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Spis treści

Część 3. Beneficjenci polityki spójności

Część 4. Wiedza i innowacje a polityka spójności Unii Europejskiej

Summaries

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TEN YEARS AFTER THE ACCESSION OF CENTRAL AND EASTERN EUROPEAN COUNTRIES TO THE EU: EVALUATION IN COMPARISON TO THE TRANSITION IN FORMER SOVIET REPUBLICS

Summary: This paper deals with the process which happened in ten countries, former communist economies of Central and Eastern Europe (CEEC), which joined the European Union (EU) between 2004 and 2007. Recession was severe both in CEEC and in the former Soviet Republics (FSR) after the fall of the Berlin Wall in 1989 and the dissolution of USSR in 1991. The transformation was very deep both from an economic and political perspective. However, I argue, during the transformation and the economic recovery CEEC were favored by EU conditionality and membership, while FSR were not involved this process. EU membership might have been the crucial factor which influenced the transition in CEEC and which determined better performance. Moreover, political transition (concerning civil rights, political liberties, and traditional liberal values) was more successful in CEEC than in FSR. In this respect, the role played by the EU, was crucial for New Member States.

Keywords: UE enlargement, transition, institutions, convergence.

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1. The transition in CEEC: a comparison with former Soviet Republics

For the most of CEEC the process of transition was identified with the access to the EU. Hence the transition and access for those economies were (and to some extent still are) two sides of the same coin. As stated by Kornai [2006], the transformation of CEEC was unique. On the one hand it took place peacefully and was an astonishingly fast process towards a western mode of development. On the other hand it was characterised by deep economic troubles. It is a process which involves success and failures that vary considerably if we consider all transition countries [Holscher, Gabrisch 2006].

More generally, transition economies differ significantly in terms of economic performance although the economic policies advised by international organizations and implemented by national authorities are quite similar. These countries differ with regard to centralised planning, initial conditions and institutional framework. The economic structures (productive specialization, labour division, technologies, output and so forth) were diverse, as were rules, aims and planning in spite of common membership of the communist block [Falcetti *et al*. 2000].

Economists' views on transformation policies have been quite controversial and diverse [Sachs 1991; Kolodko and Nuti 1997; Åslund 2001]. During the 1990s, a debate among economists on the type of transformation and mistakes of policy-makers was very intense. Briefly, some economists criticised the timing of implementation, others criticised the intensity of policies and others the need and the appropriateness. This set of policies delivered important economic shocks, provoking a huge fluctuation in exchange rates which generated effects that were greater than expected.

In many countries (Poland, the Czech Republic and the most of former USSR), the transformation recipe was implemented through a shock therapy strategy. In others (Hungary, Slovenia) a more gradual approach was adopted. Nevertheless, the aim in both cases was to introduce a market economy and to reduce or eliminate the role of the state in it. It is important to stress that countries that adopted a gradual program of macroeconomic stabilization such as Hungary and Slovenia achieved similar results as Poland and the Czech Republic, which implemented a shock therapy program. By contrast Russia and Bulgaria, which also implemented a shock therapy program, had very negative performances. Moreover, it has to be said that if it is true that Poland's performances were the best among transition economies, it is also true that "[…] Poland did not completely implement shock therapy. Although prices in Poland were liberalised, most of its large SOEs have yet to be privatised" [Lin 2005, p. 241][1].

It is widely acknowledged that despite some measurement problems that could have occurred during the transformation from a planned to a market economy, such as the existence of an informal economy, statistical biases, coherence of the accounting system and so forth [Nuti 2001; Åslund 2001], the great transformation was concurrent with a huge recession [Kornai 2006; Svejnar 2002]. At the beginning of the 1990s cumulative recession in the CEEC was from 20% to 40% of GDP whereas in the former Soviet Republics it was even higher and GDP fell in some cases by 60% [*Transition Report* 2001]. At the same time, economic recovery was faster and more consistent in CEEC (except for Bulgaria and Romania) than in CIS (the Community of Independent States – mostly former USSR). The reasons for different performances probably lie in the diverse initial conditions, different policies and institutions and the mistakes of policy-makers [Gomulka 1995; Falcetti *et al*. 2000; Nuti 2001; De Vincenti 2002).

[1] The same opinion is shared by the World Bank [1996], Dabrowski [2001], Balcerowicz [1993].

After ten years of transition, taking a starting point in 1989[2], only a few states reached or exceeded the 1989 level of GDP (Poland, Hungary, Slovakia and Slovenia). After 15 years, the Czech Republic, Estonia and Albania joined this group. Among the CIS the situation was severe, and in 2004 all former Soviet Republics were still below the 1989 GDP level, apart from Uzbekistan, Belarus and Turkmenistan. The reason of such an exception has to be found in the fact that these three countries basically have still planned economies and have never started a true transition process. Therefore they have not undergone a transformation recession as experienced by all the other transition economies. After 20 years of transition, the situation in most former communist countries has not stabilized. Moreover, the current economic crisis shows how vulnerable transition economies are with respect to external shocks, with few exceptions. I will not explore in detail the current economic crisis. However, it has to be said that the twentieth anniversary of the fall of the Berlin Wall in 2009 in almost all Transition Economies (TEs) was parallel with a similar slump of the one in 1989-90. The reasons of the current recession are very different. As the figure below shows, the Baltic States, which are open and small economies (and could be classified as competitive/liberal capitalist), have been the most severely affected by the current recession, with a slump in the GDP of around 12-15%. The extreme export-led model and the uncontrolled openness to FDI seem to be the major causes for this huge slump [Myant, Drahokoupil 2010]. On the contrary Turkmenistan and Uzbekistan, which could be classified as state capitalist economies, have high GDP rates of growth. Other countries such as Poland (1.3% of economic slump) which have a sort of corporative capitalist model, similar to the one in Germany, managed the recession relatively better. An average rate of recession in TEs in 2009 was −5.2%. In 1990, the first year of transition and integration in the world economy for almost all TEs, recession was about −4.6% [Tridico 2007].

Rodrik [2008] claims that integration in the global economy can be positive and negative, depending on institutions and governance that the country is able to put forward when opening to the world economy. Weak domestic policies and institutions would increase the political vulnerability level with negative consequences on the economic volatility of a country. Hence when opening to the world economy, a country would need appropriate institutions of conflict management, international governance, trade strategies and policies, specialization, and state support. This would help to cope with external shocks and crises [Rodrik 2008].

[2] Indeed, in most former Soviet Republics, a transition process had not started before the dissolution of the Soviet Empire in 1991.

