East-West Divide in the European Union: Legacy or Developmental Failure?

Clara Volintiru, Alina Bârgăoanu, George Ștefan, Flavia Durach[1]

Abstract: *EU goes through a realignment process in the context of the demise of multilateralism, yet the impact of this process on the 11 new Member States from Central and Eastern Europe (CEE) is rarely discussed. There is a persistent East-West divide in the EU that is mainly socio-economic, even though often narrated as a political divide between older and newer Member States. The article explores in depth the current developmental metrics in CEE and argues that the progress that has been achieved in overall levels of convergence in the EU is yet to be reflected at subnational level, where great disparities persist. It is the developmental divide that continues to inform political divisions in Europe.*

Keywords: *Central and Eastern Europe (CEE), East-West divide, socio-economic disparities, European Union.*

Introduction

More than 30 years after the fall of the Berlin Wall, the integration process of "the other" half of Europe is still an on-going process. The 11 new Member States from Central and Eastern Europe (CEE) have achieved a significant level of prosperity and security over the past decades. However great the gains, there is still a sense of unease due to the unfulfilled potential in the region, and the fear of backsliding.

We argue that it is not the legacy of values that brings about an apparent East-West divide, but rather contemporary circumstances that constrain the developmental potential of the CEE Member States. As the European project aims to move towards deeper integration in the face of the current challenges, it is important to link policy preferences to structural constraints on the part of Member States, to understand how to move forward cohesively. We therefore aim to answer the following research question: What are the structural factors that inform policy divides in the EU?

Although many CEE countries are not fully integrated into the European project (i.e. many of them have not yet adopted the euro currency, some have not joined the Schengen Area), the logic of concentric circles is flawed, and while many scholars (and public rhetoric) have focused on the democratic failures in the region, it

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is the persistent socio-economic disparities between older and newer Member States that raise the biggest disintegrative threat to the EU (and fuel populist rhetoric).

The first section of the article shows the extent to which the literature covers a wide range of explanations for the distinctiveness of new Member States from the CEE region – from the legacies of institutional weakness (e.g., corruption, electoral volatility), to developmental challenges (e.g., fast-track liberalisation, economic dependence). In section two, we address the theoretical puzzle of the institutional divide in the EU by accounting for cross-national perspectives based on voting behaviour data in the European Parliament and national policy positions. We have identified only four major areas where policy division is recorded clearly between East and West: climate policy, economic integration, commitment to the transatlantic partnership, and rule of law (RoL). In the third section, we test the underlying socio-economic national context that informs the respective policy positions at the EU level. Section four provides an in-depth look into the issue of subnational disparities of CEE Member States and argues that it is one of the main sources of the developmental divides reflected by economic metrics.

We, therefore, add to the existent literature an up-to-date assessment of persistent developmental disparities in Central and Eastern Europe and how these can explain (in part) the puzzle of apparent policy divides in the EU.

CEE and its specific challenges

The academic literature showcases two major sets of regional challenges in CEE: institutional (in the broader sense, involving politics, policies, administration, or socio-cultural aspects) and economic. We argue that the two have been interlinked and continue to do so in the present (see also Coman and Volintiru 2020). Furthermore, while there are some divides between the West and the East in the EU (Epstein and Jacoby 2013; Schweiger and Visvizi 2018; Agh 2020; Laczo and Gabrijelcic 2020), in both institutional and economic terms, these are often less salient than is sometimes claimed (Bohle and Ban 2020; Makszin et al. 2020; Vachudova 2005). The current hype around East-West divisions draws from the "inflated expectations and misperceptions concerning the roads open to the region" at the beginning of the transition period (Bohle and Greskovitz 2019). The process of further integration in the EU (e.g., institutional harmonisation) is one way to address persistent institutional deficiencies in the CEE Member States. The success of this process depends on the accurate diagnostic of persistent developmental challenges in the region.

Institutional Legacies

Countries in Central and Eastern Europe (CEE) all made a sudden transition from the centralised economy of the Soviet bloc to a market economy (Artisien 2016; Ekiert and Hanson 2003; Gros and Steinherr 2004; Stark and Bruszt 1998; Welsh 1995), driven by a mostly neoliberal recipe (Ban 2016; Bohle and Gerskovits 2019b). With an encompassing import of neoliberal reforms, the transition period has further weakened the new European democracies' economic policymaking capacity to account for national context (Ban 2016; Bruszt and Vukov 2017; Reinert 2007; Schmidt and Thatcher 2014; Stark et al. 1998). Given simultaneous (re)construction of electoral and administrative institutions, the transition's pace relied primarily on lesson-drawing (Rose 1991).

Simultaneously with the regime change, CEE countries made the transition from the single-party system to a multi-party system (Van Biezen 2003), one in which successor parties sometimes competed against newly established parties (Bozóki et al. 2002; Grzymala-Busse 2002; Kitschelt et al. 1999), but differing from Western European parties in how they organise and mobilise supporters (Gherghina 2014; Toole 2003). For three decades now, the CEE region has been characterised by relatively high electoral volatility (Bertoa 2013; Powell and Tucker 2014; Tavits 2005). The determining factor of electoral success is often the ability to capture the state's resources (Engler 2015; Gherghina and Volintiru 2017; Grzymala-Busse 2007; Hanley and Sikk 2014; Innes 2014; Volintiru 2016). State capture and corruption were possible given an inadequate overall institutionalisation of the democratic party system (Casal Bertoa 2012; Gherghina 2014) and the governmental apparatus (Dimitrov, Goetz, and Wollmann 2006; Meyer-Sahling 2006; Meyer-Sahling 2008). Such informal practices also distorted market liberalisation. There is a clear and persistent East-West divide in terms of quality of governance in the EU – from transparency to administrative efficiency (Charron et al. 2014).

