Introduction to the Conceptual Framework

Experiences of Economic Convergence from the Perspective of Two and a Half Decades

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The present comparative volume reviews the processes and results of economic integration as well as patterns of interdependence in case of seven Central and Eastern European (CEE) countries between 1989 and 2016 from the perspectives of the following countries: Austria, Croatia, the Czech Republic, Hungary, Poland, Romania and Slovakia. The authors of the volume present country-specific experiences resulted from economic integration and interdependence. Furthermore, based on these experiences, this comparative volume tries to identify the similarities and differences in paths followed by these countries and their impact on economic convergence. If we take a look at some of the important economic characteristics of these countries, it can be stated that the overall economic picture is entirely heterogeneous (Table 1).

Table 1.

Some important economic characteristics of the examined countries

Economic characteristics	**A**	**HR**	**CZ**	**H**	**PL**	**RO**	**SK**
GDP per capita PPP (USD)	44,144	21,409	31,072	25,381	26,003	21,648	29,156
GDP annual growth rate (%)	2.6	2.8	4.7	3.2	3.9	5.9	3.3
Government debt to GDP (%)	84.6	84.2	36.8	74.1	54.1	37.6	51.9
Private debt to GDP (%)	166.0	N/A	136.0	140.0	127.0	N/A	121.0
Unemployment rate (%)	7.9	10.8	3.8	4.1	6.8	5.0	6.4
Youth unemployment rate (%)	9.6	25.0	7.5	11.0	13.8	16.8	14.9
Inflation rate (%)	2.4	1.4	2.7	2.5	2.1	1.8	1.6
Interest rate (%)	0.0	2.5	0.5	0.9	1.5	1.75	0.0
Minimum wage (EUR/ month)	–	433	407	412	453	275	435
Productivity (Index points)	104	102	110	101	115	121	113

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Economic characteristics	A	HR	CZ	H	PL	RO	SK
Current account to GDP (%)	1.7	2.6	1.1	4.8	–0.3	–2.3	–0.7
Budget balance to GDP (%)	–1.6	–0.8	0.7	–1.7	–2.5	–3.0	–1.7
Government spending to GDP (%)	51.1	48.4	39.9	47.5	41.3	34.7	41.6
Competitiveness rank	18	74	31	60	39	68	59
Ease of doing business rank	22	51	30	48	27	45	39

Note: The data of the table were collected on 7 November 2017. The frequency of the illustrated data in most of the cases is a year, but there are some data that are published quarterly (GDP per capita; GDP annual growth rate, minimum wage, productivity, balance on current account to GDP), monthly (unemployment rate, youth unemployment rate, inflation rate) or even daily (interest rate).

Source: Trading Economics s. a.a; Trading Economics s. a.b

Therefore, independently of the close geographic location of these countries and their common ambition for economic convergence to the core countries of the European Union, we should be careful with general statements on economic development. Some countries examined by us are indeed similar even along several economic indicators, but differences are significant along other indices. We may think that there are fundamental economic similarities between countries of the Central and Eastern European region—and this statement from a remote perspective to a certain extent is true—but on closer inspection, there are substantial differences.

Between the awareness of current differences, it is worth noticing that there are common motives in economically approaching the average development of the European Union. The implementation of the approaching process naturally reduces regional differences and that leads us to the conceptual starting point of our comparative volume. The institutions of political integration in Europe have been founded upon the mutual benefits of economic cooperation and modernisation, also inherently resulting in growing interdependencies. The success of economic cooperation is an essential pillar of sustained motives for integration. However, CEE countries have approached and entered economic integration from different starting points and positions: some were in a more beneficial position, some in less beneficial. The openness, productivity, level of modernisation, competitiveness of CEE economies—usually in a much weaker position in the 1990s than the Western European "economic core"—have also been moving on different paths of growth and modernisation within the new frameworks of economic integration. Understanding the dynamics behind these processes and drawing the conclusions of the successes and failures of economic integration is key to steer national and regional economic policies on a convergent path if the economic (and political) institutions of integration are to prevail among the various challenges of the 21st century.

Based on the above-mentioned starting point, the research questions of the comparative volume are the following. What is the experience of CEE countries regarding economic integration and interdependence in the period 1989–2016, what drivers have been effective and what fields can be identified as successful and unsuccessful? To what extent have CEE countries benefitted from closer economic integration and interdependence, and what have been the risks and costs related to these? Looking back on the past two and a half decades, could these countries be on a path of economic growth, modernisation and prosperity—and if yes, to what extent can it be attributed to the membership and cooperation with the European Union?