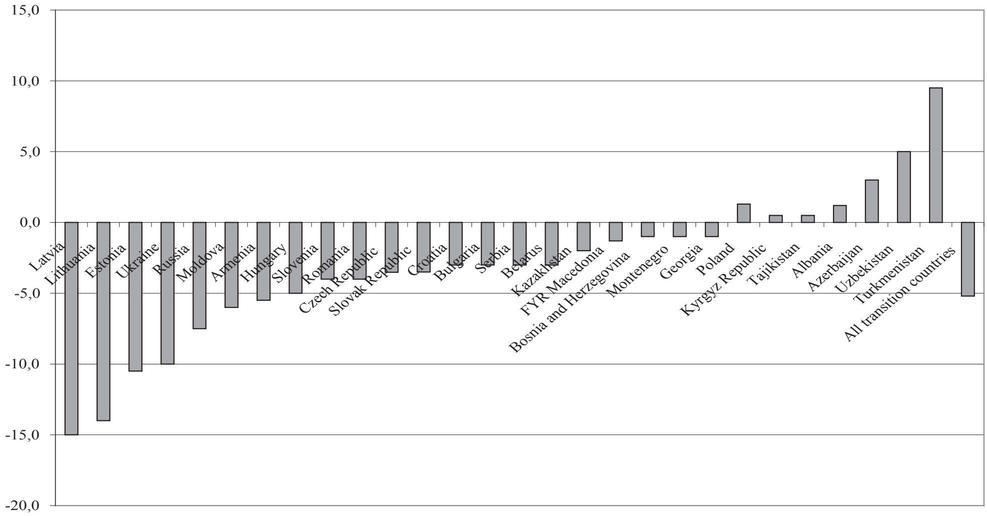


Figure 1. GDP changes in 2009 (in %)

Source: [EBRD 2009].

The average GDP level in 2008 at 117 (with 1989 = 100) was approximately the 1989 level considering all the TEs together. However, the current economic crisis affected all TEs dramatically, and at the end of 2009, their GDP levels were lower than in 2008. Therefore, the average level is lower than 117. A lot of countries, such as Russia, Ukraine, Georgia, Kyrgyzstan, Moldova and Tajikistan among CIS, and Serbia, Bosnia and Herzegovina, Lithuania and Latvia, among CEEC, in 2008 had GDP level still below the one of 1989 (and Croatia, Montenegro, Romania and Bulgaria just around 100). In 2014, after 25 years of transition, the situation looks a bit different: only three countries among CIS are still below the GDP level of 1989: Ukraine, Georgia and Moldova. At the same time among CEEC Latvia, Croatia, Serbia and Bosnia and Herzegovina are below 100, and Lithuania and Montenegro just above it. Among NMS only Latvia is still below the level of GDP that it had in 1989.

However, the situation among CEEC (and among NMS) has worsened, in comparison with other TE, during the past 5 years. In fact since the economic downturn of 2009 GDP performance has been worse in CEEC than in CIS and in particular in the most advanced CEE. This can be easily explained. After 1989 CEEC entered in, and integrated to, the economic and financial system of Western countries (EU15 and north America in particular). The financial crisis which started in 2007 in USA and propagated in Europe, affected CEEC negatively, which then had lower recovery and negative performance, similarly to the most of EU15 countries. The figure below clearly shows this dynamics.

Table 2. Levels of real GDP in 2014, 2008, and 2004 (1989=100)

CEEC and the Balkans	Level 2004	Lev.2008	Lev. 2014	($) GDP *per capita* 2008	CIS	Lev. 2004	Lev.2008	Lev. 2014	($) GDP *per capita* 2008
Slovenia	120	136.5	124	27,168.4	Russia	77.0	97.0	106	12,074.0
Czech Republic	108	126.7	120	25,395.0	Belarus	100.0	134.5	155	6,285.5
Estonia	102	113.7	121	16,508.4	Ukraine	51.0	60.7	58	3,937.0
Poland	135	156.5	171	13,838.9	Kazakhstan	94.0	124.5	156	8,736.4
Hungary	115	119.6	114	15,326.1	Armenia	89.0	131.3	140	3,711.2
Lithuania	84	99.8	102	14,017.8	Turkmenist.	105.0	160.3	217	2,915.6
Slovakia	114	142.4	150	18,248.9	Azerbaijan	71.0	163.0	187	5,507.4
Croatia	91	104.8	97	15,552.4	Georgia	41.0	73.5	98	2,845.0
Latvia	83	98.0	97	14,909.1	Uzbekistan	107.0	144.8	191	1,007.4
Albania	129	154.5	170	4,066.1	Kyrgyzstan	75.0	94.2	112	952.5
Bosnia & Herzegovina	57	78.9	76	4,833.5	Moldova	41.0	57.5	70	1,766.0
Serbia	60	81.1	83	6,761.0	Tajikistan	62.0	91.9	127	794.8
Montenegro	72	101.1	101	6,509.0	CIS	76.0	111.0	134	4211.0
Romania	92	113.2	111	9,186.5	All TEs	94.7	117.0	129	12,013.0
Macedonia	78	95.7	104	4,761.3					
Bulgaria	84	105.7	107	6,561.1					
CEEC 5+ (the most advanced)	116	131.0	131	19,647.0					
CEEC 5− and Balkans	86	107.0	109	9,582.0					
All CEEC + Balkans	96	119.0	120	14,614.9					

Note: **CEEC 5+** are the most advanced 5 CEEC: Poland, Czech Republic, Hungary, Slovenia, Estonia. **CEEC 5-** are the least advanced 5 CEEC: Bulgaria, Romania, Lithuania, Latvia, Slovakia. The Balkans: are the rest of the Balkan countries including Croatia, Serbia, Macedonia, Montenegro, Albania and Croatia. **CIS** are the former Soviet Republics being today part of the Commonwealth of Independent States (the rest of TEs).

Source: [Transition Reports 2004, 2009, 2013].