Rule of Law (RoL) and the Illiberal Turn

There is a consistent debate on CEE's illiberal turn (i.e., political backsliding, the emergence of illiberalism, populism, authoritarianism) (Anghel 2020, Dawson and Hanley 2018; Krastev 2018). Its arguments are rooted in the growing public support for illiberal parties [such as the Civic Alliance (Fidesz) in Hungary and Law and Justice party (PiS) in Poland], and an increasing number of accusations of corruption, authoritarian tendencies, and attempts to diminish civil liberties, the freedom of the judiciary or that of the press (e.g., Hungary, Romania, or the Czech Republic) (Bârgăoanu et al. 2017; Bugaric 2015; Cserchi and Zgut 2020; Nimu and Volintiru 2017).

Part of the literature tried to reflect a cultural separation in the new Member States from CEE concerning RoL (Engler 2015; Pop-Eleches and Tucker 2013; Rose 2001). However, many of the issues related to corruption and clientelism proved to be as pervasive in older Member States as they are in the new ones (Piattoni 2003; Yildirim and Kitschelt 2020). In a recent survey, more than half of the public in older Member States regarded their politicians as corrupt (Pew Research Centre 2019). Furthermore, there is evidence of widespread political patronage in Western Europe's public office (Bach and Veit 2017; Dahlström and Holmgren 2017; Ennser-Jedenastik 2016; Kopecký et al. 2016).

European Integration

CEE countries transitioned from newly emerged sovereign states to EU Member States, which meant ceding considerable portions of sovereignty to trans-national EU institutions (Börzel et al. 2017; De Vries 2013; Epstein and Jacoby 2014). At times, this created a bottleneck of repressed nationalism in CEE Member States that already had the forced uniformisation experience behind them under communist times. Beyond the socio-cultural convergence (Akaliyski 2019), consistent institutional and economic convergence underlined the pre-and post-accession to the EU. It also involved regulatory harmonisation, and uniformisation of practices in the public administration (Meyer-Sahling and Van Stolk 2015; Șurubaru 2020; Volintiru et al. 2018; Zubek and Staroniva 2012).

EU accession also brought to CEE Member States a cultural and historical vindication, a "return" to the "cultural West" and "the civilized world" (Bottoni 2017; Janos 2000; Rupnik 2018). The paradox is that it is not CEE as a whole that has sought to define itself exclusively based on the Western model, but each country separately. While some regional categories (i.e., Visegrad Group, Baltic States) exist with shared characteristics and objectives, countries in CEE have nevertheless tended to compare themselves primarily with their Western counterparts, as this was the model they wanted to emulate (Șandru 2012).

However, the low representation of Eastern Member States in the decision-making process at the EU level (Anghel 2020) and the growing inequality amongst and within Member States (Epstein 2019) have all contributed to a weakening enthusiasm towards the EU – albeit more amongst the political elites than the general public (Bankov and Gherghina 2020).

Also, Europeanisation as an automatic process of institutional convergence (Schimmelfenning and Sedelmeier 2005) has been regarded with growing scepticism over the past years, given the multitude of domestic specificities and political interests to resist reform (Epstein and Sedelmeier 2008; Noutcheva and Bechev 2008; Schimmelfenning and Sedelmeier 2019). On top of this, the EU's procedural leverage in constraining the newer Member States to enact reforms has backfired in recent years, as populist politicians have increasingly used it as an argument to fuel Euroscepticism. And, loose conditionalities in CEE did very little in the way of convergence and cohesion, both economically (Jacoby and Hopkin 2020; Piroska et al. 2020) and politically (Blauberger and van Hullen 2020; Lacatus and Sedelmeier 2020).

The process of European integration has brought about stimulants of economic growth. It has partly been achieved through direct transfers of capital and technical support – through European funding (Dall'erba and Fang 2017; Surubaru 2020). But also, and more importantly, the integration within the Single Market has brought about multiplication effects through foreign direct investment (FDI) and trade, thus creating sustainable economic growth in the region (Ban 2019; Bohle 2018; Medve Balint 2014; Niebuhr and Schlitte 2009; Sohinger 2005). What is more, there has been a relatively successful integration of CEE in the regional value chains (Grodzicki and Geodecki 2016; Volintiru and Drăgan 2019).

Persistent Developmental Challenges

For all CEE newer Member States, accession meant economic gains (i.e., the promise and the expectation of prosperity). To a large extent, this was delivered, but there was considerable cross-country variation (Forgó and Jevcák 2015), and developmental challenges persisted. Scholars point to a regional pattern of development dependent on foreign capital (Nolke and Vliegenthart 2009), albeit empirically there are significant national specificities (Bohle and Greskovits 2012, Ban and Bohle 2020, Ban and Volintiru 2021).

The EU convergence process has failed to address the persistent subnational disparities (Bargaoanu and Volintiru 2019; Farole et al. 2018; Niebuhr and Schlitte 2009) or wage inequality (Josifidis et al. 2020) in many of the CEE Member States. Therefore, despite higher growth rates over the past years in the East of Europe rather than in the West, CEE still shows lower economic performance, measured in such terms as wealth distribution, value-added, or labour productivity (Anghel 2020; Epstein 2020).

Beyond islands of competitiveness driven by market integration opportunities (Bohle and Gersowitz 2012; Lindstrom and Piroska 2007), mostly concentrated around the larger CEE cities, the relatively poor converge at a subnational level leaves a clear divide in aggregated terms between East and West.

