which meant a targeted welfare expansion during 1989-1996 that helped to externalize the social impacts of transformation. During the GFC period, there were two trends in the region. On the one hand, Czech Republic, Slovakia and Poland continue

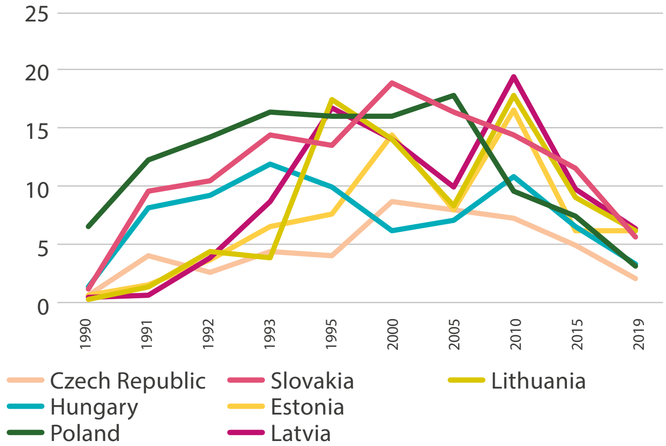
Figure 2.14 Structure of employment *(1995-2020)*



Source: Eurostat (2021)

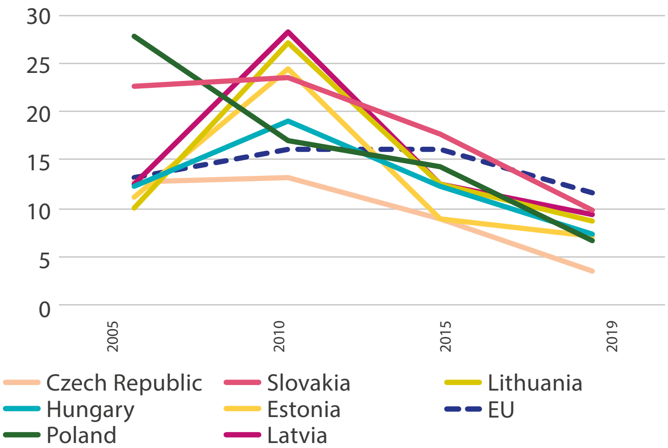
to have declining or stagnant unemployment rates. On the other hand, Hungary and all three Baltic states experienced a sharp increase in unemployment rates during the crisis. Youth unemployment seems to be a less permanent problem in the region of Central Eastern Europe, as Figure 2.15 illustrates. However, one must see these figures also in the context of strong emigration during the period studied. Between 2005 and 2015, the highest level of youth unemployment was experienced in the Baltic states.

Figure 2.15 Unemployment rates, *in % (1990-2019)*



Source: OECD (2021) and Myant-Drahokoupil 2011: 336 for the 1990-1995 period

Figure 2.16 Youth unemployment, individuals aged 15-29 *(2005-2019)*

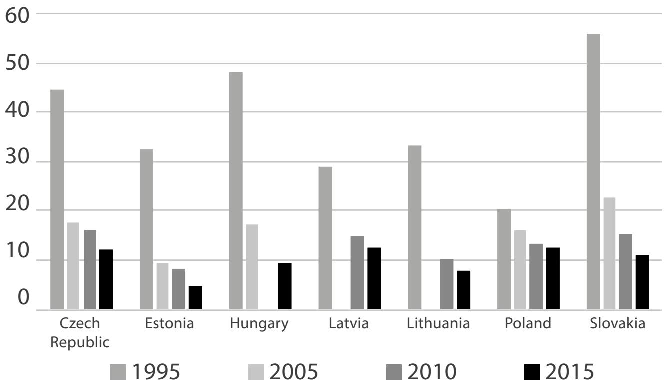


Source: Eurostat (2021)

The position of labour and trade unions has undergone turbulent changes in Central Eastern Europe since 1989. The socialist regimes established trade unions as the next body of government without independent position with, in some cases, mandatory but decorative membership. On the other hand, the politically authoritarian system guaranteed social rights and security, including virtually no unemployment (to be jobless was criminally punishable in some cases). The key guarantor of social rights and safety was the State. The post-socialist transformation represented a somewhat paradoxical development: while the dramatic socio-economic changes created a strong demand for labour organisation, the reality was different. Although trade unions were reformed, their positions were severely weakened, and a tripartite system of mediation of labour, capital and the state was established.

When evaluating the role of trade unions and the tripartite system in collective bargaining in Central Eastern Europe, there is no consensus about the actual role of trade unions. The critiques labelled the emerging institutions of post-socialist corporativism 'paternalistic', 'illusionary', or 'sham' to express their general weakness and ineffectiveness. Some even evaluated them as a "political shell for a neoliberal economic strategy" to describe their character (Crowley, 2004). Or, as Anna Pollert puts it: "… tripartism became a disposable political safety valve, excluded when governments felt they had sufficient power to do without it, and brought back in when this was deemed advantageous" (Pollert, 2000: 186). Generally speaking, the regional trend was that the dynamics of tripartite policies tended to fulfil the demands of the political classes and TNCs for relative social peace as a precondition for successful transformation. The position of labour and the role of trade unions in Central Eastern Europe reflected the transformational dynamics with its ideological reinforcements and global trends such as the neoliberal reconfiguration of the relation between capital and labour.

Figure 2.17 Trade union density in Central Eastern Europe, *in % (1995-2015)*



Source: ICTWSS (2021)

Trade union density is the ratio of wage and salary earners who are trade union members to the total number of wage and salary earners in the economy. In this graph, there is a clear declining trend in all countries in the region. The period between 1995 and 2005 shows a steep decline in trade union density – in some cases, indeed, a dramatic one. Nowhere in the world was the decline of trade union density as steep as in Central Eastern Europe.

As already mentioned, there was and still is an ongoing debate about both the weakening of organised labour in Central Eastern Europe as well as the reasons for this in the current academic literature. The sources of weakness usually make mention to the limited importance of corporatist institutions, historical legacies of socialist unionism, or competition/fragmentation of unions, types of bargaining mechanism and the power of TNCs in the region (for more detail see Crowley, 2004, Kallaste & Woolfson, 2009, Pollert, 2000, Nölke & Vliegenthart, 2009). The causes are most probably the combined and simultaneous interaction of local and global factors. In general, weakened organised labour was a composite part of the more extensive integration process to neoliberal globalisation for Central Eastern Europe.

The transformation of organised labour in the region began in the early 1990s, by abandoning the old model of (in some cases mandatory) trade unions that existed under late socialist regimes. In the context of the V4 countries and the Baltics, the changes in organised labour were diverse but converged in their outcomes. In 2004, the V4 and the Baltic countries created tripartite mechanisms of collective bargaining, which were largely decentralised. In general, the model of industrial relations (interactions between employees and employers) in Central Eastern Europe is similar to the Anglo-Saxon model (not the European continental one). In terms of trade union density (see Figure 2.16, page 74), which is regarded as an essential factor determining the bargaining power of trade unions, Central Eastern Europe has shown numbers below the EU average. Despite efforts, no country in the region has developed fully fledged neo-corporatism. This situation led to a politically fragile labour position and gave greater space for manoeuvre to neoliberal reformers and politicians (as well as to the comprador class). The outcome can be summarised as limited inclusion of labour or its exclusion within formally existing institutions when needed. Not surprisingly, major austerity packages were prepared and implemented by bypassing labour interests in the region (Bohle & Greskovits, 2012).

An identically weak tripartite mechanism within the formally existing institutional framework emerged in the Baltic region, where local organised labour was severely weakened (Kall, 2017, Blaziene & Gruževskis, 2017, Romele, 2017). There was also a much smaller interest of the Baltic political establishment to mitigate the social hardship of transformation. This was also due to the 'nationalising project' of nation-building (Brubaker, 1996) founded on the neoliberal platform in the Baltic case. Baltic elites believed that they must break with the Soviet past radically and the new nationalism contributed to turning public attention from social issues. Figure 2.16 shows a steep decline in union density (also compared to V4 peers), which reflects this chosen strategy (among other things). There was also an ethnic aspect because many industrial workers, especially in Latvia and Estonia, were ethnic Russians, the 'children' of Soviet industrialisation and russification of the Baltic republics. Therefore, the neoliberal transformation of industrial relations, deindustrialisation/de-unionisation and decolonisation/state-building were deeply intertwined in this case.

Paradoxically, the formal building and harmonisation of 'sham' tripartite mechanisms was seen as an instrument of the Europeanisation of Central Eastern Europe. However, it seems that, as in many other cases, the form won over the content. The EU accession process also meant new types of competitive pressure on Central Eastern European governments, employers and employees. Another important factor for understanding industrial relations in the region

Table 2.4 Tripartite institutions, right and level of collective bargaining, minimum wage setting

	Tripartite	Right of collective bargaining in market/government	Level of bargaining	Minimum wage setting
Czech Republic	Yes, since 1991	0^{90-91}, 3/2	Local/company	between unions and employers via national level
Estonia	Yes, since 1993	$3/0^{91-10}$,2	Local/company	between unions and employers via national level
Hungary	Yes, since 1992	2^{90-91},$3^{91-}/0^{90-91}$, 1	Local/company	between unions and employers via national level
Latvia	Yes, since 1996	3/2	Local/company	between unions and employers via national level
Lithuania	Yes, since 1995	2^{91-00},$3/2^{90-05}$, 3	Local/company	between unions and employers via national level
Poland	Yes, since 1994	2^{90-91},$3/0^{90-91}$, 1	Local/company	between unions and employers via national level
Slovakia	Yes, since 1991	$3/1^{95-96}$, 2	1993-2003: central and industry 2003-2007: sector/industry 2010: sector/company	between unions and employers via national level

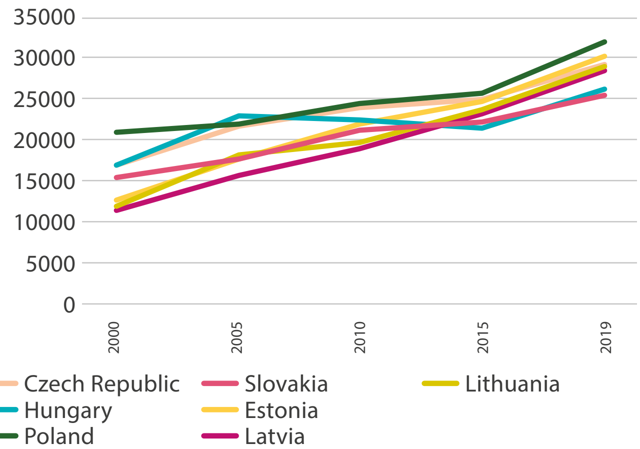
Source: ICTWSS, 0-no, 1-yes with major restrictions, 2-yes with minor restrictions, 3-yes. $^{90-91}$ denotes years when situation was valid.

is the inflow of FDI related to TNCs, which brought labour flexibilization as a composite part of cheap labour incentives, and the influence of corporate governance (Drahokoupil, 2009; Nölke-Vliegenhart, 2009). However, this problem is directly linked to the question of wages and the chosen economic model for both subregions of Central Eastern Europe.

Even though the European Union is defined as a space based on the free movement of capital, goods and labour, labour is less mobile and less integrated into the European single market. There is much less 'singularity' in the labour market of the EU, and the protectionist accession conditions for Central Eastern Europe from old Member States just confirmed this reality. The labour market is defined and actually 'constrained' within national or regional borders within the EU. In terms of low salaries, there is a visible division situated (unsurprisingly) on the former frontier of the Eastern bloc and the North-South axis. This division means that social convergence in the EU is hindered, despite its political importance for the European project and its political future sustainability (Eurofound, 2019; Fassmann & Myant et al, 2019).

In general, Central Eastern European economies have built their economic models on the pillar of 'cheap labour' with the external financial sources (predominantly FDI via TNCs) representing a main source of economic prosperity and growth, and the belief in relatively rapid economic (and therefore social) convergence with the core economies of the EU. However, such a goal seems to be in the somewhat distant future for the region under the circumstances of being a peripheral economy. Cheap labour became a key 'comparative advantage' of the region's economic strategies and, as such, it also represents one of the hottest political issues today. While rapidly growing in the regional context, salaries are still approximately half of average wages in the core economies of the EU. Since we have relatively scarce comparative statistical information, we can rely on data for specific periods, especially after 2000. But perhaps it is good to point out that many regional governments (such as Poland or Czechoslovakia) have decided to opt for a sharp devaluation of national currencies and regulation of salaries to enable rapid global integration (so as to overcome the deep transformational recession of the 1990s and the loss of Eastern markets) after 1990. For example, thanks to this deliberate regulatory manoeuvre, Czech average wages amounted to only 10% of German average wages in 1990 (Fassmann & Myant et al.,2019: 13). Furthermore, low wages are an asset for capital, which means low expenses for labour leads to higher profits for investors and firms (foreign and local). According to the study by the Czech-Moravian Confederation of Trade Unions from 2019, this meant that the low Czech salaries 'subsidised' the high profitability of firms operating in Czech Republic. Between 1991-2017, as this study estimates, CZK 4.5 trillion was moved from remuneration to profits (Fassmann-Myant et al., 2019: 16). Indeed, Czech Republic, Slovakia and Poland (and Ireland, Greece and Malta) are among the economies with the highest levels of operating profits when related to added value in the EU (compare with Fassmann & Myant et al., 2019: 17).

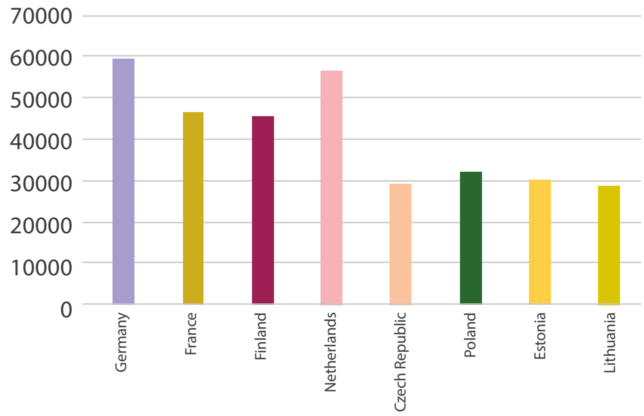
Figure 2.18 Annual average wage in 2000-2019, *constant prices USD PPPs (2000-2019)*



Source: OECD (2021)

In addition to the high level of profits for capital and low remuneration for workers, the regional trends can be summarised as follows. While average wages have been steadily growing over nearly the last two decades with relatively sharp numbers (in the Baltic states the rate even reached 148% between 2000 and 2019), convergence with core economies has been slow, bumpy and represents a task that will take decades to accomplish. Convergence with Southern Europe looks more optimistic (if we forget about the ongoing economic divergence of this region in recent decades). Besides, the unpleasant fact is that the region's living costs and prices have been growing faster than salaries (Central Eastern Europeans and Southern Europeans spend the biggest share of their earnings on food only, which is typical for peripheral economies; Eurostat, 2019). This situation had been mainly negatively reflected on the living conditions, quality of life, social cohesion, political participation and trust in institutions (national and European) of Central Eastern Europeans. Yet low wages are also most likely to be related to the question of growth and consumption, locking these countries and their peoples into a vicious cycle. Figure 2.19 compares annual average wages in the V4 and Baltic countries and selected core economies (France, the Netherlands and regional neighbours – Germany and Finland) in 2019.

Figure 2.19 Annual average wage in 2019, *constant prices USD PPPs in 2019: core vs periphery (V4+Baltics)*



Source: OECD (2021)

Besides the average wages, the Visegrád Group and the Baltic states have lower minimum wages too, which can be seen as another indicator of the 'value' of labour in their economies. These countries also have much lower labour cost levels, and, of course, lower median hourly earnings. When looking at the annual average wages measured in comparable 2019 US dollars (PPPs), we can see that the Czech average yearly salary was 44% lower than the German one, 58% lower than the French one, and 93% lower than the Dutch average wage in 2019. Or the Estonian annual average wage (2019) was 54% lower than in Sweden and 50% lower than in Finland. These numbers illustrate just one dimension of the problem: an existing and continuing gap in incomes and remuneration for work within the EU. To some extent, it also tells us that the European Union is still the union of 'poor' and 'rich' neighbours (this becomes clear especially when looking at Czech and German or Estonian and Finnish wages).

Table 2.5 Informal economy in the V4 and the Baltics

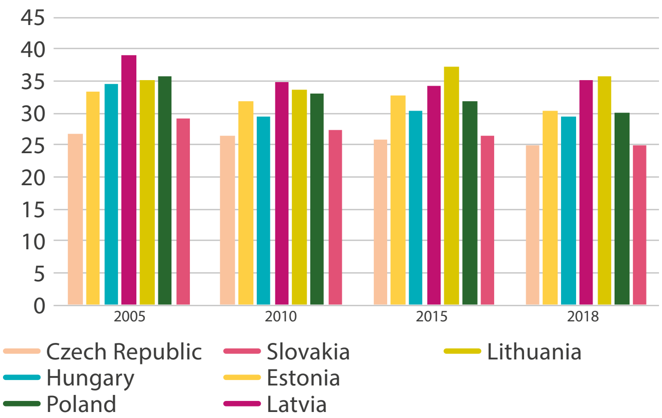
	% share of informal employment in total employment (ILO, 2018)	Undeclared work in private sector as a % of GVA (2013)	% total labour input in private sector (2013)
Czech Republic	9.2	16.9	7.7
Estonia	6.9	21.2	14.8
Hungary	12.2	23.2	17.3
Latvia	13.2	22.3	18.3
Lithuania	12.6	25.2	19.8
Poland	38	27.3	20.8
Slovakia	16.7	14.7	13.2
EU average	-	16.4	11.6
Germany	10.2	7.1	4.4
France	9.8	11	8.8
Netherlands	9.4	11.9	5.2

Sources: Williams-Bejakovic-Mikulic-Franic-Kedir & Horodnic 2017: 15 and Women and Men in the Informal Economy, ILO 2018, GVA-gross value added.

In terms of inequality measured via the GINI index (Figure 2.20), the V4 and Baltic countries show some differences in the available period after the EU accession. The level of inequality is higher (around 35) in all three Baltic states but in decline. The lowest numbers are shown by Czech Republic and Slovakia. However, there are some hesitations about the accuracy of these numbers. Novokmet (2016) argues that patterns of foreign ownership have consequences on the study of domestic inequality. Capital income is usually concentrated at the top, foreign-owned countries (such as Czech Republic, Slovakia or Poland) display lower inequality than countries with a positive foreign capital balance. In short, it is possible that the relatively low GINI index is due to the removal of a large part of the (high yielding) property income from interpersonal (resident) income distribution (Novokmet 2016).

Figures 2.21 to 2.25 show the social situation of workers in CEE in detail based on the available data from Eurostat. In the region, the 'in work yet at risk of poverty' numbers were decreasing over the period between 2005-2020 to meet the EU average. But there are regional exceptions. Czech Republic, which usually performs better in regional socio-economic indicators, was under the EU average, and Lithuania and Poland had higher levels, exceeding the EU average. Figure 2.20 refers to severe material deprivation in the region of the V4 and the Baltics. Again, there are big disparities and a decreasing trend (the same as in the EU in general). In 2005, the region showed higher levels than the EU. The indicator of people who were in work yet at risk of poverty and exclusion also demonstrates the declining trend between 2005 and 2020. Especially in the case of Latvia and Poland (with a high level of people at risk of

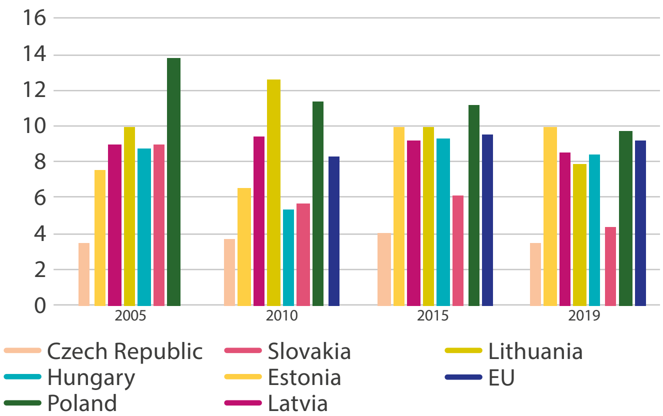
Figure 2.20 GINI Index *(2004-2018)*



Source: World Bank (2021). Data for 1990-2005 are not available.

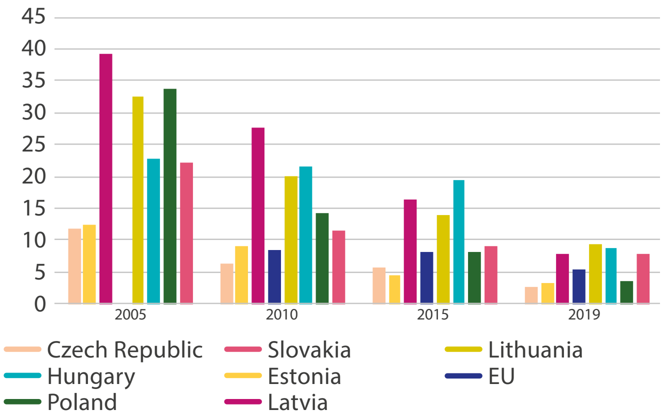
poverty), we can observe a positive trend that meets the EU average. Once again, Czech Republic is an exception with its relatively stable socio-economic situation. Finally, the ability to face unexpected financial expenses remains volatile in the region between 2005 and 2020, even when the trend tends towards the positive – the region is meeting the average levels in the EU (with limited data) with the exception of Latvia and Lithuania. In general, the trend is towards stabilisation with rather moderate impacts of the global financial crisis on these indicators. Finally, Figure 2.25 indicates that positive trend in socio-economic stabilisation has not been true for the elderly (over 60 years of age) in the region. In contrast to other data, we can see that elderly people are increasingly in the social group threatened by poverty. In all countries, the numbers are, worryingly, on the rise, especially in the Baltics. This is a darker side of socio-economic stabilisation in this region.

Figure 2.21 In work yet at risk of poverty *(2005-2020)*



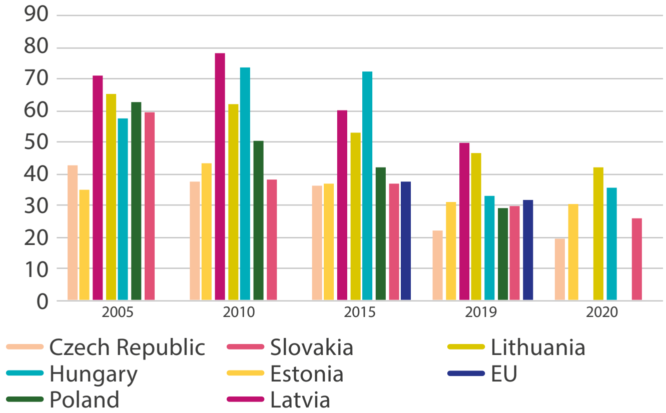
Source: Eurostat (2021)

Figure 2.22 Severe material deprivation *(2005-2019)*



Source: Eurostat (2021)

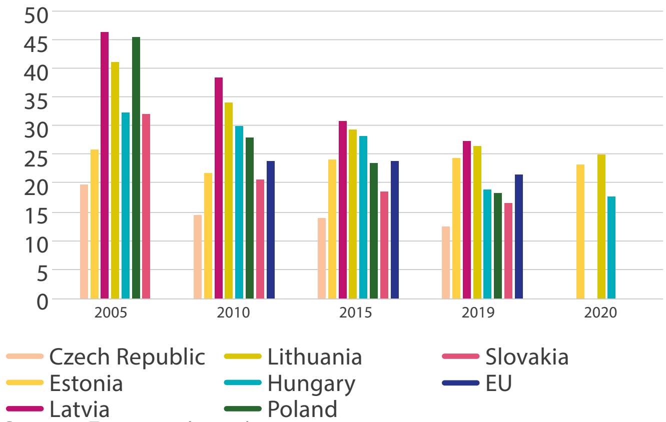
Figure 2.23 Inability to face unexpected financial expenses *(2005-2020)*



Source: Eurostat (2021)

Note: No data for Latvia, Poland and EU in 2020.

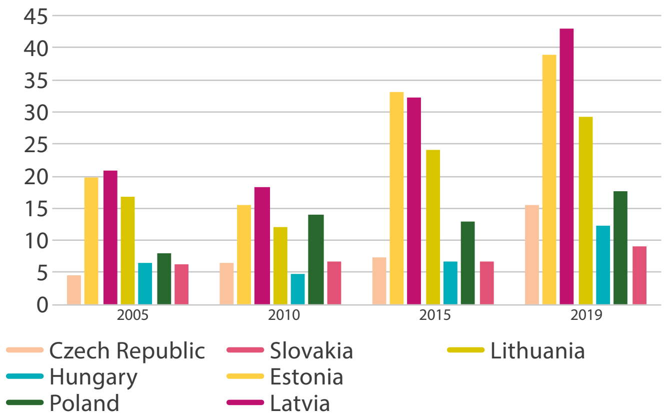
Figure 2.24 People at risk of poverty or social exclusion *(2005-2020)*



Source: Eurostat (2021)

Note: No data for Czech Republic, Latvia, Poland, Slovakia and EU in 2020.

Figure 2.25 Risk of poverty rate in the older age category *(age 60 and above) (2005-2019)*



Source: Eurostat (2021)

The share of the informal economy is difficult to measure since there are no official data or records because of its informality. Also, 'informal economy' is a relatively broad term, which can cover various social and economic practices and phenomena depending on the context. Often it is related to the peripheral economies and to some structural phenomena related to peripherality, such as level of social inequality, deregulation of labour market, or quality of governance and trust in institutions. Finally, even if informality in the economy is usually seen as a negative indicator, we must add that, in many cases, it represents a way to adapt and survive in economic terms, especially in harsh times. Despite limited data, we can use some of the most recent estimates, which focus on different criteria, such as percentage of informal employment in total employment (ILO), the share of undeclared work in the private sector as a percentage of gross value added, and the total labour input in the private sector using the Labour Input Method, LIM (European Commission). These criteria emphasise employment and the economic impacts of informal practices in the EU. According to the report by the European Commission published in 2017 (using data from 2013), the V4 and Baltics states' figures in this regard are over the EU average, i.e., these economies have a larger informal sector. The only exception is Czech Republic, as Table 2.5 suggests (Williams-Bejakovic-Mikulic-Franic-Kedir, Horodnic, 2017).

The International Labour Organisation (ILO) estimates that the region's numbers oscillate between 6.9% and 38% in terms of percentual share of informal employment in total employment. Poland has the largest estimated share of informal employment, and Estonia the lowest. In general, the ILO also estimates that, in Europe and Central Asia (2018), there were about 100 million informal workers, which means some 25% of total employment. In Central and Eastern Europe, it should be some 19 million people (and circa 25% of total employment). "The majority (over 60 per cent) of employees employed informally are actually employed in formal enterprises reflecting the significant numbers of employees who are either not protected or insufficiently protected within formal sector enterprises. A significant proportion of them are employed on a temporary basis and/or work part-time or very short hours," notes the ILO with respect to the situation in the wider region (see ILO, 2018). In summary, the informal sector eventually merges with the precariousness of labour and the rising class of the 'precariat' in Central and Eastern Europe.

There are important structural differences that distinguish the region of the V4 and the Baltics from EU core economies and that show some intraregional differences, as the report for the European Commission confirms (Williams-Bejakovic-Mikulic-Franic-Kedir-Horodnic, 2017). Undeclared work in Central Eastern Europe is predominantly located in the paid employment sphere and much less in the self-employment or family work sectors. With the exception of Estonia and Latvia, the region shows higher average numbers related to the undeclared work in the employment relations in the EU. In the EU's core economies, the existing trend is the opposite. Undeclared work is linked predominantly with self-employment and much less with the sphere of employment relationships here. These differences show that informal structures strongly permeate the officially formal employment relations in the region. This shows that this sphere is more open to less regulated (and less socially protected) practices in the context of weakening organised labour and institutions. The exception of Estonia and Latvia is interesting: while the undeclared work is located more in the area of self-employment (neoliberally 'deregulated'), both countries show dramatically high levels of undeclared work in the sphere of family work[41].

2.5 INTERNATIONAL TRADE

In the following part, we briefly observe the main structure of the international trade from the perspective of the top 5 trading partners and sectoral structure of exports. The V4 countries and Baltic states were integrated into the European and global markets after 1989 as a composite part of their rapid 'exit' from the CMEA/Soviet structures. International integration into the new export and import patterns also represented an instrument of economic recovery after the transformational recession (that also meant the actual collapse of the CMEA trade system), which also involved important social factors such as employment (Myant & Drahokoupil, 2011, Richter, 2020).

In the early 1990s, the countries of the V4 group shared quite similar production profiles following the legacy of the CMEA division of labour. The trade system of CMEA was Soviet-oriented and dominated, and it also shared a peculiar characteristic of core-periphery relations within its framework. When considering existing trade patterns, the

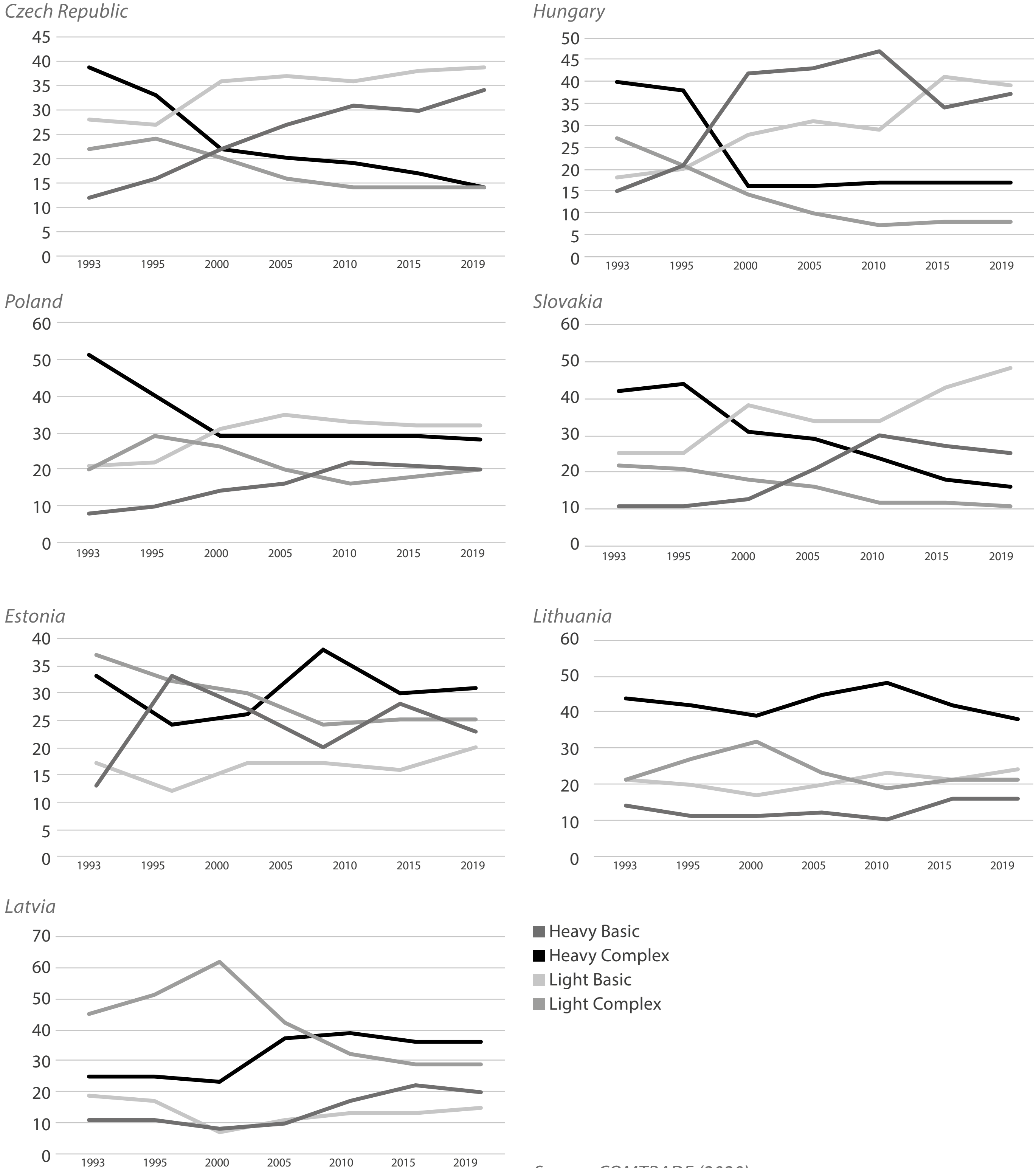
CMEA division of labour gave to the Central Eastern European states the role of a 'core' – the production of these countries was focused on relatively sophisticated production including technology-based production and consumption goods, while the political core, that is the Soviet Union, (with some exceptions, such as the arms industry and space technologies) served as a 'periphery' – exporting raw materials such as oil and gas to Central Eastern European markets. The same observation can be made about the imperial division of labour in the Soviet Union (and before Imperial Russia): the western borderlands (the Baltics) were the most advanced parts economically. Despite the strong CMEA trade orientation, Western markets increasingly played a role in their exports and imports, which was typical for all V4 countries since the 1980s (Richer, 2020).

This relative similarity of production profiles of the V4 countries as the result of their CMEA division of labour was one of the obstacles to a higher degree of regionalisation of trade in the early years of transition (Bohle-Greskovits, 2012). This situation meant in practice that these countries had very similar profile goods which they could not trade among themselves easily. When focusing on the top 5 trading partner countries (see Figure 2.A1, page 88), the expansion of regional factors can be evidenced in the early 2000s only, more precisely after 2005. Thus, it occurred some 15 years after 1989. The next important factor that needs to be highlighted is Germany's strong export (and partly import) position for the V4 countries, as well as the rapidly declining importance of Russia, a sign of abandonment of 'Eastern' markets by Central European producers after 1989. Moreover, in the majority of cases, the top 5 trading partners represent 50 or more (up to circa 70) per cent of overall exports and imports. In some cases and years, Germany represented up to 40% of overall exports (Czech Republic and Poland), which is an unprecedented level of export dependency on one location in the European context. The position of Germany is extraordinarily strong for all Visegrád countries, although it is slightly declining. It is yet another sign of economic development after 1989 which meant the new reliance on German capital and consequent integration to German-oriented production chains. Furthermore, we must add that the strong (but declining) position of Czech Republic in Slovak exports and imports and vice versa stems from the special relations of the divided federation (until 1993 they composed one internal market). In the case of Poland, we notice that the top 5 Polish export partners are dominated by the core economies of the EU – Germany, France, UK (until 2020), and the Netherlands. Poland is the only country from the V4 group that is also represented in the top 5 in the Baltic countries (as an exporter country). Thus, Polish trade is more core-oriented in comparison to its peers in the region (V4) but it is also linked to the Baltic subregion. The only peripheral country among the top 5 trade partners for Poland is Czech Republic from the V4 group (rising trend after 2005) and Italy (declining trend) from the Southern European group. Italy is also the only trade partner of the V4 countries from the Southern European periphery in the top 5, and its position as an export and import partner is most stable in the case of Hungary, which can be seen as a subsequent sign of regionalisation (considering the 'southern' location of Hungary). After 2010, Hungary also represents the only country with trade links to Southeast Europe (Romania) in the top 5, again as an export partner.

The Baltic export and import structure is different, and it also has a different Soviet background. However, their new focus on the Western European markets is a clear trend that had already started to emerge in the 1990s. Firstly, Germany is not the dominant player in exports and imports for the Baltics after 1991. In fact, no country enjoys a strong position as an export partner, as was evident in the case of the V4. Therefore, the Baltic trade pattern is more balanced in comparison with the V4 countries. Furthermore, Baltic trade is also regionally focused (this is valid also for Czech Republic, Hungary and Slovakia in the V4) with a predominance of Nordic partners such as Finland and Sweden as well as Russia. This focus by the Baltic economies on their Nordic neighbours is consistent with data about FDI (Swedish and Finnish investors predominated). The Baltic trade pattern is very regionalised, with a stronger and more persistent role played by Russia than in the V4 (for example, Russia experienced 'comeback' for Estonian exports between 2010-2018 despite continuous geopolitical tensions).

When seeing the share of the top 5 patterns in export and import for all seven countries concerned, we can sum up as follows: in the period between 1993 and 2019, regionalisation of trade (or the rise of intra-regional trade) took place mostly after 2005. The most regionalised countries of this group are Slovakia and Latvia (in imports), the most core-oriented countries are Poland (in exports and imports)

Figure 2.26 Composition of exports by industry characteristics, V4 countries and the Baltics, in % of exports (1993-2019)



Source: COMTRADE (2020)

and Hungary (in exports). The linkage trade partners are Italy (in the V4), Hungary (for South East Europe) and Poland (in the Baltics). Despite this trade regionalisation trend, Germany (in the V4) and Finland with Sweden and Russia (for the Baltics) represent the most important trading partners in Central Eastern Europe over the period studied, but at different intensities (see Figure 2.A1, page 88).

In chapter 1, we have already explained the sectoral distribution of exports in terms of terminology and importance for understanding the structure of exports[42]. What we can observe from the available data is that the structure of exports has been changing quite dynamically in Central Eastern Europe in the period studied. The biggest changes can be found in the *light basic* and *heavy basic* sectors for Czech Republic, Slovakia and Hungary (in Poland we observe rather the stagnation of *light basic* after 2010). Considering the importance of the automobile industry as well as machinery and electronics production for the V4 countries, this increase was connected with the *heavy complex* and *light complex* sectors, which became predominant. Slovakia, in particular, expanded its *heavy complex* sector dramatically between 1993-2019 (from 25% to 48%). Hungary's share of *heavy complex* and *light complex* became quite balanced recently. On the other hand, the V4 group has witnessed noticeable decline in the *light basic* sector. Bohle and Greskovits pointed out the increasing role of complexity of Visegrád production:

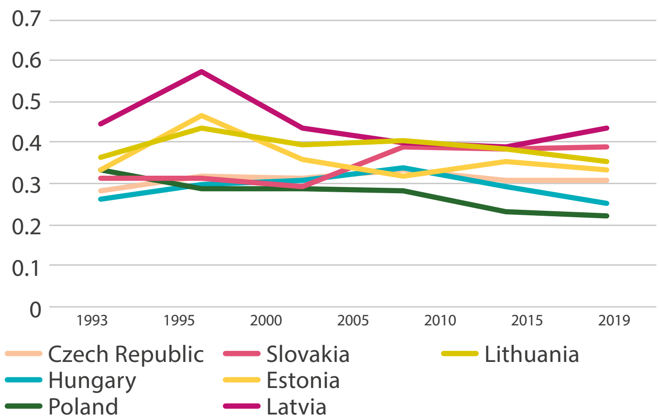
"First, while these economies have been relatively rich in experienced and skilled labor, and have even displayed a degree of local managerial and entrepreneurial talent, they have had to rely on the advanced economies in their needs for capital, technology, and global entrepreneurial skills, such as design, worldwide input sourcing, and marketing access and knowledge. Consequently, their newly achieved competitiveness in complex sectors has been inextricably linked to foreign input. Second, notwithstanding recent progress in technological upgrading, the actual productive roles of the complex-manufacturing industries of the Visegrád economies still exhibit overall lower levels of autonomy, sophistication, and skills than the activities concentrated in the Western segments of the same transnational industries" (Bohle & Greskovits, 2012:loc 1053).

In the Baltic states, the exports follow a slightly different pattern. In Estonia, the level of *heavy basic* sectors was maintained, while *heavy complex* and *light complex* expanded quite modestly between 1995 and 2019 (from 17% to 20% in the case of *heavy complex* and 13% to 23% in the case of *light complex*). The same pattern was followed by Lithuania with a very small increase in the *light complex* sector between 1993 and 2019. However, Latvia is somewhat different. Latvia expanded its *heavy basic* and *light complex* sectors, while it witnessed decreases in *heavy complex* and *light basic*. It is important to note that the increasingly important part of Baltic exports became services (in 2019 circa 30% of overall exports).

The following Figure 2.26 shows the composition of exports according to sector between 1993 and 2019. As we can see, the trade integration of these countries has produced two different patterns, which are consistent with their economic strategies. The Visegrád pattern means a predominance of *heavy complex* sectors (mostly vehicles, organic and inorganic chemicals, plastics, power generating machines, etc). On the other hand, the Baltic pattern shows the predominance of *heavy basic* sectors (such as petrol products, electricity, manufactured natural gas, food and beverages, pulp and waste paper or crude fertilisers).

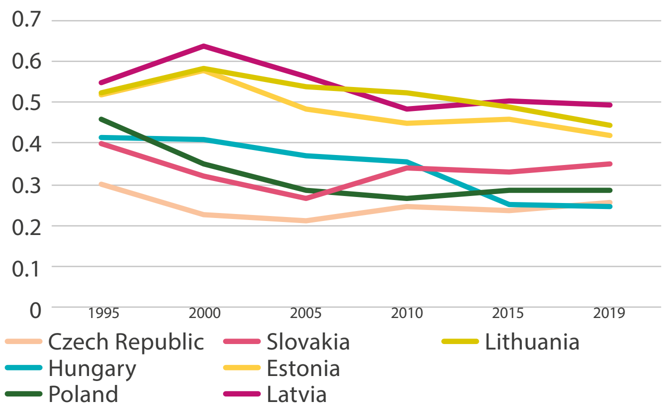
As chapter 1.5, page 45 suggested, it is possible to see sectoral composition of the country compared to a benchmark country, in our case Germany, by means of dissimilarity index of exports and on matching index of exports and German (as the benchmark country) imports (Petrović, 2022; Celi & Petrović, 2022). Figure 2.27 shows that V4 countries have been moving towards a German sectoral structure over the period studied. On the other hand, Baltic countries show higher values of index, i.e., bigger dissimilarity. Figure 2.28 indicates that the V4 countries' exports have been increasingly matched with the sectoral structure of German imports, but with some nuances. For instance, Slovakia shows a diverging trend after 2005. On the other hand, Baltic countries increased their dissimilarity as a corollary of their post-Soviet legacies until 2000; afterwards, they converged towards Germany but at a fairly slow pace. Both indexes are higher for the Baltic subregion. In terms of both indexes, there is a clear difference line between the V4 group and the Baltics.

Figure 2.28 Exports-Imports matching index (relative to Germany) for the Visegrád countries and Baltic states *(1995-2019)*



Notes: The index measures the dissimilarity between the sectoral composition of a country's exports and the sectoral composition of the benchmark country's imports (Germany). Source: author's elaboration on COMTRADE data

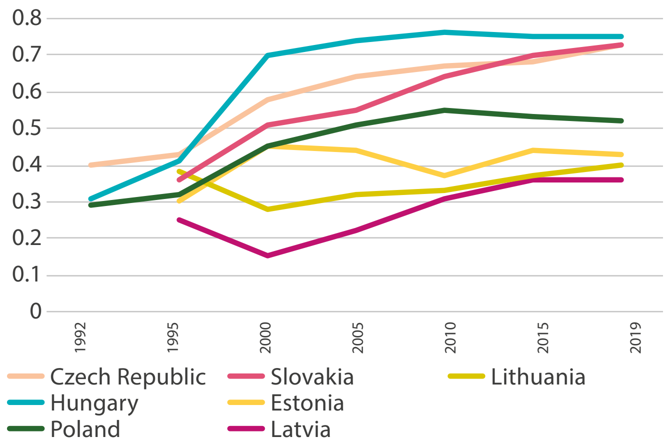
Figure 2.27 Dissimilarity index of exports (relative to Germany) Visegrád countries and Baltic states *(1995-2019)*



Notes: Higher values of the index indicate more dissimilarity between each country and Germany in terms of sectoral composition of exports.
Source: author's elaboration on COMTRADE data

Finally, we can still focus on the structure of exports from the perspective of technologically intensive sectors. Figure 2.29 shows the structure of overall exports related to 'technologically intensive' sectors[43] – i.e. those sectors of production that are technologically the most sophisticated and that also create higher added value and higher wages. As the figure shows, the region has quite a high share of technologically intensive exports (especially Hungary and Czech Republic or Slovakia), and its share has been continuously increasing since 1995 thanks to FDI inflow to manufacturing sectors (again, especially to Czech Republic, Slovakia and Hungary, after 2000 also to Baltic states).

Figure 2.29 Technologically intensive sectors, % of overall exports *(1990-2020)*



Source: UNCAD (2021). Data for the Czech Republic in 1992 are for the year 1993.

2.6 CONCLUDING REMARKS

This chapter focused on the main economic (and partly) social characteristics of Central Eastern Europe between 1990 and 2020, based on the available statistical and econometrical data. Some more theoretical and conceptual observations related to the region's peripherality are in order now.

Firstly, path dependence (dependence on the previous decision for making the next decision) was a predominant feature of the development, even when this region tried (again) to radically divorce from its (state socialist) past. Indeed, historical discontinuity is the most powerful story of this region and the source of its biggest paradoxes. The integration of V4 countries and the Baltics into the European and global economy cannot be sharply differentiated from the process of post-socialist transformation. In the same vein, we should add that the process of Europeanization (and EU integration) cannot be separated from post-socialist transformation seen as a restoration of capitalist relations (compare with Kagarlitsky, 2000), and as a restoration of the (semi)peripheral position in the capitalist global world-system (Berend, 1999). Therefore, the mythical 'return to Europe' was the road back to the place on the European periphery (and semi-periphery in the global context). We should not miss the historical irony here, given that the socialist development was inspired by domestic and Soviet-inspired/imposed recipes to break the chains of the (semi)peripheral position of these countries. The processes of global and European integration, political transformation, nation-state building, and capitalism-building were intertwined and, thus, influencing each other in myriads of ways. However, they were path-dependent even when they led to a more dramatic transformation of social and economic relations in regional societies. In the early 1990s, this region went through a transformational recession resulting from a command economy collapse and early neoliberally inspired reforms (sometimes called 'shock therapy'). This course of events puts Central Eastern European societies in a socially and economically weak position. It had a negative impact on early reforms, including those that tried to resurrect homemade 'national' capitalism (Czech Republic and Slovakia). In the end, the road to national capitalism was lost and, with it, also the region's potential for indigenous development.

On the one hand, the region was growing in terms of GDP (annual growth and volume), with its dynamics overcoming West European core economies and its Southern peers. However, we must add that about one decade (or more) was spent on returning to its former (socialist) output. The transformational recession meant, economically and socially, the 'lost decade' for Central Eastern Europe. Growth was based on the increasing reliance on external sources – exports (and consequently integration into global production chains) and FDI as a primary type of investment (and consequently on foreigner-controlled innovations in technology and management) and accumulation. These sources of economic growth meant the deepening of external dependency in the economic and political sphere. They also paved the way for the strong economic and political role of TNCs for the region. Corporate governance can and does influence state policies and decision-making processes as well, as it helps to shape local institutions, including institutions of growth. Nölke and Vliegenthart named this model a "dependent market economy" (Nölke & Vliegenthart, 2009).

Bohle and Greskovits (2012) differentiated three political economy models (or varieties of capitalism) in Central Eastern Europe (including Slovenia). While Slovenia is a stand-alone model (neo-corporativist), the V4 countries were called 'embedded neoliberalism' due to their relative emphasis on navigating the social hardships of transformation. On their side, the Baltic states radically introduced a neoliberal model that was not socially but nationally embedded as a composite part of their nation-state building (in this sense, Baltic countries share some similarities with post-Yugoslav states, such as Croatia). Nevertheless, these different models were able to provide relative intraregional convergence in critical economic and socio-economic criteria. There are some differences, such as a higher level of tertiarization and financialization of the Baltic economies, the predominance of services over the manufacturing sector, more balanced regional trade relations (including Russia), or deeper impacts of the GFC.

The Visegrád Four underwent a slower pace of deindustrialization because of path dependency, which seems to fit Western European (and often German) capital's interests. In this sense, geography and longstanding local industrial traditions and legacies of socialist educational systems determined the development. Compared to the EU-15, the V4 region (and, to some extent, the Baltics) shows much stronger employment allocation in the industrial sector. However, services underwent noticeable changes, and they became predominant in the Baltics.

One of the deliberate consequences of the collapse of the socialist economic model was the bet on cheap labour as a comparative advantage on the global market. From the Marxist theory, we know that workers sell their labour power (and their lifetime) to capitalists for less value than the value of the product they produce. Labour is treated as a commodity and, as such, is 'exploited'. This is also valid for labour in the context of '*competition states*' as a subsequent stage of 'transformational neoliberal states', as Jan Drahokoupil (2009) labels it. Indeed, competition became a key feature of global capitalism with its deregulated nomadic identity embodied in the TNCs. Low wages, a flexible labour market, loose industrial relations with the weak role of trade unions, decentralised bargaining, and tax regimes privileging investors, corporations and the rich, are all features of competitive states' race to the bottom in their regional designs. Drahokoupil sees the Baltics as "macroeconomic stability-driven *competition states*", because they rely on monetary policy, and the V4 region as an example of a specific type of *competition state* dominated by "Porterian workfarist postnational regime" (Drahokoupil, 2009). It is important to note that these two regimes work within the broader European regulatory framework, it is not an isolated phenomenon.

In addition, this regime is permeated by the logic of competition based on the ideas of economist Michael Porter. Porter argued that competitiveness is achieved by a rising level of labour productivity associated with the high-tech production process and labour-intensive activities. On the other hand, this regime is not welfarist anymore. Indeed, it is *workfarist* – this is a qualitative shift towards social policies increasingly "motivating the welfare recipients to actively look for jobs" and "promoting workforce flexibility", which means training workers according to capital's needs (Drahokoupil, 2009: 51). The shift towards the *workfarist* paradigm was associated with competition, since these economies bet on cheap labour, assembly and production of relatively complex and durable consumer goods as comparative advantages; yet, as Nölke and Vliegenthart put it, "their comparative advantages are constantly being threatened by countries located further to the East" (Nölke & Vliegenthart, 2009: 674). Labour, as well as industrial relations, is subjected to this *workfarist* regime of never-ending competition, which is primarily dictated by the needs of profit-making and investment rentability and, consequently, in which wages are just an expense, labour just a commodity, and the entire countries mere 'departments' in the structures of corporate governance of large TNCs.

The *competition states* in Central Eastern Europe have also adjusted their tax systems to the neoliberal theories. Even when their flat tax systems are not flat in reality, they are deflected to the side of corporations and higher-income population. V4 and Baltic states' tax systems continue to be regressive, emphasising indirect taxes such as VAT, while capital or property taxes are often underrepresented. A flat tax system that prefers one rate for all income groups is problematic in many ways, especially concerning social and income inequality. It is important to add that flat tax systems also mainly negatively impact the middle classes. Together with low or lower salaries and asymmetrically growing living expenses, this situation inevitably influences the quality of democracy and trust in democratic institutions. There is a vicious circle because *competition states* must privilege capital over their citizens who are provided, not with welfarist, but rather *workfarist* assistance.

The dependent development typical of peripheries is not just externally imposed. Drahokoupil argues that *competition states* are hegemonic projects based on the comprador class coalitions and embedded in the framework of (neoliberal) thinking that enables public support to be maintained and reproduced. In his *Political Economy of Growth* (1956), Paul Baran introduced the term 'comprador' (of Portuguese origin, meaning 'buyer') to describe and analyse sources of underdevelopment in Latin America. Baran argued that compradors create coalitions with foreign capital (interested in exploiting natural resources in this context). As such, they play not just mediatory or proxy roles; they are themselves beneficiaries of the existing arrangement. Thus, these compradors "use their considerable influence to fortify and perpetuate the status quo" (Baran, 1962:337). The role of the comprador class is essential for a structural understanding of the Central Eastern European form of dependence. Of course, Central Eastern Europe is not Latin America. However, interest congruence between national elites and the investors also exists here, and policies and their outcomes must be seen as 'products of the agency of particular social forces mediated through structures of representation'. The privileged position of social forces associated with FDI helps to explain the support for the competition agenda (Drahokoupil, 2009: 135).

These observations bring us to the following set of questions – for example, to what extent is the competitive model of state inclusive, or how much does it rely on rather exclusive strategies. In the case of the Baltics, we have seen that exclusion was an essential part of neoliberalisation, seen as a radical break with the Soviet past. This radical break meant de-Russification, which went hand in hand with deindustrialization and financialization, or financialized growth. The exclusion of trade unions and the tripartite mechanism is another symptom of exclusive policies targeting organised labour in the entire region. However, we can perhaps focus on the *workfaris*t paradigm through the lens of exclusive/inclusive qualities, too. We can hardly speak about an inclusive state that secures its existence through modernisation (i.e., reform) in a context in which cheap labour becomes an essential component for economic growth fuelled by external forces (TNCs), whereas the *competition state*, administrated by the comprador class, approaches labour as a commodity to be sold on the global market. Perhaps we can argue that dependent market economies became a hybrid form of political economy, somewhere between the inclusive and extraction-based states as two ideal types (see Acemoglu & Robinson, 2012). These competition states still rely on taxes, increasingly used not for welfarist but *workfarist* aims. The relations between state and citizens reflect this hybrid constellation. In short, labour became something like a human resource (not even human capital) while profits are redistributed unevenly and often end up abroad. This specific political economy must then be pondered in its relationship to democracy and its legitimacy, as well as reform and revolution.

The peripheral economies of Central Eastern Europe are characterised by internal and external chronic imbalances (Vliegenthart, 2010). They often host the most radical symptoms of neoliberal capitalism, such as a disproportionate share of foreign ownership in critical production sectors of the economy, foreign-owned bank system, high level of outflows of capital and dividends, the dominance of FDI over other types of investments (i.e. stock market or domestic credits), corporate governance (including corporate control over modern technologies) or, sometimes, extreme dependence on one trade partner in exports and imports. These imbalances have social and political consequences, such as uneven regional development (see chapter 5, page 84), leading to the political fragmentation of national communities (capital city versus the rest), increase in inequalities or the rise of reactionary backlashes, but also to more hopeful searches for alternatives. Furthermore, the contribution of Central Eastern European *competition states*, with their neoliberal policies, to the intra-EU 'race to the bottom' should not be omitted.

Dependency makes local societies extremely vulnerable to the conjunctural events in the European and global economy, such as economic and financial crisis, pandemics, climate change or technological change (automatization). Indeed, the global financial crisis in 2008 has demonstrated many of these vulnerabilities, including the weaknesses of FDI-based and financialized growth. Moreover, it challenged the process of convergence with 'the West' and the European integration project itself, something which is most openly articulated in the social-conservative model in Hungary and Poland.

APPENDIX

Figure 2.A1 Top 5 import partners, *% of imports*

Source: Atlas of Economic Complexity (2021)

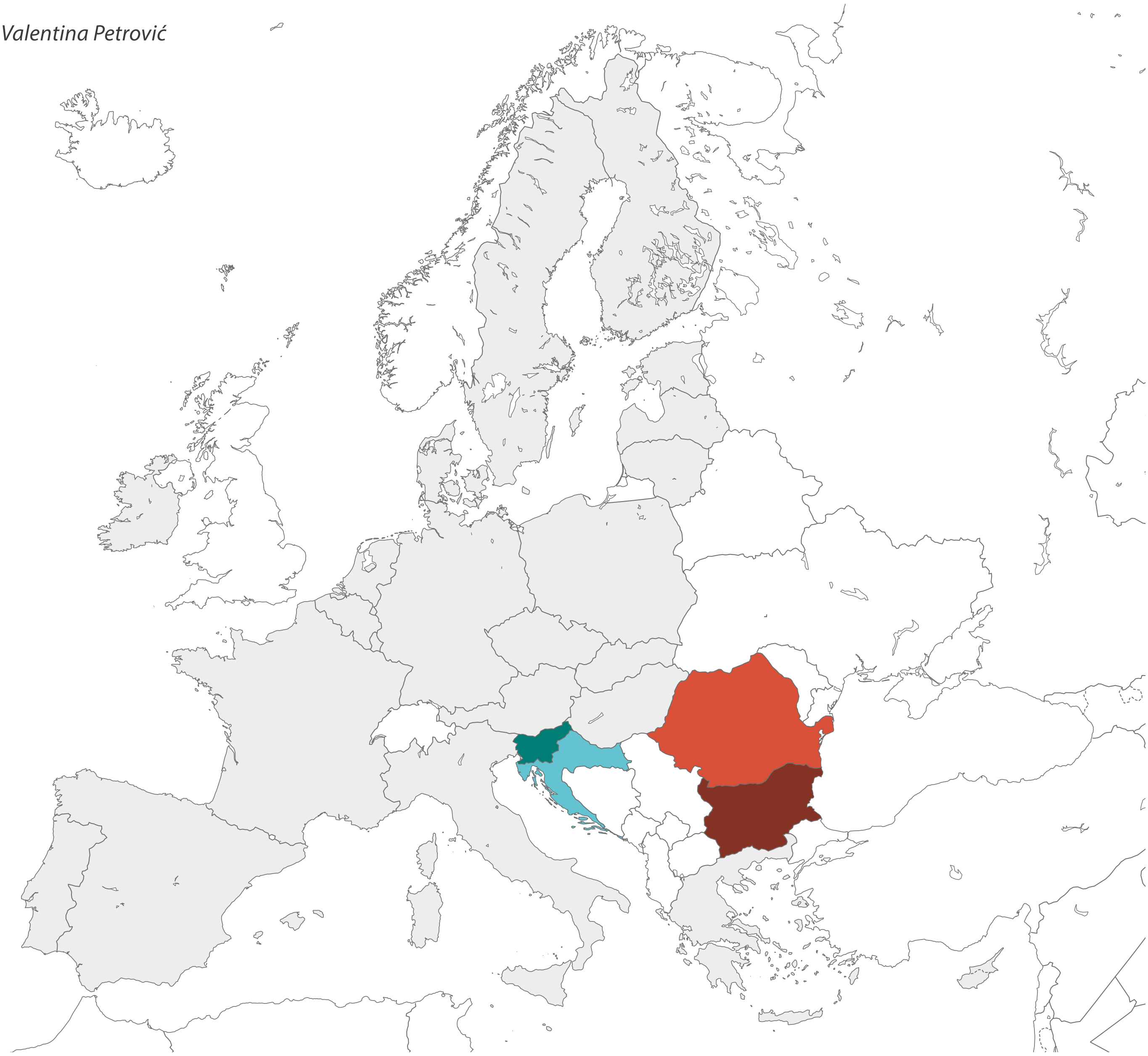
Figure 2.A2 Top 5 export partners, *% of exports*

Source: Atlas of Economic Complexity (2021)

Chapter 3 – South-East Europe – SEE

Bulgaria, Croatia, Romania, Slovenia

Valentina Petrović



3.1 INTRODUCTION

This chapter presents the economic data on the four countries Bulgaria, Croatia, Romania and Slovenia for the period from 1990-2020. As a country group, the South-East European (SEE) states joined the European Union in 2004 (Slovenia), 2007 (Bulgaria and Romania), and 2013 (Croatia) respectively. Croatia is thus the youngest EU Member State, while the EU enlargement process towards other South-Eastern European countries has currently been paused. The four countries exhibited a diverse set of economic structures at the end of the 1980s, influenced by their pre-socialist and socialist legacies. Consequently, once EU integration took place, their economies' starting positions differed widely.

Slovenia, the oldest EU Member State in the South-Eastern country group, exhibits economic properties that can be classified as being in between core and peripheral characteristics: relatively high Gross Domestic Product per capita (GDP p.c.) and growth levels in the 1990s, relatively high wages, a diversified manufacturing sector linked to Western markets and exporting a high share of technologically advanced goods, with regional dominance in the market of the Yugoslav successor states. Due to its Yugoslav legacy, the strength of corporatist elements (at least until the global financial crisis (GFC) in 2008) and its gradualist approach in the economy during the transition years, Slovenia's growth model and its institutions have often been described as exceptional in the (South-)Eastern region (Feldmann, 2014; Bohle & Greskovits, 2012; Mencinger, 2004; Stanojević 2003).

Bulgaria and Romania, on the other hand, experienced economic crises in the 1990s and painful restructuring prior to EU accession. Despite the many similarities between the two countries, numerous structural differences exist between them. While both joined the EU in 2007, the development of their economic structures after the transition years differed: whereas Romania successfully attracted large, transnational companies (TNCs) and greenfield investments prior to the GFC, Bulgaria has not experienced a revitalisation of its manufacturing sector. Therefore, Bulgaria continues to exhibit relatively lower GDP p.c. levels and lower growth levels than Romania, with a lower share of technologically advanced goods in its export structure, trading mostly low value-added goods with the Western market. In contrast, Romania has expanded its share of technologically advanced goods within its overall exports, which is mostly due to the expansion of the automotive sector in the country. Romania thus also exhibits higher levels of GDP p.c., higher growth levels, and higher wages than Bulgaria (and Croatia).

Lastly, as the only country among the SEE country group to be involved in military conflict[44], Croatia was at war from 1991-1995, which has had devastating consequences for its economy and society. Its economic properties are more peripheral than Slovenia's or Romania's, and it demonstrates the lowest GDP p.c., growth levels among the four SEE countries, as well as low wages and a high share in low value-added export goods. The tourism sector contributes to almost a fifth of Croatia's GDP, making it very vulnerable and dependent on external shocks, such as the current Covid-19 pandemic.

Before presenting the economic data, we offer an introduction to the historical context for the four countries. The purpose of this section is to give the reader a brief overview of the different pre-socialist and socialist legacies, and, therefore, the different economic starting positions the countries exhibited at the moment EU integration began. What then follows is a discussion on the absolute properties of the economy, consisting of GDP per capita, GDP growth, the share of the agricultural, industrial and service sectors in GDP, as well as the employment share in the three sectors and data on debt and current account imbalances. If possible, data is presented for all years from 1990-2020. A second section on the labour market is presented, with information on wages, unemployment, trade union density and the level of collective bargaining. The third section looks at the role of foreign direct investment (FDI) in the respective national economy. The chapter finishes with a concluding discussion.

Historical context for economic growth in Slovenia, Bulgaria, Romania and Croatia[45]

The relatively high economic properties in the 1990s (in terms of GDP p.c., growth levels, wages) in Slovenia is not surprising, as the country exhibited the most favourable economic legacies at the time of its independence, if compared to Bulgaria, Croatia and Romania. Its modernization process has its roots in the socio-economic conditions in the 19th century, when the country was still part of the Austro-Hungarian Empire, which led to a proto-industrialisation process before WWII (Jaklič & Zagoršek, 2009). Slovenia exhibited high developmental levels even in 1945 due to its imperial legacy and its better starting position with regards to all indicators of modernization, which were further stimulated by the economic policies after 1950 that favoured Slovenian conditions, ultimately becoming the wealthiest and most modernized republic within Yugoslavia (Woodward, 1995:264-5). After initially imitating the Soviet model of industrialization, in 1955 Yugoslavia started to pursue economic policies that favoured the processing industries, such as the chemical and petrochemical industries. Consequently, the primary sector declined with the process of industrialization: the percentage of rural people in Slovenia fell from 20 per cent in 1971 to 8 per cent in 1994. The electrical industry became the most important, followed by the chemical, rubber, metal, paper and food industries. At the end of the 1980s, Slovenia exhibited a relatively concentrated and strongly export-oriented economy from the Yugoslav period. Moreover, companies operating in engineering and chemicals were the most advanced and capital-intensive in the whole Yugoslav federation and had strong ties to Western markets (Lazarević, 1994). In addition, not only was capital and labour productivity higher in Slovenia, but the country also earned the lion's share of Yugoslavia's convertible currency income, thereby enabling the enterprises to maintain a lower debt-to-earnings ratio (Burg, 1986:176). This was important for Slovene companies in order to stay competitive, especially once the Yugoslav market disappeared in 1990.

Consequently, its growth after Yugoslavia's dissolution continued to be export-led, based on heavy and light complex industries such as chemicals, transport and heavy industrial machinery, and pharmaceuticals. Slovenia's relatively fast reorientation towards Western markets was enabled by a preferential trade agreement with the European Community (EC), which was previously designed for the federative republic of Yugoslavia. After independence, Slovenia was allowed to continue using these privileges, until it signed a new agreement in 1993 (Mrak et al., 2004). Slovenia's position between the core and the Southern / Yugoslav periphery was therefore a semi-peripheral (or semi-core) one, as the export industry always had to rely on the import of semi-finished articles from hard currency areas (Singleton & Carter, 1982: 235). As will be argued throughout the chapter, the country's position between the core and periphery has not changed over the last three decades; however, what has increased is the pressure in various areas that Slovenia has experienced since the GFC in 2008.

In contrast to Slovenia, both Bulgaria and Romania have exhibited a less favourable starting position and both have suffered from severe economic crises during the 1990s. Both Bulgaria and Romania were ruled by the Ottoman Empire until the end of the 19th century. At the end of World War II, Bulgaria was among the most economically peripheral and underdeveloped countries in Europe, with only Albania ranking behind (Vassilev, 1999). 75 per cent of Bulgaria's population lived in villages and were predominantly engaged in small-scale farming. Its modernisation process therefore only started after World War II, which transformed the economy from an overwhelmingly rural and agricultural economy to an urban, industrial and service one (Vassilev, 1999). At the same time, this process led to the most radical transformation among the Soviet-bloc nations: nearly 40 per cent were employed in industry, with another 7 per cent in construction, exhibiting the highest share of its labour force employed in industry and construction. Moreover, 75 per cent of Bulgaria's national income was derived from industry by the end of the 1980s (Vassilev, 1999:580).

In addition, among the former Council for Mutual Economic Assistance (CMEA) members, Bulgaria's economy was the most intertwined with the Soviet economy (Dobrinsky, 2000:582). Over 70 per cent of Bulgaria's CMEA exports consisted of machinery and electronics, while the country exhibited a relatively high share in technologically medium advanced goods (Vassilev, 1999: 579). Yet its inability to reorient trade towards other partners (i.e. to the West) in the 1970s and 80s increased the economy's dependence on the Soviet market, whereby the total trade turnover in the second half of the 1980s reached more than 50 per cent (Dobrinsky, 2000:582).

As production efficiency was falling and terms of trade worsening, Bulgarian gross foreign debt tripled within five years as a result of extensive borrowing practices. Consequently, these policies led to the default on foreign debt in 1990 (Dobrinsky, 2000:583). The relatively high dependence on trade with the USSR constituted a major economic handicap for Bulgaria during the initial transition years. In contrast to Slovenia, Bulgaria thus experienced economic crises throughout the 1990s and was in a less favourable starting position at the time of starting its negotiation process with the EU.

Romania was, together with Bulgaria, among the least modernised Soviet-bloc countries at the beginning of socialism. During the first decade of communist rule, Romania followed the Soviet leadership obediently. Yet, in the mid-1950s, Romanian technocrats started to oppose Soviet economic policy, which would have led to Romania specialising in agriculture and related industries (Craciun 2014). In the upcoming years, expansion in heavy industry will become the main priority in economic policy, whereby the country extracted oil, which it exported until the end of the 1970s. The Danube region in Romania, which was previously an important agricultural area, was favoured for the location of heavy industrial plants, notably metallurgical ones (Popescu et al., 2015). Under the communist regime, the region evolved into a manufacturing belt, being considerably dependent on the import of raw materials. However, the post-communist period and the neoliberal policies enacted led to a drastic de-industrialization of the region and high unemployment rates, and it continues to be the peripheral region within Romania even today (ibid).

In fact, Romania was the first of the Eastern Bloc members to enter joint ventures and, in 1966, opened its first passenger car company, Dacia, producing cars under a licensing agreement with Renault (Vukov, 2019:5). Yet, until the late 1990s, the automotive industry stagnated due to limited investment. This trend was then reversed with EU integration and international investments that grew after 2000. As was the case with Bulgaria, Romania faced serious currency distress and deep recession in the 1990s (Dobrinsky, 2000: 581). One of the few quasi advantages Romania exhibited in the 1990s was its relatively low foreign debt levels, thanks to strict import restriction measures implemented by *Ceaușescu* in the 1980s (Craciun, 2014). After the deep recession at the beginning of the 1990s, the government initiated some gradual economic reforms, which entailed inter alia tax reforms and the first wave of privatisation.

Lastly, Croatia, like Slovenia, was part of the Austro-Hungarian Empire, though the Eastern parts of the country were at times also part of the Ottoman Empire. Within the Austro-Hungarian Empire, Croatia was the least industrialised region (Kotarski & Petak, 2019). Due to its different imperial legacies, its economic landscape is quite diverse: agriculture dominated the Pannonian North, while the coastal regions were dependent on tourism (Dragutin & Stiperski, 1996). Moreover, although a multi-centred industrialisation process was initiated during socialism, the big industrial cities were mostly located on the western transversal axis (from Zagreb to Rijeka and Pula) and in the Eastern and Southern parts of the country (Osijek, Slavonski brod, Zadar, Split, the two latter cities being known for their shipbuilding industry). Moreover, tourism was always an important pillar of the economy, both for Yugoslav and international tourism (Schoenfelder, 2008:215). Regarding its production capacities, the north-western region and the coast were oriented towards Western markets, being active in shipbuilding, tourism, light manufacturing and oil processing. On the other hand, the poorer regions in the interior produced primary commodities and exported labour (Woodward, 1995:66). Thus, in comparison to Slo-

Table 3.1 Summary: different legacies, different starting positions for the South-East European states

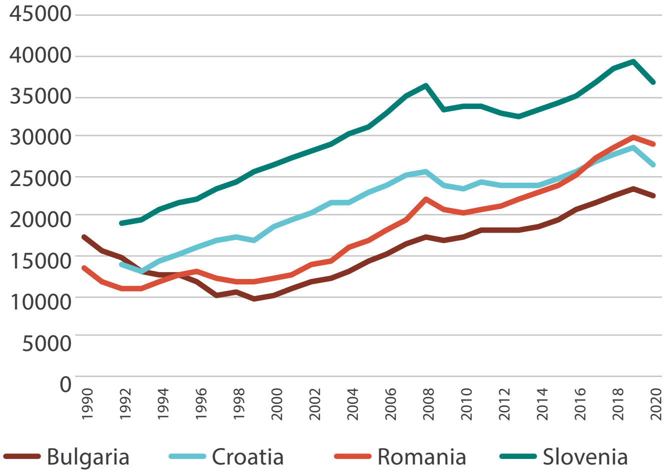
Legacies	Bulgaria	Croatia	Romania	Slovenia
Pre-socialist	Ottoman: no industrialisation Internal discrepancies present	Limited industrialisation in the region under Hungarian administration Internal discrepancies present	Ottoman: no industrialisation Internal discrepancies present	Austro-Hungarian: first steps of industrialisation (before WWII) Fewer internal discrepancies present
Socialist	Radical modernisation process, highest share in industry & construction (GDP & employment) Highest trade turnover with CMEA	Coastal region industrialised (processing industries) & Zagreb Domination of agriculture and heavy basic industry in Slavonia	Initial focus on agriculture and related industries, after 1960s, focus on heavy industries, first joint venture in 1966. Radical reduction of foreign debt in the 1980s	Focus on processing industries Multisite industrialisation process
Pre-Euro (1990-2000)	Magnitude of loss-making firms Foreign borrowing increased Default on foreign debt in 1990	War and destruction of its industries Privatisation process controlled by the HDZ	Recession during the 1990s Gradual economic reforms, first privatisation process	Gradualism Privatisation controlled by state-owned funds Low FDIs

venia, Croatia exhibited relatively more peripheral characteristics of its economy under socialism, as primary commodities and heavy industries were quite important for its GDP. In addition, while Slovenia exported predominantly medium technologically advanced goods to core countries (therefore accumulating hard currencies), Croatia's foreign currency surplus was based mostly on tourism and remittances from labour, as workers emigrated to core countries. Dependency on remittances and tourism made the economy less likely to withstand the shock of the loss of Yugoslav markets, let alone war (Boduszynski, 2013:87; Schoenfelder, 2008:220). In fact, the industrial sectors that could have become the engines for Croatia's growth during the 1990s were almost completely destroyed during the war years from 1991-95, or via the murky privatisation process, which was initiated and controlled by the then ruling HDZ (Hrvatska Demokratska Zajednica, Croatian Democratic Union) until 2000. Table 3.1 summarises the different starting positions for the four countries for the EU integration and negotiation process.

3.2 STRUCTURE OF THE ECONOMY

Figure 3.1 displays the Gross Domestic Product per capita (GDP p.c.) for the four countries (plus Germany) from 1990-2020. The figure is consistent with the abovementioned historical context and the ensuing different starting positions with regards to their developmental levels at the time of EU integration. Namely, Slovenia stands out from the group, exhibiting the highest GDP p.c. over the last three decades. Conversely, Bulgaria brought up the rear, displaying the lowest GDP p.c., while Croatia and Romania stand in between the other two countries' development levels. The fall in GDP p.c. due to the GFC in 2008/09 can be observed in all four SEE countries, followed by a period of recovery until the Covid-19 pandemic in 2020. However, the growth of GDP p.c. in Bulgaria and Romania needs to be interpreted with caution, as EU integration and visa liberalization led to a population decline in both countries. Next to the Baltic states, Bulgaria and Romania suffered most from emigration (Dobrinsky, 2021:269).

Figure 3.1 GDP per capita at constant prices, *absolute values, (1990-2020)*

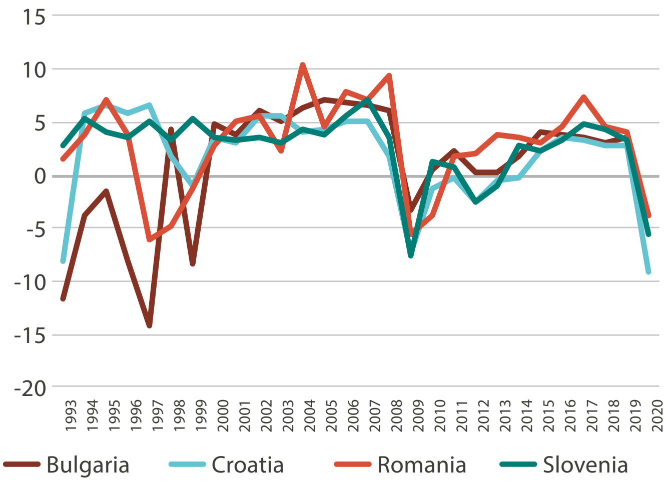


Note: Purchasing Power Parity; 2017 International Dollar.

Source: IMF(2021): World Economic Outlook Database.

Figure 3.2, page 95 shows the real GDP growth, as a 5-year average in annual percentage change for the four countries, plus Germany, from 1990-2020. While the graph shows positive growth rates for Slovenia for the entire period, it is important to highlight that the 5-year average does not show the recession during the first two years of independence. Due to the loss of the Yugoslav market and domestic socio-economic crises, Slovenia experienced an economic crisis until 1993 (Stanojević, 2011). The reason for the relatively fast overcoming of the crisis lies in Slovenia's quite favourable industrial legacies with a strongly export-oriented economy towards both peripheral and core countries. Its base for export-led growth during the 1990s was in heavy and light complex industries, such as chemicals, transport and heavy industrial machinery, and pharmaceuticals. In particular, old companies that were oriented towards the global market acted as the key engines of the Slovene economy. These included companies such as *Kolektor, Gorenje, Danfoss Trata* and *Lek Sandoz* (Jaklič et al., 2009).

Figure 3.2 Real GDP growth, *5-year moving average, annual percentage change (1990-2020)*

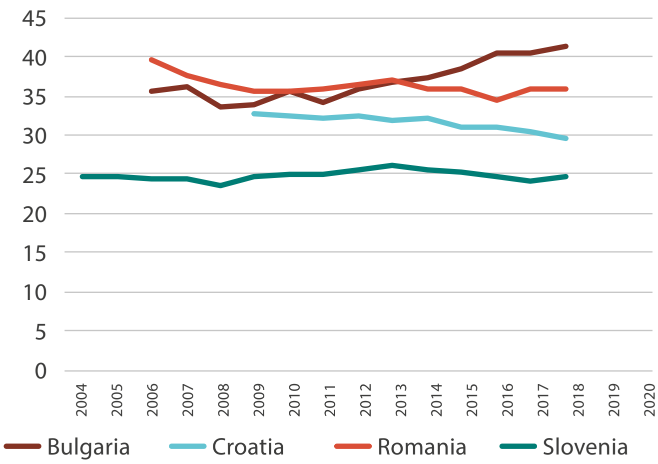


Source: IMF(2021): World Economic Outlook Database.