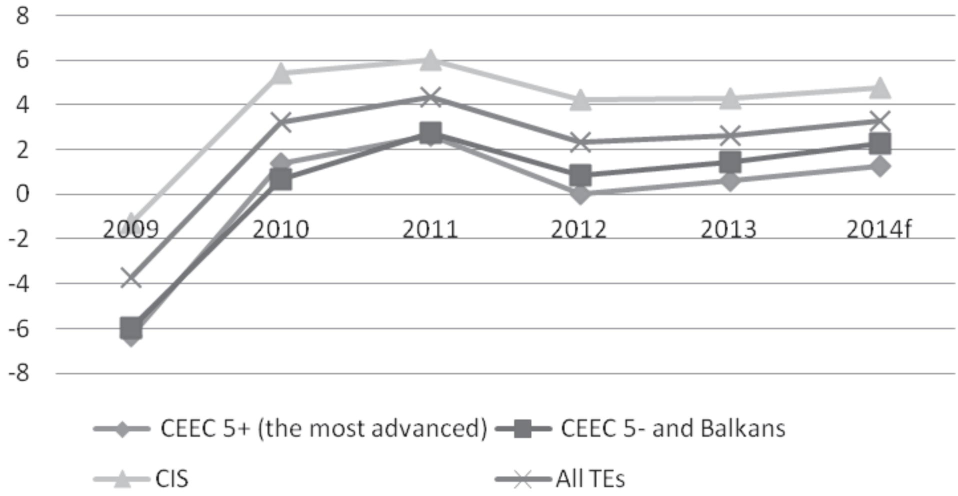


Figure 2. GDP performance, % real growth

Source: own elaboration on EBRD and Eurostat database.

More generally, the financial crisis had very bad effects on real economy of all transition countries. Both political vulnerability and economic volatility seem to be better avoided in countries which built stronger institutions, and better and more appropriate integration in the global economy in the pre-crisis time. It referred tocountries that had social institutions and could rely on a domestic aggregate demand like Poland (which is, very interestingly, one of the very few countries among TEs which had positive growth during this international crisis) and countries that did not adopt an extreme export-led model with an uncontrolled openness to FDI (unlike Estonia, Latvia and Lithuania, who had a fell in the GDP of around –15%). Among CIS, the crisis was very deep in Russia Ukraine, Georgia and Armenia. On average, it was deeper in Eastern Europe and the Caucasus (–9%) than in the rest of CIS (+0.8%) and CEEC (–5%). Of course, the three countries relying more on a state capitalist model (Turkmenistan, Uzbekistan and Belarus) were even able to grow consistently during the current crisis, thanks to public investment improvements and less to the exposure to the credit crisis [Tridico 2011]. Their cycle does not depend on the fluctuations of the financial markets. In general the crisis was better managed in countries which showed stronger maturity of pre-crisis institutions, external anchors, and greater social cohesion.

2. The impact of EU enlargement on the transition of CEEC

In Central and Eastern Europe (CEE), the EU membership promise, which became a reality for all candidates from CEE in 2004 and in 2007, was definitely a beneficial anchor and a strong guide during the transition from planned to market economy. Croatia joined the EU on 1 July 2013. Macedonia, Montenegro, Serbia as well as Iceland and Turkey are candidate countries, while Albania, Bosnia-Herzegovina and Kosovo have officially the status of "potential candidate" (i.e., they were promised the prospect of joining the EU when they are ready). EU enlargement in some of the former Yugoslavian Republics (Montenegro, Macedonia, Serbia, Bosnia-Herzegovina and Kosovo) and in Albania remains difficult and remains uncertain for the future, although all of them are officially classified as candidates or potential candidates. Former Soviet Republics are not interested in joining the EU, apart perhaps from Ukraine which is strongly supported by Poland and to some extent Georgia and Armenia, whose future relations with EU depend largely on the future access of Turkey (another EU's candidate country). Finally in 2013 the EU Council of Vilnus agreed to sign the association agreement i.e., the "Eastern Partnership" with six post-soviet republics: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. In general an association agreement is signed with potential candidates to EU. Hence, owing to the Eastern Partnership EU is opening an opportunity for future membership for those countries. Georgia and Moldova have fully signed the agreement. This agreement will contribute to creating deeper political and economic relations between the EU and these two countries and will include deep and comprehensive Free Trade Areas covering both goods and services. At the same time Azerbaijan and Armenia limited the agreement to a specific sector such as visa-facilitation. The final signature of the Eastern Partnership proved to be particularly problematic with Belarus and Ukraine, which stopped the negotiations for further agreement. Both these countries along with Kazakhstan were simultaneously offered an agreement by Russia for the creation of a Euro-Asian free trade area. Mass protests started in November 2013, when the then Ukrainian President Viktor Yanukovich refused to sign the Eastern Partnership with the EU. The development of these protests managed on the one hand to dismiss Yanukovich and on another caused a negative reaction of Russia. The situation is still very uncertain, and while we were writing, tensions and "war risks" between Russia and Ukraine started. Russia invaded the territory of Ukraine and sent Army to Crimea, which is a region where Russia has special interests along with a very important military bases.[3]

The enlargement process of the EU including ten former communist countries i.e., Poland, Czech Republic, Slovenia, Estonia, Hungary, Lithuania, Latvia, Slovakia (which joined the EU in May 2004) and Bulgaria and Romania (which joined the

[3] The articledoes not explore in details these tensions which involve economic, military and geopolitical interests in the region. The situation reached a very critical stage, after the secession of Crimea, also in the eastern region of Donbass and further development is difficult to forecast nowadays.

EU in January 2007) represented a very important condition during the transition and a goal which all of them aimed to reach as soon as possible. The negotiation process and the adoption of the *acquis communautaire* has played an important role for the transformation of institutions and rules in CEEC, and was one of the main conditionalities during the transition [Carlucci, Cavone 2004; Prausello 2003]. In fact one of the most important steps in the process was the Copenhagen European Council which established rules for former communist economies of Central and Eastern Europe to become part of EU. There were three criteria: 1) political, 2) economic and 3) institutional.

1. The presence of stable political institutions to guarantee democracy, the primacy of the rule of law, human rights, and minority protection.

2. The existence of a vital market economy able to cope with competition pressure and market forces within the European Union.

3. The institutional capability for the new member states to respect communitarian obligation and to adopt the European law, i.e. the so called *acquis communautaire*.

These three criteria were a strong conditionality during the transitionof CEEC. It would be reasonable to argue that, to some extent, most of the CEEC performed better during the transition because of the EU conditionality. However, at the same time one could argue that most of the CEEC had better initial conditions than FSR and fewer corruption and institutional problems. This allowed them to attract FDI and therefore to grow faster.