A misguided rhetoric

Dismissing the recent developments in CEE as a case of diminishing adherence to the "good" values of the Western neoliberal world is a case of misguided rhetoric. There are other, sensitive issues at hand that old EU Member States fail to accurately understand. Firstly, the surge of the nationalist, illiberal, populist, and far-right movements is not a phenomenon confined in the region, as the feelings of revolt and discontent must be understood in the broader context of the doubts about the liberal order/global order: a growing malaise with the state of the economy, and an anger against current neoliberalism both across the USA and the EU.

Secondly, the interests of Western and Eastern Europe within the EU may no longer be aligned, thus making ideological differences a sudden issue of dispute – when interests can be easily harmonised, conflicting ideologies tend to have secondary importance.

Thirdly, democratic backsliding in CEE is a political and discursive reflection of the socio-economic divide within the EU, and a reaction to the tacit limitation of efforts towards convergence. CEE was primarily integrated with Western Europe politically, while economic integration is still lagging behind. Negative sentiments are aggravated by the fact that CEE is required to support political liberalism and, at the same time, to accept the idea that economic liberalism does not lead to convergence. Although political liberalism is heavily attacked in Western Europe as well, these attacks are deemed undemocratic and illegitimate when coming from Eastern European Member States, reinforcing pre-existing fears of double standards. Unfortunately, political explanations continue to be favoured over economic ones, when interpreting the causes of the East-West divide.

As a result of the aforementioned context, some CEE Member States are currently diverging from mainstream EU politics, since they feel their interests are underrepresented in a number of key issues. It is not just the rule of law that might separate the position of older and newer Member States. Other topics may be equally divisive in the coming years. For example, the "hallmark" policy of the von der Leyen Commission with respect to Climate Action highlights clearly the opposing view between the older Member States that support it and the newer Member States in CEE that oppose many of the progressive environmental policies of the EU (Volintiru et al. 2019). The separation of views here is clearly not one of values, as much as it is one of economic background – with CEE countries inheriting a large energy industrial sector based on coal and low-income demographics being poorly compatible with the requirements of the clean energy transition.

We assembled a set of policy issues that showcase poor alignment of views between older and newer Member States: trade, defence and energy (see Table 1). In each case, we see the CEE Member States concentrated in one position – either for or against, thus suggesting a clustering on geographical category. More than 60% of votes from the Western Europe MEPs are against EU-US negotiations on the elimination of tariffs for industrial goods, while less than 15% of MEPs from CEE favour such measures[2]. Little under half of MEPs from Western Europe favour the establishment of a European Defence Fund, while an overwhelmingly majority of over 80% of MEPs from CEE vote in support of furthering the European defence capabilities[3]. Western Europe is split with regards to Nord Stream 2, while over 75% of MEPs from CEE voted in support of stopping this project[4]. The new working rules for truckers created a significant disadvantage for CEE, especially given the poor rail connectivity of this region, and, as such, MEPs from these countries from all political families presented a united opposition[5] (See Table 1).

Table 1. Divisive Policy Topics between East and West

POLICY	In support	Opposing
Progressive environmental policy	**From CEE:** Estonia (EE), Latvia (LV), Lithuania (LT) **Outside CEE:** Austria (AT), Belgium (BE), Cyprus (CY), Finland (FI), France (FR), Germany (GE), Greece (EL), Italy (IT), Ireland (IR), Luxembourg (LU), Malta (MT), Netherlands (NL), Spain (ES), Sweden (SE).	**From CEE:** Bulgaria (BU), Croatia (HR), Czech Republic (CZ), Hungary (HU), Poland (PL), Slovenia (SI), Slovakia (SK), Romania (RO). **Outside CEE:** United Kingdom (UK)
International trade and Regulation of the internal market	**From CEE:** Bulgaria (BU), Czech Republic (CZ), Croatia (HU), Estonia (EE), Latvia (LV), Lithuania (LT), Poland (PL), Romania (RO), Slovakia (SK), Slovenia (SI) **Outside CEE:** Finland (FI), Malta (MT)	**From CEE:** Hungary (HU) **Outside CEE:** Austria (AT), Cyprus (CY), France (FR), Greece (EL), Spain (ES), Italy (IT), Ireland (IE), United Kingdom (UK)
Transatlantic relations	**From CEE:** Bulgaria (BU), Czech Republic (CZ), Croatia (HU), Hungary (HU), Latvia (LV), Poland (PL), Romania (RO), Slovakia (SK), Slovenia (SI) **Outside CEE:** United Kingdom (UK) and Denmark (DK)	**From CEE:** Estonia (EE) **Outside CEE:** Austria (AT), France (FR), Greece (EL), Spain (ES), Italy (IT), Ireland (IE), Sweden (SE)
Mobility package – improve truck drivers' working conditions	**From CEE:** Czech Republic (CZ), Croatia (HU), Slovakia (SK), Slovenia (SI) **Outside CEE:** Austria (AT), Belgium (BE), Cyprus (CY), Denmark (DK), Finland (FI), France (FR), Germany (GE), Greece (EL), Italy (IT), Ireland (IR), Luxembourg (LU), Malta (MT), Netherlands (NL), Spain (ES), Sweden (SE).	**From CEE:** Bulgaria (BU), Romania (RO), Hungary (HU), Poland (PO), Estonia (EE), Lithuania (LT), Latvia (LV) **Outside CEE:** -

Source: VoteWatch data based on actual votes in the European Parliament.