On the other hand, Bulgaria, Croatia and Romania recorded positive growth rates only at the end of the 1990s. In the case of Croatia, the main reason for the economic recession during the 1990s was the war that lasted from 1991-95, as well as economic mismanagement by the then ruling Tuđman regime, which culminated in an economic crisis at the end of the 1990s (Bartlett, 2003). War has had a catastrophic effect on Croatia's economy and its capacity for growth. Aside from the massive human losses suffered, the country's industrial capacities were partly destroyed, while a privatisation process, initiated in the 1990s, devastated many of the profitable firms. Indeed, what was crucial for the long-term economic viability of the post-Yugoslav successor states were its links with Western markets (Petak, 2004:61; Woodward, 1995:284). While Croatia also exhibited a large share of firms that exported to the West at the beginning of the 1990s (with a notable share in medium technologically advanced goods exports[46]), the country was not able to use its previous ties nor place its products in Western markets as quickly as Slovenia in light of the circumstances during the 1990s.

Lastly, both Bulgaria and Romania experienced a grave transition crisis during the 1990s, from which they only recovered after 2000. Bulgaria faced a crash of public finances, a bank run and a collapse of its currency with a hyperinflationary hike in 1997. The financial turmoil ruined the country's banking system, leaving its public finances nearly bankrupt (Dobrinsky, 2000:581). Considering the economic crisis, the government sought financial assistance from the International Monetary Fund (IMF). International financial support was tied to conditions, and required inter alia, radical structural reforms of the economy (Dobrinsky, 2021). Likewise, Romania underwent a three-year long recession from 1997-1999. GDP, industrial output and investment fell, while foreign debt grew massively. At the end of the 1990s, Romania was likewise forced to seek financial assistance from the IMF (Dobrinsky, 2021). Thus, while Bulgaria and Romania were preoccupied with crisis management in the 1990s, the majority of the Central and Eastern European states (including Slovenia) had already started EU accession negotiations (ibid). Its relatively high GDP growth rates after the GFC in 2008 (which were above EU average) need to be interpreted with caution: looking at the Gini index[47] (Figure 3.3), both countries display relatively high inequality levels. Especially in Bulgaria, GDP growth is paired with rising inequality since 2011, which can be mostly attributed to low wages and labour exploitation (Nikolova, 2019).

Figure 3.3 Gini coefficient of equivalised disposable income *(2005-2018)*



Note: Data before 2006, respectively 2008 are not available.

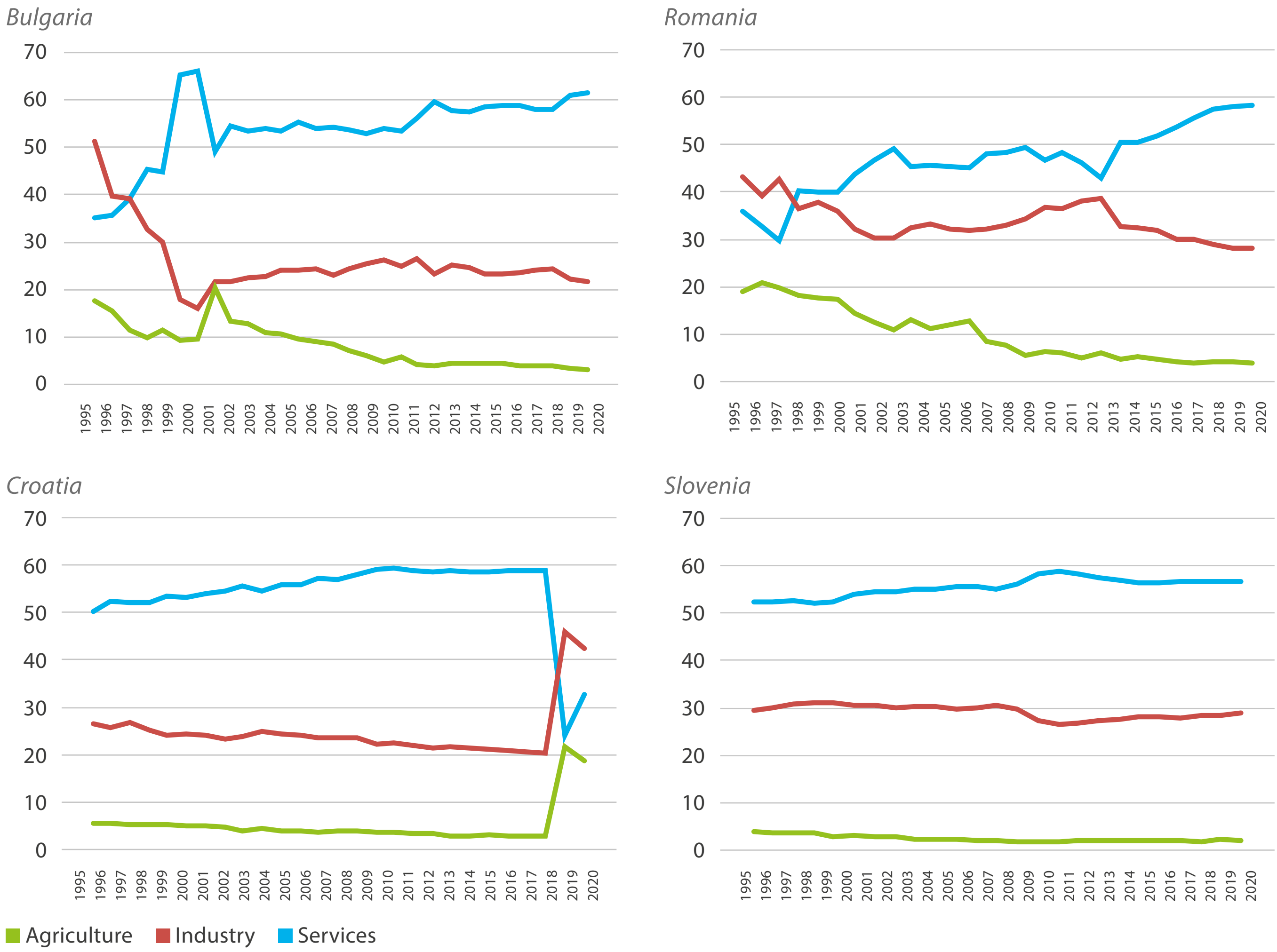
Source: World Bank (2021)

Figure 3.4 shows the share of agriculture, industry and services in GDP over the period from 1990-2020. All four countries exhibit a relatively high share of industry in overall GDP at the beginning of the 1990s, which subsequently declined. While the graph for Slovenia shows relatively constant industry levels across time, the manufacturing sector declined at the expense of an expanding construction sector after 2000 (Stanojević & Krašovec, 2011). All countries experienced a gradual expansion of their services sectors over the last three decades, but to varying degrees. In part, the manufacturing sector has been sacrificed to financialised accumulation after 2000, as will be discussed in later sections (RLS Croatia: 5-6). Yet Romania has experienced some stabilisation of its manufacturing sector (especially the automotive industry) due to foreign direct investments (FDIs). The tertiarization of the economies is also influenced by FDIs, as most of the foreign investments are targeted at the service sector (Bulgaria and Croatia), with a similar tendency in Romania after the economic crisis in 2008/09.

Figure 3.6, page 97 shows the current account balance in million euros for the last 20 years in the four SEE countries. The highest current account deficit is displayed by Romania (particularly after the GFC in 2008 as well as after 2015).

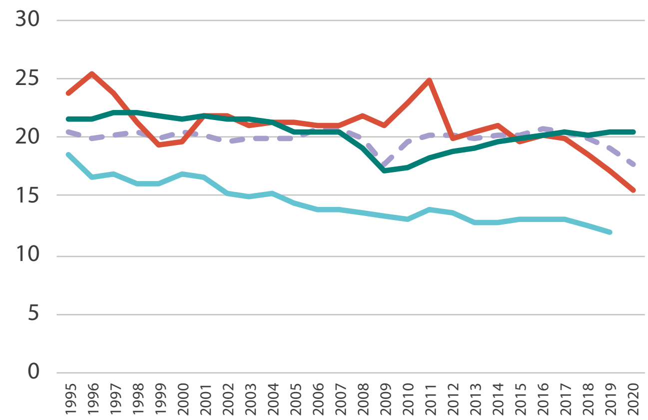
While the other three SEE states also experienced a drop in their current account balance after 2008, the countries did not exhibit the same levels of current account imbalances as Romania. The increase in its current account balance can partly be attributed to a drop in FDIs during the economic crisis, as well as to a continuing increase in imports, stimulated by demand for consumer goods (Milea, 2019). Likewise, there is high demand for transportation through Romania (as it borders the Black Sea), as many imports from EU Member States are transported via this route (Milea, 2017). The increased current account deficit after 2015 has been attributed to increased consumption and domestic demand (Milea, 2019).

Figure 3.4 Value added by sector as a percentage of total value added *(1990-2020)*



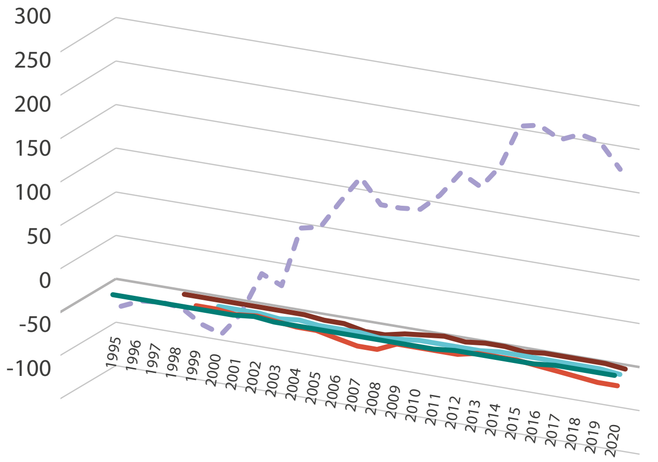
Note: The sharp decline in services in Croatia in 2020 is most likely due to the Covid-19 pandemic and the decline of the tourism sector. Source: World Bank (2021).

Figure 3.5 Manufacturing sector, *value added, % in GDP (1995-2020)*



Note: Data for Bulgaria not available. Source: World Bank (2021)

Figure 3.6 Current account balance, *in million Euros (2000-2020)*



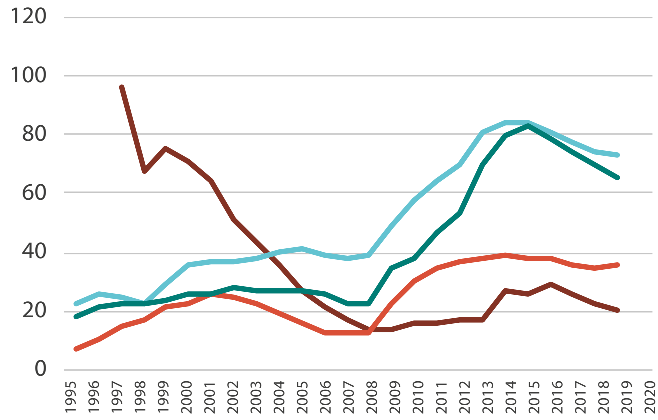
Note: Data before 2000 is not available for Bulgaria, Croatia and Romania.

Source: Eurostat (2021)

3.3 DEBT, TAXATION AND FDI

Figure 3.7 shows the evolution of public debt as a % of GDP over the period from 1995-2020. One striking development is the gradual reduction of its public debt from 1995 until 2010 in Bulgaria, a result of the economic crisis and the restructuring programme, as required by the IMF. A slight increase in its public debt can be observed after 2010, but not to the levels evident in the other three SEE countries. The other three cases, Croatia, Romania and Slovenia, all exhibited relatively low levels of public debt during the transition years, while public debt increased after 2000 and reached unprecedented levels in both Croatia and Slovenia after the recession in 2008/09. In fact, Slovenia's economy experienced massive financialization before the outbreak of the 2008 global financial crisis (GFC). These structural changes were accompanied by a change in the employment structure as well as the structure of the GDP in favour of the services sector as described above. Whilst the industrial sector remains important for the economy, the share of the construction sector – at the expense of the manufacturing sector – rose. The construction sector benefitted massively from the available cheap credit. Once the country gained access to cheap credit abroad (i.e. 'cheap' vis-à-vis the internal capital market), the loan to GDP ratio of domestic banks more than doubled from 40% in 2003 to 90% in 2008. Obviously, this fuelled economic growth (see Figure 3.2, page 95), not because of the productive sector but because of the financialization of the economy after 2001 (Podvršič, 2018).

Figure 3.7 Public debt as a percentage of GDP in South-East Europe *(1995-2019)*

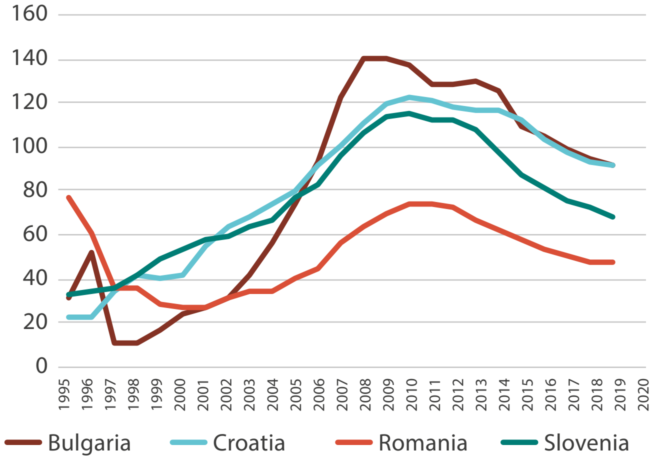


Note: Data before 1995 is not available.

Source: Eurostat (2021)

The pattern of economic performance before the GFC was broadly similar in Bulgaria and Romania but differed with regard to the nature of debt: in Bulgaria, the private sector was almost exclusively responsible for the rise in foreign debt, which rose above 100% of GDP in 2008/09 (see Figures 3.7 and 3.8). By contrast, the Romanian government was only borrowing in the domestic market. Although domestic public debt increased considerably, both before and after 2008, its level did not pose threats to macroeconomic stability in the same way as it did in the Bulgarian case (Dobrinsky, 2021:260). Moreover, Romania's economy experienced a relatively fast recovery after the GFC, thanks to its manufacturing sector and the incoming FDIs.

Figure 3.8 Private debt as a percentage of GDP in South-East Europe *(1995-2019)*



Note: Data before 1995 is not available.

Source: Eurostat (2021)

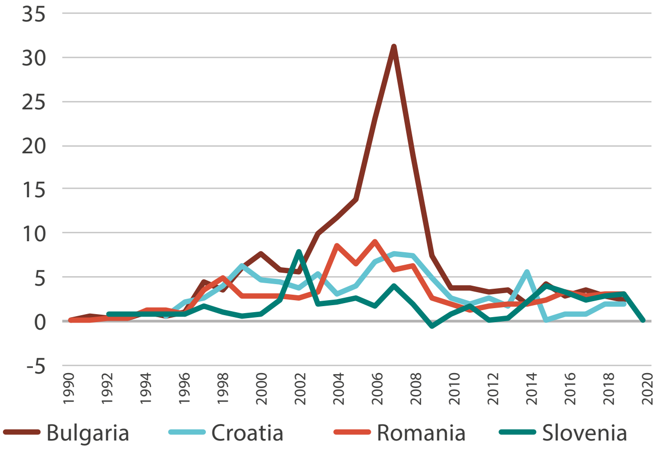
Table 1.1, page 39 shows statutory and effective corporate tax rates in the EU countries in 2021. The table signals significant differences in the taxation of corporate income, with some countries imposing particularly favourable taxation regimes. Bulgaria, Croatia, Romania and Slovenia particularly stand out with relatively low corporate income tax rates. Immediately prior to EU accession, both Bulgaria and Romania introduced a flat tax streaming to attract foreign investors. In Romania, corporate profit was taxed at 16 per cent, while tax rate on personal income was reduced to 10 per cent. In Bulgaria, both personal income and corporate profit was taxed at 10 per cent (Dobrinsky, 2021:276). The introduction of the tax reforms occurred, however, with ill-fated timing, since the GFC in 2008 led to an outflow of capital from the European peripheries. Moreover, in Bulgaria, the flat tax rate has had a disproportionally negative effect on income and wealth distribution, where the flat rate applies to all income (excluding pensions), without a non-taxable minimum income. In fact, growing inequality is, inter alia, the result of these policies.

Croatia and Slovenia exhibit relatively higher corporate tax rates than Bulgaria and Romania. In Slovenia, industries favoured, next to a devaluation of the currency, control of wages and export subsidies, a reduction in federal taxes and spending in order to maintain (or boost) competitiveness in the global market (Mencinger, 2004: 106). Taxes and tax rates are a sensitive topic in Slovenia that have led to recurrent protests in Slovene society. Policies targeting a flat tax rate of 20 per cent was fiercely opposed by the citizens and major trade unions in 2005. Likewise, in 2020, the right-wing government announced a decrease in taxes for the rich, which once more sparked nationwide protests in the country.

Figure 3.9 shows the FDI net inflows as percentage of GDP for the four South-Eastern European states from 1995-2019. Evidently, FDIs represented less than 5 per cent of GDP from 1990-2000, however due to various country-specific reasons. In Bulgaria, Croatia and Romania, the 1990s were characterised by economic turmoil and political instability and, in the case of Croatia, war and authoritarianism. Obviously, the economic crisis in Bulgaria in 1996 and '97 (and war in Croatia) posed a deterrent for foreign investors. This has had lasting consequences for the subsequent FDI inflows and, until today (2021), no large manufacturing multinational with a big production facility has entered the Bulgarian market. In the case of Slovenia, foreign capital targeted the Slovene market; yet the government restricted the activities of foreign companies in Slovenia, in order to keep control of the economy and to enable a 'gradual' transition towards capitalism. This situation naturally changed after 2000, once Slovenia opened up to international capital. In Bulgaria and Romania, as early as the late 1990s when the prospects for EU accession became firmly grounded, FDI started flowing into the economies. The FDI inflow accelerated in the 2000s and became the main engine of growth in Bulgaria and Romania, and this continued until the global financial crisis hit the economies in 2008 (Dobrinsky, 2021).

As a proportion of GDP, Bulgaria is among the East European states that have attracted the largest quantities of FDI in the last 20 years. Yet a closer look at the composition of the FDIs reveals that most of the foreign capital was targeted at real estate activities and not greenfield investments. The FDIs' role in the privatisation process poses another difference between the FDI inflow in Bulgaria and Romania; there is relatively low FDI participation in the privatisation process, especially in the first phase of privatisation (Dobrinsky 2021). In contrast, FDIs in Romania were characterised by greenfield investments, while the first privatisation wave in Romania was already underway in the 1990s, followed by a second one between 2001 and 2013 (Popescu & Ciora, 2015). FDIs thus became relevant during the first privatisation wave, as in 1994 51% of shares in Automobile Craiova were sold to Daewoo. Moreover, in 1999, Renault purchased the Romanian vehicle brand Dacia. This investment is also presented as one of the most notable success stories in recent Romanian history. Thus, the Romanian economy witnessed several greenfield FDI projects prior to the GFC in 2008 (Dobrinsky, 2021). Following the crisis in 2008, several multinationals have closed their plants in Romania (for example Nokia), laying off several thousand workers. In addition, TNCs have also repeatedly threatened to relocate their production elsewhere, unless workers accept wage moderation.

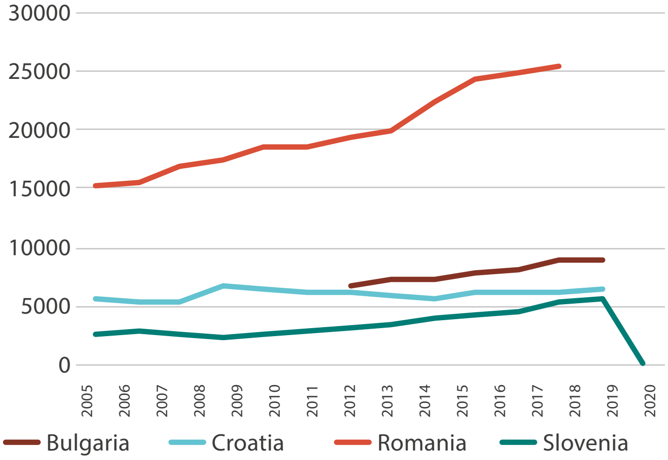
Figure 3.9 Foreign direct investment in South-East Europe Net inflows, *% of GDP (1995-2019)*



Source: World Bank (2021)

Lastly, Croatia started to pursue a dependent financialization model after 2000, which did not channel capital to productive activities (as in the manufacturing sector), but to financial intermediation, real estate and related business. Between 2000 and 2011, the majority of FDI went to financial intermediation (31.4%), wholesale and commission trade (11.3%) and real estate activities (8.3%) (Jaklin et al, 2013: 5). Here, it is important to note that FDIs do not represent the bulk of foreign investments. The largest shares in investments happened through loans. While in 1996 only 1% of Croatian banks were foreign-owned, this number rose to 84% in 2000. By 2009, the number had climbed to 91%. The result was a lending boom from 2002-2006, leading to economic growth based on rising indebtedness of the private sector. Hereby, loans to private households represented 49.4%, while 43% represented loans to non-financial corporations. This increase in loans was accompanied by an increase of production in the construction sector. There is generally a shortage of quality greenfield investments and foreign capital is mainly interested in investing in the services sector.

Figure 3.10 Greenfield FDI in South-East Europe, Inward stock, *in mill. EUR (2005-2020)*

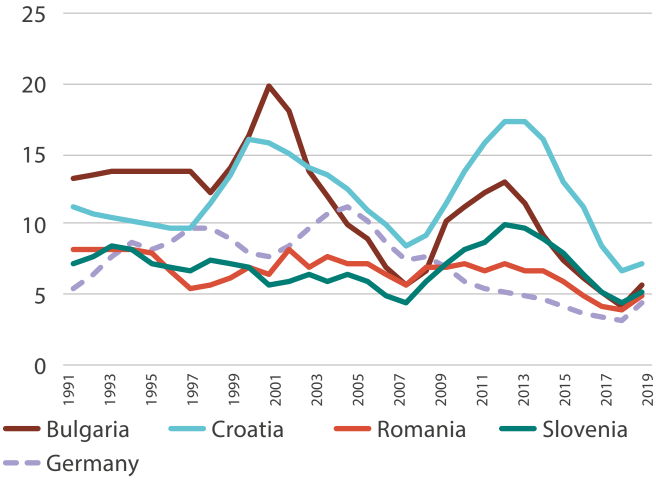


Source: WiiW. Data before 2008, respectively 2014 are not available for Bulgaria, Croatia and Romania

3.4 LABOUR MARKET AND SOCIO-ECONOMIC CONDITIONS

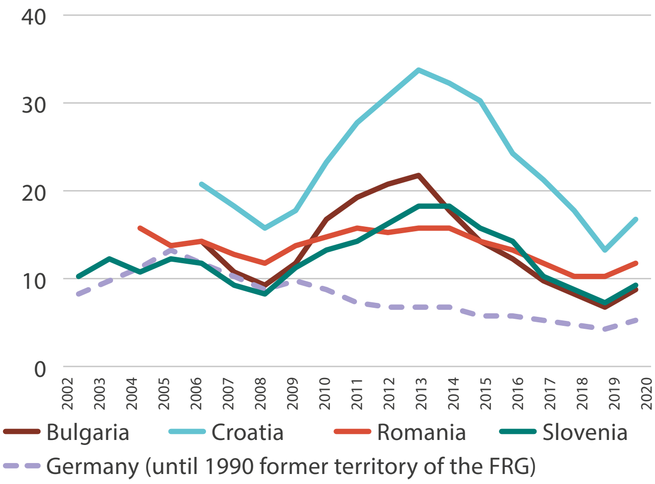
Figure 3.11 displays the unemployment rate for the four South-Eastern European states, plus Germany, from 1990-2020. Both Slovenia and Romania exhibit unemployment rates below 10% during the three decades, while Slovenia experienced slightly higher unemployment rates than Romania after 2008. Bulgaria and Croatia, apart from the brief period before the GFC in 2008, display unemployment rates ranging from 10% to almost 20% in 2000 (Bulgaria). In fact, Bulgaria (and, to some extent, Romania) suffered most from emigration, mostly to Western Europe, which led to an unprecedent population decline. The massive emigration, which continues to this day, reflects inter alia the disappointment of the population with the employment situation, especially those from more rural areas and (or) ethnic minorities (Dobrinsky, 2021:255-276). Figure 3.12 depicts the unemployment rate for the Youth from 2002 until 2020 for the South-Eastern European states plus Germany. While Bulgaria, Romania and Slovenia showed similar unemployment levels as Germany before 2008, this picture changes dramatically after 2008. In all four SEE countries, i.e., including Slovenia, rising youth unemployment is observed, reaching over 20% in Bulgaria and over 30% in Croatia in 2013. Currently, unemployment levels range between 10% and 20% in the four SEE countries, but are still above the level in Germany (around 5%).

Figure 3.11 Unemployment rate in South-East Europe and Germany, *% of total labour force (1990-2020)*



Source: Eurostat

Figure 3.12 Youth unemployment rates in South-East Europe and Germany, *% of total labour force (2002-2020)*

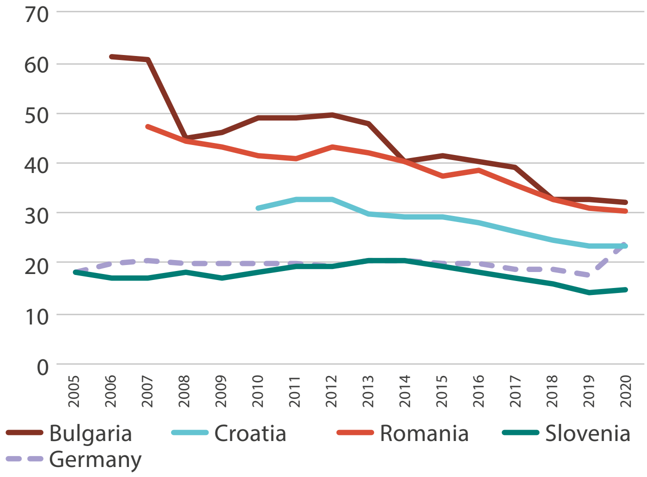


Note: Youth is defined as ranging from age 15-29.

Source: Eurostat

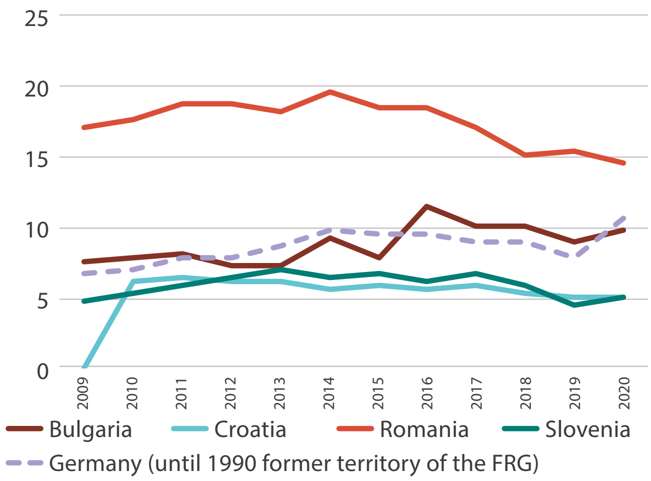
Not only did the economic crisis affect the European peripheral countries severely and disproportionally, but the austerity measures that have been imposed on those economies has had serious repercussions on the socio-economic conditions of its citizens. The following indicators display information on social and economic hardship: people at risk of poverty or social exclusion, severe material deprivation rates, in-work-at-risk-of-poverty rate and the inability to face unexpected financial expenses. While Slovenia and Germany show similar levels for people at risk of poverty or social exclusion in the last fifteen years, the other South-Eastern European countries differ radically from them. The relatively similar levels of Slovenia and Germany can, inter alia, be attributed to the relatively strong institutions of the welfare state, especially if compared to Bulgaria and Romania (see also the section on trade unions and social dialogue).

Figure 3.13 People at risk of poverty or social exclusion, *% of total population*



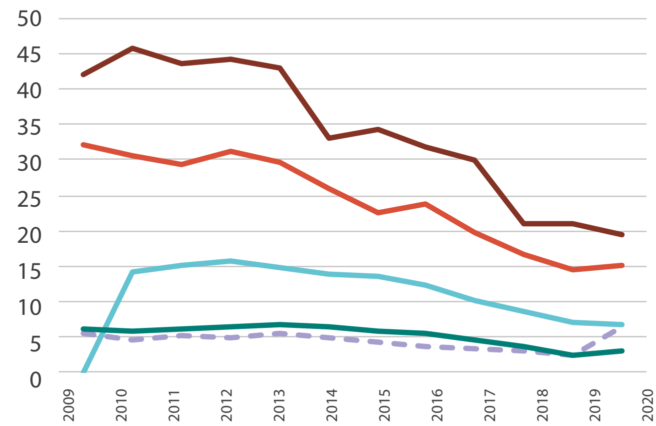
Source: Eurostat

Figure 3.14 In work at risk of poverty rate, *% of employed, 18 and over*



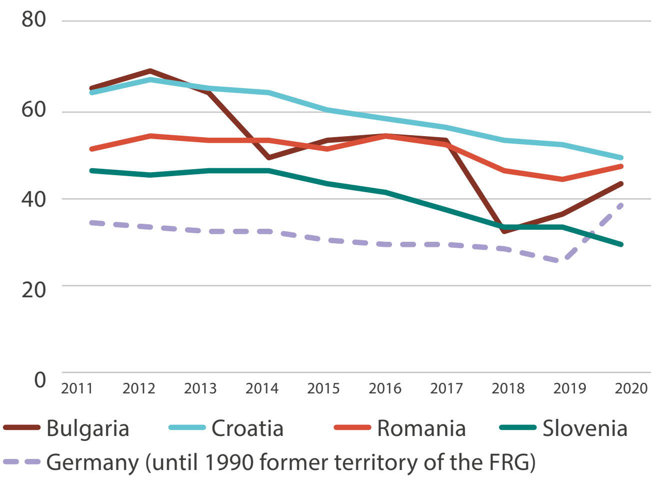
Source: Eurostat

Figure 3.15 Severe material deprivation rate, *% of total population*



Source: Eurostat

Figure 3.16 Inability to face unexpected financial expenses, *% of total population*



Source: Eurostat

In all of these indicators of socio-economic distress (Figures 3.13-3.16), the South-East European States show higher values than Germany, with the partial exception of Slovenia for certain indicators (see Figure 3.16). Bulgaria, Croatia and Romania show consistently high values in all indicators for socio-economic hardship, whereas Romania exhibits the highest rates of employed or total population at risk of poverty (see Figure 3.13). This evidence is also reflected in higher inequality levels for South-East European countries, especially for Bulgaria, Croatia and Romania, as shown by the Gini index in Figure 3.3.

How have employment patterns evolved over the last three decades? Generally, in all four countries the share in the primary and secondary sector decreased, while employment in the tertiary sector increased, though to varying degrees (see Table 3.2). While Slovenia is the least agricultural country according to its share in GDP, it also exhibits the lowest employment in the agricultural sector. Moreover, it has the highest share of industrial employment in 2015, together with Romania. Croatia and Bulgaria, on the other hand, are more rural and exhibit a lower share in industrial employment than Romania and Slovenia.

Table 3.2 Employment in the agricultural, industrial and services sector *(1995-2015)*

Bulgaria

	1995	2000	2005	2010	2015
Agriculture	8	7	5	4	5
Industry	52	50	47	42	40
Services	39	43	49	54	55

Croatia

	1995	2000	2005	2010	2015
Agriculture	n.a.	n.a.	n.a.	3	4
Industry	n.a.	n.a.	n.a.	51	39
Services	n.a.	n.a.	n.a.	56	58

Romania

	1995	2000	2005	2010	2015
Agriculture	10	9	7	4	5
Industry	57	52	54	49	45
Services	34	39	40	47	50

Slovenia

	1995	2000	2005	2010	2015
Agriculture	2	2	1	1	1
Industry	54	52	49	47	43
Services	43	46	50	54	56

Note: Numbers might not add up due to rounding.
Source: EU Klems, The Vienna Institute for International Economic Studies.

The above evidence about social distress not only reflects the dramatic impact of the economic crisis in 2008 but also the austerity measures that were implemented after the crisis. The measures entailed, next to sound public finance and cuts in public services, the flexibilization of the labour market, and lower wages. Tables 3.7 and 3.8 show trade union density and level of collective bargaining in the four countries from 1990-2018. While all four states suffered from a decline in trade union density rate, there is considerable difference in the level of collective bargaining among the four countries. The highest level of collective bargaining (with a 100% coverage) occurred only in Slovenia in 1995.

Table 3.3 Trade union density*, in % (1990-2018)*

	1990	1995	2000	2005	2010	2015	2018
Bulgaria	81	n.a.	23	19	15	14	13
Croatia	90	64	37	37	33	27	26
Romania	80[1]	n.a.	n.a.	n.a.	33[2]	n.a.	20
Slovenia	69	50	42	37	25	n.a.	20

[1]: Data from 1991. [2]: Data from 2008.

Source: ICTWSS (2021).

Table 3.4 Collective bargaining level *(1990-2018)*

	1990	1995	2000	2005	2010	2015	2018
Bulgaria	n.a.	3	3	2	2	2	2
Croatia	n.a.	n.a.	2	2	2	2	2
Romania	n.a.	n.a.	4	4	4	1	1
Slovenia	3	5	4	4	3	3	3

Note: The predominant level at which bargaining takes place (1= at local or firm level, 2= Intermediate or alternating between sector and company bargaining, 3= Bargaining predominantly takes place at the sector or industry level, 4= Intermediate or alternating between central and industry bargaining, 5= Bargaining predominantly takes place at central or cross-industry level with binding norms for lower level agreements).

Source: ICTWSS (2021).

Among the four states, Slovenia exhibits the strongest trade unions and strongest tripartite institutions. Next to the Yugoslav legacy, which endowed trade unions with powerful resources (Stanojević, 2003), the structure of the economy put the working class in a powerful position during the 1990s. In Slovenia, two major conflicts preceded the creation of its corporatist institutions in 1994. One was the law on privatisation, and the other concerned macroeconomic policies such as inflation and wage growth. Obviously, the working class and trade unions were interested in protecting workers' interests and had, generally, a higher representation of trade union representatives in the drafting process of the privatisation law (Mesman, 2012). This first conflict was solved after a two-year stalemate and political crisis, and led to a compromise between trade unions, managers and the then ruling political elite. The result of the privatisation process in the 1990s was a type of state-managerial capitalism in which workers' participation was initially high, but participation declined as workers sold their shares too quickly due to direct or indirect pressure (Stanojević & Krašovec, 2011:245). The second conflict concerned wages and wage growth. Facing an economic crisis during the initial years of independence, export-oriented firms were interested in freezing workers' wages in order to overcome the crisis. In 1993, crucial concession deals occurred, in which the government proposed a new wage freeze law, at the same time adopting a new law on workers' co-management and increasing the proposed discount for workers buying shares in companies to be privatised from 20 to 50 per cent (Mesman, 2012:64). This marked the birth of corporatism in Slovenia: trade union leaders accepted wage restraints in compensation for being part of the ESS (*Ekonomsko Socialni Svet*, the Social and Economic Council) and involvement in future policy negotiations.

Yet the material basis that gave labour and trade unions a strong negotiating position was weakened with the developments after the first decade. Financialization, the inflow of FDIs, an increase in small and medium enterprises and the comparatively less significant role of the traditional, big Slovene companies put pressure on the institutions of the social dialogue, i.e. the Economic and Social Council. Concretely, after 2000 the push towards more decentralised wage bargaining increased (see Table 3.5, page 97). This trend was further accelerated by the introduction of the euro in 2007, which decreased the need to coordinate wage setting and inflation (Feldman, 2014). Thus, while labour still influences the policymaking process in Slovenia to a certain degree, the structural conditions under which a class compromise occurred and was needed (in order to survive the 1990s), disappeared in light of EU integration and the increasing financialization of the economy.

While Croatia was also part of the same Yugoslav federation (and exhibited partially similar industrial characteristics to Slovenia), trade unions in Croatia operated under extremely difficult conditions. War in the 1990s led to artificial social peace, in the sense that the main trade union, SSSH, signed a pact with the government not to strike during the war years (Kokanović, 1999). While the main trade union remained independent from the authoritarian regime during the 1990s, its influence on the policymaking process remained marginal after the HDZ regime was removed in 2000. Although in Croatia a social pact was signed in 2001, little room was left for negotiations once reforms were initiated, as the country was considered to be a latecomer to reform by international neoliberal institutions. Consequently, the social pact was ended once the first labour market deregulations were unilaterally implemented by the government. The record of the tripartite dialogue in Croatia can be described as poor, due to its failure to reach compromises and long-term social agreements (Butković, 2017). However, albeit that trade union membership is declining, and the level of collective bargaining is relatively low, trade unions in Croatia can pressure governments via direct democratic instruments, such as referenda. Public sector trade unions in particular are capable of organising mass strikes and referenda in the country (Petrović, 2022).

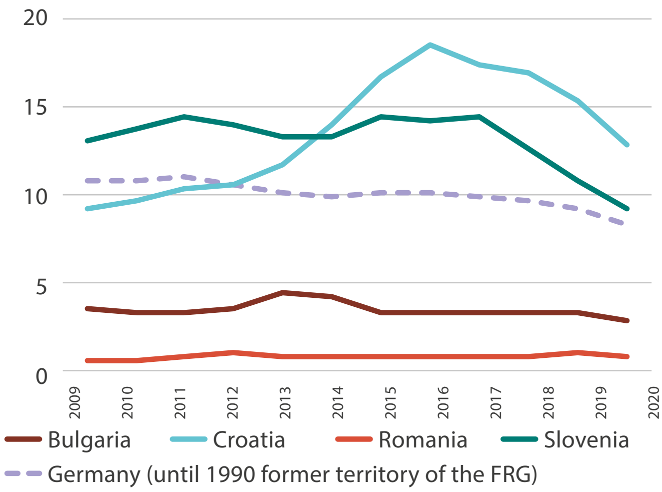
While labour in Romania is considered to be a weak actor today, trade unions exhibited some mobilizing capacities during the 1990s, especially the coal miners (Bohle & Greskovits, 2012:185; Cernat, 2006). In comparison to other SEE states, Romanian trade unions were still relatively strong in terms of trade union membership as well as in terms of their influence on the policymaking process during the transition (Carley, Weilerand & Newel, 2007). During the transition years, the dominant trade union became the National Confederation of Free Trade Unions in Romania (Confederația Naționala a Sindicatelor Liberi din Romania, CNSLR), whereby it nurtured close ties with the ruling political parties, above all the National Salvation Front, NSF (Stoiciu, 2016; Kideckel, 2001). As Table 3.9 shows, collective bargaining was highly centralised, held at the national level, and automatically extended to the local and company level. Romania also exhibited one of the lowest shares in fixed-term and part-time contracts, as well as a negotiated minimum wage above the statutory minimum wage set by the government. Yet the relatively high coverage of collective bargaining lasted until 2010, when the country experienced a radical de-institutionalisation of its social dialogue. After the GFC in 2008, the right-wing government introduced neoliberal policies and, in 2011, changed the main labour laws – without parliamentary debate. These changes made it impossible to have cross-sectoral collective agreements and far more difficult to negotiate collective agreements at the other levels (Trif, 2013). Moreover, the collective agreement coverage fell from almost 100 per cent to approximately 35 per cent after 2010 (Stoiciu, 2016). In recent years, corruption scandals and money laundering have eroded the citizens' trust in Romanian trade unions, seeing them today as a springboard for a political career (Stoiciu, 2016).

Lastly, Bulgaria displayed the lowest union membership in 2018 (only 13 per cent) with a relatively low level of collective bargaining in the last three decades (see Table 3.5, page 97). Not only are trade unions marginal in politics in Bulgaria, labour exploitation and wages are among the lowest within the European Union (Medarov, Nikolova & Tsoneva, 2019). As in the Croat case, public sector trade unions in Bulgaria are able to win some concessions, despite strong employer resistance. In 2016, public sector trade unions were able to win the negotiation over an increase in the minimum wage for public sector employees in education health insurance administration and other government agencies (Dimitrov, 2017). Currently, the race to the bottom for FDIs, by presenting the country as being endowed with cheap labour and low taxes, has led to catastrophic working conditions. Moreover, legal loopholes in the Bulgarian Labour Code enable a radical extension of unpaid labour time (Nikolova, 2019).

Thus, similarly to core countries, union organisational capacity and the extension of contracts to the collective level have eroded over the past decades, whereby these trends have been accelerated by the economic crisis in 2008. Given the weak welfare state policies (apart from Slovenia), citizens in South-Eastern Europe often face precarious working and living conditions and are at serious risk of poverty and social exclusion. Unfortunately, data for part-time employment is not available for Croatia, Bulgaria and Romania. Eurostat (2021) has data for Slovenia for the last five years, which shows an increase in part-time employment from 8 per cent (as of total employment) in 2009 to 13.8 per cent 2019. Still, it is below Germany, whose value stands at

25 per cent in 2019. Figure 3.17, page 104, shows the percentage of temporary workers in South-East Europe and Germany from 2008 until 2020. While Bulgaria and Romania show relatively low numbers of temporary workers, these numbers need to be interpreted with caution. Williams et al. (2017) show that the average share of undeclared work ranges from 5 per cent in Slovenia to more than 15 per cent in Bulgaria and Romania. According to the ILO report from 2018, Slovenia exhibited the lowest share of informal employment as part of total employment, amounting to 5%. Croatia and Bulgaria exhibited higher levels of informal employment, standing at 13% respectively 15.9% in 2018. The highest share of informal employment as part of total employment was in Romania with 28.9% (ILO report, 2018).

Figure 3.17 Temporary workers in South-East Europe and Germany, *as a % of total employment (2008-2020)*



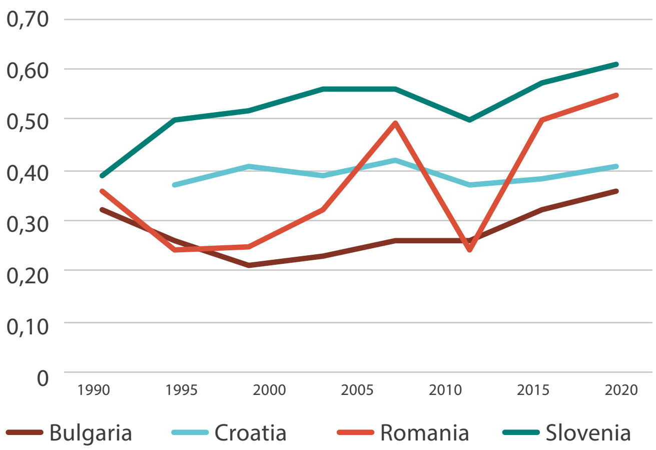
Note: Data before 2008 is not available.

Source: Eurostat (2021)

3.5 INTERNATIONAL TRADE

What kind of products do the countries produce and export? Figure 3.18 displays the share of technologically intensive sectors as a share of total exports. Total exports are classified along four sectors (heavy basic, light basic, heavy complex and light complex) according to the intensity of physical and human capital. The heavy complex and light complex sectors together constitute technologically intensive sectors (Greskovits, 2008). Heavy basic industries include agriculture, oil, gas, electricity, coal, stone, non-ferrous metal, paper, rubber, plastic, ferrous metals. Heavy complex industries include chemicals, transport and heavy industrial machinery, railways, planes, etc. Light complex industries include pharmaceuticals, electronics, electrical light machinery. Light basic industries include wood (products), textiles, clothes, footwear, furniture (UN COMTRADE, 2021; Greskovits, 2008). It does not directly reveal the share of complex products produced in a country (as the data is at the two-digit level), however, it shows us the share of the country's exports to a non-technologically intensive sector (for example, agriculture) or a highly technologically intensive sector (for example, pharmaceuticals). By looking at the data, one is not able to pinpoint the qualitative properties of the final goods exported, i.e. whether the respective country exports intermediary or final goods. As an example, a core country might export a highly technologically sophisticated product (a high-end brand car, for example, which would belong to the automotive / heavy complex sector), while a peripheral country might export bumpers and therefore belong to the same sector yet be located at the lower end of the value chain.

Figure 3.18 Sectoral composition of exports by industry characteristics, *South-East Europe (1990-2020)*



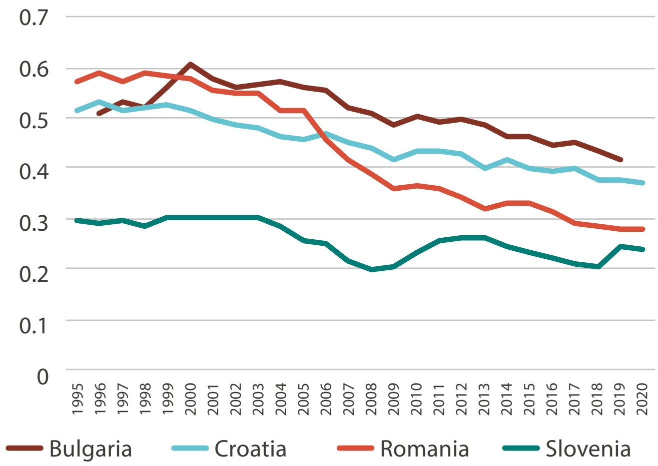
Source: UN COMTRADE (2021)

The highest overall share of technologically intensive sectors within the export sector is in Slovenia, with almost 60% of its exports in 2019/20 belonging to this category. Before independence, Slovenia exhibited a relatively concentrated and strongly export-oriented economy. Moreover, companies operating in engineering and chemicals were the most technologically intensive ones in the Yugoslav federation and had strong ties to Western markets[48]. A relatively high demand from the West for Slovene products, with an average quality and relatively cheaper prices, enabled certain industries to survive the 1990s and to become the engines of the Slovene economy. Those firms were to be found primarily in the heavy complex and light complex industries, such as the big chemical and pharma firms *Lek* and *Trata* (Jaklič et al,. 2003:250). While Slovenia exhibits a relatively high share of technologically intensive sectors, the data does not reveal detailed information on the final product a country exports, i.e., the components of a car and the final product (a car) belong to the same heavy complex sector. In fact, Slovenia's economy functioned during Yugoslav socialism as a bridge between the Western and (South) eastern markets, importing raw materials and labour from the South-East and exporting semi-finished and medium technological advanced goods to the West. This semi-core status eventually continued even after the country's independence (Petrović, 2022).

Romania exhibits a relatively similar share (i.e. to Slovenia) of technologically intensive sectors over the past years. While the country's exports had a relatively low share of technologically intensive sectors during the transition years, its share gradually increased over the past decade, away from fuels and light industry and towards exports of machinery, electrical and electronic devices, and transport vehicles. This change stems mostly from FDIs in the automotive sector. While the automotive sector experienced challenging times during the 1990s, Renault's investment in the early 2000s marked a turning point for the industry. Accordingly, its investment led to the upgrading of several large firms in Romania, as well as an increasing output and exports in cars and components (Vukov, 2019). By contrast, the food industry and fuels retained their importance in Bulgaria but there was a similar reduction in the relative importance of the exports of light industry and a growing importance of the exports of machinery and transport equipment – but less so than in Romania. (Dobrinsky, 2021). On the other hand, after 2010, Croatia witnessed an increase in heavy basic and light basic industries. The drop in technologically intensive sectors as in 2010 is intricately linked to EU integration and the required restructuring of its ship industry. One of Croatia's key industries was shipbuilding, as well as the oil industry (*INA – industrija nafte*). Today *INA* is, after *Agrokor* (operating in retail trade), the biggest company in the country.

Figure 3.19 shows the export dissimilarity index and Figure 3.20 displays the export-import matching index for the South-East European countries from 1995 until 2019. As explained in the previous chapters, the value of the index reveals how distant the sectoral structure of a country's exports is from that of Germany's exports. A higher value of the index (i.e. 1) indicates that the sectoral structure of the country's exports differs more from that of German exports (Celi & Petrović, 2022). As can be seen, the most similar export structure with Germany is exhibited by Slovenia and, in recent years, by Romania.

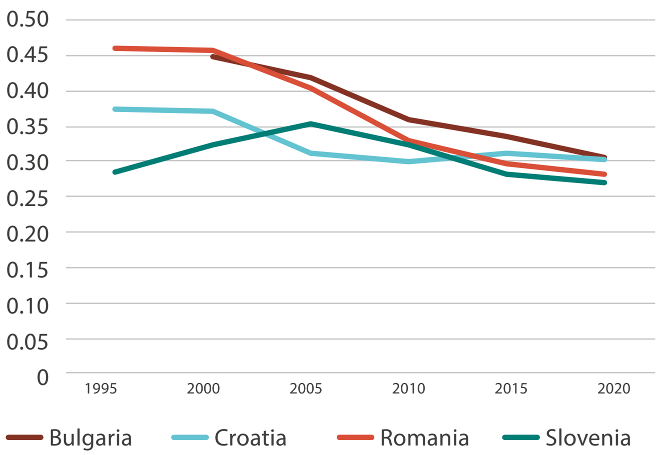
Figure 3.19 Export dissimilarity index*, South-East Europe (1995-2019)*



Notes: Higher values of the index indicate greater dissimilarity between each country and Germany in terms of sectoral composition of exports.

Source: author's elaboration on COMTRADE data.

Figure 3.20 Exports-Imports Matching Index*, South-East Europe (1995-2019)*



Notes: The index measures the dissimilarity between the sectoral composition of a country's exports and the sectoral composition of the benchmark country's imports (Germany).

Source: author's elaboration on COMTRADE data.

3.6 CONCLUDING REMARKS

This chapter has provided an overview of the economic characteristics of the four South-East European states, Bulgaria, Croatia, Romania and Slovenia, from 1990-2020. The four countries exhibited a diverse set of economic structures at the end of the 1980s, influenced by their pre-socialist and socialist legacies. Consequently, once EU integration takes place, their economies' starting positions differed widely. Notably, whereas Slovenia was able to overcome the first difficult years relatively quickly, due to its favourable industrial legacies, the economic crisis in Bulgaria and Romania was protracted and endured almost a decade. On the other hand, Croatia was involved in a war, which derailed all industrial and economic capacities the country had at the end of the 1980s. Before concluding with the countries' characteristics and their specific dependencies.

To summarise, what are the dependencies the countries exhibit and how can we classify them as belonging to the periphery of Europe?

Firstly, throughout three decades, we witness relatively high growth rates for Slovenia and high GDP p.c., being the highest among the group. The other countries showed some signs of catching up but, as growth was not based on productive structures (but more on investments in the service sector, such as finance and tourism), this is less stable than the growth in Romania, in which the manufacturing sector plays an important role. Moreover, although the other three SEE countries exhibited some higher GDP p.c., the levels were nowhere near Slovene levels. Secondly, all four countries experienced structural changes in their GDP composition and employment structure, but to varying degrees regarding the importance of the industry and service sector. This is also linked to the FDIs that poured into all four economies after 2000. Notably, the rise in the importance of the service sector in Bulgaria and Croatia was attributed to the foreign investments in the finance and tourism sector. On the other hand, the importance of greenfield FDIs in Romania has led to the continuous importance of the industry sector. In Slovenia, FDIs were restricted during the 1990s, and investments started to target mostly finance and the construction sector after 2000.

Thirdly, whereas Slovenia has a high share of technologically intensive sectors in its overall exports, both Bulgaria and Croatia mostly export lower value-added goods. Romania's export pattern transformed itself after 2000, attributed to the incoming foreign investments in its automotive sector. Thus Slovenia is, in contrast to Bulgaria, Croatia (and, in part, Romania too), a country that primarily exports medium technologically advanced goods and imports raw materials from the periphery and final goods from the core. In contrast, Bulgarian and Croatian products are less competitive in Western markets, and these countries import low level technological goods and export labour. Romania stands in between those two poles, as it also suffers from a population and labour decline. Fourthly, Slovenia also exhibits the most favourable values regarding unemployment, wages and level of collective bargaining. Whereas the trade union density rates stand at similar levels in all four countries, only in Slovenia are trade unions formally embedded in the policymaking process. While all four countries have experienced pressure on their tripartite institutions after the GFC in 2008, the outcome and the degree of labour marginalisation differ in the four SEE countries, being the lowest in Slovenia.

Fifthly, debt has become a serious macroeconomic issue in Croatia, Bulgaria and Slovenia, due to borrowing in international markets. In contrast, Romania borrowed mainly from its domestic market, making the country less vulnerable to external shocks. At the same time, Romania's current account balance is worrisome, displaying the highest deficit among the four countries. Lastly, the characteristics of FDIs in the SEE country group also differ within the group: whereas Slovenia limited foreign investments on purpose during the 1990s, it has experienced a gradual increase in FDIs, both in the service and construction sectors, since 2000. Likewise, Romania experienced a massive modernisation process of its manufacturing sector thanks to FDIs, whereby the country also exhibits the highest share in greenfield FDIs. In contrast, such effects were not observed either in Bulgaria or Croatia, where FDIs mostly targeted the very volatile service sector. Thus, in contrast to the Visegrád (V4) countries, which pursued a model of dependent industrialisation and channelled capital to production activities, the countries of South-East Europe (notably Bulgaria and Croatia) used this money not for production purposes, but primarily channelled activities linked to financialization, such as financial intermediation, real estate and related business (Jaklin et al., 2013:5). While it is common to blame domestic conditions for the lack of greenfield investments, it needs to be highlighted that foreign investments are less profitable in these kinds of settings (i.e. in Bulgaria and Croatia) due to the global division of labour (and the lack of integration into the German industrial model, such as the V4 countries), appreciated currency (in the case of Croatia) and unsatisfactory levels of predicted aggregated demand (Jaklin et al., 2013:5). Finally, to summarise the points, one needs to highlight the main dependencies for the four SEE countries: for Bulgaria, due to high debt in foreign currencies its economy is extremely vulnerable to external shocks. At the same time, it exhibits less favourable domestic conditions (such as high unemployment, an uncompetitive manufacturing sector, dominance of low value-added goods, etc.) to withstand a crisis. Croatia, being in a comparable situation to Bulgaria, relies heavily on its tourism sector, also as a way of covering its current account imbalance and deficits. As this sector is highly volatile, and no serious investments were made in the productive sector, its economy is also less likely to be able to deal with any external shock. Both Bulgaria and Croatia suffer from labour emigration. Lastly, Romania was able to develop its manufacturing capacities after 2000 thanks to FDIs, which has generally had a positive effect on the level of industrialisation as well as the goods the country exported and still exports. Yet, in times of crisis, such as the GFC in 2008, falling foreign investments have a negative impact on its macroeconomic stability, also due to its high current account deficit. The recent closures of several plants by multinationals put further pressure on its labour market and fuel labour emigration to the West. Lastly, Slovenia, with its intermediary position between the core and the periphery, faces different pressures as it aims to maintain this position. The biggest challenge the economy has faced since its independence was the period after the GFC, in which the country witnessed a massive rise in its public and private debt, rising unemployment and financialization of its economy, with a decline in the manufacturing sector at the expense of a booming construction sector and partial deinstitutionalisation of the tripartite institutions. As (Western and European) markets were less saturated during the 1990s with Asian products, Slovenia today competes with Chinese goods that deliver a similar quality at what is often a cheaper price (Petrović, 2022).

In summary, Slovenia, the oldest EU Member State in the South-Eastern country group, exhibits economic properties that can be classified as being in between core and peripheral characteristics. Due to its Yugoslav legacy, the strength of corporatist elements (at least until the Global Financial Crisis (GFC) in 2008), and its gradualist approach in the economy during the transition years, Slovenia's growth model and its institutions have been often described as exceptional in the (South-)Eastern region. In contrast, the economic properties of Bulgaria, Croatia and Romania differ widely from the European core, and from Slovenia. Both Bulgaria and Croatia are part of the European (SEE) periphery, whereas in the last decade Romania has exhibited 'fewer peripheral' properties than the latter two countries. However, it remains to be seen where the economic trajectory of Romania will go after the Covid-19 pandemic, especially in light of the falling FDIs and the closure of several foreign plants in the country.

APPENDIX

Figure 3.A1 Top 5 export partners, % total exports *(1995-2019)*

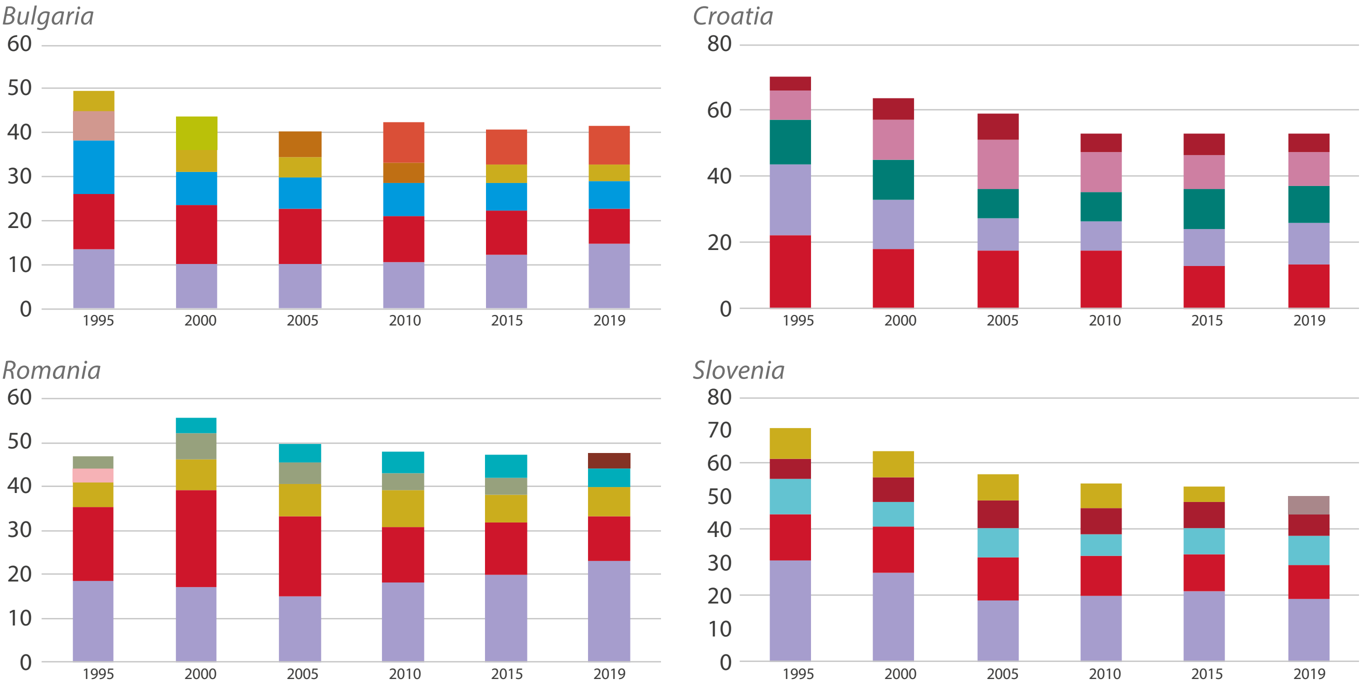
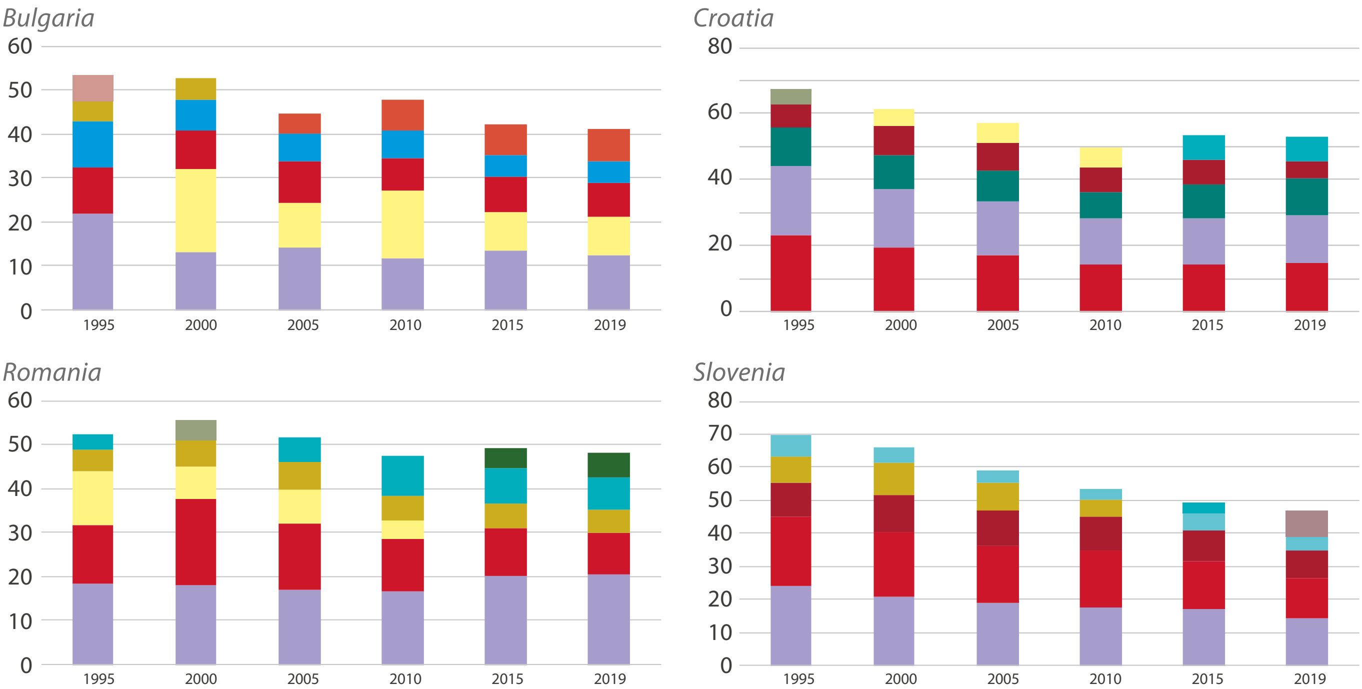


Figure 3.A2 Top 5 import partners, % total imports *(1995-2019)*

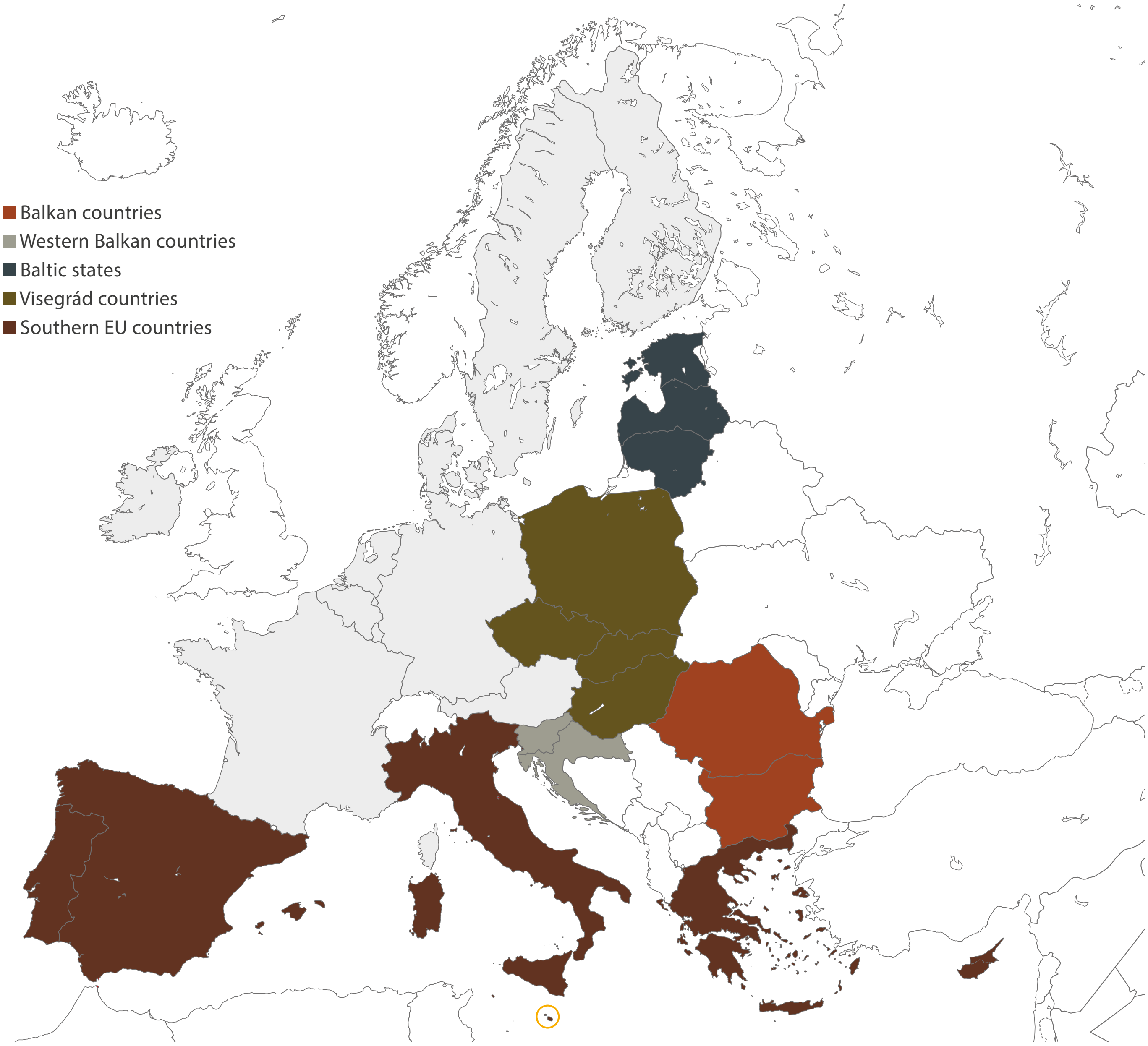


Austria, Belgium, Bosna and Herzegovina, Bulgaria, Croatia, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Romania, North Macedonia, Russia, Slovenia, Serbia and Montenegro, Switzerland, UK

Source: Atlas of Economic Complexity (2021)

Chapter 4 – Trade networks and value chains

Giuseppe Celi



4.1 INTRODUCTION

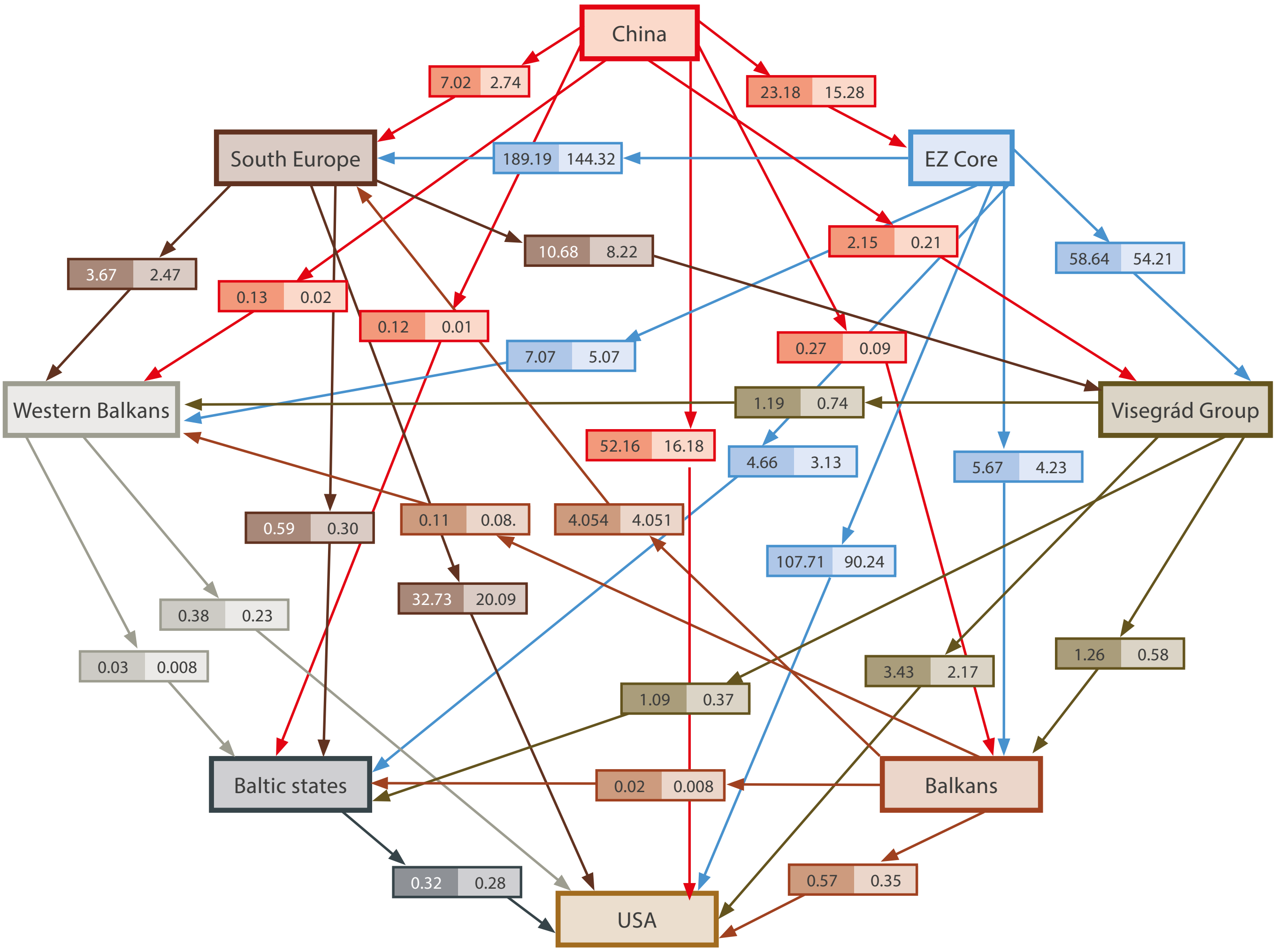
This chapter analyses the evolution of the European trade network and value chains over the last two decades, a period that has witnessed a substantial reshuffling of hierarchical relationships between core and peripheral economies. Today, old and new peripheries coexist in Europe, all dependent on the same centre, paradigmatically represented by the core country *par excellence*, Germany. In particular, we have been observing in Europe the divergent evolution of two peripheries, Southern Europe and Central Eastern and South East Europe, in their relations with the centre. Since the introduction of the euro, the Southern European countries have experienced a weakening of their industrial base and a growing dependence on financial flows from abroad. On the contrary, some Central Eastern and South East European countries (in particular Poland, the Czech Republic, Slovakia and Hungary and, more recently, Romania), by becoming an integral part of the European manufacturing platform managed by Germany, have significantly expanded and strengthened their industrial base, displacing, in part, the production of Southern Europe. As illustrated in section 2, these divergent trends are consistent with the significant transformation of European trade network between the launch of the euro in 1999 and the 2008 financial crisis. In this period, the exponential growth of Eurozone (EZ) core countries' trade surplus (especially Germany's trade surplus) with Southern European countries is striking. Moreover, in the same period, the value of Central and Eastern European countries' exports to Germany grew significantly, exceeding that of Southern European exports to Germany itself. These changes in the network of trade relations among European countries have gone hand in hand with an increasing integration into global dynamics. Still in the period 1999-2008, the growth of China's exports of low-priced consumer goods to Europe has been impressive. This growing dependence of European countries' imports on low quality, low-cost goods from China has been functional, to some extent, to the processes of labour market segmentation and low-wage employment growth that have characterised European countries (both core and peripheral ones) in the last few decades. In the case of the core countries, however, this process, although linked to an exacerbation of domestic inequalities, has been more favourable, in terms of impact on the economy as a whole, than for the peripheral countries. The increasing share of low-wage jobs and working poor in total German employment, for instance, has contributed to keeping the cost of services low and, in this way, indirectly supporting the competitiveness of German exporting industry (by sustaining the level of real wages and, at the same time, fostering wage moderation in exporting sectors). Furthermore, in Germany, the same growth in low-wage employment produced effects on the side of imports too, through a decline in the purchasing power of large strata of population, which resulted in a reduction in the quality of imported consumer goods. This trend, in turn, reflected in a change of geographical composition of German imports: imports of cheap-low-quality consumer goods from China grew significantly in the first decade of the 2000s, while imports of (medium-high quality) consumer goods from Southern European countries declined.

The example of Germany demonstrates that, in general, the widening within-country inequality and the deterioration of income conditions involving part of population in the Eurozone produced asymmetric effects in the core and periphery, since domestic inequalities had a knock-on effect on inter-country inequalities. More specialized in capital goods and more able to export, the core managed to offset the deterioration of income conditions of part of its population through imports of low price/low quality consumer goods (from China). Conversely, the periphery, especially Southern European countries, specialized in medium-high quality consumption goods, suffered a double displacement: 1) the import penetration of low quality consumer goods (from China) in their domestic market; 2) the negative effects on their exports deriving from the redirection of German imports towards China. In addition, the reorientation of German imports concerned not only consumer goods but also intermediate goods, increasingly purchased by Central and Eastern European countries. The Southern European countries, therefore, also suffered from a crowding-out effect on intermediate goods, not just on consumer goods. After the 2008 crisis, as the next section will show, the trade surplus of EZ core countries vis-à-vis the European periphery shrank because of austerity policies that squeezed the income and import capacity of European peripheral countries. Also in this new phase, the EZ core countries were able to redirect their trade towards extra-EU markets, this time on the export side. Germany's exports of high-quality goods (like cars) to China and the US increased considerably in the period 2008-2016. However, with the Trump administration taking office, the conditions for EZ core countries to redirect their exports to non-EU destinations became less favourable, as the international environment was becoming more protectionist. As shown in section 2, the trade network in 2019 (last year investigated) clearly shows a decline in the US share of total imports. In general, an important fact that emerges, looking at the evolution of the European trade network throughout the whole period considered (2000-2019), is the formidable growth of Visegrád countries' exports, especially to European core countries. This evolution signals the emergence and consolidation of a trade leader (Visegrád group) whose strong position is essentially regionally delimited and highly dependent on the value chains of the core European countries (Germany in particular). The growing importance of intermediate goods in world trade over the last three decades and their decisive role in determining the evolution of the European trade network lead us to consider not only trade in terms of gross values but also trade in value added, which gives us the opportunity to investigate the participation of countries in global value chains. Section 3 analyses the forward and backward participation in global value chains (GVCs) of the five groups of peripheral countries considered. Regarding forward participation (i.e. the domestic value added present in foreign exports), this indicator shows a high variability both within and between groups. However, the Visegrád countries (with Poland in first position) show a better performance. Regarding the remaining groups, only two countries, Romania and Slovenia, show a comparably good performance in terms of the forward participation index. The remaining countries show a stagnating or declining forward participation to GVCs, especially after 2008. When we look at the same index disaggregated by geographical area, the disproportionate shift of Visegrád countries towards the participation in European value chains indicates that their accession to the EU has represented an opportunity for these countries to pursue their FDI-led economic development model. When we turn to consider backward participation in GVCs (i.e. the percentage of foreign value added present in domestic exports), many European peripheral countries display an excessive value of this index (Malta represents the extreme case, with an index equal to around 60%), signalling foreign dependence and incompleteness of the productive matrix. Even some countries of Visegrád group show a very high backward participation index (Slovakia and Hungary, for example, with an index close to 45%). This evidence confirms that, while the inclusion of the Visegrád countries in Germany's value chain has provided an opportunity for these countries to expand rapidly the industrial base, their economic development remains highly dependent on the decisions of German transnational companies and heavily polarized on certain sector, such as the car industry, with limited linkages with other industries. Section 4 focuses on the automotive sector, an industry that emblematically embodies the evolving hierarchical structure of production relations between core and peripheral countries in Europe and its connection with global dynamics. As will be discussed in section 4 and in the concluding section, the European automotive industry is at a crucial crossroads. On the one hand, the recent pandemic crisis has highlighted that long value chains are fragile and require a major effort of technological innovation to organise them in the best possible way (also in terms of reducing their ecological impact). On the other hand, the same revolution that is expected in the automotive sector (electric cars, self-driving cars, car sharing, etc.) may have very serious effects in terms of industrial restructuring and job losses, especially in those European countries (both central and peripheral) where the car industry accounts for a significant share of total employment.