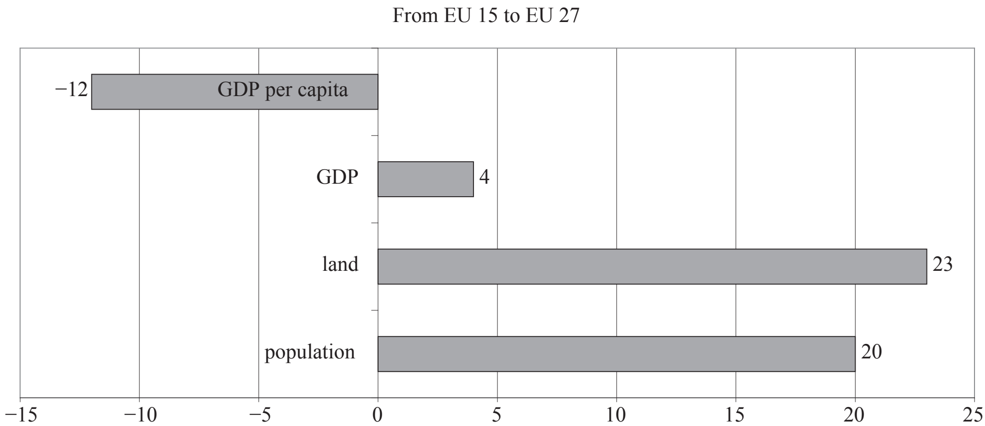


Figure 3. Evident implications of EU enlargement of CEEC, 2004-07 (values in %), from EU15 to EU27

Source: [European Commission].

The EU enlargement towards east of Europe has some immediate consequences for the EU and for CEEC as the table below shows. For the EU, first of all, the population (and the size of markets) increases, secondly, *per capita* GDP, which in average changed consistently, decreased, then, most importantly, the distribution of Structural Funds, with a shift from poor regions of old European Member States towards poor regions of new Members States (basically all the new members).

Among CEEC, Poland, Hungary and the Czech Republic represent 63% of the whole GDP of the ten EU new Member States. They are among the most advanced TEs, in terms of reforms and steps towards the marked [*Transition Report* 2011] and therefore, among the most attractive countries for foreign investors. Hungary and Poland were the first in 1991 to sign an association agreement with the EU, which was the first step for membership. The Czech Republic signed the agreement in 1993.

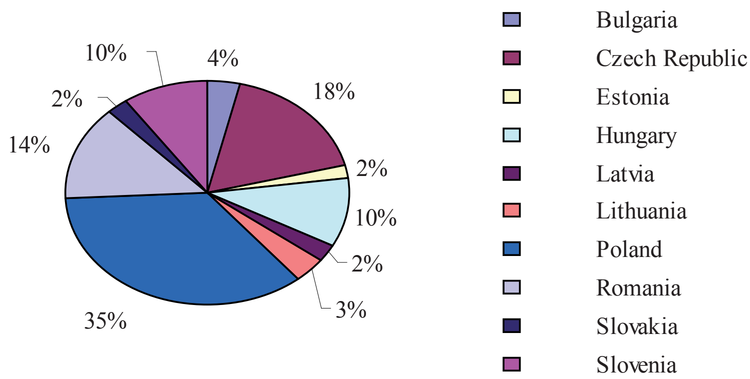


Figure 4. Total GDP of CEECs (10 new member states of EU), in %, 2008

Source: [*Transition Report 2009*].

A very sensitive issue for the relation between NMS and the old EU is the Common Agriculture Policy (CAP). The agriculture sector is very important for all CEEC, because it still plays an important role in terms of employment and GDP contribution. Therefore, CAP subsidies are very consistent for NMS. The Mac Sharry reform in 1992 was further modified in June 2003 in order to reduce the agriculture budget and to link subsidies not any more to production levels but to land dimension, with the form of the unique direct payments to agriculture firms which respected some criteria such as cross-compliance (i.e., sustainable environment conditionality), productivity improvements, green innovation etc [De Filippis 2002].

As regards cohesion policies, the old objective 1 of EU Cohesion Policy Program states that regions having average GDP *per capita* below 75% of the EU income would get EU Structural Funds. Therefore, these funds were mainly dedicated for the 2007-2013 EU Program and for the one which just started (2014-2020) to NMS.

Until 2004 (2007 for Bulgaria and Romania) NMS had received pre-accession funds (see table below). This was not, for the consistency of the funds, a “Marshall Plan” as many politicians claimed. It was an important funding plan which helped new member states with EU conditionality in several sectors i.e., transport, agriculture, technology, environment etc. On the other hand, EU, and in particular EU firms, enjoyed great advantages in terms of delocalisation of production towards CEEC, new investments with high profits, lower labour cost, economies of scale towards new markets and consumers, along with the increase of exports.

Table 3. EU pre-accession funds to CEEC (million of euros)

CEEC	Phare	Sapard	Ispa	Total
Bulgaria	100	52.1	105.8	257.9
Czech Rep	79	22.0	71.0	172.0
Estonia	26	12.0	29.0	67.0
Hungary	97	38.2	90.0	225.2
Latvia	30	21.8	47.6	99.4
Lithuania	44	29.8	53.0	126.8
Poland	398	168.7	354.0	920.7
Romania	242	150.6	243.3	635.9
Slovakia	49	18.3	47.6	114.9
Slovenia	25	6.3	15.8	47.1
Total	1,090	519.8	1,057.1	26,669.9

Notes Sapard: special accession programme for agriculture and rural development; Ispa: instrument for structural policies for pre-accession; Phare: Poland and Hungary Assistance for Restructuring their Economies.

Source: [European Commission].

However, all this was no longer sufficient *per se* to boost economic development. Empirical evidence among new member states is different. Bulgaria and Romania are typical examples of membership without strong economic development. The lack of this relationship can be traced also in Lithuania and Latvia. The average GDP *per capita* among CEEC is a fraction of EU15 income, and EU conditionality needs to be accompanied by a process of development and of institutional change to enable informal rules, which may otherwise inhibit economic development to change.

The transition is a complex and gradual process which includes institution settlement, property right allocation, certainty of economic relations, and interaction of these factors with many other social, economic and political variables such as education, health, technology improvement, political rights and participation, capability and social opportunities. Moreover, during the transition the evolution of these institutions must be coherent, and the economy must be organised and ruled with appropriate governance, without an ideological approach and with proper political decisions and collective actions which would benefit collectively people and their needs, because in the end, need satisfaction means development.