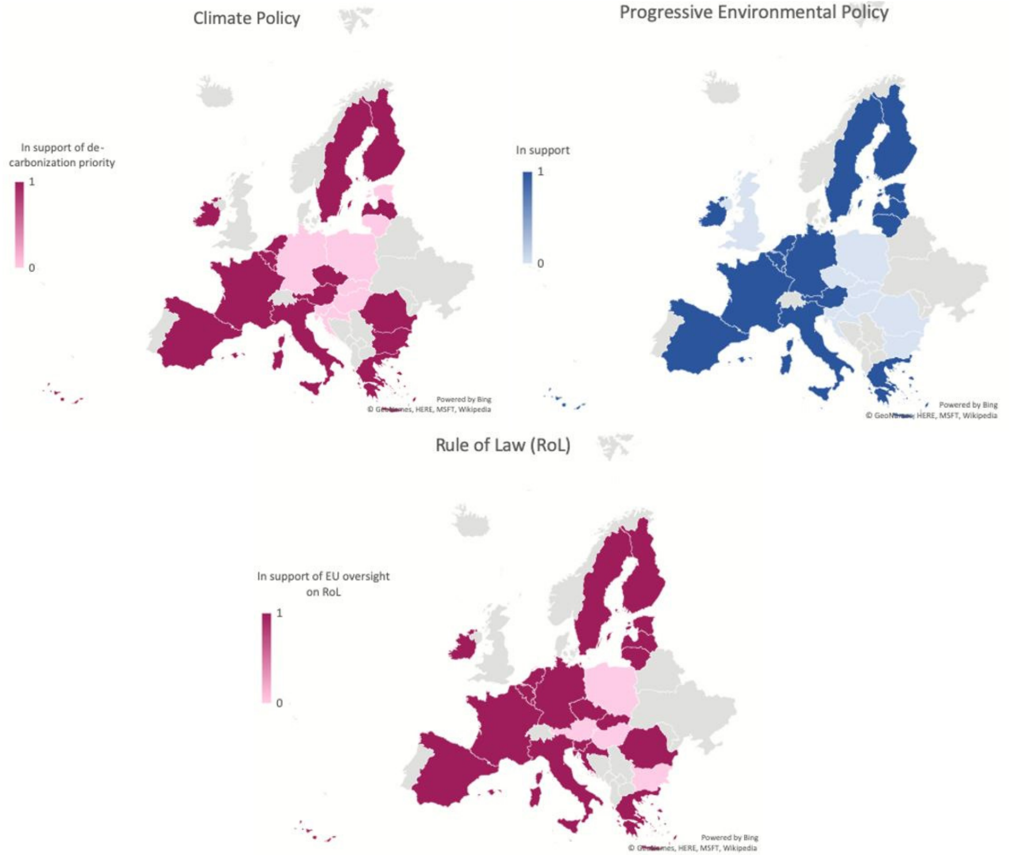
[2] VoteWatch data on European Parliament votes.
[3] VoteWatch data on European Parliament votes.
[4] VoteWatch data on European Parliament votes.
[5] VoteWatch data on European Parliament votes.

There is not only an East-West divide in the EU, as there are currently multiple fracture lines at play between Northern and Southern Member States, between Eurozone countries, and those that have not yet adopted the euro currency. The concept of a multi-speed Europe launched in 2017 is a testimony to the varieties of integration within the EU. Furthermore, there are increasingly essential divides within the European nations: between urban and rural areas, between different generations, people of another faith, or various political ideologies, to name a few. However, there are indeed some structural aspects on which the CEE bloc of countries stands apart.

We argue that these distinctive policy stances are sooner linked to developmental failures than socio-historical divides. Therefore, it is essential to understand the underlying economic drivers, their potential causes and develop a more comprehensive approach towards convergence in the coming years. With the European Union's new financial instruments in the post-Covid19 context, such as the next Multiannual Financial Framework 2021-2027, the Next Generation EU recovery fund, or the Just Transition Fund, CEE states could benefit from the last significant EU-led developmental programme.

Based on a recent policy mapping, national preferences do not seem too concentrated geographically (see Figure 1). For example, despite being subjected to various formal and informal ways to oversight the rule of law, Romania is still favourable to supranational monitorisation in this regard, alongside the Baltics or the Czech Republic and Slovakia. Similarly, Romania remains committed to the de-carbonisation objectives despite being affected by the coal phase-out, alongside Bulgaria, the Czech Republic, and Latvia. The only policy area where there is a broad regional consensus is the support for broadening the transatlantic partnership.

Figure 1. National policy divisions



Source: based on ECFR (2020)

The transatlantic partnership is crucial for CEE countries as a periphery region, given the geopolitical tensions between the West and Russia. Beyond security concerns, CEE countries also benefit from economic incentives provided by the USA. The recent Three Seas Initiative (3SI) is a clear example of the financial support – either through loans, grants, or foreign investment that the USA is willing to provide to the region. While the 3SI is sometimes regarded as a competing project to the EU, it is much closer to a complementary proposal to EU-funded programmes. It more explicitly counteracts strategic investment from China in the region, such as energy production facilities and infrastructure.