4.2 THE NETWORK OF EUROPEAN TRADE BETWEEN CORE AND PERIPHERY

The period following the birth of the euro and the eastward enlargement of the European Union marked significant changes in production and trade relations among European countries. A profound reorganisation of the European industrial structure accompanied the consolidation of Germany as hegemonic economic power in Europe. The emergence of the Central European Manufacturing Core (CEMC), as defined by Stehrer and Stöllinger (2015), led to a reshuffling of hierarchical relations between central and peripheral countries. On the one hand, the eastward expansion of the powerful German manufacturing platform significantly strengthened the industrial base of some peripheral countries (especially Visegrád Group countries); on the other hand, other peripheral countries followed a different evolution, marked by deindustrialisation, loss of human capital through migration flows, dependence on external financial flows (i.e. Southern Europe). In addition to the two aforementioned peripheries, a group of Eastern European countries that have recently joined the EU are preparing to become new peripheral poles, which, however, so far, have weaker production and trade links with Germany and the other central countries. These new peripheral poles are the following groups of countries: Balkans (Bulgaria and Romania), Western Balkans (Croatia and Slovenia) and Balkan States (Estonia, Latvia and Lithuania)[49]. The purpose of this section is to analyse the hierarchical reorganisation of core-periphery relations in Europe over the two decades since the birth of the EMU by following the evolution of the trade network. There are eight nodes in the network, including groups of countries or individual countries: China, USA, EZ Core (Austria, Belgium, Finland, France, Germany, Luxembourg, Netherlands), South Europe (Cyprus, Greece, Italy, Malta, Portugal, Spain), Visegrád Group (Czech Republic, Hungary, Poland, Slovakia), Balkans (Bulgaria, Romania), Western Balkans (Croatia, Slovenia), Baltic States (Estonia, Latvia, Lithuania). As we can see, in order to capture the integration of European dynamics into global dynamics, we have also considered two important trading partners: China and the USA. The role of the former has been particularly important in many respects. European imports of low-quality (low cost) Chinese consumer goods have supported labour market segmentation processes in Europe (in both core and peripheral countries), allowing the expansion of low-wage employment[50]. Moreover, as a growing importing country, China has also allowed to redirect and to absorb the exports of European core countries (especially Germany) when austerity policies have greatly reduced the importing capacities of European peripheral countries (Southern Europe). As we shall see, the US also played the

Figure 4.1 Trade network in 2000 *(exports in billion dollars)*

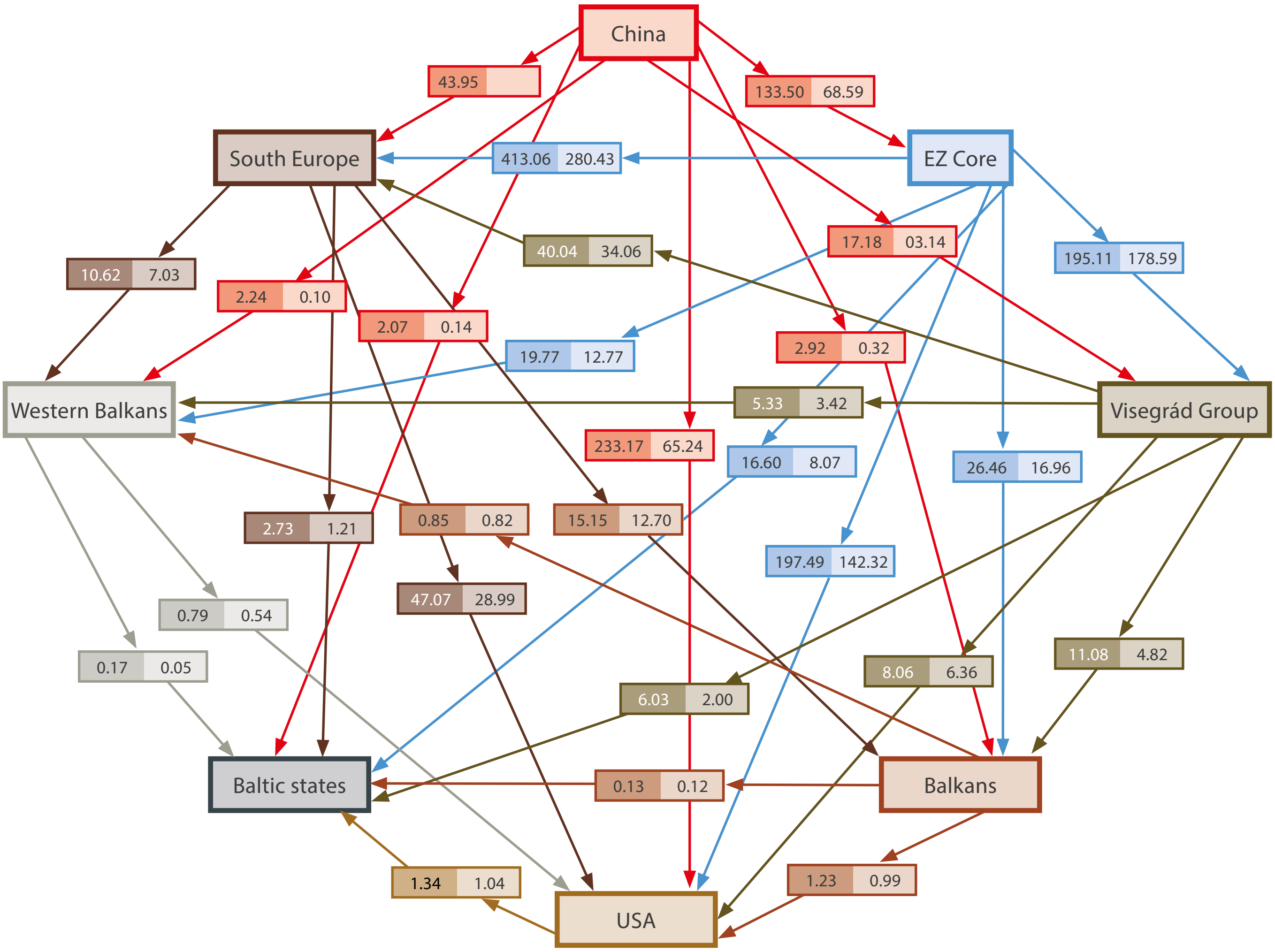


Source: authors' elaboration on COMTRADE data.

role of importer of last resort for European exports when the EU's domestic market shrank due to austerity. We examine trade network in four moments: in 2000, the situation immediately preceding the launch of the euro; in 2007, the year almost a decade after the birth of the euro and preceding the 2008 crisis; in 2015, seven years after the start of the crisis but before the "Trump effect"; and, finally, in 2019, the last available year. Figures 4.1 – 4.4, pages 112 – 116, shows the trade network in these four moments. In the pictures, the arrows start from the surplus countries and point to the deficit ones. The boxes in the middle of each arrow give the value of exports in billions of dollars: the box on the left (with a more accentuated colour) gives the value of the surplus country's exports and the box on the right (with a less accentuated colour) gives the value of the deficit country's exports. Data are collected from UN COMTRADE Statistics and refer to the value of bilateral exports between 26 countries. Of these 26 countries, 24 have been aggregated into 6 groups (EZ Core, Southern Europe, Visegrád Group, Balkans, Western Balkans, Baltic States) and 2 countries remain as single units (China and USA). For the sake of data homogeneity, we use the value of exports free on board (f.o.b.) for both exports and imports; therefore, country A's imports from country B are measured by country B's exports f.o.b. to country A.

In 2000 (Figure 4.1), European trade flows accounted for 75% of total trade. Two areas have a net surplus vis-à-vis the whole network: EZ Core and China. China, however, still plays a limited role in Europe, as the main trade density is in EZ Core's trade with Southern Europe and, to a lesser extent, with the Visegrád Group (see Figure 4.1). The US has a bilateral trade deficit with all areas and the highest net deficit with the entire network (-$67.75 billion). With-

Figure 4.2 Trade network in 2007 *(exports in billion dollars)*



Source: authors' elaboration on COMTRADE data.

in the periphery, South Europe has a surplus with all other peripheral nodes (with the exception of the Balkans), and the Visegrád Group has a surplus with all remaining peripheries (with the exception of South Europe). In general, intra-periphery trade is very limited. Trade flows of some significance emerge in the South Europe- Visegrád Group-Balkans triangle: South Europe has a surplus with the Visegrád Group which, in turn, has a surplus with the Balkans that, finally, have a surplus with South Europe (Figure 4.1)[51]. Outside the aforementioned triangle, trade flows from the other two peripheries, Western Balkans and Baltic States, are insignificant.

To sum up, in the pre-euro situation, the most relevant trade flows are between European countries, with China still playing a limited role (in terms of the magnitude of trade flows), the United States being a major deficit country, and core countries having a trade surplus not yet too pronounced and, in any case, partly offset by the triangulation of trade balances between peripheral countries.

When we look at the network in 2007, the picture changes dramatically (Figure 4.2).

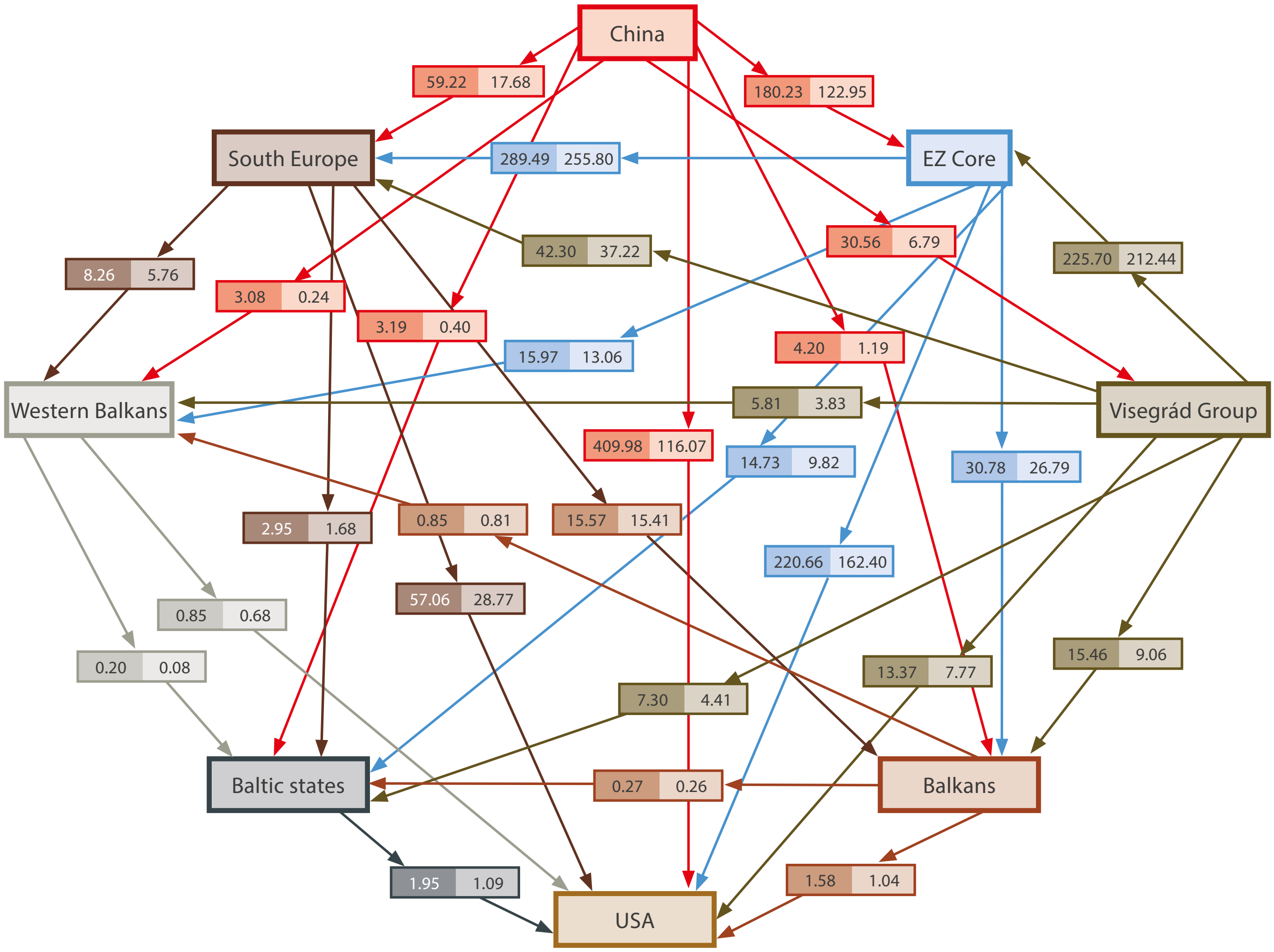
China continues to record trade surpluses against all areas, but the magnitude of its overall surplus increases exponentially (more than 500% compared to 2000). The overall US trade deficit increases dramatically (from -$ 67 billion to -$ 243 billion). Core countries also increase their overall surplus significantly (+250% compared to 2000), especially vis-à-vis South Europe (the surplus towards this country group rose from $ 45 billion in 2000 to $ 132 billion in 2007). This last area, however, is unable to offset its huge overall deficit (145 billion dollars) with its surpluses towards the

US and some peripheral countries (see Figure 4.2, page 113). The Visegrád countries, in turn, have a surplus with all other areas of the periphery (now the trade balance with South Europe changes the sign and becomes positive). Although the Visegrád group has a deficit with the EZ Core, the growth of its exports, especially to the core countries (but not only), is formidable between 2000 and 2007. In other words, trade links of these peripheral countries with core countries have strengthened impressively, both on import and export side. It is clear that the emergence of the Visegrád Group countries as strong regional exporters is the result of their productive interdependencies with the core countries, primarily with Germany. The other peripheries show higher growth in their net deficits vis-à-vis the whole network than the Visegrád group. In particular, the increase in the trade deficits of these countries vis-à-vis EZ Core is proportionally very high – although small in absolute terms – and the intra-periphery trade balances (i.e. between the periphery nodes themselves) are not remotely sufficient to offset the deficits with the core[52]. However, in general, it is important to note that the dramatic growth in trade deficits of peripheral countries (excluding the Visegrád Group) vis-à-vis EZ Core is mainly due to import increases and not to a decline in exports.

In the period 2000-2007, the Balkans increased their exports to the entire network by 385%, the Visegrád group by 365%, the Baltic States by 300%, the Western Balkans by 278%, and Southern Europe by 200%. Although this growth in trade flows relates to absolute values that are in many cases quite modest, these percentage numbers are not insignificant and confirm the thesis advocated by Gaulier and Vicard (2012) and Storm and Naastepad (2015). In other words, the imbalances do not reflect the loss of price competitiveness of peripheral countries' exports but the excess of financial flows channelled from the centre to the periphery, boosting imports.

The impact of the 2008 crisis again changes the structure of trade dramatically (Figure 4.3, page 115). In 2015, compared to 2007, China reduces its trade surplus with EZ Core as EZ Core doubles its exports to China. In addition, EZ Core increases its surplus with the US but drastically reduces it with all European peripheral countries, especially Southern Europe (EZ Core's trade surplus with South Europe drops from $132 billion in 2007 to $33 billion in 2015; see Figures 4.2 and 4.3). The austerity policies implemented to contain the peripheral countries' sovereign debt crisis have had a huge impact on the economies of these countries and their import capacities[53]. In response to the collapse of domestic demand in the peripheral countries, the core countries have been able to redirect their exports to China and the United States. In 2015, the trade network also reveals the consolidation of the Visegrád Group as an important regional trader. This group of countries now even shows a surplus vis-à-vis EZ Core, as well as with all other peripheral countries (Figure 4.3, page 115). In line with this evidence, Celi et al (2018) highlight the strengthening of triangular trade relations between Germany, China and the Visegrad Group in the years following the 2008 crisis. Especially in the automotive sector, Germany imported components from the Visegrad Group and exported high-quality final goods to the expanding Chinese market[54]. However, with the advent of the Trump administration since 2016, the conditions for a reorientation of European exports towards China and the United States were becoming less favourable. The global protectionist climate triggered by the confrontations between the US and China over tariffs started to have its adverse effects on European exports and, in particular, on those of Germany (Celi et al., 2020). Actually, if we look at the structure of trade in 2019 (Figure 4.4, page 116), the US shows the lowest growth rate of total imports compared to other areas (only 9% in the period 2015-2019). However, while China increases its exports to the US, the US reduces its exports to China (and China's surplus to the US grows from $294 billion in 2015 to $311 billion in 2019). Moreover, while the weight of US imports in the network's total imports decreases (from 26% to 23% over 2015-2019), the share of European countries' imports increases (from 64% to 67% over the same period). In particular, the weight of all four European peripheries' imports increases from 32% to 34%. Thus, albeit to a limited extent and as a consequence of the changing global context, intra-European flows have strengthened. Another important evidence that emerges when looking at the network in 2019 is the further strengthening of the position of the Visegrád Group. Compared to 2015, this group of countries significantly increases its surplus vis-à-vis all areas (with the exception of China, towards which it has a deficit). Since 2000, the growth of the Visegrád group's trade flows has been impressive. Certainly, the growing high density of Visegrád Group's trade with the EZ Core does signal the emergence of a trade leader, but with a pre-eminently regional dimension (global trade, with China and the US, is

Figure 4.3 Trade network in 2015 *(exports in billion dollars)*

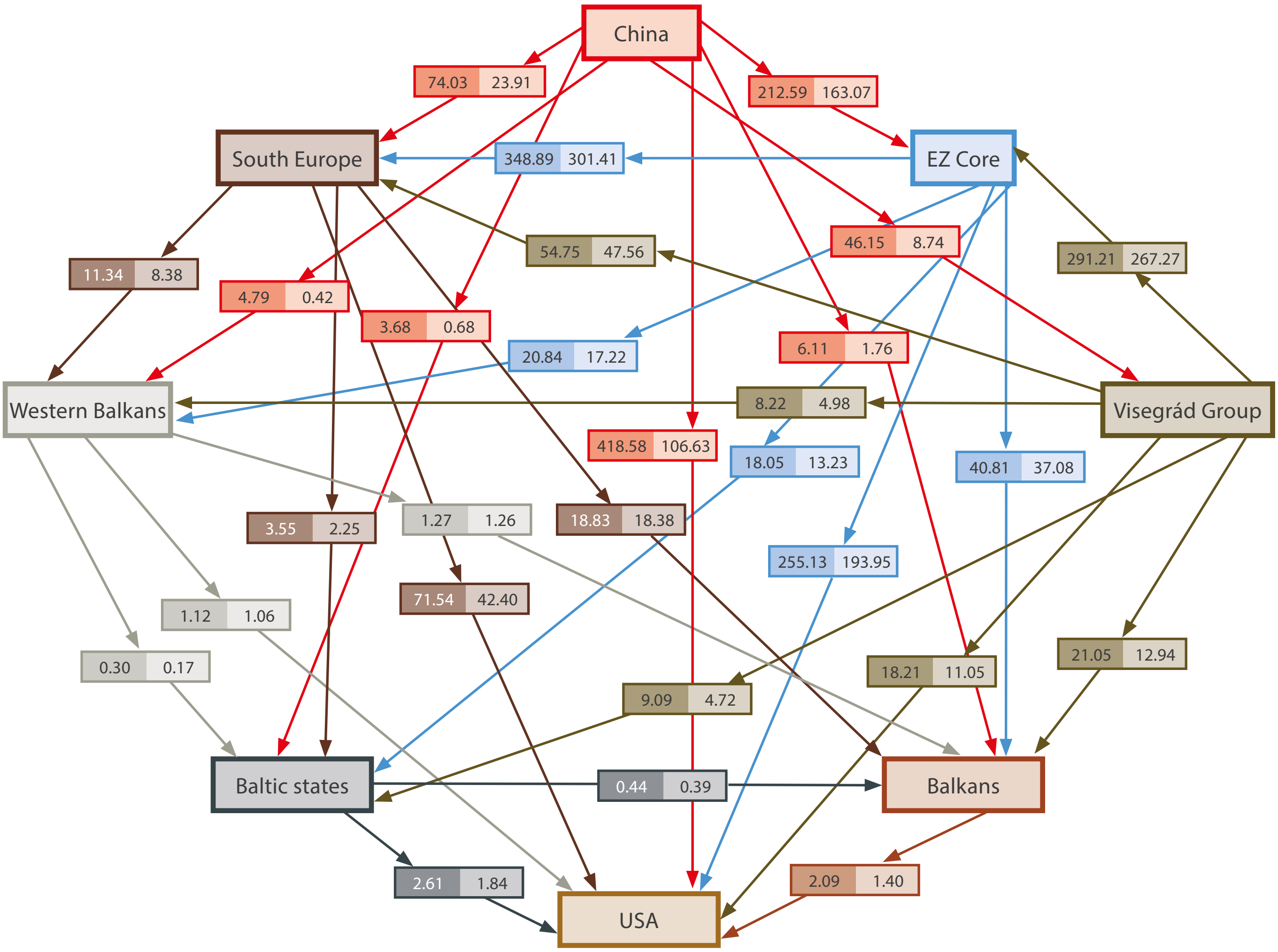


Source: authors' elaboration on COMTRADE data.

much more contained), and with a substantial dependence on the value chains of the core countries (Germany in the forefront).

With regard to trade with the other peripheral groups (particularly, with Balkans, Western Balkans and Baltic States), over time the Visegrád group has progressively become a pole of attraction for these countries (obviously, to a much more limited extent compared with the core countries). Indeed, while the Balkans, Western Balkans and Baltic States (the incipient peripheries) trade very little with each other, their respective bilateral trade flows with the Visegrád group are much more substantial and grow over time. A final consideration concerning South Europe. Since the launch of the euro, this group of countries has accumulated a growing net deficit vis-à-vis the network as a whole (with differentiated fluctuations over time). Celi et al. (2018) provide evidence that already since 2008 the value of Visegrád Group exports to Germany has surpassed that of South Europe exports to Germany. This could mean that the intensification of production links between German firms and suppliers of intermediate goods located in Eastern Europe could have displaced the pre-existing production linkages between Germany and South Europe (Simonazzi et al., 2013). These external factors – dramatic changes in the international division of labour in Europe – combine with the internal factors that have led the economies of Southern Europe to a progressive deterioration in terms of high unemployment rates, migration outflows, hollowing out of the productive structure, worsening of working conditions, increasing poverty rates.

Figure 4.4 Trade network in 2019 *(exports in billion dollars)*



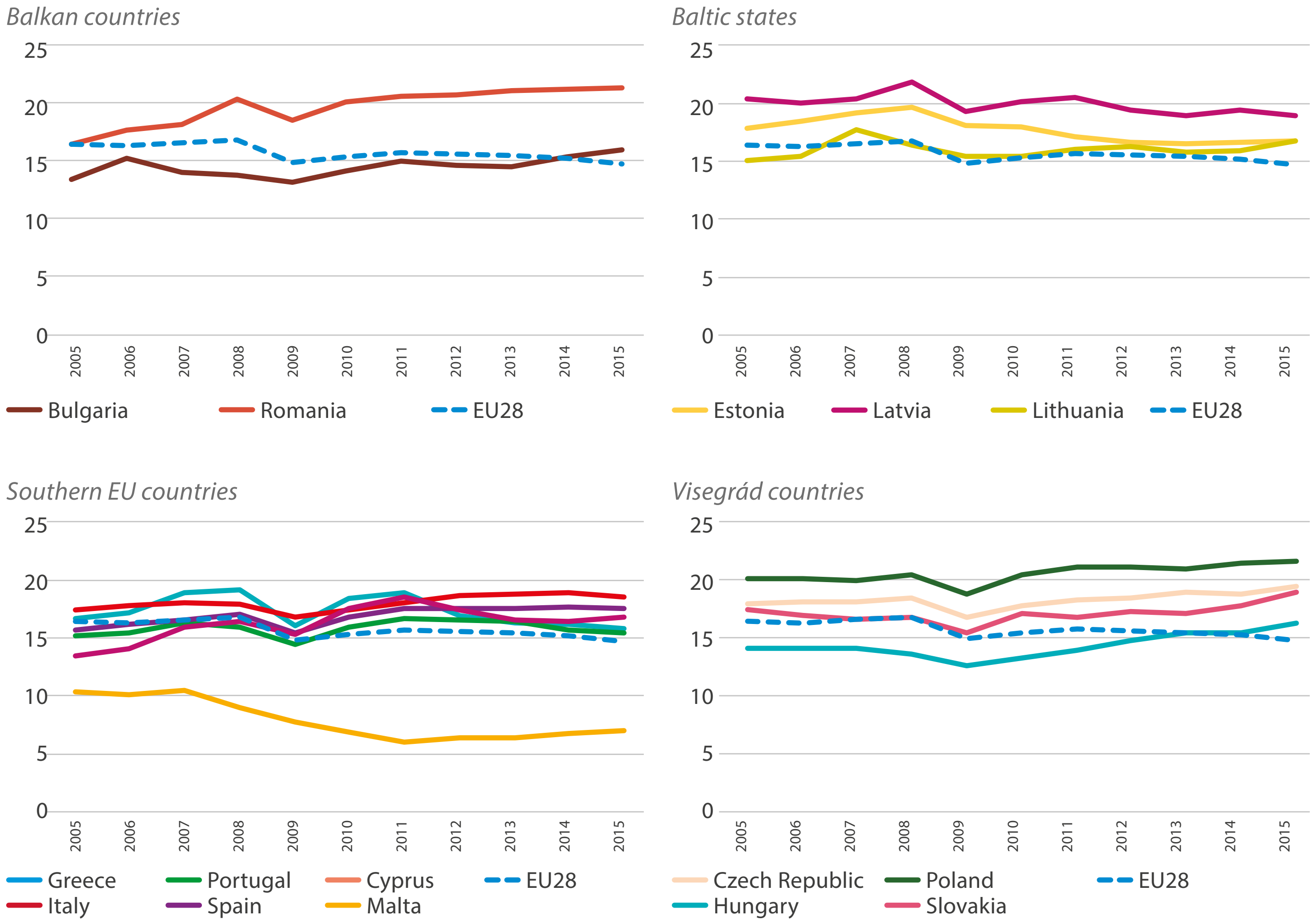
Source: authors' elaboration on COMTRADE data.

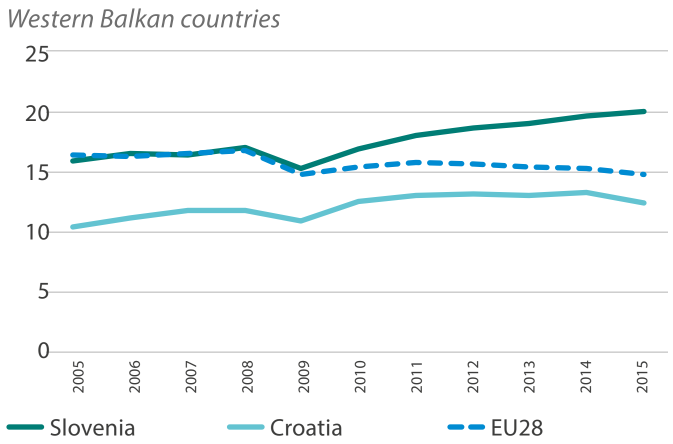
4.3 TRADE IN VALUE ADDED

The EU trade flow network analysed in the previous section concerns the gross value of exports and does not disentangle final and intermediate goods. Yet, especially since the 1990s, the growth of the share of intermediate products in world trade has accelerated significantly. This evidence is associated with what, according to Baldwin (2011), Baldwin and Lopez-Gonzalez (2015), is the hallmark of the last wave of globalisation, namely the international fragmentation of production processes and the pervasiveness of global value chains (the *second great unbundling*, in Baldwin's words). In an international context where integration processes between economies are increasingly characterised by the development of global value chains (GVCs), the very concept of comparative advantage cannot be confined to a country's specialisation in final goods. Rather, the notion of comparative advantage should also be extended to international specialisation in *stages* of production. Conventional international trade statistics by focusing on the gross value of trade flows – and not on the *value added* content generated at home and/or abroad – cannot tell, for instance, how exporting firms in one country are connected to final consumers in another country. For example, in the previous section, when analysing the trade network expressed in gross values, we found that the Visegrád countries export a lot (and increasingly) to Germany. In fact, the bulk of this bilateral trade consists of components that go into the production of final goods (e.g. cars) destined to be exported from Germany to Europe, China, the US, etc. The mere observation of bilateral gross trade flows between the Visegrád countries and Germany cannot therefore reveal that significant amounts of value added generated in the Visegrad countries are actually exported to the main consumer markets of the advanced countries via exports (of intermediate inputs) to Germany (so, the final destination is not Germany but other countries). In recent years, in order to overcome the limitations of conventional foreign trade statistics and to take into account the dynamics of production interdependencies at international level, i.e. the evolution of GVCs, statistics of *trade in value added* based on world input-output tables have been compiled. The OECD's TiVA database provides useful information on value added trade flows for a number of countries and in a range of sectors over the period 2005-2015. By referring to this data source, it is possible to trace the backward and forward participation of the peripheral European countries under consideration in international value chains. In particular, a country's *forward participation* in GVCs is defined as its domestic value added in foreign exports as a share of its gross domestic exports, by foreign exporting country; while, a country's *backward participation* in GVCs is defined as foreign value added share of its gross exports, by value added origin country. Figure 4.5, page 118 shows the forward participation of EU peripheral countries in GVCs in the decade 2005-2015, assuming the whole world as foreign exporter. Hence, the index represents the domestic value added from an EU peripheral country embodied in the world gross exports, as a percentage of the country's gross exports. For example, in the case of Croatia, a forward participation ratio of 10.4% in 2005 (Figure 4.5, page 118) means that an amount of Croatian value added equal to 10.4% of Croatian gross exports is contained in total world exports.

Figure 4.5 reveals that the degree of forward participation and its evolution over time vary both between and within the groups of countries considered. The main findings can be summarised as follows. All four countries of the Visegrád group show an index above the EU average and increasing over time, especially after the Great Crisis of 2008. In particular, Poland has the highest index compared to the other countries of the group, and compared to all the other countries considered as well (i.e. 21.5% in 2015). In the Balkan group, Romania presents an improving performance very similar to that of Poland (the index is 21.3% in 2015). In the Western Balkans group, Slovenia shows the highest index growth rate relative to all countries considered: the index jumps from a low of 14.8% in 2009 to 20% in 2015. An opposite trend is observed in the Baltic states, where, after an initial significant growth of the index (Latvia reaches a maximum of 21.9% in 2008), it starts to decline reaching in 2015 a lower value than in the starting year 2005 (with the exclusion of Lithuania whose forward participation goes from 15.5% in 2005 to 16.8% in 2015). Finally, in the group of Southern European countries, on the one hand, the largest countries (Italy and Spain) show a similar trend, marked by a moderate growth of the index until the 2008 crisis (slightly more pronounced in the case of Spain), a significant drop in 2009 and a slow recovery afterwards. The smaller countries (Greece, Portugal and Cyprus), on the other hand, show more pronounced fluctuations, with a strong growth of the index in the initial years (especially Greece and Cyprus), a significant decrease after the 2008 crisis followed by a rapid recovery in the years 2010-2011 and, finally, a subsequent decline in the following years. Compared to the other countries, Malta is an outlier, with a very low index and falling further after 2007. Figure 4.6, page 119 shows the forward participation of the peripheral EU countries in GVCs disaggregated by geographical areas. In all groups of countries considered, the predominant geographical area is the EU (with a share always above 50%). Especially the countries that show a better performance (Poland, Romania, Slovenia, as mentioned above) are those whose participation in GVCs is strongly projected in the EU (whose share is around 80%). In the case of these countries, over the decade in consideration, the growth in the share represented by the EU (which was already high from the outset) has also been associated with the growth in the share of East and South-East Asia. This evidence on the one hand confirms that EU membership has been an opportunity for these countries to integrate into European value chains by pursuing an FDI-driven development model, as many studies have shown. At the same time, the Central European Manufacturing Core (CEMC) managed by Germany and involving mainly the Visegrád countries, while remaining essentially a regional manufacturing platform, also shows significant links with other areas involved in global trends, such as China. However, in general, while the area represented by North America tends to become less important, East and South-East Asia shows an opposite trend by increasing the forward participation of peripheral European countries in its value chains.

Figure 4.5 Forward participation of EU peripheral countries in GVCs[a] *(% values)*

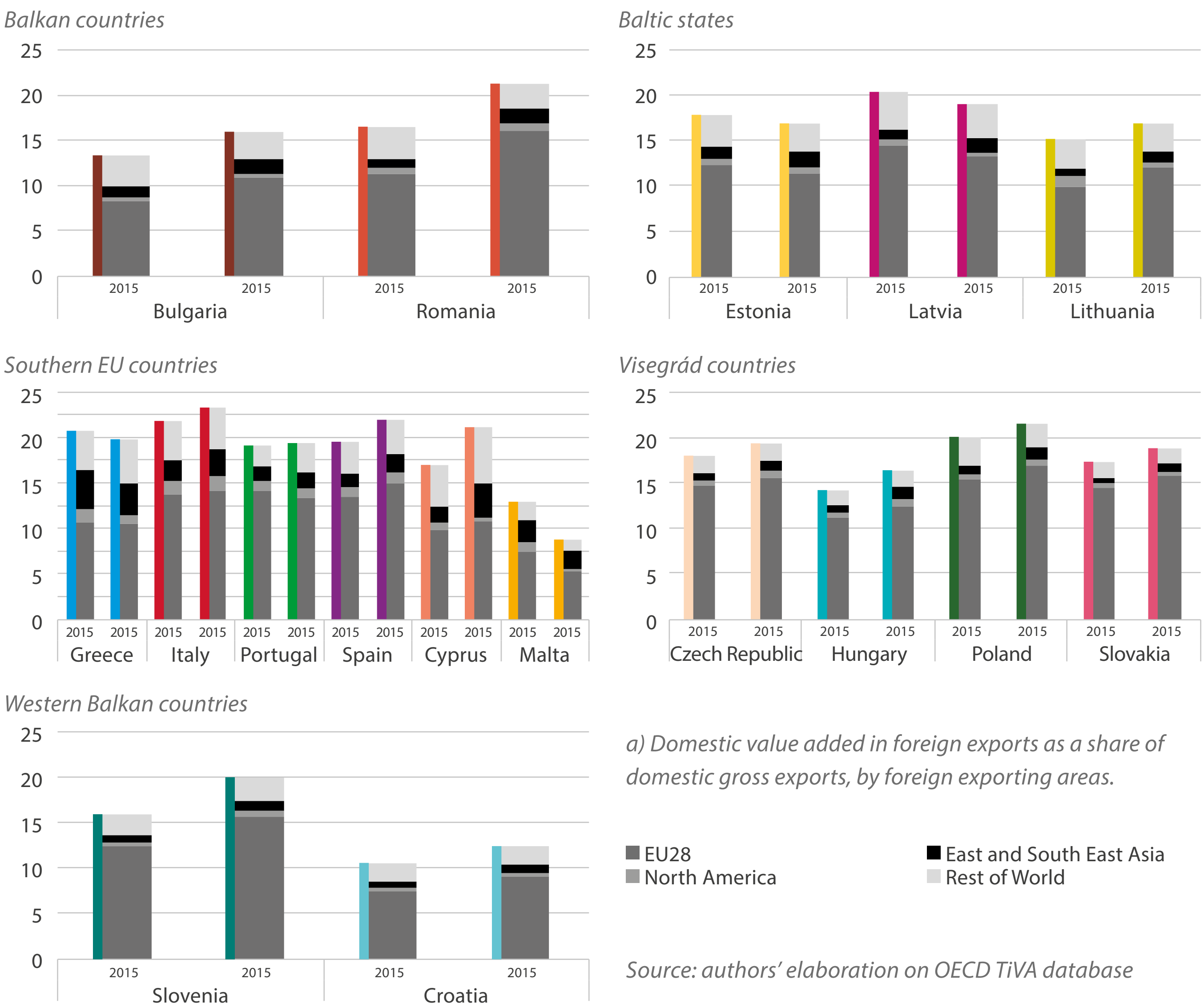




(a) Domestic value added in foreign exports as a share of gross domestic exports; foreign exporter = World.

Source: authors' elaboration on OECD TiVA database

Figure 4.6 Forward participation of EU peripheral countries in GVCs, by geographical areas[a] *(% values)*



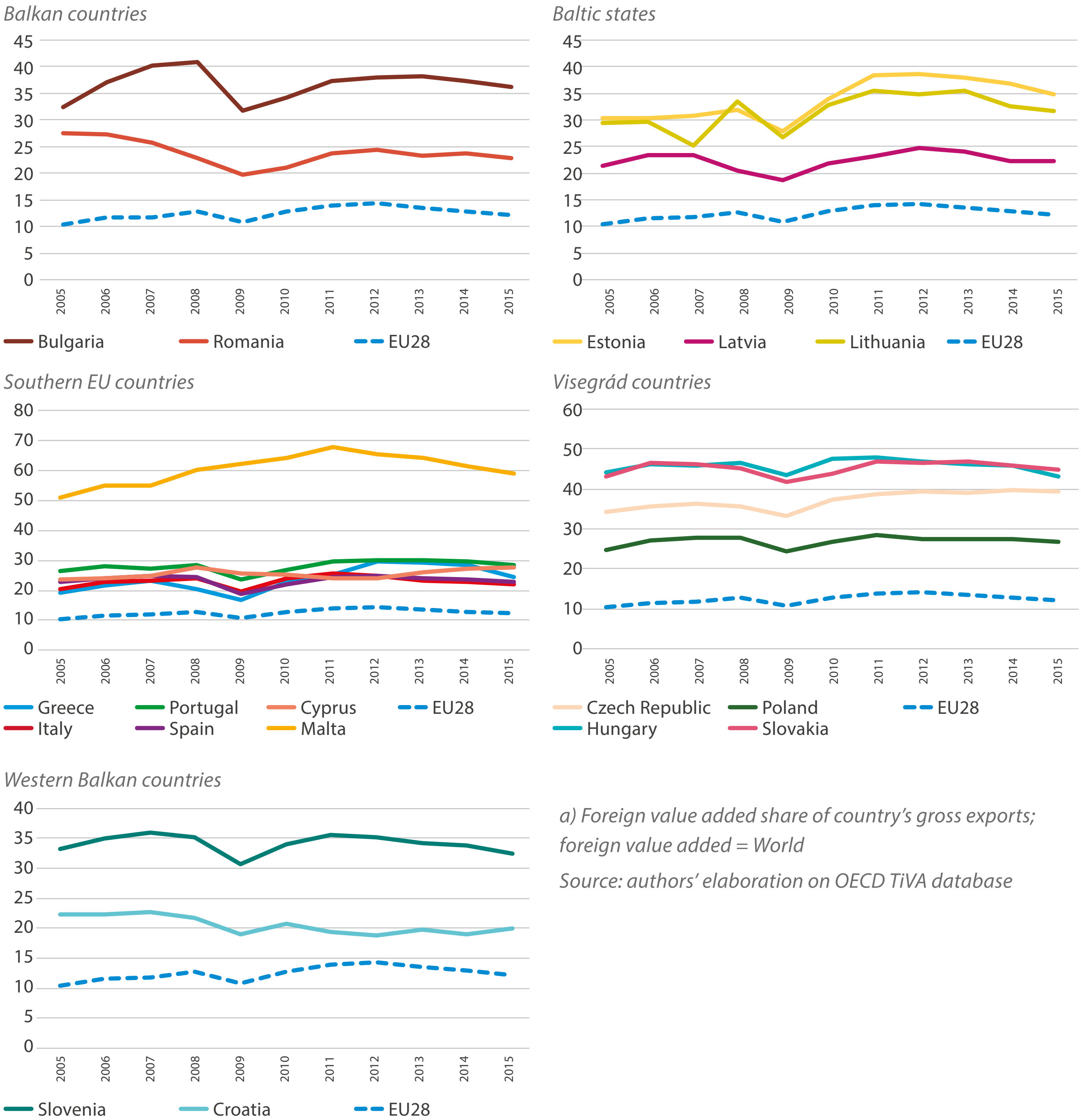
a) Domestic value added in foreign exports as a share of domestic gross exports, by foreign exporting areas.

Source: authors' elaboration on OECD TiVA database

Figure 4.7, page 123 shows the backward participation of peripheral European countries in GVCs, defined as foreign value added contained in the country's gross exports (foreign value added is from the world).

As can be seen, in all the countries considered, the foreign value added content of gross domestic exports is higher than the EU average. Again, the index varies both between and within country groups, although on average backward participation has higher values than forward participation. While it is reasonable to assume that a highly internationalised economy that relies heavily on exports and forward inclusion in GVCs is also open on the import side and thus has a significant import content of exports[55], an excessive degree of backward participation in GVCs may nevertheless be a sign of incompleteness of the production matrix and external dependence. In fact, a simple calculation of the correlation index between backward and forward participation in GVCs carried out for all years and all peripheral countries considered leads to the result -0.57, a significantly negative relationship (Figure 4.8 provides a visual representation of this negative correlation).

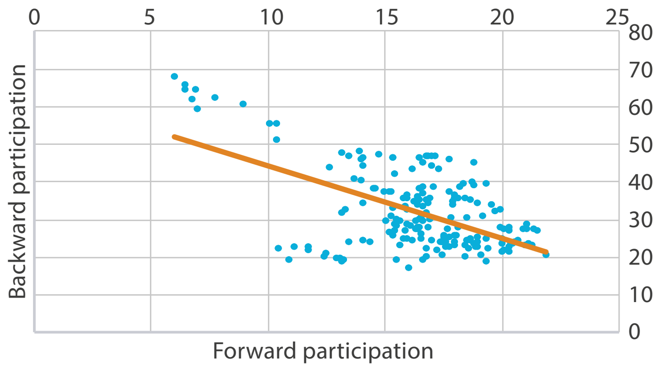
Figure 4.7 Backward participation of EU peripheral countries in GVCs[a] *(% values)*



a) Foreign value added share of country's gross exports; foreign value added = World

Source: authors' elaboration on OECD TiVA database

Figure 4.8 Correlation between backward and forward participation in GVC *(% values)*[a]



Note: (a) all peripheral countries considered and all years in the period from 2005-2015.

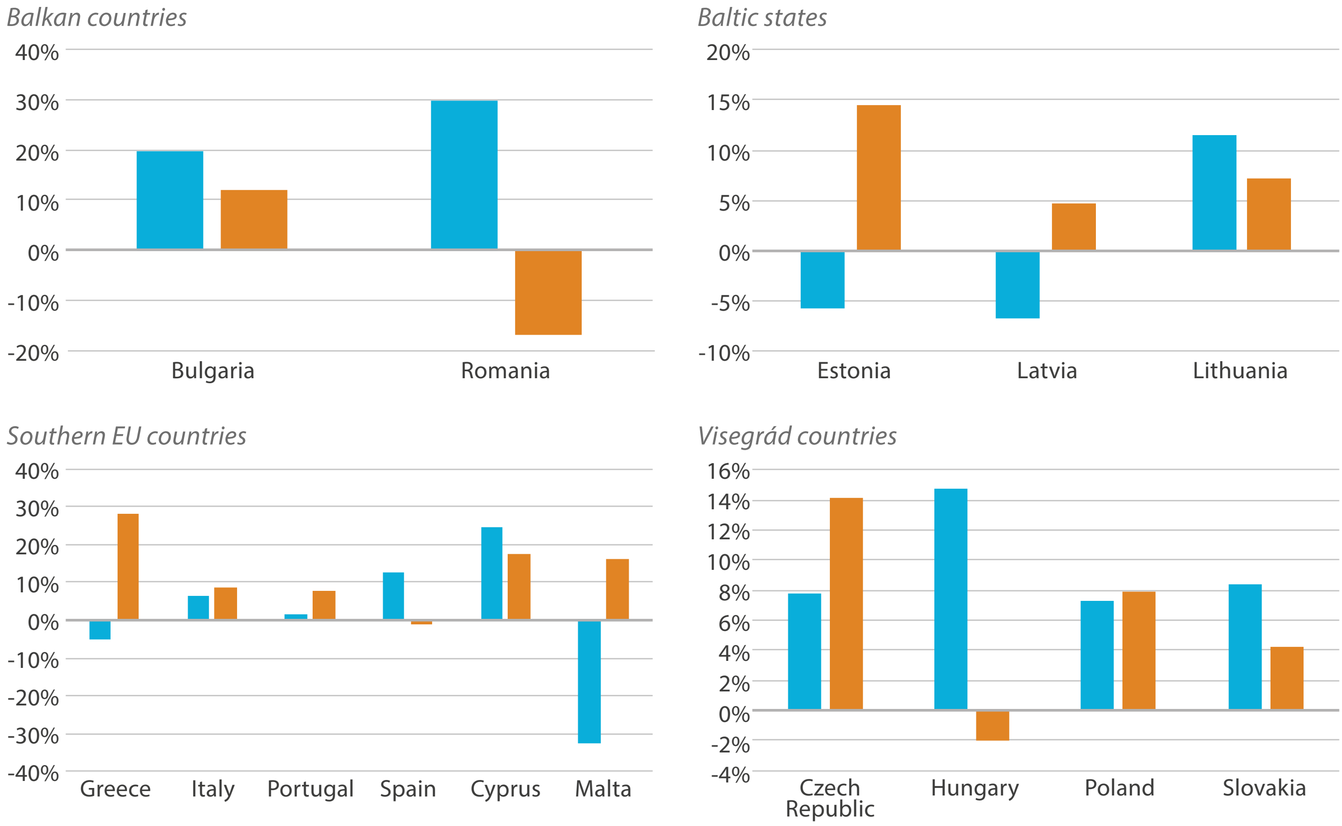
Source: authors' elaboration on OECD TiVA database

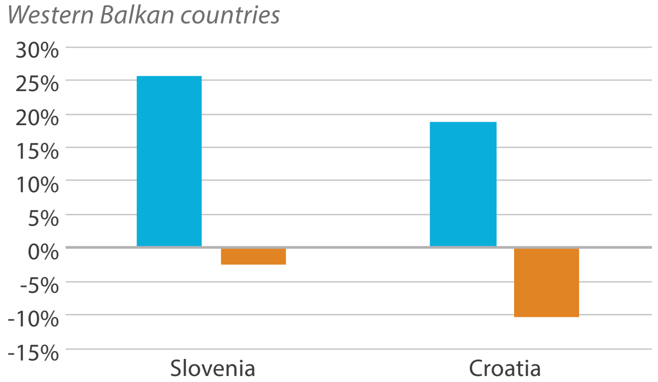
Figure 4.9 compares the change in backward and forward participation over the time period considered. In most cases, the relationship is *inverse*. There is a first group of countries that experience an increase in their forward participation in GVCs while decreasing their backward participation, which means that the *domestic* value added content of their exports increases (see, for example, Romania, Spain, Hungary, Slovenia and Croatia). A second group of countries that follow an opposite trend, increasing backward participation and decreasing forward participation. Notable, among these, are Greece and Malta and, to a lesser extent, Estonia and Latvia. Finally, there is a third group of countries that show a more balanced evolution, increasing both dimensions of participation in GVCs (see Poland, Slovakia, Czech Republic, Italy, Lithuania, Bulgaria, Cyprus). Figure 4.10, page 123 is a scatter plot that brings together all the countries considered and visually summarises their positioning in the two dimensions of GVCs participation. The first group we mentioned (showing increase in forward/decrease in backward participation) is placed in the southeast quadrant, the second one (displaying decrease in forward/increase in backward participation) in the northwest quadrant and the third one (increasing in both forward and backward participation) in the northeast quadrant.

When we look specifically at the participation of peripheral EU countries in the value chain of Germany, substantial differences emerge between the country groups under consideration in terms of extent and evolution of their productive interdependencies with the core country. Figure 4.11 is indicative of the use of intermediate goods from peripheral EU countries in the production of goods exported by Germany. In particular, Figure 4.11 shows the value added generated in peripheral EU countries contained in German exports and expressed as a share of total foreign value added present in German exports. As can be seen, only Visegrád countries and Southern European countries have significant shares (see box a). However, while the Visegrad group increases its share, Southern EU countries decrease it. Box (b) in Figure 4.11 shows the percentage change in the share of peripheral countries' value added in German exports over the period 2005-2015: while Baltic States and Southern Europe show a negative change (-14% and -10%, respectively), Visegrád countries, Western Balkans and Balkans display an increase in their shares (+25%, +14%, +140%, respectively). Apart from the relative growth dynamics across country groups, as mentioned above only Visegrád group and Southern European countries show significant shares of value added, while those of the other country groups are negligible. Nevertheless, despite the low initial level, the strong growth in the share held by the Balkan countries is quite striking; this strong increase is mainly due to the performance of Romania. In the case of this country, the process of integration into the EU has not only favoured a neoliberal development model driven by FDI (Bohle & Greskovits, 2012; Drahokoupil, 2009) but also strengthened the developmental capacities of a state that was initially weak (Vukov, 2019). According to Vukov (2019), EU membership has fostered not only the state's ability to attract FDI but also the construction of those institutional infrastructures that have improved Romania's position in global value chains. The automotive sector is particularly representative of these developments.While at the beginning of the 1990s the car industry in Romania, still influenced by the legacy of the socialist era, was destined to succumb under market pressures, after two decades it has been able to export to Western European markets at increasing rates (Romanian Dacia has managed to become the most profitable plant in the Renault network), and to move into higher value-added segments in the production of components (Vukov, 2019).

In general, the automotive sector constitutes the most representative context for the manufacturing transformation of Central and Eastern European countries and their integration into international value chains. Figures 4.12 and 4.13 show the value added generated in peripheral EU countries and contained in German exports in the trans-

Figure 4.9 Forward[a] vs backward[b] participation of EU peripheral countries in GVCs % *change in 2005-2015*





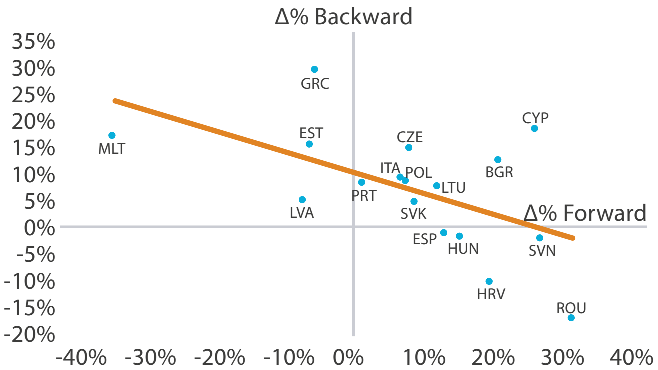
(a) Domestic value added in foreign exports as a share of domestic gross exports.

(b) Foreign value added share of country's gross exports.

Backward Forward

Source: authors' elaboration on OECD TiVA database

Figure 4.10 Percentage variation in backward and forward participation of EU peripheral countries in GVCs (*2005-2015*[a])



Note: (a) The figure plots the percentage change between final and initial year in backward and forward participation in GVCs as a share of countries' gross exports.

Source: authors' elaboration on OECD TiVA database

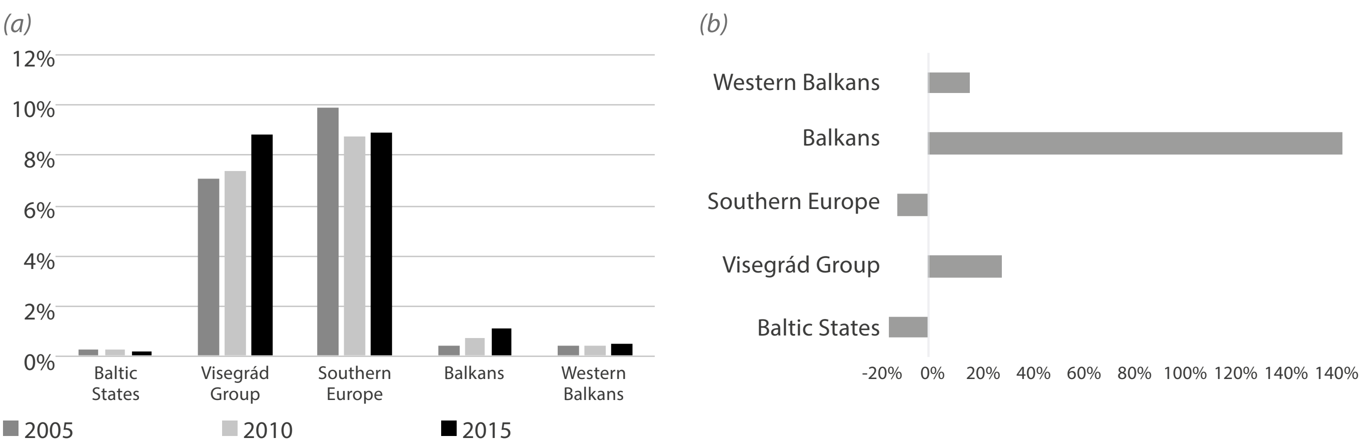
port sector (expressed in terms of absolute values and shares of total foreign value added, respectively). What is striking is the strong growth in the share of Visegrád countries, from 19% in 2005 to 25% in 2015, while the share associated with Southern European countries remains stagnant (at 13%). The strong progression of the Visegrád countries' integration into Germany's automotive value chain has probably led to displacement effects on Southern European component suppliers, especially Italian ones. In fact, behind the stationary 13% share associated with the EU Southern periphery there is an increase in Spain's share over the period 2005-2015 (from 5.9% to 7.5%) and a decline in the share held by Italy (from 5.7% to 4.9%).

The next section is devoted to an in-depth look at the dynamics affecting the automotive sector in Europe, with particular regard to the various internationalisation strategies undertaken by European manufacturers and their repercussions on peripheral countries.

4.4 A FOCUS ON THE AUTOMOTIVE INDUSTRY IN EUROPE

The automotive sector is a privileged observatory for understanding the dynamics associated with the hierarchical reorganisation of the European industrial structure in recent decades. Celi et al. (2018) highlight a number of factors that determine the general importance of this sector and justify the attention devoted to it. The first is its dimensional scale in terms of employment, production, direct and indirect linkages with the other sectors of the economy, as well as the significant presence of R&D activities. Secondly, it is an industry characterised by the presence of a limited number of oligopolistic companies that are nevertheless able to influence a large number of markets and economic players. Thirdly, the automotive sector is highly internationalised and fragmented in terms of production and is therefore associated with long value chains involving numerous countries and geographical areas. Finally, it is an industry

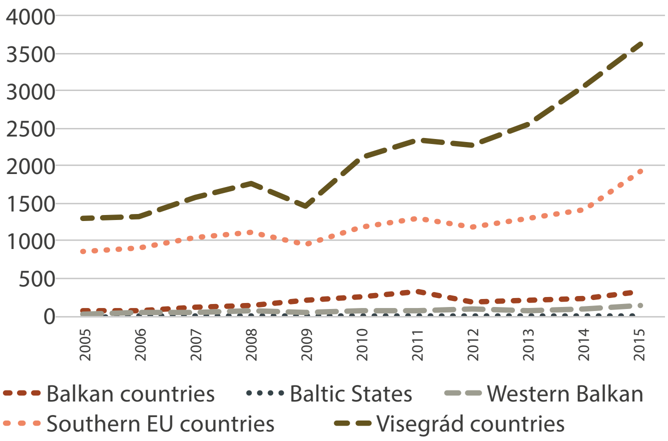
Figure 4.11 Value added from EU peripheries contained in German exports



(a) Value added from EU peripheral country groups as a share of total foreign value added contained in German exports.
(b) Percentage change of (a) in the period from 2005-2015.

Source: authors' elaboration on OECD TiVA database

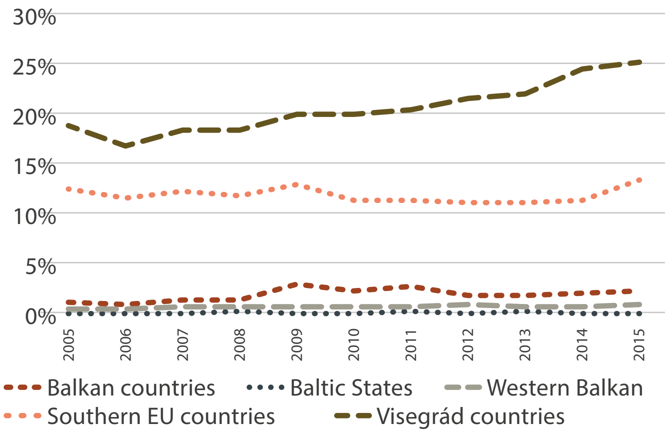
Figure 4.12 Value added from EU peripheries contained in German exports in the transport equipment industry[a] *(millions of US dollars)*



(a) Transport equipment industry corresponds to division 29 (motor vehicles, trailers and semi- trailers) + division 30 (other transport equipment), ISIC (rev.4).

Source: authors' elaboration on OECD TiVA database

Figure 4.13 Value added from EU peripheries contained in German exports in the transport equipment industry[a] *(percentage shares)*

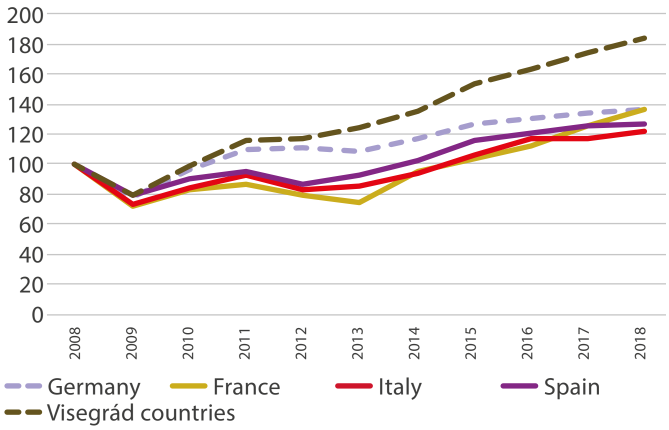


(a) Value added from EU peripheral country groups as a share of total foreign value added contained in German exports in the transport equipment industry (divisions 29+30, ISIC)

Source: authors' elaboration on OECD TiVA database

that presents a substantial technological hierarchy along the value chain, with core companies developing their own leading technologies and peripheral companies adapting in terms of technological subordination. While the four factors mentioned above relate to the characteristics of the sector in general, the development strategies of the automotive industry in Europe are not homogeneous but present substantial differences across countries. For example, in the case of offshoring policies, the relocation strategies adopted by leading German firms in the automotive sector differed from those adopted by French and Italian firms[56]. While the latter have tended to delocalise entire production chains, German companies have kept the higher value-added production stages at home and transferred the lower value-added production activities abroad[57]. This has enabled Germany to achieve two results: maintaining high levels of domestic production and employment, and enhancing international competitiveness by reducing production costs through relocations to the East. These differences in relocation strategies have had repercussions in terms of differences between countries in the production performance of the automotive sector, as well as leading to a reshuffling of relations between central and peripheral countries. Further evidence of the divergent trends of Eastern and Southern peripheries in the automotive sector – which confirms what was pointed out in the previous section regarding the links of these two peripheries with Germany – is provided by Figure 4.14 showing the production index in the automotive sector in the main central and peripheral European manufacturing countries in the period 2008-2018. As the graph illustrates, after the downturn in 2009 due to the immediate effects of the great crisis of 2008, Germany and the Visegrád countries already in 2010 regained the production level of the initial year, and significantly surpassed it in the following years. In particular, the Visegrád countries show the most pronounced growth in production (in 2018, the index rises to 184)[58]. On the contrary, France, Italy and Spain recorded a drop in production over most of the period and only in 2014 – 2015 they were able to exceed their initial year's production level.

Figure 4.14 Production in the automotive industry in Europe [a] *(index of production; 2008=100)*



(a) Manufacture of motor vehicles, trailers and semi-trailers (C29, NACE Rev.2). The index is calculated on the basis of the value of production in millions of euros.

Source: author's elaboration on Eurostat, Structural Business Statistics.

Table 4.1 Motor vehicle production in Europe [a] *(country shares in total European production)*

	2000	2008	2019	2020
Germany	27%	28%	23%	22%
France	17%	12%	10%	8%
Italy	9%	5%	4%	5%
Spain	15%	12%	13%	13%
Czech Republic	2%	4%	7%	7%
Hungary	1%	2%	2%	2%
Poland	3%	4%	3%	3%
Slovakia	1%	3%	5%	6%
Romania	0.4%	1.1%	2%	3%

(a) The country shares are calculated on the total number of vehicles produced in Europe.

Source: author's elaboration on OICA data.

Figure 4.14 showed the evolution of production in the main European car manufacturing countries in the decade following the 2008 crisis, but a profound change in the geography of the European automotive industry had already begun since the euro's inception. The hallmarks of this transformation were, on the one hand, the rise of Germany as the undisputed European leader in the sector and the third largest producer in the world, after the USA and Japan; and, on the other hand, the conquest of significant positions in the regional production hierarchies by some Eastern European economies (especially the Visegrád group economies). Initially, in 2000, four countries (Germany, France, Italy and Spain) accounted for 67 % of Europe's car production, while the share held by Eastern European countries was relatively negligible (just slightly more than 7 % overall; see Table 4.1). Between the birth of EMU and the great crisis of 2008, the picture changed substantially. While Germany continued to increase its share (reaching 28% in 2008), France, Italy and Spain significantly decreased their production shares and, most impressively, the Eastern European countries (Visegrád group + Romania) doubled their quotas (see Table 4.1).

A decade later, in 2019, on the eve of another major crisis (the coronavirus shock), Table 4.1 shows that Germany was also beginning to shrink its car production shares, as a result of a global context that was more protectionist (under the Trump administration) and less favourable for Germany's exports towards extra-European markets (as observed in trade network analysis). On the contrary, Eastern European countries continued to increase their share of production in the automotive sector even in the year of the pandemic (in 2020 they reached a total share of 21%; see Table 4.1). In recent years, countries such as the Czech Republic and Slovakia have significantly overtaken Italy – historically one of the main producer countries – in terms of vehicles produced (and production shares; see Table 4.1). Thus, only a few years after their entry into the EU (2004), the Visegrád countries, by becoming an integral part of the German production matrix and participating in the formation of an integrated regional area, were able to transform their industrial base and become competitive producers in the automotive sector.

After the collapse of the socialist bloc, the eastward expansion in the automotive sector by Germany (and other countries) began to gain momentum. The German producer Volkswagen paved the way in 1991 by acquiring Škoda, then opening two Audi plants in Hungary in 1993 (Frigant and Miollan, 2014). Firms of other countries were also investing in

Eastern Europe; for instance, in Poland: Fiat by expanding its plants in Tychy to produce the 500, US Ford in Płońsk in 1995, Opel (GM) and Korean Hyundai-Kia in Gliwice in 1998. After 2000, especially after Eastern European countries joined the EU, foreign investments intensified with the presence, for instance, of Hyundai-Kia in Slovakia (2006) and in Czech Republic, and the Chinese Great Wall in Bulgaria (2012). If the aim of this intense investment activity was not only to supply Eastern European markets but also to obtain access to Western markets, it is clear that the level of complexity and hierarchy within the Eastern bloc tended to increase, given the growing production capacity and the greater degree of internationalisation required. Progressively, successive waves of foreign direct investments in Eastern Europe expanded the production capacity in the automotive sector in the region, making Eastern countries key contributors in the manufacturing chain of the sector. Lefilleur (2008) reported that in the period from 2000 to 2008, the automotive industry gathered the largest share of foreign direct investment from Germany, France and Italy in the Eastern countries. In turn, investment in the automotive sector accounted for almost 20% of total investment in the region and automotive production became the dominant industry. What are the reasons for this eastward projection of the European manufacturing platform in the automotive sector? Labour cost differentials are one of the main drivers of eastward expansion. German firms, in particular, tended to delocalise – at least initially – labour-intensive segments, while keeping more technology-knowledge-intensive activities in Germany (Nunnenkamp and Spatz 2002; Nunnenkamp 2005). In 2002, the main target areas for German FDI – the Czech Republic, Hungary, Poland and Slovakia – had hourly wages between a quarter and a fifth of those in East Germany (Leaman 2009). The eastward relocation has contributed to boost German competitiveness through two channels. A direct one, through the import of intermediate goods produced in the East with labour costs significantly lower than at home. And an indirect one, related to the ability to moderate labour costs (in Germany), and thus the price of exported final goods, also thanks to the threat of delocalisation. The prospect of relocating activities to low-wage areas has been a major factor in wage moderation in Germany since the early 2000s, representing one of the key instruments through which firms have obtained the consensus of the trade unions involved in the internal co-determination organs of large manufacturing firms. Besides labour cost differentials, differences in corporate taxation, subsidies and, more generally, the business-friendly tax system that characterises the economies of the former socialist area constitute a second driving factor. Leaman (2009) reported that the generous tax benefits and direct subsidies offered to German manufacturing firms by Slovakia, for example, played an important role in attracting Volkswagen, Hyundai, Kia and Peugeot. Leaman also points out that these incentives contributed to the "displacement" of Southern European manufacturers. In 2002, for example, the Volkswagen group decided to transfer 10 per cent of the production of the SEAT Ibiza from the plant in Martorell (Catalonia) to Bratislava, a result of the failure of negotiations with the Spanish trade unions to obtain greater labour flexibility. The eastward projection of the automotive industry in Europe obviously included the production of parts and components. The consolidation of the German leadership in the automotive sector went hand in hand with a substantial reorganisation of the component production network. The integration into the German value chain increased the relative weight of Eastern European component manufacturers (but at the same time, as we shall see, increased their dependence as well). These developments also resulted in displacement effects for Southern European component manufacturers. Before the introduction of the EMU, the German car industry made intensive use of intermediate inputs produced by French, Italian and Spanish firms. Later, after the birth of the euro, the geographical composition of Germany's imports of intermediate goods changed dramatically. This change took the form of a significant growth in the volumes of intermediate goods supplied to German industry by Eastern countries (especially those of the Visegrád group), and a decline in components supplied by Italy and France[59]. An indication of these developments can be found in Figure 4.13, page 124, discussed above, where in 2015 the share of value added imputable to Visegrád countries accounted for an impressive 25% of the foreign value added present in German exports in transport equipment sector, while the share of Southern European countries was only 13%. Hence, three main basic facts emerge from the evidence mentioned so far. First, the eastward expansion of its production network has not prevented, but rather enabled, Germany to maintain high levels of car production and employment at home[60]. Second, the countries of EU Eastern periphery (particularly the economies of the Visegrad bloc) are now a key element of car production in Europe. Third, France and Southern periphery (with the partial exception of Spain) are reducing their weight in the total output (final goods and components) of the European car industry. As mentioned above, the different performance of European countries in the automotive sector has also depended on different delocalisation strategies. The impoverishment of the production structure in countries such as Italy, but also France, is associated with internationalisation strategies that have aimed to transfer entire production lines abroad. Germany, on the other hand, has followed an approach of vertical reorganisation of production, transferring abroad only low value added phases and maintaining and developing at home those embodying higher value added and more advanced technologically. In addition, it has progressively transferred the production of low-end and small cars to the East, while retaining the production of high-quality cars internally. Moreover, Germany has also followed different internationalisation strategies in different geographical areas. While in non-European areas (North and South America, East and South-East Asia) the purpose of Germany's relocation strategy has been to serve domestic markets of these areas, in the case of Eastern European countries the production has been re-exported to Germany or exported to third countries. Thus, the Eastern European countries act as a pure export platform and the effects of German delocalization activities in these countries in terms of domestic market expansion has been negligible[61]. The creation of an integrated network of component producers – either owned by German companies or composed of local suppliers for German subsidiaries – increases the degree of dependence of local industry on German companies, which can unilaterally decide location, technology and outlet markets for the firms in their value chain. Under these conditions, the opportunities to embark on a trajectory of technological upgrading, diversification and emancipation from the customer companies are inevitably limited. However, the integration with the German automotive industry has increased the technological intensity of the Visegrád group's production: the share of exports of medium-high-tech products has increased and the share of labour-intensive products has decreased. In particular, Bontadini et al. (2021) offer evidence of a shift of Eastern European countries towards more high-tech manufacturing segments, which, however, is not mirrored in a corresponding upgrading of employment composition[62]. In fact, the authors show that only Western European countries (essentially the core countries) display a shift in employment composition in the direction of an increase in the more knowledge-intensive component (more precisely, knowledge intensive business services, KIBS). However, the continuation of this process of manufacturing upgrading is crucial for Eastern European countries, insofar as rising wages reduce the competitive advantage of labour costs. Production polarisation towards Eastern Europe (especially Visegrád group) may decrease as the relocation of activities progressively moves to the Southeast (Romania, Bulgaria, and also Slovenia and Croatia). The gap between European countries in the performance of the automotive sector – especially that between Germany and the remaining main producer countries, such as France, Italy and Spain – is justified not only in terms of production levels but also in terms of the level of technology and R&D investments. Table 4.2 shows the ranking of European car manufacturers in terms of R&D investments. Of the European top ten, six are German companies,[63] while only three are French and only one Italian[64].

Table 4.2 Top 10 automotive R&D investing companies in Europe *(2019)*

	Country	Investments in R&D (billion euros)	Position in world rank[a]
Volkswagen	Germany	14.31	6
Daimler	Germany	9.63	11
BMW	Germany	6.42	19
Robert Bosch	Germany	6.23	20
Fiat Chrysler	Italy	4.19	40
Peugeot (PSA)	France	4.06	44
Renault	France	3.70	47
Continental	Germany	3.60	50
ZF	Germany	2.13	71
VALEO	France	1.91	80

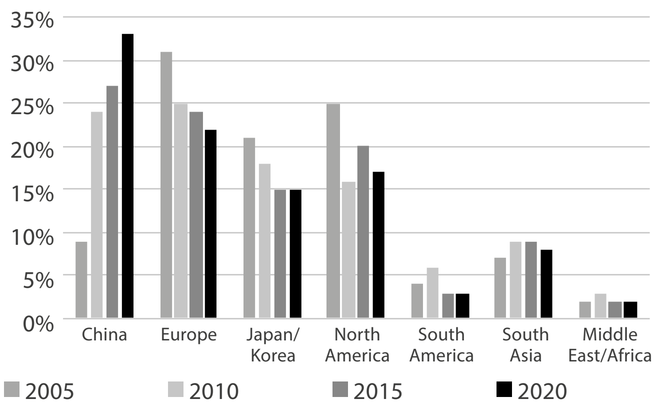
(a) All industries.

Source: EC (IRI), The 2020 EU Industrial R&D Investment Scoreboard.

The technology gap has accelerated since 2000. According to OECD data, between 2001 and 2008 German R&D expenditure in the automotive industry grew by 3.5%, compared to 2.4% and 1.4% in France and Italy respectively. Between 2013 and 2016, German automakers increased R&D investment by 8.6%, compared to 1.4% and -1.5% recorded by French and Italian companies respectively (Celi et al. 2018). The structural transformation and reorganisation of production over the last two decades has made Germany the world's fourth largest car manufacturer (after China, the US and Japan) and the first in Europe. It is the European country with the largest number of Original Equipment Manufacturers (OEM) plants (41 units). The eastward projection of the internationalisation strategies of German companies has also contributed to a significant growth in production plants (of vehicles, parts and components) in Eastern European countries. The Visegrad bloc counts 34 plants, plus three plants located in Romania and one plant in Slovenia and Croatia respectively (see Table 4.3, page 128). Table 4.3 also shows the share of manufacturing employment absorbed by the automotive sector. As can be seen, especially Germany and Eastern European economies (Visegrád countries, but also Romania) are the countries with a significant amount of employment allocated in the automotive industry, with a share that exceeds the EU average[65].

This evidence leads to a reflection on the possible repercussions on the German industry – and, consequently, on that of the countries included in the German value chain – of the new radical transformations envisaged for the automotive sector (and which, in fact, are already taking place). In recent years, for instance, new global players have appeared, in particular China, which is now the world's leading car manufacturer in terms of volumes produced. Figure 4.15 shows the impressive growth in China's share of world vehicle production. Chinese quota jumped from 9% in 2005 to 33% in 2020, while Europe's share contracted from 31% to 22% over the same period.

Figure 4.15 Vehicle production by country/area, *percentage shares of world production (2005-2020)*



Source: author's elaboration on ACEA data

Table 4.3 Automotive plants and direct employment in the EU *(2019)*

	Number of plants[a]	Direct employment[b]
Austria	5	5.7%
Belgium	7	5.90%
Croatia	1	1.10%
Czech Republic	8	13.70%
Finland	2	3.00%
France	30	7.70%
Germany	41	11.30%
Hungary	6	12.80%
Italy	22	4.70%
Netherlands	10	3.50%
Poland	16	7.50%
Portugal	5	5.90%
Romania	3	15.70%
Slovakia	4	15.70%
Slovenia	1	7.40%
Spain	16	8.00%
Sweden	9	14.40%
Total EU	186	8.60%

(a) Automobile assembly and engine production plants.

(b) Direct employment in the automotive sector as a percentage share of total manufacturing employment in 2018.

Source: author's elaboration on ACEA data.

In this context of increased global competition, Germany and the other European manufacturers have to deal with other new challenging issues as well: changes in technology and consumption (car sharing, autonomous driving, electric cars), revision of trade agreements. These circumstances could lead to a drastic reduction in demand for cars, changes in production quality and technology, changes in the international organisation of production. With reference to the productive reconversion and technological transition required by the large-scale production of electric cars, for example, the expectation is that the number of components will decrease drastically and assembly time will decline from 6.2 to 3.7 hours[66]. In addition, the life cycle of an electric car will be much longer and the maintenance requirements much lower, compared to conventional vehicles. These radical changes in production and technology lead to the question of what impact the development of the electric car sector will have on the demand for components, production, employment and the restructuring of global value chains itself, especially in those European countries that specialise in components (Eastern Europe, Northern Italy and Germany itself)[67].

In conclusion, European manufacturers need to realise that the electric revolution seems to be well underway and that Chinese manufacturers are at the forefront of battery research and electric vehicle production. In this context, investment strategies in the electric vehicle sector could offer substantial first-entry advantages in the new electric car market. In addition, European manufacturers will have to bear in mind that ongoing changes in trade agreements could change the location advantages of previous plants and their specialisations.

4.5 CONCLUSIONS

The analysis of European trade network has shown that a significant reorientation of trade flows has accompanied the reshuffling of hierarchical economic relations between core and periphery occurred in the last two decades: already in 2008, trade between Germany and Visegrád countries surpassed that between Germany and Southern European economies. However, when we further refine the analysis by looking at trade in value added, it becomes clear that this strengthening of trade links between the core and the Eastern periphery is mainly due to the exchange of intermediate goods, prevalent in certain sectors, such as the automotive sector. This evidence, testifying the dependence of Eastern peripheral economies on the value chain controlled by the core countries (Germany in the first place), demonstrates that both peripheries (South and East) are fragile (although differently fragile), since they are in an equal condition of economic and financial dependence on the core. Can this condition of dependence be overcome (or at least mitigated) over time by the peripheral countries? To answer this question, it may be useful to recall the view of Albert Hirschman, the great heterodox development economist, considered, despite himself, one of the creators of the core-periphery model and the dependency theory for having written in 1945 the book *National Power and the Structure of Foreign Trade*. This book showed how Germany, in the interwar period, extended its sphere of influence over the Eastern European and Balkan countries by making them dependent through trade (and using the threat of trade interruption). The asymmetry (and hence dependence) in trade relations was measured by the Germany's *large* percentage share of peripheral country's total imports and exports and the peripheral country's *small* percentage share of Germany's total exports and imports. More than thirty years later, in a 1978 article entitled "Beyond asymmetry: critical notes on myself as a young man and on some other old friends", Hirschman revised the positions expressed in the 1945 book, arguing that core-periphery dependency relations are not monolithic and can evolve over time. According to Hirschman, there is a *disparity of attention* between peripheral and core countries regarding the dependency relationship. This implies that the efforts of the peripheral country to emancipate itself from the dependency relationship are much stronger compared to those of the central country to preserve it. This circumstance may lead over time to a relaxation of the core-periphery relationship. Is Hirschman's perspective (that of the 1978 article) applicable to the current situation? Perhaps the strong presence of intermediate goods in international trade, i.e. the importance of global value chains in today's world, makes this *disparity of attention* between core and periphery on the dependency relationship less likely. Consider, for example, the strong regionalisation of production interdependencies between Germany and the Visegrád countries in the automotive sector. In a situation of such a strong density of production links, it seems unlikely that a disparity of attention would emerge, because the core itself is, in a sense, *dependent* on the peripheral country as integrated supplier of intermediate goods. Perhaps the disparity of attention shifts to other, not strictly economic, areas, such as rights and democracy (but in a regressive sense, as in the case of contemporary Poland and Hungary). However – as the Japanese economist Akamatsu (1962) pointed out in his "flying geese model" – the economic development of (core and peripheral) countries is characterised by alternating periods of homogenization and heterogenization of their production structures. In phases of heterogenization, divergence in costs leads to changes in production systems and to an international division of labour that establishes complementary relationships between countries, with a co-acceleration of growth.