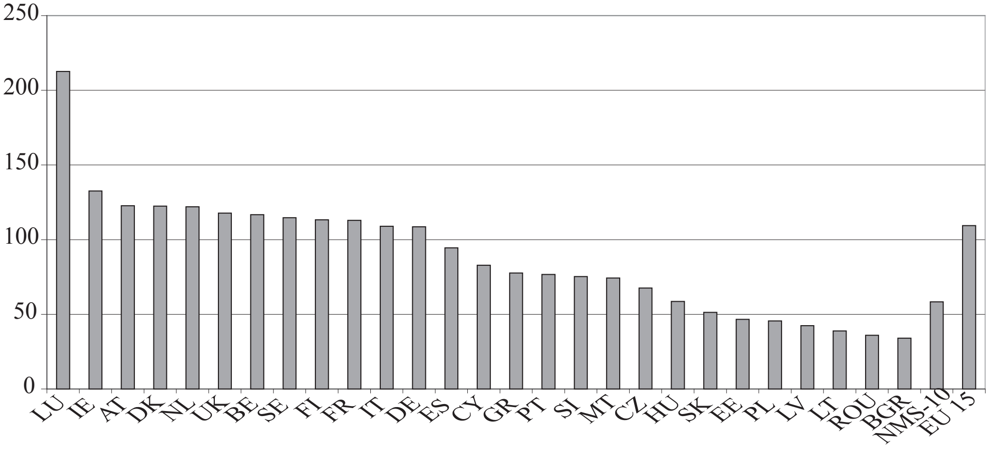


Figure 5. GDP *per capita* in EU15 and NMS-10 (EU15=100)

Source: [*Eurostat*] (data refer to 2007).

As regards differences in terms of GDP between new and old member states, one can say that they are still very big, and a catching up within the enlarged EU28 is very difficult to imagine at least for all the new member states.

Apart from the case of Luxemburg's GDP *per capita* of 75,800 Euros at current 2009 prices, which has remained steadily very high in Europe, the tendency is to find high variability in GDP numbers across Europe. For example, Bulgaria, the poorest of the 28 EU countries, has a GDP *per capita* hovering around 4,400 Euros (6600 $US) and Romania is not too far from that with 5,500 Euros at current 2009 prices. Macedonia, an EU candidate, could potentially be the poorest member nation with an income of 3,100 Euros at current 2009 prices [*Eurostat* 2009]. This contrasts with the current average income *per capita* in the EU27 which is 24,300 Euros, and that of the EU15 averaging 28,200 Euros again at current 2009 prices. The new 10 member states, which joined the EU between 2004 and 2007 plus Croatia, which jo-ined in 2013, and Macedonia and Turkey, the last two EU candidate countries, have an average GDP *per capita* equal to 9,125 Euros (current 2009 prices). And yet, there are substantial differences across the board. For instance if one were to compare Slovenia, the richest among the NMS to Portugal, the poorest of the EU15, Slovenia interestingly enough ranks higher in terms of GDP *per capita*. In fact it is almost as rich as Greece, the second poorest among the EU15.

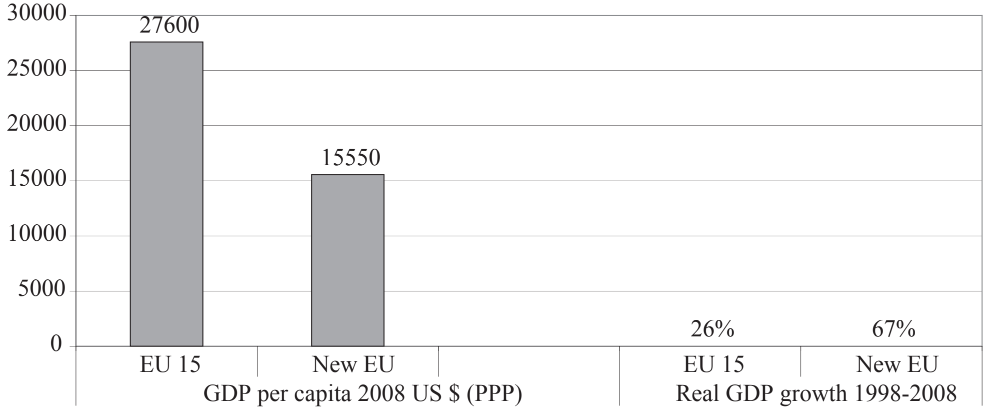


Figure 6. GDP *per capita* and economic growth: differences between new and old EU members

Source: [*Eurostat* 2008].

The figure above tries to express these differences in a more accurate way, using US $ in Purchasing Power Parity (PPP). In this way income in NMS is actually higher than at current prices, since purchasing power of those countries is higher, given the lower national level of the prices.

Obviously cumulative economic growth among NMS has been higher than among old EU in the last ten years. However, as we will see later, it is controversial to state that this represents a clear process of catching up.

3. Convergence and divergence processes among EU and the New Member States

The New Member States, after the recession of the early 1990s grew more than the old European Union (EU15), at least until before the beginning of the current global crisis which started in 2007/08. Average growth in CEEC (10 NMS) and in Croatia (new EU member in 2013) and Macedonia (EU candidates) between 1997 and 2008 was around 4.6% annually. This is higher than average EU15 growth for the same period, below 3%, and even smaller if one excludes Ireland which experienced an extraordinary growth in the last two decades, before the current crisis. A similar trend was maintained after 2008. Therefore, on average, GDP *per capita* in NMS increased more than in EU15, and it passed from around 45% at the end of 1990s to almost 65% today as the table below shows. This convergence analysis does not take into consideration, for obvious reasons, the period of systemic recession (the first half of the 1990s).

Table 6. GDP *per capita* (at PPP) in EU and candidate countries, average

Group of Countries	2000	2014
European Union (27 countries)	100.0	100.0
European Union (15 countries)	115.5	110.8
Standard Deviation of income in EU28	25.5	20.9
GDP *per capita* in NMS 10 plus Croatia and Macedonia	45.5	60.9

Source: Eurostat 2014.

Standard deviation of average income declined and to some extent one can notice a so-called Sigma convergence (the reduction in income dispersion among countries). The figure below shows data for the ten NMS which joined the EU in 2004--2007 and for Croatia which joined the EU in 2013 and for Macedonia (still a EU candidate, very likely the next country to join).