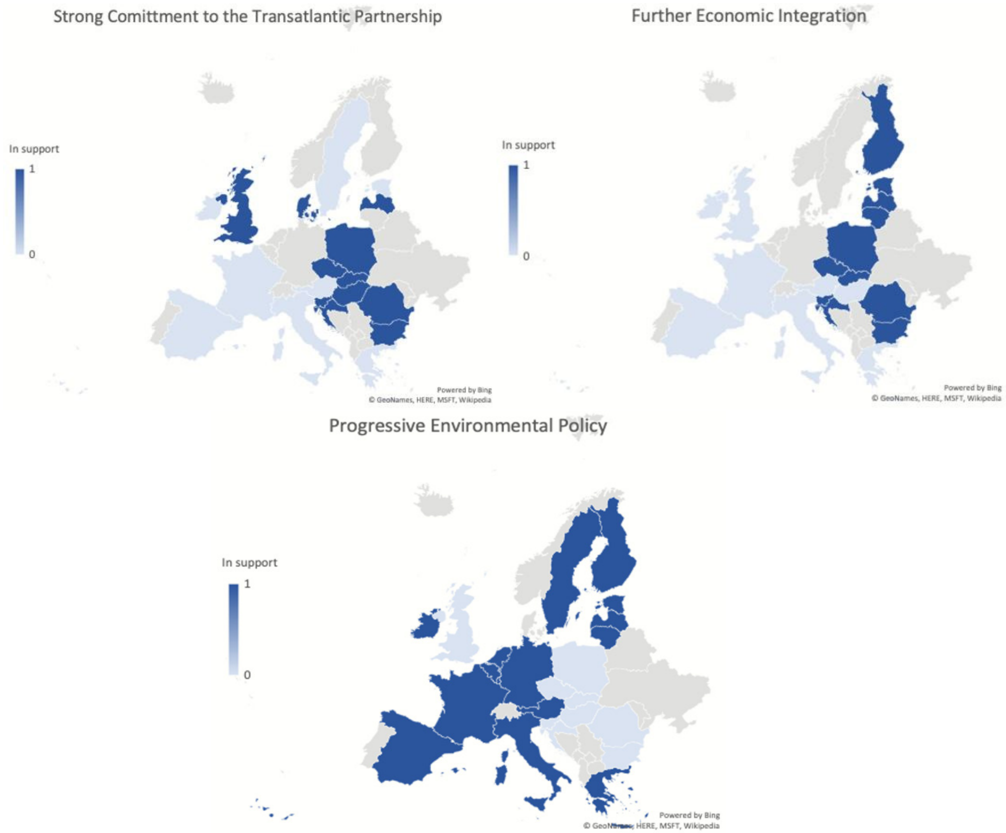
It has been frequently claimed that there is a regional divide in the commitment to the rule of law. This policy issue led to an often-contentious dialogue between the European Union and some Member States in CEE (e.g., Poland, Hungary, Romania, Bulgaria). Art. 7 procedure for Poland and Hungary, and the Cooperation and Verification Mechanism (CVM) for Romania and Bulgaria have been two distinctive EU-led instruments designed to monitor anti-corruption and judicial reforms at Member State level. With the recent development of such monitorisation instruments as the European Semester and the annual EU Justice Scoreboard, it is now clear that the

EU's support for the rule of law (RoL) must be provided in all Member States, not just in the new ones. There is no noticeable regional divide on this issue, like Romania, the Baltics, and some of the Visegrad (i.e., Slovakia and the Czech Republic) support the EU oversight process on RoL (see Figure 1).

National preference mapping has limitations in explaining actual bargaining positions at the EU level. It is (1) based on expert input and not a real policy-mapping, and (2) declarative support does not automatically involve a clear action plan for implementation.

We see a much clearer geographical pattern in terms of the European Parliament's bargaining preferences (see Figure 2). In each of the policy sectors related to structural divisions, we see the CEE Member States clustered in the European Parliament – either for or against. MEPs from CEE are generally opposing more progressive environmental policies, except for the Baltic States that are less affected by the changes involved. All CEE Member States (except for Hungary) have a common stance in the European Parliament in favour of further integration. Finally, CEE Member States have a more substantial commitment than expected based on national preferences towards the transatlantic partnership. The voting patterns of MEPs – all except Lithuania and Estonia, support it.

Figure 2. European Parliament policy divisions



Source: based on VoteWatch data

The regional clustering in the European Parliament is more surprising given the political family structure of this institution. Yet, structural elements inform the de-alignment between Western and Eastern MEPs: on all these issues, the vulnerabilities of CEE with regards to Russia, and the reliance on international integration for economic development are the clear underlying factors of diverging positions in EU policy.

CEE Member States openly oppose the idea of mandatory mechanism of relocation (Apap, Radjenovic and Dobreva 2019), without experiencing an actual "invasion" of immigrants. The European Commission's proposal for a New Migration and Asylum Pact was received with enthusiasm by Germany and France, whereas the Visegrád countries, seconded by Austria and Slovenia, pushed back on it (Euractiv 2020). In 2021, reform in this area still remains problematic (Nielsen, 2021).

Other areas in which Easter and Western views diverge have been exposed with the occasion of the most recent budgetary negotiations. In 2019, before the COVID-19 crisis hit, three main issues troubled Eastern states with respect to the Multiannual Financial Framework: the prospect of big cuts to budget allocations to new members, the rule of law conditionality, and perceived attempts by Brussels to control how EU funds are spent (Balkan Insight 2019). Although no definitive division line between Western and Eastern Member States could be established (Fuchsová and Janebová 2020), some CEE countries expressed diverging views with respect to the size and structure of the new budget, the budgetary correction mechanisms, and the link between funds and the rule of law. The latter had proven problematic enough to lead to the Visegrád group vetoing the budget and the recovery package (Saxty 2020). A compromise was reached during the December 2020 summit (Wahl 2020).