In homogenisation phases, on the contrary, cost convergence leads to the emergence of substitution and competition relations between countries. Although Akamatsu's model has been erroneously equated to Vernon's product cycle model and thus to a 'harmonic' vision that predicts a continuous linear process in which follower countries catch up with the leading country, in reality it turns to be much more articulated, non-deterministic and compatible with a plurality of development trajectories[68]. On the one hand, by envisaging a shift of comparative advantages in certain sectors to follower countries – and an alternation among follower countries themselves in the possession of specific comparative advantages – [69], the model is open to the possibility of margins of autonomy for peripheral countries in relation to core countries. On the other hand, especially in the case of regionally integrated production systems, the countries' sequences of development are hierarchically concatenated (Ozawa, 2003). As we noted above, the automotive sector is in some ways emblematic of the reorganisation of the international division of labour, with leading economies managing highly regionalised and hierarchized manufacturing networks (not only in Europe, but also in Asia, America, etc.). It is, therefore, a privileged area of study for understanding the evolution of value chains, in relation to technological change and the advancement/retreat of countries in terms of shifting comparative advantages and power relations within GVCs, and their effects on production, employment and domestic socio-economic fabric. In an attempt to construct a broad interpretative framework of the evolution of the automotive sector at international level in the last decades, some authors have proposed a taxonomic classification of countries involved in car production. Pavlínek (2018), for instance, provides a recent categorization in which automotive-producing countries are distinct in three groups: the 'core', the 'integrated periphery' and the 'semi-periphery'. Without going into too much details, we can say that the first group includes countries that host automaker headquarters, have high levels of R&D spending, high labour costs, presence of home-grown top 100 suppliers, etc. (e.g. USA, Germany, Japan). The second group consists of economies with lower production costs, proximity to leading car manufacturing nations and large markets, participation in trade agreements, strong incentives for inward FDI, very high foreign ownership and control (e.g. Mexico, Eastern European countries, etc.). Finally, the countries belonging to the third group, similar to the integrated periphery, have high external ownership and no leading automakers with domestically located headquarters. Unlike the integrated periphery, however, the semi-periphery has higher production costs and may be home for global suppliers of car parts. The semi-periphery includes both countries that previously had the status of core producers (e.g. UK, Sweden, but also Italy) and countries that previously had the characteristics of the integrated periphery (e.g. Canada and Spain). In the case of the latter countries, rather than an upgrading process, the move from the integrated periphery to semi-periphery status is indicative of a clear shift in comparative advantages as the location choices of the core economies (e.g. USA and Germany) were diverted to countries with lower production costs and other pull factors (e.g. Mexico and Eastern European countries). It is clear that semi-peripheral car manufacturing nations (in Europe, especially Spain and Italy) face the problems of being stuck between two extremes: inability to compete in terms of production costs with the integrated periphery countries and difficulty in moving towards knowledge-based activities that are the domain of core countries[70].

However, beyond the shift in comparative advantages among peripheral countries, the core countries themselves, which are traditionally leaders in automotive production (USA, Germany and Japan), have to face global competition from countries that combine the prerogatives of the integrated periphery with those of the core. Indeed, these countries (e.g. China and India) have advantages both in terms of lower production costs (lower wages) and in terms of production control, since they are headquarters of automakers. Furthermore, in the case of China, its leadership in the production of key components in battery production will make the transition to the electric car even more harsh and difficult for European manufacturers. In general, the shift of the world's economic centre of gravity towards the Far East and the rise of China as a hegemonic power on the global scale have important implications both for Europe as a whole and for core-periphery relations in Europe. On the one hand, Europe is losing its economic and technological position on the global level (The Economist, 2021; Confraria et al., 2021), and the export-led model of Germany itself does not seem to be as viable as it once was (Jones, 2021). On the other hand, this situation opens up alternative scenarios for peripheral countries. China could represent the "alternative" for peripheral countries (Brattberg et al., 2021; Wehner, 2021). Yet, it is also true that Germany itself, in a situation of reduced margins for global exports, could find it convenient to expand its domestic market and, consequently, the European domestic market, offering new development opportunities for peripheral countries. The recent pandemic crisis has revealed how fragile global value chains are. Studies that have analysed the propagation effects, along GVCs, of shocks (like coronavirus, or natural disasters as earthquakes) have shown the importance of the effects in terms of supplier substitution (Celi et al., 2020). This implies that future developments are uncertain for European peripheries, depending on the relative strength of two opposite effects. On the one hand, greater coordination allowed by digitalisation of production networks could favour supplier substitution effects and this circumstance could prove detrimental for some peripheral countries involved in GVCs less equipped with digital technologies. On the other hand, reshoring and shortening of value chains could occur, especially where production chains are less complex or automation is more advanced. This second possibility could represent an opportunity to reverse the processes of deindustrialization that have impoverished the productive fabric of peripheral countries.

Chapter 5 – Comparison of the EU peripheries

Giuseppe Celi, Valentina Petrović, Veronika Sušová-Salminen

The following chapter summarises the three regional studies and their economic properties in a comparative way. Our main aim is to underline some of the most important characteristics and problems of both euro-peripheries from the perspective of political economy. This chapter goes beyond the regional chapters, which were focused on several indicators related to economic structures and models within two EU peripheries of concern to us (also the South and the East in this chapter). We work with indicators and information presented in three regional chapters while we compare them and put them into contexts. The comparison is based on the synthetical method with a focus on defining generalised trajectories and trends, as well as indicating important commonalities and differences. As such, the comparative chapter presents generalised trends in an abstract way rather than via specific, detailed accounts, which are captured in chapters 1, 2 and 3 as well as in the summarising comparative Table 5.3, see page 155. In the first part, we concentrate on Southern Europe (SE), Central Eastern (CEE) and South-East Europe (SEE) in different historical contexts. We underline the role of historical continuities and discontinuities for understanding their situation and *longue durée* development. In the second part, we briefly compare contemporary economic models in both EU peripheries. Our aim is to put these models in the comparative perspective using synthesis. The third part is dedicated to the impacts of the Global Financial Crisis (GFC) on both EU peripheries. We see the crisis as a critical testing ground for the sustainability of economic models in both peripheries. We sum up the diversity of the consequences and impacts of economic recession between 2008-2012, and we focus on the question of convergence and divergence of Southern Europe and Central Eastern and South-East Europe while paying attention to the regional dimension. The final part works with the concept of dependent development and focuses on existing dependencies in the South (Southern Europe) and in the East (Central Eastern Europe and South-East Europe).

5.1 CONTEXTUAL COMPARISON: HISTORICAL DISCONTINUITIES VS. CONTINUITIES

The three groups of countries (CEE, SEE and SE) underwent different trajectories of the Cold War history in Europe. Understanding historical context is important to be able to grasp the dynamics of developments and dependencies of both EU peripheries. Southern Europe remained a composite part of the western capitalist camp, although Spain, Portugal and Greece experienced different periods of authoritarian (or dictatorship) regimes in quality and length (Greek junta in 1967-1973, Franco dictatorship in Spain 1939-1975, Estado Novo of Salazar in Portugal 1933-1974). In 1974, Malta became an independent republic (until then the country was part of the British Empire), while Cyprus sought its political independence from Britain in the 1960s. From this point of view, Italy, after the war, represented the most politically stable country in Southern Europe, which also translated into its founding role in the inception of the European integration processes. Despite the apparent political discontinuity in Southern European (SE) countries, there was an economic (systemic) continuity from the point of view of the two ruling economic systems of the Cold War period (i.e., capitalism and state socialism). The authoritarian fascist regimes in SE countries are sometimes labelled as a form of authoritarian capitalism with some aspects of economic dirigisme. But authoritarian capitalism still represented a variety of capitalism (Berend, 2016). We can generally argue that these three countries kept the basic systemic features of capitalism or market economy within politically authoritarian regimes. The discontinuities in Cyprus and Malta were different politically, but both countries were continuously capitalist.

On the other hand, Central Eastern and South-Eastern European countries experienced not only political discontinuity but also economic discontinuity of systemic character after (and as a *result* of) WWII. However, crucial nuances exist between the Baltic states, which represented Soviet republics, between today's Visegrád (V4) countries and between Balkan countries, including the former states of Yugoslavia, whose economic model became differentiated from the Soviet-led model (and modus operandi) quite early on. In brief, there were economic differences within the state-socialist system, which produced different economic legacies. For instance, there were different approaches towards the role of the private sector in the state-socialist economy. Thus, differences existed between two neighbouring countries, such as Poland and Czechoslovakia: whereas in Czechoslovakia there were no legally defined private firms and the private sector was very limited in 1989, private firms existed in Poland before 1989.

Since politics always influence the economy (and vice versa), two important political and economic events shaped the economic structures of these three regions. In the case of SE countries, the economic crisis in the 1970s, and especially the years 1973-75, determined the development of the region in many aspects. On the one hand, there was an essential process of (re)democratisation in Greece, Portugal and Spain (and, in a separate way, in Malta and Cyprus). On the other hand, the economic crisis of the 1970s (which cumulated in 1973 in the first oil crisis) meant the collapse of the Bretton Woods system (based on Keynesianism). The economic crisis hit Italy too, but this country was not undergoing a democratisation process simultaneously. Cyprus was politically shaken by the 1974 coup d'état, which ended in the division of the island along ethnic lines. In general, the economic crisis of the 1970s and the political changes in these countries opened the road to the Europeanization process[71] of the 1980s (except for Italy – a founding member of CEE and Malta, and Cyprus, which become members in 2004). Southern Europe's Europeanisation process can also be understood as an *exit strategy* after a period of political authoritarianism of different shapes and colours. In contrast to the later democratisation process in Central Eastern and South-East Europe led by largely conservative forces, the democratisation in Southern Europe was driven predominantly by progressive, social democrat and radical left parties (Judt, 2005: 504-534). The subsequent integration in the European economic community was faced in an idealised way. As Magone argues, "These countries joined the EU because there was a general belief that the very fact of being a member would resolve all the political, social and economic problems that each country was facing. Consequently, there was a marked tendency for these countries to be the passive receivers of 'democratisation' and/or 'modernisation' packages instead of being pro-active in solving their own domestic problems" (Magone, 2016: 88). Thus, Southern European countries were perceiving their integration through the lens of modernisation or as "*vincolo esterno*" (external link) for their democratic transformation. As result, the Europeanization process was largely superficial and the reforms were, as Magone puts it, not domestically owned (Magone, 2016). Moreover, economic integration was influenced by other external processes, as previously shown. Afterwards, deregulation policies linked with Europeanization, economic integration and later integration into the EMU weakened the fragile economic structure of these Southern European countries as a corollary of these developments.

The CEE+SEE countries experienced a different type of dramatic change when the Soviet-led economic and political system collapsed in 1989. This was, as we have seen, *a systemic change*, which dramatically re-shaped the economy and politics in a relatively brief period of time. The collapse had both economic and political causes, and it was enabled by forces within and outside the Soviet bloc. Consequently, CEE+SEE countries underwent a period of triple transition – which included economy or market building, state (re) building and democracy building (Offe, 1991). This process was contextualised by neoliberal economic dogmas, which replaced Keynesianism during the 1980s (thus, during the period of Southern European accession to the European Economic Community). The overall design of these policies was deregulation, liberalisation and re-integration within the international and European markets, not on each country's terms but according to the normative modus operandi of neoliberal international organisations and policymakers (Berend & Bugaric, 2015). Indeed, neoliberalism found its way into mainstream economic thinking as a reaction to the economic crisis in the 1970s. We must add that the year 1989 changed not only the political and economic systems of CEE+SEE countries but also the regional political map[72]. Between 1989-1995, three states disappeared (the Soviet Union, Czechoslovakia and Yugoslavia), and ten new nation states were created (of which 8 are EU members in 2022). Underlining the dramatic quality of change, we should not fail to note that the path dependence was an inevitable and substantial composite part of development in both EU peripheries. In short, the past and decisions taken in the past remained important factors of development despite breaking with the past.

Like Greece, Spain and Portugal, CEE+SEE countries actively saw their Europeanization and European accession process as a 'post-communist'[73] *exit strategy*. However, the spirit of the economic and political changes was driven by much more conservative or right-leaning political forces, which is in sharp contrast to the Southern European experience of the late 1970s and the early 1980s (Ther, 2016). The transition contextualised these processes while Europeanization also became part of the composite post-socialist transformation. In this periphery, Europeanization was also seen as a remedy for problems. It soon assumed a very imitative character (Krastev & Holmes, 2019), and the reforms implemented, as Magone argued for the South, were not domestically owned, too. In Table 5.1, we sum up the chronology of the formal accession process in the EEC/EU together with the type of exit which predestined it. From the table presented, we can sum up that Malta and Cyprus from the Southern European group spent the longest time as EU candidates and the Czech Republic and Slovenia the shortest. Italy is not included because it was a founding member of the EU.

The economic peripherality of SE and CEE+SEE has a long history going back to the times of early capitalism. In some cases, peripherality came as a result of loss of former core status. This is true for Italy, Spain and Portugal in the early modern times. Italy, or, more accurately, north Italian city states gradually lost their prominence due to the shift of economic gravity to the Atlantic shores and due to the Ottoman Empire expansion to the Balkans and Eastern Mediterranean in the 1500s. Portugal and Spain expanded economically thanks to colonial conquests in the African, Asian and American continents during the 1500s. Soon enough both countries lost their economic dynamism and naval primacy to their English, Dutch and French rivals. The new North Atlantic economic centre also changed the dynamics in CEE+SEE countries, with these countries becoming mainly agricultural peripheries of the Western European core countries by the Atlantic shores. The economic divergence in Europe was dramatically boosted from the 1500s and later, and it is linked to colonial expansion and colonial-driven accumulation. In general, we can say that Southern Europe, Central Eastern and South-East Europe were peripheralized differently by the emerging capitalist world system, and their respective roles in the capitalist division of labour were different. Nevertheless, many peripheral features were similar – such as low (or lower) levels of urbanisation, absolutist and centralist political regimes, late industrialisation, capital dependence on the core, a weak innovation-based economy and, finally, more fragile or weaker positions in the international trade networks (Wallerstein, 2011; Arrighi, 1994; Bideleux & Jeffries, 2007). But it is also possible to speak of more recent peripheralization phenomena. In the case of Italy, we have shown its gradual peripheralization in recent decades. But also in the case of the four Visegrád EU Member States that have lost their former core-like economic status in the Soviet-led CMEA system after its rapid demise in 1989.

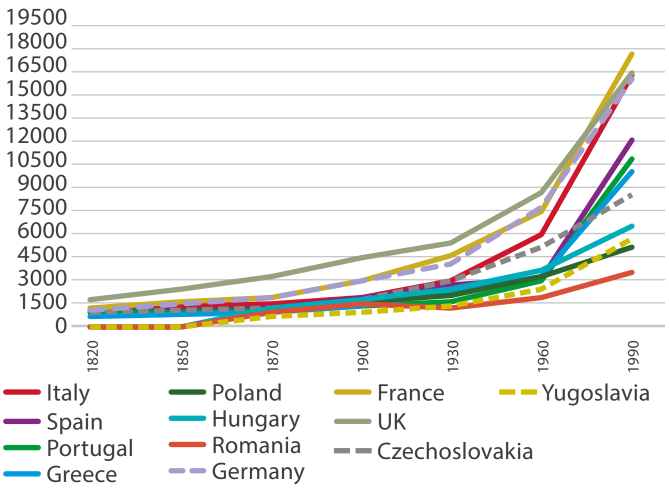
Table 5.1 Chronology of European accession

Year	Member States	Applied/ accession years in total	Region	Type of exit
1981	Greece	1975/6	SE	Military junta
1986	Portugal	1977/9	SE	Authoritarian regimes
	Spain	1977/*(1962)*/9		
1995	*Austria*	*1989/6*	WE	*none*
	Sweden	*1991/4*	NE	
	Finland	*1992/3*		
2004	Hungary, Poland	1994/10	CEE	State socialist authoritarian regimes
	Estonia, Latvia, Lithuania, Slovakia	1995/9	CEE	
	Czech Republic, Slovenia	1996/8	CEE/SEE	
	Malta, Cyprus	1990/14	SE	none
2007	Bulgaria, Romania	1995/12	SEE	State socialist authoritarian regimes
2013	Croatia	2003/10	SEE	State socialist authoritarian regimes

Source: Authors' elaboration

Both the Southern and Eastern peripheries of the EU experienced late and often weak industrialisation during the 1800s, which meant that these countries were predominantly agricultural in the 1800s and into the 1900s, compared with Western and (partly) Northern Europe. Industrialisation was an economically important process, but it also triggered important social and political changes in Europe and beyond, including the emergence of modern nationalism, modern democracy, modern socialist alternatives as well as modern imperialism (Hobsbawm, 1987; Pomeranz, 2000). Figure 5.1 shows the effects of industrial development on GDP per capita measured in Geary-Khamis (GK) international dollars. This is a hypothetical unit of currency that has the same purchasing power parity as the U.S. dollar had in the United States at a given point in time. For most of this period, the southern and eastern peripheries were converging respectively, while countries such as Great Britain, Germany and France diverged from this, demonstrating a common strong upwards trend. There are two substantial changes: the first came in the 1870s in relation to the acceleration of industrialisation in core countries, and the second came in the 1960s when Southern European countries began a sharp upward convergence with the core (with Italy's growth beginning to be relatively more pronounced as early as the 1930s).

Figure 5.1 GDP per capita, *GK international dollars (1820-1990):*



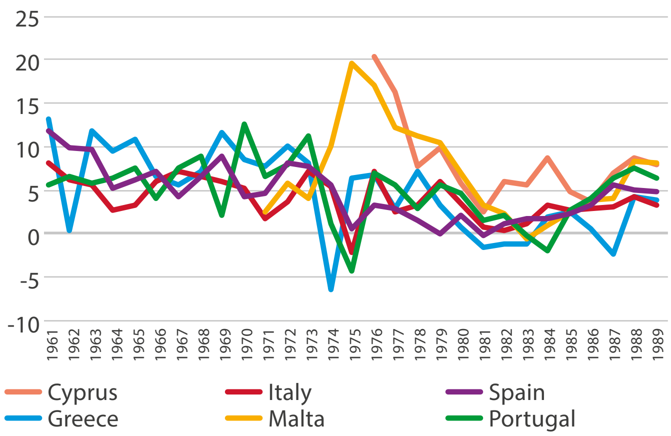
Source: Madison Project (2010)

In summary, southern and eastern peripheral countries can be conceptualised as so-called *latecomers* or even *late latecomers*. However, again this characteristic must be seen in the context of capitalist system development with its specific geographies. There were regional differences and pockets of early industrialisation and modernisation (such as the west of the Czech Republic-Bohemia among CEE countries, or the north of Italy among SE countries) which place them in a semi-peripheral position. However, the metaphor still applies, in the broader sense, to both macro regions.

Legacies of historical capitalism also played their role in the period after WWII, during the period of Cold War bipolarity. The Cold War meant great power rivalry and competition between two alternative economic systems, from which the state socialist emerged as an alternative to their peripheral status and (under)development. Indeed, state socialism accentuated the process of industrialisation heavily (Berend, 2016; Voyó & Markevich, 2020). Southern European countries and their policymakers likewise supported industrialisation as a modernisation instrument and economic growth boost in the years after the war. However, this phase of economic development was disrupted by premature liberalisation in the Southern European context, which accompanied the European accession process of these economies. As we have seen, generally speaking, SE countries were integrated into the European cycle before the completion of their productive base. This failure led to severe economic consequences, including the tertiarization of the economy and debt-driven consumption. In CEE+SEE countries, the process of industrialisation as a socialist modernisation (and as socialism building) was done mainly under the supervision of the dirigiste state in a regulated and protectionist environment. However, after the accelerative period of post-war economic reconstruction, their industrial bases started to stagnate due to the command and centralised economy's weak innovation and competition drivers. The huge and hungry Soviet market could absorb a significant share of CMEA products, but it did not support (with exceptions) innovative industrial policies. Countries such as former Yugoslavia, Hungary and Romania have relied on technology transfers and/or capital investments from the West ever since the 1960s. This was only possible due to their diverse economic models and relative political autonomy. However, the post-socialist transition severely changed the productive base of CEE+SEE countries due to the process of internationalisation of production, privatisation, and foreign markets' loss in the early 1990s. The productive base was sharply transformed and, paradoxically, became a platform for the dependent (and uneven) development of these economies under the new conditions.

Finally, when comparing both regional stories, it is good to realise that SE countries, as well as CEE and SEE countries, have been integrating into the 'European economic cycle' or European Economic Community/Union at paradigm-changing times. Southern Europe's prelude and precondition for European integration was, as already mentioned, the 1970s crisis (oil and economic crisis), which opened the door to the demise of Keynesianism in core economies and globally. In short, we can say that three countries of Southern Europe (Spain, Portugal and Greece) began their 'road towards Europe' at the beginning of the post-Keynesian/neoliberal cycle. Figure 5.2 illustrates that the 1970s crisis was quite challenging for all Southern European countries (with the exception of Malta), while the 1960s represented a period of volatile and relatively dynamic growth in these countries. The decline in the 1970s was slowly compensated for in the 1980s during the accession period, with the most pronounced GDP growth in Spain and Portugal. In Greece, the situation remained highly volatile. Unfortunately, it is difficult to offer a comparison with the CEE and SEE groups of countries because state socialist countries used different econometric measures, NMP (net material product) rather than GDP.

Figure 5.2 Growth of GDP in Southern Europe, *annual percentage change (1961-1989)*



Source: World Bank (2021)

On the other hand, former post-socialist countries began their EU accession at the peak of the neoliberal cycle. They accomplished the cycle and sealed neoliberalism's triumph of the 1990s, becoming model pupils of the Washington Consensus. Moreover, the state socialist countries experienced economic difficulties associated with stagnation as early as the 1980s, also related to the oil crises (in 1973 and 1979, although these shocks were qualitatively different for the state socialist countries). There is a vivid academic discussion related to the local consequences of the 1970s economic crisis for the socialist bloc and its demise in 1989. This discussion suggests that the 1970s crisis spilled over to the socialist bloc, too. Nevertheless, there were also other factors influencing the economic problems such as the politics of *détente*, stagnation associated with the decline of innovativeness in the economy, Perestroika and Glasnost (see, for example, Reynolds, 2000), which contributed to the systemic change in Central and Eastern Europe that anticipated neoliberal transformation in Europe. Thus, we can say that *both EU peripheries of concern to us have been (re)integrated at a time of important paradigm/systemic changes, which they could not really influence, but which have had very important impacts on their socio-economic development*. The beginning and end of the post-Keynesian cycle is therefore the link between the southern and the eastern peripheries and their integration into the EEC/EU. In short, both regions have been integrated into the globalised European economy at moments of important structural changes in the world economy, accompanied by ideological and political shifts.

5.2 A COMPARISON OF THE CONTEMPORARY ECONOMIC MODELS

The Southern European Countries

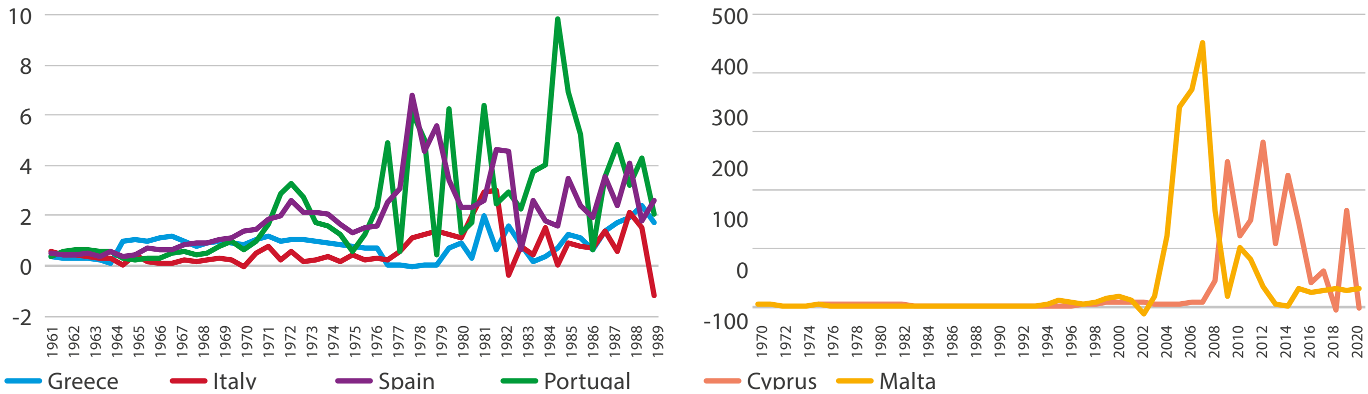
For the countries comprising the Southern European group, the process of integration into the European community began in the 1980s, with the exception of Italy, which is one of the founding partners of the EEC and which further differs from other Southern European countries in being the first to undertake the process of industrialisation. Although the development of the Italian economy after World War II was marked by an export-led model heavily dependent on capital goods and technology supplied by Germany, the country's economic structure has always been more diversified than that of the other southern peripheral countries, to the extent that Italy was considered a core or semi-core country, at least until the 1990s, when its decline and peripheralisation process began to manifest themselves more clearly. A significant process of industrialisation, albeit not very diversified, also affected the other Southern European countries after WWII. In this process, the progressive opening up to European markets and the intervention of the state – which was active in different ways, depending on the economies considered – contributed to the economic growth of these countries. While in Spain the state tried to substitute private oligopolies in heavy industries (coal, steel and electricity sectors) through direct public investment, in Portugal domestic groups, with government support, invested in mechanics and chemistry. In Greece, instead, foreign multinationals controlled basic industries (chemistry, plastics, metallurgy and electricity) to provide inputs for the domestic market or to export to their affiliates. Thus, Italy, Greece, Portugal and Spain experienced a process of industrialisation after WWII, which however suffered from structural weaknesses resulting from the condition of being a *latecomer* (Italy) or *late-latecomers* (Greece, Portugal and Spain), and thus susceptible to a *competitive and technological gap* compared to those who were firstcomers (like the UK, US and Germany). Moreover, the premature liberalisation carried out by these countries contributed to crystallising the incompleteness of their productive matrix. In other words, the rapid trade liberalisation and opening up to the European and world economies undertaken by southern peripheral countries was not preceded or accompanied by the creation of a diversified and competitive production base. This gave rise to the paradox of a *consumer society without a productive base*; and the same *demonstration effect* related to consumption magnified the distance between the (high) consumption model and the (low) development level of these countries. As the economic growth of Southern European countries became increasingly dependent on imports of capital goods, intermediate goods and sophisticated consumer goods, their trade deficits grew. Until the first half of the 1970s, emigrants' remittances (and tourism) contributed substantially to financing trade imbalances. But after the structural crisis triggered by the oil shocks of the 1970s, the core countries' capacity to absorb migratory flows from Southern Europe shrank and the current account deficits of Southern European countries exploded and became unsustainable. Indeed, the crisis of the 1970s represented a dramatic turning point in the development trajectory of Southern European countries. The shift from a price-driven international competition regime to one based on product quality differentiation deeply challenged Southern European economies. In a situation that would have required substantial investments to upgrade their industrial structure and to compete globally in terms of innovation and product quality, Southern European countries showed a substantial degree of inertia and fell further behind core countries. The very process of financialization – i.e., the increasing importance of financial activities in the creation of profits in the economy, which followed the period of increasing inflation in the 1970s and which, like inflation, also played the role of a solvent for social conflicts (Krippner, 2011) did not help the growth of Southern European countries. On the contrary, financialization was a distorting factor of their development, as it contributed to diverting resources from long-term industrial investments to activities with shorter-term returns. In addition, the process of Europeanization – i.e. the European path to monetary integration and global finance that followed the US globalization from the 1980s onwards (Celi et al., 2018) – also marked an important discontinuity for Southern European economies: the retreat of the state from its functions of guidance and control in the allocation of financial resources. This change produced a number of significant consequences: i) privatizations; ii) market concentration and the growing importance of foreign players in the banking sector; iii) the diversion of finance from industry to construction, commercial distribution and consumption; iv) greater exposure to the formation of bubbles, especially in construction (Celi et al., 2018). From the 1990s onwards, this process of gradual deindustrialisation, market deregulation and the abdication of state responsibility for industrial policies became even more dramatic for Southern European countries, in the light of the growing pervasiveness of global value chains that enabled emerging low-cost countries to compete in the same production sectors in which Southern European economies were specialised. For example, in Italy the share of basic light industry[74] in total exports significantly declined between 1990 and 2019 due to strong competition from China and other low-cost competitors. A similar trend affected Portugal and Greece. In the case of Spain, complex heavy industry in particular (primarily the automotive sector) suffered from competition from emerging countries after 2005 (see appendix in Chapter 1). To summarise, the hollowing out of the industrial structure and the disproportionate growth of services – also facilitated by premature liberalisation in a context of sharp global competition – are the fundamental elements that characterise the economic growth of the European Southern periphery in recent decades. In general, while taking into account due differences between Southern European countries, we could define the development model of this region as a whole as (*debt*)-*financed, consumption-led growth without a complete productive base*. In fact, the high level of tertiarisation becomes clear in comparison with countries such as the Czech Republic, Slovakia, Poland or Hungary – countries that have undergone a clear process of reindustrialisation – but less so when we consider economic structure by sector in the Baltic countries that relied heavily on financialised growth. Another interesting area of comparison between the groups of peripheral EU countries considered is the one related to FDI. Southern economies rely on FDI to very different degrees. For example, Cyprus and Malta founded their economic models on tax haven mechanisms to attract funds from abroad, which explains the disproportionate share of FDI in their GDP. At the same time, they rely structurally on services (such as transport and tourism). The graphs in Figure 5.3. show the share of FDI in the GDP of Southern European countries in order to demonstrate their relative importance during and after the integration process.

In the case of Spain, Portugal, and Greece we can see that there was not a particularly strong inflow of FDI during the European integration process (1981-1986) and afterwards (the highest value, Portugal's in 2012, is less than 10%). The high level of FDI for Malta and Cyprus is clearly anomalous (Malta's value in 2007 is a staggering 450%), but consistent with their economic strategy, especially as a destination for tax evasion and avoidance. The poor FDI performance in Southern European countries (excluding Malta and Cyprus for the reasons already mentioned) contrasts with the importance of FDI in the CEE and SEE countries (compare figures 5.3, 5.4 and 5.6.). For these countries, as will be discussed, FDI has been a synonym for economic growth before and after the transition. While in the case of CEE countries the inflow of foreign funds in the form of FDI allowed the reindustrialisation of these countries, in the case of SE countries financial inflows from the core (especially after the birth of the euro) fuelled a distorted development, with a disproportionate allocation of resources towards services, construction, public sector, etc. The EMU membership eventually consolidated the trend towards financialisation and deindustrialisation of Southern European countries. Table 5.3 presents a summary of the economic indicators between 1990 and 2020 for SE countries. As presented in the regional chapter, the table summarises GDP p.c. / GDP growth, primary, secondary and tertiary sectors (as percentage shares of GDP and total employment respectively), share in technologically intensive sectors in exports, unemployment rate, trade union density rate and the level of collective bargaining, debt levels (public and private).

The Central Eastern European Countries

The second country group considered here, the Central Eastern European (CEE) countries, joined the European Union in 2004. These countries represented the most advanced part of the Soviet bloc with high levels of industrialisation and urbanisation. In the division of labour of CMEA, these states played the role of technologically advanced economies, supplying relatively more sophisticated goods than the other partners in the Soviet bloc. For example, the country formerly known as Czechoslovakia (more precisely the Czech part of the federation) was one of the most industrialised regions of Austria-Hungary since early 1800s. This industrial tradition continued and further expanded under the socialist regime and, as we have seen, during the post-socialist transition too. The Soviet republics of Estonia, Latvia and Lithuania were also the most prosperous

Figure 5.3 Foreign Direct Investment in Greece, Italy, Portugal and Spain, and in Cyprus and Malta*, net inflows in % of GDP (1970-2020)*

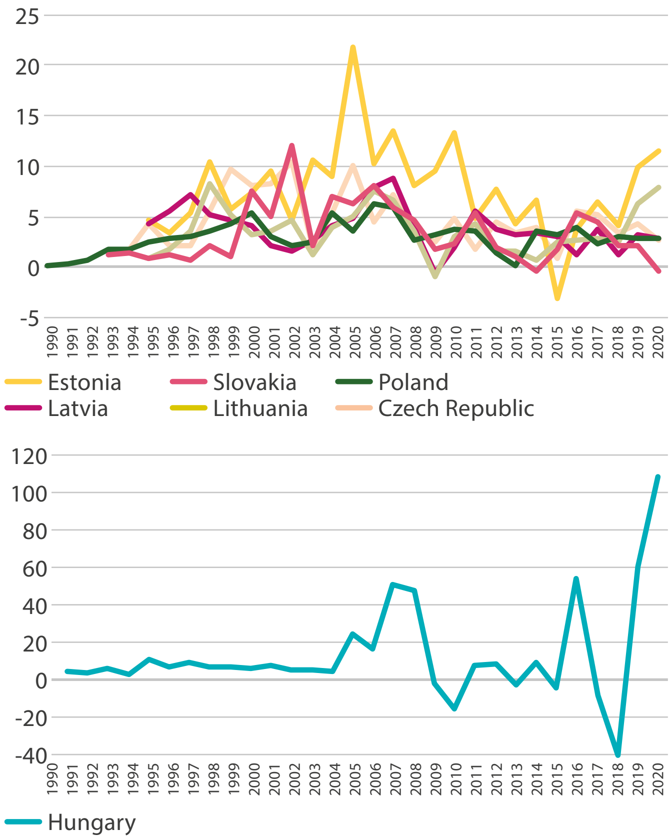


Source: World Bank (2021)

in the Soviet Union with important industries located and relocated in the Baltics.

In the 1990s, the main convergence strategy pursued by the economic policy of these countries was to rely on an export-oriented and FDI-led development model (see Figure 5.5. and compare with chapter 2 and also with Figures 5.3. and 5.6.). The CEE economies experienced a deep recession during the 1990s, which represented, with some nuances, the 'lost decade'. This transformational recession – which was less sharp in V4 countries than in the post-Soviet Baltic countries – created an important pretext for a post-socialist mutation in the direction of a progressive opening up to the market economy.

Figure 5.4 Foreign Direct Investment in the Czech Republic, Poland, Slovakia, in the Baltics, and in Hungary, *net inflows as a % of GDP (1990-2020)*



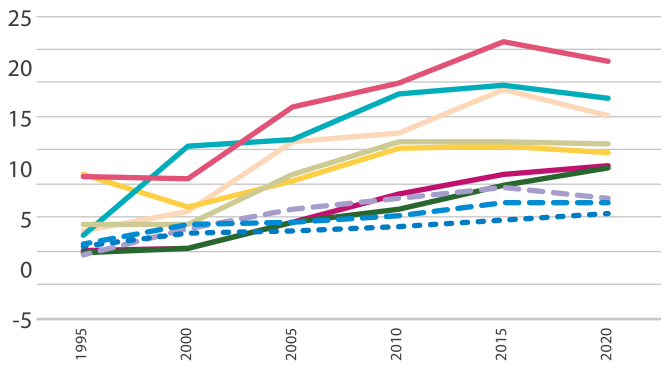
Source: World Bank (2021)

As we have seen, the post-socialist changes and integration of the region into the global economy was an ambiguous mixture of the old and the new. Path dependency was an important element in the transformative process of the economic structures of these countries. Consider, for example, the slower pace of de-industrialisation in the V4 countries, also facilitated by FDI in the manufacturing sector. In some ways, transnational corporations (TNCs) exploited and commodified the local industrial traditions. On the other hand, the Baltics, as well as the V4 countries, ineluctably underwent the process of tertiarization of their economies. The importance of agriculture, both in terms of value added and employment, declined sharply. Besides path dependency, it is perhaps opportune to mention that an important factor influencing the economic development in the region is the relative geographical nearness of Germany (especially for V4 countries). In fact, looking at the car manufacturing network in Europe, for instance, proximity to a leading car manufacturing nation such as Germany is one of the key characteristics for including CEE countries in the category of 'integrated peripheries', as argued by Pavlínek (2018)[75]. In more general terms, extending the dichotomous taxonomy of the Varieties of Capitalism (VOC) approach that distinguishes 'Liberal Market Economies' (LMEs) from 'Coordinated Market Economies' (CMEs), Nölke and Vliegenthart (2009) had already placed CEE countries in a third category, that of 'Dependent Market Economies' (DMEs). This categorisation had the double merit of overcoming a 'hybrid' approach that had emerged in the literature – which confusingly mixed the LME and CME models to identify the capitalist system of CEEs – and of proposing a perspective of *interaction* between economies that went beyond that of socio-economic system as a 'closed container' proposed by the VOC approach itself. However, we argued that the economic model in CEE should not be seen as univocal (consider, for instance, the differences between the V4 and the Baltic states), even when we can conceptualise it as a dependent market economy, according to the definition of Nölke and Vliegenthart. The V4 group or Central Europe is more *oriented to the manufacturing export using producer-driven networks*. The region relied on the FDI from transnational companies, which contributed to the maintenance of their manufacturing matrix inherited from the state socialist and pre-socialist periods. However, the industrial capacities were kept in place primarily thanks to the privatisation process and FDI, but very selectively and often according to interests of foreign capital. It meant that several traditional domestic firms were destroyed during the transformation process; many of them were privatised and transferred into massive transnational corporate structures with a secondary role in their globalised supply chains. The reliance on foreign

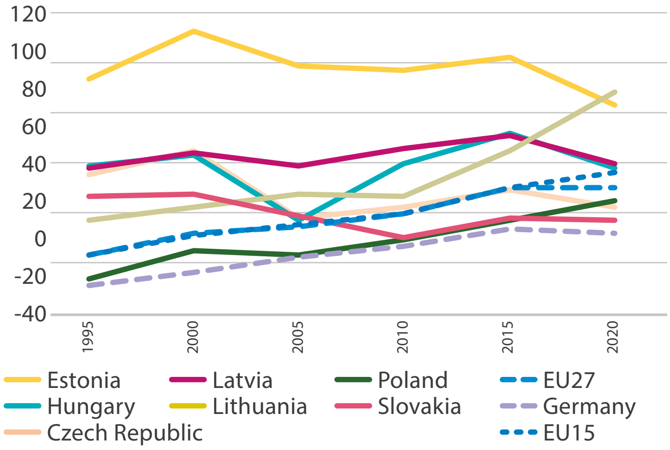
FDI – which, as mentioned, was much more robust compared with SE economies – represented the main source for economic growth and development of CEE countries. This, however, implied the region's dependency on external forces, i.e. on transnational corporate governance and foreign product demand (largely related to the needs of sophisticated global value chains), in a domestic context of a weak technological and innovation base, as well as limited capital market and banking systems. In addition, this externally based and FDI-driven economic growth contributed to the widening of regional disparities within the countries (Smętkowski, 2013; Chapman and Meliciani, 2018). The reliance on FDI also went hand in hand with the availability of cheap (but skilled) labour, together with low corporate taxes or tax breaks and other incentives. The provision of low-cost employment is an 'asset' for these economies that has had important social and economic consequences up to the present day – such as a weak position of domestic demand/market for the economic growth as well as the asymmetric importance of exports in relation to GDP, as Figure 5.5. shows. The strategy of cheap labour marked a progressive shift in social policy towards the systematic underselling of human potential and the transition from welfare to workfare, as we suggested. The potential for the growth of wages is, therefore, extremely limited due to foreign competition constraints and TNCs interests, according to which wages are, obviously, expenses and not a fundamental element to boost local economies through the expansion of the domestic market. Added to all this is the problem that CEE countries have to compete largely with China (Eurofound, 2016).

Figure 5.5 Exports of goods and services as a share of GDP, *% values (1995-2020)*

Export of goods



Export of services



Source: Eurostat (2021)

Figure 5.5 shows that CEE economies are more strongly export-oriented compared to the EU average, and even to Germany, which is the exporting economy *par excellence* in the EU. This is especially true in the case of export of goods. However, there are significant differences among CEE countries in their propensity to export. The Czech Republic, Hungary and Slovakia show the largest share of goods exports in GDP. Poland is near to average, suggesting a stronger position of the domestic market. The Baltic countries are at the top of the graph if we consider exports of services, which is consistent with their economic model. In fact, the Baltic economies mainly relied on the *financialised growth combined with service export through buyer-driven networks.* These small economies founded their economic development on external resources, mostly on peripheral financialization via FDI targeted less to manufacturing sectors and more to the industry of FIRE (financial and insurance services and real estate). Low corporate taxes and low wages facilitated this economic development, in a context of nationalisation policies and deindustrialisation seen as de-Russification. Indeed, the Baltic model was the most radical in terms of neoliberalisation. Estonia, Latvia and Lithuania were pioneers of the low tax policies, which triggered the intra-regional race to the bottom (*competition states*). On the other hand, the Baltic economies suffered dramatically from the impact of the global financial crisis (GFC), with a substantive decline in all macro-economic indicators due to their financialised growth strategy, which, despite the adverse effects of the crisis, has remained unchanged.

The South-East European Countries

The South-East European group was integrated into the European Union in 2004 (Slovenia), 2007 (Bulgaria and Romania) and 2013 (Croatia) respectively. These four countries exhibited different economic structures at the end of the 1980s as a consequence of pre-socialist and socialist legacies. As a result of diverse economic histories, the starting position of these economies differed significantly when the EU integration started.

Slovenia, being the oldest EU Member State in the SEE country group, exhibits economic properties that are classifiable as intermediate between core and peripheral characteristics. In fact, this country showed relatively high GDP p.c. and growth levels even in the 1990s, along with relatively high wages, a diversified manufacturing sector linked to western markets and exporting a high share of technologically advanced goods, with a regional dominance in the market of the Yugoslav successor states. Due to its Yugoslav legacy, the strength of corporatist elements (at least until the GFC in 2008) and its gradualist approach in the economy during the transition years, Slovenia's growth model and its institutions have often been described as exceptional in the South-Eastern European region (Feldmann, 2014; Bohle & Greskovits, 2012; Mencinger, 2004; Stanojević, 2003).

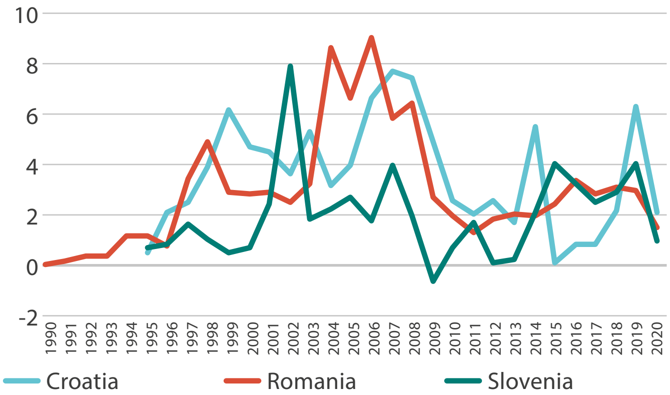
Bulgaria and Romania, on the other hand, experienced economic crises in the 1990s and painful restructuring prior to EU accession. Despite the numerous similarities of the two countries, several differences exist between them. While both joined the EU in 2007, the development of their economic structures after the transition years differed significantly. Whereas Romania successfully attracted large transnational companies (TNCs) and greenfield investments before the GFC, Bulgaria has not experienced a revitalisation of its manufacturing sector. Bulgaria continues to exhibit relatively lower GDP p.c. and poorer growth levels than Romania, with a limited share of technologically advanced goods in its export structure, trading mostly low value-added goods with the western market. In contrast, Romania has expanded its share in technologically advanced goods within its overall exports, which is mostly due to the expansion of the automotive sector in the country. Romania exhibits a better performance in terms of GDP per capita, and better product growth rates and wage levels than Bulgaria (and Croatia).

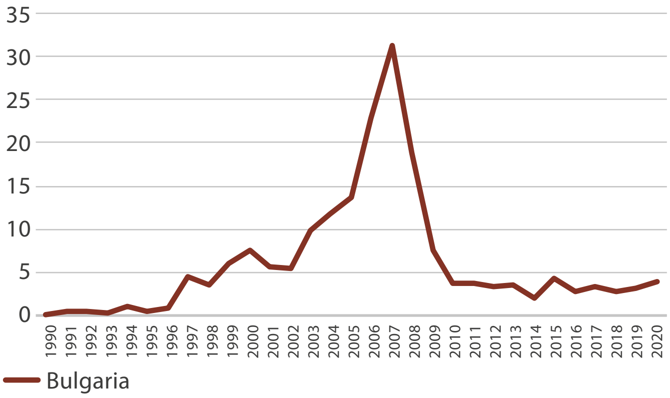
With regard to Croatia, it is worth remembering that this country experienced the war from 1991-1995 – the only one among the SEE country group[76] to do so – which has had devastating consequences for its economy and society. Croatia's economic properties are more peripheral compared to Slovenia or Romania, having the lowest GDP p.c., poor growth levels, low wages as well as the highest share of low value-added goods among the four SEE countries. The tourism sector contributes to almost a fifth of Croatia's GDP, making it very vulnerable to external shocks, such as the current Covid-19 pandemic.

Looking at the evolution of the SEE countries over three decades, a series of stylised facts emerge. Firstly, as already mentioned, we observed relatively high growth rates and high GDP p.c. for Slovenia, being the highest among the SEE economies; in terms of economic performance (and structural economic characteristics as well), Slovenia is well ahead of the other economies. Regarding the other three countries in the group, they showed some signs of catching up in the period considered; Bulgaria and Croatia, however, experienced extremely fragile economic growth (based on investments in services, such as finance and tourism), which was, in any case, less stable than that of Romania, in which the manufacturing sector plays a more important role.

Secondly, all four countries experienced structural changes in their GDP and employment composition, but to varying degrees, in terms of the relative importance of the industry and service sector. This was also linked to the characteristics of FDIs that poured into all four economies after 2000 (see Figure 5.6., compare with chapter 3). Notably, foreign direct investments in finance and tourism increased substantially the importance of the service sector in Bulgaria and Croatia. On the other hand, the relevance of greenfield FDIs in Romania have led to the continuous expansion of the industry sector. In Slovenia, FDIs were restricted during the 1990s, and investments started to target mostly finance and the construction sector after 2000.

Figure 5.6 Foreign Direct Investment in Croatia, Romania, Slovenia, and in Bulgaria, *net inflows as a % of GDP (1990-2020)*





Source: World Bank (2021)

Thirdly, in terms of international specialisation, whereas Slovenia has a high share of technologically intensive sectors in its overall exports, both Bulgaria and Croatia mostly export lower value-added goods. Romania's export pattern was transformed after 2000, as result of the incoming foreign investments in its automotive sector. Thus, Slovenia – in contrast to Bulgaria, Croatia (and, in part, Romania) – is a country that primarily exports medium-high technology goods, and imports raw materials from the periphery and final goods from the core. Bulgaria and Croatia are less competitive in western markets, import low technology goods and export labour. Romania stands in-between those two poles (Slovenia on the one side and Bulgaria and Croatia on the other), as it also suffers from a population decline and workforce outflow. Slovenia also exhibits the most favourable performance regarding unemployment, wages and level of collective bargaining. Whereas the trade union density rates stand at similar levels in all four countries, it is only in Slovenia that trade unions are formally embedded in the policymaking process. While all four countries have experienced pressure on their tripartite institutions since the GFC in 2008, the outcome and the degree of labour marginalisation differ in the four SEE countries, being lowest in Slovenia.

Fourthly, debt has become a serious macroeconomic issue in Croatia, Bulgaria and Slovenia, due to increasing borrowing on international markets. Romania adopted a different approach, borrowing mainly from its domestic market, which made the country less vulnerable to external shocks. At the same time, however, Romania displayed a worrying current account imbalance (the highest deficit among the four countries).

Fifthly, as highlighted above, FDIs have played a differentiated role in the internationalisation process of SEE countries. Slovenia limited foreign investments on purpose during the 1990s, and it has experienced a gradual increase in FDIs in both the service sector and construction sector since 2000. Romania, on the other hand, experienced a massive modernisation process of its manufacturing sector thanks to FDIs (the country exhibits the highest share in greenfield FDIs). On the contrary, such effects did not materialise in Bulgaria and Croatia, where FDIs mostly targeted the very volatile service sector. Thus, in contrast to the V4, which pursued a model of dependent industrialisation and channelled capital to manufacturing activities, the countries of South-East Europe (notably Bulgaria and Croatia) used these resources not for production purposes, but primarily for activities linked to financialization, such as financial intermediation, real estate and related business (Jaklin et al., 2013:5). While it is quite common to blame domestic conditions related to bad institutions, a flawed legal system, corruption and so on for the lack of greenfield investments, it is worth noting the relevance of other factors discouraging FDIs in countries like Bulgaria and Croatia. Among these, Jaklin et al. (2013) highlight the global division of labour (and the lack of an integration into the German industrial model, such as the participation of V4 countries in the German value chain), appreciated currency (as in the case of Croatia) and unsatisfactory levels of predicted aggregated demand.

Finally, to summarise the points, it can be useful to highlight the main dependencies for the four SEE countries. The Bulgarian economy, due to its high debt in foreign currencies, is extremely vulnerable to external shocks. At the same time, it exhibits less favourable domestic conditions (such as high unemployment, an uncompetitive manufacturing sector, dominance of low value-added goods in production, etc.) to withstanding a crisis. Croatia, being in a similar situation to Bulgaria, relies heavily on its tourism sector, also as a way to cover its current account deficits. As this sector is highly volatile, and with no serious investment in the manufacturing sector, its economy is equally less likely to be able to cope with external shocks. Both Bulgaria and Croatia suffer from labour emigration, a factor that contributes to reducing their growth potential. Lastly, Romania has been able to develop its manufacturing capacities since 2000 thanks to FDIs, which has generally had a positive effect on the level of industrialisation. Yet, in times of crisis, such as the GFC in 2008, falling foreign investments have had a negative impact on its macroeconomic stability, also due to its high current account deficit. The recent closures of several plants by multinationals put further pressure on its labour market and are fuelling labour emigration to the West. Moreover, similar to the V4 countries, FDIs have flowed mainly into the automotive sector, leading to an industrial 'mono specialisation' that makes the Romanian economy very poorly diversified and dependent on a single industry. Lastly, Slovenia, which holds an intermediary position between the core and the periphery, faces different pressures as it aims to maintain this position. The biggest challenge the economy has faced since its independence was the period after the GFC, in which the country witnessed a massive increase in its public and private debt, rising unemployment and financialization of its economy, with a decline in the manufacturing sector at the expense of a booming construction sector and a partial deinstitutionalisation of the tripartite institutions. While, during the 1990s, (western and European) markets experienced weaker competition from emerging Asian countries, today Slovenia competes with Chinese goods that incorporate a similar quality at a lower price (Petrović, 2021).

In summary, due to its Yugoslav legacy, the strength of corporatist elements (at least until the GFC in 2008) and its gradualist approach in the conduct of economic policy during the transition years, Slovenia's growth model and its institutions have often been described as exceptional in the South-Eastern region, so as to consider Slovenia a semi-core country. In contrast, the economic properties of Bulgaria, Croatia and Romania differ widely from the European core as well as from Slovenia. Both Bulgaria and Croatia are clearly peripheral countries, whereas Romania has exhibited 'fewer peripheral' properties than the latter two countries over the last decade. However, the question remains open as to where the economic trajectory of Romania will go after the Covid-19 pandemic, especially in light of the falling FDIs and closures of several foreign plants in the country.

5.3 GLOBAL FINANCIAL CRISIS AND ITS IMPACTS – CONVERGENCE AND DIVERGENCE TRENDS IN THE PERIPHERIES

This section compares the global financial crisis (GFC) impacts on both EU peripheries, paying particular attention to convergence and divergence trends. As already underlined before, the economic models must be understood as a 'vehicle' integrating these economies into the European economic circle and the global economy. Therefore, the EU accession process and the EU economic (de)regulatory framework cannot be conceived separately from these individual economic models and their functioning. To speak of economic models means to focus on economic structure and structural differences in their relation to particular decision-making processes (since, as such, economic models are also the product of a set of policies in particular contexts). Furthermore, the economic models should be seen in relation to the concept of the convergence process ingrained in European integration. While convergence is often measured in socio-economic terms, its impact and importance are mostly political at the EU level. We focus on the GFC as a litmus paper showing the sustainability of regional economic models vis-à-vis convergence/divergence trends in the EU. Economic convergence in the EU is usually associated with higher GDP growth, which would allow weaker economies to catch up with stronger core economies. But this premise does not necessarily mean that economic convergence is accompanied by social convergence (Eurofound, 2020). The GFC is an important processual event since it has shaken the convergence trend in the EU in both regions of concern to us. The GFC had a long-term consequence for both peripheries, for core economies, for the European Union project and its perceptions in the peripheries. Moreover, it also shook and challenged the project of common euro currency as well as the hegemonic economic dogmas. It can also be argued that it represented an opening for a new global period of interregnum (see

Conclusion of this study). In summary, these are the main arguments for our focus on the GFC.

The GFC had largely negative impacts for all European economies, and this is particularly true in the case of Southern Europe (SE), Central Eastern Europe (CEE) and South-East Europe (SEE). However, those impacts differed because such a cyclical capitalist crisis impacted differently structured economies. The most apparent adverse macroeconomic effects of the crisis were associated with GDP growth, FDI or external capital outflows, the rise of debts (public and private) and various socio-economic impacts such as a rise in unemployment (underemployment), increased labour precarity and a new wave of tertiarization of the economy, stagnation or decline of wages, increase of income inequality and various poverty risks. These problems are well described in the preceding regional chapters. We shall look at them now from a comparative perspective.

GFC brought in an economic recession in terms of GDP growth, but it also shook up the relatively dynamic growth of the Eastern Member States (CEE and SEE) and amplified diverging processes in SE. The typical dynamic between 1995-2008 was lost, while the economic renewal after the recession meant less impressive growth numbers (annual average between 2012-2020 was 1.85%, while between 1995-2008 it was around 6%). This means that the convergence trend slowed down after the GFC. However, there were infra-regional nuances. Southern European Member States were even more profoundly influenced by the crisis with low levels of GDP growth after the crisis (the regional average between 2012-2020 was 1.33% and, excluding Malta, 0.65%). This equates to economic stagnation instead of economic recovery after the crisis. Moreover, Greece and Italy showed a negative average between 2012 and 2020. Thus, while the Eastern convergence (in terms of GDP growth) slowed down but continued with moderate growth afterwards, in the South it stopped instead (more in Table 5.2, page 151).

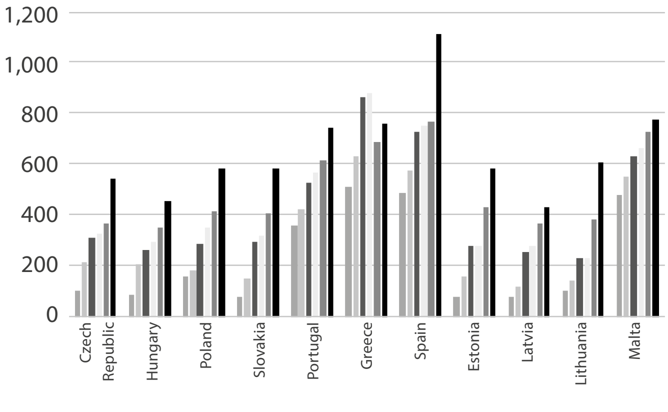
In terms of debt, it is possible to observe remarkably similar trends in both regions. The GFC and its impacts meant an increase in private debt. In both regions, the level of private debt has continued to grow over the last three decades. South European countries' private debt has increased continuously since 1995, and its levels were already much higher in 1995 than the CEE and SEE countries, which benefitted from slightly greater room for manoeuvre. Nevertheless, private debt grew continuously in the East (CEE+SEE) after 2000, accelerated after the EU accession and during the GFC. Thus, although the levels of private debt in relation to GDP are different in volume in each region, the trend is remarkably similar. In both cases, the increasing trend is related to financialised growth. The private debt levels in Southern countries (SE) can also explain the severity of the economic recession and its socio-economic outcomes in this region. In Central Eastern European countries (CEE), especially in Latvia and Estonia, economies relying on financialised growth experienced rapid private debt growth. The GFC accentuated the problem of growing debts in the private sector (including households) in both regions. Also, public debt levels were on the rise, and the GFC contributed to this as a composite part of the general trend. In Southern Member States, public debts were higher yet relatively stagnant up to 2008 but suffered a fairly sharp rise after 2008. As we have shown, the relatively stagnant levels of public debt in Southern Europe before the GFC question the established narrative of these countries 'living beyond their means', which was used as an 'explanation' for the crisis onset (see Part III, Chapter 7). On the other hand, most Central Eastern European Member States (CEE) witnessed a relatively substantial increase in public debt during the crisis, although public debt had been decreasing between 1995 and 2008 (with some exceptions), particularly during the accession process. Moreover, countries such as Hungary, Poland and Bulgaria were already dealing with relatively high public debts in the early 1990s. In the South-East European region (SEE), there was a very similar trend of reducing the public debt (for example, Bulgaria), which the GFC noticeably boosted. In both peripheries, we observe a disproportionate difference between private and public debts, consistent with the general neoliberal economic paradigm.

Both peripheries have put different accents on the importance of FDI for their economies in recent decades (in the case of SE, even before 1990). When measured as a % of GDP, FDIs have always been less important in the South compared with the East (CEE+SEE). This can be illustrated, for example, by relatively higher levels of corporate taxation in the South (except Cyprus and Malta, which also attracted a high level of FDI to their economies as part of their tax evasion-based models) compared with the East, where corporate taxes are lower as one of the incentives for investors. Considering this economic importance of external capital, the GFC represented a considerable challenge for Central Eastern Europe (CEE) as well as for South-East Europe (SEE). FDI inflow suddenly stopped – because foreign investors preferred to keep their money at home during the crisis. This contributed to the recession in both peripheries, demonstrating an economic vulnerability inbuilt in the regional economic models with different accents on FDI. In the V4 countries and Romania there is an emphasis on the manufacturing sector, whereas in the Baltic countries, Bulgaria or Croatia, the focus is on the FIRE sector. Nevertheless, *the sudden lack of capital (in the form of FDI or available as stocks or credits and loans, etc.) represented a massive problem for both regions during the GFC*. In Southern Europe, loans from French and German banks, which represented the main creditors for the Southern European economies before the GFC, had a similar negative role. In summary, the GFC has shown two different vulnerabilities, both related to external dependency (on some form of capital): the South relied on the massive inflow of financial resources and credit via foreign banks as an instrument for upward convergence; in contrast, the East relied on the huge influx of FDI via foreign TNCs to reach the same aim.

The GFC contributed to *worsening socio-economic indicators in both peripheries as a composite part of the general trend*. However, there is inter-regional and intra-regional diversity. It is essential to underline that each periphery was in a vastly different position in the early 1990s. The South (SE) was already integrated into the EU and did not experience a massive systemic overturn like the Eastern Member States (CEE+SEE) in the early 1990s. In Central Eastern Europe and South-East Europe, one can speak of *socio-economic stabilisation after the collapse of state socialist systems and the subsequent transformational recession*. Between 1990-2000, the region experienced a rise in unemployment, followed by its decrease; the 2008 crisis boosted unemployment rates again, recalling the bitter experiences of the early 1990s. Southern European economies had stable levels of unemployment rates before 2008. However, Southern Europe experienced quite a dramatic rise after 2008, higher than Eastern Member States. It is worth mentioning that the unemployment levels were also exceptionally high in the Baltic states, Bulgaria and Croatia, because they relied on the financialised growth (which is also valid for their Southern European peers). What is vastly different between both peripheries is the level of youth unemployment. This social problem seems to be an endemic problem of Southern European economies, which seem to be unable to integrate young workers into the existing labour market. On the other hand, in the Eastern European economies of the EU this problem is less pronounced, suggesting cultural or ideological differences between both peripheries. We can conclude that those countries that rely on the manufacturing sector were less dramatically influenced by persistent unemployment rates and recovered relatively quickly after the crisis, since this sector does not easily submit to changes compared to the service sector. Nevertheless, chapters 2 and 3 demonstrated that the GFC underlined the de-industrialisation trend also in Central Eastern and South-East Europe. The *persistent unemployment rates in the Southern countries led to another wave of labour market flexibilization*, often based on the recommendations of the European Commission (for more details see chapter 1). On the other hand, we cannot conclude that the more benign development in the East would mean any substantial positive changes for the position of labour, which had been radically redefined already in the 1990s.

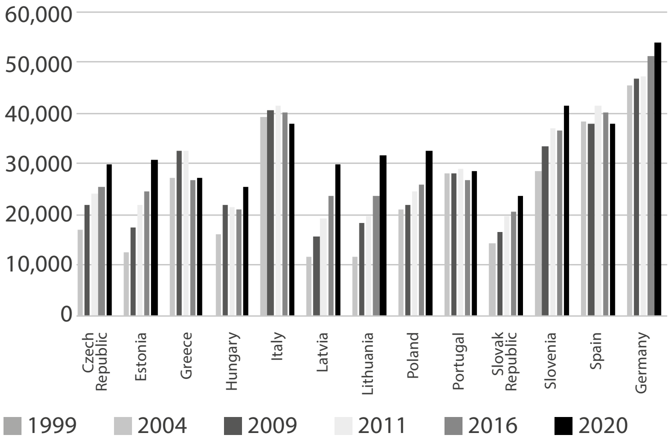
As we have demonstrated, the Eastern Member States of the EU bet on cheap labour as a critical comparative advantage and as an essential accumulation strategy. Therefore, (minimum) wages and their growth are seen as an important political issue, often subjected to intensive lobbying. As shown, wages in the Eastern periphery remain much lower than those in core economies and are still slightly lower than in Southern Europe. In southern Member States, the period before the GFC was characterised by relatively stagnant wage levels (with some exceptions, such as Greece). Nevertheless, in reaction to the crisis, we were able to observe quite radical decreases in average wages, revealing an amplification effect on a trend that had begun before the crisis. In the East, wages stagnated during the crisis but have been on the rise since 2015 thanks to populist governments. The following graphs in Figure 5.8 compare the V4 and Baltic countries with three Southern European countries regarding minimum wages. Noticeable differences between both regions and extreme uniformity in the V4 group, which can be explained by rules of competition within their similar economic models, can be observed.

Figure 5.7 Minimum wages, in euro *(1999-2020)*



Source: Eurostat (2021)

Figure 5.8 Annual average wages at constant prices, *USD PPS in 2020 (2000-2020)*

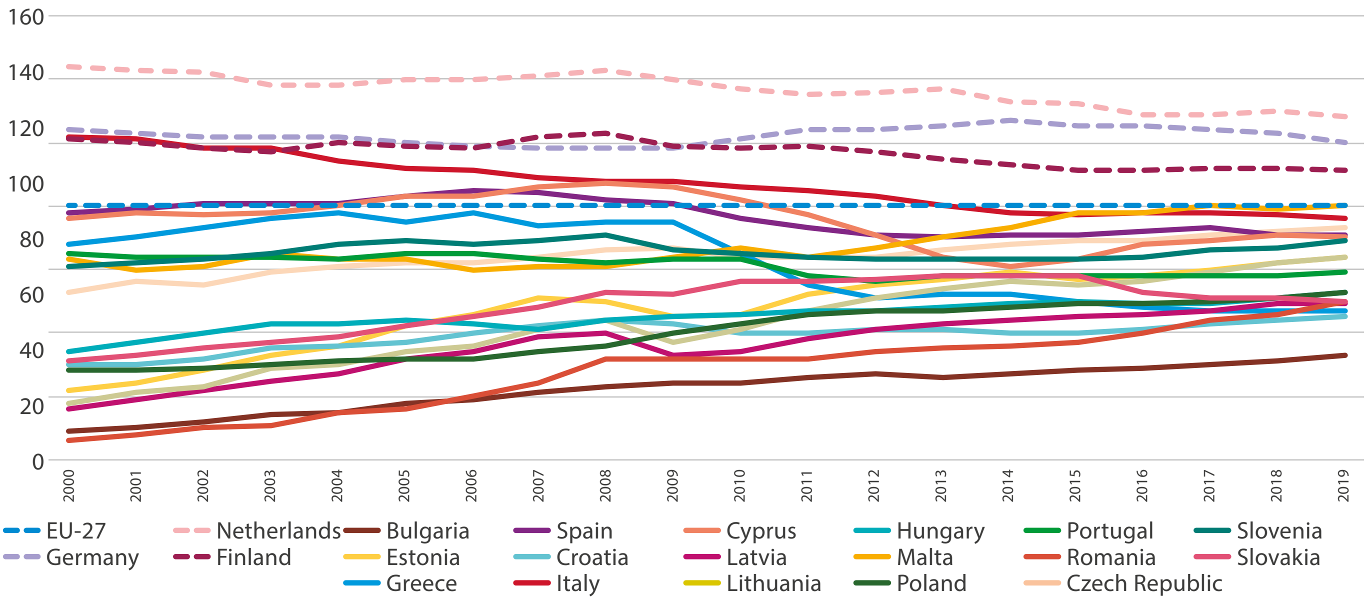


Source: OECD (2022)

In relation to average annual wage, we used OECD statistics (the most complete database) and we can observe a very similar trend in Figure 5.9.: annual wages in the Eastern Member States are still much lower than in Germany and Southern Europe, but have been increasing (especially since 2015). Meanwhile, in Italy, Greece, Spain and Portugal we observe stagnation or a decrease.

Now, we shall focus on convergence and divergence from a comparative perspective. The general idea of economic convergence is based on the hypothesis that less developed countries grow faster than developed ones. The critical logic behind this should be greater profitability of investments and lower production costs. Thus, the idea itself is based on a systemic inequality that should, eventually, generate equality – that is, convergence. The most convenient way to evaluate the convergence trend of individual countries in the EU is to compare their percentual GDP growth per capita in terms of purchasing power standard (PPS) in relation

Figure 5.9 Convergence in the EU: Southern and Eastern periphery in the EU: GDP per capita in PPS, EU27=100% (100=EU average) *(2000-2019)*



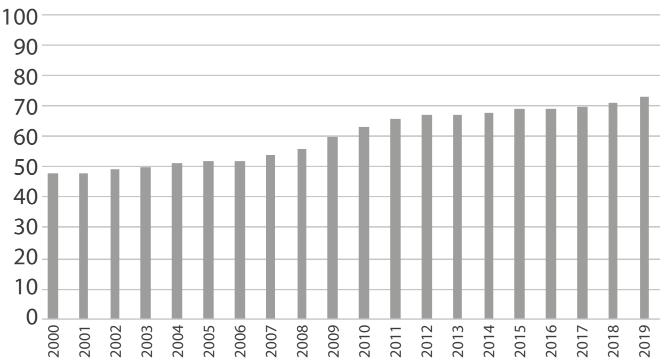
Source: Eurostat (2021)

to the EU average. Purchasing power standard is an artificial currency derived by dividing any economic aggregate of a country in national currency by its respective purchasing power parities. In this way, it is possible to compare the purchasing power in different countries. Figure 5.10. shows that all countries in the South (except Italy, Spain, Cyprus, Malta) and in the East (with no exception) showed convergence numbers below 100%, i.e., below the EU average. This indicator can be seen as one of the key 'measurements' for economic peripherality in the EU. In the case of Italy, the trend is not convergent but shows a clear decline or divergence, consistent with the thesis presented in chapter 1 arguing that Italy, despite its central role in the European project, is on the long-term path of economic peripheralization. But we can see that convergence is a problem in the majority of countries in Southern Europe and, to some extent, also in both eastern regions (CEE, SEE). Germany, which is used as a benchmark country, shows an apparent declining trend until 2008, but is still firmly situated above the EU average. The Netherlands, as the next representative of the core economy in the EU, also demonstrates diverging dynamics.

When focusing on the inter-regional comparison, we can see that southern countries were in a stronger position in 2000. In 2019, several Southern European Member States diverged on the level of convergence of their eastern peers. The general dynamics of convergence levels for the eastern Member States was impressive, especially between 2000 and 2008. The Czech Republic, Slovenia, Estonia and Lithuania have been converging with the EU average and showed almost identical outcomes by 2019. Poland and Hungary have demonstrated a slower (but relatively steady) pace of convergence with the very same outcome. Bulgaria and Romania had the weakest starting positions in 2000, and their current position is approximately or slightly over half of the EU average. In the case of Southern Europe, we can observe that the pace of growth was rather slow or already diverging after 2000 and was seriously undermined following the GFC. This inter-regional difference basically corresponds to the different situations of each region in terms of economic development after 1990. More precisely, it can be associated with the growth 'from the bottom' after the transformational recession in the East, representing a relatively rapid growth compared to Southern European economies (which were not undergoing any 'transformation' and recession of this type, i.e., economic recession as the result of a complete rebuilding of economic relations). Indeed, for eastern countries the pace of growth between 2000 and 2008 was exceptionally strong in some cases, while after 2012 the convergence growth clearly slowed down (no country reached the EU average, i.e. converged, see Table 5.2., page 151). On the other hand, several Southern European countries have been diverging from the EU average over nearly two decades. In the south, it is not just Greece and Italy that are clearly on the diverging path, but also Cyprus, Portugal and Spain. All these nations show a diverging tendency over the last decade (and some over two decades). The infra-regional comparison shows that the Czech Republic, Estonia, Lithuania and Bulgaria lost pace regarding the convergence trend after the GFC. These four economies were differently impacted by the crisis and have fallen a long way behind their steep converging dynamic. The situation in Slovakia is very specific. Slovakia weathered the GFC relatively well but started to diverge after 2015, having been in the Eurozone since 2009. On the other hand, Poland was able to keep hold of its slower but continuous convergence trend overall, including during the GFC years. The same can be said about Hungary, with its slow but nearly uninterrupted pace of convergence.

We divided countries into several categories related to the divergence and convergence trends in the last 19 years. Our aim is to grasp the diversity of GFC impacts on economic models within and across both EU peripheries (this means intra-regional and inter-regional perspectives) with regard to the general convergence/divergence trajectories. We still use data in Figure 5.9. (GDP per capita in PPS).

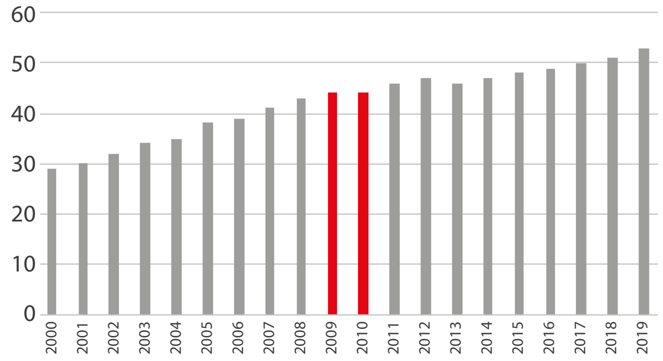
Figure 5.10 Countries with a sustainable convergence trend *(before and after 2008)*
Poland, 2000-2019



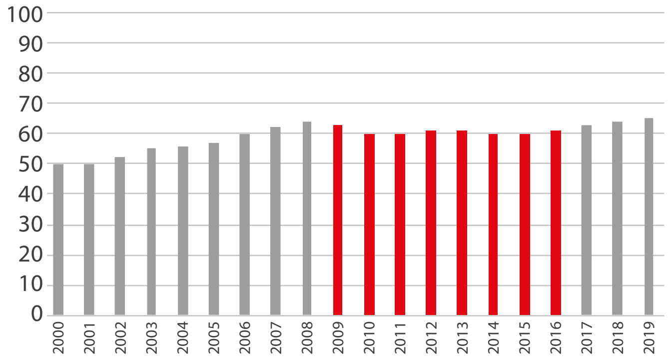
Source: Eurostat (2021)

Figure 5.11 Countries with an interrupted convergence *(stagnation/diverging trend during the GFC)*

Bulgaria, 2000-2019



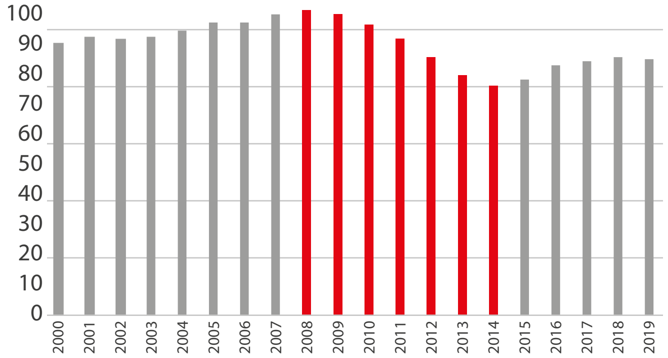
Croatia, 2000-2019



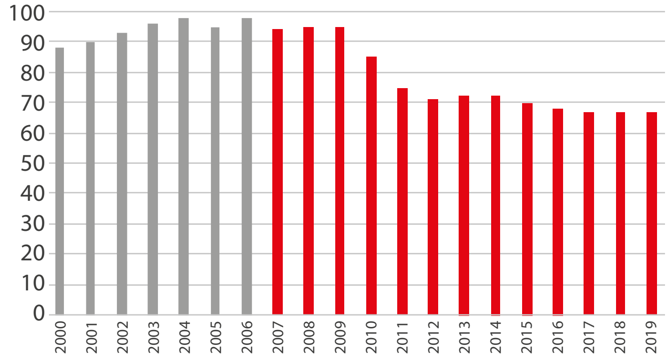
Source: Eurostat (2021), red = the GFC and its impacts

Figure 5.12 Countries with an interrupted convergence trend and persistent divergence *(after the GFC)*

Cyprus, 2000-2019



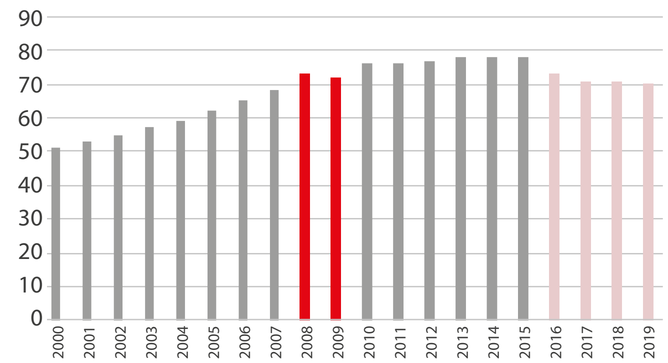
Greece, 2000-2019



Source: Eurostat (2021)

Figure 5.13 Countries with an interrupted convergence *(during the GFC)* with the diverging trend

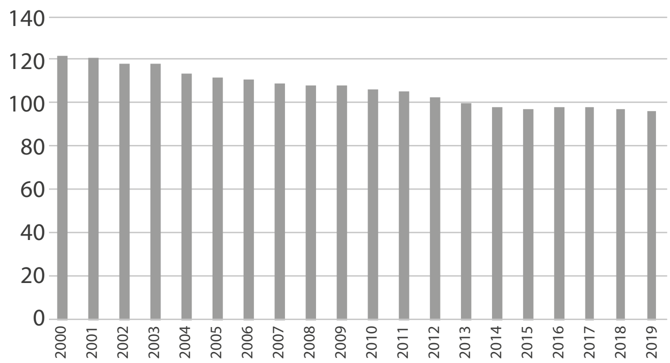
Slovakia, 2000-2019



Source: Eurostat (2021), red = the GFC and its impacts, in pink = divergence after the GFC

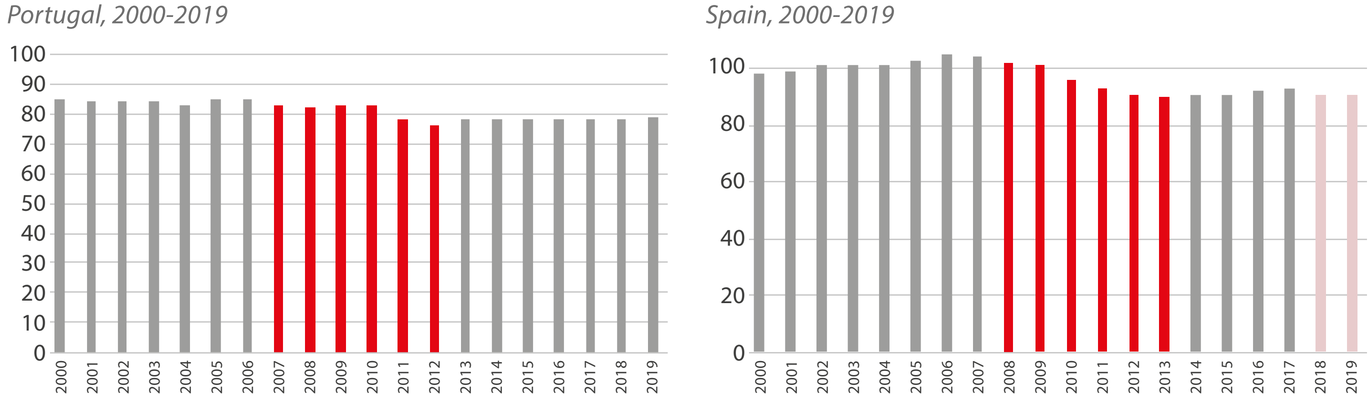
Figure 5.14 Countries with a predominant divergence trend *(before/after the GFC)*

Italy, 2000-2019



Source: Eurostat (2021)

Figure 5.15 Countries with a predominant divergence trend *(during and after the GFC)*



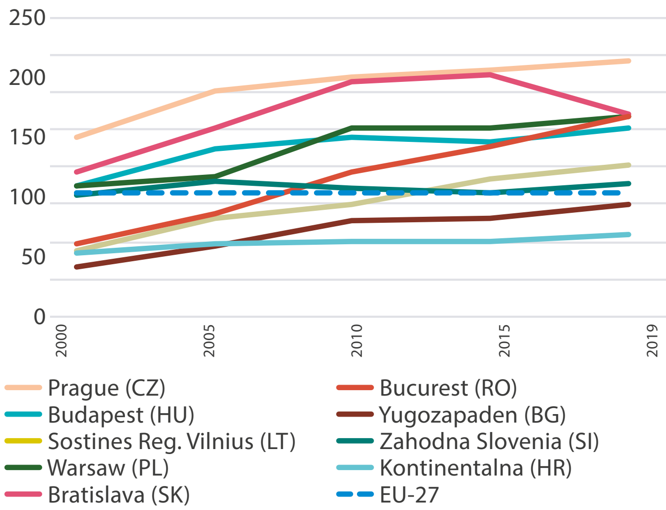
Source: Eurostat (2021), red = the GFC and its impacts, in pink = divergence

Figures 5.10.-5.15. show clearly a remarkably diverse picture of divergence and convergence in both euro-peripheries between 2000 and 2019, suggesting that *despite common features of different or similar economic models, there are substantial differences between countries*. The analysis of the complex reasons behind these differences goes beyond this comparative study. At the given stage, we can point out that there were several factors at play, such as diverse reactions and policy measures during and after the crisis, as well as various short-term and long-term structural factors (some of them discussed in chapters 1, 2 and 3) and, last but not least, the EMU membership.