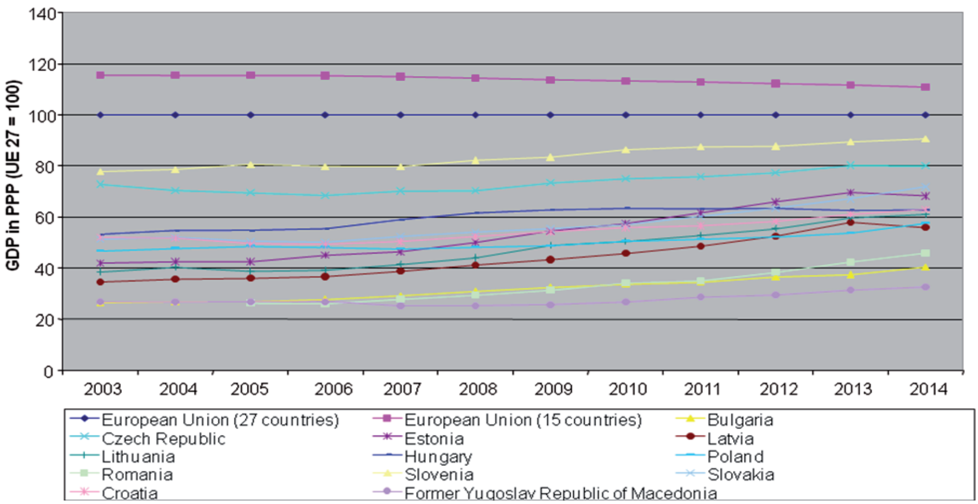


Figure 7. Sigma convergence among EU15, NMS-10 and new EU candidates (Croatia and Macedonia)

Source: own elaboration on based [*Eurostat* 2014].

During this period we could see a limited catching up process between the old EU and NMS. Interestingly enough, this limited convergence is observable only for NMS and not for the rest of transition economies, where, as tests shows, the sigma coefficient did not decline. Very likely, the role of the EU conditionality, before the membership in particular, and the stimulus to reach EU standards had an important impact on the NMS.

However, we have to keep in mind that there are several limitations which stands against the evidence of the absolute convergences. Firstly, we are considering only the period of fast growth of CEEC, after the second half of the 1990s, and excluding the recession period at the beginning of the 1990s which was very consistent throughout transition economies. As the table below shows, paying attention to the fact that in 1989 the conformation of several countries was different, average GDP in 1989 among CEEC with respect to EU15 was higher than it was in 2000 (45.5%). Therefore standard deviation, which declined in the last decade, remained at the same level during the previous decade.

Table 7. GDP *per capita* (PPP) among former communist economies in % of EU15

Countries	1989
Bulgaria	35
Czechoslovakia	65
Hungary	57
Poland	38
Romania	39
Yugoslavia	45
average (of above)	47
Soviet Union	49

Source: [Berend 2006].

Secondly, one could argue that apart from the case of some fast growing countries in the EU15 (such Ireland, Spain, Finland and Greece), the old EU experienced a process of slow growth over the period considered (1997-2008). Hence, the decline in the standard deviation between old EU and NMS may be attributed more to EU stagnation than to NMS catching up.

Moreover, on average, CEEC increased their GDP *per capita*, but income differentials among them remained the same. Standard deviation in 2003 among CEEC only was around 17.3 while in 2014 it was around 16.5. Countries with better initial conditions in 1989 like the Czech Republic and Slovenia, are still much richer than other CEEC, because they have grown consistently over the last 2 decades. Countries like Romania and Bulgaria, which were much poorer, remain poor today. The same applies to Macedonia, Latvia, Lithuania. Poorer countries have not grown faster.

Finally, any form of correlation between lower level of GDP and faster growth can be excluded. Such a statement that poor countries do not grow faster, would be confirmed by a simple regression model which considers the initial GDP *per capita* of countries (GDP1989) as an independent variable and the rate of growth (g) as a dependent variable over the last two decades. A term of error 'ε' and a constant 'a' is considered in the model, as it is shown by the equation below:

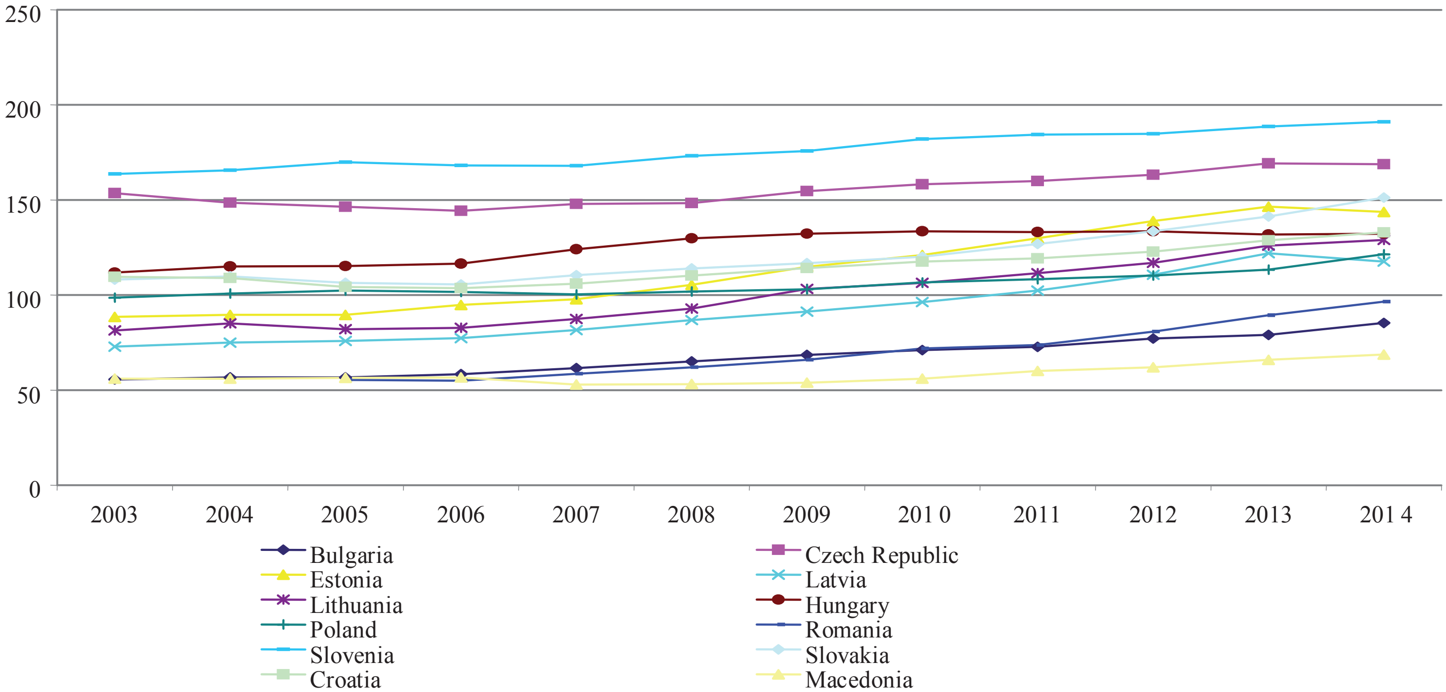


Figure 8. Sigma convergence for CEEC only (corrected)

Source: own elaboration based on [Eurostat 2014].