While the rule of law conditionality stemmed from concerns with a populist, illiberal turn in CEE, voting patterns in these Member States are an expression of urban-rural divisions. The growing tendency towards protest voting, populist voting, and support for parties that oppose European integration is more prominent in rural areas than in urban ones (de Dominicis, Dijkstra and Pontarollo 2020), and trust in the European Parliament is lower in rural areas (Schoene 2019). The resurgence of populist, socially conservative attitudes, and Euroscepticism in rural areas is linked to structural factors, such as growth in unemployment, a sluggish economy, low education attainment (de Dominicis, Dijkstra and Pontarollo 2020), and the effects of deagrarianisation and deindustrialisation (Mamonova, Franquesa and Brooks 2020).

While regional patterns do appear in some key policy areas, it is important to acknowledge that, in general, the CEE region is not a well-coordinated bloc. We can often find diverging positions within the region, as there are some countries that are more supportive of EU integration than others. The extent to which some of the CEE Member States support EU initiatives is obviously largely driven by domestic politics as it is by structural factors, but our argument is that it is important to account for the latter as well, in a context in which attention is overwhelmingly devoted to the agency of domestic political leaders.

Developmental divides

The socio-economic persistent divides within the European Union are not restricted to the horizontal axis between Western and Eastern Europe. Since the economic crisis, there are also increasing disparities between the more affluent Northern Member States and the indebted Member States of Southern Europe, in addition to the historical divide with CEE. Furthermore, economic growth figures are higher in the CEE regions than in those from Southern Europe, suggesting that a convergence process in well underway (see Figure 1).

As such, we do not claim that the differences between older and newer Member States are restricted to the CEE region. However, it is here that we have this puzzle in explaining its source: is it a historical legacy or a failure of catching-up? We argue that it is both, and without allowing for a specific economic growth model to develop, this region will continue to fall behind its Western counterparts in the next decades.

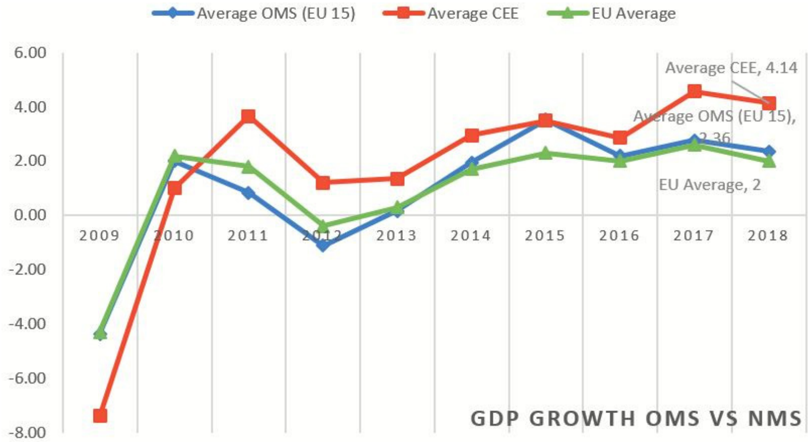
Economic growth is a long-term output of political decision-making, and policy measures in the CEE region need to account for local needs and specificities – sectors with competitive advantage in the region (e.g., agriculture, IT&C). More importantly, the region runs the risk of remaining captive in the middle-income trap (i.e., despite economic growth, income levels remain stagnant in a model based on cheap labour). This means that its economic agents have to build up their position in the regional and global value chains of production, through higher innovation and productivity. In the current globally disrupted supply chains, this holds true for CEE more than ever.

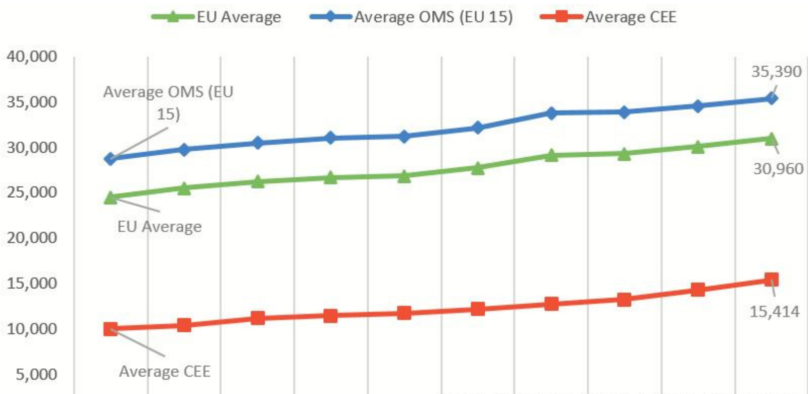
It is however hard to imagine how CEE countries can build up their value chains given that their allocations for research and development (R&D) are well below those of older Member States. The average expenditure with R&D in CEE is 1% of GDP, which is already half the EU average of 2%, but, if we factor in the absolute value, we have an average of about 1 in 20, as CEE countries' average is at about 1.3 billion Euros in R&D spending in 2018, while older Member States' average is over 20 billion Euros. Within the CEE region, there is a clearly higher potential for innovation in Poland (1.03% GDP and 4.8 billion Euros) and the Czech Republic (1.79% GDP and 3.4. billion Euros) judging by both the share in GDP and total budget. Other countries with a clear commitment to R&D, but smaller room to manoeuvre given their national budgets are Hungary (1.35% of GDP) and Slovenia (1.86% of GDP). With approximately 1-billion-euro R&D budget, Romania stands out as one of the most endowed in the region, but has a relatively poor commitment to innovation, given only a 0.5% GDP allocation.

If we look at the GDP values at national level, despite good economic performance in CEE in recent years, we find persistent economic disparities between the old Member States[6] (OMS) and the new Member States (NMS) (see Figure 3). The GDP per capita is less than half in the new Member States from CEE compared to those in older Member States.