In summary, *we can see that there is a clear divergent trend in Southern Europe which causes a paradoxical convergence between both euro-peripheries*. Starting with Southern Europe we conclude that the convergence trend was lost over the last nearly two decades (with the exception of Malta). In some cases, the divergence or stagnation is a persistent trend independent of the GFC (Italy and Portugal). Greece and Cyprus were converging before the GFC with continuous divergence after the GFC. Spain's and Portugal's convergence trend between 2000 and 2008 has been rather stagnant compared with Greece and Cyprus. Spain and Portugal showed a divergent stagnation trend in the period after the GFC. Greece and Cyprus clearly diverge from 2008 onwards. Italy is a specific case because it showed *a continuous divergence trend* over the entire period. In the eastern Member States, the situation is different and diverse again. Poland can be seen as an antinomy of Italy. It is the only country that shows *sustainable convergence* over the entire period. The majority of countries from the Eastern wing (CEE+SEE) experienced *interrupted convergence due to the GFC and its impacts but have returned to convergence after 2012 even when not on levels as before the crisis* (their convergence pace slowed substantially). The impacts of the GFC were also diverse – they caused stagnation in the convergence in Czech Republic, Romania, Croatia and Slovenia. Slovakia is another exception. The country emerged from the GFC relatively successfully and returned to convergence quickly, but it began to diverge after 2015 implying the structural problems within the economic model of Slovakia. A similar trend as in Slovakia could be observed in Spain. Table 5.2., page151, demonstrates our thesis about the diverse impacts of the GFC on convergence and divergence trends by comparing the perceptual points difference of converging growth in the period between 2000 and 2008, and, after the GFC, between 2012 and 2019.

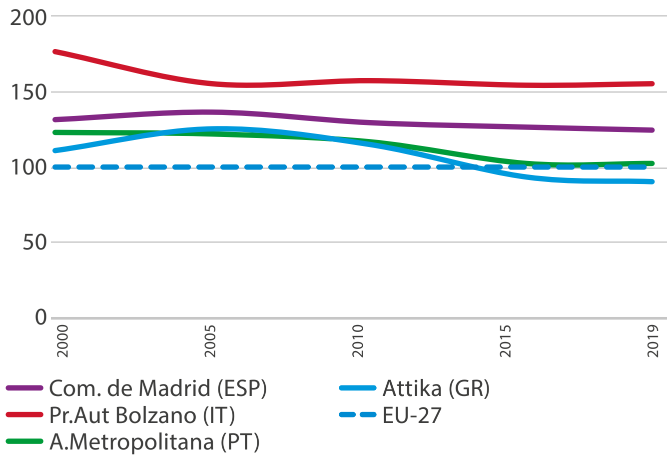
We shall now analyse one important dimension of the convergence/divergence process in the EU. We will pay attention to the regional dimension within individual countries to shift the perspective on convergence and divergence processes in the EU. We want to demonstrate how the economic models analysed above work at the regional level within the countries. First of all, Eurostat data focused on regional dimensions reveals massive regional differences, especially within CEE and SEE countries, considering convergence trend measured by GDP by PPS per capita (EU-27 representing 100). The regional disparities of the convergence process are an important part of this story of convergence and divergence in the EU. Academic literature noted these problems in relation to the GFC as yet another aspect of the convergence and divergence story in the EU (Lehmann, 2012; Bourdin, 2013; Savoia 2019; Monfort, 2010; Smirhykh & Wörgötter, 2021). We shall therefore briefly focus on this aspect in this comparative chapter.

Figure 5.16 GDP in PPS per inhabitant in NUTS-2 division in the Eastern periphery *(2000-2019)*



Source: Eurostat (2021)

Figure 5.17 GDP in PPS per inhabitant in NUTS-2 division in the Southern periphery *(2000-2019)*



Source: Eurostat (2021)

Table 5.2 The pace of convergence before *(2000-2008)* and after *(2012-2019) in % points*

	The pace of convergence 2000-2008, in % change	The pace of convergence 2012-2019, in % change
Bulgaria	14	6
Croatia	14	4
Cyprus	11	-1
Czech Republic	13	9
Estonia	28	12
Greece	7	-4
Hungary	5	8
Italy	-14	-7
Latvia	24	8
Lithuania	26	13
Malta	1	13
Poland	8	13
Portugal	-2	3
Romania	26	16
Slovakia	22	-8
Slovenia	10	6
Spain	4	0

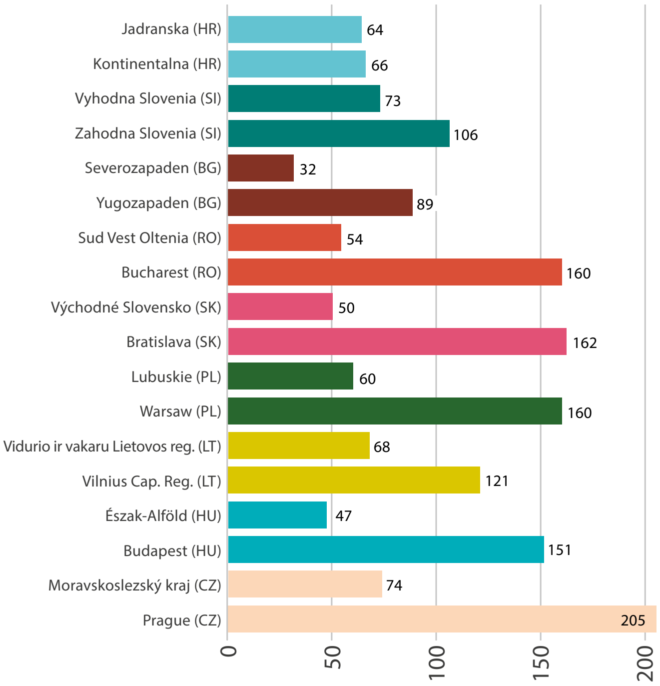
Source: Authors' elaboration on Eurostat data (2021). Negative numbers show a divergent trend.

Data from the Eurostat database show more precisely what has been happening with regional convergence in both peripheries in the years between 2000 and 2019. Firstly, we can notice (see Figure 5.16.) that most capital or metropolitan areas have been dynamically developing in the eastern Member States. Only the Bulgarian Yugozapaden region (including the capital, Sofia) and the Croatian Kontinentalna region (including the capital, Zagreb) are below the EU average. In Slovenia, the region of Zahodna Slovenia (including the capital, Ljubljana) follows the EU average. In V4 countries, the situation is very different. The capital city areas of the Czech Republic, Hungary, Poland and Slovakia are dramatically above the EU-27 average. Lithuania and Slovenia are slightly above the EU-27 average. We can also note that the convergence trend is very strong between 2000-2019[77], with the exception of Bratislava (Slovakia) and Budapest (Hungary).

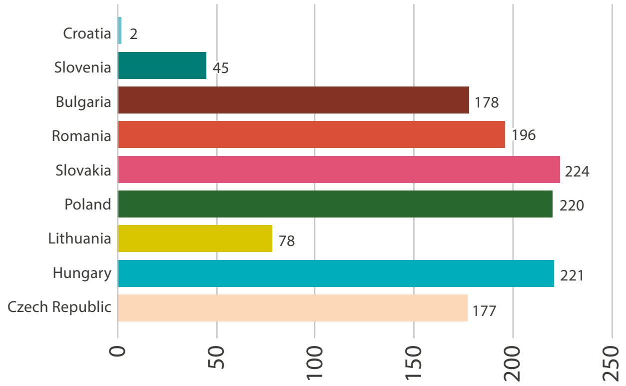
In comparison with Southern European peers (Figure 5.17.) the situation looks different. Firstly, all three metropolitan areas demonstrate a diverging trend. The metropolitan area of Greece, Attiki, has fallen below the EU average recently, consistent with the dramatic social impacts of the GFC in Greece, together with austerity measures. Also, there is a clear diverging trend in the north Italian region of Bolzano (the only non-metropolitan region in our comparison and the best-performing region in Italy). What we can observe is that capital regions such as Prague, Warsaw, Bratislava, Budapest and Bucharest are now more prosperous than

Figure 5.18 Metropolitan regions versus poorest regions in the Eastern periphery in 2019 in GDP in PPS per inhabitant (EU-27 = 100) and perceptual difference between best and worst-performing regions

(a) Relative position to EU27 (=100)



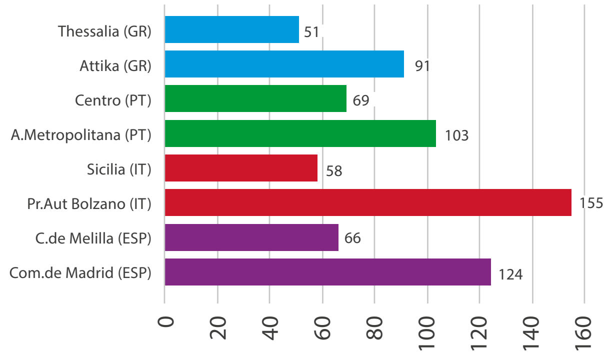
(b) GDP pc gap between the richest and poorest region in the country



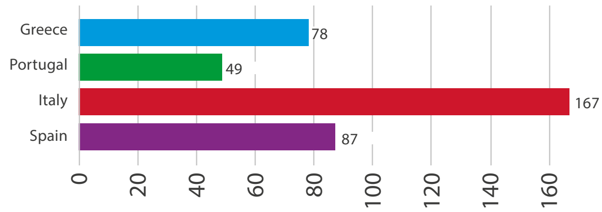
Source: Eurostat (2021), authors' elaboration

Figure 5.19 Metropolitan regions versus poorest regions in the Southern periphery in 2019 in GDP in PPS per inhabitant (EU-27 = 100) and the percentual difference between best and worst-performing regions

(a) Relative position to EU27 (=100)



(b) GDP pc gap between the richest and poorest region in the country



Source: Eurostat (2021), authors' elaboration

the metropolitan areas of Madrid, Lisbon or Athens (Attiki). Only the Italian region of Bolzano can match the capitals in CEE and SEE. On the other hand, Slovenian and Bulgarian metropolitan areas are close to Portugal (Area Metropolitana de Lisboa) or Greece (Attiki).

Nevertheless, the situation still looks different if we focus on intra-regional differences within countries, i.e. if we focus beyond the metropolitan areas. We have chosen the most recent data (2019) and compared the metropolitan (those NUTS-2 regions with the highest score) with the poorest regions (with the lowest score). Figure 5.18. shows the situation within the eastern Member States and the percentage difference between the best and worst-performing regions (with the exception of Croatia where there are two NUTS-2 regions at the same level).

The observed differences are dramatic in the case of Poland, Romania and Slovakia. In percentage terms, GDP in PPS in the Warsaw region is 220% more than in the poorest region of the country. Even in the Czech Republic, which is often perceived as a very egalitarian society, the difference between Prague and the Moravskoslezský region (north-east of the country) is 177%. What we can observe is that the countries' speeds of convergence have very uneven consequences within each country: the majority of the weakest performing regions are far from the EU-27 average, while the areas that are home to capital cities are well above this average. This has serious political implications for domestic politics, as well as for EU politics, since the socio-economic polarisation is reflected in political struggles.

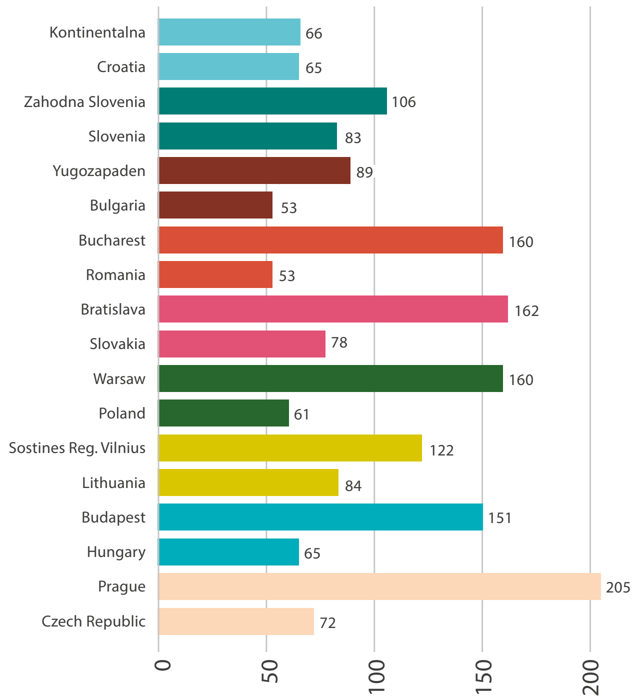
If we compare these findings with the Southern periphery in Figure 5.19., we can summarise that regional differences exist, but that they are not as sharp as in the case of eastern peers, with the exception of Italy. The percentual difference between the Bolzano region and Sicily is 167%; there is also a relatively high difference between Comunidad de Madrid and Melilla region (city) and between Greek metropolitan Attiki (Attika) and the region of Thessalia (or Thessaly) in the central part of continental Greece. Nevertheless, these differences are far from Central Eastern and South-East Europe.

In summary, we can see two different peripheral stories if we focus not only on the performance of individual countries but also on the regional dimension. In Southern Europe, there has been a clear divergence trend since 2000, accentuated by the GFC. Nevertheless, these countries demonstrate less sharp regional disparities, when comparing their best and worst-performing regions, and also in comparison with the country average. Only Italy is close to the situation in eastern Member States, when focusing on the regional dimension. On the other hand, in the Eastern periphery the convergence trend observed since 2000 is strongly concentrated in metropolitan areas and it is shared very unevenly within these countries (with the exception of Croatia, Lithuania and Slovenia). *Actually, what we can observe in the eastern Member States is convergence without regional cohesion and with high levels of internal divergence (and polarisation)*. In the South, the problem can be defined differently – that is, *a continuous divergence without huge regional gaps in creation. In this case, although regional cohesion is apparently less problematic, the cohesion at the EU level is questionable*. Eventually, both these issues represent particularly challenging situations for the future of European integration.

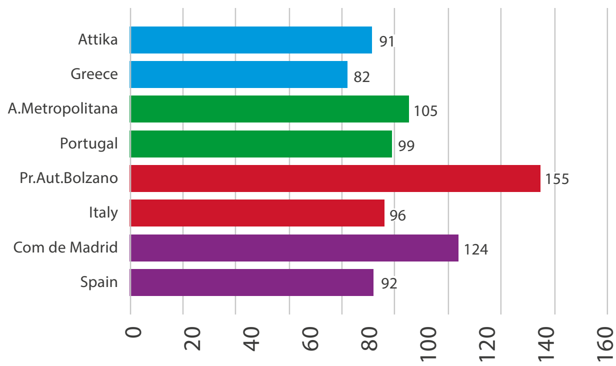
It is possible that the extreme regional disparities observed in the east of the EU are related to economic models relying strongly on FDIs, and some published research points to this hypothesis. For instance, Lessmann argues that FDI might be associated with the increase of regional disparities as investments do not flow into the regions at an equal level. Furthermore, Lessman's study also finds that "net FDI inflows increase regional inequality in low- and middle-income countries, while there are no negative distributional consequences in high income economies" (Lessman, 2012:27). In other words, the stronger the economy is, the fewer negative consequences on the regional inequalities in the case of FDI. The next problem related to the rise of regional inequalities can be identified in the regional developmental policies of individual Member States.

Figure 5.20 The best-performing regions and country performance in GDP in PPS, relative to EU27=100, in 2019

(a) East Periphery



(b) South Periphery



Source: Eurostat (2021), authors' elaboration

Table 5.3 Comparison of the main socio-economic indicators

	South-East Europe (SEE)			
	Bulgaria	**Croatia**	**Slovenia**	**Romania**
GDP p.c., GDP growth	Low GDP p.c. and growth rates during 1990s, Pre GFC crisis higher growth rates, after GFC relatively low GDP p.c.	Low GDP p.c. and growth rates during 1990s, Pre GFC crisis higher growth rates, after GFC relatively low GDP p.c.	Relatively high growth rates, highest GDP p.c. among the group	Low GDP p.c. and growth rates during 1990s, Pre GFC crisis higher growth rates Relatively high growth rates after GFC
Primary, secondary and tertiary sectors as % shares of GDP and total employment	Process of tertiarization via FDI	Process of tertiarization via FDI (importance of tourism sector)	Least rural, process of tertiarization but continuous importance of manufacturing and construction sector	Process of tertiaization but continuous importance of manufacturing sector
Share in technologically intensive sectors in overall exports	Low	Low	High	Low before 2005, high afterwards
Unemployment rate	Relatively high (around two digit level)	Relatively high	Relatively low	Relatively low
Trade union density rate & level of collective bargaining	In 2021, low trade union density rate, low level of collective bargaining	In 2021, low trade union density rate, low level of collective bargaining, some power of trade union in public sector	In 2021, low trade union density rate, but high level of collective bargaining until 2000, currently intermediate level dominant (level 3)	In 2021, low trade union density rate, rupture after GFC decentralisation of collective bargaining
Public and private debt	Private sector almost exclusively responsible for the rise in foreign debt (borrowing in international markets)	High	Low pre GFC, high afterwards	Relatively high public and private debt after 2004 until 2021
Current account imbalance	relatively consolidated after GFC	relatively consolidated after GFC	relatively consolidated after GFC	Highest current account imbalance
Role of FDI in the economy	FDIs target mostly service sector	FDIs target mostly service sector	FDIs target manufacturing and service sector (but lower levels of FDI in manufacturing than Romania)	FDIs target manufacturing and service sector
Flat tax/corporate tax	Yes/ 10 %	No/18 %	No/ 19 %	Yes/ 16 %

Central Eastern Europe (CEE)

Estonia	Latvia	Lithuania	Czech Republic	Hungary
extreme transformational recession, dynamic growth, after GFC slower	extreme transformational recession, dynamic growth, after GFC slower	extreme transformational recession, dynamic growth, after GFC slower	Moderate transformational recession, moderate growth, after GFC slower	Moderate transformational recession, moderate growth, after GFC slower
tertialisation via FDI, de-agriculturisation	tertialisation with some manufacturing via FDI, de-agriculturisation	tertialisation/ with some re-industrialisation via FDI, de-agriculturisation	predominant industrialisation with slow de-industrialisation trend, rapid de-agriculturisation, rising tertiarization	de-industrialisation and re-industrialisation, tertiarization, de-agriculturilisation
Medium until 2010, low afterwards	Low	Low	High until 2005, medium afterwards	High, medium after 2015
Relatively low, high during GFC	Relatively low, high during GFC	Relatively low, high during GFC	Low	Relatively low, rising during GFC
low density, dominant level local/company	low density, dominant level local/company	low density, dominant level local/ company	Low level of density/ company/local level bargaining	Low level of density/ company/local level bargaining
low public debt/ higher private debt	lower public debt (rising in GFC)/higher private debt	Lower public debt (slight rise in GFC)/ relatively low private debt	Low public, but rising since 2005, lower private debt, rising since 2005	Higher public debt/ relatively higher private debt, rising since 2005
Moderate surplus	Extreme deficit (2005-2010), after 2010 moderate surplus	Extreme deficit 1995-2005, after 2010 moderate deficit	Moderate deficit	Higher deficit esp. between 2000-2010
FDI targeted on FIRE services/partly manufacturing	FDI targeted on FIRE services /partly manufacturing	FDI targeted on FIRE services /partly manufacturing	FDI targeted on manufacturing/ partially services	FDI targeted on manufacturing/ partially services
Yes/ 20 %	Yes/ 20 %	Yes/ 15 %	Yes/ 19 %	Yes/ 9 %

	Central Eastern Europe (CEE)		Southern Europe (SE)	
	Poland	**Slovakia**	**Cyprus**	**Greece**
GDP p.c., GDP growth	Moderate sustainable	Extreme transformational recession, moderate growth, after GFC slower	Growth and convergence with EU average before 2008, divergence afterwards	Growth and convergence with EU average before 2008 crisis divergence afterwards
Primary, secondary and tertiary sectors as % shares of GDP and total employment	predominant industrialisation with slow de-industrialisation trend, rapid de-agriculturisation, rising tertiarization	slow de-industrialisation, tertiarization, de-agriculturisation	Lowest manufacturing share, high share in services	Tertiarization process since the 1990s
Share in technologically intensive sectors in overall exports	Medium until 2020, after 2020 low	High until 2015, afterwards low	Relatively low in the 1990s, after 2000 medium share	Medium, after 2015 low
Unemployment rate	Higher but declining	High but declining	High after GFC	High after GFC
Trade union density rate & level of collective bargaining	Low level of density/ company/local level bargaining	Low level of density/ sector company level bargaining	No data	Medium density (declining since 1995) High collective bargaining until 2011, low afterwards
Public and private debt	Low public debt, but rising since 2000/ lower private debt but rising since 2005	Low public debt, but rising after 2000 and 2005, lower private but rising since 2005	Public debt Pre 2008: a limited public debt/ GDP ratio, highest private debt	Relatively high public debt High private debt
Current account imbalance	Moderate deficit, higher 2005-2010	Moderate deficit, higher 2005-2010	Permanent deficit; higher deficit esp. between 2004-2012 and after 2018	Permanent deficit; higher deficit esp. between 2002-2012
Role of FDI in the economy	FDI targeted on manufacturing/ partially services	FDI targeted on manufacturing/ partially services	Very high ("tax heaven")	Low, targeted to services
Flat tax/corporate tax	No/ 19 %	Yes/ 21 %	13 %	24 %

Southern Europe (SE)

Italy	Malta	Portugal	Spain
Growth and convergence with EU average before 2008 crisis divergence afterwards	Growth and convergence with EU average (higher than EU average after 2008)	Growth and convergence with EU average before 2008 crisis divergence afterwards	Growth and convergence with EU average before 2008 crisis divergence afterwards
High share in manufacturing until 1990, Tertiarization afterwards	Tertiarization process since the 1990s	High share in manufacturing until 1990, Tertiarization afterwards	Tertiarization process since the 1990s
Medium	High, after 2008 medium	Low	Low (medium share between 2000 – 08)
High after GFC	Low	High after GFC	High after GFC
Relatively high density and high collective bargaining	No data	Low density High collective bargaining (declining after 2010)	Low density High collective bargaining (declining after 1998)
Relatively high public debt High private debt	Pre 2008: a limited public debt/GDP ratio High private debt	Pre 2008: a limited public debt/GDP ratio Very high private debt	Pre 2008: a limited public debt/GDP ratio Very high private debt
Moderate deficit between 2002-2012, surplus after 2012	Deficit between 2004-2012, surplus after 2012, higher surplus between 2016-2019	Higher deficit between 2000-2010, moderate surplus after 2012	Deficit between 1995-2012, higher deficit esp. between 2004-2009, surplus after 2012
Low, targeted to services	Very high ("tax heaven")	Low, targeted to services	Low, targeted to services
28 %	35 %	19 %	25 %

5.4 DEPENDENT DEVELOPMENT AND DEPENDENCIES IN THE SOUTH AND THE EAST OF THE EU

Dependent development has the potential to polarise (semi-)peripheral states both economically and socially. Economically, because globalisation led to premature de-industrialisation due to the eroding of the economy-wide linkages of the manufacturing sector, which is the primary engine of growth. The previous chapters on Southern Europe, Central Eastern Europe and South-East Europe have shown the *historical deindustrialisation process that occurred in the 1980s in the South and during the 1990s in the East*. Even in cases where TNCs and FDIs helped to re-industrialise, positive external effects are limited and rarely widely disseminated (Scheiring, 2021). Domestic producers cannot connect to TNCs as suppliers of complex inputs, and their role is mostly that of a third-tier supplier, engaged in labour-intensive production, providing basic goods or services. Domestic value chains thus remain underdeveloped (ibid.). Moreover, the eastern EU periphery 'industrial miracle' was created by foreign (mostly German) capital, targeting mainly the automotive sector (Celi, Guarascio, Simonazzi, 2020). So far, no comparable development of other productive sectors is observed, nor has the automotive sector led to substantial spill-over effects, as described above (also Krzywdzinski, 2019).

Dependent development also has social consequences, as it can polarise labour markets between domestic and foreign-owned sectors of the economy. In dependent economies, increased production in TNC may lead to "jobless growth-controlled sectors may not translate into robust economy-wide job growth" (Onaran, 2008). In this context, high unemployment and a constant supply of cheap labour result in low wages and lack of wage convergence with core countries. Moreover, as FDIs tend to be concentrated in few regions (usually the capital region), dependent development might also polarise economies geographically. As capital regions are more prone to escape de-industrialisation, local infrastructures collapse, leading to higher levels of intra-inequality (Scheiring, 2021). This also became evident in the data on intra-national peripherality presented previously.

These tendencies and their magnitude are naturally different for each country region. We will first highlight similarities of dependent development for all three country groups and will finish this section with a discussion of the differences between the three groups.

The first similarity between the three regional country groups is the experience of *a premature deindustrialisation process,* which occurred naturally under different contexts and with different consequences for the countries. In the southern economies, the premature deindustrialisation process happened during the 1970s and 1980s, whereas this process occurred during the 1990s for the CEE and SEE countries. Slovenia is hereby a partial exception: it experienced some de-industrialisation in its light basic industry (especially its textile industry, due to global trends) but otherwise succeeded in maintaining its industry during the 1990s, without FDIs.

Within the CEE country group, Hungary was the first to completely open its market. In Hungary, a considerable number of its state-owned enterprises (SOEs) were destroyed, while it also recorded the highest number of completed bankruptcies in the first half of the 1990s. In contrast, a higher number of SOEs survived the transition years in the Czech Republic, Poland and Slovakia (Scheiring, 2021). The process of premature de-industrialisation coincided with a re-industrialisation process via the inpouring of FDIs. However, the positive effects of the FDI-led industrialisation process in the V4 states needs to be interpreted with caution: as research has shown, TNCs did not have a substantial spill-over effect on the economy (ibid., Krzywdzinski, 2019; Jensen, 2006). Moreover, the regional concentration of foreign capital has contributed to increased *disintegration tendencies within the countries, ultimately deepening the core-periphery divide within the economy*.

The SEE country group experienced economic crises during the 1990s, with the destruction of a high number of industries, except for the Slovene case. Apart from Romania, which experienced some re-industrialisation with the incoming FDIs in its automotive sector after 2000, neither Bulgaria nor Croatia have actually experienced a re-industrialisation process following the end of their socialist regimes.

Secondly, in all three country groups we observe *rising private debt, due to slow growing or stagnating real wages in the EU Peripheries*. When the cost of living cannot be covered by workers' salaries, rising private debt aims to cover these discrepancies. There are exceptions within the country groups, such as the Czech Republic and Slovenia, which have experienced higher wage growth (and less rising inequality) than the other post-socialist states.

Currently, the main differences between the three regional groups *are their integration in the German manufacturing chain and their position within the global division of labour*. Whereas the V4 countries (plus Slovenia) exhibit strong links with the German manufacturing chain, the SE and SEE countries are highly dependent on tourism sectors, remittances and/or foreign investments in the tertiary sectors. Naturally, the latter dependencies put these economies in a weak position to cope with an economic crisis or an external shock. Another crucial difference between the Southern, Central Eastern and South-Eastern European states *is their different integration with the EMU*. Notably, those national economies that adopted the euro operate within a different policy context. In particular, the euro is an overpriced currency for economic laggards of the Eurozone, such as Greece. This happens because the value of the euro in the international money markets is determined by the political economy circumstances of the advanced industrialised countries of the core of the EU. As an example, Greek industrial exports are much more expensive than the industrial exports of countries that do not belong in the Eurozone. Moreover, because of the political economy nature of the EMU, certain economic policy instruments that can be used in countries with independent fiscal and monetary functions, have been not available for the struggling EU economies in the last ten years (Chardas, van der Giesen & Pogatsa, 2021). These instruments would include, for example, the currency devaluation in order to make exports more competitive, or any other policy instrument that would focus on the increase of the demand side of the country's economy (ibid.). As is well known, the only option to face international competition was the cut in labour costs for the peripheral countries. The different policy options between South and East can be demonstrated by looking at the case of Hungary. While Hungary has repeatedly stated that it wants to join the EMU, the Fidesz government communicated in 2011 that it would not abandon its national currency until at least 2020. After the 2008 economic crisis, Hungary implemented several policies that were neither strictly in line with the convergence criteria nor with the new economic governance framework established by the EU in 2021. The Hungarian government pursued an expansionary monetary policy, coupled with anti-cyclical fiscal policies. The looser monetary and fiscal policies that have been implemented in Hungary over the last ten years have undoubtedly facilitated the domestic political economy's ability to deal with the worst effects of the economic crisis. However, as with all the peripheral EU states, the spatial allocation of economic activities has been highly centralised in and around the capital city of Budapest, with the rest of the country remaining far less developed, contributing to rising intra-national inequality levels (ibid.).

The experience of the euro crisis and the divergent GDP levels between the core and periphery led to a reconsideration of the European Structural and Investment Funds' policy targets (ESIF, see also the next chapter on the political manifestations of core-periphery relations in the EU). Concretely, after 2010, the ESIF aimed to support industrial upgrading in the Southern European economies. Previously, the ESIF focused on transport and other physical infrastructure in the peripheral regions. For the Eastern European economies, this meant that they have had fewer opportunities to upgrade their physical infrastructures than the Southern EU Member States had (Chardas, van der Giesen & Pogatsa, 2021). In addition, the divergent economic interests between the southern and eastern peripheral countries became evident in the most recent negotiations between the Commission and the European Council for the financial allocations of the Budget for the period 2021-27. As has happened in the negotiations for the previous programming periods, and particularly those since 2000, there has been strong resistance from some of the net contributors to accept even meagre increases in the already meagre EU Budget. On the other hand, the two EU peripheries of concern to us (i.e. the net receivers) have failed to form a concrete negotiating block in the Council (ibid.). Thus, intra-regional disparities will be growing in the near future, and southern economies and eastern economies obviously have divergent policy preferences due to the different constraints they face.

In sum, due to their different economic characteristics, their different position within the European market and challenges ahead, the dependencies differ between country groups. With regards to the industry, southern countries are characterised by a process of late industrialisation (compared to the core countries), since this process was partly halted with the crises in the 1970s and 1980s, and the ensuing global changes. Financialization, which targeted services more than productive structures in the southern economies, did not provide the much-needed investments to stay competitive. At the same time, the EU integration process limited the state's active role in industrial policy. The result was a premature deindustrialisation process, with a productive base unfit to cope with economic crises or external shocks.

The EU enlargement process after the 1990s meant new competitors from the East for the southern economies, while Asian products (mostly from China) flooded the global market after 2000. Moreover, southern economies show constantly high private debt to GDP ratios, especially upon the creation of the EMU, after which debt rose well above 100% in many peripheral countries. This evidence signals the availability of abundant credit in peripheral countries also due to the inflow of funds from central countries (boosting financial bubbles). Until mid-2008, French and German financial institutions were also the main creditors of Southern Europe: 60% of the amounts owed by Italy, 45% by Spain, 42% by Greece, and 33% by Portugal (Lindner, 2013; O'Connell, 2015). The policy proposals after the economic crisis in 2008 were also the result of a *political choice*: that of not letting the burden of adjustment fall on the banks of the central countries.

Thus, southern economies became dependent on tourism, remittances and FDIs (that target mostly services), which are volatile sectors and financial sources. In cases of external shocks, such pillars will be unlikely to protect the economies and their citizens sufficiently. This also became evident after 2008, whereby the southern country group has had great difficulties and continues to exhibit sluggish economic growth. It is highly unlikely that southern peripheral countries will change their dependent position any time soon.

In contrast, CEE states are also dependent on FDIs, but some of the CEE countries exhibit more policy space due to not being part of the Eurozone (the most obvious example is Hungary's macroeconomic and fiscal policies after 2010). The outcome and the repercussions of the GFC in the V4 countries and the Baltic states is a blunt example: the Baltic states, being part of the Eurozone, were heavily constrained in their policy options. On the other hand, the CEE economies (particularly the V4 states) are highly dependent on the automotive sector and the economy's links to western capital. So far, no similar industrialisation process in other sectors (i.e. in scope and magnitude) has been observed in other sectors in the eastern region.

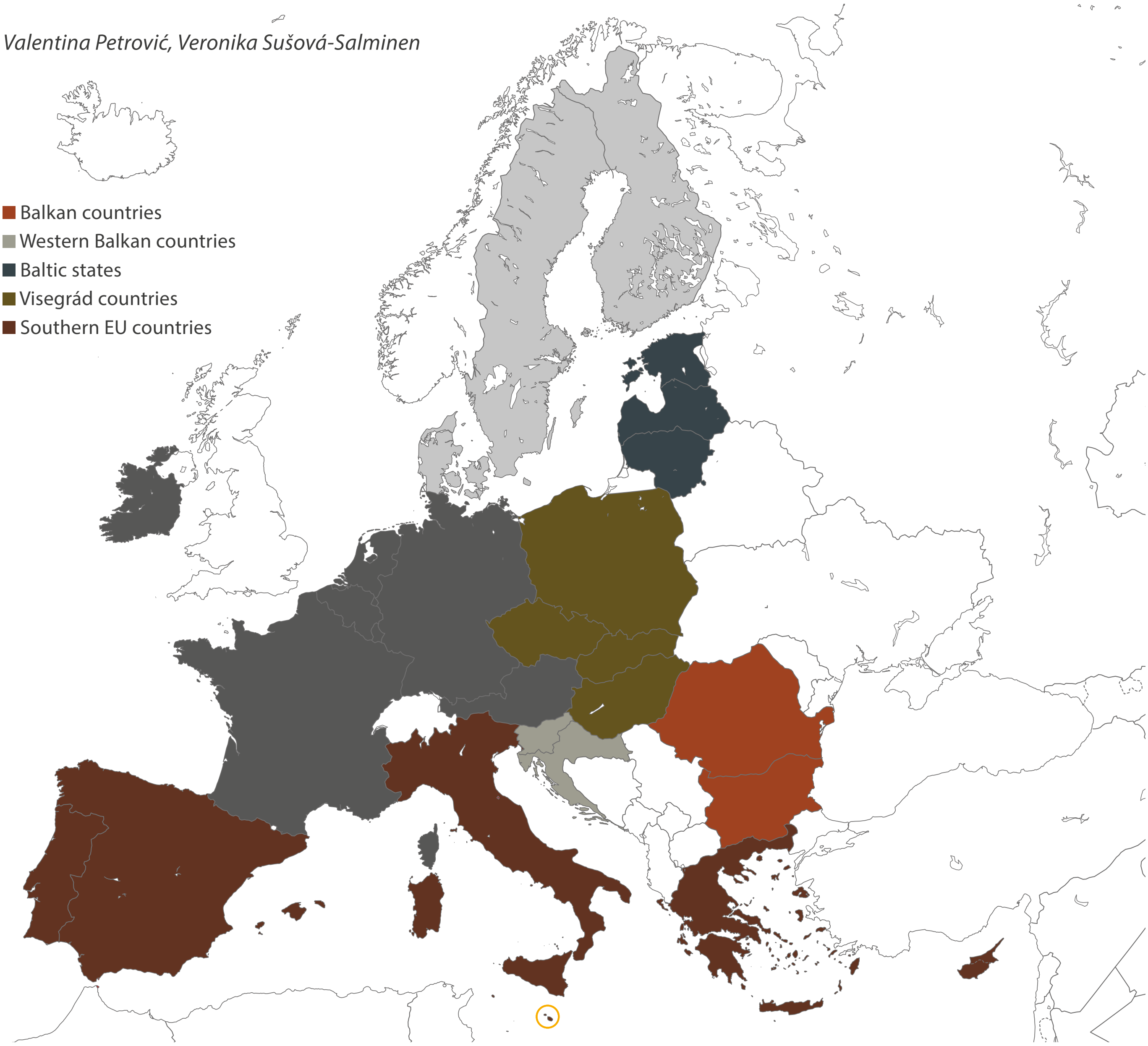
While the SEE states are also dependent on FDIs, Slovenia exhibits a relatively more favourable position (vis-à-vis Bulgaria, Croatia and Romania) due to its gradual transformation process and the preservation of its productive basis during the 1990s. The economic crisis has weakened Slovenia's economy badly, especially as it introduced the euro in 2004 and, thus, had to follow the policy regime of Brussels. Bulgaria and Croatia are currently in a particularly difficult situation and relatively unprepared to cope with economic crises due to the lack of productive capacities, high debt levels and high emigration flows. The ongoing Covid-19 pandemic is likely to exacerbate the EU's disintegrative tendencies and discrepancies between the South and the West and the East and the West.

PART II

Political manifestation of the core-periphery divide in the EU

Chapter 6 – The political manifestation of the core-periphery divide in the EU

Valentina Petrović, Veronika Sušová-Salminen



6.1 INTRODUCTION [78]

This chapter investigates the political manifestation of the core-periphery divide in the EU. Concretely, it tries to understand what kind of cleavages dominate the political landscape in the Southern, Central Eastern and South-East European regions. By briefly presenting each country case, an overview is given of the past and current salient conflict lines in the three regional groups. This discussion also serves to introduce the main left-wing forces and to show their strengths, and respectively their weaknesses, at the national political level. In addition, a brief comparison of the cleavages in the three country groups is also given, in order to distinguish their similarities and differences.

The chapter discusses furthermore whether a transnational cleavage has become apparent since the economic crisis in 2008 and if not, why so. While a core-periphery narrative repeatedly appeared in academia and the media after the economic crisis, concrete alliances between the three different peripheral regions have failed (due to, inter alia, massive pressure from international financial institutions). At the same time, the Covid-19 pandemic seemed to provide a window of opportunity for new alliances between the peripheries. Looking at the issue of finance and the migration wave in 2015, the section shows the different structural conditions these countries find themselves in. This section also links to the previous findings of the regional chapters on the countries' economic characteristics (chapters 1–3). Furthermore, the section provides the reader with information on cooperation potential on certain policy issues between the Southern, Central Eastern and South-East European regions, relying on expert perceptions.

Lastly, the chapter shows whether the peripheries' governmental interests are well represented within the institutions of the European Union. Our findings provide evidence that key positions are mostly held by the Western countries, and to a lesser extent, by Southern European countries. In contrast, representatives from Central Eastern or South-East Europe rarely hold key top positions within the EU Institutions.

The structure of the chapter is as follows. It first introduces the concept of cleavages and discusses the left-right dimension, followed by a discussion on the current Western European cleavages. It then briefly presents the cleavage structure in all 17 countries for the three respective regions, followed by a summary and comparison of the salient cleavages (sections 6.2–6.4). Subsequently, the chapter presents a discussion of the lack of political alliance(s) between the Eastern and Southern regions, by looking at the issue of finance and the issue of migration (section 6.5). It is then followed by a section on how the elite perceive cooperation potential among the EU members on certain policy areas (section 6.6). Finally, section 6.7 discusses the issue of representation of the three regions in the EU's core institutions. The chapter ends with a concluding summary.

6.2 THE CONCEPT OF CLEAVAGE AND THE LEFT-RIGHT DIMENSION

The concept of cleavage emerged in Western Europe as part of very specific historical processes, such as nation-building, state formation and the industrial revolution. (Bornschier, 2009). Structural cleavages, or societally embedded persistent conflict lines, are crucial for shaping the programmatic division of political parties and alliances in conflicts over certain policies (Lipset &Rokkan, 1967:93). The growing salience of certain cleavages generated a value constellation that influenced a country's party system structure (Minkenberg & Pytlas, 2013:210). While Lipset and Rokkan have not presented an operational definition of cleavages in their seminal work *Party System and Voter Alignment*, the literature typically refers to Bartolini and Mair's three-level definition. According to the latter authors, a cleavage consists of a) "an empirical element which identifies the empirical referent of the concept and which we can define in socio-structural terms; b) a normative element, that is, the set of values and beliefs that provides a sense of identity and role to the empirical element and reflects the self-awareness of the social group(s) involved and c) an organisational/behavioural element, that is, the set of individual interactions, institutions, and organisations, such as political parties, that develop, as part of the cleavage" (Bartolini, 2000:16–7; Bartolini & Mair, 1990:215). Thus, a cleavage consists of a social division that distinguishes among groups of citizens (based, for example, on status, religion, or ethnicity), a sense of collective identity that citizens are aware of and an organisational expression of the cleavage (for example via trade unions or a political party, Mair 2014: 78–79). Moreover, recent analyses on cleavages point to the importance of agency, as it is possible that established elites are not interested in seeing current social conflicts manifest themselves in party politics (Bornschier, 2009). In a multi-ethnic context, political elites might have an interest in exploiting identity issues, in order to postpone or avoid economic reforms that can curtail their power (Petrović, 2022).

Table 6.1 displays the classical (Western) cleavages that were presented in Lipset and Rokkan's work, as well as other cleavage (candidates) that have emerged since 1967. The table also includes information on the three levels for each cleavage, with the respective structural, value and institutional difference.[79]

Before discussing the current cleavage structure in the (Western) European space, a clarification on the (radical) left is given at this stage. According to a recent study by Bouma, Hildebrandt and Koltsida, the radical left party family includes parties that have leftist positions on the issues of *equality* and *internationalism*, and typically see socialism as an alternative to the current socio-political system (Bouma, Hildebrandt & Koltsida, 2021:11; March & Mudde, 2005). However, great variation exists among the leftist parties in Europe. As an example, Podemos in Spain and La France Insoumise in France do not mention socialism in their party manifestos. Neither can we say all leftist parties embrace internationalism to the same degree. In some countries, radical left parties do not exist, and social democratic parties come closest to the above-mentioned party positions (ibid).

Table 6.1 Levels of overlapping differences in cleavages hypothesised by Lipset and Rokkan and others

Cleavage	Structural Difference	Value Difference	Institutional Difference
Church vs. State	Religious communities and subcultures	Role of religion in public decision-making	Religious and secular parties
Centre vs. Periphery	Linguistic and cultural patterns	Considerations of regional culture	Regional and national parties
Urban vs. Rural	Economic sector	Tariffs and subsidies	Bourgeoisie and agrarian parties
Owner vs. Worker	Position in industrial workforce	Economic protection and redistribution	Workers' parties and entrepreneurs' parties
Materialist vs. Post-materialist	Generation, experience of economic sufficiency	Mode of authority and quality of life	Green and radical right
Global vs. Local	Professions vulnerable to international trade	Immigration and integration	Neoliberal and protectionist

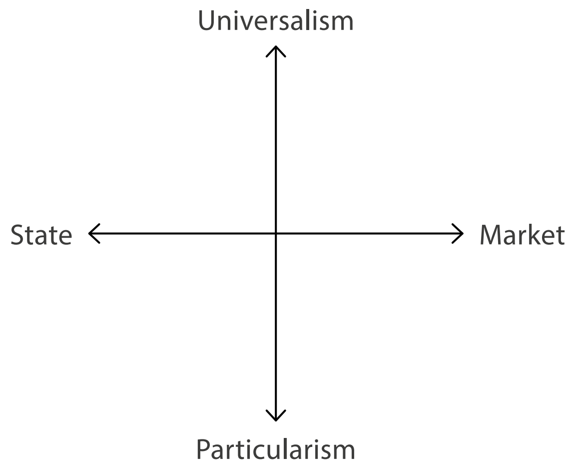
Source: Deegan-Krause, K. (2013)

March and Mudde, to whom the above cited authors refer, define the left as a party that (a) rejects the underlying socio-economic structure of contemporary capitalism, (b) advocates alternative economic and power structures involving a major redistribution of resources from the existing political elites, as they see economic inequality as the basis for current political and social arrangements; (c) is critical of liberal democracy and (d) is also internationalist, as national inequality is linked to global structural causes, and therefore, cross-national solidarity is required (March & Mudde, 2005: 25). We would like to highlight another dimension, which is especially important for the multi-ethnic context in Eastern and South-East Europe. Being defined as part of the left, we should also include a critique of the conservative, religious, patriarchal and nationalist ideological hegemony that have accompanied and facilitated the transformation process of post-socialist societies (Štiks & Stojaković, 2021:25). Consequently, while the study of Bouma, Hildebrandt & Koltsida defines the Croatian Party "Živi Zid" (Human Shield) as being part of the left, we strictly exclude parties (or for that matter, party leaders) that have an antisemitic position or racist views, which applies to the aforementioned Croatian example (Bouma, Hildebrandt & Koltsida, 2021:398, for Ivan Pernar's antisemitic and racist positions, see (Stošić, 2021).

6.3 THE CLEAVAGE STRUCTURE IN THE WESTERN POLITICAL SPACE

Following Häusermann and Kriesi (2015), the contemporary European political space cannot be reduced to a single dimension of political conflict (i.e., to the distributive conflict), but needs to account for at least two dimensions. In the authors' view, conflicts in Western capitalist societies are dominated by the state-market dimension and the universalism-particularism dimension. Societal transformations, such as secularisation and the pacification of industrial relations, have weakened the traditional religious and class cleavages. Figure 6.1 depicts the two-dimensional policy space of citizens' preferences according to Beramendi et al. (Beramendi et al., 2015:18–20). The state-market dimension refers to considerations of material gains. If their endowments imply they expect strong market revenues, they tend to opt for markets. By contrast, if their gains in the market are expected to be lower, they tend to opt for state intervention. The second dimension refers to socio-political governance combined with concerns for group identity in an increasingly globalised world. Other literature has referred to this dimension as "libertarian vs. authoritarian" positions, "national demarcation vs. supranational integration" or "universalistic vs. egalitarian" (ibid: 18, see also Kitschelt, 1994, Kriesi et al., 2008, Bornschier, 2010). The universalistic conception of social order in which all individuals enjoy and support a wide and equal discretion of personal freedom vs. a particularistic conception that sees the individual embedded in a collective heritage that requires compliance, including a clear demarcation of in- vs outgroup members (ibid: 18).

Figure 6.1 Dimensions of preference space



Source: Beramendi et al. (2015): 19

Yet, global changes have led to the rise of new cleavages in the Western European states (Häusermann and Kriesi, 2015: 202–3). Accordingly, the first wave of transformation encompassed the secularisation of Western societies and the rise of the importance of "self-expression values", followed by a rise of new social movements in the 1970s and 1980s. Politically, these new movements represented a new left, expressed in new political parties, in the Northern and Western states. These changes in the political party scene naturally influenced the established left. The second wave of transformation concerned the experience of globalisation (or denationalisation) after the end of the Cold War. This process has strengthened the cultural-identitarian dimension via the issues of immigration, (supranational) political integration and a weakening of domestic democratic sovereignty (ibid: 204). This second process is heavily linked to the European integration process. Traditionally, democracy and democratic rights have been bound to the idea of the nation state. As decision-making processes are delegated to supranational bodies, nationalist reactions of citizens might appear, as they fear losing their democratic rights. In class terms, lower classes put more emphasis on the importance of the nation than upper classes. Häusermann and Kriesi argue therefore that the changes induced by globalisation had a greater effect politically on the cultural-identity dimension than on the distributional dimension. Two reasons are provided in the authors' analysis: on the one hand, there is a shift from an economic to a cultural basis of stratification, due to modernisation processes that lead to an increase of importance in cultural resources, such as education. Education becomes therefore more important regarding an individual's political attitudes. On the other hand, political parties primarily mobilise "globalisation losers" on an identity basis and not economic terms (ibid: 206). (Central) Eastern European populist right-wing parties, however, also mobilise "globalisation losers" using the economic dimension, without exhibiting a real leftist position on the socio-economic dimension (due to their macroeconomic neoliberal policies). Thus, in (Central) Eastern Europe, populist right-wing political parties offer a conservative position on the identarian dimension, while also including generous welfare state provisions for its ingroup members (Orenstein, 2020; Scheiring, 2020; Scheiring, 2021).

The authors also investigate a third transformation that was influenced by the austerity policies after 2008 and refers to the issue of *distribute deservingness*. Given the economic crisis in 2008, welfare states had to be both consolidated and restructured. This issue is more related to the cultural-identity dimension than to the economic dimension, and it takes the form of welfare chauvinism (i.e., who *is entitled* to benefits).[80] Similar to the other issues, education seems to be the most relevant factor explaining the attitude towards welfare state benefits (ibid: 207). Thus, the conflict line capturing universalism vs. particularism refers not only to issues of immigration, EU integration and cultural liberalism but also to welfare state issues, and particularly, to welfare chauvinism (ibid: 227).

With regard to contemporary political parties, it is important to highlight the structural transformation of the economic dimension, namely, the state-market conflict line. Structural changes in Western states increased the relevance of labour market and welfare issues, rather than macroeconomic policies (ibid: 228). It is not only Western societies that have experienced a shift in the relevance of these issues, but rather political parties in Eastern European countries have also utilised welfare issues, especially right-wing political parties, as this chapter will later show. Thus, the conflict line today no longer exists between workers and capitalists in the traditional way, but between different factions of the various classes (and therefore, there is also potential for various class alignments, ibid:227–8).

Research by Röth, Afonso and Spies (2018) has shown that populist right-wing parties indeed mobilise their electorate on socio-economic issues. Specifically, the authors distinguish between socio-economic policies that concern the liberalisation of the economy and market regulation, and policies that concern welfare state retrenchment. While right-wing populist parties often support deregulation, they are hesitant to support welfare state retrenchment once in government (Röth, Afonso & Spies, 2018:328).

To summarise, the contemporary (Western) European party space is dominated by the state-market and universalism-particularism dimensions. Whereas the first dimensions refer to considerations of material gains, and therefore, the role of the state in the society and economy, the second dimensions refer to socio-political governance combined with concerns for group identity in an increasingly globalised world. Right-wing political parties in the Western context have increasingly mobilised globalisation losers based on identity issues, and not on economic ones.

6.4 THE CLEAVAGE STRUCTURE IN EUROPE'S PERIPHERY

6.4.1 Cleavage structure in Southern Europe

The present section introduces the cleavage structure in the Southern European states. The historical events before World War II, namely the nation-building process and the State-Church conflict, deeply influenced party politics in Southern Europe, whereby the socio-economic cleavage was a minor conflict line, due to the infant industrialisation process in the region. Traditionally, the Church aligned with the Crown against the liberal elite who were building the nation state. In addition, farm owners allied with the Catholic Church against the anti-clerical and Marxist workers and formed the basis of support for Fascist regimes (Manow, 2013:83). The alliance between religious bodies and aristocracy thus represented the right-wing of the political spectrum (ibid.). Religion, therefore, turned into the most contentious political issue during the interwar period and left-wing forces exhibited anti-clerical positions. The political party space in Southern Europe displayed another peculiarity: in contrast to other Western (and Northern) countries, the South did not exhibit a social democratic or any other plausible reformist option for the left forces (ibid). The absence of this condition led to the radicalisation of the left, and of the Southern countries' politics and society.

Greece represents a parallel case, with the Greek Orthodox Church playing a similar role to the Catholic Church, and where the left also radicalised due to there being few progressive or reformist options available. Religion is thus an important factor for the totalitarian episodes for the Southern states – because certain societal coalitions occurred on the basis of the religious cleavage (anti-clerical workers vs. religious farmers), which fostered the fascist path. Namely, Italy's fascist period lasted from 1922-1945, Portugal's fascist regime from 1926-1974 and Greece's fascist regime from 1967-1974. The religious cleavage and the totalitarian periods in Southern Europe are furthermore an important factor when explaining the political polarisation of these states after the democratisation processes occurred in the 1970s (ibid: 82).[81] Namely, Italy's fascist period lasted from 1922–1945. The following pages introduce a short summary of the cleavage structure in the countries that are part of the Southern European region, in alphabetical order.

Cyprus

Given the long-standing conflict with Turkey and the country's ethnically heterogenous character, identity issues and ethnicity are quite salient in the Cypriot political party space. Since the Turkish invasion in 1974, Cyprus is *de facto* a divided country, with the Turkish forces occupying around 37% of the country. The negotiations that have taken place so far were unsuccessful in solving the problem (Katsourides, 2021:331). Consequently, the most salient cleavage in Cyprus relates to the dimension of identity, whereby all political parties incorporate a position regarding the "national question", including the main left-wing party, the Progressive Party of the Working People (Anorthotiko Komma Ergazomenou Laou, AKEL). AKEL is the only left-wing political party in Cyprus and governed the country from 2008–2013 (Charalambous & Ioannou, 2015). However, due to domestic problems and the economic crisis in 2008 (corruption scandals of office holders and a catastrophic explosion of the island's biggest power station), AKEL lost support from citizens, whereby the right-wing party Democratic Rally (Dimokratikós Sinagermós, DISY) won the 2016 elections. The 2021 elections saw a strengthening of the radical right-wing party National Popular Front (Ethniko Laiko Metopo, ELAM), which emerged as a protest party after the 2008 crisis and nurtures a close relationship with the Greek far-right party Golden Dawn. Other relevant parties are the centrist Democratic Party (Dimokratikó Kómma, DIKO) and the Movement of Social Democrats (Kinima Sosialdimokraton, EDEK), (Triga, 2021). While opinion polls suggest that economic issues are the top concern of Cypriot citizens, the classic Cyprus problem dominates the political campaigns. In addition, in the last two elections corruption was the flagship issue, next to the national question (Triga, 2021).

Greece

In the post-authoritarian setting (i.e., after 1974), two political parties dominated the party space in Greece: the right-wing party New Democracy (Néa Dimokratía, ND) and the social democratic party Panhellenic Socialist Movement (Panellínio Sosialistikó Kínima, PASOK, Andreadis & Stavrakakis, 2019). The other two (smaller) leftist parties are the Communist Party, KKE, and SYRIZA. After the military junta, PASOK claimed that the ND stood for authoritarian values, representing oligarchic and foreign interests. Party polarisation occurred mostly on the left-right axis, whereby PASOK represented a progressive rhetoric and ND conservative forces (ibid). Over time, both PASOK and the ND moved closer to the centre, with PASOK enacting neoliberal policies during the 1990s, similar to other Western social democratic parties. After the 1990s, the Greek Orthodox Church became more active politically, and polarised Greek society along a religious conflict line, with a nationalist and anti-European stance. However, the conflict line did not turn into a long-lasting cleavage, which is inter alia due to the economic crisis in 2008 and the subsequent economic hardship that the country went through. Thus, the period until 2008 was characterised by a left-right cleavage, with both parties moving to the centre of the political spectrum, and a pro-European vs. anti-European cleavage (ibid.).

The crisis after 2008 has deeply affected the political party space in Greece and led to the rise of SYRIZA – which was previously an outsider party – becoming the main party in the Parliament in the 2009 and 2015 elections. The party argues for "a politically integrated and solidary Europe, defended migrants and socially marginalised sectors, and pressed for social rights, claiming to fight for popular sovereignty, social justice, and democratisation" (Andreadis & Stavrakakis, 2019, Spourdalakis, 2014). Despite SYRIZA's pledge of "Yes to Europe, No to austerity", the party was soon faced with a dilemma in which it had to accept the austerity measures imposed by the Troika. The dead end in the negotiations with the Troika gave rise to the question of whether a viable alternative to the Greek memorandum existed (Koltsida, 2021:307). Consequently, a section of the party members split and founded a more euro-sceptic party, Popular Unity (Laïkí Enótita, Andreadis & Stavrakakis, 2019). Although Greece (like Italy) was hit by the migration wave in 2015, during which radical-right wing parties tried to politicise the electorate on the identity conflict line, European integration and austerity measures were the most salient issues in Greece (Hutter & Kriesi, 2021).

Italy

After the period of fascism that started in 1922, democracy was re-established in Italy in 1946. From 1946 until the early 1990s, the main party on the centre was the Christian Democrats (Democrazia Cristiana, DC), while the main party on the left was the Italian Communist Party (Partito Comunista Italiano, PCI). The PCI in Italy enjoyed very high electoral support until the mid 1970s, with a consensus peak of 34.4% in the 1976 parliamentary elections (Manow 2013: 90). The other two relevant parties on the right and the left were the Conservatives (Unione Democratica Nazionale, UDN, until 1948 and Partito Liberale Italiano, PLI, afterwards) and the Social Democrats (Partito Socialista Italiano, PSI), respectively. However, in contrast to Spain, the PCI enjoyed larger electoral support than the Social Democrats after WWII, until its self-dissolution in 1989. One consequence of the fragmentation of the left in Italy is the dominance of right-wing governments. Moreover, smaller party formations would ally with the DC, in order to prevent a government of the PCI (Manow, 2013)

International and domestic challenges at the end of the 1980s led to a split of the PCI into the Democratic Party of the Left (Partito Democratico della Sinistra, PDS) and the Communist Refoundation Party (Partito della Rifondazione Comunista, PRC). The PDS then gradually merged with smaller parties, leading in 2007 to the creation of today's main centre-left party, the Democratic Party (Partito Democratico, PD). It must be highlighted that despite representing "the left", the PD has for decades pursued neoliberal reforms and austerity measures (Chiochetti 2021: 336). While the DC also transformed itself during the 1990s, the main right-wing party after the DC was Forza Italia, founded in 1994 by media owner Silvio Berlusconi (Bauz et al., 2021). The two parties, PD and Forza Italia, dominated politics until the collapse of the party system in 2011 (Chiochetti, 2021: 335).

The two main cleavages are the identarian conflict line and an economic conflict line. Far right parties, such as the Lega Nord (Lega Nord per l'Indipendenza della Padania, LN), exhibit a strong anti-immigration position but also developed an economic programme which sought to shield native entrepreneurs and workers from the pressures of immigration, Europeanisation and globalisation (Chiochetti, 2021: 337). Thus, the far-right party successfully utilises leftist issues, criticising the euro and the EU as well.

The party system experienced some reshuffling after the economic crisis in 2008. On the one hand, the Central Liberal Formation was formed (Scelta Civica, SC), and on the other hand the populist movement Five Stars Movement (Movimento Cinque Stelle, M5S) has emerged. The elections in 2018 led to a coalition government between M5S and the far-right nationalist party Northern League (Lega Nord, LN). This, however, proved to be unstable, leading to a new coalition government between M5S and PD. Chiochetti presents several reasons why the Italian left was not able to benefit from a surge in support, such as that of SYRIZA in Greece or Podemos in Spain. However, one important factor is the perception that the radical left represents a "satisfied, educated strata of society that is more concerned with virtue-signalling on 'cultural' issues than with the concrete economic and social concerns of ordinary working families" (Chiochetti, 2021: 335). Thus, similar to the experience of Western States, voters with the highest levels of education support the traditional left, whereas the top-income voters remain faithful to the right (Bauzul et al., 2021). The most recent issue that has influenced party competition in the country was the migration wave in 2015. Among the Southern European states, Italy was most seriously impacted by the politicisation of immigration, which led to a strong right-wing political party, embodied by the LN (Hutter & Kriesi, 2021). Italy's experience, however, also bears some similarities with Central and Eastern Europe and the rise of populist right-wing political parties there. While M5S exhibited a nationalist/conservative position on identity, it supported the expansion of the welfare state (along the lines of welfare chauvinism, as mentioned above). Thus, while Northern regions were dominated by Lega Nord, the Southern, more backward regions were electoral bastions of MS5 (Monaco, 2020). The self-employed and small- and medium-sized enterprises (SMEs) located in the North, precarious classes in the South and older (male) workers all became important electoral groups for both the Lega and M5S (Monaco, 2022; Bulfone & Tassinari, 2020). In 2021, the "National Unity" government led by Mario Draghi entered into a coalition with the LN. This coalition led to the perception that the party had been corrupted, and as a result the popularity of the post-fascist right-wing party Brothers of Italy (Fratelli d'Italia, FdI) increased, perceived as the only alternative to yet another technocratic executive (Monaco, 2022).

Malta

As Malta was occupied during most of its modern history, Catholic rule and British colonialism have both left a strong mark on its politics, language, and religion, and sovereignty questions have historically acted as political conflict lines (Veenendaal, 2019). Consequently, the two main parties that have dominated the party space – the Labour Party (Partit Laburista, PL) and the Nationalist Party (Partit Nazzjionalista, PN) – also have their origins in these identity related issues (ibid). Another important political player is the Church, and the role of religion in society is an important conflict line in Malta. Until the mid-1980s, the PN was the natural ally of the Church, while the PL was frequently involved in clashes with the Church. Political confrontations with the Church after the 1980s were minimal until the divorce debate in 2011 (Fenech, 2012). Corruption and clientelism frequently dominate party politics and electoral campaigns. The size of the country increases the likelihood of close connections between politicians and business elites. These problems can be linked to the dominance of the executive, and the relative weakness of the media and other watchdog institutions that could inform voters about corruption cases and hold the relevant politicians accountable (ibid: 1047). Lastly, Malta does not have a leftist party as understood in our study. The Communist Party (Partit Komunista Malti, PKM), founded in 1969, only ran in elections in 1987 and has not participated in elections – whether at the European, national or local level – since.

Portugal

Portugal is, in contrast to the other Southern European states, an ethnically and religiously homogeneous country. Therefore, its mainstream parties have not experienced strong levels of polarisation based on identity issues. This has helped the traditional left to retain a large share of the low-income and low-educated electorate (Bauluz et al., 2021). The country exhibits, however, large socio-economic discrepancies between the regions, which is reflected in the salience of the economic cleavage. The other relevant conflict line in the Portuguese political space is the role of religion in society.

After the dictatorship in Portugal in 1974, the political party space was quickly consolidated, with four main political parties capturing 90% of the electorate. The two main centrist parties were the centre-left Socialist Party (Partido Socialista, PS) and the centre-right Social Democratic Party (Partido Social-Democrata PSD). The two other relevant parties are the Portuguese Communist Party (Partido Comunista Português, PCP) and the conservative party CDS-People's Party (Centro Democrático Social-Partido Popular, CDS-PP). The main radical left party is the Left Bloc (Bloco de Esquerda, BE) (Freire, 2021). While it emerged as a small left-wing party in the late 1990s, it was able to gradually expand its electorate, reaching 10% in the parliamentary elections in 2015 and 2019 (Bauluz et al., 2021).

While the economic crisis in 2008 has led to a surge of new radical left-wing parties in Southern Europe, it did not occur at all in Portugal (Hutter & Kriesi, 2021). The post-crisis political space was dominated by questions of implementing the Troika measures. The PS advocated to alleviate the impact of the Troika-induced measures, while the PSD supported measures and welfare cuts beyond the required austerity measures (Bauluz et al., 2021). The Portuguese experience thus differs from Spain, Italy or Greece, insofar as it did not experience the rise of a challenging party after 2008. This was mostly because the Portuguese economy was already stagnating before 2008 and austerity measures were already part of implemented policies (ibid). Following the elections in 2015, a minority government was formed by the PS, for the first time with the parliamentary support of both left-wing parties, the BE and the PCP.

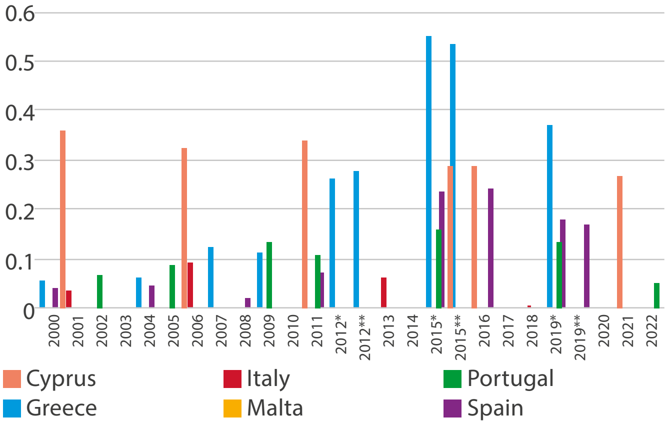
Spain

For many decades, the Spanish party space has been characterised as a bipartisan system, with the social democratic/social liberal Spanish Socialist Workers' Party (Partido Socialista Obrero Español, PSOE) representing left-wing forces and the conservative Popular Party (Partido Popular, PP), representing right-wing forces (Ferré, 2021). In addition, the Communist Party was an important political party after WWII (Manow, 2013: 93). Despite the strong Church-State conflict, no genuinely Christian democratic party was established. The religious cleavage was however still a dominant issue, as religious people tend to vote less for left-wing parties (Bauluz, 2021). As mentioned above, in Southern Europe, political Catholicism came as an intransigent rightist enemy of liberalism and modernity (Manow, 2013).

Immediately after the post-dictatorship period in 1975, Spanish political parties were concerned with democratic consolidation in the country. Despite economic crises during the 1980s, economic issues were of secondary importance to politicians and the two main political parties pursued catch-all electoral strategies (Chhibber & Torcal, 1997). Due to this context, several researchers attributed a non-salience of class divisions in the Spanish society (see for example Gunther 1991, Gunther & Montero 1994). Yet, research by Chhibber and Torcal found evidence that social class shaped the party system after 1989, as PSOE voters were on average a little older, less educated, less religious and belonged to a lower class than PP voters. (Chhibber & Torcal, 1997). The presence of large ethnic minorities and a federative structure led however to the dominance of identity issues in politics, especially strong regional conflicts. This overlaps with specific, regional economic characteristics: the Northern regions (Basque country, Navarre, and Catalonia) exhibit the most diversified economies and have experienced the least economic hardship after 2008, relative to the residents in other regions (Gethin, Martinez-Toledano & Morgan, 2019). Regional parties tend to prioritise ethnolinguistic conflicts over social class issues, while left-wing parties (on the national level) disproportionately attract the highest-income and highest-educated voters (Bauluz et al., 2021).

Similar to Greece, the economic crisis in 2008 in Spain led to the emergence of strong left-wing forces, embodied by the Indignados movement and, later, the political party Podemos (later Unidas Podemos, consisting of Podemos, Izquierda Unida, and Cataluña En Comú). The right side of the political spectrum was also reshuffled, first with the emergence of liberal-conservative party Ciudadanos and, later in 2013, with the far-right formation VOX. VOX emerged as a nationalist reaction to the Catalan independence movement, while simultaneously endorsing neoliberal economic policies (Rodriguez-Terel, 2020).

Figure 6.2 The Left in Southern Europe: share of parliamentary seats from *2000–2022*



Note: Stars mark two elections in the same year, i.e., Greece in 2012. The left includes: Progressive Party of Working People Cyprus (Cyprus), The European Realistic Disobedience Front (Greece), The United Anti-Capitalist Left (Greece), Coalition of the Radical Left – Progressive Alliance (Greece), Popular Unity (Greece), Communist Party of Greece (Greece), Italian Left (Italy), Communist Refoundation Party (Italy), Power to the people (Italy), Portuguese Communist Party (Portugal), Left Bloc (Portugal).

Source: Author's own depiction.

To summarise, the Church-State conflict mostly shaped the infant party system in the Southern European states (with the exception of Cyprus and, partially, Malta). At the same time, communist forces developed in the South European countries, representing a leftist position on socio-economic issues and liberal (anti-clerical) position on cultural-identity issues. Moreover, all four Southern European states experienced fascist periods at different points in time. Until the economic crisis, there was a trend on both the left and the right to move towards the centre regarding policy positions on the socio-economic and cultural dimension. The economic crisis in 2008 has however, reshuffled the political party scene in Cyprus, Greece, Italy, Portugal and Spain dramatically, with strong leftist forces emerging in Greece and Spain. Italy, instead, has experienced a strengthening of right-wing forces, inter alia due to the migration wave in 2015 and the division of Italy's left forces. Figure 6.2 depicts the share of parliamentary seats from 2000 until 2022. We followed transform! europe's study *Radical in Diversity* classification of the left. Greece has the highest share of leftwing political parties, followed by Cyprus. Here, the difference between AKEL (Cyprus) and SYRIZA must be noted, as AKEL represents more a centre-left party, whereby SYRIZA has stronger leftist positions. In contrast, the left in Italy and Malta has practically no representation in parliament.

6.4.2 Cleavage structure in Central Eastern Europe

Comparative party literature analysing Eastern and Western Europe after 1989 usually highlights that the Central and Eastern European cleavage structures and party systems differ from those in Western countries. The region's historical legacy differs starkly from those in the West: Central Eastern European countries are products of empires, late nation states and have a common heritage of socialist rule. Furthermore, Central and Eastern European countries are all, to a greater if lesser degree, multi-ethnic and multicultural (Berglund et al., 2013:15–6).

The nation states created during the interwar period were far from ethnically homogeneous, while ethnic minorities and their plights for sovereignty were often marginalised by the victors and their allied forces. Thus, the imperfect application of national self-determination guaranteed the dominance of the nationalist issue during the interwar period in the Central Eastern and South-East European region, which would then reappear after 1989 (ibid:18). Following the work of Deegan-Krause, table 6.2 presents a summary of cleavage typologies and cleavage candidates, contrasting each to the Eastern region with the corresponding authors that presented the cleavages.

The formation of the party system in Central and Eastern Europe during the interwar period was dominated by ethnicity, whereby other cleavages, such as class, ideology and religion, were also important. Most of the agrarian parties were ethnically based, the Yugoslav Peasant Union being an exception, as were many liberal and conservative parties. This ethnic fragmentation of the party system affected the left as well and social democratic parties that had split in their former Empires along ethnic lines. Thus, every ethnic group had its own socialist, agrarian, liberal, Christian democratic or conservative party (Berglund et al., 2013). During this period, the working class was small, as industrialisation was practically non-existent or geographically localised in certain areas. The economic modernisation process occurred therefore under communist rule, which led to a radical transformation of society, and the creation of a large working and middle class. During communist rule, political life was dominated by a one-party system rule, and only in 1990 did the multiparty system re-emerge. While there were frequently tensions between communists and anti-communists during the 1990s, the authors see it rather as a transient issue divide, and not as a lasting cleavage (Berglund et al., 2013:15–6).

Obviously, for analytical purposes it would be worth determining whether certain cleavages overlap and whether they can be summarised in one or a few dimensions. The most common dimension for understanding political conflict and party system structures is "left" and "right". While the dimension of left and right might still make sense for the Western party space, the challenge for the post-socialist space is to present a uniform framework, as in several Eastern European countries post-communist successor parties pursued neoliberal economic reforms after 1990. As an answer to this, researchers on Eastern Europe have presented a GAL/TAN scale for the Eastern European region, where GAL refers to Green-Alternative-Libertarian and, therefore, to a leftist position, and TAN refers to Traditional-Authoritarian-Nationalist, and to a rightist position regarding cultural/identity issues (Deegan-Krause, 2013:48, Bakker et al., 2010). In a Western context, a GAL position on identity issues correlates with a leftist position on the socio-economic scale – but not necessarily in Eastern Europe. While in Slovenia, Latvia and Estonia, there is a positive correlation between GAL and leftist positions on socio-economic issues, the majority of the post-communist states display the pattern of TAN positions with economic "left" positions.

As Minkenberg and Pytlas argue, cleavage structures in Eastern Europe are less stable than in their Western counterparts (Minkenberg & Pytlas, 2013:206–10). In their view, radical right-wing parties mobilise their electorate on a market-liberal agenda and a social nationalist appeal, which mobilises the working classes, lower classes and rural classes. Other scholars have argued that communist countries have dismantled previous cleavage structures, and governments have proclaimed to have established a "classless" society (Evans, 1999:18). Shallow partisan identification and post-communist extension of suffrage onto the general electorate would lead to the emergence of catch-all or non-interest based parties rather than class-based parties (Geddes, 1997). According to Beichelt, the most dominant conflict after 1989 was between supporters of the old regime and supporters of the new order (Beichelt, 2001). Other scholars such as von Beyme, have argued that pre-socialist cleavages (such as urban-rural, State-Church and monarchist-republican cleavages) have been eroded by socialist state modernisation processes after WWII (von Beyme, 1996:424). He then argues that other cleavages – such as centre-periphery, workers-owners, Westerners-indigenists (respectively internationalist-nationalists) – were dominant cleavages after 1989 in CEE countries (von Beyme, 1996, see also Stöss & Segert, 1997). However, Rudi has shown in his research that the left-right dimension can also be applied to Central and Eastern European countries (Rudi, 2010).

Kitschelt on the other hand, emphasises the cleavage between those that promote the ideas of market liberalism and those that favour political redistribution, or between modernisers and opponents to modernisation (Kitschelt, 1992:31). Later work by Kitschelt et al. has redefined those cleavages to be between market liberals and social protectionists and between secular libertarians and religious authoritarians (Kitschelt et al., 1999). More recent work by Kitschelt and Bustikova integrates Kitschelt's earlier work, arguing that in countries with a legacy of national-accommodative communism, which implemented to a certain degree cross-class policies and, after 1989, provided a welfare state safety net for the losers of regime change, the radical right received only limited support in the first free parliamentary elections (Bustikova, & Kitschelt, 2009).

The following section on cleavages in Central Eastern Europe will first discuss the V4 countries, starting with the Czech Republic and Slovakia, followed by Poland and Hungary and then the three Baltic States. This is then followed by a section on cleavages in South-East Europe.

Czech Republic

According to Mansfeldova, in 1989, in all Central and Eastern European countries the cleavage between the socialist regime and anti-regime opposition (in the literature often cited as communism vs. anti-communism) dominated the first phase of transformation in the 1990s (Mansfeldova, 2013:218). However, it lost significance after the first multiparty elections. The four dominant parties at the begin-

Table 6.2 Summary typology of cleavages in Eastern Europe[93]

Category		Typology			
		Western Europe		*Eastern Europe*	
		Lijphart	Stoll	Berglund & Ekman	Rohrschneider & Whitefield
Geographic	Structure			Urban-rural	Urban-rural/regional-central
	Values	Urban-rural	Urban-rural		
	Institutional				
Economic	Structure			Workers-owners, Disadvantaged-elites	
	Values	Socio-economic	Markets-welfare state	Protectionist vs. free market	Tax cuts-redistribution, state-run vs market economy
	Institutional				
Ethnic	Structure			Core-ethnic minorities	
	Values	Cultural-ethnic	Multicultural-centralised	National-cosmopolitan	Ethnic rights
	Institutional				
Religious	Structure			Religious-secular	
	Values	Religious	Religious		Religiosity/ Role of Church, social rights and lifestyle
	Institutional				
Post-Material	Structure				
	Values	Post-materialist	Environmental protection		
	Institutional				
External Political	Structure				
	Values	Foreign policy	Foreign policy relationships		Nationalism-internationalism
	Institutional				
Internal Political	Structure				
	Values	Regime support			Communist legacies, strengthening democracy
	Institutional			Apparatus-fonts (Apparatchicks), Social Democrats-Communists	

Source: Deegan-Krause, K. (2013)

ning of the transition period were the Communist Party of Bohemia and Moravia (Komunistická strana Čech a Moravy, KSČM), the Christian Democratic Union-Czechoslovak People's Party (Křesťanská a demokratická unie – Československá strana lidová, KDU-ČSL), the Czech Social Democratic Party (Česká strana sociálně demokratická, ČSSD), which had contacts to social democratic parties in Austria and Germany, and the Civic Democratic Party (Občanská demokratická strana, ODS) which inherited financial and human resources from the Civic Forum (Občanské fórum, OF). The Slovak counterpart to the OF was the political movement Public Against Violence (Verejnosť proti násiliu, VPN), out of which later the Movement for a Democratic Slovakia led by Vladimir Mečiar (Hnutie za demokratické Slovensko, HZDS) emerged. The years 1992 and 93 were marked by the dissolution of the common Czecho-Slovak state, often described as a "velvet divorce" due to its peaceful split in contrast the violent split in Yugoslavia and the Soviet Union.

Due to the Czech Republic's relative ethnic homogeneity, socio-economic dimensions came to dominate politics during the 1990s. The main issues were privatisation, the role of the state and market principles in the economy (ibid: 226). The two dominant parties after 1996 were the ODS, representing a more neoliberal ideology, and ČSSD, exhibiting a more social-democratic, left-wing position. The other dominant cleavage is the GAL/TAN dimension (i.e., Green/alternative/libertarian vs. traditional/authoritarian/nationalist), with social democratic parties exhibiting a leftist – and thus GAL – position in contrast to the conservative, right-wing parties. Thus, the two dominant cleavages are the economic cleavage and the GAL/TAN cleavage, with the latter being particularly multi-layered, including ecological, post-materialist, religious and ethnic issues. The Czech case is an exception among the post-socialist countries insofar as the Communist party KSČM was represented in the national parliament for the entire period, until the last elections in 2021.