Reading this volume, we are awaiting answers to the above research questions. To fulfil this objective, the volume—ignoring these introductory methodological ideas—contains seven chapters. These chapters are country-specific reports analysing economic integration and interdependence processes and characteristics of the examined countries. The authors of these chapters are local experts of CEE countries who deal with the economic policy of these countries and/or integration studies, selected through a competitive process. Each chapter follows the following structure, each country-specific report examines the following phenomena. The volume attaches particular importance to the examination of *conditions at the beginning of the integration process.* Providing fundamental statistical data (i.e. GDP, GPD/capita, Human Development Index, etc.) the authors illustrate what kind of economic and social conditions had these countries before the start of economic integration. Without getting acquainted with the starting points, the "covered distance" of the single countries cannot be evaluated either. Therefore, they review the circumstances, the main challenges and the expectations at the beginning of the Europeanisation process and try to analyse how these early expectations could come true since that time. We can lay down that all of these countries have taken numerous challenges to integrate their national economy into the regional and the EU market by aligning their structural reforms with the EU acquis. The authors describe the nature of changes—from shock therapy to incremental steps—these countries implemented to leave behind planned- and build market economies.

They describe the extremely difficult process of simultaneously outstepping the legacy of Socialism and accomplishing the drastic European accession criteria. The path from a one-party state and a centralised economy to a democratic system based on the rule of law and a market economy now seems to be a clear decision, but that time it was not. The authors outline and make comparable the different development paths of transformation and modernisation and based on these, they evaluate the implemented steps of economic integration.

Additionally, the volume examines the *interdependence and economic penetration* of the above countries. Within this framework, the authors present the changes in the main fields and directions of economic activities and cooperation since 1989. They present the leading import/export commercial partners and the changes in the import/export portfolio of these countries towards EU members or other partners. The authors analyse the embeddedness in regional and global value chains and the evolution of the balance of trade and its impact on economic performance and further economic integration. In addition, capital flows, foreign direct investment patterns and investment trends are also illustrated in the volume. The authors examine the statement that political and economic integration has resulted in a spectacular increase in trade and investment. The main reasons behind Foreign Direct Investments (FDI) inflows and the effect of the FDI-based, export-driven model typical to the majority of the countries in the region will be also scrutinised. Not only the advantages of this model manifested in long-term GDP growth, falling unemployment and positive balance of trade, but also the disadvantages manifested in a negative net investment position, negative balance of primary income and an extremely high degree of export dependence will be taken into account. If foreign direct investment indeed played an important role in promoting structural changes and the increase of labour productivity, the authors attempt to identify the main investors and the relationship between foreign investments and the accession to the European Community. The country-specific reports also contain the analysis of investment trends by economic sectors. The authors examine the development of investments allocated in the various sectors of the national economy in this period. The volume equally deals with the assessment of the ownership structure in strategic sectors of the economy (i.e. agriculture, banking, energy sector, food industry, infrastructure, etc.). In this context, the authors examine that as a result of closer cooperation/integration with the EU what kinds of changes have occurred in the ownership structure. Trends in the proportion of "international/domestic ownership" and the presence of foreign companies are presented in the volume. However, besides presenting the number of foreign companies, we find it more important to evaluate their economic utility to national economies and their economic leverage. The extent of profits and funds withdrawn from these countries by foreign actors (investors, firms, multinational companies) is also an element worth exploring. In most cases, the authors of the country-specific reports pay close attention to assessing the relationship between the analysed country and the Eurozone. Economic experiences, effects in terms of interdependence, advantages and vulnerabilities (i.e. reflecting upon the economic crisis starting in 2008–2009) occurred after the accession are fundamentally analysed in case of countries that have already joined to the Eurozone. In case of countries that have not yet joined, the authors primarily focus on the reasons for absence. Also, the motivation for a potential future accession and the fulfilment of Maastricht macroeconomic criteria is a subject of our examination. The authors also pay particular attention to the evaluation of the necessary austerity measures and social tensions occurred by the financial and economic crises from the perspective of being a member of the Eurozone or not. In the reports, the authors test the statement according to which membership of the Eurozone has contributed decisively to the fiscal and financial stability of a country during and after the crises. The volume also examines how the financial crisis influenced the aspirations of further economic integration. The authors seek the answers to the following questions. Has the support of integration on the part of these countries eventually changed or not? Is the demand for intensifying the integration still on the agenda or not? Were the crises considered a consequence of economic integration and the lack of independent decision-making skills by CEE societies or quite the contrary, the recovery from the crises was due to the widespread integration? In addition, the volume reviews the most important economic advantages that these countries can offer to investors and companies and how these fundamental economic skills evolved both towards and after EU accession. In case of each country, the most important economic characteristics are identified (i.e. favourable taxation, skilled and/or cheap labour force, good infrastructure, innovative environment, etc.) that were driving forces of a country's competitiveness and could have contributed to economic convergence in the past two decades.