[6] In the comparative analysis of this section, old Member States are specifically considered those of EU 15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom. Given that some of the Member States in this group have gone through an economic downturn themselves (i.e., Greece, Italy, Spain, and Portugal), the argument of persistent economic disparities between old and new Member States is rendered even stronger.

Figure 3. GDP growth and GDP per capita in old vs. new Member States

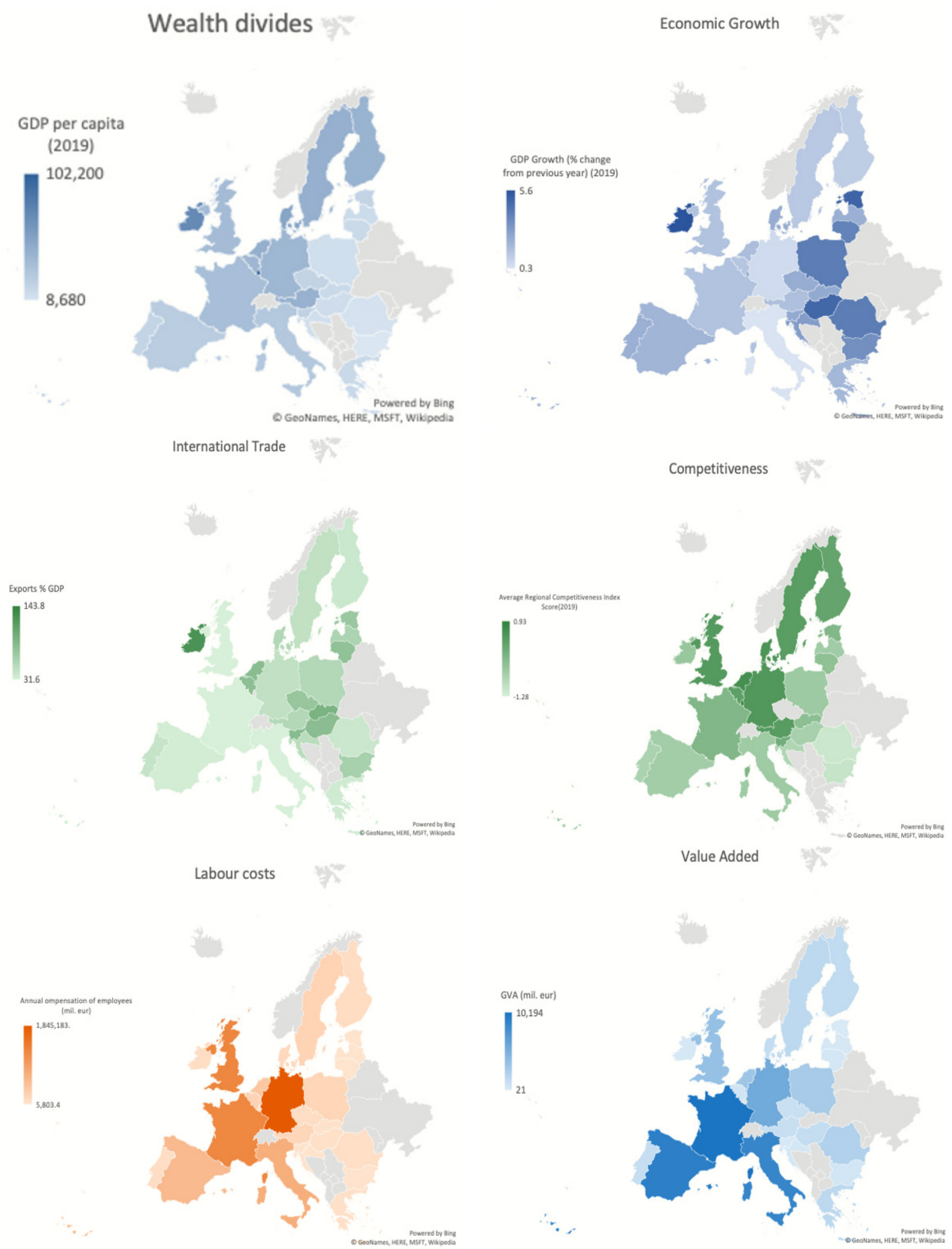




Source: Eurostat. Note: Newer Member States (NMS) refer ro CEE-11
(i.e., NMS with the exception of Cyprus and Malta)

If we narrow our comparison to the 11 new Member States from CEE and the five older Member States that were the focus of Janos's study on the East-West divides in Europe (2000), the gaps appear even bigger (see Figure 4). Bulgaria's GDP and median equivalised net income by household are less than a fifth of those of Sweden, Netherlands or Germany. Romania's GDP per capita is also a fifth of that of the selected older Member States, but its median equivalised net income by household is closer to a tenth of that of its western counterparts. Poland ranks slightly higher, averaging a third of the older Member States' values, but it is still a large economic disparity considering its frequent projection as a benchmark example of development in CEE.

Figure 4. Economic Integration and Persistent Divides



Source: Eurostat and ESIF Data

The integration of CEE countries in the European Union has brought about significant economic gains and development potential, through the multiplication effects of the Single Market and the support of European funds. As such, the CEE region has had a remarkable annual GDP growth in the past decade, reaching an average of 4.4.% in 2018 – more than double the EU average of 2% (see Figure 3), and surpassing the 2.35% GDP growth of older Member States. However, the national level convergence is not indicative of a systematic catching-up process. Even more, in the context of the economic recession, the sobering effect of the GDP decline will be felt stronger in CEE, projected to fall by more than 4% in the region as a whole, but by 9.1% in Croatia, 7.2% in Bulgaria, 6.2% in the Czech Republic and 6% in Romania[7].