Similar to other European states, the Czech political scene has witnessed the rise of populist parties without a clear ideological platform. After the economic crisis in 2008 and the implemented austerity measures, the populist party Action of Dissatisfied Citizens, (Akce nespokojených občanů, ANO) won 18.7% of the votes in the 2013 elections. The party focused on tackling macroeconomic issues and efficiency in the public sector. In the last parliamentary elections in 2021, the right-wing coalition SPOLU ("Together", consisting of the ODS, KDU-ČSL and TOP09) achieved the best result, while ANO ranked second. For the first time since the Czech Republic's split in 1993, the left-leaning parties ČSSD and the KSČM received less than 5% of the votes, and thus did not pass the electoral threshold.

Slovakia

In contrast to the Czech Republic, the economic dimension in Slovakia was less salient, and ethnic as well as religious-conservative issues were more influential in shaping the cleavage structure.[82] In addition, classical cleavages such as the State-Church, the centre-periphery, and the majority-minority relations (especially with the Hungarian minority) also divided voters (Szabo & Tatrai, 2016:199). Mečiar's HZDS (Movement for a Democratic Slovakia, Hnutie za demokratické Slovensko, HZDS) became the dominant party after the split from the Czech Republic and established an authoritarian regime until 1998. During the HZDS's rule, the political agenda was dominated by ethnic issues, framed as inter-related threats to Slovakia's existence, be it from the Hungarian minority which constitutes around 10% of the population or Slovaks who are willing to "sell out their homeland to EU bureaucrats and foreign investors" (Deegan-Krause, 2013:270). It must be highlighted, however, that Slovakia was an "outlier" to the other Central Eastern European states with regards to its economic transition strategy. Notably, the "HDZS aspired to building an inward-oriented national capitalist model of development by cancelling the second wave of voucher privatisation and selling state enterprises directly to Slovak enterprise managers", pursuing active industrial policies (Toplišek, 2020: 390; Bohle & Greskovits, 2012). In contrast to the other V4 states, Slovakia experienced economic growth during the 1990s, at an average of around 6% (ibid.).

This economic strategy was, however, abandoned with the election of the centre-left party in 1998 and the end of the autocratic regime. The elections in 1998 were consequently dominated by EU relations and the future of Slovakia's democracy. Dzurinda's liberal-conservative party (Slovak Democratic and Christian Union – Democratic Party, SDKU-DS, in coalition with SMER and the right-wing Slovak National Party, SNS) led the Slovak government until 2006, during which it paved the way for NATO and EU accession. By 2002, the Communist Party of Slovakia (Komunistická strana Slovenska, KSS) received significant support from areas which suffered from de-industrialisation and high unemployment. However, these regions (Western and Central Slovakia) also have a high concentration of Lutheran and non-religious populations (Szabo & Tatrai, 2016).

The political agenda after 2000 saw the economic dimension become increasingly salient, i.e., the state vs. market conflict line.[83] Until 2008, the conservative government pursued pro-market and other neoliberal reforms, even though strong pro-market views did not prevail in the population as a whole (ibid: 272). Despite taking a considerable amount of space in the party programmes, socio-economic, class-oriented policies were not in the focus of government's daily politics. After 2002, SMER, led by Robert Fico, turned its programmatic appeal to the socio-economic dimension, with the main rhetorical thrust aimed against the liberal reforms implemented by the Dzurinda government in the years 1998–2006 (Minkenburg & Pytlas, 2009). Consequently, the centre-left party SMER offered a redistributive agenda to the electorate. Yet, until its rule in 2010, it maintained the basic elements that the previous conservative government pursued and did not implement any major policy changes. More recently, SMER became divided into several factions, one of them being HLAS (Voice) led by Peter Pellegrini, representing a more progressive option. Polls from 2021 also suggest the strengthening of radical right-wing forces in Slovakia, such as the Kotlebovci – People's Party Our Slovakia (Kotlebovci-Ľudová strana Naše Slovensko, LSNS, Slovak Spectator 2021). To summarise the cleavages for the Slovak case, the 1990s were dominated by positions towards the Czech dissolution and pro- and anti-national coalitions, with little concern for economic issues and a bigger focus on ethnic/nationalist issues. After 2000, economic concerns became salient, while nationalist appeals remained relevant in politics. Thus, the stratification of Slovak society is structured along the cultural cleavage (including both, issues on the role of the Church in society and ethnic minorities) as well as the socio-economic dimension (or in Szabo's words, the centre-periphery dimension, Szabo & Tatrai, 2016: 209).

Poland

The Polish political scene is influenced by both its pre-democratic experience before the socialist regime as well as the developments during socialism, particularly the last decade before the onset of transition in the 1980s. Like the Southern European states, religion and the role of the Catholic Church has been (and still is) a salient political issue in Polish politics. The periphery in Poland, the east, has traditionally been more religious and supportive of the Church, whereas the centre has been more culturally liberal (Mudde, 2003). Both Hungary and Poland differ from the Czech Republic and Slovakia insofar as they both implemented economic and political reforms during the 1980s (Bohle & Greskovits, 2012: 141). During this time period, Poland experienced a strong pro-democratic movement (Solidarity, Solidarność), out of which later political parties emerged. Most political scientists agree that there are two fundamental cleavages that structure the political party space, albeit under different banners. One cleavage is cultural and refers to the relationship to the socialist period, religion and other cultural aspects. The second cleavage is socio-economic and refers to the pace (and the degree) of socio-economic reforms after 1989 (Zaricky, 2000). The two main electoral alliances during the 1990s consisted of, on the one hand, the "anti-communist" alliance AWS (Akcja Wyborcza Solidarność, Solidarity Electoral Action), a broad coalition of parties with roots in the anti-socialist opposition and on the other hand, the SLD alliance (Sojusz Lewicy Demokratycznej, Alliance of the Democratic Left), which represents the coalition between post-socialist successor parties and led by the reformed communist party, Social Democratic Party of Poland (Socjaldemokracja Rzeczypospolitej Polskiej, SdRP,).

Post-socialist elites in Central Eastern Europe embarked on a shock-therapy strategy of privatisation, deregulation, trade liberalisation and fiscal consolidation after 1990, which (inter alia) led to a contraction of the economy by 10% (Toplišek, 2020). During these years, Poland was a testing ground for radical neoliberal reforms, advocated by international financial institutions. The harsh economic reforms during the 1990s led inter alia to political instability in Poland, culminating in eight turnovers of the government between 1997 and 2001. The period until 2015 was mostly led by the Civic Platform (Platforma Obywatelska, PO), which emerged by splitter factions from the AWS and the UW (Freedom Union, Unia Wolności).

The Polish political party scene after 2005 was very much influenced by socio-economic dimensions and the visions of Poland, framed as the Poland of Solidarity vs. Poland of Liberalism. This refers very much to the framework of winners and losers that emphasises a dividing line between citizens who are more, or relatively less, well-endowed to cope with the frictions of capitalism and globalisation. (Czesnik & Kotnarowski, 2011). This division is also often termed as supporters for the Third vs. Fourth Republic of Poland (referring to the fact that the Third Republic, i.e., after 1989, did not really break with the Communist past, while the concept of a Fourth Republic refers to the vision of a new Poland, yet to happen (Borajowicz, 2017). The Smolensk plane crash in 2010 (in which former President Lech Kaczyński died, along with 100 other passengers) further polarised the parties, between different explanations for the causes of the crash. Accordingly, the right-wing PiS accused the then ruling PO of never investigating the incident and even colluding with Russia to cover up the real causes of the crash. The plane crash was also instrumentalised in the fight of the role of the Church in Polish society. Thus, since 2005 these incidents (i.e., the emergence of winners vs. losers and the Smolensk tragedy) have heavily influenced the socio-economic and cultural dimensions in Poland. The PiS successfully cashed in on these issues and was able to win parliamentary elections in 2015. While Poland did not experience a harsh economic recession after 2008, it exhibited high unemployment rates and growing inequality levels before 2015, especially in the eastern parts of the country.

With regards to the cultural dimension, support for the right-wing Law and Justice Party (PiS) is higher in the south-east, where citizens are generally more religious. Support for the Civic Platform PO is higher in the (north-) west, which was controlled by Prussia prior to WWI and where economic and infrastructural development was higher (Stanley, 2013: 196). Moreover, studies on radical right-wing voters have found correlations between pro-Church and anti-EU attitudes and the support for right-wing parties in Poland, as well as conservative positions regarding abortion, birth rate, the role of the Church and the settlement of foreigners (Lange and Guerra, 2009, McManus-Czubińska et al., 2001). In 2016, the PiS government implemented several welfare-state measures, such as its flagship project "Family 500+", which allocated a monthly child benefit of 500 zlotys according to certain criteria (Toplišek, 2020). Given the economic hardship in the eastern parts of the country, such policy measures fell on fertile soil, increasing the electoral support for the PiS (ibid).

Hungary

In Hungary, the transition period was dominated by party positions on the socialist past of the country, represented by the reformed Communists, the Hungarian Socialist Party (MSZP), and the anti-communists, the Alliance of Free Democrats – Hungarian Liberal Party (Szabad Demokraták Szövetsége – a Magyar Liberális Párt, SZDSZ) and Fidesz – Hungarian Civic Alliance (Fidesz – Magyar Polgári Szövetség FIDESZ) (Redžić & Everett, 2020).The dimensions of this issue during the 1990s set Hungary apart from the Czech Republic or Poland, where economic issues played a much greater role. A socio-cultural divide came to dominate Hungarian party politics, represented on the one hand by the conservative bloc of Independent Smallholders, Agrarian Workers and Civic Party (Független Kisgazda-, Földmunkás- és Polgári Párt, FKGP), the Hungarian Justice and Life Party (Magyar Igazság és Élet Pártja, MIEP), the Christian Democratic People's Party KDNP (Kereszténydemokrata Néppárt, KDNP) and the Hungarian Democratic Forum (Magyar Demokrata Fórum, MDF) and on the other hand by the cosmopolitan and urban MSZP, FIDESZ and SZDSZ (Toka & Popa, 2013: 302). As it is known now, FIDESZ evolved over the years as the main opposition force to the centre-left and the bearer of the Christian national right forces.

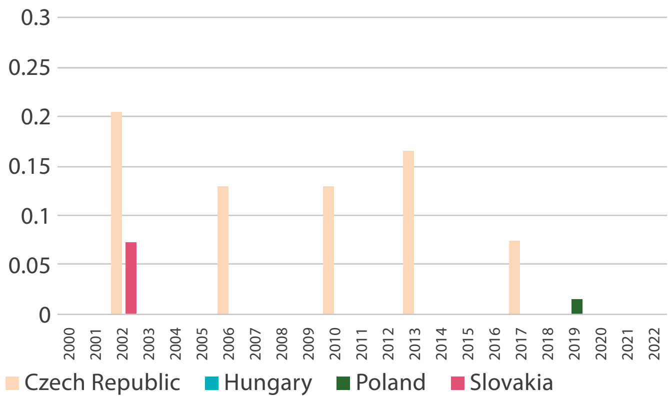
At the height of the economic crisis, FIDESZ won (together with the Christian party KDNP) the elections in 2010. However, the landslide victory of the right-wing forces was (inter alia) facilitated by the preceding political crisis of the former ruling MSZP and the unpopularity of fiscal consolidation policies under PM György Gordon Bajnai (Toplišek, 2020). The FIDESZ – KDNP coalition was twice re-elected (in 2014 and 2018). Its conservative position regarding identity issues, coupled with "leftist" welfare measures (and a neoliberal macroeconomic agenda) fell on fertile soil with the electorate. The FIDESZ party presented a socio-economic agenda, especially in terms of welfare state issues and developed into an extreme right-wing party (for example: "newly introduced subsidies", "hefty tax-cuts for middle to high-income families raising children," reintroducing the "tuition-free status for about half the university students", Redžić & Everett, 2020). At the same time, the Hungarian government resisted the pressure from the IMF and the European Commission to impose a strict austerity programme on public spending (Toplišek, 2020:393).

The Hungarian case is thus similar, to a certain extent, to the Polish case; in both countries, the discourse about a strong state and its increased role in the economy dominates, coupled with the return to religion, advocating a strong role for conservative values in the society. In addition, both FIDESZ and PiS criticised the previously established FDI-led development model in the region, advocating for and supporting national capitalists and businesses.[84]

The Baltic States: Estonia, Latvia and Lithuania

The last section discusses the three Baltic states, Estonia, Latvia and Lithuania. In all three countries, the most salient issues after 1989 concerned state independence, the relationship with Russia and the position of Russian minorities in the respective countries. During the 1990s, there were five major parties in Estonia: the value conservative, right-wing Pro Patria Union (Isamaaliit, IRL), the market liberal and libertarian Estonian Reform Party (Eesti Reformierakond), the Moderates or the Social Democratic Party of Estonia (Sotsiaaldemokraatlik Erakond, SDE/Rahvaerakond Mõõdukad) with some social democratic sympathies, the Centre Party (Eesti Keskerakond, EK) that had a significant amount of support among the Russian-speakers and the losers of the transformation, and the primarily rural-based People's Union (Eestimaa Rahvalii, Lagerspetz & Vogt, 2013: 55). Nationalism and neoliberal principles dominated the political party scene and even the "left" was oriented towards the market economy and nationalistic values. Yet, surveys do not indicate substantial support for neoliberal market reforms, instead pointing to the importance of egalitarian principles in society. This is however, not reflected by the Estonian political parties (Lagerspetz & Vogt, 2013: 63–4; Saar & Helemäe, 2011:518). The other dominant conflict line is the ethnic dimension, due to its ethnic heterogeneity (around 30% of the population are non-Estonians), tense relations with neighbouring Russia and the substantial Russian minority in Estonia. Similar to the Estonian case, the central cleavage in the Latvian party system is the deep cleavage between ethnic Latvians and the Russian minority (Auers, 2013: 87). Another divide, similar to other post-communist states, is the issue of corruption. Although it frequently dominates party politics and debates, it is not deeply embedded in society, being more an additional issue divide. Lastly, in Lithuania, the communist vs anti-communist divide determined both voting preferences and party competition. Broadly speaking, the left and the right (save a handful of hard-line communists) advocated similar macro-strategic objectives – independence, democracy, market economy and Western orientation during the 1990s. This left-right axis represented thus the conflict over the socialist past (i.e., between different views concerning the old system). While socio-economic issues remained top priorities among citizens, political parties did not generally base their program on economic issues (Duvold & Jurkynas, 2013: 130–8). Lithuanian citizens are more left-leaning in terms of redistribution, equality and welfare than the parties they vote for (Duvold, 2010). However, currently no party advocates a socialist agenda. Additionally, there is an urban-rural divide as well as a cultural divide between urbanists and more cosmopolitan-minded people, and traditionalist and religious citizens.

Figure 6.3 The Left in Central Eastern Europe: share in parliamentary seats *from 2000–2022*



The classification of the left is based on transform europe!'s study Radical in Diversity. The left includes: Communist Party of Bohemia and Moravia (Czech Republic), Levice (Czech Republic), Estonian United Left Party (Estonia), New Left 95 (Lithuania), Together (Poland), Communist Party of Slovakia (Slovakia), Resistance – Labour Party (Slovakia), Socialists (Slovakia). No parliamentary seats for the Left parties in Estonia, Latvia and Lithuania.

Source: Author's depiction.

Figure 6.3 displays the left's share of the national parliaments from 2000 until 2022 in Central Eastern countries. As figure 3 shows, the left in Central Eastern region is marginal, apart from the Czech and the Polish case. Currently, the RAZEM party in Poland exhibits the highest share of seats in the national Parliament, but this is much lower than the numbers of the Southern European counterpart (i.e., Greece with around 40%). The Czech Republic shows also a constant decline of the left since 2000, whereby the Communist Party was not able to enter the parliament in the last national elections. In the other Central and Eastern countries (the Baltic states, Hungary and Slovakia) the left is practically non-existent and not represented in the national parliament.

6.4.3 *Cleavages in South-East Europe*

Bulgaria

Before WWII, traditional cleavages in Bulgaria were urban-rural and centre-periphery cleavages, however these were erased during the socialist period (Zankina, 2017). Consequently, the transformation period saw the domination of the communists vs. anti-communists cleavage (Karasimeonov & Lyubenov, 2013). Reformers were represented by the Union of Democratic Forces (Sajuz na Demokratičnije Sile, SDS) while non-reformers were represented by the Bulgarian Socialist Party (Balgarska socijalističeska partija, BSP). Politics in the 1990s were thus dominated by the two groups that represented the former nomenklatura (the BSP) vs. those that represented reform forces (SDS). As in the other South-East European states which have ethnic minorities, the ethnic cleavage (i.e., Roma, Turkish minorities etc.) is also important within the Bulgarian political party scene. The ethnic Turkish Party Movement for Rights and Freedoms (Hak ve Özgürlükler Hareketi, Dviženije za prava i svobodi, DPS) strategically allies with one side or the other, determining political outcomes in this way (Zankina, 2017). As mentioned in the regional chapter on South-East Europe, Bulgaria has witnessed a sharp economic recession and a very tumultuous transition period. This was also reflected on the political stage, which resulted in nine governments being replaced in the first seven years of its transition.

The former opposition forces (i.e., the Union of Democratic Forces) then split into several political parties after the end of the 1990s and Bulgarian politics saw the rise of new populist parties that mobilised voters on the issue of corruption (especially the corrupt socialist elite that dominated politics during the 1990s). One of these populist parties is the National Movement for Stability and Progress (Nacionalno Dviženie za stabilnost i vazhod, NDSV). The other is GERB (Graždani za Evropsko Razvitie na Balgarie, GERB). Both parties have been characterised as soft-populist, with a more moderate and pro-EU position (Zankina, 2017). As political parties are more elite-centred and less rooted in society, voter volatility is quite high in Bulgaria. In addition, populist parties are quite successful in mobilising non-voters (ibid). The most recent shake-up of the political scene occurred during the last parliamentary elections in 2021, when a newly founded party, We Continue the Change (Prodaljavame Promjanata, PP), won the elections. The alliance mobilised voters to elect a reformist, anti-corruption party with a pro-EU platform.

Romania

Similar to the transition period in Bulgaria, the debate in Romanian politics was dominated by communists and anti-communists during the 1990s. Within each of the two groupings, intra-group bargaining and clientelist politics prevailed. (Crowther & Suciu, 2013: 376). The "left-wing" Social Democratic Party (Partidul Social Democrat, PSD), which mainly represented the old nomenklatura, dominated the transition period and remained in power for more than a term (ibid: 386). During the transition, cleavages centred around the pace of economic reforms and the implementation of "shock therapy" (in the literature often referred as the division between "maximalist and minimalist" reformers, Matiuta, 2018). The centre-periphery cleavage overlaps with the concentration of minorities, especially its Hungarian minority, being mostly located in the periphery (see also the following sections).[85]

The relationship between voters and the major political parties remains loosely defined, reflecting the catch-all nature of Romanian party politics. Since its second post-communist decade (i.e., after 2000) Romania has been primarily characterised by a social cleavage between the young, urban, higher-educated, reformist electorate (mainly Liberal and Christian-Democratic parties) and the older, rural, less-educated, poorer, anti-reformist nostalgic electorate (now mainly supporters of the PSD (Crowther & Suciu, 2013: 390). The preferred strategy for gathering electoral resources in Romania remains the direct exploitation of state resources such as "politicised privatisation deals, public contracts awarded to political supporters, and government employment for political acolytes (…) transforming them into long-term advantages through the process of state capture" (Young, 2011:136). Political parties have formed clientelist networks with business elites, seeking influence and access to financial support (Protsyk and Matichescu, 2011:220-221). Since Romania still does not have well-functioning monitoring institutions, the incumbent political parties (approximately five over the last decade) have benefited from access to state resources and continued to enjoy substantial electoral advantages, while largely avoiding charges of corruption (Crowther & Suciu 2013: 390–1).

Though one cannot speak of a cleavage as such, ethnic questions and minorities are salient issues in Romanian politics. One of the most popular ethnic parties is the Democratic Alliance of Hungarians in Romania (Romániai Magyar Demokrata Szövetség, Uniunea Democrată Maghiară din România, UDMR), advocating for greater autonomy from the centre. According to Redžić and Everett, mainstream parties with a constant position regarding either cultural or socio-economic cleavages do not exist in Romania. Most of the ruling parties do not exhibit a clear political agenda or ideology, jostling around the centre of the political spectrum (Redžić & Everett, 2020: 248).

Croatia

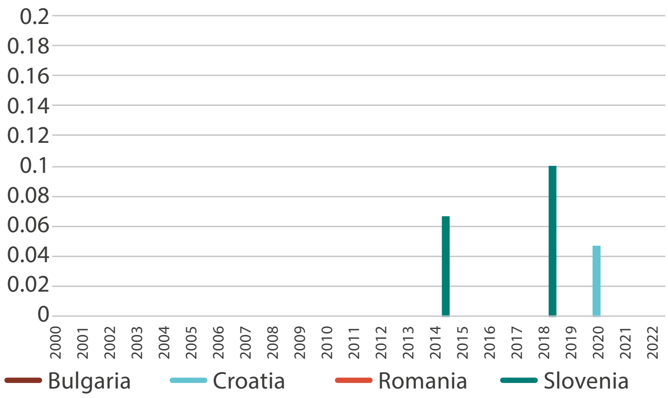
In Croatia, the religious-secular conflict was present before the establishment of the Socialist Federative Republic of Yugoslavia. During the 1990s, the Catholic Church became an active player in politics, linking its activities also to nationalist figures and the then ruling Croatian Democratic Union (Hrvatska Demokratska Zajednica, HDZ, Henjak, Zakošek, Čular, 2013). This cleavage has also been termed the "cultural-ideological" cleavage (Zakošek, 1998) and has intertwined with the centre-periphery division. The more developed regions (i.e., Zagreb, Istria), are also home to fewer religious citizens, whereas inhabitants in the more peripheral, rural regions (i.e., east Slavonia) tend to be more religious (Redžić & Everett, 2020). Apart from the dominance of the religious cleavage, other authors highlight the question of how Croatian society should be led. Henjak, Zakošek and Čular argue that this dimension was influenced by the inter-republican division within Yugoslavia, (the role of the centre of the Republics vs. Yugoslavia's centre, i.e., Belgrade) and by the intra-republican centre-periphery division (the more rural vs. the more urban regions). The political party space was (and still is) dominated by the conservative HDZ and the secular-liberal Social Democratic Party of Croatia (Socijaldemokratska Partija Hrvatske, SDP). The authoritarian 1990s and the rule of HDZ have left a lasting imprint on the party space and electoral politics in the country. Clientelism and patronage networks are a salient issue in Croatian politics. In light of integration into the EU, several regulatory bodies have been established with the aim of fighting corruption and upholding the rule of law. Due to the investigation by the Anti-Corruption Commission, former PM Ivo Sanader (HDZ) was convicted in 2011 for corrupt affairs. While the HDZ still dominates Croatian politics, a new emerging leftist force (Možemo, i.e., We Can) is gaining electoral strength and was able to enter the parliament in the last elections. The political alliance was able to mobilise its voters based on an inclusive, leftist position regarding its socio-economic agenda and a culturally liberal position on identarian issues.

Slovenia

In contrast to Croatia, Slovenia was able to secede relatively easily from the former Yugoslav federation. This was partly due to the country's ethnic homogeneity – in 1992, 91% declared themselves as being ethnic Slovenes (CIA World Factbook, 1992). As a result, the nationalist cleavage was virtually absent during the 1990s. With the economic crisis, however, the cosmopolitan-nationalist cleavage became salient again in Slovene society (Zajc, 2013: 341). In addition, the communist vs. anti-communist cleavage was dominant during the 1990s, with "right-wing" political parties such as the Christian Democratic Party (Slovenski krščanski demokrati, SKD) or the Slovene Democratic Party (Slovenska Demokratska Stranka, SDS[86]) representing the anti-communists while the Social Democrats (Socialni Demokrati, SD) and Liberal Party of Slovenia (Liberalna Demokracija Slovenije, LDS) were representing the "left" of the political spectrum. However, after the 1990s, both the SDS and the SD pursued neoliberal economic measures and, today, the SD is more a centre party, rather than a left-wing party. Likewise, while the LDS dominated politics in Slovenia for more than a decade, it ceased to exist due to corruption scandals and an internal split. Next to the ideological cleavage, the socio-economic cleavage is the other dominant cleavage in Slovenia. While trade unions were quite militant and strong in Slovenia, the neoliberal period after 2000 saw a weakening of their power in the policy making process. The encompassing social rights that trade unions fought for during the 1990s have been successively dismantled in the wake of the economic crisis in 2008. Afterwards, the struggle between the left and the right has evolved around the distribution of resources and the role of the welfare state (Zajc, 2013: 348).

Figure 6.4 displays the left's share of the national parliament of countries in South-East Europe from 2000 until 2022. As the figure shows, the left is not represented in parliament in neither Bulgaria nor Romania. Among the three mapped regions, the left is least represented in the South-East European region. Again, the exception here is Slovenia, which has experienced a rebirth of the left with the party Levica, which currently holds around 9% share of the votes, resulting in a 1% share of the parliamentary seats. Recently, the Croatian left-wing party Možemo (We can) entered parliament and holds less than 1% of the parliamentary seats.

Figure 6.4 The Left in South-East Europe: share of parliamentary seats *from 2000–2022*



Note: Left-wing parties include the following: Bulgarian Left (Bulgaria), Socialist Labour Party of Croatia (Croatia), Možemo (Croatia), Romanian Social Democratic Party (Romania) and The Left (Slovenia). No parliamentary seats for the Left in Bulgaria and Romania.

Source: Radical in Diversity, 398–400.

6.4.4 Summary and comparison

The emergence of the cleavages in the Southern and Eastern peripheries were naturally influenced by the specific nation-building process and historical legacies. In Southern Europe, the Church-State conflict was quite prominent before WWII, which led to a radicalisation of left-wing forces in Greece, Italy, Portugal and Spain. In contrast, Central and Eastern Europe experienced socialist rule after WWII until 1989. So-called left-wing forces (or rather, communist successor parties) did not exhibit a genuine left-wing agenda after 1989 but pursued an economically neoliberal agenda. Due to this specific historical peculiarity, the left is rather weak in Central and Eastern Europe, compared to Southern Europe. The two partial exceptions are the Czech Republic and Slovenia, both of which are ethnically homogeneous and exhibit relatively high modernisation levels in comparison to the other countries in the region. To date, identity questions are the most salient issues in Central Eastern and South-East European political party systems.

Without doubt, almost all of the European political party spaces have experienced a tumultuous period with the onset of globalisation since the 1990s and especially after the economic crisis in 2008. The answers to these transformations have, however been different in the three regions. In Southern Europe, the countries' political legacies – especially long-lasting authoritarian regimes, strong communist parties, and a status as emigration countries until more recently – have limited the rise of a strong populist and radical right-wing party. The main exception here is Italy, due to the above discussed reasons (Hutter & Kriesi, 2021). The section on Western Europe showed that right-wing political parties mobilise globalisation losers around identity dimensions. While right-wing parties in Central and Eastern also frequently boast an anti-immigration and conservative rhetoric, they became successful after 2008, particularly because the parties mobilised their electorate based on the economic dimension (Orenstein, 2020, Scheiring, 2020, Scheiring, 2021). The promise to expand the welfare state or to limit the power of transnational (or multinational) corporations (TNC) (while at the same time pursuing neoliberal macroeconomic policies) has greatly contributed to the rise of the populist right-wing political parties in Central Eastern Europe. This is inter alia because the centre-left parties in the region (i.e., the communist successor parties) implemented neoliberal economic reforms during the 1990s and 2000s, which have increased inequality levels and impoverished the Eastern societies. In general, right-wing radical parties in Central and Eastern Europe use a populist-solidaristic, social protectionist agenda, seen, for example, in the PiS, FIDESZ, but also the HDZ to a certain extent (Stubbs & Lendvai-Beton, 2019). At the same time, those parties do not address a specific class, but rather the "family" or "nation" (Minkenburg & Pytlas, 2009). They thus emphasise an inclusive agenda regarding welfare and state policies, but only to ingroup members (i.e., the nation, or family).

Of the regions, the left is thus the strongest in Southern Europe (Greece, Spain and Portugal), particularly due to historical and political legacies. Nevertheless, far-right (and populist) political parties gained prominence with "delay": examples in Spain include the political party Vox, in Portugal Chega and in Greece Golden Dawn. While in both Eastern and Southern Europe the identity dimension is relevant, there is practically no relevant leftist party that mobilises its electorate on an inclusive socio-economic agenda in Central Eastern and South-East Europe (apart from the Czech and Slovene cases). As socio-economic concerns are the top priority in the region, populist right-wing political parties successfully occupied leftist positions on socio-economic dimensions that have been traditionally represented by left-wing political parties in the West. At the same time, they also present a conservative, nationalist agenda to citizens, stating who is entitled to welfare benefits (i.e., ingroup members such as the family, nation etc.).

6.5 DIVERGENT POSITIONS IN FUNDING AND MIGRATION POLICY

The different salient cleavages in the respective EU Member States and their different economic conditions (as well as constraints due to being part of the EMU regime) makes it difficult, if not impossible, for a common, overlapping cleavage between Eastern and Southern Europe to emerge, let alone become embedded. Yet, the crisis after 2008 was clearly framed in a core-periphery narrative (as shown in chapter seven of this study and Laffan, 2013:22–3). In this narrative, the central focus was on Greece and its fiscal and public debt was highlighted as the core of the problem. Not because it was the only country that exhibited high debt levels, but because it tried to oppose the strict austerity measures imposed by the Troika on all Southern European states. Rating agencies identified the so-called GIIPS states (Greece, Ireland, Italy, Portugal and Spain) that were at risk of defaulting and threatening financial stability in the EU. While the Baltic states also struggled financially (due to their highly financialised economy and their links with Western financial institutions), the V4 group experienced a relatively mild recession. Despite the core-periphery narrative being present after 2008, no lasting political alliances were observed at the European level as regards the peripheries. However, the recent Covid-19 pandemic posed another window of opportunity for emerging political alliances between Eastern and Southern Europe, as this section will later show.

On the other hand, Hooghe and Marks have argued that the Global Financial Crisis (GFC) and the migration wave have been critical in the emergence of a transnational cleavage (Hooghe & Marks, 2018:116). While the 2008 financial crisis has reinforced a new transnational cleavage that has at its core a cultural conflict (i.e., the universalism-particularistic dimension, see Bornschier & Kriesi, 2012), the crisis has failed to lead to an enduring alliance between the two broad peripheral regions, Southern and Eastern Europe. The outcome of the financial crisis indeed provided a north-south divide between creditor and debtor nations (Tsoukalis, 2014). However, there are various reasons why no transnational cleavage between the regions did emerge. Along with the very different socio-economic conditions of the two peripheries and their respective needs and policy constraints, other factors are also institutional in nature: voting rights in the Council or the number of representatives in the European Parliament depend on population size, not on national income (Schelke, 2018). Second, the difference between rich and poor does not play a role in financing the EU budget. It has come to be financed by the so-called GNI-based revenue, which is calculated by applying a uniform percentage rate (0.73%) to the GNI (Gross National Income) of each Member State (Schelke, 2018).

In addition, migration has been the major issue in north-west and southern Member States, as those countries are typically recipients in the flow of population within Europe, while eastern Member States were (and still are) donors (Hooghe & Marks, 2018: 117, see also the next section on migration policy). Finally, the position of EU Member States on the Common Agricultural Policy (CAP), shows that belonging to the core or periphery does not predict policy support or political alliances. This would most likely be the case for a policy like the CAP, however, the biggest net contributor to the EU budget, Germany before unification, "was a strong and decisive supporter of a policy for which it paid a large part of the bill" (Hooghe & Marks, 2018: 117). Lastly, another reason for the lack of transnational alliance between peripheries is the responsibility of the elite (Bornschier, 2010). It simply might not be in the periphery's elites' interests, as their interests may overlap with the interests of the core elite (Galtung, 1971).

6.5.1 Funding policy in the EU

One of the two most relevant political issues in the EU at present is policy relating to funding and transfer, alongside migration (Heidenreich, 2022). The following sections discuss the EU Cohesion Monitor which looks at funding policy and migration policy. The following brief historical overview will contextualise the emergence of a common funding policy at the EU level.

The European Union's Cohesion Policy (EUCP) was established with the first major reform of the Structural Funds in 1989, in the context of the southern enlargement to Greece, Spain and Portugal. The Council acknowledged the issue of structural imbalances between the Western/Northern and Southern European states, stating that these structural imbalances needed to be addressed in a more integrated manner (Chardas, van der Giessen & Pogatsa, 2021). These reforms were also implemented in view of the completion of the single market in 1992 and the prospects of the introduction of the common currency.

As already mentioned, the single market involved the abolition of all tariffs and other protectionist trade measures in 1992. The industrial production capabilities of the old peripheral EU countries were severely affected by the opening of their markets. At the same time, their monetary and exchange rate policies had to be adjusted to the convergence criteria (ibid). As of 2020, the Southern European states (Portugal, Spain, Greece, and Southern Italy) have been the main beneficiaries of the Cohesion Fund for three decades (ibid.). Initially, the policy focus of the European Structural and Investment Funds (ESIF) was on transport and other physical infrastructure. However, the experience of the GFC and the divergent GDP levels between the core and periphery led the policy focus to be altered, targeting instead financial allocations for technological innovations, which should upgrade domestic industries.

According to Chardas, van der Giessen & Pogatsa, the functioning of the EUCP needs to be analysed next to two other political economy policies and one major political economy dynamic within the EU: the European Single Market and the Economic and Monetary Union (EMU), and the deindustrialisation process in the old EU periphery (i.e., Southern Europe) and gradual dependent integration of the industries of the new EU periphery (Central Eastern and South-East Europe) into industrial production of the core countries (ibid: 118, see also chapter four).

As already mentioned, the single market involved the abolition of all tariffs and other protectionist trade measures deployed up to 1992 by the Member States, while the establishment of the EMU has entailed specific obligations for all Member States: their monetary and exchange rate policies had to be adjusted to the convergence criteria. This involved inter alia the compliance of all future Member States of the Eurozone to exhibit very low levels of price inflation, fiscal rectitude, and low levels of external debt (ibid: 119). After the euro crisis in 2008, economic policies have been very restrictive regarding public finances, which now includes binding punitive measures for fiscally recalcitrant Member States. While economic disparities narrowed between the core and periphery states until 2007, the developmental gap between the economies increased again after the economic crisis. This also became evident in this study in the previous chapters on the three regional peripheries in the EU.

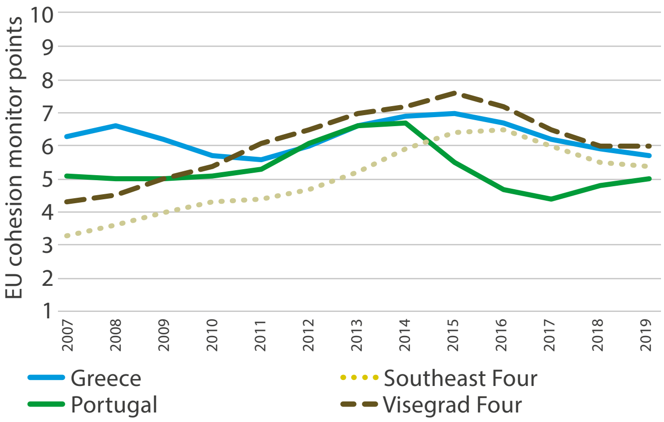
Now, the peripheral economies not only face different economic characteristics, as shown in chapters 1–3, but also different patterns of embeddedness in the existing political economy framework. Concretely, being a member of the EMU seriously limits a country's policy opportunities. In comparison to Southern Europe, the crisis effect on Central Eastern and South-East European has been delayed, with the exception of Slovenia, Slovakia and the Baltic States, which are part of the Eurozone (Hooghe & Marks, 2018: 125). As an example, the economic crisis in 2008 did not have serious repercussions on the Hungarian economy, although it did have to acquire loans from the IMF to correct its balance of payments. Although not substantially, in different periods the country has breached all the convergence criteria and refused to participate in the new economic governance framework that was established in 2012 (ibid:129).

In December 2020, and in the aftermath of the pandemic crisis, the Council adopted the long-term EU budget for 2021–2027, which amounts to 1073.4 billion euros and an increase on previous EU budgets. In addition, the Next Generation EU Recovery Fund amounts to 750 billion euros. Together, they make an unprecedented total of over 1.8 trillion euros of funding over the next six years (European Council of the European Union, 2020), the final sum of which was a compromise. During EU budget negotiations, the so-called frugal four (Austria, Denmark, the Netherlands, and Sweden) supported a budget that would amount to 1% of its gross national income. While the net receivers advocated an increase in the budget, they failed to form a coherent negotiating bloc (Chardas, van der Giessen & Pogatsa, 2021: 129–30).

In order to highlight the divergent positions between Eastern and Southern Europe, we use data from the EU Cohesion Monitor, provided by the European Council on Foreign Relations (ECFR). The Cohesion Monitor provides us with some data on the position of both regions on the issue of funding and migration. Since 2007, the EU has used the Cohesion Monitor, which provides time series data on citizen support and political economy conditions for the capacity to act in the EU. According to the Monitor, cohesion is a condition for it to be possible for the EU to jointly address policy issues. The interactive tool comprises of two branches of cohesion: one is the individual dimension, measuring EU citizens' expectations, orientations, and direct attitudes; the other dimension is structural, describing countries' connections and practices within the EU. Each dimension consists of five indicators, broken down into certain factors and quantified on a scale from 1 (lowest point) to 10 (highest point). The Cohesion Monitor divides the EU Member States according to the Southern Seven (Southern Europe plus France), V4 Group (Central Eastern Europe), the Baltics and the Southern Four (South-East Europe). It needs to be highlighted that the monitor does not differentiate between the different funds of the EU budget.

The funding indicator of structural cohesion based on the share of EU expenditure to Gross National income assumes that the arrival of funds from the EU would increase awareness of the benefits of membership, while the national net contribution to the European budget gives a sense of ownership to the EU project. It looks therefore at two factors: the inflow of EU funds (aggregating the spending of the EU as a proportion of GNI) and the net contribution by a Member States to the European budget. Figure 6.5 shows the share of EU expenditure to GNI, i.e., the structural cohesion indicator, with a particular focus on Greece and Portugal. Traditionally, the Southern European states have received the most funds, but this picture has started to change slowly in recent years. As it becomes obvious from the graph, the share of the funds increased over the last decade in Central Eastern and South-East European countries. Currently, South-East European countries and the V4 country group exhibit relatively higher levels in the indicator (4.3 and 5.0 respectively) than Spain (2.2) or Italy (1.8). Among the Southern European country group, Greece and Portugal still exhibit relatively high levels (4.7 and 4.0 respectively), comparable to Eastern Europe. The Global Financial Crisis and the pressure by the Troika (European Commission, European Central Bank and International Monetary Fund) have most likely increased the two countries' dependency on funds.

Figure 6.5 Share of EU expenditure to Gross National Income *(structural cohesion).*



Source: EU Cohesion Monitor (2020)

In addition, the Baltic states also exhibit a relatively high share in EU spending to GNI, with levels on the indicator between 5 and 6 points. The value for Estonia is 5.4 in 2020, and for Latvia and Lithuania it is 6 and 6.2 respectively. To summarise this section, the patterns of EU spending have shifted from the South to the East, with the Central Eastern and South-East European states exhibiting higher shares in EU expenditure relative to their GNI. However, this indicator does not disaggregate between the different EU funds, which might distort the picture, particularly if we take into account the poorer southern regions in Italy or Spain.

6.5.2 Migration policy: divergent interests between Eastern and Southern Europe

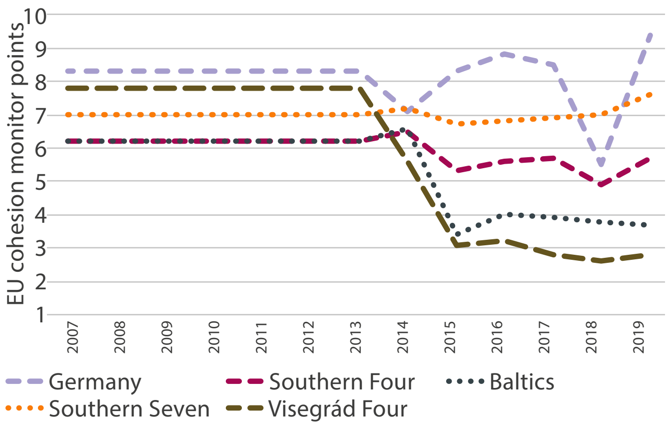
Another salient political issue in the European Union is migration policy. The Cohesion Monitor provides data for EU citizens' approval of a common migration policy. Specifically, it asks "*Are you for or against a common European policy on migration?*". The answers are later converted to a scale from 1 (lowest) to 10 (highest). The results of this survey point to a clear division between Eastern and Southern Europe, whereby Eastern Europe can be further split into the V4 Group and the South-East countries.

Southern Europe gives constantly higher data values than Eastern Europe, meaning that citizens in Southern Europe on average favour a common migration policy. All countries from these regions score between 5–10 in a scale of 1–10. Their values are similar to the core countries, notably to Germany, France and the Benelux states. Within Southern European countries, Cyprus and Spain exhibit the highest values. The attitudes of Cypriot citizens towards migration are most likely also affected by the conflict with Turkey, and the migratory route it shares with Greece and Malta. The other case, Spain, is also highly affected by Latin American migrants, in addition to migration from north Africa and Africa, which might also partially explain its high values regarding a common migration policy.[87] In contrast, Eastern European countries exhibit lower values and citizens are thus on average less supportive of a common migration policy.

Variation exists between the V4 group and the South-East European states, in which the latter shows higher values of a common migration policy. The levels of support shown by the V4 do not exceed 3 on a scale of 1 to 10, indicating a lower variance and similar positions regarding migration policy, in comparison to the Southern European countries. The citizens' approval is also the lowest in the entire European Union, with support consistently declining since 2007 (EU Cohesion Monitor, 2020). Obviously, the Syrian war and the migration wave of Syrian (but also Afghan) migrants via the migrant route in the V4 countries heavily influenced citizens' attitudes towards a common migration policy (increasing the opposition of a common policy). This trend is depicted in Figure 6.6, which shows a clear decline away from a common migration policy after 2013 in the Czech Republic, Hungary, Poland and Slovakia.

The figure also depicts the "middle position" of the South-East European states – such as Romania (3.9), Bulgaria (4.4), Croatia (4.9) and Slovenia (5.8) – that sit between the V4 and the other Southern European states (Southern Seven).The values of the South-East European states are highly likely to have been influenced by the migration wave after 2015 and the Balkan route that went via North Macedonia and Serbia through Croatia. Thus, to summarise this section, Southern European countries show the highest commitment towards a common migration policy, while the V4 countries show the lowest. The South-East European countries show values in between and are more consistent in their attitudes, as shown in the figure. The V4 countries' attitudes are likely to be influenced by the high numbers of migrants arriving in a short period of time as well as the already strong right-wing political parties, who heavily politicised the issue of migration. The ongoing refugee crisis in 2022 related to the war in Ukraine might change these views.

Figure 6.6 Support for a common migration policy *(individual cohesion).*



Note: The Southern Seven refers to Cyprus, France, Greece, Italy, Malta, Portugal and Spain. The Southern Four refers to Romania, Bulgaria, Croatia and Slovenia.

Source: EU Cohesion Monitor.

6.6 COALITION POTENTIAL: WHAT ARE THE POSSIBILITIES FOR COOPERATION BETWEEN THE EASTERN AND SOUTHERN REGIONS?

While the previous sections had a look at the different cleavage structures in the Eastern and the Southern periphery, as well as the different positions of the two peripheries regarding the issue of funding and migration, this section looks at experts' perception of coalition potential within the EU.

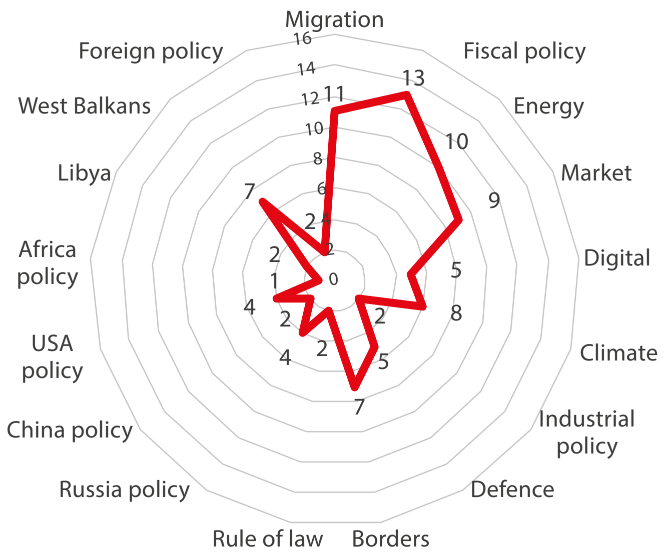
We used data from the EU Coalition Explorer collected by the European Council on Foreign Relations (ECFR) in 2020. Their research is based on interviews across the European political class (experts for European policy from government, think tanks, academia, media and elsewhere) with about 800 respondents from 27 Member States. The EU Coalition Explorer shows coalition potential across the EU, i.e., it does not reflect the existing coalitions across 20 investigated policy areas. This means that it maps rather existing perceptions of the coalition potential only.

We used the EU Coalition Explorer data in order to have a more specific picture of the coalition potential and its perceptions between the Southern European (SE),Central Eastern (CEE) and South-East European (SEE) regions within our focus. We are interested in policy priorities i.e., which policy agendas are named as priorities for given EU Member States' governments in the next years. These priorities do not say a lot about the particular political content of a given policy, which is a relative setback. Thus, they only show a coalition potential related to the particular political topic or theme without regard for different possible interpretations within the given policy areas. In Figures 6.7 and 6.8 we compare data for all EU Member States and then for both peripheries we are concerned with, in order to see the intersections and missing links. While doing so we selected five top priorities from 20 different policy areas available.

We can see that fiscal policy, migration and energy are among the most important priorities in the EU. Moreover, the single market, West Balkans (enlargement), climate, digital and border policies are seen as relatively important for a big number of states in the EU. However, the general picture is relatively diverse across EU countries, which means that the coalition potential is relatively fragmented, i.e., different national political classes perceive a diverse set of policy areas as priority. This is hardly a huge surprise considering the political diversity of the EU as such. When we turn our attention to the five top priorities among two groups of states (the South and the East, which respectively are consistent of 17 EU Member States covered in this study), we got a different picture of coalition potential, as Figure 6.8 shows.

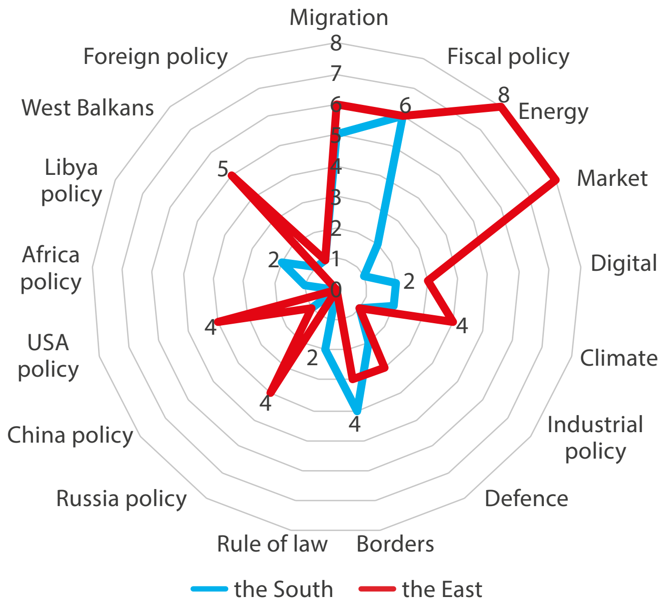
It is obvious that there are some priority policy areas where a bigger coalition potential exists between the Southern and Eastern periphery: this is the topic of migration and fiscal and Eurozone policies (official full name used by the EU Coalition Explorer). On these two agendas, Southern and Eastern Europe are mostly aligned. Some kind of potential exists in the border policy, climate and digital policy too. Then, there are important differences in priorities perceptions. For Member States in Eastern Europe, energy policy, West Balkans (enlargement) and single market policy represent priority areas which are met with almost no or weak interest on the part of Southern Europe. The same goes for policies on Africa and Libya for Eastern Europe. It seems that in particular East-USA policy, Russia policy, West Balkan South-China policy, Africa policy and Libya … it seems to be showing different priorities which also reflects the different geographical positions of each EU-periphery.

Figure 6.7 Distribution of Top 5 Policy Priorities in the EU:



Source: Authors' elaboration on ECFR data (2020)

Figure 6.8 Distribution of Top 5 Policy Priorities between the South and the East

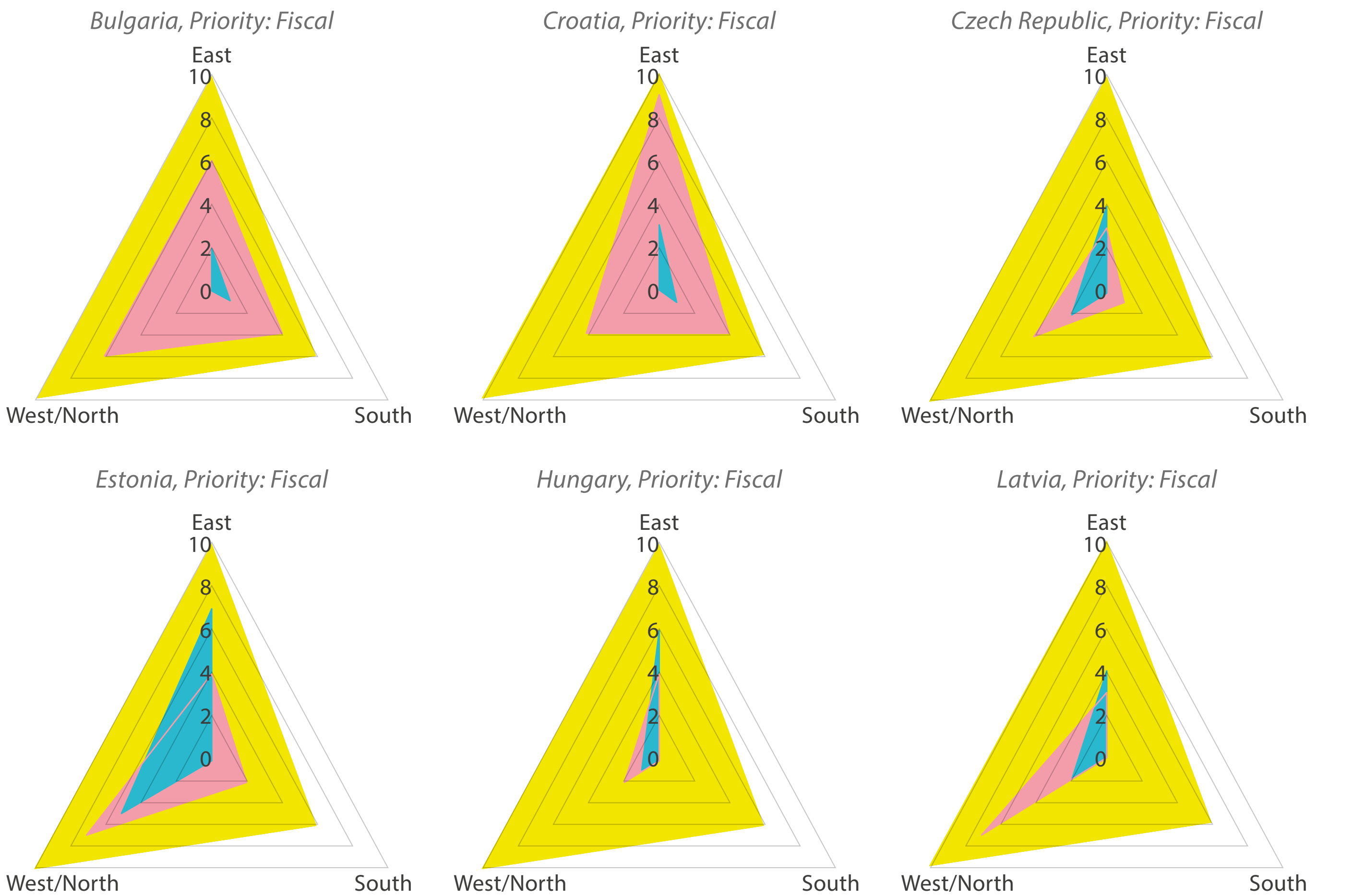


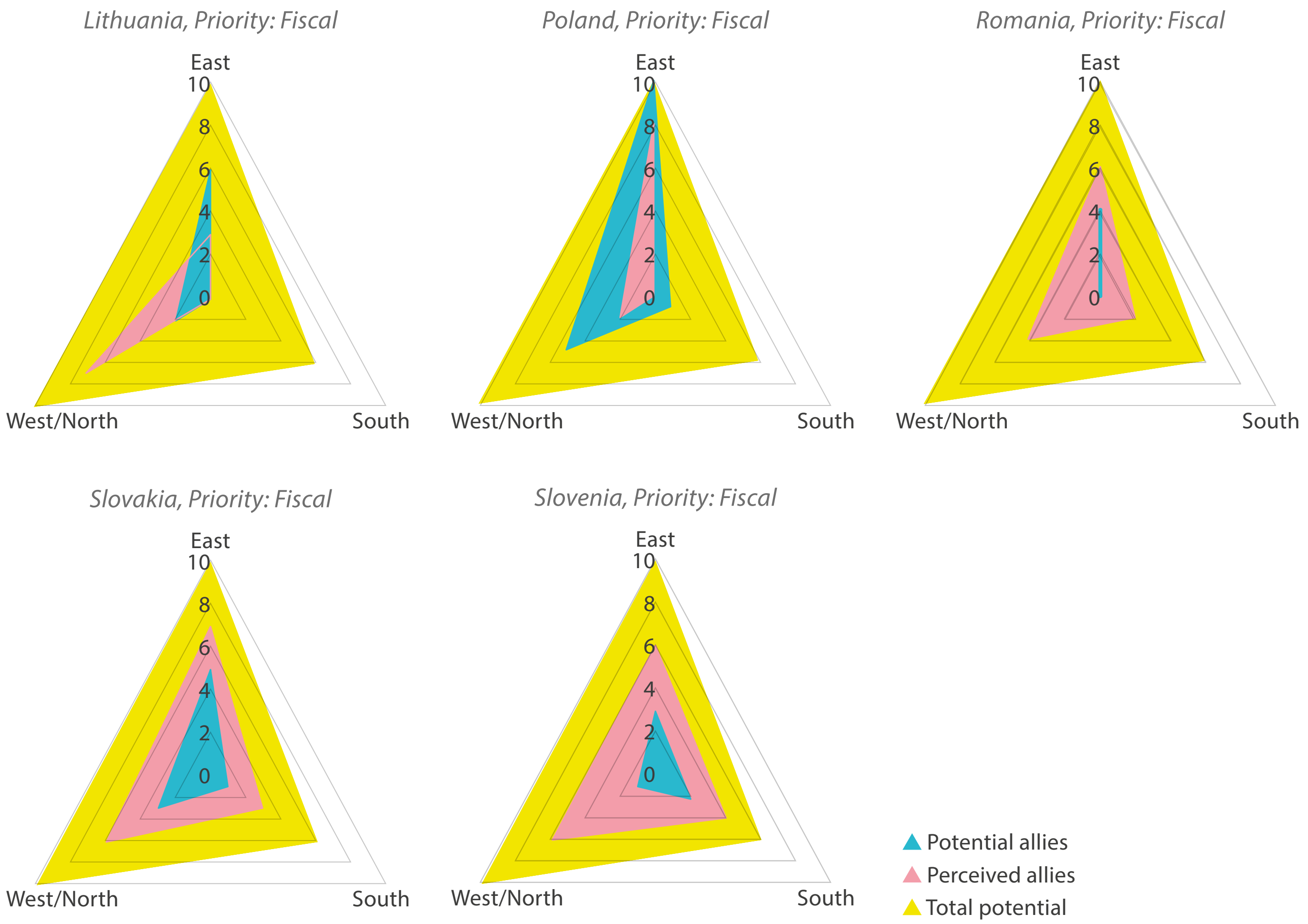
Source: Authors' elaboration on ECFR data (2020)

Because fiscal and Eurozone policy is seen as the top priority in the EU and as it represents a coalition possibility for Eastern and Southern states, we will focus on it more carefully in this study. However, it must be added that not all states see it as equally important. Actually, the importance of this policy area correlates with membership to the Eurozone. States outside the EMU usually emphasise other policy priorities in the Coalition Explorer. We shall look at each case (Member State) while observing two factors: i) which countries the given Member State considers as potential partners in a given policy area (perceived allies), and ii) how the country is perceived by others in the EU as a partner in given a policy area (potential allies). Therefore, we will be able to compare perception and self-perception of coalition potential, and their matches and mismatches for each case. In order to do so, we divided answers collected by ECFR into two groups: one consistent with Southern European Member States (the South), and the other with Central Eastern and South-East Member States (the East). Finally, we also created a third group which involves mainly core countries from Western and Northern Europe (the West/North). We classify these potential and perceived coalitions within the scalene triangle (total potential) considering the unequal division of states (East 11, South 6 and West/North 10).

The view on the Eastern Member States shows see Figure 6.9 i) there is a relatively huge gap between potential and perceived allies in some cases which shows dissonance between perception and potential (Slovenia, Slovakia, Czech Republic, Croatia); ii) the Eastern region is the preferred "direction" for coalitions, followed by the West, while the Southern region is less pronounced (with exception of Croatia, Bulgaria and Slovenia with a relative balance between the West and the South); iii) some countries from the Eastern Member States have a very weak position as potential allies in this regard. This is especially true for Romania, Bulgaria, Hungary, Latvia and Croatia. Next, we look at six Southern European countries regarding the same policy priority in Figure 6.10. Here we have to underline that all Southern Member States are EMU members.

Figure 6.9 Fiscal policy. Potential and perceived coalitions for Eastern Member States[88]





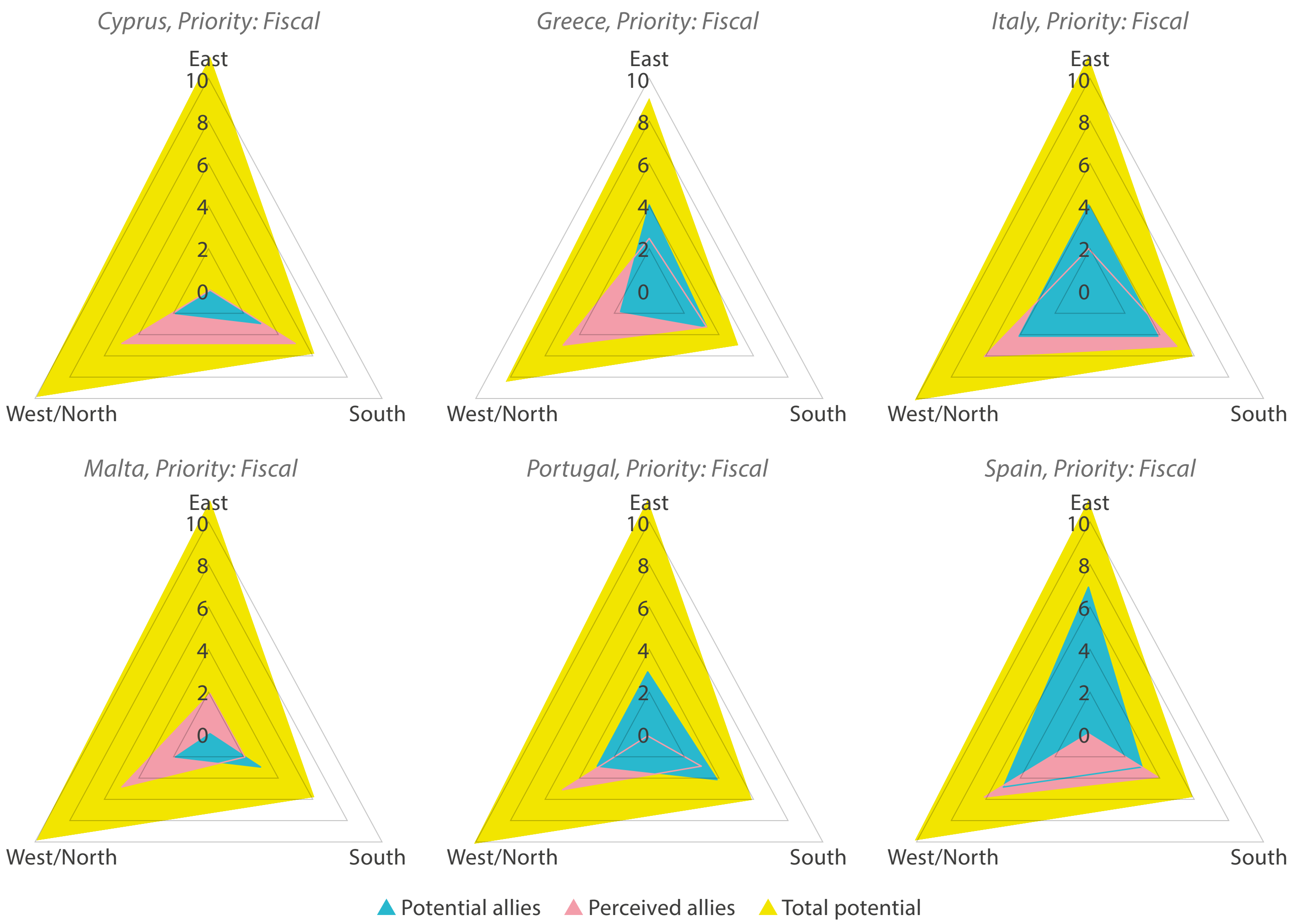
Source: Authors' elaboration on ECFR data (2020)

The view on the Southern Member States shows i) there is also a relatively huge gap between potential and perceived allies. But in comparison with the East, we can see rather a positive mismatch between the potential and the perception (in the East it is rather a negative mismatch in favour of perception). This is apparent in the case of Italy, Greece, Portugal and Spain which all have more allies, especially in the Eastern Member States, than they perceive; ii) the South and the West/North are preferred by Southern European Member States too. The East plays a very marginal role as a perceived partner for these countries. The most receptive countries for collaboration with the East are Greece, Italy and Malta.

In summary, we can see a mismatch between the Southern and Eastern Member States alongside a high level of regionalisation – perceived and potential allies can be found predominantly among regional peers. But the Western and Northern European countries (especially France and Germany) can be seen as preferred allies in both cases beyond regional limits. In Figure 6.11 we present the comparison with key players in the EU, Germany and France.

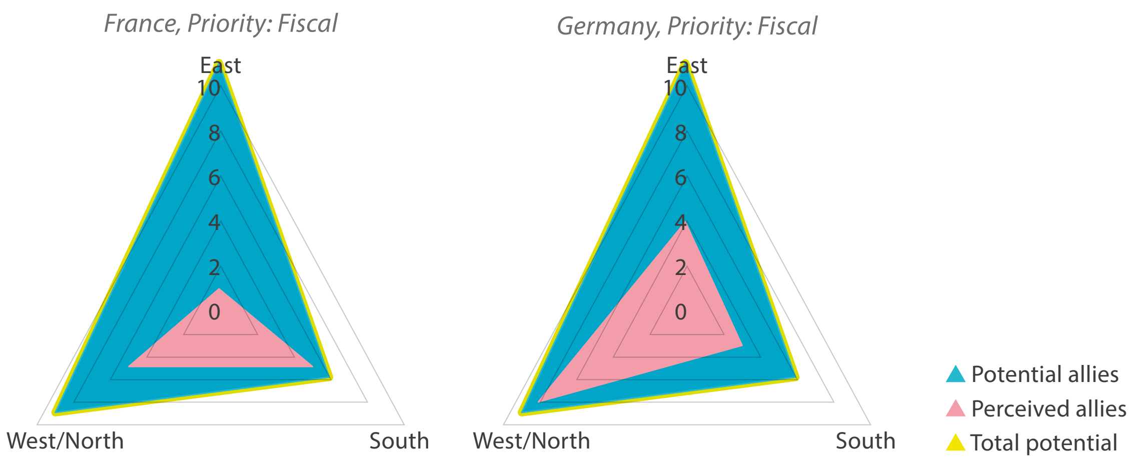
Here, we can see that both countries have full scores as potential allies – i.e., all other Member States want to cooperate with both Germany and France on fiscal policy. This is clearly one of the characteristics of their central role in the EU. However, both Germany and France have a limited scope in terms of their perceived allies. For instance, France sees only Poland as a perceived partner in the East but it accentuated several Southern partners. Germany emphasised Poland and three Eurozone members (Slovakia, Estonia, and Latvia). If we compare these results, we can summarise that one of the peripheral features is having a limited number of potential allies or even a frequent mismatch between perceived and potential allies in favour of the perceived; i.e. (especially smaller) peripheral states frequently remain unnoticed by others.

Figure 6.10 Fiscal policy. Potential and perceived coalitions for Southern Member States



Source: Authors' elaboration on ECFR data (2020)

Figure 6.11 Fiscal policy. Potential and perceived coalitions for Germany and France (EU core)



Source: Authors' elaboration on ECFR data (2020)

As already mentioned, fiscal policy is one of the top selected priorities in the EU according to the Coalition Explorer, but still different countries emphasise different priorities, i.e., not all countries see it among their top five priorities for the next five years. This is the case of V4 countries, with the exception is Slovakia which is a Eurozone member. These diverse policy accents reflected in the Coalition Explorer research are the reason why we still focus on the single top priority named by individual countries from both peripheries within our focus. Since Italy, Slovakia, Latvia, Portugal and Spain have named fiscal policy as their top priority and this has been presented above we will not repeat it in the following section. We focus only on those countries that indicated other priorities as being of the utmost importance for the next five years. First, we will focus on three Southern European countries for which the top priority is not fiscal policy.

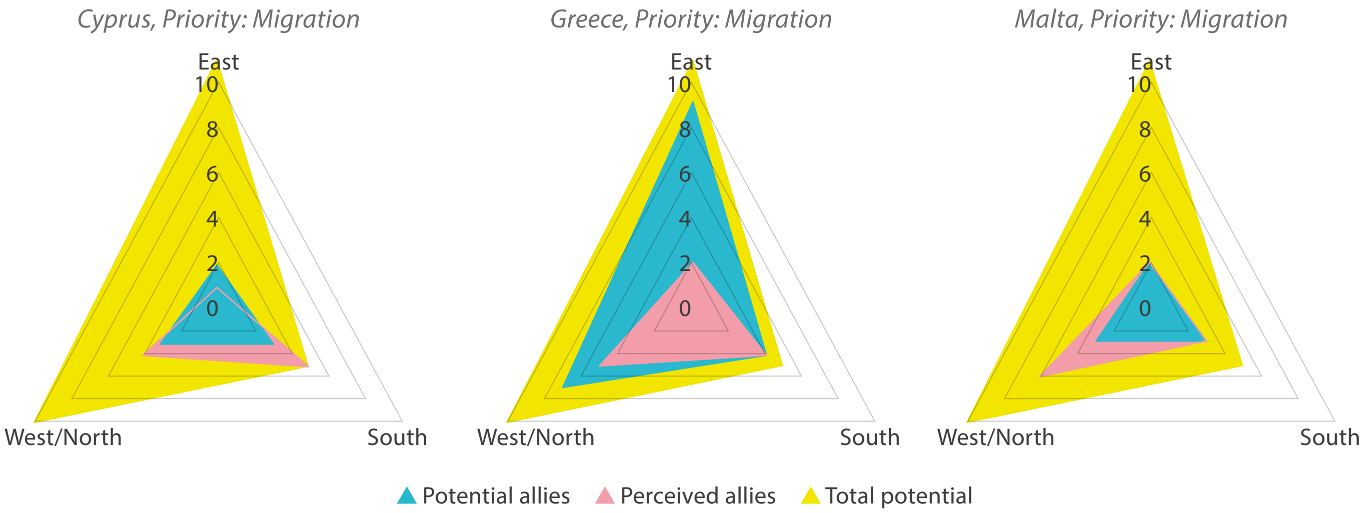
Greece, Cyprus and Malta see migration and asylum policy as their top priority. Greece demonstrated a clear mismatch between potential and perceived allies which shows that the country has a theoretically strong position in this policy area in the EU. Its perception of allies clearly underestimates its potential, especially towards the East. Greece has a positive mismatch. Malta and Cyprus are the opposite cases: their potential allies mismatch their perceived allies.

Next, we will concentrate on Eastern Member States, selecting only those whose top priority was not fiscal policy (excluding Slovakia, Latvia).

The Eastern Member States have shown quite huge diversity in their top policy priority. Once again, we see a mismatch between potential allies and perceived allies. In the cases of Estonia, Poland, Hungary and Croatia, this mismatch is positive since these countries have more potential allies than they perceive in their priority policy area. On the other hand, the Czech Republic, Lithuania and especially Romania (with no potential allies in the South and the West) show a negative mismatch: their number of potential allies is smaller than the number of perceived partners.

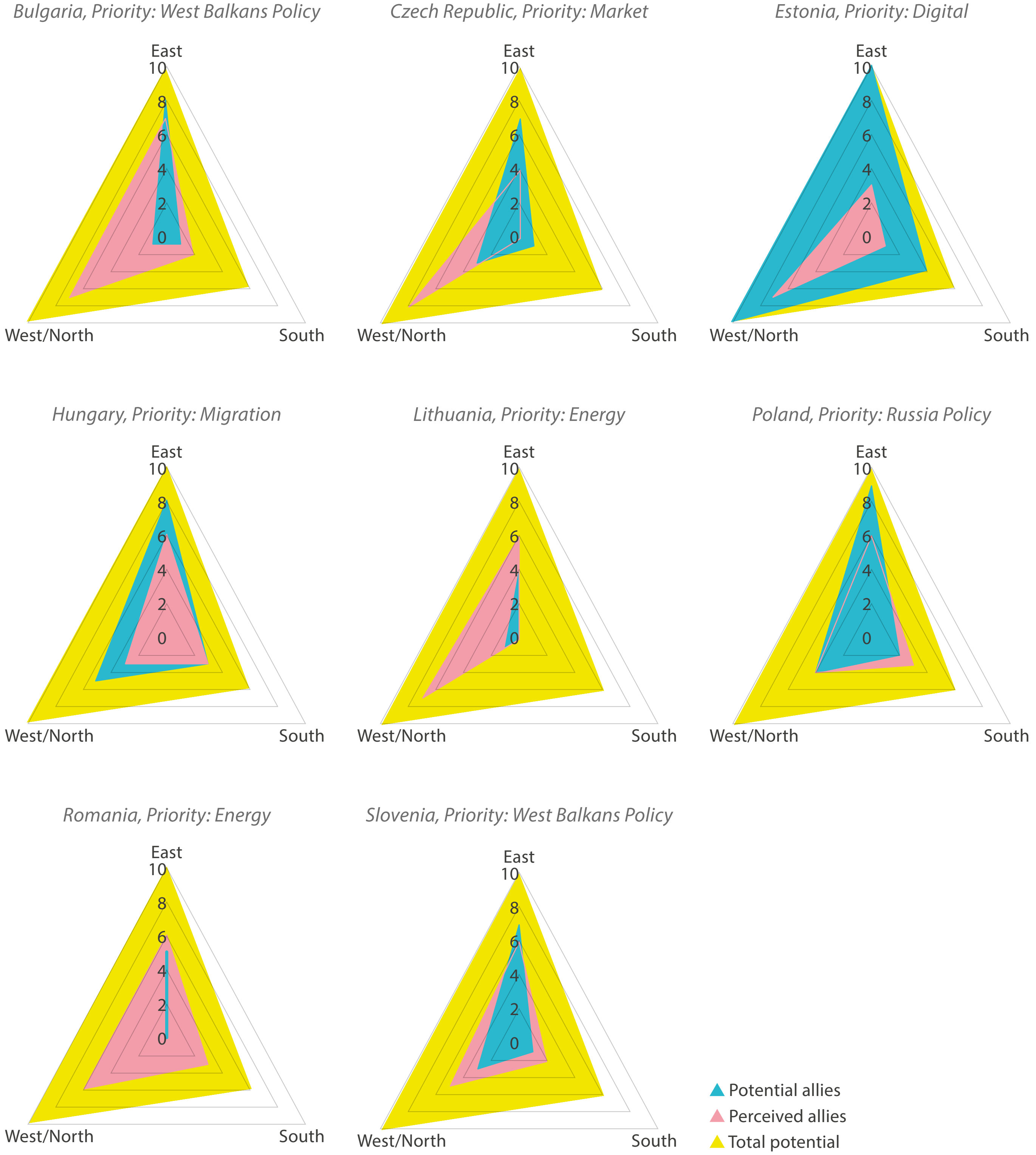
If we have a look into the policy priorities and coalition potential between the Southern and Eastern regions in the EU, we can focus on particular examples of common ground and their perceptions. We chose three examples of similar countries in terms of population size from both EU peripheries. For instance, Portugal and the Czech Republic share two priorities (within the top five): digital policy and energy policy. But Czech and Portuguese political classes fail to see each other as potential and perceived allies, meaning that both countries seem to share two policy priorities without any coalition potential. Poland and Spain share only one common ground: climate policy. Here, Spain indicates a potential for cooperation with Poland, while Poland does not reciprocate. Finally, Slovenia and Cyprus share two policy priorities: fiscal policy and migration policy. However, there is no indication of a possible coalition between these countries either.

Figure 6.12 Top policy priorities. Potential and perceived coalitions for Southern Member States



Source: Authors' elaboration on ECFR data (2020)

Figure 6.13 Top policy priorities. Potential and perceived coalitions for Eastern Member States



Source: Authors' elaboration on ECFR data (2020)

To conclude, looking at the coalition potential using perception has some limitations. It is the perception (the *imaginative* character) itself that means it has very restrained empirical value in terms of *existing* policies and coalitions. Nevertheless, the collected data certainly shows specific directions in terms of policy priorities and coalition potential. Furthermore, policy priority does not give us any idea about the concrete political context. It merely indicates similar or dissimilar priorities of individual Member States. Therefore, it can only serve as the foundation for political work and a search for compromise between partners. The mismatch between perceived and potential allies is a feature of those states on the periphery; i.e., peripheral elites "imagine" more allies than they really have according to data of the Coalition Explorer. But this is not necessarily true for all policies and all states. We saw that Greece has a relatively privileged position in migration policy or Estonia in digital policy. Poland, Italy and Spain have a relatively solid position in respective policy areas probably also due to their aggregated power (size in population and economy). On the other hand, both core EU countries, Germany and France, show full coalition potential across the EU and its regions. Finally, there was an observable negative mismatch between Southern and Eastern Member States in terms of potential coalition on fiscal policy, i.e., Southern countries tend to not perceive Eastern Member States as potential partners. It also seems to be clear that the mental map[89] of political classes in the South and East is largely limited to regional peers: those from Southern countries show a tendency to search for partners in the South and those from Eastern countries in the East. This is a topic we also discuss from a different perspective in chapter seven of this study.

6.7 REPRESENTATION OF SOUTHERN AND EASTERN PERIPHERIES IN EU LEADERSHIP

This section will compare the representation of both peripheries in the European Institutions and other administrative structures (i.e., bureaucracy). Representation is a critical topic from the perspective of democratic governance and legitimacy (Pitkin, 1967). Despite its specific character, the EU must also address the problem of democratic legitimacy and consent building, which is impossible to achieve without considering the local (bottom-up) and national levels, as well as the supranational character of the EU. As Bellamy and Kröger argue: "To respect democratic norms, a system of representation needs to offer a form of government that citizens can perceive to be both 'of' and 'for' the people" (Bellamy-Kröger, 2013: 481). In the context of the EU, this is a critical topic due to the multinational character of the very diverse political spaces of Europe. EU diversity covers an extensive range of phenomena starting with language and religion, and ending with different memory communities, political cultures or historical experiences. This specific condition is especially demanding in the democratic framework and with regard to the EU legitimacy and the absence of a "European people". But the problem is also linked to the public administration, as several studies in the theory of representative bureaucracy point out, "representation makes bureaucracies more responsive to the body politic and can also increase government account" and "representative bureaucracies can promote democracy in various ways" (see Riccucci-Van Ryzin-Levana, 2014:538).