The economic convergence process of these countries is fundamentally based on funds made available by the European Union. The examined countries are the major beneficiaries of EU structural funds. Therefore, *the availability and the use of EU funds* are carefully being scrutinised by the authors of the volume. The structural and/or the development funds these countries received from the EU since the 1990s are equally reviewed and analysed from the perspective of their effect on economic and social development. We would like to know what kind of impact these sources have on the economic and social development of the CEE countries. Did they really contribute to the increase of the standard of living and lowered the developmental gap between the region and the more developed EU members? The authors also provide a close examination of the situation of how these funds have been used. Not only the transparency of the use of these resources but the destinations are primarily set to focus. The authors of the volume demonstrate the ratios that are spent in each country on the development of the infrastructure or innovation and job creation. It is clearly detailed in the volume in which sectors, at what absorption ratio are EU funds present in these countries and how much economic growth is due to these resources. The authors draw a suggestive and hypothetical picture to us about how economic growth and investment rate would have developed without the funds of the European Union.

The *socioeconomic effects of integration and interdependence* cannot be ignored, as well. In the volume, not only the purely economic effects but also the socioeconomic effects of integration play a prominent role during the analysis. By reading the country-specific reports, we can receive information about the social costs of the transformation process and the beneficial and disadvantaged economic and social consequences of the "four freedoms" resulted from the integration. Examples can be found in both cases. On the one hand, as a result of the free movement of people, these countries in general experience the outflow of educated and skilled workforce. Due to the so-called brain-drain or skill-drain processes, most of the examined countries face currently serious labour market and other difficulties. Furthermore, the rapid economic transformation occurred simultaneously with the integration process eventuated in growing territorial differences, increased level of poverty or a shrinking number of middle-class members. On the other hand, the citizens' access to the whole labour market and the extent of remittances transferred home by the emigrant workforce slightly add colour to diversity through the fact that these remittances in some countries are relevant at the level of the whole national economy. In terms of the socioeconomic effects of integration, there are common statements; at the same time, it must be said that the examined countries can be characterised by large differences.

Also, the analysis of the socioeconomic effects of integration in addition to the examination of the purely economic aspects makes our review more balanced and realistic even on the level of the single countries.

All country-specific reports have *a conclusion and an outlook.* This part of the reports draws the balance of the results of integration. The authors try to take a position on whether integration has been successful or not and they try to summarise the primary reasons of success and failure. Evaluating the integration successfully is based on several criteria. The authors review the process of integration in terms of how much it supported the structural reforms and fiscal consolidation of the single countries. Moreover, they try to evaluate the fact how much it contributed to the development and modernisation of these countries. In the volume, we ultimately try to understand how these countries managed to achieve the transformation from communism to capitalism and the integration from planned economy into the market economy system of Europe. At the moment of the accession to the European Union there was a public perception that once you get into the "European club", economic and social problems will be quickly solved. Today we are aware of the recognition that things did not happen that way. If the integration was not a total success, the authors also collect the reasons that hindered people in the country to think about how to integrate economically successfully to the European Union. Furthermore, they analyse the reasons of the fact that opinion leaders in the country only now start to think about actions that support them forming the integration in a way that better serves the implementation of national interests. As an outlook, the authors also try to estimate the next steps of the countries towards furthering economic integration or rebalancing interdependence, if desirable. Despite the achievements in integration these countries still have, serious challenges remain to be addressed. It is not a secret that these countries still suffer from bureaucratic burdens, economic obstacles, institutional imbalances, structural inaction and the lack of inclusive and innovative initiatives. Furthermore, there are still shortcomings in economic welfare, social equality and public sector efficiency.

All country-specific reports of the volume analyse the economic transformation process of the examined countries in the period 1989–2016 focusing on integration and interdependence in relation to other European countries. The reports that are based on literature review and the analysis of statistical data, expound the main macroeconomic indicators and trends of the countries in order to provide a comprehensive picture.

13% of Europe's population live in the seven countries analysed in this volume. These seven countries contribute with 7.8% to the nominal GDP produced a year in Europe. Furthermore, the 3.77% average GDP growth rate of the region slightly exceeds the average data of the European countries (3.27%).[1] Therefore, they equally deserve our attention than other countries on the continent. Especially in the light of the interpretation of some politicians and analysts who consider this region the driving force of Europe in the coming period. The volume does not undertake to comment on the previous conjecture. However, instead of guessing, in this volume the authors evaluate the change of conditions in the last two and a half decades that have established the economic processes of the future.

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[1] The source of data necessary for the calculations that are published in the paragraph: 1. Worldometer (s. a.); 2. Wikipedia (s. a.); 3. Trading Economics (s. a.b). In case of comparisons, the average data of the CEE countries were compared to the average data of the whole European continent and not to the European Union.