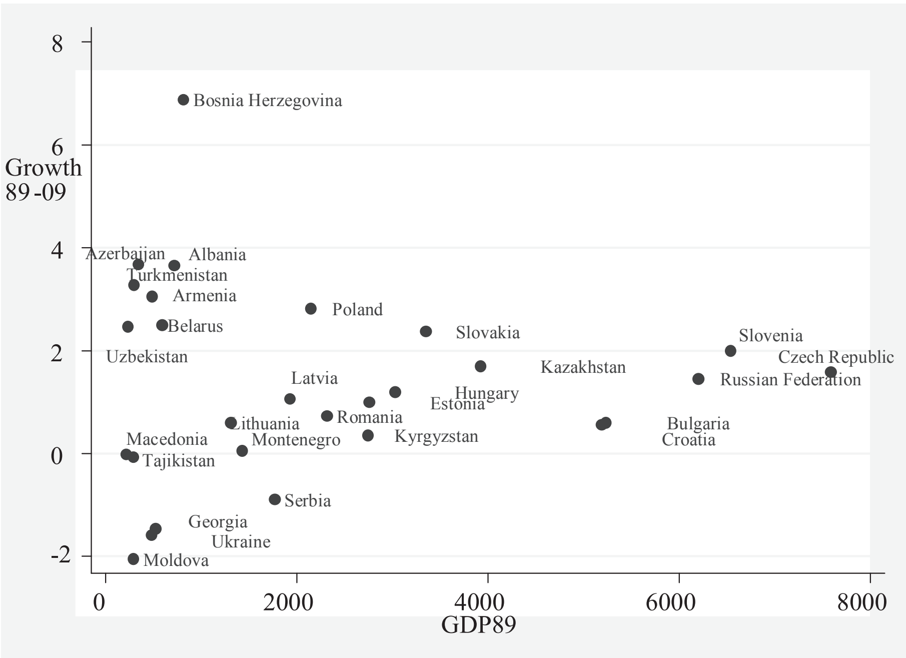
$$g = a - \beta \cdot GDP(1989) + \varepsilon \,.$$

In general, according to neoclassical models of growth, an absolute 'Beta' convergence (i.e. a convergence in the rate of growth) would occur among countries. Poor countries are supposed to grow faster than richer countries. If the results are statistically significant and the Beta coefficient of the model is negative, then an absolute convergence would occur [Sala-i-Martin 1996]: countries which have an initial higher GDP level would grow slower than countries with an initial lower level of GDP.

Table 8. Correlation between GDP 1989 and GDP growth 1989-2009

	GDP89	growth 1989-09
GDP89	1.0000	
Growth 1989-09	−0.0088	1.0000

Source: own elaboration on EBRD data.



Note 1: The scatter figure above confirms that an inverse decreasing relation cannot be characterized. Note 2: data for Bosnia-Herz. refer to 1996-2008.

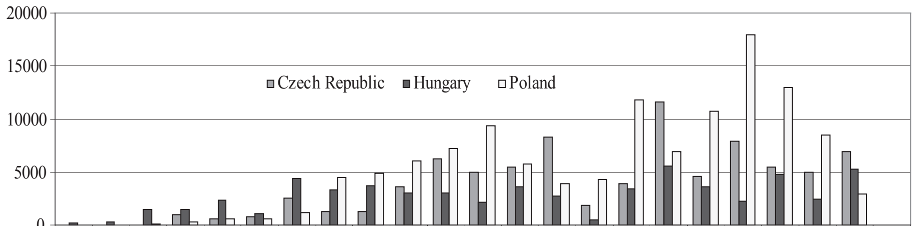
Figure 9. Correlation Scatter of GDP1989 and average growth during 1989-2009

Source: own elaboration based on [*EBRD*].

The model above would need to be tested for causality. However, empirical studies across the world and countries on this issue show very controversial evidence and unclear results [Boggio, Serravalli 2003], and this applies also when transition economies are included in the analysis [Andreff 1998; Manzocchi Beatrice 2001a; Montalbano 2002; Sarajevs et al., 2001 Falcetti et al 2000). It is not the objective of this paper to test for causality or to analyse deeply the convergence, which was, however, excluded by many studies. It is sufficient here to state that correlation between the two variables GDP1989 and the growth in the period 1989-2009 is very weak.

4. Foreign Direct Investments and international constraints

The promise of membership to the EU was a guarantee for foreign entrepreneurs to move their capitals and to set up their business, first of all in Poland, Hungary and the Czech Republic and later in all of CEEC. Hungary, which initially was considered an economically safer country, first started to attract FDI. However, in the second half of the 1990s, when Poland also became a more stable country, together with the Czech Republic, it attracted the biggest share of FDI. The graph below describes the evolution of FDI in the three countries which attracted the most of them.



	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Cumulative per	FDI in 2009
Czech Republic				983	563	749	2526	1.280	1.259	3.575	6.220	4.942	5.474	8.282	1.814	3.941	11.63	4.598	7.930	5.500	5.000	6.954	4,6
Hungary	187	311	1459	1471	2328	1097	4410	3.335	3.715	3.070	3.060	2.151	3.573	2.722	479	3.405	5.586	3.640	2.197	4.763	2.400	5.314	3,1
Poland			117	284	580	542	1134	4.445	4.863	6.049	7.239	9.327	5.804	3.901	4.284	11.76	6.951	10.72	17.97	12.95	8.500	2.967	2,5

Figure 10. FDI inflows into the Czech republic, Hungary and Poland in US$ mln

Source: [*Transition Report* 2001].

Poland is the first country in terms of cumulative FDI, while the Czech Republic has the supremacy in terms of FDI *per capita*, followed by Hungary. The same can be said with respect to FDI as a percentage of GDP. With regard to the origin of FDI, 39% of cumulative EU flows come from Germany, which was a strong supporter of the eastern enlargement, 15% from the Netherlands and 12% from France. The Italian share was 4%. In terms of number of investment projects, Italy is in second place, with 19% of the total share, while Germany remains in the first place with

27% of projects.[4] French flow is mostly concentrated in Poland and Romania while German and Dutch FDI go mainly to Poland, the Czech Republic and Hungary. The Scandinavian FDI are mainly concentrated in the three Baltic countries, while the Italian flows are concentrated in the Balkans and Romania.