The relationship between democracy and representation is far from simple. As Bellamy and Kröger suggest, there is not always a complementary link between democracy and representation. Sometimes representation can undermine democracy and vice versa. "The over representation of different groups can undermine the processes whereby representatives are authorised by and accountable to those they are supposed to serve" they add. (Bellamy-Kröger, 2013:477). Our focus is concentrated on two interlinked problems: political representation in the political institutions of the EU and representative bureaucracy associated with administrative agencies of the EU. Our main question is how (well) are both peripheries represented in critical institutions and bodies of the European Union? Furthermore, we also focus on how geographical representation is converted into influence in the case of the European Parliament. We also try to briefly address some of the political implications of the state of affairs regarding the representation of EU peripheries. Due to the limitations of our study, we focus on the problem from the static perspective without analysing, for example, recruitment mechanisms and rules or political bargaining mechanisms to fill these positions in the EU institutions, bodies and agencies. We also skip the discussion about the nature of EU-bureaucracy *per se* at this stage. Before we turn attention to the data, we focus briefly on the theoretical framework associated with representation.

The academic discussion differentiates three types of political representation: substantive, descriptive and symbolic. Representation can be defined as a process of acting for or acting in the interest of others (Meier, 2018:1). Substantive representation means that an actor is perceived by the represented as somebody who stands for them. In this case, the representation is produced by a particular type of action or decision-making. Descriptive representation means that an actor is perceived by the represented as somebody who is objectively similar to them. Finally, symbolic representation means that an actor is perceived by the represented as standing for them in terms of shared identity or culture. But symbolic representation is also important as a vehicle to construct the interests that are being represented and for the legitimate claim for representation (Tornquist, 2009:6). Moreover, symbolic representation can also be approached from a discursive perspective. In this case, the focus is a representative function of language and the production of meanings (Hall, 1997). Representation is approached to construct meanings and an instrument of struggle for hegemony, which also means the battle of the ruling class for dominance, i.e., for control of representation and thus social norms and values (Beltrán, 2018: 98). We want to address this problem partly in chapter seven (part III) of this study, in which one of the things we concentrate on is the process of othering.

The theory of representative bureaucracy introduced two related terms: passive representation and active representation. Passive representation occurs when bureaucrats mirror the demography of the population in terms of gender, race, social class or ethnicity and other criteria. Active representation means that officials act for particular groups that look like them (Meier, 2018; Riccucci,Van Ryzin &Levana, 2014). All concepts are somewhat relevant for our topic since we focus on political representation and partially on representative bureaucracy in the EU. The theory of representative bureaucracy is also critical from another point of view. It works with the assumption that bureaucracy always represents and *there are no neutral bureaucracies* in the real world. As Meier puts it in reference to Max Weber and his theory, "bureaucracy is a power instrument of the first order, for the one who controls the bureaucracy. Weber's claim means that bureaucracies generally benefit the advantaged, those who can mobilise the political process to procure benefits and lock those benefits in permanently through some type of bureaucratic process" (Meier, 2018:4).

The European Union is not a state. Nevertheless, it has a robust administrative system (bureaucracy) and several political institutions with vast competencies. Representation in the EU is based on electoral, territorial, functional and direct channels but without clear relations between each. This means that political subjectivity in the EU works on two levels: the state and the individual (citizen) level (see Kröger&Friedrich, 2013). The European Parliament is based on electoral and territorial representation while the European Commission is based on functional and territorial representation. In the case of the EP, the representation is also based on the proportional (each state has between 6 and 96 representatives) and direct principle, while the Commission and European Council are based on equal representation of Member States but with diverse voting mechanisms to achieve consent in a collective environment of small and big states. In the case of the EU administrative system, the recruitment process is less openly political and more technical.

Table 6.3 European Union in 2020 – EU 28[90]

Classification based on this study	Region	Number of Member States	%	Population, in millions
Core 1	Western Europe	8	28.6	259
Core 2	Northern Europe	3	10.7	21
Periphery I.	Southern Europe (SE)	6	21.4	129
Periphery II.	Central Eastern/ South-East Europe (CEE, SEE)	11	39.3	102

Source: Authors' elaboration on European Democracy Consulting (2021).

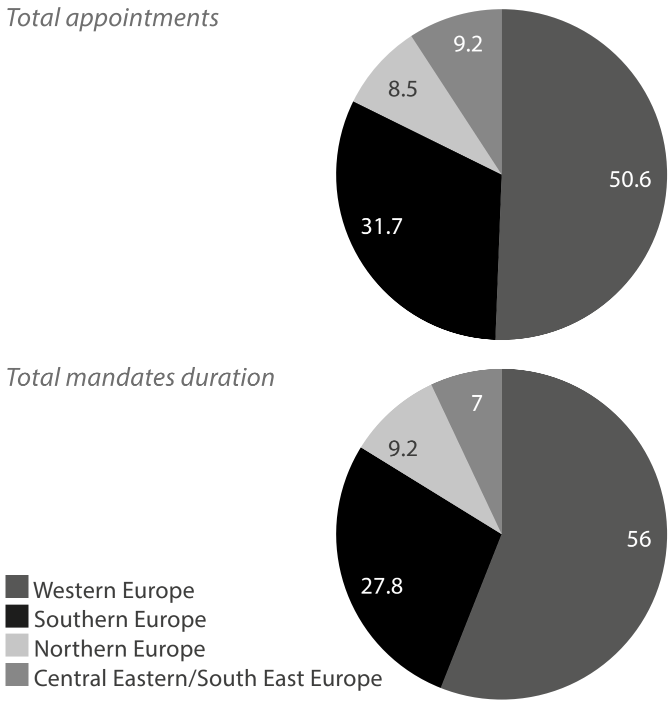
We next concentrate on the geographical representation in different EU Institutions, agencies, and bodies. We use the research of European Democracy Consulting from 2021, which provides quite extensive data. This research focuses on the leadership (top positions such as President, Director-General, Secretary-General, etc) of EU Institutions, advisory bodies, agencies and other bodies from a geographical perspective. It covered 72 EU entities, 89 positions, and close to 500 officeholders from 1952 to 2020, which means that the research worked virtually with all EU Institutions, bodies, and agencies. The focus on leadership is, in a way, very limiting; on the other hand, it still provides an excellent instrument to integrate the symbolic representation approach. The research looked at regions' equality from three different angles: equal between one another, based on the number of Member States, and population percentage share. It also pays attention to the dual character of the institutional architecture of the EU, which "oscillates between equal state representation and population-based proportional representation (European Democracy, 2021: 26).

We used regional divisions consistent with our study, while the original study divided the Eastern Member States into a category called "Central Europe and Eastern Europe".

Table 6.3 sums up the state of play related to the European Union geographical character (for division of regions see the map). We can see that between different regions, diverse asymmetries exist. For instance, Western Europe has the largest population but the only second-highest share of Member States. Southern Europe has the second-largest population, but it is the third in relation to the number of states. Central Eastern/South-East Europe is the third most populated region, but it has the most significant number of Member States. Finally, Northern Europe represents the smallest region in the EU in terms of population and Member States. However, the geographical distribution in the appointments of the EU leadership and mandate duration looks different, as Figure 6.14 demonstrates.

In Figure 6.14 we can see that Western Europe is still predominant, with over 50% of leadership appointments and 56% of total mandates duration. On the other hand, Eastern Member States are represented by only 9.2% of appointments and 7% of mandate duration, which is disproportionate to their size of population and share of Member States.

Figure 6.14 Total appointments and total mandate duration in the EU since 2004 in %

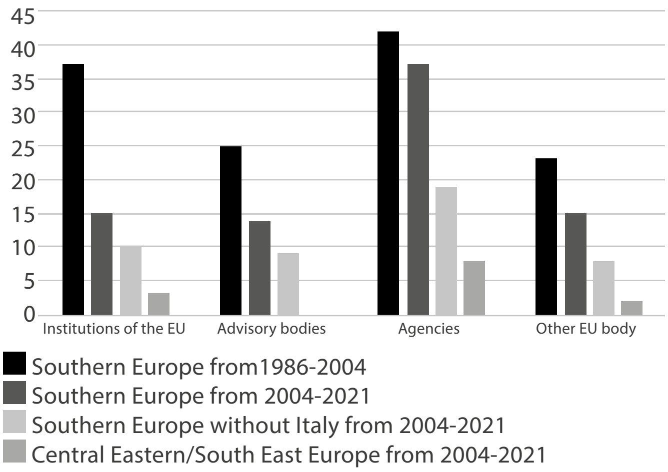


Source: Authors' elaboration on European Democracy consulting (2021).

The research shows that the predominance of Western European leadership in the EU began to progressively decrease since the 1990s. It describes this dynamic as follows: "Western Europe's losses have so far mostly benefited Southern and Northern Europe." and "Year after year, Eastern and Central Europe remain in the low single-digit." (European Democracy, 2021: 24). Thus, we can summarise that the progressive decrease of Western Europeans in the leading positions of the EU, as observed by the research, reflects the substantial changes in the EU structure – mainly the two enlargements at the end of the 1980s and in the middle of the 1990s. In the case of "Eastern" enlargement, after 2004, the EU struggles to adequately integrate the Eastern periphery in its leadership. The result is clear: a quite dramatic underrepresentation of Central Eastern and South-East Europeans in EU leadership considering their population size and Member State share. This doesn't mean we should advocate for strictly equal and exact representation in the EU. However, as European Democracy Consulting research points out, their findings show "unacceptable levels of lack of representation and diversity. As a consequence, the proper size of each region must be considered and accounted for." (European Democracy, 2021: 26).

The Eastern periphery is a relative newcomer even if seven countries from this periphery have already been members for 18 years in 2022. In the initial years, after the EU accession, the under- representation still seemed logical and acceptable. Indeed, complex bureaucracies like the EU usually adjust slowly to new realities. But the problem is that the region "really fares worse than the Member States of other regions following their accession", as the study suggests (European Democracy, 2021:30). The inertial dynamic of newcomers seems to be very long in the EU – this was also the case of Southern Europe in the representation of the region in the leadership of EU Institutions, bodies and agencies. Figure 6.14. shows very different performances of both regions after EU accession. We focus on the overall numbers for both peripheries, but also on numbers for Southern Europe 18 years after the accession in 1986 (i.e., after 2004) and with and without Italy as a founding member of the EU:

Figure 6.15 Number of representatives from Southern Europe and Central Eastern and South-East Europe

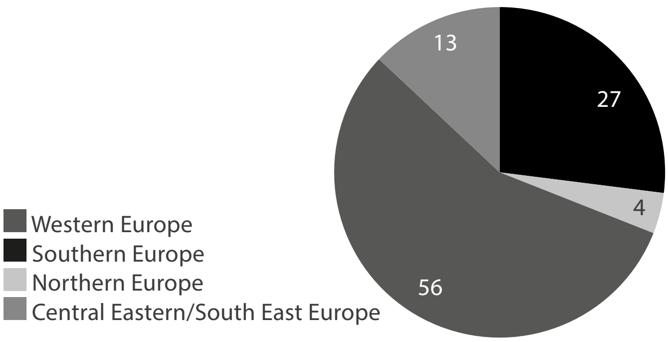


Source: Authors' elaboration on European Democracy Consulting (2021).

The presented data shows that the integration of the Eastern periphery into the EU's leadership is not following Southern peers' experience even when we take away Italy as a founding Member State. For a similar period after the EU accession (18 years), Southern Europe was better represented (even when still underrepresented).

How is geographical representation turned into influence? To answer this question, we use other research done by Vote Watch and BCW Brussels about the European Parliament. Their Influence Index[91] scores MEPs (Members of the European Parliament) in three categories of political, social and overall influence related to political, social and general influence. According to the Vote Watch, political influence is an ability to change legislation, win votes and shape debates. Social influence is an ability to reach people, shift the public conversation and build a community of support. The Influence Index is based on an algorithm that considers leadership, legislative activities, performance, and networking of the MEPs. It does not work with geographical criteria. We look at the 100 most influential MEPs for all policy areas in the European Parliament in 2021 (the most recent available data). Of course, MEP influence is more related to individual performance in parliamentary politics than to the politics determined by the European Council and European Commission for leading positions in the EU Institutions, bodies and organs. In this way, we try to look at the geographical distribution differently.

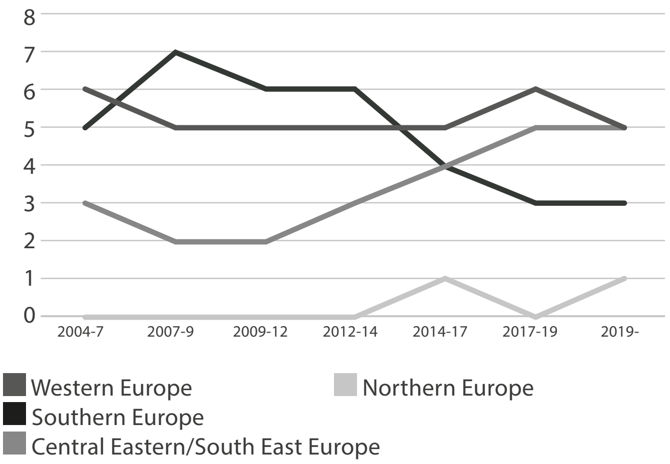
Figure 6.16 Top 100 most influential MEPs in all policies according to geographical division in 2021



Source: Author's elaboration on Vote Watch (2021)

Figure 6.16 shows a different picture in comparison to previous data. The most influential MEPs are from Western Europe. Southern Europe has 27 MEPs with influence, Central Eastern/South-East Europe 13 and Northern Europe 4. Here, we can summarise that the geographical distribution of influence reflects the overall structure of the EU even when the predominance of MEPs from Western Europe is still quite evident. The geographic balance is more present in the European Parliament's (EP) arena than in other political and administrative appointments presented above. This situation can also be demonstrated by how the Vice-Presidents (total number 14) of the EP positions are distributed. This is relevant in relation to the Influence Index since Vice-Presidents and Presidents performed with the best or better scores, which means that they have more influence.

Figure 6.17 Vice-Presidents of the EP according to geographical distribution *(2004-2021)*



Authors' elaboration

The data presented above demonstrates a severe lack of representation of the Eastern periphery in the top leadership of the EU. Compared with Southern Europe, Central Eastern and South-East Europe also perform worse when considering the post-accession period. Also, Southern European countries were underrepresented for an extended period in the past. However, the EU evidently still struggles with integrating representatives of the Eastern periphery into leadership, and this problem is persistent. The research conducted by European Democracy Consulting pointed out the lack of representation of the Eastern periphery in the EU leadership. It linked this problem with illiberal tendencies in Hungary and Poland and, also, with especially low voter turnout in the European election in Central Eastern and South-East Europe. It concludes: "While there are a number of other factors at play, it is clear that the absence of these countries from leadership positions is sure to further alienate their citizens from the Union." (European Democracy, 2021: 38). On the other hand, the example of the larger EP leadership (Vice-President positions) shows that it is possible to achieve a more balanced change over time.

The role of representation should not be overestimated but the current situation is far from ideal. In fact, the data underlines that the EU has a problem with all three aspects of representation as presented above, i.e., substantive, descriptive and symbolic. The underrepresentation in the medially profiled top jobs is easily giving the impression that the EU is ruled by "them" and not by "us", which is not difficult to exploit for political purposes. It can cause levels of alienation from the European integration process in the periphery, as well as undermine the democratic legitimacy and cohesion of the EU as an institution. Moreover, it has also very real impacts on the decision-making process and influence projection. In this case, peripherality takes on yet another dimension related to the power-based relations in the EU. The current situation indicates a somewhat secondary role for states that are underrepresented in decision-making processes within hierarchically organised EU Institutions.

6.8 CONCLUSIONS

This chapter provided an overview of the political manifestation of the EU peripheries in Eastern and Southern Europe. It tried to understand what kind of cleavages dominate the political landscape in the Southern, Central Eastern and South-East European regions. By briefly presenting each country case, an overview is given of the past and current salient conflict lines in the three regional groups. This discussion also serves to introduce the main left-wing forces and to show their respective strengths and weaknesses at the national political level. In addition, a brief comparison of the cleavages in the three country groups is also given, in order to distinguish their similarities and differences.

Currently, the cultural-identarian cleavage is strongly salient in both Eastern and Southern Europe. This, however, leads to different positions and policy preferences at the European level. While Southern European states generally support a common EU migration policy, the V4 country group strictly oppose it. The South-East European country group occupies a position in between them. The socio-economic dimension became relevant again after the economic crisis in 2008, however, with different responses in the South and the East: in the South, mostly left-wing political parties politicised and occupied this issue, but in the East, radical or populist right-wing political parties presented a classical "leftist" position to the electorate. The right-wing parties' support for inclusive socio-economic policies is, however, particularistic, advocating for so-called "welfare chauvinist" policies.

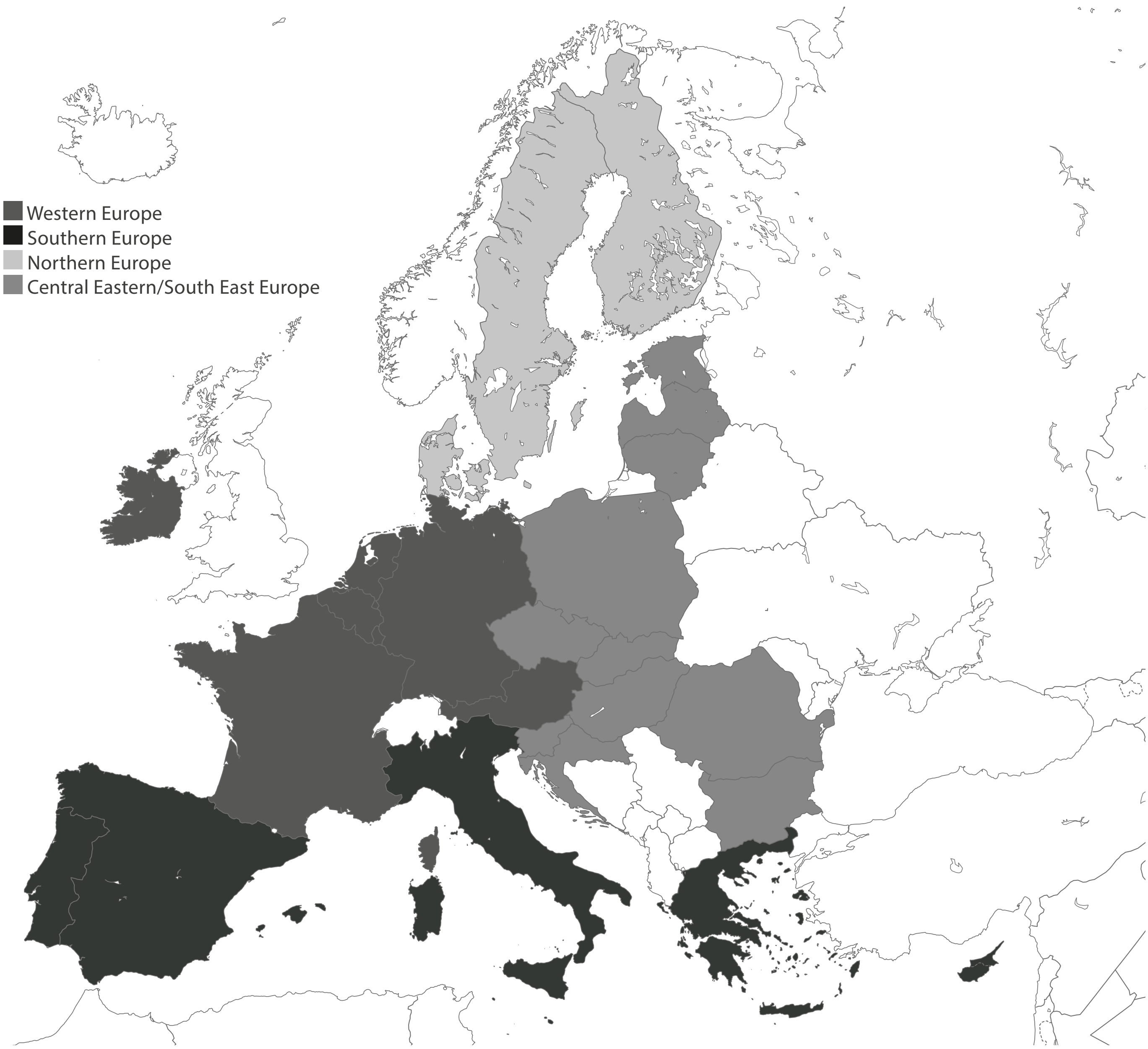
While in both regions citizens obviously care about the socio-economic dimension, the main difference between attitudes in the Southern and the Eastern regions is that left-wing political parties in the Southern region were able to represent redistributional concerns, while in the East, populist right-wing political parties did so. In some cases, leftist options are not available at all at the national level (Baltic States, Bulgaria, Romania, Croatia, and partially Italy and Malta). In addition, the salience of the identity conflict line as well as the salience of the communist past in Central and Eastern Europe has made it difficult for left-wing parties to gain office (both in the past and present). While socio-economic concerns are a priority for Central Eastern and South-East European citizens, populist right-wing political parties link welfare policies to exclusivist positions, i.e., that only ingroup members are entitled to those state policies. At the same time, those very same right-wing parties support neoliberal macroeconomic policies, as became obvious in the discussion of Hungary. Thus, although the economic chapters of this study showed that both the Eastern and the Southern regions face economic hardship, this has not translated into the same policy positions or a long-lasting political alliance between the two. While the Covid-19 pandemic posed another window of opportunity for political alliances between the peripheries, the reasons it did not manifest are manifold.

There is no transnational political alliance between the Southern and Eastern regions due to various reasons. Not only do the economies have different needs (especially pronounced in the case of the South and the V4 group), but they also face different policy constraints due to being an EMU member (or not). To complicate things, the salience of the cultural dimension makes it difficult to translate the peripheral status into joint political action by the peripheries. While the left tried to organise itself (also via various leftist and progressive initiatives at the European level after 2008), their space for action was soon limited and depoliticised by international financial institutions.

What conclusions can be drawn about the possibilities for potential cooperation among and between the Eastern and Southern regions? Since the economic crisis in 2008, there have been various initiatives between the two regions to cooperate with each other. One of them is the EuroMed 9 Group[92], consisting of the South European states Portugal, Spain, Cyprus, Italy, Malta, Greece, including Croatia and Slovenia, and France. While their activities were rather limited until 2020, the Covid-19 pandemic has posed a window of opportunity for deepening cooperation between the states. Due to the pandemic, the debt brake rule is non-binding until 2023. While the EuroMed 9 Group supports laxer fiscal and debt rules to continue after 2023, Northern countries (the Netherlands, Denmark, Sweden, Finland and Latvia) want to return to the rules that have been applied so far, and even introduce stricter penalties for violations. At the current stage, it is difficult to gauge whether the EuroMed 9 Group will evolve into a coherent political alliance vis-à-vis the core. As has seen in the previous analysis, the South-East European states often portray policy positions in between the Southern and Central Eastern countries, easing potential cooperation between the Southern and South-East European states. Also, as a response to the Covid-19 pandemic, the peripheral states organised a "Friends of Cohesion" summit in Portugal in 2020 in order to discuss a joint position for the future EU budget plans. The countries that took part in the summit were Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Spain, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Hungary and Italy. The subsequent negotiations of the funding period from 2021–27 in November 2020 resulted then in a compromise between the frugal four and the Friends of Cohesion group (see above). For future cooperation and enduring alliances, it is thus of utmost importance for the left to realise each other's vulnerabilities and challenges, in order to find a common denominator for future EU policies.

From the perspective of perceived coalition potential, we can say that there exist several policy chapters which offer some possibilities for cooperation between Southern and Eastern Member States. These are migration and fiscal policy, as well as partially climate, digital and border policy. However, the same priorities do not necessarily mean the same interpretation and formulation of interest within these policies, as we have also demonstrated. Nevertheless, the existence and knowledge of such potential areas can be further explored based on the constraints and limitations of partners. Politics is indeed the art of compromise reached by the negotiation and exchange of opinions. As we have seen, the problem can lie in the false perceptions and in the core-periphery division within it. This situation means that both EU peripheries seek their allies more often in Western Europe (or the core, particularly Germany and France) and much less among themselves. In general, there is a large fragmentation of policy areas not just between Eastern and Southern regions, but within the EU in general. The regional designs for coalitions and interest formulation (as well as cleavages) seem to be still very predominant in the EU since the transnational dimension is not a prevalent political factor in the EU.

The Southern and Eastern regions are also represented differently within the EU as a set of institutions that are involved in the decision-making and policy formulation. The underrepresentation in the EU leading positions is a common feature for both EU peripheries but its quality is different. Central Eastern and South-East European countries are largely underrepresented which underscores their complex peripherality in the EU. Southern Europeans were better integrated into the decision-making process in comparison with their Eastern peers. In summary, the empirical data show that the EU as such is still dominated by Western Europeans which limits the political space for others, weakens EU democratic potential and also might contribute to the rise of Euroscepticism in the EU-peripheries. The Western dominance is most probably also an articulation of existing power asymmetries in the EU favouring the core countries.



PART III

(Mis)representation and subalternity: discursive peripheralization in the hegemonic narratives of the core

Chapter 7 – (Mis)representation and subalternity:

discursive peripheralization in the hegemonic narratives of the core (and periphery)

Veronika Sušová-Salminen

INTRODUCTION: PERIPHERALITY AND ALTERITY IN THE IMAGINATIVE GEOGRAPHY OF EUROPE

Notions such as 'Central and Eastern Europe' or 'Eastern Europe' as well as 'Southern Europe' or the West, the East or the South permeate the common language. We tend to see them as simply neutral, straightforward, 'simple geographical', or just accurate descriptions of 'direction' relating to where the region is located. We hear of 'Eastern wing', 'Central and/or Eastern European' Member States, as well as 'southern EU countries', etc. But these words are not innocent or neutral.

Joshua Hagen suggests that regions represent discursive formations, constellations of power, knowledge and spatiality. He adds: "Giving a place name can be a crucial step in enhancing and legitimising particular perspectives, assumptions, and practices." (Hagen, 2003: 490, Sušová-Salminen, 2015). According to Hagen, the discourse of naming reflects socio-political relations of power and knowledge together with territorial control. Thus, Southern Europe, Central Europe or Eastern Europe can also be understood as hegemonic naming practices.

Finnish geographer Anssi Paasi argues that peripherality is socially (and thus culturally) constructed, and its construction is based on three characteristics: dependence, distance and difference (Paasi, 1995). While dependence can be seen as an economic process, it is also related to the political and cultural sphere, as a state of limited autonomy, imitation and subaltern subjectivity, which excludes, displaces and limits the agency and voice (representation) of particular social groups or societies. Distance is a spatial notion, the question of geography, including the geography of historical capitalism. Finally, the difference is a cultural problem related to the diversity of languages, cultural, religious and political practices, and their hierarchisation or classification. This is possible because, as Paasi observes, the *core is the place of authority*. In short, the periphery is also and in many ways a site that is politically, ideologically, and, of course, economically subjected to the authority of the core. The periphery's subjection is also about the production of knowledge, classifications and value hierarchies within modern capitalism (see Wallerstein, 1997, Grosfoguel, 2011, Dussel, 1994). Being on the periphery means being (consciously or not) subordinated to the authority of the core or even to accept subaltern identity, which unwittingly reproduced hegemonic discourses of the core about ourselves, the West, and others. Peripheral regions of the EU are not just spatially distant; they are also perceived as different in the core – and their difference is often constructed as Otherness (alterity). Or, as anthropologist Eric Wolf puts it, Europe is not just "the reality of the natural world [geography] and its human transformations by techniques [science and economy] and organisation [politics]" but also "the reality of schemata of organised knowledge and symbolic operations learned and communicated among human beings" (quoted in Dainotto, 2007: 8).

Although Europe is naturally divided into different regions, these geographical units are usually based on specific criteria of perceived homogeneity and cohesion and are often not entirely objective or even strictly geographic (Lewis-Wigen, 1997, Todorova, 2005). They are the result of cultural (mis)representation, bias, imagination and geopolitical interests. Modern geography has recently focused not just on the material dimension of space but also on its imaginative aspect. For instance, studying different places, regions, environments or landscapes' conceptions is a composite part of geographic research today. It asks questions such as how particular geographical spaces, areas and regions are learned and assimilated through practices such as school, textbooks, media or literature (Ridanpää, 2007).

One of the most influential cultural representations of modern Europe is Orientalism, which is relevant not only in the relation between Western colonial empires and Middle Eastern societies (Said, 1978/2003) but for relations within Europe. Orientalism is a way different non-European and non-Western cultures and societies were represented by Western (colonial) scholarship as well as in the public, political and cultural discourses. Over time, the concept was used and discussed beyond the original usage proposed by Edward Said. Orientalism cannot be understood without Western colonial expansion and imperialism and without core-periphery dimension (Bhambra, 2009). In this context, we approach Orientalism (and its derivates such as Euro-orientalism and Balkanism) as discourses of othering through spatialisation articulated primarily from the core. Said argues that "…the Orient has helped to define Europe (or the West) as its contrasting image, idea, personality, experience." (Said, 1978:9). In other words, to constitute Europe, one needs to have an idea of the negative or oppositional Other (Neumann, 1998). For instance, within the imaginative geography, one can conceive of Orientalism in its structural functions as a way to establish and legitimise (or 'explain') the regional injustices and social and economic inequalities by use of cultural (essentialist) explanation.

Orientalism also establishes and reinforces the hegemony of the liberal-bourgeois narrative about Western civilisation (and thus about Western Europe) and its normativity (embodied, for example, in modernisation discourse). The process of the Orientalisation of Eastern Europe (including its central parts) has been a composite part of European civilisational map construction since the 1700s, as Larry Wolff shows in his groundbreaking book (Wolff, 1994/2003). Thus, Eastern Europe as Other Europe was not solely a child of the Cold War. By Orientalisation, we understand the process of being constructed by means of cultural representations linked to the idea of the Orient as a backbone of Orientalism. As Wolff shows, Eastern Europe became Europe's backward, barbaric or semi-barbaric, semi-Orientalist *Other* for West European (German, British, French) intellectuals and travellers during the 1700s. For Wolff, Eastern Europe represents a kind of purgatory, a place *in between* (the West and the Orient), a mixed and undefined region whose ambivalences challenge the typical modern tendency to replace ambivalence with order (Bauman, 1991).

Ezequiel Adamovsky (2005: 392) offers the notion of Euro-Orientalism in the context of the predominant narrative (discourse) of Western liberal-bourgeois civilisation. Euro-Orientalism is the ideational process *by which the Western core symbolically organises and regulates its relations with the part of Europe categorised as 'Eastern Europe'.* Historically, Euro-Orientalism was born after the First World War, reflecting mainly the geopolitical interests of great powers; nevertheless, it was reinforced during the Cold War, and it remains a robust discourse after 1989 despite the proclamations about the unification of Europe (Adamovsky, 2005:609). Wolff and Adamovsky show that Eastern Europe has been not the Cold War product but has a much longer history related to modern (Western) knowledge and sciences. The Cold War helped to settle the discourse of Eastern Europe in public opinion, which was reinforced by the ideological conflict of the Cold War. Adamovsky offers a contextualised dichotomy related to what he calls the Euro-Orientalist discourse. These dichotomic categories or elements of Euro-orientalism as narrative are the component or building blocks of othering as a juxtaposition of the Western idea about the West (or Occidentalism, as Walter Mignolo and Fernando Coronil call it, see Mignolo, 2000; Coronil, 1996).

Table 7.1 Euro-Orientalist discourse, according to Adamovsky (2005: 626), *author's additions*

The West	Russia and Eastern Europe
civilisation	barbarity
modernity	tradition, underdevelopment, stagnation
middle class	*lack* of middle classes, weak middle classes
freedom	despotism/totalitarianism/autocracy
civil society	*lack* of civic society, weak civil society
private property	collective property
pluralism or diversity	homogeneity
individuals	masses
liberalism	communism/illiberalism

The process of the Orientalisation of Southern Europe is perhaps less well documented by modern research. Nevertheless, it is not less relevant, especially for individual countries (see Schneider, 1998; Bolufer, 2016; Parga-Linares, 2012; Marín Aguilera, 2016). Southern European countries such as Italy, Spain and Greece were orientalised by northern (western) European travellers during the 1800s so they could be self-orientalising themselves during the process of construction of a modern national identity. As Marín Aguilera writes: "The Orientalism of southern Europeans nurtured an alienation in their consciousness: not only had they lived with the other, but they were undergoing a process of (re)conversion into that other who they fought in the past. This process was enhanced by travellers, who precisely stressed the African character of the northern Mediterranean landscape and its people" (Marín Aguilera, 2016: 80). There was an important idea of 'contamination' by cultural elements of the other (e.g., Africa or Ottoman/Asia, Arabic influences) which was the composite part of the Orientalisation of the Southern European, Balkan and Eastern European countries. For instance, the Arabic influences in Spain came to the surface as the way of exoticisation and eroticisation of this country in Western eyes during the 19th century. While Italy and Greece were acknowledged as the historical cradles of European civilisation, "Spain was characterised mainly by its Arab inheritance. The construction of the 'Spanish-Arabness' strongly stressed the difference between the country – and its people – and northern European regions," argues Marín Aguilera (Marín Aguilera, 2016: 80). Or, as Xavier Andreu Miralles notes, "Spain was perceived as a mestizo country, a hybrid born in the union of the cross and the half-moon" in the romantic minds of Western (northern) Europeans (Miralles, 2016: 15). In short, the cultural diversity of the periphery is often translated into alterity.

The geographical notion of Southern Europe was born in the times of the Cold War, so it is less historically established in comparison with Eastern Europe. The Cold War conflict's horizontal division was a primary reason for establishing an alternative line between the West and East (of Europe). Southern Europe was an expression of a vertical dimension of the Cold War's imaginative geography in Europe, even though the region includes quite diverse countries spanning Portugal to Turkey (Pedaliu, 2013:9).

However, this north-south axis giving birth to Southern Europe has a much longer history that is linked to the construction of the civilisation map of Europe in the same manner as Eastern Europe. French philosopher Charles Montesquieu (1689-1755) is considered to be a modern inventor of Europe's north-south dimension. Intriguingly, Montesquieu's notion of the South was constructed by using the idea of the (despotic) Orient, as Dainotto (2007:5) argues. Italy and Spain were not integral parts of Europe for Montesquieu, but its negative south. Adamovsky's Euro-Orientalism got its specifically southern taste since these hegemonic ideas about southernness seem to be just southernized cultural elements of the East or Orient. In short, many constitutive parts of the Euro-Orientalist discourse were and are used as constitutive blocks of Southern peripherality/alterity. These are barbarity, laziness, dirtiness, corruption, infantilisation, exoticisation/eroticisation, tradition and many others (see Bolufer Peluga, 2016; Miralles, 2016).

The Otherness of Southern Europe is, however, constructed on the vertical axis contrasting the South with the North, while the alterity of Eastern Europe rests on a horizontal axis contrasting the East and the West. In brief, the Euro-Orientalist discourse within Europe has an eastern and southern dimension, which are linked together by the invisible bond of hegemonic discourse. Nevertheless, the hegemonic discourse was pronounced from the same location of authority in Western Europe (or the core). It is this specific condition that is also significant for the peripheral approaches to the core. The Easterners look to the West while the Southerners look to the North. They often do not realise they *see the same core and experience the very same practices of hegemony*. This mutual blindness to each other's subaltern experiences is precisely the result of their peripherality.

Indeed, Roberto M. Dainotto asks in his book *Europe (In Theory)* very 'eastern' question in the southern (Italian) context – "How could the south, at the same time, be Europe and non-Europe?" And Dainotto continues with regard to the Italian experience:

> We were Europeans – only in theory, though! No matter how hard we Italians had managed 'all the way to erase our identity'; no matter how we tried to forget the pizza and mandolin; no matter how much we worked to 'northernise our habits and customs'; no matter all the sacrificing of piece after piece of the welfare state and the relentless privatisation of all for the sake of 'modernising' and 'Europeanizing' – we were no longer Italians, but we were not Europeans either." (Dainotto, 2007:4).

Case study 1: From Division to Di-Vision. Discursive strategies of the EU accession process

In this part, we shall focus on the symbolic aspect of EU accession related to the peripheralization of Central Eastern Europe during the accession process (1994-2004). This chapter goes beyond the economic or purely political sphere to see and grasp how symbolic and cultural spheres contextualised EU enlargement; and how the EU periphery is culturally and symbolically constructed. We focus on several examples of discursive use of enlargement mainly from the EU perspective (i.e., from the perspective of EU politicians and institutions). Due to the comparative and macro-analytical focus of this study, we will rely mainly on the existing studies and literature that systematically focused on this subject before. At the same time, we will look at some historical documents of official provenance as a complementary but very selective probe.

Melinda Kovács and Peter Kabachnik (2001) focused on how the European Commission approached ten applicant countries in the published Commission Opinion on applicants in 1997. They compared these official documents from 1997 with Wolff's conceptualisation of Eastern Europe as the *Other Europe*. Their study suggests that "Our findings indicate that the Opinions function as a medium through which the EU actively reinscribes the Enlightenment notion of an inferior eastern Europe onto the applicants" (Kovács-Kabachnik, 2001: 147). The construction of Eastern Europe as situated on the intellectual and mental map of the Enlightenment was still informing Western approaches as a composite part of the integration process at the end of the 20th century. Kovács and Kabachnik noticed that this construction of Eastern Europe was based on the peculiar mixture of integration and exclusion, a typical feature of colonial dominance, and one of the sources of the region's ambiguities. As in the past, Western Europe as the authoritative core (represented by the European Commission) was defined as the norm, and applicant countries from Central and Eastern Europe as the norm-takers, largely characterised by the mixture of assimilation, imitation and mimicry.

Kovács and Kabachnik found the following patterns seen as a manifestation of discursive strategies in the Commission's Opinions. We sum up the findings in the following table.

Summary 1 Structures of Discursive Strategies in EU Enlargement *(Kovács-Kabachnik, 2001)*

lack	= phenomena and characteristics that applicants do not have, based on the ideal that they must match to be admitted, primary identity of applicant as someone who lacks something
obstacle	= naming traits that applicants have and that hinder the possibility of accession
tradition as civilisation	= referring to tradition within the EU discourse about the political system, tradition is what the EU is
Roma and minorities	= minorities as an illustration of a region's lack of civilisation, often citing undefined 'sociological factors' as a reinvention of eastern inferiority
exoticism via language	= use of bilingual names, which leads to exoticisation of an object and as an aspect of difference or distance
gender assumptions	= accent on the gender (male) exclusiveness or (male/female) inclusiveness

Now, let us turn our attention to some selected examples of these patterns found in the EC reports of 1997. It allows us to grasp them better in their empirical form. We have put the examples in italics in order to underline them:

> "Effective implementation and enforcement will remain a significant concern in the medium term due to the *lack of experience of the authorities* involved and to the current weakness of internal control and border enforcement mechanisms." (Commission, Slovakia, 1997)

> "In the light of these considerations, the Commission concludes that Slovakia does not fulfil in a *satisfying manner* the political conditions set out by the European Council in Copenhagen, because of the instability of Slovakia's institutions, their *lack of rootedness in political life*

and the *shortcomings* in the functioning of its democracy." (Commission, Slovakia, 1997)

"The Czech Republic *lacks an independent regional development policy.*" (Commission, Czech Republic, 1997)

"The main institutional problems lie in the field of resource constraints, *the lack of expertise* with new legislation in the police and judiciary, and the impact of institutional corruption." (Commission, Czech Republic, 1997)

"*Lack of progress* in implementing market-oriented economic reform means Bulgaria faces challenges in a broad range of policy areas." (Commission, Bulgaria, 1997)

"The same is true for radiation protection, where there is *moreover a lack of safety culture*." (Commission, Bulgaria, 1997)

"The police still *lack adequate resources* to combat effectively the rise in crime and, in particular, organised crime." (Commission, Poland, 1997)

"Due to the *lack of transparency* it is as yet unclear whether the conditions for granting operating aid are complied with. The future inventory should cover all measures granted by the State, regional or local authorities or through State resources." (Commission, Poland, 1997)

"The situation of the courts in the Czech Republic constitutes a *major challenge for the country's integration into the European Union*." (Commission, Czech Republic, 1997)

"*No provisions* exist for any specific representation of the minorities, though six members of the party representing the Russian-speaking minority have held seats in Parliament since 1995." (Commissions, Estonia, 1997)

"The situation with regard to the Roma, however, would appear much more difficult. They are the target of numerous forms of discrimination in their daily lives and suffer particular violence from skinheads, without adequate protection from the authorities or the police. Their social situation is often difficult (though *sociological factors* to some extent account for this). alongside any discrimination they may suffer from the rest of the population, notably over access to jobs or housing." (Commission, Czech Republic, 1997)

"The gypsies (Romanies) continue to suffer considerable discrimination in daily life and are the target of violence either directly by the police or by individuals whom the police do not always prosecute. Their social position is difficult, though here *sociological factors* play a part alongside the discrimination they suffer from the rest of the population." (Commission, Bulgaria, 1997)

"The Roma (or gypsies), who are few in number in Poland, are sometimes the victims of violence or discrimination. They frequently live in situations of social hardship (unemployment, housing conditions, level of education, health) as a result of a combination of *sociological factors* and a failure by the authorities to take sufficient account of the special nature of their situation." (Commission, Poland, 1997)

"Under Article 28 of the Constitution, MPs enjoy a *traditional* array of immunities except as regards any defamatory remarks made during debates in the *Saeima*." (Commission, Lithuania, 1997)

"For other products such as pharmaceuticals, chemicals, motor vehicles, and food products, European Community directives follow the *traditional* regulatory pattern of providing fully detailed rules." (Commission, Czech Republic, 1997)

"The President of the Republic is elected by universal suffrage, with majority voting in a double ballot, for a five-year term, renewable once only. *He* is assisted by a Vice-President elected at the same time." (Commission, Bulgaria, 1997)

> The President of the Republic is elected by a two-thirds majority of Parliament for a four-year term. If *he/she* cannot command that majority in the first two ballots, a third ballot takes place, with the representatives of the local authorities (273 persons) voting along with the members of the *Riigikogu*." (Commission, Estonia, 1997)

The EC approach to the applicants was very hierarchical. The document in each case concentrated on what individual countries were lacking in order to become EU members and what they had achieved already (how they fitted into the expected model). The applicants were expected to adapt and 'satisfy' given criteria while the Commission evaluated their progress, shortcomings, and failures (lack of adherence). As we have seen, Adamovsky argues that indeed the statement of 'lacking' something is a typical feature of Euro-Orientalism. Indeed, the periphery always 'lacks' something from the perspective of the core. The lack is usually assessed as a reason for not being satisfactory to 'us' (the same). Adamovsky observes: "In the liberal-bourgeois narrative of Western success, the history of Russia was constructed as a narrative of failures. This narrative framework often came to be extended to the Slavic nations in general, which were also constructed as 'lands of absence'." (Adamovsky, 2005: 592). Now, the absence should be filled by the Europeanisation process but still with the help of Euro-Orientalist assumptions. The ideal product of accession was becoming *the same*, i.e., European, the identity exclusively related to the EU.[94] However, the patterns of discursive strategies also show that, while doing so, the Otherness was reinvented and reproduced. Central and Eastern Europe was still an ambiguous place for Commission evaluators.

Merje Kuus (2004) notices that the EU enlargement frames "social change regarding a gradation of Europeanness and a movement towards it" – the East in Europe is differentiated as a more developed Central Europe and a less developed Eastern Europe (or Balkans) on its way to becoming a mature member of Europe. At the same time, the candidate countries are situated in the liminal space, neither developed nor underdeveloped, neither learned nor totally ignorant (thus again, in Wolff's 'purgatory'). As Kuus further noted, the EU is presented as an agent of stabilising influence in the 'unstable' East. Within the process of Europeanisation of Central and Eastern Europe, the EU had already positioned itself as a factor to prevent 'slipping down' the road towards authoritarianism in the region (Kuus, 2004).

The idea of Europe (i.e., the European Union) as a stability driver was an important part of enlargement discourses during the accession. The EU saw itself as a guarantee of security and stability in the region that was perceived as potentially problematic (non-stable). In short, the enlargement was also a space for the reproduction of the EU's normative power identity, but also by the form of its confirmation and reproduction via rhetorical action, strategic use of norm-based arguments in pursuit of self-interest (Schimmelfennig, 2001:63). Moreover, this security and stability was believed to be provided by the EU as an innovation. For example, the former German Minister for Foreign Affairs, Joschka Fischer, contrasted the new Europe and the old one (i.e., Eastern) in his speech in 2000 as follows:

> An EU restricted to Western Europe would forever have had to deal with a divided system in Europe: in Western Europe integration, in Eastern Europe the old system of balance with its continued national orientation, constraints of coalition, traditional interest-led politics and the permanent danger of nationalist ideologies and confrontation" (Fischer, 2000).

In the EU document *Agenda 2000: The Challenge of Enlargement* (1997), the process of enlargement is seen as the way to find positive solutions to address issues related to national and ethnic minorities and bilateral disputes while "the EU and its Member States *with their weight, stability and democratic traditions* could greatly contribute to this" (Agenda 2000, 1997: 12, italics by VSS). The same document later states:

> By consolidating democracy and enhancing stability and security in Central and Eastern Europe, enlargement will increase the security of the EU's eastern neighbours as well" (Agenda 2000, 1997: 14).

The official leaflet of the EU about the enlargement claims that one of the benefits of enlargement will be "The extension of the zone of peace, stability and prosperity in Europe will enhance the security of all its peoples" (Enlargement of the EU, 2001: 5). These statements assumed that the role of the EU is to extend peace, stability and prosperity into the space which would not perhaps be able to be peaceful, stable, and prosperous without its presence or on its own. This is reminiscent of the civilisation mission idea known from colonial times – the EU acts as a socialisation agent in the space of 'semi-barbarian' violence and instability (Krasnodebska, 2014).

The end of the old division of Europe was repeatedly linked with the enlargement. However, this was not without power-based nuances. For instance, the Commission Opinions eloquently stated in the case of Poland: "Poland's accession is to be seen as part of a historic process, in *which the countries of Central and Eastern Europe overcome* the division of the continent which has lasted for more than 40 years, and join the area of peace, stability and prosperity created by the Union" (Commission, Poland, 1997; italics by VSS). It was up to Central and Eastern Europeans to overcome the historical division, which was largely geopolitically imposed, while Western Europeans continued to reproduce the Euro-Orientalist assumptions on which the division was built. Ann Sher puts it neatly in her study, saying that the enlargement process represented the road from the 'division of Europe' to the 'di-vision of Europe' (meaning the vision which divides). Sher's analysis "suggests that the dominant actors in the political discourse on enlargement have not even started to dismantle the symbolic division of Europe. Instead, they use it to advance their political goals that, to a large extent, end up reifying that division" (Sher, 2001: 237).

It would be easy to suggest that the agency of candidate countries from Central and Eastern Europe was merely fully passive in this discursive nexus. It is true that power distribution of this 'conversation' was highly asymmetric but still we must avoid seeing the EU enlargement as a one-way process or the way in which the 'Easterners' simply internalise Western assumptions about them (Kuus, 2004). The Euro-Orientalist vision of the region persisted, not only because it was imposed on the region during the enlargement process from outside, but also because these countries and their societies were discursively participating in its legitimisation and reproduction.

The domestic discourse about the integration process was largely based on the idea, or better said, on the mythology of the 'return to Europe' which was suggesting that Central and Eastern Europe was not situated in Europe before 1989. It was outside of Europe. It meant two things: i) Europe is the capitalist part of the Cold War division or, colloquially, the West; and ii) the socialist system was something inherently 'non-European' ('other' or 'Eastern'). This mythology was strongly linked to the post-Cold War triumphalism, to the renewed quest for post-socialist national identity and, as Mikko Lagerspetz argues, to the general spirit of transformation as a 'return' or as a restoration of (capitalist) 'normalcy' (Lagerspetz, 1999a; Lagerspetz,1999b). Lagerspetz shows how the discourse of return to Europe framed the Estonian national narrative in the 1990s. "…the Eastern European nations emphasising their European identity tend to make clear divide between their eastern neighbours and themselves," notes Lagerspetz (1999a:388) while quoting the speech of Estonian president Lennart Meri from 1997:

> "(Estonia)… through centuries has been the eastern border of the European legal system, and *will so remain*… Estonia has been and will remain an open society, a part of Europe. And just because of the need to defend European values, Estonian is in need of a controllable border" (quoted in Lagerspetz, 1999b:19).

While affirming Estonian Europeanness, Meri created a non-negotiable border between Estonia and its eastern neighbour, Russia, which is doomed to be unable or unfit to be part of the 'European legal system' and thus of European values (since Estonia 'will remain' the eastern border of Europe). This is just one of myriad examples of the interplay between inclusion and exclusion.

Such a construction of a functional border between Europe (us) and the East (them) is nothing new for the construction of national identity in Central and Eastern Europe. Its functionality is often, at least in the case of Central and Eastern Europeans, related to the idea of 'defence' of Europe against 'the other' situated beyond its borders (Ottoman empire, Russia). Therefore, it is based on the implicit value conflict, which calls on Europe (i.e. Europe in the west) to realise and appreciate their sacrifices in the name of Europe. The liminal defence of European values is another type of rhetorical action and exclusion.

This practice of Central and East European nations constructing their eastern border as the border of Europe was labelled by Milica Bakić-Hayden 'nesting Orientalism', a pattern of representation that reproduces the dichotomy between Europe and the East. As a result, the East is never a fixed location in Europe, its image is produced in a domino effect from left to right. Nesting Orientalism, however, introduces certain graduation between these poles (Bakić-Hayden, 1995). It captures the flexibility of the Europe and non-Europe frameworks. As Kuus writes: "Each accession country can escape the East by framing itself as an eastern outpost of Europe." (Kuus, 2004: 480). One of the escapes from the East is the concept of Central Europe as it was reformulated in the 1980s and still resonated in the 1990s (Todorova, 2009; Sušová-Salminen, 2015). However, this escape rather confirms the Western assumptions about the East while the East is moved away to the further East by means of exclusion. It also confirms a peculiar stigmatising effect of being Eastern. Turkish novelist Orhan Pamuk said in his interview with *Believer* magazine: "There is no place, perhaps, in humanity, where the subject considers himself completely Eastern." (Believer, 2006). We can add, there is probably no place in humanity where the subject wants/accepts to be considered Eastern as a constitutive part of the self. Why do we see these escapes from the East?

As Ayse Zarakol brilliantly observed, the East is a stigma that she defines as an "internalisation of a particular normative standard that defines one's own attributes as discreditable, as it is a label of difference imposed from outside" (Zarakol, 2011: 4). In other words, the Central and Eastern Europeans tend to hold the same beliefs about their identity (Europeanness/modernity) that Western Europeans do, and indeed these beliefs make them agree that they fall short in what they *should be* normatively." Zarakol describes how it is to be located on the periphery of Western modernity as follows:

> People who have grown up in countries whose modernity has never been in question may not fully understand how all-consuming the stigma of comparative backwardness may become for a society; how tiring it is to conduct all affairs under the gaze of an imaginary and imagined West, which is simultaneously idealised *and* suspected of the worst kind of designs; and how scary it is to live continuously on the brink of being swallowed by a gaping chasm of "Easternness", which is simultaneously denigrated *and* touted as the more authentic, the more realistic choice" (Zarakol, 2011:6).

AFTER THE EU ENLARGEMENT

After the great financial crisis (2008), Western authority was dramatically shaken at the very moment when Central and Eastern European narratives about a 'return to Europe' were exhausted. Nine candidate countries were the EU members on the way to establishing their membership and making it routine, but they continued to be marked as 'new Europe', 'new Member States' and, later, as 'eastern Member States' or Eastern wing. They invested time, resources, efforts to develop all skills to work, look and act like average Europeans; however, they were not able to shed the label of Eastern (or at least 'new') as the primary marker of their identity in the EU. As we have seen, the reason lies in the established Euro-Orientalist practices in the core, which were ingrained in the enlargement process, and further reproduced via the conditionality of EU membership. Unfortunately, the EU is possibly not based on the idea of a divided Europe anymore, but on *the di-vision of Europe*, as Sher suggested. Therefore, it is hardly surprising that Euro-Orientalist practices in the EU also continued to blossom after 2007, and their new peak came in relation to the migration crisis in 2015 contextualised by anti-liberal revolts in the region.

Krastev and Holmes (2019) note the paradoxical aspects of developments after 1989 – the post-socialist transformation and Europeanisation process were mostly founded on 'imitation of goals' (and not means) as a composite part of western-inspired 'Imitation Imperative'. As we have seen, imitation is one of the typical features of peripherality: the core leads and the periphery imitates (Adamovsky, 2004). But this is not without consequences. Krastev and Holmes differentiate between imitation of means (borrowing), imitations of goals/ends, and the learning process. The imitation of ends runs deep because it is linked with identity. Because its links to identity, imitation can 'breed psychological trauma and social conflict' and "this happens, when the model imitated becomes an obstacle to the self-esteem and self-realisation of imitator", write Krastev and Holmes, in reference to the work of philosopher René Girard. As they continue, the imitation of targets, objectives, goals, ways of life and desires is an "inherently stressful and contentious form of emulation that has helped trigger the current sweeping anti-liberal revolt" in the region (Krastev-Holmes, 2019: 14). And they continue concerning the EU accession process:

> …the Central and East European countries ostensibly being democratised were compelled, in order to meet the conditions for EU membership, to enact policies formulated by unelected bureaucrats from Brussels and international lending

> organisations. Poles and Hungarians were told what laws and policies to enact, and simultaneously instructed to pretend that they were governing themselves" (Krastev -Holmes, 2019: 9).

The corollary of the accession process based on discursive othering and/or stigmatisation, economic peripheralization, and psychological traumatization via imitation of goals is the social-conservative and anti-liberal rebellion of imitators. On the more general level, as Holmes and Krastev notice, this revolt emerged because liberal democracy replaced plurality for hegemony. The EU-based model of liberal democracy was presented as a hegemonic model without any alternative (Krastev-Holmes, 2019:5). Furthermore, I think we must consider the rise of non-Western powers such as China, whose economic and international rise was just amplified by the great financial crisis. The rise of non-West has a special significance for Central and Eastern European imitators. For, "… it becomes a shipwreck if you realise midstream that the model you have started to imitate is about to capsize and sink. Fear of catching the wrong train is commonly said to haunt the collective psyche of Central Europe" (Krastev-Holmes, 2019: 21). This is maybe one of the most crushing explanations about recent development in the region beyond the socio-economic sphere. It also explains negative reactions in the core countries since the enlargement helped to confirm the self-esteem of the EU, its normative foundations and its Occidentalist identity. Now, the very same countries seen as examples of successful integration refuse to imitate and prefer their autonomous ways. It is not just about breaking the rules. Those who break the rules are those who were seen as the most eager norm-takers. The enlargement process discursively reinforced the normative power of the EU core and the normative power of the block itself; the anti-liberal revolts in the periphery put them in doubt.

In short, the Euro-Orientalist practices, together with the Imitation Imperative concerning the 'transformation' and Europeanisation of Central and Eastern European countries, represented not only more or less successful transition to a neoliberal market economy, but they also had social, political, and socio-psychological dimensions and consequences. The Europeanisation process continued to reproduce Western hegemony on the discursive level; it reinforced the region's position as a periphery that imitates the core model. Despite rhetoric about the historic end of the division of Europe, the exclusionist Orientalism continued to shape and organise the EU approaches and policies during the accession and afterwards.

Case Study 2: Beyond economy: othering and culturalization of the crisis in Greece

In this case study, we focus on some discursive elements of cultural representation of the crisis in Greece in the mainstream European discourses using mainly previous research dedicated to this topic. To illustrate some of the arguments, we will also use primary texts (sources) as a probe. We focus on how the Greek developments were conceptualised and narrated for the audiences in the EU.

The 'Greek debt crisis,' as it is frequently labelled, has been one of the European Union's important tests, scrutinising its economic and political structures and governance, including the Eurozone. The crisis has been the most radical and visible embodiment of the financial crisis or Great Recession in the southern Member States after 2008. Therefore, it cannot be seen as only a Greek problem outside the global context. In the European Union context, the financial crisis meant very asymmetric consequences in the core and peripheries of the EU. From the point of view of political economy, the sources of the 'Greek debt crisis' (again in official parlance) were structural. The crisis had several layers – the Greek national economy and its structure, the Euro architecture, and Greece's position within it are among the most critical. However, this explanation was not the primary concern of the political and economic establishment and mainstream media. Political and economic elites in the EU were very reluctant to analyse the crisis in Greece as a problem of structure related to power and politics. Instead, the tendency was to depoliticise the crisis employing Greece's cultural representations about Greek issues and narratives such as 'a weak chain of the eurozone' (for more see Mylonas, 2012; Mylonas, 2019).

GREECE AND ITS PERIPHERALITY

The (semi)peripheral position of Greece as a southern European (or even Balkan) country was an essential context for the interpretative framework of the crisis. Greece's position in the formation of historical capitalism primarily determined its modern developments. At the peak of the crisis, Greece followed the same pattern experienced by other southern peers – its peripherality was newly accentuated, amplified and rediscovered. As Miralles neatly observed about Spain:

> However, the financial crisis and the explosion of the real estate bubble, the escalation of unemployment and the string of corruption cases that began to plague it, once again sowed doubts about [Spain's] modernity. At the height of the crisis, and with societies drowned by debt and austerity, the European North updated a series of images and stereotypes about the Mediterranean South that attributed its ills to its national characteristics once again. In southern Europe – it was said on the front pages of big French, English or German newspapers – indolence, selfishness, and laziness had always been imposed on work, the common good and commitment. Neither the progressive loss of the industrial and productive fabric, nor the deregulation of the financial system, nor the consequences of a common monetary policy, seemed to have anything to do with what was happening in southern Europe. The problem was, once again, that southern Europeans (*who bore a suspicious resemblance to the inhabitants of eastern countries*) did little and bad work, tended to worry only about themselves, and spent more time clapping than solving problems that plagued them." (Miralles, 2016: 45, italics by VSS)

This othering of periphery is not an accident; it is historically embedded. In the case of Greece, anthropologist Michael Herzfeld argues that Greece might be understood within the crypto-colonial regime (Herzfeld, 2002). It is the regime of deep economic dependency accompanied by national culture suited to foreign (Western) models. The relation between mimicry or imitative politics and economic dependence is underlined by the imperialistic nature of core-periphery relations and reproduced by the local elites. Herzfeld says it openly:

> Over nearly two centuries, Greeks were forced to fit their national culture to the antiquarian desires of Western powers … (that) supported conservative politicians who maintained Greece's status as a "backward" client state … Western moralism about alleged Greek "corruption," "laziness," and "irresponsibility" thus occludes the West's own complicity in generating these attitudes" (Herzfeld, 2015).

> The Western powers supported conservative Greek politicians who maintained Greece's status as a backward client state while reproducing the same inequality in the exploration of their electoral constituents" (Herzfeld, 2016: 10).

> Such (crypto-colonial) countries were and are living paradoxes: they are nominally independent, but that independence comes at the price of a sometimes humiliating form of effective dependence" (Herzfeld, 2002: 901).

Crypto-colonial regime is a complex phenomenon stemming from and reproducing or complementing peripheral dependency under capitalism. Within the limits of such a regime, Greece is an independent state formally but dependent informally. Simultaneously, the composite part of this dependency is the alliance between Western powers and the conservative Greek elites. Finally, Greek dependency is translated into subjectivity, which means 'fitting national culture' into expectations based on Western powers' or the core's desires. In fact, we witness typical core-periphery relations. Herzfeld, Mylonas and Frederik Jameson (2015) emphasise that the Western ideas about contemporary Greece are focused on ancient Greece, not on the Greece of today. The Western mainstream media approach to the crisis in Greece was embedded in Greece's specific peripheral position in the crypto-colonial regime.

Mylonas (2012, 2020) suggests the crisis mostly generated negative publicity in the international media. In general, the crisis was presented as a 'sui generis case, attributing exceptionalist characteristics to the Greek state and the Greek society overall'. The hegemonic narrative underlined Greece's inherent problems (which were often also generally related to Southern Europe) such as lack of institutional modernisation, bureaucracy, clientelism, lack of economic productivity and competition. We meet a magic word, 'lack,' typical for Euro-Orientalist discourse (Adamovsky, 2005) and frequently used for constituting the EU accession discourses (1994-2004) just in the southern context. The next set of 'reasons' was related to the moral shortcomings of Greek 'culture' such as being seen as irresponsible, idle and corrupt, and the ways of Greek people as 'oriental' (Mylonas, 2020: n.p.). The predominant narrative turned attention from political economy to essentialism, paternalism and Euro-Orientalism. These phenomena have a hierarchical and excluding character in the European context. They represent a subsequent version of 'othering,' a construction of subject concerning object pronounced according to a 'we' and 'them' division.

The topics of 'laziness' and 'irresponsibility' appeared as a building block of the crisis' narrative in the mainstream media. Together with them, it was a narrative of blame for the crisis and Germany's moral superiority as the next narrative strategy (Rathbun-Powers-Anders, 2018). The specific role played the idea of debt, which was especially emphasised even when economically it was just one part of the problem. The debt was used as a political tool and as a symbolic tool of power. For instance, the debt was presented in religious terms of redemption in the German interpretation. Greek 'bankruptcy' was used as a symbol of failure. Meanwhile, the debt was also used as a pretext for the policy of bullying and symbolic subjugation of Greece and its people. The language of debt is a moralising instrument for relations founded in violence, as anthropologist David Graber has suggested (Graber, 2011; Mylonas, 2012:649).

According to other authors, Greece was also subjected to the specific 'banal Occidentalism' regime, which again helped to 'explain' the crisis in Greece by its next culturalization. Bozatzis shows that it was a touristic mass-cultural 'experience' (or, better said, 'tourist gaze' of John Urry, see Urry, 1990) with Greece, which helped to inform media discourses in the Western lifestyle magazines such as *Vogue,* for example. However, we suggest that the tourist gaze has been an important engine to produce other (and false) public images of the crisis in Greece. In consumerist society, tourism represents an essential instrument for constructing stereotypes about different cultures embedded in the superficial, consumerist experiences. These experiences can easily replace analysis based on knowledge of history and context. Tourism also shapes the mental map of Greece. Thus, 'banal Occidentalism' is a way of othering that serves as an instrument of victimisation, argues Bozatzis further. Like Herzfeld, he notes the Greek marginal status within Occidentalist narratives. The Greek membership in Occidentalist symbolic community (Occidentalism is Western self-conception about the West, see Coronil, 1996) was again 'contaminated' by Ottoman/Oriental traits. At the same time, the West builds its 'understanding' of Greece on its fantasies about ancient Greece. This orientalist contamination can be easily linked with Central Eastern Europe (and Balkan) 'ambivalence' (situated between the West and the East, neither western nor eastern). As a result, the narratives about the crisis in Greece were pronounced from the Occidentalist positions, leading to the Orientalising or self-orientalising of Greece. Self-orientalisation served as an important instrument of self-blame, a subsequent psychological dimension of dependency and peripherality.

WE, THE HARDWORKING AND RESPONSIBLE – THEY, THE LAZY, CORRUPT GREEKS

Let us focus on some empirical examples of the crisis' interpretation in the media and politicians' public discourses. Since detailed textual and discursive analysis is beyond this study's focus, we rely on previous research and some selected examples. As we suggest, the critical narrative framework of the crisis in Greece is based on the constitutive relations between 'us' and 'them' based on the 'othering' of objectified 'them'. In this relation, the critical role gets 'we', which uses 'them' as a self-mirroring while defining them as 'those Others'. Furthermore, the process of othering reflects asymmetric power relations and helps to reproduce hegemonic discourses. We shall focus on some Western examples and some examples from Central Eastern Europe to maintain core-periphery dynamics.

Former German Chancellor Angela Merkel belongs to those in the European establishment who helped reproduce the narrative about 'lazy Greeks' in the wake of the debt crisis. In this narrative, implicit or explicit laziness (as we have seen, 'typical' southern characteristics for the core) has an explanatory function. The former German Chancellor gave a series of statements in 2011:

> It is also about not being able to retire earlier in Germany than in countries such as Greece, Spain, Portugal, instead everyone should try a little bit to make the same efforts – that is important" (Eurobserver, 2011).

> We can't have a common currency where some get lots of vacation time and others very little. That won't work in the long term" (Eurobserver, 2011).

Before Merkel, former Swedish Minister for Finance Anders Borg had already stated:

> Obviously, Swedes and other taxpayers should not have to pay for Greeks that choose to retire in their forties. That is unacceptable" (SVT Nyheter, 2010).

These statements were, of course, false and misleading 'descriptions' of Greek reality, but they were pronounced from a place of authority, which gave them a privileged position and false factuality. They helped construct faulty reasoning about the causes of the crisis while offering a very ethnocentric idea about the 'sameness' in the EU. They also help to explicitly contrast 'them' with 'us' – those who work hard and those who do not.

As Mylonas and others observe in the previous research, German tabloid *Bild* was especially aggressively engaged in the debt crisis narrative. The newspaper wrote not just about Greece but also about Portugal and Spain in the same paternalistic style, suggesting that the Southern problem is 'the siesta,' i.e., laziness:

> Greece, but also Spain and Portugal have to understand that hard work – meaning ironfisted money-saving – comes before the siesta" (quoted in Henkel, 2015).

The cultural stereotype of lazy Southern Europe and lazy Greeks was one of the main discursive strategies in portraying the crisis from the hegemonic position. To speak of laziness was an instrument for turning attention and evoking emotions related to morality. There is a crucial divisive effect – the opposite of the lazy Greek, Portuguese or Italian is indeed the 'ironfisted, money-saving' German or hardworking Swede or even 'poor and hardworking Pole and Czech'. This type of divisive language prevented the creation of solidarity with Greek people while it confirmed the game's rules (in a sense, no pain, no gain). The Greek economy's structurally created problem is translated into a cultural language that uses othering techniques (we-the-hardworking vs they-the-lazy-Greeks) and stereotypes based on essentialist approaches and cultural hierarchies (the siesta).

In 2020, the former European Commission President Jean-Claude Juncker endorsed precisely this type of narrative about lazy Greeks in one of his interviews, although with some effort to reflect upon the way Greece was treated:

> … Mostly in the so-called 'Orthodox north' of the EU, governments, parliaments, and public opinion felt that Greece was not doing well, that the Greeks were not working, they were lazy, they were not serious, they were corrupt, they did not care about the benefit of the Eurozone. There is some truth to all this, but in my opinion, Greece was treated with no sense of dignity" (Juncker, 2020).

The former Luxembourgish politician did not refute the idea of 'laziness' as such because 'there is some truth in all this'. At the same time, he employed the idea of dignity as a peculiar juxtaposition to his partial reproduction of stereotypes which were meanwhile refuted (see Kaufmann, 2011). Juncker was not the only European politician who has used the stereotype of laziness in recent years, showing its persistency many years after the crisis. In 2017, Dutch politician Jeroen Dijsselbloem, who was then chief of Eurogroup, said about Southern Europeans:

> As a Social Democrat, I attribute exceptional importance to solidarity. (But) you also have obligations. You cannot spend all the money on drinks and women and then ask for help" (CNBC, 2017).

Dijsselbloem merges the idea of being lazy with the implicit trope of responsibility, a critical building block of neoliberal subjectivity. Wendy Brown suggests that 'responsibilisation' is a composite part of neoliberal hegemony. It forces the subject to become a "responsible self-investor and self-provider" (Brown, 2015: 1056) in the context of powers and contingencies "radically limiting their ability to do so" (Brown, 2015:1935). The problem of Greece is, therefore, its irresponsibility.

The 'laziness' narrative was not alien to politicians in the EU's East with its imitative mentality; the aspiration to become 'them' (the West) is often realised using imitation or even repetition of Western models. Former Czech President and prominent neoliberal Václav Klaus mentioned remarkably similar arguments in his interview in 2011:

> I don't blame Greeks. Each country could choose to live on half gas, quarter gas, or the full gas of its options. She might say to herself: we will sit in the shade under the cypress for more hours, drinking ouzo or working harder. If Greece decides to devote more hours to ouzo or cypress, that is perfectly fine. However, it cannot enter a monetary union with Germany" (Týden, 2011).

Klaus, a convinced Eurosceptic, uses relativising language to make a point. The point is that the monetary union is based on the German rules, while to choose to drink ouzo and not work harder is a choice with consequence. As such, Klaus confirms the validity of the stereotype about laziness (hidden behind the 'poetic' metaphor of 'sitting under the cypress and drinking ouzo') and links it with Greece's macroeconomic problems, too. On the other hand, Klaus also used the example to criticise the monetary union and the euro, his long-term arguments.

The cultural presentations of the economic crisis in Greece also played on different aspects of othering strategy: exclusion. This is a typical accomplice of peripherality, since being on the margins often means not defining the rules of the game. The othering means exclusion, the creation of a border. "The characteristics of the Greek society put Greece in a different category; compared to the other European societies 'Greeks are not Europeans'." Yet, this rationale was often extended to the 'European south' as a whole: "The South's mentality is well-known; they don't respect laws and regulations! They operate with their own laws – for the rest, they are 'Europeans'!" concludes Andreas Antoniades (2012:13) regarding the practices of exclusion in the German media.

The narrative of self-blame might be seen as the next trope related to narratives about the crisis. Here, we can observe and state that the authoritative narrative about the crisis was accepted and reproduced in the Greek media and by Greek politicians, and even society. For example, in June 2012, conservative newspaper *Kathimerini* wrote:

> … the pressure does not come from some external factor, but from the bankruptcy of our own economic and political model … We are experiencing a crisis of identity on both the individual and social levels. We are still the victims of weak institutions, of the lack of self-discipline and the lawlessness that brought us to this point" (quoted in Lialiouti-Bithymitris, 2017: 59).

There are several statements in this piece typical of crypto-colonial mentality. The story of the crisis is Greek without any external factors involved. The self-blame is combined with victimisation and the motive of 'lacking', which amplifies and legitimises external critique and hegemony (Lialiouti-Bithymitris, 2017).

The economic crisis in Greece provided a fruitful ground for political struggle and mostly for strengthening the neoliberal hegemony by emphasising 'responsibility' or 'austerity' in different contexts. The crisis in Greece became a negative signifier at the international level. If we return to Czech politics, the debt crisis in Greece became an essential topic of parliamentary election in 2010. Thus, one can observe the specific domestication of the crisis in Greece on the one hand. On the other hand, the crisis image served to maintain and reproduce global neoliberal recipes even after the financial crisis. The 2010 parliamentary election is significant because it heralded a gradual ending of the conservative-social-democratic hegemony of Czech politics that had lasted since 1989. The election campaign's main topic was debt and budget deficits as a growing threat for the future of the Czech Republic. The idea of threat was used to legitimise the necessity of 'responsible' reform, saving and austerity measures. '*To become the Greeks*' was a topic repeated in the election campaign and pronounced mainly by the neoliberal Right and mainstream media position. The neoliberal framework was a crucial context for its interpretation. In short, Greece was utilised to enforce the next wave of neoliberal policies. The leading Czech media and commentators (in particular, *Mladá Fronta Dnes* and *Právo*) were weaponizing the debt crisis in Greece in the titles in a very emotional way:

> 'Do we plunder the economy like the Greeks?' and 'Czechia is threatened by the Greek path.'"

Greece was an imminent threat presented negatively, while the Czech economy was comparable with Greece based on debt growth only. The Greeks were implicitly blamed in the first place, but these statements included a substantial dose of self-blame directed at Czech society and leftist political alternatives supposedly offering a 'Greek' choice to Czech citizens. The debt crisis in Greece was used as an offensive argument of the political Right to dominate the political debates about the economic future. The Greek 'path' was presented as a recipe for bankruptcy without any interest in different contexts. Neoliberals repeated that to vote for the Left (or social democracy) was a path to the Greek default.

Leader of conservative ODS and, later, Czech Prime Minister, Petr Nečas offered an apocalyptic vision of the Czech Greek future in his article in May 2010. His text is a symptomatic example of Czech neoliberal discourses in many ways. Nečas wrote:

> We see a crisis of the socialist-style 'welfare' state on live television in several European countries. You can no longer live beyond your means. One cannot selfishly claim privileges for which there are no resources. We cannot just rely on someone to help us. Yes, perhaps they do, but under what conditions? The willingness of more responsible countries and international financial institutions to pay for the irresponsibility of others is declining significantly" (Nečas, 2010).

Nečas thinks about the debt (and Greek) problem of the 'socialist' welfare state, which is a striking example of local neoliberal demagogy. His message is domestic: the Czech welfare state is 'socialist', and its maintenance means selfishly claiming privileges without resources. W*e cannot afford to have a welfare state, and if we continue to insist on it, we shall become the Greeks*. The debt is 'irresponsibility' while 'more responsible' countries do not have debts (in fact, the majority of West European countries have more significant public debts than Czech Republic and eastern peripheral EU members). The crisis in Greece is another way of worshipping the idol of austerity in the Czech context. But, after all, there was a 'way out', as suggested by one of the leading Czech commentators, Karel Steigerwald:

> There is a way out: to return the welfare state to its original function: to help citizens in the disaster. The elections will soon tell us whether this path is applicable or whether we will follow the path of the Greeks" (Steigerwald, 2010).

This was an implicit call to follow austerity measures and ensure limitation of the welfare state and its benefits based on an argument about limited state engagement as some 'disaster' assistance. But there was still another message in Nečas' text:

> Indeed, I think that Czech citizens should not be involved in bailing out the consequences of profligacy and falsifying the statistical data of Greek governments. If only because the Czech Republic is not part of the Eurozone." (Nečas, 2010)

In this part of the text, Mr Nečas was successfully mimicking the mainstream Western narrative about the crises in Greece using words such as profligacy. And the future Czech Prime Minister offered the solution in his text, too:

> It is obvious that we must rely first and foremost on ourselves, on our responsibility. Only hard work remains. The state must curtail itself only by avoiding the Greek, but also the Hungarian, Latvian, Portuguese or Spanish problems." (Nečas, 2010)

In other words, the next wave of austerity is a way forward because it is responsible. The Greek example was used as an instrument to enlarge and deepen neoliberal reforms in the Czech contexts. The parliamentary election in 2010 brought to power the coalition led by Petr Nečas and his ODS.

Czech Republic was not alone in domesticating the crisis in Greece. In 2010, the crisis in Greece utilised a negative signifier in the political struggle during the Polish presidential election. For example, the Polish Prime Minister at the time, Donald Tusk, stated during the election campaign: "We would have now become the Greece of Central Europe if we had followed the advice of Jarosław Kaczyński" (quoted in Antoniades 2012: 13). In both the Czech and Polish cases, the example of the crisis in Greece served as a disciplinary tool to legitimise and reproduce austerity policies in the context of financial and economic problems.

Nevertheless, the crisis in Greece was not just a valuable instrument of political struggle in the Czech or Polish contexts, primarily with imported arguments. It was also fertile soil for different types of self-blame for failures of the domestic political system. For example, Czech liberal commentator Jiří Pehe wrote:

> The problem seems more political than economic. Like many countries in southern Europe, Greece has a highly polarised political scene, with the right and left at war with each other, and various interest groups, such as labour unions, are at war with the state. Neither Left nor Right could afford real reforms in such an environment if they did not want to lose the next election."

> Highly polarised political systems also suffer from high levels of corruption and patronage, which in the Greek case are phenomena that are exacerbated by a political culture stuck with one foot in the political legacy of Byzantium and later the Ottoman Empire" (Pehe, 2010).

Of course, Pehe offers a centrist alternative, which should also be a valid model for Czech society with its 'Greek' tendencies and problems. This model is out here, in Germany or Scandinavia:

> The Scandinavian (but also German) model, sometimes called 'consensual' in political science, is based instead on the constant negotiation of political parties around the political centre and the drawing of interest groups into permanent dialogue with the state. True, politics and journalism are more 'boring' than in Greece, but ultimately highly rational."

> Our political system, with its high level of would-be ideological, in fact, content-free polarisation, coupled with corruption and patronage, resembles far more southern European systems than, say, Scandinavian ones. Moreover, the Greek crisis will impact us with or without euro" (Pehe, 2010).

In Pehe's interpretation, we see the crisis' peripheral liberal interpretation. Pehe confirms the German (Scandinavian) model's validity for peripheral (Czech) context. These Western models are rational. At the same time, Southern and Greek (and Czech) systems are irrational, corrupt and clientelist because they are polarised and historically determined (in the Greek case) by the legacies of Byzantine (Eastern – thus Oriental) and Ottoman (Oriental) political culture. For Pehe, the model of the core, Germany (Scandinavia), serves as the way to act to avoid ending up on the Greek path. The rationality lies in the West or Germany and Scandinavia, while irrationality is a southern or Czech problem. There is no word about the economic dimension and asymmetries of power between the model and its supposed followers. To follow the core model is an empty recipe whose only function is to reproduce the core's hegemony under liberal narratives in the periphery.