FDI have two objectives: 1) to conquer new markets and 2) to use them as productive basis for their further exports. Many multinationals in fact invested heavily in CEEC during the 1990s in order to build a competitive advantage based on lower labour costs, skilled labour force and marketing positioning. CEEC in less than 10 years became a place for old EU firms, which delocalized and internalized production [Manzocchi and Beatrice 2001a; Montalbano 2002]. International specialization changed consistently thanks to these new flows of FDI in former communist countries. An interaction between job destruction and job creation in EU and in CEEC took place and the effects of it are still taking place. CEEC are countries very close to the core of old Europe, with a skilled labour force and a mature industrial structure, although it was obsolete at the beginning of the 1990s. A relatively low country risk and the EU membership made these countries very attractive for European investors who enjoy there unit labour cost which equals to half or one third of EU15 average [Markowski, Jackson 1993]. Multinational firms in CEEC are interested to exploit profits coming from different sources such as market size, cheap labour, and natural resources. In the first case, the objective is to conquer new domestic and profitable markets. In the second case, FDI are mostly concentrated in the industrial sector, exploiting lower skilled labour costs. In the last case, the advantages come from investing in the heavy industry where natural resources and raw material can be exploited. In all three cases, the production is often turned towards the exporting sector.

Table 9. International agreements of CEEC in the 1990s

	GATT/WTO	IMF (art.VIII)	European Association	EU full membership
Bulgaria	Dec-96	Sept-98	Mar-93	Jan. 2007
Czech Rep	Jan-95	Oct.-95	Oct.-93	May 2004
Hungary	Jan-95	Jan-96	Dec-91	May 2004
Poland	Jul-95	Jun-95	Dec-91	May 2004
Romania	Jan-95	Mar-98	Feb-93	Jan. 2007
Slovakia	Jan-95	Oct.-95	Oct.-93	May 2004
Slovenia	Jul-95	Sept-95	Jun-96	May 2004
Estonia	Nov-99	Aug-94	Jun-95	May 2004
Latvia	Feb-99	Jun-94	Jun-95	May 2004
Lithuania	May 2001	May-94	Jun-95	May 2004

Source: [Transition Report 2001; European Commission].

[4] This also emphasizes the pattern of FDI, characterized mainly by small and medium firms in case of Italy.

Moreover, to attract FDI CEEC policy was very effective since it was able to strategically create special zones where FDI could enjoy advantageous fiscal tax conditions. However, despite the special zones, a lot of FDI go to central zones and capital city/area, where they can also enjoy better infrastructures and higher human capital levels [Litwack, Qian 1998].

FDI contribute to institutional and structural change. New FDI cause new forms of management, knowledge, organization, strategies and marketing, new know-how and investment agencies. They bring new rules to the business and have a huge impact on the economic organization in general.

FDI in CEEC, and in particular in Poland, Hungary and the Czech Republic, favoured also the increase of trade flow with the EU. These two factors, the existence of FDI and trade, are reported in some articles as key factors for the further development of these three countries [Manzocchi, Beatrice 2001a; 2001b]. However, the evidence of this development is controversial, and there are economists who argue that FDI contributed to an increase in commercial deficit in some TEs, because foreign investors imported capital goods, technology and other services from their own country in massive amounts [Weresa 1999]. However, FDI definitely contributed to the integration in the world economy of the new EU Member States, which were also affected by other international organizations and international conditionality such as World Trade Organization (WTO) and International Monetary Fund. As the table below shows in fact the new EU Member States experienced in the 1990s also a transition towards membership in those organizations. Moreover, in the 2000s new EU Member States also became members of NATO.

5. Conclusions

The transformation of TEs has been profound and the recession has been severe, both in CEEC and FSR. However, most CEEC started a more consistent process of economic development which did not happen in most FSR. There are several reasons for that. One of the them analysed in this paper is the EU conditionality and membership which played a positive role for most CEEC.

In fact, the impact of the EU on CEEC was very important during the transition in particular in terms of FDI, trade, political transformation and democracy which were promoted by the EU perspective of membership. It is probable that more FDI, and trade with EU15, along with EU aids, contributed to a faster GDP recovery in CEEC than in FSR which were not affected by EU membership.

In terms of foreign relations, the eastern enlargement modified the EU approach towards the Former Soviet Republics too. Moreover, the access of CEEC to the EU shifted more to the east not only the EU border but also the EU perspective and the approach of the organization towards Ukraine, Belarus, the Caucasus Republics which some decades ago had not even been considered part of the European affairs. On the contrary, today a perspective for these countries, in particular for Ukraine and Belarus, of being in the future part of the European Union, is no longer impossible.

Politically, the transition from the single-party system existing in the previous regime towards the multi-party system of the current regime, was more successful in CEEC than in FSR: higher levels of democracy, freedom, political rights and civil liberties are observed in CEEC with respect to FSR. Obviously, in this sphere, probably more than in the economic sphere, the positive influence and conditionality of EU membership was stronger.

Finally, although it is possible to observe, to some extent, a sigma convergence with a reduction of income dispersion between NMS and EU15, it is not possible to observe a Beta convergence among EU28 Member States in the analysed period.

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DZIESIĘĆ LAT PO PRZYSTĄPIENIU KRAJÓW CENTRALNEJ I WSCHODNIEJ EUROPY DO UNII EUROPEJSKIEJ: PORÓWNANIE Z PRZEMIANAMI W BYŁYM ZWIĄZKU RADZIECKIM

Streszczenie: Artykuł dotyczy procesu przystąpienia do Unii Europejskiej w latach 2004 i 2007 dziesięciu krajów Europy Środkowej i Wschodniej (CEEC), byłych gospodarek komunistycznych. Recesja, jaka dotknęła w wyniku transformacji zarówno gospodarki krajów Europy Środkowej i Wschodniej po upadku muru berlińskiego w 1989 r., jak i byłych republik radzieckich (FSR) po rozpadzie ZSRR w 1991 r., była bardzo głęboka z punktu widzenia gospodarczego i politycznego. Autor opracowania twierdzi, że kraje Europy Środkowej i Wschodniej były faworyzowane w okresie transformacji i ożywienia gospodarczego przez warunki ich członkostwa w UE, natomiast FSR nie były zainteresowane uczestnictwem w tym procesie. Bardzo prawdopodobne jest, że członkostwo w UE było istotnym czynnikiem, który wpłynął na proces transformacji w Europie Środkowej i Wschodniej oraz przyczynił się do wzrostu wydajności. Co więcej, zmiany polityczne (w zakresie praw obywatelskich, swobód politycznych i tradycyjnych wartości liberalnych) odniosły w CEEC większy sukces niż w FSR. W związku z tym rola, jaką odegrała UE, była kluczowa dla nowych państw członkowskich.

Słowa kluczowe: rozszerzenia UE, przejście, instytucje, konwergencja.