THE CRISIS IN 'NORTHERN/WESTERN' EYES

The crisis in the Greek example became a platform for several ways of othering, which served to normalise and punish Greece's peripherality. The crisis was presented from the core perspective as a story of Greek defects (and lacks), not as a problem embedded in the existing political economy. It was also interpreted within the existing neoliberal hegemony with its austerity practices and responsibilisation ideology. This meant that power asymmetries were hidden behind a mask of culturally constituted strategies.

Peripherality stems from structures of polarisation between core and periphery. To be situated in the core means to have authority that stems from the economic sphere and has its political, cultural and ideological (scientific) dimensions. These hegemonic interpretations of development in Greece helped to maintain the prevailing neoliberal hegemony and asymmetric (according to some, neo-colonial) core and periphery relations in the EU (Mikelis, 2016).

Culturalization of the financial crisis in Greece turned attention from analysing its political economy and externalised the responsibility for failures of the neoliberal model of capitalism onto Greek people, Greek culture and the Greek ways only. In the mainstream Western narrative, the specific crypto-colonial regime constructed about today's Greece was important. As Herzfeld suggests, the crypto-colonial regime can be understood as an inherent part of Greece's peripherality, a subjectivity stemming from the peripheral position in the West's economic and political structures. The self-blame and acceptance of imported interpretation are a composite part of the crypto-colonial regime. The crisis in Greece was subjected to another version of Euro-Orientalist discourse, which treats the South as another East. Also, Southerners and Greeks are those who 'lack' something important or represent somewhat 'contaminated' half-Europeans because of their diverse history from the core's perspective. Thus, despite no Cold War divisive border, there is still the Orientalist border between the South and the West (North).

In the Western context, the crisis in Greece was used to constitute 'us' based on neoliberal (protestant) values such as hard work, saving money and self-discipline or responsibility in the public discourses. The Greeks and other South Europeans were presented as the opposition to these values, and the lack of some normative characteristics was offered as the main reason for their economic troubles. This interpretation led to victimisation (it is *their* fault) and a divisive strategy turning people against people in the European context. In the Greek context, this was accompanied by self-blame and self-othering (self-orientalisation) in some cases, which we can interpret as the next example of intellectual dependency within Herzfeld's crypto-colonial regime.

Nevertheless, in the Eastern context (thus in the context of the other EU periphery), it was used as an instrument of not being 'us' (Czech, that means Greeks) and to aspire to be 'them' (the West or the core). Consequently, this is the next means of endorsing the core (Western) authority through the next self-othering and othering of the southern peers in the other EU periphery. The strategy of confirmation of Western (core) authority was a composite part of the 'domestication' of the crisis in the EU periphery.

The same goes for the use of Greek examples as a negative signifier. Using the Greek example as a negative signifier helped enforce neoliberal subjectivity in different national contexts, including those on the Eastern periphery. As we have seen in the Czech and Polish examples, Greece's debt crisis was domesticated through imported arguments. The strategy of domestication confirmed the authority of the core by repeating or imitating Western ideas and narratives, and recognising their role as a model to follow. In the end, the hegemony is an instrument of maintaining power for political and economic elites in the EU. Cultural representations of the crisis in Greece were normalising inequalities in the EU so that its politico-economic dimension remains hidden under the cultural surface.

COMPARISON AND CONCLUSIONS

In this chapter we have focused on two different processes underlining the symbolic, cultural and ideological dimensions of the peripherality. The first case study concentrated on symbolic aspects of the Europeanisation process and EU enlargement (1994-2007). The second case study focused on the discursive dynamics of the crisis in Greece (circa 2008-2012), which can also be seen as a process. Despite this processual character, we must notice that each process was different. Accession to the EU was a highly institutionalised and controlled process, while the crisis in Greece was a dynamic, largely uncontrolled process without a given structure. The type of discourses and the chosen sources correspond to the differing character of both processes.

As suggested, the core-periphery relations of asymmetric interdependence are not just political or economic. They have an ideological and symbolic dimension – the power concentrated in the core is also used to classify, organise, label and name, measure and assess, or to tell stories and institutionalise narratives. It is also used to discipline and punish. The dependency of the periphery is not – and cannot be – solely economic or political. It is also cultural and ideological, often related to imitation and (self-)othering, patronising, and makes efforts to use mimicry or to adjust and adapt according to the expectations of the core (authority).

The EU enlargement process between 1994 and 2007 (and, we would also suggest, in 2013) was discursively based on the Euro-Orientalist assumptions articulated by the EU. It meant that the Euro-Orientalist ideas were inscribed in the accession process, at the next source of Central Eastern/South Europe peripheralization. It is important to realise that *the Europeanisation process turned out to be also Orientalisation or othering*, and, thus, not just more or less successful institutional and political changes and reforms. In short, we can see that the discourses accompanying the institutional remake of Central and Eastern European region fixed the peripheral 'Other'. What is striking is that the old habits of the West were not abandoned, the civilisation map born in the 1700s was still relevant when the Berlin Wall was demolished. This means that the division of Europe was replaced by di-vision, the Europeanisation process was still linked with the hegemonic practices of inclusion and exclusion, which were typical of colonial rule in the past.

The nature of enlargement was adjustive and imitative. The region was not seen as a subject by its right, which would bring into the EU community anything new, i.e., *theirs* (of course, besides cultural diversity). As former German Minister for Foreign Affairs Joschka Fischer clearly said, the East of Europe was a place of old rules and habits without the EU. This limited subjectivity within the accession process was one of the consequences of state socialism failure and the result of the 'end of history' ethos. On the other hand, it was largely believed that Central and Eastern Europeans integrate into the EU by means of socialisation and adaptation. Their 'return to Europe' should mean repudiating the old habits and becoming *the same*. This belief was shared not only in the EU but in Central Eastern and South East Europe. Indeed, the idea that there is no alternative imaginable and the only way is to Europeanise according to imported models was honest. From the institutional logic of the EU, it was natural. The problem was that this process was patronizing and unequal, contextualised by politics and the economy. Thus, it is very difficult to become *the same* (the core) with a peripheral economy which is the corollary of the hierarchical division of labour.

Summary 2 Structures of EU enlargement discourses

Othering → Europe vs East (Europe), the same vs the other, in vs out

Tropes → lack (inadequacy), Otherness as an obstacle, instability, tradition as civilisation

Effects → self-othering, nesting Orientalism/ rhetorical action, exclusion, di-vision, confirmation, stigmatisation, imitation, patronising

The integration of Central and Eastern Europe as the EU's Other was not without effect for the EU with its normative dynamics. For years, the accessing countries reinforced the hegemonic practices and discourses about the EU by confirmation. In short, the region became a mirror for the EU, illustrating that the Other is very important for the definition of us. These confirmative practices relied on rhetorical action and nesting Orientalism. Central Eastern and South East Europeans were appealing to the EU Member States by virtue of messages about belonging to the same European civilisation, while they were excluding their own neighbours with the help of nesting Orientalism. These efforts to escape being 'the East' show that this label is a stigma that countries want to escape. On the other hand, nesting Orientalism is an approach that reinforces the hegemonic practices (exclusion) and simulates or imitates Western discourses of power in the periphery.

In the case of the crisis in Greece, the Euro-orientalist discourses were also used and present with some specific southern tastes. The civilisational map of the 1700s defined and structured the South according to Orientalist rules, too. It affirms Said's argumentation about the importance of the Orient for modern European (and Western) identity. Also, the Southern periphery was constructed by means of (Orientalist) othering even when there are somewhat different dynamics between South and North, especially because south European countries were not the other side of the Cold War polarisation, which enforced Euro-Orientalist discourses concerning the Eastern periphery. This difference in geopolitical and systemic history gives countries like Greece different contours of Otherness without the state-socialist or 'post-communist' taste.

Greece is a specific example of the Western hegemonic discourses – on the one hand, the country is seen as a cradle of European civilisation, but on the other, it is seen as a 'contaminated' place thanks to its Ottoman (Oriental) past. Both images of Greece are the obstacle to Greek modern subjectivity – its peripheral subjectivity is subaltern, subordinated to the hegemonic practices and discourses of inclusion and exclusion. Moreover, the next layer of the problem is, as some authors suggested, the images reproduced by consumerist practices of modern mass tourism. Greece as well as other southern European countries are popular summer destinations, and tourism is not just economic or leisure activity – it helps to shape (false or distorted) popular perceptions about these countries and their cultures.

Summary 3 Structures of the Crisis in Greece discourses

Othering → lazy vs hardworking, irresponsible vs responsible, irrational vs rational, them vs us.

Tropes → siesta, lacking (inadequacy), Greek path

Effects → self-blame, self-othering, blame, victimisation, exclusion, division, confirmation.

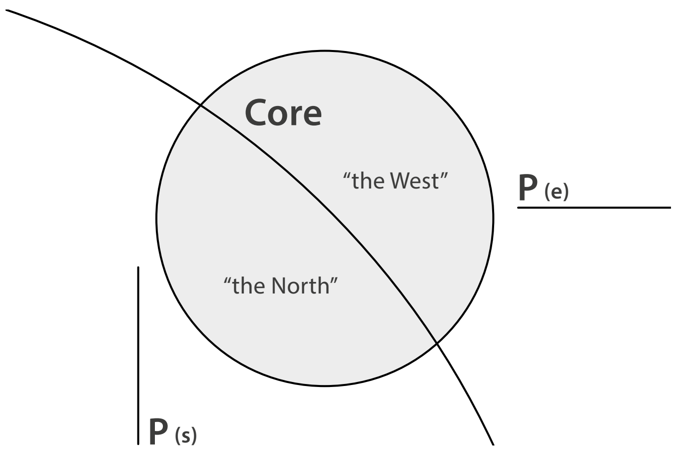
The predominant narrative about the crisis in Greece was emphasising essentialism and cultural features. Thus, it was clearly stating the opposite of our study's argument – only culture matters, while the structure was silenced. The crisis in Greece has shown how much it is uncomfortable to speak about the structure in the mainstream European public sphere. With its accent on culture and values, neoliberal hegemony merged with Euro-Orientalism to create a false but powerful narrative about irresponsible, lazy and irrational Greeks with their corrupt culture. This narrative was also enlarged – since the hegemonic discourse was quick to categorise all southern European problems in line with this type of narrative (and interpretation). This narrative was used to hide the actual substance of the crisis and legitimise austerity policies and the undemocratic character of governance in the EU. It also helps to mask that there is an increasing problem with convergence policies in the EU. In the Eastern periphery, as the Czech case suggests, the crisis in Greece was domesticated and used by local neoliberals to attack the welfare state and the Left. At the same time, liberal commentators reacted with a mixture of self-blame (*indeed, we are still as the Greeks*) and reinforcement of imitation (*but we want to be like the Germans*).

We can come to three main conclusion points:
The EU is permeated by the hegemonic discourses whose epistemological origin is in Western Europe. The Enlightenment civilisation map of Europe is still valid, and it was never decolonised. As a result, the EU enlargement (discursively) led to several dissonances such as the rhetoric of historic unification of Europe being accompanied by new division (or di-vision) from within and the exclusionist practices of the past.

Another key finding is that the crises (the crisis in Greece and the Great recession/migration crisis) that bring in uncertainty help to mobilise the othering strategies. The othering is based on essentialism and culturalization, the effect of which is to shape the conversation in the ideological direction and to maintain the core's superiority and the capitalist rules of the game. Their next effect is misrepresentation of the subject (which is objectified). It is alarming how quickly what is officially celebrated as diversity is translated into alterity, or even inferiority, in the EU. Of course, othering is not only a problem of core-periphery relations, it also exists in the core societies. In our case, we observed how much alterity helps to construct peripherality in the EU.

Peripheries often define their identities in relation to the core by means of imitation and aspiration. At the same time, they remain in denial when speaking about the political economy from which their peripherality stems. On the other hand, the core is the mediator, filter and aperture for both peripheries when gazing at each other, as Picture 2 illustrates. In some cases, the aperture has a blinding function; in some just a distorting one. Thus, in the discursive and ideological sphere, we can observe an inherently imperialistic division of core-periphery relations: this power-based operation means that periphery S/E perceives the periphery E/S mostly via the core hegemonic discourses whose main purpose is to reinforce the existing capitalist system. Obviously, this, among other things, represents a huge obstacle to building solidarity and strategic alliances.

Figure 7.1 Discursive relations P(s)-C-P(e) in the EU *(author: VSS):*



Note: P(s) = Periphery south
C = Core
P(e) = Periphery east

Conclusions and policy implications

Giuseppe Celi, Valentina Petrović, Veronika Sušová-Salminen

1. INTRODUCTION

This comparative study has focused on the political economy of the European Union, mainly from the perspective of two EU peripheries. As we have demonstrated, the EU is characterised by profound political, economic and ideological or cultural inequalities. These inequalities are *systemic,* and they have stratified historically. Moreover, the unequal distribution of power is an essential mechanism of EU functioning, even if its forms can be relatively subtle, as they often hide behind the rhetoric of the EU institutions. We explored these inequalities through the lens of the core-periphery analytical approach, which helped us to grasp some of the essential dimensions of uneven distribution of power and opportunities in the EU. This perspective underlines the macro-analytical view on social and economic phenomena in their mutual interconnections. Our focus on two EU peripheries – the East and the South respectively, including 17 Member States – reflected the existing political map of the EU. Member States are still the critical analytical unit in terms of investigation and socio-economic data collection. This does not mean that we do not realise the importance of transnational links and actors such as the EU institutions, multinational corporations with their global mobility and economic and political power, or the necessity of building regional and international solidarity coalitions beyond national borders. We believe that these transnational aspects are extremely important, and we have evidenced this in our analysis. However, beyond the methodological reasons, we also believe that national contexts are still significant for understanding political and economic dynamics in the EU. We therefore wanted to be sensitive to the regional and national developments, even when the comparative and macro-analytical approach has to generalise and synthesise in its search for general trends and *longue durée* processes.

Our study tried to grasp the problem of peripherality and core-periphery relations in the EU from different perspectives: the socio-economic, political, and cultural/ideological dimensions. Peripherality has a multidimensional character and is reproduced using a contradictory interplay between internal/endogenous and external/exogenous factors: one example, inter alia, is the *endogenisation* by peripheral countries of economic policies[95] or of ideological and cultural visions originating from core countries.

The first three chapters were dedicated to analysing mapped EU peripheries which, for the purpose of this study, have been divided into three regions – Southern Europe, Central Eastern Europe (V4 and the Baltics) and South-East Europe – from a socio-economic perspective. These three chapters introduced the most important problems of socio-economic development in both EU peripheries to the reader. They also offer a more particular view on their economic models and their development in the last three decades. After this discussion on the socio-economic evolution of each individual periphery considered in isolation, chapter four gave a representation of the *interaction* between peripheries, and between these and core countries, by looking at trade networks and global value chains (GVCs). This chapter showed a profound reshuffling of hierarchical relations within European industry, which gave some eastern peripheral countries (especially Visegrád economies) the opportunity to expand and qualify their industrial base by participating in German value chains (especially in the automotive sector), partly to the detriment of the Southern periphery.

The following chapter (chapter five) offered a comparative view on developments in both peripheries, which was contextualised historically and interpretatively framed by testing the impacts of the global financial crisis (GFC) on distinct peripheral economic models. The comparative chapter also focused on problems of convergence/divergence in the regional context and on the different types of dependencies characterised for both EU peripheries. In particular, this chapter has shown that the success in terms of intra-EU convergence evident at national level by some peripheral countries hides deep domestic growth divergences (regional dualism).

Furthermore, our study concentrated on the political dimensions of peripherality in the EU, i.e., existing and missing political cleavages, coalition potential and representation of peripheries in the EU, which were covered within the scope of our analysis in chapter six. The final chapter was dedicated to the ideological and cultural dimensions of peripherality in the EU.

2. THE EYES OF HISTORY: CHRONOLOGY AND GEOGRAPHY

Europe is still mostly the product of European historical capitalism (Wallerstein, 1983) and its dynamics and geography. In this sense, we can observe historically established patterns that have often been reproduced or even re-established in the last three decades. Both EU peripheries of our concern are somewhat 'caught' in the peripheral position originally formed during the 1500s. Their political developments, including their apparent departures from Western European development patterns (such as fascism or state socialism), are interlinked with their peripheral and dependent situations. Belated or incomplete industrialisation and lack of domestic capital are some of the most common features of the economic development of Southern Europe and Central Eastern and South-East Europe. In this sense, Southern European and Eastern European modernisation (i.e. incorporation into the capitalist economy) seems to be not only a process based on a never-ending 'catching up' strategy but also a process that underlined the *dependent position* of these countries within global capitalism. We can argue that the modernisation (catching up, convergence) and the mechanism of capitalist integration were often in conflict, or at least, not supportive of each other. The alliances between the elites of the core and peripheral elites (or *compradors*) were a pivotal mechanism for establishing and maintaining economic and social deformations in the periphery, too. In the modernisation language, these deformations are often labelled as culturally embedded, obscuring their real roots and economically profitable character as a composite part of the capitalist system and its global division of labour. It also obscures the fact that alliances between the core and the core in the periphery (e.g. metropolitan elites of the periphery) also meant the co-existence of 'modern' with 'traditional' elements simultaneously. In short, they boost 'peripheral capitalism' with its relative or objective deformations (often labelled as 'backwardness').

The neoliberal globalisation process became yet another engine for producing and reproducing inequalities at the global level and at the regional and (inter)national levels. The EU has found itself on the path to a neoliberally organised economy and 'depoliticised policy' consistent with the aforementioned discontinuous processes (see Introduction). This process of neoliberalisation of the EU was painful, specifically in the peripheral context. This is not because the core economies would suffer less from the negative impacts of the neoliberal economy but because the peripheral societies invested very particular hopes in the European integration process, perceiving the EU as a necessary 'modernisation' vehicle for their convergence (i.e. *the process of becoming the core*). The shape of these changes was often defined through (naïve) images of the idealised core countries with the golden age's prosperity and welfare states. The changes that were supposed to lead to convergence with the core were too often of imitative character, which is again one of the periphery features. As a result, these changes (or reforms) were often *not domestically owned,* and this quality shaped the periphery's relation to the core in the time of crisis. The crisis of the neoliberal model of the EU after 2008 was, therefore, qualitatively different in character, with a much sharper rise of populistically articulated policies of different colours in Southern Europe and especially in Central Eastern and South-East Europe. For both EU peripheries with which we are concerned, the crisis of the core (which the GFC, indeed, was) also represented a disorienting crisis of authority that defined their aims and ideal future for a relatively long period. Each periphery reacted to this new challenge differently, especially when comparing the political sphere. The period after the GFC was marked by the weakening of neoliberal hegemony, which turned into a new global interregnum. By this Gramscian term, we mean "the current era as one of sustained political crisis and confusion, with the old hegemonic equilibrium shattered, but no new hegemonic project able to take over" (Stahl, 2019: 2). Over a decade since the GFC, the interregnum still shapes our realities and our imagination, including the imagination of change.

3. KEY FINDINGS: WHAT ARE THE KEY CHARACTERISTICS OF THE EU PERIPHERAL COUNTRIES?

3.1 The socio-economic dimension

As mentioned, we have explored the recent EU peripheries' characteristics classified according to the socio-economic, political, and cultural/ideological dimensions. Focusing on structural economic features, we were able to observe that the South and the East of the EU share a dependent position in terms of capital, investments and technologies (and their transfers), which determines a very important constraint for their economic development. The dependence also means limited autonomy in decision-making processes, beyond the purely economic sphere. The dependence is a product of the structural characteristics of these economies within the existing (de)regulatory framework of the EU and its links with the global economy. However, these dependencies develop within differently structured economies or economic models, here analysed in their historical contexts.

We have shown how the economies of Southern Europe, faced with the crisis of the 1970s, halted or prematurely slowed down the process of industrialisation, and in the years that followed – marked by deregulation and liberalisation of markets at a global level – by taking the path of financialization and hypertrophisation of services and the public sector. By generating the illusion of prosperity, financialization not only created instability and high levels of indebtedness, but also undermined the resilience of the economy by misallocating resources towards activities that were more volatile and less socially and economically embedded in the real economy. These characteristics linked to the incompleteness of the productive matrix all contributed to defining the development model of southern peripheral countries as (*debt*)*-financed consumption-led growth without a complete productive base*. Our study has shown that the present economic model in Southern Europe is not providing drivers for sustainable economic and social convergence in the EU context. Some countries in the region (Italy, Greece, Portugal) are already on the path to continuous economic and social decline, which represents risks for the future of cohesion in the EU – i.e. it can be seen as a potential driver of centrifugal forces in the EU. The EU economic (de)regulatory framework itself was not able to provide sustainable economic development for these countries, and in some cases, it was rather an obstacle for a substantial change of their economic models. Moreover, the competition from the Eastern periphery, whose expansion in the production of intermediate goods for the German manufacturing industry partially displaced southern suppliers (Simonazzi et al, 2013), contributed to the further weakening of the already fragile production base in Southern Europe. In this way, the incorporation of one periphery into the EU contributed to the decreasing economic development of the other. It is also completely evident that the rules of the competition are not defined by these EU peripheries: they are rather imposed by the strongest players in the EU as well as in the global system, as our analysis of trade networks and value chains has demonstrated (chapter four). Competition (and not cooperation) also has an intra-regional dimension, as the example of the V4 countries and their *race to the bottom* testified. However, even the robust industrial development of the most dynamic Central Eastern European countries (mainly the V4 countries) shows its weaknesses, linked to dependence on foreign capital and technology, limited domestic markets and low wages. In other words, the substantial part of the East's success story is its dependence on mono-specialisation in the automotive sector, which is, in turn, closely integrated into the German value chain (and therefore dependent on German foreign direct investment (FDI). This mono-specialisation is a distinctive feature of the region's economic peripherality and is somewhat reminiscent of the old characteristics of mono-specialisation known from other examples (e.g. Latin America). As Galtung (1971) noted in his structural view of core-periphery relations (as a characteristic of imperialism), one of the important consequences of economic peripherality is the concentration of trade, since the periphery carries out most of its trade with the core nation. For Galtung, this situation translates into dependence of the periphery on the core: the periphery becomes particularly vulnerable to fluctuations in demand and prices even when the EU peripheries are not just commodity producers, due to their semi-peripheral character in the global economy (Galtung, 1971: 90). As we have shown, there is a relationship between mono-specialisation and trade concentration in the case of the V4 countries (and, less clearly, also in the case of Romania), with a very pronounced dependence of exports towards a single partner (Germany).

On the other side, the development of less dynamic Eastern European countries reflects, to some extent, vulnerabilities that are similar to those encountered in the Southern periphery. In fact, foreign direct investments in the FIRE sphere (finance, insurance services and real estate) are important for Baltic economies with their substantially financialised economies, or for Bulgaria and Croatia (in both cases related to the tourism industry). The economies of the Eastern periphery are, however, converging although this convergence is uneven and creates gaps within national economies and internal polarisation in Central Eastern and East South Europe. The unbalanced regional development seems to be a side effect of general macroeconomic convergence. It produces not only economic problems in terms of increasing dualism in production (in technology, particularly) and in the labour market, but political reactions (e.g. populism) in the community as well. Huge differences in quality of life across one country mean growing (political) fragmentation or even potential political disintegration of national political communities. Relatively sharp regional divergences are paradigmatic of theses about losers and winners of transformation (Ghodsee-Orenstein, 2021) and, consequently, represent an important problem for the EU and its future cohesion. In the Southern European context, we meet less pronounced regional differences within countries (with the exception of Italy), but, rather, the problem of national divergence within the EU. European Monetary Union (EMU) membership may be a further explanatory factor for the divergence of the Southern European countries. The architecture of the EMU is uprooted from the specific socio-economic and institutional contexts of the member countries and indifferent to the heterogeneity of their development levels and resilience to external shocks. The EMU – historically a *unicum* among currency unions in its envisaging a separation between money and fiscal sovereignty of the state (Goodhart, 1992; Celi et. al. 2018) – is an important divisive factor in the contemporary EU, as well as one of the constraints for the formulation of corresponding economic policies, given the diverse problems and contexts in both regions. EMU membership turned out to be a real problem in the middle of the global financial crisis, when it became a platform for 'coercive Europeanisation' of Southern European Member States (as Magone called it), determining very important economic constraints and repressive (austerity) measures for SE countries, with dramatic socio-economic effects. The common currency contributed to a diverging trend in the Southern periphery, but we were able to spot problems in countries such as Slovenia and Slovakia, too. On the other hand, the opt-out from the EMU gave countries such as the Czech Republic, Poland and Hungary a relative space to manoeuvre (albeit not always properly used). After all, the impressive trade boom between the Visegrád countries and Germany took place without the common currency. However, beyond the different trajectories in terms of convergence, the two EU peripheries considered (the South and the East) share common elements of fragility. In general, we can say that, in both the EU peripheries, the dependence on foreign capital (in the form of credits or FDI) represents a major element of vulnerability that exposes the peripheral economies to external shocks that are difficult to control and lead to recurrent crises. The process of accession into the EU (or rather incorporation into the European economy and, thus, into the global economy), while having played a decisive role in the economic development of peripheral economies, has also been marked by this element of dependence, asymmetry and vulnerability to external shocks. Core economies and the transnational actors (transnational companies or banks) linked to them have played a leading role in this dynamic of asymmetrical integration and dependence, since they have been mainly responsible for production processes and the division of labour. This vulnerability became dramatically evident during the GFC, which hurt local economies and societies in the EU. The crisis in the peripheries was deeper and more persistent, causing long-term social and economic damage. However, beyond the role played by dependence on foreign capital, it is the lower resilience to crises of the EU peripheral countries' productive structures compared to the core countries that contributes to transforming even symmetrical shocks into causes of asymmetry and widening of core-periphery divergences. This is the case in the recent pandemic crisis, a shock that has a symmetrical nature but which hit Southern European economies hardest, as they are more dependent on sectors (such as tourism, catering but also activities linked to the black economy) that are more vulnerable to social distancing measures. Paradoxically, especially at the beginning of the pandemic, even common (and therefore symmetrical) emergency measures envisaged by the European Commission to alleviate the effects of the pandemic crisis, such as the suspension of the ban on state aid to businesses, produced asymmetrical effects. The aid to German firms, also thanks to the greater fiscal space at the disposal of Germany, was much larger than that provided by other peripheral countries (Celi et al. 2020a). Moreover, besides the GFC and the recent pandemic crisis, there are global challenges awaiting European peripheral countries: the processes of digitalisation and automatization, as well as green transformation, technological change and now another wave of geopolitically inspired decoupling from Russia. In other words, EU peripheral countries will face increasing pressure in the field of innovation across stages of production as well as price competition (i.e. Eastern periphery towards China), in a context of resurgent inflation induced by supply bottlenecks in an unstable geopolitical environment. This situation raises questions about the role of the state in industrial and economic policies of the future within the EU.

3.2 The political dimension

In the political sphere, we can observe several problems related to peripherality. In chapter six, we have worked out different aspects of the political dimension of peripherality, with a particular focus on national cleavages in the East and the South European Member States. The brief national overview also served as a basis for illustrating the current situation of the Left in both regions, underlining its weakness and marginalisation in the East. The nation-building process, the Church-state conflict and the experience of fascist regimes have strongly shaped the party system in the South European countries. The East European countries experienced, on the other hand, socialist rule after World War II and relatively late nation-building and modernisation processes. Left–wing political options had thus a certain historical continuity in the South (with exceptions, such as Malta), whereby the 1990s saw a period of 'de-radicalisation' of the traditional Left, moving to the centre of the political spectrum and away from its anti-systemic character. In contrast, the Left in the East was practically non-existent at the onset of the transition in the 1990s, due to the East's particular socialist legacy. There are, however, certain exceptions, such as Slovenia, which was ruled by a centre-left government for more than a decade, and which implemented left-wing socio-economic policies after the dissolution of Yugoslavia in 1991. Identity and cultural questions dominated thus the political party scene in Central Eastern and South-East Europe.

The party system and political conflict lines were greatly influenced by the economic crisis in 2008, in both the East and the South. However, whereas the East has witnessed a strengthening of populist right-wing political forces, one could observe the rise of new left-wing political options in the South. Again, there are certain exceptions and limitations to this observation. As an example, among the East European states, right-wing forces in Slovenia were limited due to its specific post-socialist legacy. In the South, Italy represents an outlier, with a strong right-wing movement and a marginalised and weak left. Moreover, the Southern European countries have experienced a somewhat 'delayed' rise of populist or radical right-wing political options but with limited power, due to the strong position of the Left in the region.

Certain similarities between populist right-wing political parties in the South and the East exist and need to be highlighted: while identity and cultural issues dominate the right-wing agenda, right-wing parties have occupied traditional left-wing issues since the economic crisis in 2008, such as an expansion of the welfare state. However, this happened under the banner of 'welfare chauvinism', whereby right-wing parties do not address a specific class, but the 'nation' or the 'family'. This phenomenon can be observed inter alia in Italy, Hungary, Poland and Croatia. To summarise, in the East the identity dimension is relevant for the party space, and there is practically no relevant leftist party that has mobilised its electorate on an inclusive socio-economic agenda in Central Eastern and South-East Europe over the majority of the last three decades. The current situation of the Italian political party space thus looks similar to the East European ones.

Chapters one, two and three have worked out the economic dimension of peripherality in all three mapped regions and the divergent development levels between the core and the periphery in the EU. Despite these regions being part of the EU's periphery, the different economic needs and policy constraints pose serious obstacles for a common alliance to emerge between both EU peripheries: the East and the South. Chapter six presented two salient issues at the European level, namely migration policy and EU funding, and the divergent position of the 17 Member States. Migration policy has been particularly relevant, both in the North and the South, due to incoming migration flows. These states have also traditionally been the ones that support a common migration policy. On the other hand, the East European states largely oppose a common migration policy, with the V4 country group exhibiting the lowest support. The issue of EU funding is more complex, as moments of crisis have presented opportunities for cooperation between the East and the South. However, while the economic crisis in 2008 has often been portrayed in terms of a core-periphery narrative, long-lasting political alliances have failed to take place at EU level. The current Covid-19 pandemic has presented another window of opportunity for political cooperation between the East and the South. Informal groups and negotiating blocs have been formed in recent months and it remains to be seen whether they can transform themselves into long-lasting alliances between the two peripheries.

As discussed in chapter six, experts' perception of coalition potential shows a considerable overlap of migration and fiscal policy for the East and the South, pointing to the possibility of cooperation in these two areas. On the other hand, cooperation seems more limited in the area of foreign policy, due to different neighbourhood areas and geostrategic allies of the regions. In the area of fiscal policy, there are some divergent positions and priorities between Member States depending on whether or not they are part of the EMU. The discussion shows the important position of the West / North (including core countries) for both the East and the South, which is mostly the 'top' perceived ally. Moreover, when looking at the two core countries, France and Germany, they exhibit a central role in the EU with a high number of potential allies in both the East and the South. In sum, peripheral states generally have fewer potential allies within the EU, whereby smaller states in particular frequently remain unnoticed by others. Moreover, both regions tend to focus on finding their coalition partners within their own regional peers.

The dimension of representation in EU institutions reveals (partly) the peripheral status of the East and the South. We looked at three different types of representation, namely substantive, descriptive and symbolic. In all three areas, core countries were relatively more represented. The most influential MEPs in all policy areas come predominantly from the core countries. In addition, when looking at the appointment of vice-presidents in the EP, the East European countries are better represented. The section demonstrated the problematic aspect of representation and the dominance of core countries in medially profiled top jobs, which can lead to a perception that the EU is ruled by 'them' (i.e., the West) and not by 'us' (i.e., the East or South). Coupled with the relatively low voter turnout at the European Parliament election in the East, this underrepresentation can contribute to a vicious circle, undermining political participation by citizens in the long run.

To summarise, economic and political inequalities within the EU not only existed before EU accession but became increasingly 'Europeanised', i.e. perpetuated and upheld by the very same EU integration process that, four decades ago, promised economic convergence and prosperity (Heidenreich, 2022). Obviously, the conflict lines not only between the periphery and the core but also within the peripheries pose serious challenges to the stability of the European project. Different noticeable cleavages coupled with different economic needs and policy constraints due to being part of the EMU (or not) enable (or constrain) certain political alliances between the East and the South. Nevertheless, the issues of fiscal policy and EU funds point to potential areas for cooperation between the two regions. Currently, the Covid-19 pandemic has opened a new window of opportunity for cooperation between the peripheries.

3.3 The cultural and ideological dimension

In the cultural and ideological sphere, Otherness (alterity) represents a critical feature of peripherality (see chapter seven). Both regions, i.e. Southern Europe and Eastern Europe (including countries we are interested in, but also as a larger region), have been constructed with the help of Orientalist stereotypes and elements within this type of ideological peripheralization process. Its implications are complex, but we can underline two contradictory elements – exclusion and inclusion – based on the hegemonic discourses of the core. We have shown that the construction of the Otherness of both peripheries is a very important instrument of core dominance in relation to these peripheries. The construction of Otherness was a composite part of the EU accession process for Central Eastern and South-East Europe. As we argued, the by-product of this discursive *alterisation* was a new di-vision of the EU during the accession process which, in a way, helped to reproduce the images known from the Cold War. As a result, the accession process was integrating the eastern Member States while still underscoring the exclusion effects of their integration. Thus, the eastern Member States were integrated by means

Table 8.1 The key characteristics of peripherality in the EU

	Economic	Political	Ideological/cultural
Core	Capital, technology as a means of production	Decision models, autonomy	'teachers', authority
Periphery	Labour, market	Imitation, obedience, dependence	'pupils', confirmation

Source: Authors' elaboration based on Galtung (1971)

of *Othering,* thus becoming the *Others*. This process of alterisation was in conflict with the EU ideal of non-hierarchical diversity, but it helped to establish and settle once again another dimension of the peripheral position of the East in the EU. Moreover, in relation to its peripheries, the EU seems to cultivate what Karl Deutsch called 'narrow power'. As Deutsch wrote: "Power in this narrow sense is the priority of output over intake, the ability to talk instead of listen. In a sense, it is the ability to afford not to learn" (Deutsch, 1963: 111). Within this regime, the peripheries are followers, epigones or 'apprentices' who have seemingly nothing to offer themselves, but who serve as 'reproductive' agents of hegemonic practices that often benefit the core.

The Otherness was also present in the case of narratives about the financial crisis in Greece and Southern Europe. During the crisis, the South was again constructed, and actually revisited, as the Other (in contrast with the core) by very similar Orientalist elements as its eastern peers. Our study shows that the alterisation of Southern Europe has a longer history and its main features are similar or even identical with Central Eastern and South-Eastern Europe. In fact, the crisis helped to renew and revitalise this narrative towards the South to use cultural and essentialist arguments for economic problems. But we could also demonstrate the divisive mechanism of alterisation, which has both political and cultural aspects.

Peripherality also has another dimension. As argued above, it is related to imitation and mental/intellectual dependency but equally to a double consciousness (*being peripheral but aspiring to being central*). In this discursive and ideological dynamic, both peripheries are isolated from each other while they concentrate on the core as the authority. Thus, the power relations are shaping their mutual perception while privileging the core. This situation was also reflected in the low coalition potential as we have seen it. The accession process was imitative *par excellence* for the eastern peripheral states, but the imitation process is not foreign to Southern Europeans. Imitation reproduces a subaltern position towards the core and its authority, and it has much more problematic social and political consequences. It perpetuates the core-periphery dynamic. Finally, imitation creates very important intellectual and political obstacles, since it limits the horizons of cooperation and reform for both peripheries.

4. WHAT IS TO BE DONE?

4.1 Is there an alternative to austerity in the face of crises?

The recent pandemic crisis has dramatically highlighted the fragility of the dependent model of the two European peripheries and the unsustainability of the EU's growth model and the institutions that regulate it. The 2008 financial crisis had already shown how Europe is the place where global crises turn into regional crises and become concrete threats to the whole project of European integration. The proposed (and imposed) solution to the 2008 crisis has been austerity, but this has not been at all expansive, as had been grotesquely assumed in the plans of European policymakers and reiterated in recent times by some influential economists (Alesina et al., 2019). Above all, public investment and social spending in the Southern periphery have been cut. The contraction in public health spending due to austerity policies proved particularly critical for Southern European countries when the Covid-19 pandemic crisis erupted at the end of 2019. The first European destination of the SARS-CoV-2 virus was the Southern periphery and, in particular, Italy. The heavy and immediate health and economic effects of the virus highlighted the fragility of the periphery, where the ability to respond to a symmetric shock was inevitably asymmetrical (compared to the core). The comparison with Germany, where healthcare spending was not hindered by fiscal constraints, can help to explain the different capacities to respond to the Covid-19 pandemic crisis and, therefore, the possibility of a further widening of the core-periphery divergences in Europe (Celi et al. 2020b). Differences in the structure of production between European countries also play a role in this eventuality. The high proportion of GDP and employment accounted for by tourism-related sectors in the countries of the Southern periphery (as well as in countries such as Croatia and Bulgaria) makes these countries particularly vulnerable to the economic impact of SARS-CoV-2 and the measures to contain the infection. However, in general, the pandemic has also dramatically highlighted how important it is for European countries (both central and peripheral) not to lose the ability to produce internally what is urgently needed. Perhaps the emergence of this awareness represents a discontinuity from the obsession with competitiveness and the promotion of the export-led growth model that have been constants of the European integration process (and its related rhetoric) in recent decades. European countries (and Germany itself) should seriously aim at overcoming the export-oriented model pursued so far. With the recent Next Generation EU plan, EU countries have decided for the first time to embark on a path of partial debt mutualisation. The main instrument for its implementation at the national level, the Recovery and Resilience Facility Plan (RRFP)[96], has, on paper, the potential to act as a driving force for the expansion of the internal market, especially if the three strategic axes emphatically suggested by the EU – digitalisation, ecological transition and social inclusion – will really be pursued. On the ecological transition front, for example, the EC's recent initiatives, such as the 'European Green Deal' (EGD) but also 'The European Strategy for the Bioeconomy' (ESB), represent important openings towards a type of economic recovery in Europe that is unprecedented compared to the past, because it is partially financed by common funds and qualitatively oriented towards environmental protection. However, in light of the neoliberal attitude of European policies over the past decades, it would not be completely paradoxical if even the EGD, a progressive, innovative and potentially rebalancing strategy in Europe, ended up widening core-periphery divergences. This would be the case, in particular, if the EGD were to take the form of a top-down strategy in which funds for green conversion were to be concentrated on large corporations and multinationals. The latter, in fact, are already oriented, for purely productive reasons and business prospects, towards replacing fossil fuels with renewable energies. Therefore, if big businesses are to lead the green transition game by concentrating funds on mega projects endorsed by the European Commission, the risk of replicating the core-periphery model even in the process of European economic recovery driven by green technologies becomes a possibility. Indeed, if we look in particular at the bioeconomy and bio-based activities, polarisation processes are already underway, as shown by the concentration of biorefineries in northern European countries (Celi, 2021). A different perspective, but clearly less compatible with a top-down strategy, would be to involve all the actors from the regional and local communities in the ecological transition process: city authorities, small and medium-sized enterprises, trade unions, civic committees, consumer organisations, etc. The rationale would be to develop a constellation of horizontal relationships promoting innovative actions that can be replicated even on a small scale to transform cities in the direction of environmental sustainability in various spheres: energy saving, multimodal mobility, housing renovation, ecological agri-food systems. The perspective would be that of short value chains in which all community actors are involved in an integrated 'politicised' participatory process rather than in a fragmented and 'depoliticised' one, as in the case of technocratic mega projects developing along long value chains[97]. Obviously, especially in the case of infrastructural projects that require substantial financial engagements, like an efficient recharging network for electric vehicles, public-private partnerships (PPP) should be envisaged, even if limited to the strictly necessary, considering that they have not always proved to be instruments that are up to the task of safeguarding the public good[98]. Alongside the ecological transition, the digitalisation strategy promoted by the European institutions represents a crucial driver of innovation. This strategy, however, should proceed within a framework of environmental sustainability and, at the same time, be seen as an opportunity to rebalance the technological trajectories also in favour of services having social objectives. As noted above, the production bottlenecks induced by the Covid-19 pandemic (and not only) along industrial value chains could imply heavy supplier substitution effects. In this case, the search for new suppliers would lead to an acceleration of digitisation processes that would further fragment and lengthen international production chains, with negative repercussions on peripheral countries less equipped with digital technologies. Therefore, digitisation processes should not be promoted predominately in (exporting) industries in order to perpetuate the lengthening of value chains indefinitely but should also be developed in a short-value-chain perspective in order to foster industrial reconversion that meets the expansion of the domestic market. Investment in social infrastructures (healthcare, education, housing, etc.) supported by digitalisation is particularly relevant in the strategy aiming to expand the internal market. A particularly significant example in the EU is that of Long-Term Care (LTC) systems. Population ageing may itself reduce the growth and innovation perspectives of the economy, but the expansion of formal long-term care services has great potential, especially if it relies on a parallel expansion of assistive digital technology (Simonazzi et al., 2021). In fact, LTC is an illustration of a strengthening of the proximity links between the provision of care services and the industrial sector (biomedical, ICT, robotics, sensors, etc.), if we consider that it represents a context in which 'customisation' is crucial and therefore proximity between demand and production is important. If we want, it can be seen as an example of the shortening of the value chain, in a virtuous sense, as an expansion of value added and employment[99].

To sum up, four objectives should be pursued in order to reduce the core-periphery divergences in Europe: expansion of the German and European internal market, a rebalancing of production capacity within the EU, partial industrial reconversion towards sectors that meet social needs (such as education, health and care) and shortening of value chains. Although the shift from an industrial platform designed for export to one for the domestic market is a huge challenge, this transformation would be beneficial for Germany itself, considering the narrowing of margins for manoeuvre that has emerged in recent years in trade with the US and China, and the fragility of value chains revealed by the pandemic crisis. Such a radical change, even if dictated by an emergency, should also involve a redesign of the institutions that govern the functioning of the European Union. It is widely believed that a return to the Stability and Growth Pact (SGP), i.e. the rigid fiscal rule architecture that has accompanied the functioning of the EU and EMU so far, would be undesirable. Blanchard et al. (2021), for example, have recently proposed replacing rigid fiscal rules with more flexible standards that leave greater room for manoeuvre for governments in assessing the sustainability of their public debt and, hence, in the use of fiscal policy[100]. The problem, however, is that the emergency due to the Covid-19 pandemic – which began in 2019 and is still ongoing, followed by the energy crises at the end of 2021 – has been compounded by the dramatic shock represented in 2022 by the war in Ukraine. In this case, the countries of the European Union have expressed the will to significantly increase their military spending (Germany intends to increase spending on modernising its armaments by as much as 100 billion euros). In a context in which rising prices – due to production bottlenecks in various sectors, such as energy and raw materials – could induce the ECB to significantly raise interest rates[101], a reorientation of public expenditure in favour of the strengthening of armaments to the detriment of social spending would throw European countries once again into the tunnel of austerity[102]. Then, the situation of 'social interregnum' that the German sociologist Wolfang Streeck (2016) describes with gloomy words could become permanent[103]. Although the situation is difficult and complicated, a return to austerity should be avoided at all costs, considering the three serious shocks – occurring within fewer than fifteen years – that have disrupted the socio-economic fabric of European countries. The war in Ukraine has this time affected both core and peripheral countries. For example, the energy crisis deepened by high gas imports from Russia dramatically affects both a core country like Germany and a peripheral country like Italy. In addition, this time the war-related crisis falls heavily on energy-intensive industries and not mainly on services, as in the case of the pandemic crisis. Thus, the powerful German manufacturing platform extended to the Visegrád countries is particularly affected by the shock. Faced with a crisis that indiscriminately affects both centre and periphery, the route cannot be that of austerity policies carried out in isolation by each country as was the case in response to the 2008 financial crisis. The path should be the one traced by the Next Generation EU, a track from which there should be no deviation, even in the face of the umpteenth emergency that upsets plans that have already been established. For example, common funds could be used to finance a collective energy policy aimed in the short term at replacing energy imports from Russia, and in the long term at accelerating the transition to renewable sources.

4.2 Policy implications

Building on our study's findings, we would like to highlight a number of policy implications. The future reform of the European Union should take into account existing inequalities shaping the EU in a negative way. To speak about reform is not just a theoretical examination for us, it stems from objective transformations in the current world, which change the environment in which the EU exists and functions. So far, we can see that crises in the external environment have translated into crises at the EU level too. This means that the EU is not able to swiftly work under the crisis conditions and within the changing world. Peripheral countries should not stay on the margins of the debate and, indeed, the southern and eastern peripheries should contribute substantially to the reform by boosting the cooperative dialogue.

It is important to understand that the existing obstacles to more profound cooperation between both peripheries are i) objective (economic differences and competitive models), ii) subjective (produced by cultural and intellectual dependency and thus stem from their intrinsic peripherality or peripheral subjectivity) and iii) stem from the depoliticised character of the EU. Therefore, possible political dialogue, cooperation or even coalition-building between both peripheries must overcome these obstacles and limitations or work with them.

The successful reform of the EU will not be possible without the refusal of austerity policies and of the *depoliticization* paradigm on which the EU is currently based. Both austerity and *depoliticization* actually reinforce each other. They cannot be seen as successful instruments for dealing with a cumulative chain of crises that the EU and Europe are dealing with.

The reform of the EU seen from the peripheral perspective should focus, in particular, on the following principles.

→ A more resilient, socially oriented, sustainable and self-reliant European economy, which would unleash the social and economic potential of individual Member States, their domestic and local markets, and trade that is based on reciprocity and fair exchange.

→ A more cooperative and less competitive EU, which would abandon negative consequences of the competition paradigm such as the race to the bottom (or competitive state) with its largely divisive impacts that are detrimental to solidarity and cooperation both within the EU and within the Member States. This process of change involves a new approach towards political cooperation and coalition-building – a strategic sensibility towards common interests and differences that would go beyond established core-periphery patterns on one hand, and regionally focused patterns on the other hand. The zero-sum game, which is a feature of the core-periphery dynamic, is extremely problematic for the future.

→ A more open-minded EU that did not stick to old stereotypes and ideological abbreviations still reminiscent of the Cold War mentality of divided Europe. This means taking seriously the idea of the EU's internal diversity and moving away from moral hierarchies created during the time of colonialism and from Western-centric (central) views on those culturally different and spatially (geographically) distant. The integration process should not represent yet another means for exclusion based on perceived or objective differences. Indeed, many of those differences are the result of different geographies of capitalist expansion. They are not inherently cultural.

→ A more cohesive regional policy that would not tolerate or even contribute to huge socio-economic gaps within Member States as a corollary of their economic integration and position in the EU. The convergence-oriented economic models should not produce new inequalities leading to fragmentation and potential political disintegration of the existing political communities; otherwise this misguided approach to economic development without regard to its social (and political) impacts will sooner or later have extremely negative boomerang effects on the EU as a whole.

→ A structural rebalancing of the European economy through a real industrial policy. This should not be confused with either a 'competition policy' or the 'structural policies' that, contrary to what their name would suggest, have for many years in Europe aimed solely at flexibilising the labour market (by squeezing labour costs and, also, by relocating abroad), with detrimental effects on aggregate demand and productive structure. Industrial policy should aim at diversifying and upgrading the production matrix of peripheral countries, not only in the direction of strengthening the competitive advantage for growth, but also for meeting social requirements in accordance with sustainable prosperity. A European industrial policy would be desirable, aimed at reducing core-periphery divergences and coordinated by levels of governance.

- At the European level, helping the peripheral countries to participate in large-scale (infrastructure or other) European projects.
- At the national level, by developing a strategic vision of the future on the part of the state that is capable of guiding firms' investment policies (avoiding untargeted, costly and dissipative subsidies).
- At a regional/local level, with differentiated interventions to meet the different levels of development of each region/area.
- A wide-ranging knowledge policy should be implemented by leveraging expertise (R&D-intensive industries, research clusters, scientific consortia, etc.) across the EU evenly, not having an island of knowledge purely in the core and assembly lines in the peripheries. This should be incentivised, especially in the context of European Green Deal and digitalisation challenges.

Finally, it is imperative that the decision-making process within the EU – which for too long has been left to the automatism of rules often imposed in an authoritarian and self-referential way – be entrusted to democracy and the centrality of the European Parliament.

Endnotes

INTRODUCTION

1 Central Europe has many meanings, but it usually also encompasses Germany (or at least some of its parts) and Austria. Thus our term, Central Eastern Europe, signifies Central Europe without these two countries plus the Baltic regions.
2 Historically, Werner Sombart is seen as the first author to use core-periphery terminology in the 1920s. His work is believed to have influenced Preibisch (Weissenbacher, 2019:36).
3 It is opportune to add that the countries of Southern Europe and Central Eastern and South-East Europe are semi-periphery in the global economic system. We see them as peripheral in the context of the EU. This means that, in the present context (the EU), we are working with "relative" peripherality.

CHAPTER 1 – SOUTHERN EUROPE (SE – SPAIN, ITALY, PORTUGAL, MALTA, GREECE, CYPRUS)

4 Cyprus, Greece, Italy, Malta, Portugal, Spain.
5 During Fascism, import substitution policies were undertaken leading to the development of a military-industrial apparatus (mechanical engineering, steel, shipbuilding, cars, electricity, minerals), especially in the north-west of the country (known as the *industrial triangle*).
6 Profits were high due to stagnant industrial wages, stable prices and high productivity growth.
7 The six countries were: Greece, Ireland, Italy, Portugal, Spain, Turkey.
8 See Storm (2019) and Celi and Guarascio (2020).
9 Celi and Guarascio (2020) provide a brief account of this debate.
10 Storm (2019) estimates that, all things being equal, primary surpluses alone would have allowed Italy to reduce its public debt/GDP ratio by 40 per cent. According to Storm, the fiscal consolidation effort made by Italy has been exceptional, well above that of other European countries (with the exception of Belgium).
11 Centre for Economic Policy Research.
12 A critical assessment of the position taken by CEPR economists regarding the euro crisis is in Celi et al. (2018).
13 Adam Tooze (2018) provides a very insightful analysis of the systemic dimension of the 2008 financial crisis.
14 Orphanides (2015) offers a significant account of the circumstances that led to the political choice of avoiding the restructuring of Greek debt.
15 For instance, according to Torslov et al. (2020), Italy would have lost $23 billion (19 per cent of multinationals' tax revenues) due to tax havens and aggressive tax countries (see Table 1.2, *ibid.*). Of these $23 billion, $21 billion would have gone to EU countries. In the ranking of tax havens in terms of corporate tax revenues as a percentage of GDP, Malta appears in first position, followed by Luxembourg and then Cyprus (see Torslov et al., 2020, Figure 1.10).
16 In the case of Portugal, in 1995, 2000 and 2005 the Gini index is above 35 per cent (see Figure 1.15).
17 Directorate-General for Economic and Financial Affairs.
18 Data for Cyprus and Malta are not available in the OECD ICTWSS database.
19 See ILO (2020).
20 Sinn (2014).
21 Storm (2016) estimated the elasticity of exports with respect to ULCs for Germany, Greece, Italy, Portugal and Spain and found that the values of these elasticities are low (0.20-0.25) for most manufacturing sectors.
22 In this regard, the French case is emblematic. In the period from 2004-2011, the sharp decline in French exports of automobiles, due in large part to the processes of production relocating abroad, accounted for 32% of the decline in the trade balance

of the manufacturing sector and 17% of the total trade balance. See Celi et al. (2018).

23 For the list of 2-digit sectors included in the four groups, see Table 1.A1 in the Appendix.

24 See Butt (2018).

25 Greece's decision to take a major role in the search for oil in the Mediterranean Sea does not seem to fit with the future trend of firms replacing fossil resources with renewable resources. Since 2012, the European Commission itself has placed great emphasis on a European bio-economy strategy.

26 The list is in descending order of importance in terms of share of total exports.

27 It is likely that the relocation strategies of major European car manufacturers have had an impact on these trends. See Celi et al. (2018), Chapter 6.

28 This sector alone accounted for 38% of total Maltese exports in 2015.

29 "[…] *It has been my endeavour to shew throughout this work, that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take place in the rate of profits. The rate of wages would not be affected, although wine, velvets, silks, and other expensive commodities should fall 50 per cent, and consequently profits would continue unaltered*". Cit. David Ricardo [1817] (1891), On the Principles of Political Economy and Taxation, Chapter 7, On Foreign Trade.

30 For a recent formulation of this thesis, see Streeck (2014) and Featherstone (2011).

31 See Celi et al. (2019b).

32 See Celi et al. (2018), op. cit.

33 See Simonazzi, A., Ginzburg, A. and Nocella, A. (2013).

34 See Ilahi et al. (2016).

35 See Brinks et al. (2018).

36 See Celi et al. (2020b).

37 The case of MTA, an Italian company specialising in very small electronic components, is emblematic; at the beginning of the pandemic, it suspended operations (due to the virus), causing difficulties for many European car manufacturers.

38 A sort of transition from a war economy to a peace economy!

39 See Celi et al. (2019a).

CHAPTER 2 – CENTRAL EASTERN EUROPE (CEE – CZECH REPUBLIC, HUNGARY, SLOVAKIA, POLAND, ESTONIA, LATVIA, LITHUANIA)

40 Services include wholesale and retail trade, accommodation and food service, professional, scientific, technical activities and administrative and support services, public administration, defence, education, human health and social work activities, arts, entertainment, other service activities. It is used as an aggregated indicator and rounded by the author.

41 "Unpaid family workers are persons working in a family business or on a family farm without pay and who are living in the same household as the owner of the business or farm and receive remuneration in the form of fringe benefits or payments in kind." (Williams-Bejakovic-Mikulic-Franic-Kedir, Horodnic, 2017: 6).

42 For the list of 2-digit sectors included in the four groups, see Table 1.A1 in the Appendix.

43 Technologically intensive sectors include, for example, high-tech products such as aircraft and spacecraft; pharmaceuticals; computers and office machinery; semiconductors and communications equipment; and measuring, medical, navigation, optical and testing instruments.

CHAPTER 3 – SOUTH-EAST EUROPE (SEE – BULGARIA, CROATIA, ROMANIA, SLOVENIA)

44 The military conflict between the Yugoslav National Army (JNA) and Slovenia lasted 10 days.

45 Countries ordered according to the time of EU accession, i.e. Slovenia first (2004), Croatia last (2013).

46 Well-known examples of enterprises that exported to the West include *Končar* (equipment for the distribution of electrical energy, transport equipment), *Nikola Tesla/Ericsson* (telecommunication products) as well as pharmaceutical firms such as *Pliva* and *Chromo* (Petrović, 2022).

47 The Gini index represents how equal, respectively unequal income is distributed. A higher index corresponds to higher inequality.

48 Stanojević, M. & Krašovec, A. (2011): Slovenia: Social Pacts and Political Exchange. In: Avdagić, S. et al: Social Pacts in Europe: Emergence, Evolution and Institutionalization. Oxford: Oxford University Press, 233.

CHAPTER 4 – TRADE NETWORKS AND VALUE CHAINS (SE, SEE, CEE AND INTERNATIONAL DIMENSIONS)

49 See Lefilleur (2008).

50 See Celi et al. (2018), chapter 5.

51 This triangulation could mean that Southern European countries import intermediate goods from Balkans in order to increase their exports of final goods to the Visegrád Group. Actually, since the 1990s Italian firms relocated production activities to Romania.

52 The Balkans have a surplus with Western Balkans and Baltic States. The Western Balkans have a surplus with the Baltic States, and the Baltic States have a deficit with all areas. See Figure 4.2.

53 The share of periphery imports in the network's total imports has dropped from 40% in 2007 to 32% in 2015.

54 In the trade network described by Celi et al. (2018), Germany appears as a single node (not hidden, as here, within the group of EZ Core countries). The trade triangle highlighted by the authors envisages Germany having a surplus towards China, China a surplus towards the Visegrád Group and the latter a surplus towards Germany.

55 After all, Germany itself has been labelled a "bazaar economy"! See Sinn (2006).

56 On the different internationalisation strategies of German versus French companies, see Buigues and Lacoste (2016).

57 Krywdzinski (2014) pointed out that German relocations of the entire production process were infrequent and that the division of labour model between Germany and Visegrád countries involved the gradual transfer to the East of the production of low-priced, small and compact German cars.

58 Figure 14.4 does not include the data for Romania, but the performance of this country was even more spectacular than that of the Visegrád countries. Not only Romania did not record a downturn immediately after the 2008 crisis, but its production index in the automotive sector grew without interruption reaching a value of 363 in 2018. Even in terms of absolute values, in 2018 Romania's automotive production amounted to more than 21 billion Euros, a remarkable figure that, for example, is not far behind that of Hungary, which was 26 billion Euros. This evidence is in line with the "Romanian miracle" mentioned in the previous section.

59 In this respect, Celi et al. (2018) reported that between 1998 and 2010, the share of imported components from the East in the total intermediate goods used by German firms jumped from 6% to 20% of the total, offset by a fall in the shares of France, Italy and Spain.

60 In In 2019, Germany had 41 plants in the automotive industry (vehicles and components) and almost one million workers directly employed in the sector. See ACEA (2021).

61 In Eastern European countries, the domestic market remained limited, so that the high growth rates recorded by these countries were largely due to the growth of exports of local production by foreign multinationals: 'integrated peripheral markets', according to the words of Brinks et al. (2018). The mono-specialisation of these countries, for example in the automotive sector, has not created significant spill-over effects to the rest of the economy, as observed by Krzywdzinski (2019).

62 This evidence is in line with the increasing emigration of highly educated young people from Eastern European countries. Policies to curb wage growth, despite a growing shortage of skilled labour, push young people with high educational qualifications to emigrate, weakening the country's skills base. See Pavlínek et al. (2017).

63 Volkswagen and Daimler are also in first and second position respectively in the world ranking of the largest automotive investors.

64 Fiat Chrysler has now established its registered office in the Netherlands.

65 Table 4.3 includes data on *direct* employment in the automotive sector, which amounts to 2.6 million people in the EU (i.e. 8.6% of total manufacturing employment). If we also include employment *indirectly* involved in automotive activities, then the number of employed people grows to 3.5 million in 2018 (or 11.6% of EU manufacturing employment). See ACEA (2021).

66 See Eisenstein (2019).

67 ACEA (2020) provides evidence of the correlation between GDP per capita and market penetration of electric cars in Europe in 2019. While the overall market share of electric cars in the EU is 3% (on all cars registered in 2019), 11 countries have a share below 1%, and 7 countries below 0.5%. All EU countries with a market share below 1% have a GDP per capita below €30,000, including Eastern European countries, but also Italy and Greece. The 80% of electric car sales are concentrated in six Western European countries, which also have the highest GDP per capita. Thus, there is a clear East-West and North-South divide in the affordability of electric cars in Europe.

68 Ginzburg and Simonazzi (2005) convincingly reconstruct Akamatsu's original model, questioning some later interpretations of the model itself.

69 According to a general sequence that starts with imports, continues with domestic production to replace imports, and finally with an outlet for overproduction through exports.

70 Mordue and Sweeney (2020), in the case of Canada, and Lampón et al. (2016), in the case of Spain, illustrate the difficulties associated with the transition from labour-intensive to more technologically advanced activities in semi-peripheral automotive producing nations. Gaddi and Garbellini (2021) provide some considerations on Italian case.

CHAPTER 5 – COMPARISON BETWEEN THE REGIONS

71 Europeanization process means a complex process of adjusting to the EU legal framework. It is associated with the period of accession, but it can also continue after the formal process. Accession to the EU means the time of formal candidacy for membership. By integration, we mean the processes of integrating into the economic and political structures of the EU, including the single market.

72 These processes also had a geopolitical dimension with the enlargement of NATO after 1989. We should add that the very same process was experienced by Spain (in 1982).

73 In fact, post-state socialist.

74 Sectors such as textiles, clothing, shoes, furniture, etc. For a detailed list, see appendix in Chapter 1.

75 The other characteristics of 'integrate peripheries' (like CEE countries) are lower production costs, participation in trade agreements, strong incentives for inward FDI, and very high foreign ownership and control (Pavlínek, 2018).

76 The military conflict between the Yugoslav National Army (JNA) and Slovenia lasted 10 days.

77 Estonia, Latvia, Malta and Cyprus are not divided into NUTS-2 regions. They represent one NUTS region as a country.

CHAPTER 6 – POLITICAL MANIFESTATION OF THE CORE-PERIPHERY DIVIDE IN THE EU

78 We would like to thank Javier Ojeda Rodriguez for his research assistance for this chapter.

79 The dimensions are dynamically changing and the different dimensions can include different salient issues at various time points (for example, the urban-rural cleav-

age changes; access to public service, universalist vs. communitarian, value-conservative)

80 The dismantling of the welfare state also shapes the socio-economic dimension: As an example, the Hartz-IV laws led to the pauperisation of a large part of the German working class. By cutting the welfare state and with the introduction of the reforms welfare chauvinism was intensified (i.e., influencing again the identitarian dimension). Thanks to Cornelia Hildebrandt for emphasising this point.

81 Obviously, the role of the Catholic Church and its relationship with fascist regimes is more nuanced than the section summarises. For example, after 1945, the Catholic Church maintained an anti-communist position and supported liberal democracy. Manow 2013: 84.

82 The catholic-conservative space was represented by the Christian Democratic Movement (Kresťanskodemokratické hnutie, KDH).

83 Szabo & Tatrai refer to the socio-economic line as the centre-periphery cleavage (Szabo & Tatrai 2016:200).

84 For an elaboration on their similarities and differences see Scheiring (2020).

85 While religion played (and still continues to play) an important role in life of Romanians, Orthodox countries have not seen the emergence of Christian Democratic Parties. This is due to the different nature of the church-state relationship in the Orthodox countries by comparison with the Catholic ones. (Matitua 2016).

86 Initially, the founder of the SDS envisaged a left-wing, social democratic party. However, Janez Janša transformed the party during the 1990s into a right-wing populist political party.

87 Latin American migrants might not necessarily aim to go northwards but prefer to stay in Spain due to linguistic and cultural/religious reasons.

88 Estonia, Latvia, Lithuania Slovakia and Slovenia are Eurozone members.

89 Mental map is a person's point-of-view or perception of her/his spatial area of interactions in behavioural geography.

90 Including Great Britain.

91 The Influence Index – Influence Index

92 The other example is the Craiova Four Group (Bulgaria, Romania, Greece and Serbia), founded in 2015 and inspired by the V4 Group (Czech Republic, Slovakia, Hungary and Poland). It includes one non-EU Member State (Serbia).

93 We use terminology consistent with the literature.

CHAPTER 7 – (MIS)REPRESENTATION AND SUBALTERNITY: MODES OF DISCURSIVE PERIPHERALIZATION IN THE HEGEMONIC NARRATIVES OF THE CORE

94 We should not fail to note that the European Union is too often associated with Europe in the current public and political discourse. In fact, Europe has had the same experience as the USA and America.

CONCLUSIONS AND POLICY IMPLICATIONS

95 For example, the inclination towards restrictive and deflationary policies imposed by the adhesion to the Monetary Union project, although counterproductive, has become a kind of second nature for policymakers in peripheral countries (sometimes an attitude also shared by left-wing economists).

96 For an overview of measures undertaken by EU countries to counteract the economic effects of the pandemic, see eDossier: „Economic Anti-Crisis Measures of EU Member States after the Outbreak of COVID-19 in 2020" available at https://www.transform-network.net/

97 An initiative that goes in this direction is the 'The New European Bauhaus' project proposed by the European Commission. The aim of the project is to link "…the European Green Deal to our daily lives and living spaces. It calls on all Europeans to imagine and build together a sustainable and inclusive future that is beautiful for our eyes, minds, and souls". https://europa.eu/new-european-bauhaus/about/about-initiative_en .

98 The PPP scheme has proven to be inadequate, especially in large-scale, high-tech, high-risk infrastructure projects. An emblematic case of the unsuccessful use of public-private partnerships was in the initial phase of building the European GNSS Infrastructure (GNSS – Global Navigation Satellite System). In cases such as this, and especially in the early stages of such projects, public investment has turned out to be unavoidable. An incisive critique of PPPs in Portugal can be found in the book by Nunes, A. A. (2013), *O Estado Capitalista e As Suas Máscheras*, Lisboa: Editorial "Avante!", chapter 15. Nunes explains very well how the 'guarantor state' protects the profits of large private firms in public-private deals. For a critique of public-private partnerships in the European green transition, see Kishimoto and Valentin (2021).

99 Not only are technology-based labour substitution effects within the care sectors expected to be moderate, they are also likely to be more than compensated by increased employment and income generation in the associated bio-medical and health technology branches.

100 The consensus of economists on the need to reform the SGP received a first, important political endorsement from the December 2021 Financial Times article co-signed by Emmanuel Macron and Mario Draghi. See Draghi and Macron (2021).

101 The ECB would raise interest rates with the aim of supporting the financial sector, too, and not only as an action of inflation targeting.

102 An increase in military expenditure could lead to a reshaping of the national recovery and resilience plans of European countries. However, increasing military expenditure on the initiative of individual countries is a different story from planning a common European defence. As Lucrezia Reichlin argues: "… *building a common defense capacity will require the EU to build shared economic capacity*". See Reichlin (2022), "Preparing Europe's Economy for War", *Project Syndicate*, 18 March.

103 *"Society having lost the ability to provide its members with effective protection and proven templates for social action and social existence, individuals have only themselves to rely on while social order depends on the weakest possible mode of social integration."* Cit. p.14

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Glossary

Alterity/Otherness

A socially and culturally constructed state of being other or different.

Austerity

The financial crisis that started at the end of 2007 in the US turned into a sovereign debt crisis in the EU. Budget deficits and public debts increased dramatically in some European countries. In these countries, the requirements of the Maastricht Treaty were no longer met, and governments imposed a hard line to consolidate their budgets. The fiscal consolidation measures, the so-called 'austerity policies', were characterised by heavy cuts (differing from country to country) in spending on health, education, social services, etc. As a result, austerity has had a dramatic impact on the socio-economic fabric of 'profligate countries'.

Cleavage

A cleavage refers to a social division that distinguishes between groups of citizens (based, for example, on status, religion or ethnicity), a sense of collective identity that citizens are aware of, and an organisational expression of the cleavage.

Comparative advantage

In the standard theory of international trade, the notion of comparative advantage means how certain characteristics of one good and certain characteristics of a country combine together in order to determine a country's competitive advantage (compared to other countries) in exporting a certain product. For example, according to the traditional Heckscher-Ohlin model, a country with skilled labour in abundance will export a good whose production requires a high proportion of skilled labour. In a broad sense, comparative advantage means a country's international specialisation.

Contractionary vs expansionary policy

Contractionary policy is a restrictive shift in fiscal policy (government spending and taxation) or in monetary policy that reduces aggregate demand and tends to lower GDP, employment and inflation. Conversely, expansionary policy – by increasing government spending or decreasing net taxes or increasing the money stock in order to lower interest rates – raises aggregate demand, GDP, employment and inflation.

Discourse

A bounded area of social knowledge, a system of statements within which the world can be known and brought into being.

Europeanisation

A process that refers to the construction, diffusion and institutionalisation of formal and informal rules, as well as shared beliefs and norms, first defined at the EU level and then later incorporated at the national level.

EU accession process

A formally and legally defined process of the institutional, political and economic integration of the candidate country into the EU, which also includes a negotiation process.

Final goods

Products that are not utilised by firms to make other products. Products that are bought by consumers, or by firms (as investments that increase their capital stock) or by the government.

Financialization

The process in which financial activities became increasingly more important in the formation of profits in the economy.

Fixed investment

Investment to build houses, warehouses, infrastructure, offices, stores and other buildings, plus investment in machinery and equipment. Finally, another component of fixed investment is inventory investment.

Foreign direct investments

Foreign direct investment (FDI) is the investment flow carried out abroad by a resident company in order to establish a durable interest in a business activity or in an enterprise operating in another country. The main characteristic of FDIs is that, unlike portfolio investments, they involve not only an international transfer of financial resources but also a long-term relationship and the acquisition of effective control over the management of a business abroad.

Global value chains

In recent decades, the increasing integration of world markets has gone hand in hand with the international fragmentation of production processes: firms have relocated some stages of manufacturing production (and some services) abroad, combining them with those carried out internally. The more the spatial fragmentation of production intensifies in search of the lowest cost, the more it becomes global: this explains the term global value chains.

Inflation

An increase in the general price level in an economy, usually measured as the annual percentage change in its consumer price index (CPI) or GDP deflator.

Intermediate goods

Intermediate goods are not final goods, but commodities bought by firms that use them as inputs into some further process of production.

International division of labour

Countries concentrate their production in those industries where their economy is most efficient. Labour-abundant countries produce and export labour-intensive goods; resource-rich countries specialise in resource-based products; advanced economies export high-technology manufactured goods, and so on.

Keynesianism

The school of thought, developed from the ideas of John Maynard Keynes, which underlines the following key points.

1) The fundamental role of (effective) aggregate demand in determining GDP fluctuations, with involuntary unemployment equilibria.
2) The power of government to influence the economy through fiscal and monetary policy.
3) The multiplier process, which amplifies the effects of both private sector shocks and public sector policies on aggregate demand.
4) The role of (volatile) expectations of future profits in determining investment.

Mental map

A person's perception of their spatial area of interactions in behavioural geography.

Monetarism

The theory – which emerged in the 1970s and then became the new paradigm in macroeconomics – according to which fluctuations in interest rates have no impact on the demand for money. This implies that a monetary policy that limited itself to keeping the growth of the money stock constant would succeed in stabilising output and employment. Therefore, no further state intervention in the economy would be necessary.

NAIRU

Acronym for the non-accelerated inflation rate of unemployment. The rate around which unemployment tends to gravitate, and at which – given the equalisation between expected and actual inflation – there are neither upward nor downward tensions on inflation.

Orientalism

A Western conception of Eastern (non-European) societies and cultures that is largely based on Eurocentric assumptions and contextualised by colonial (neo-colonial) dominance.

Path dependence

A tendency of institutions and policymakers to act according to past experiences and decisions.

Rate of unemployment

The unemployment rate is the percentage ratio of the population aged 15 and over who are unemployed and looking for work in the labour force. The labour force includes employed and unemployed individuals.

Representation

A process of acting for or acting in the interest of others.

Stagflation

The simultaneous existence of stagnation and inflation. Inflation usually occurs as a cost-push inflation due to supply-side bottlenecks after a severe global shock.

Trade balance

A synonym for net exports. In fact, the trade balance is the difference between exports and imports of goods and services, and it contributes, together with consumption, investment and government spending, to determining the aggregate demand. All other things being equal, therefore, a positive trade balance (positive net exports) contributes to increasing aggregate demand and thus the GDP of an economy. The change in the trade balance depends on a number of factors: foreign income (affecting exports); domestic income (influencing imports); real exchange rate (the relative value of exports and imports); the efficiency of the production system (affecting the competitiveness of exports and import dependency).

Unionization rate

The proportion of an economy's workforce that belongs to a trade union.

Biographies

Authors

Giuseppe Celi is currently Associate Professor of Economics at the University of Foggia (Italy). He has been Coordinator of the Ph.D. Programme in Economic Theory and Italian Coordinator of the M.A. Programme Erasmus Mundus Economics of International Trade and European Integration (EITEI). He graduated in Economics from the University of Modena (Italy) and received a Ph.D. in Development Economics (University of Naples, Italy) and a Ph.D. in Economics (University of Sussex, UK). His research interests include topics in international economics: the economic and monetary integration in Europe, the impact of international trade and outsourcing on labour markets and growth, the relationship between migration and international trade. He is the author of numerous publications including seven books, several articles in academic journals, and contributions to collective volumes.

Valentina Petrović is currently a postdoctoral researcher in the Department of Sociology at the University of Zurich. She previously studied at the American University of Beirut, the University of Zurich and Sciences Po Bordeaux. She holds a doctoral degree from the European University Institute in Florence, Italy. Her dissertation examined the influence of classes, elites, civil society and state structures in the democratization process in post-communist countries, with a regional focus on the Yugoslav successor states. Her research interests include democratization, Europeanization, political mobilization and comparative political economy in the post-communist context.

Veronika Sušová-Salminen is a comparative historian specialising in the modern history of Central and Eastern Europe and Russia with a methodological focus on world-system analysis and dependency school with some influences from postcolonial critique. She graduated from Charles University in Prague, Czech Republic (M.A. in General and Comparative History; Ph.D. in *Anthropology*. She worked as an academic researcher at the Centre of Global Studies in Prague. She is a political analyst focusing mainly on contemporary Russia in the global context and Editor-in-Chief of webzine !Argument and also author of dozens of academic articles and essays, as well as two books.

Junior Research Team

Mihai-Călin Căciuleanu is a Romanian researcher. As a labourer and activist, he was a member of a local group dedicated to defending and expanding workers' rights. He is currently writing a PhD thesis on working conditions and the notion of labour in contemporary capitalism at the National University of Political Science and Public Administration in Bucharest.

Dorota Kolarska is a Polish researcher focusing on Eastern Europe and Russia. She graduated from the University of Oxford and now is a postgraduate student at University College London. Dorota is also a member of the Polish political party Razem.

Ioannis Apostolos Sklias is a Greek social researcher and political analyst. He studied Political Science at the University of Crete and Political Behaviour at the University of Essex (MA Political Behaviour). He has worked as a scientific associate and political consultant in the Hellenic Parliament and held the role of Scientific Consultant at the Secretariat of the Department of SYRIZA for the local administration.

Editors

Tatiana Moutinho is a biochemist, former researcher in cell division cycles, and holds an MSc in Cell Biology and a PhD in Biomedicine. Since 2018, she has been the transform! europe facilitator responsible for the cooperation strategies for the Southern Europe. As part of her work, she organised the 'Is Southern Europe the Weak Link of European Integration?' conference, held in Lisbon in 2019 and which hosted academics, researchers, and political actors from different Southern European countries. She is also the President of Cul:tra – Cooperativa Culturas de Trabalho e Socialismo (Portugal).

Dagmar Švendová is a lawyer, holds a BA in Law and Business Management and an LLM in Czech Business Law in the European Union. She has worked as a political advisor and assistant to a Member of the European Parliament. Since 2017, she has been the transform! europe facilitator responsible for the Central and Eastern European Strategy and Member of the Editorial Board of the transform! yearbook. As part of her work, she is co-author of the CZ section in 'Studies on challenges in post-coal regions: in southwest Poland, North Czech Republic, and East Germany'.

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Austria
transform!at
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www.inep.org.cy

Czech Republic
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Society for European Dialogue – SPED
e-mail: malek_j@cbox.cz

Denmark
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Lithuania
DEMOS. Institute of Critical Thought*
e-mail: demos@inbox.lt

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Moldova
Transform! Moldova *
e-mail: transformoldova@gmail.com

Norway
Manifesto Foundation *
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Poland
Foundation Forward / Naprzód
www.fundacja-naprzod.pl

Portugal
Cultures of Labour and Socialism – CUL:TRA
e-mail: info@cultra.pt

Romania
Association for the Development of the Romanian Social Forum *
e-mail: pedroxma@yahoo.com

Serbia
Center for Politics of Emancipation – CPE*
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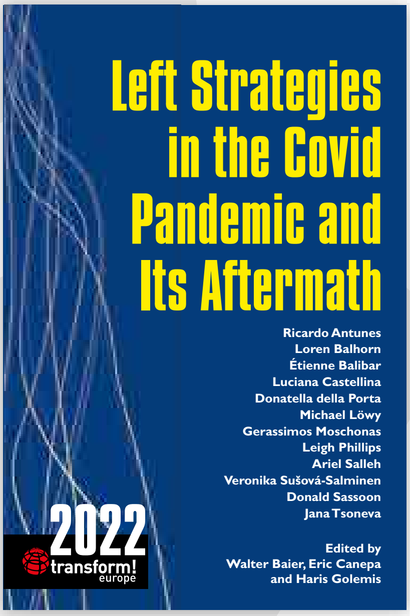

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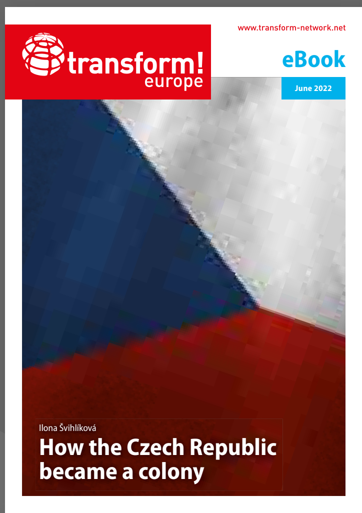

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by Ilona Švihlíková, associate professor in International Economics and holds a Ph.D. title in Political science. She works as a macro-economic analyst for the Bohemian-Moravian Confederation of Trade unions, is a member of the National Economic Council of the Czech Government (NERV), a governmental advisory body. She founded the grassroot organization Alternativa Zdola focusing on local economy and citizens´ participation. Currently she works at the University College of Business in Prague.

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