If we look at the sources of the persistent developmental divides between Western and Eastern Europe, we can point to two dimensions: subnational disparities and the economic model based on cheap labour and lower positions in the global-value chains.

Subnational disparities

Despite the slowing down recorded in the economy of many of the older Member States, and the existence of many impoverished areas in Southern countries like Italy, Spain or Greece, it is only in the CEE countries that we continue to find regions whose GDP per capita is less than half of the EU average. Even if the region as a whole has achieved overall convergence, subnational disparities have continued to rise over the same period of time.

Many of the subnational regions in CEE have crossed over from the category of less developed regions to that of more developed regions within the last Multiannual Financial Framework (MFF) of the EU budget. EU cohesion funding has played a big role in this process, with generous allocations for new Member States in CEE. But convergence is harder achieved in some countries. One can see in Table 2 that the larger the territory of the country, the more likely it is to feature different levels of economic development, with Bulgaria, Hungary, Poland and Romania having lagging regions (i.e., less than 50% of EU average GDP per capita). Poland has only 5 of its 17 regions in the low-income category, while Bulgaria, Hungary and Romania struggle with half of their territory at low-income levels. This suggests an additional factor beyond size: relative positioning in the Single Market; the more connected physically a country is to larger, more affluent markets in the EU (e.g., Germany), the faster its catching-up process is. Bulgaria and Romania, which have the status of periphery countries and a relatively poor transport infrastructure, register a much slower convergence to EU averages.

Table 2. Lagging regions in CEE

COUNTRY	NATIONAL GDP PER CAPITA PPS (% EU AVERAGE)	LOW-INCOME REGIONS (<50% OF EU GDP PER CAPITA)
BULGARIA	49%	**4/6 regions:** Severozapaden (31%), Severen tsentralen (34%), Severoiztochen (39%), Yugoiztochen (43%),
CROATIA	62%	-
CZECH REPUBLIC	89%	-
ESTONIA	79%	-
HUNGARY	68%	**4/8 regions:** Dél Dunántúl (45%), Észak Magyaroszág (46%), Észak-Alföld (43%), Dél-Alföld (48%)

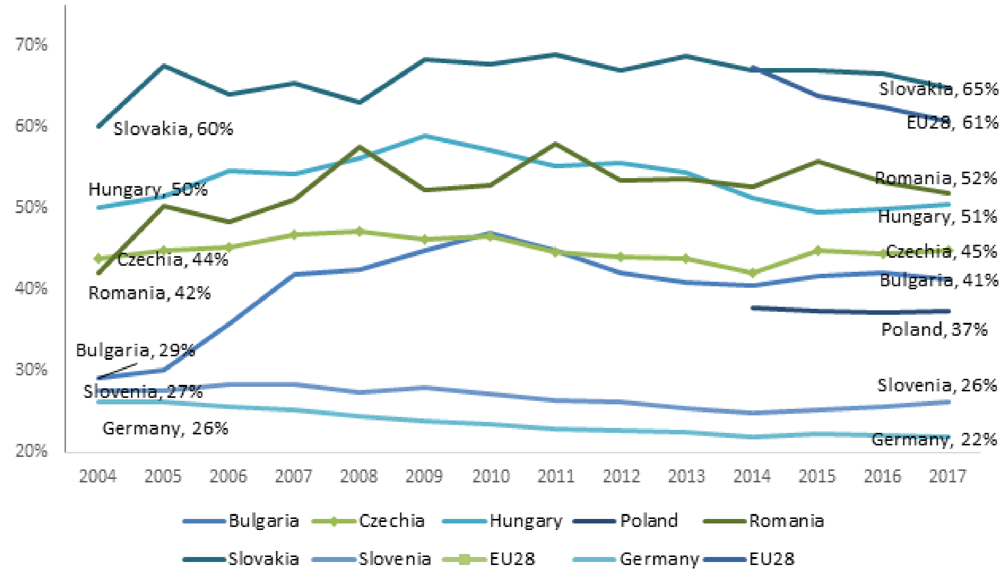
[7] European Commission's Spring Forecasts 2020.

LATVIA	67%	-
LITHUANIA	78%	-
POLAND	70%	**5/17 regions:** Warmińsko-Mazurskie (49%), Lubelskie (48%), Podkarpackie (49%), Świętokrzyskie (50%), Podlaskie (50%)
SLOVENIA	85%	-
SLOVAKIA	76%	-
ROMANIA	63%	**4/8 regions:** Nord-Est (39%), Sud-Vest Oltenia (45%), Sud-Muntenia (50%)

The level of development in the subnational regions of CEE countries is often dependent upon historical developmental models – former industrial hubs under the communist regime tended to register a severe decline in the past decades, while Western regions benefiting from FDIs, especially in the automotive industry, but also thanks to urban IT&C intensive, cosmopolitan clusters (e.g., Cluj, Gdansk) are much better off. A pronounced economic concentration on integrated cities and western areas is reflected by the fact that, for most CEE countries, more than half of their GDP comes from the capital city and a couple of other metropolitan areas. This additional subnational East-West divide in CEE is especially visible in Romania, Hungary and Poland. Moreover, these economic disparities are mirrored closely in political preferences for or against domestic populist parties.

The fact that no country from outside CEE has values of GDP per capita lower than half of the EU average is a testimony of the convergence path that is still ahead of the new Member States in this region.

Figure 5. GDP per capita variation coefficient at regional level



Source: Eurostat and European Commission data; Note: The coefficient of variation (CV) is the ratio of the standard deviation to the mean. The higher the coefficient of variation, the greater the level of dispersion around the mean.

Between 2004 and 2017, the regional inequalities (measured by GDP per capita coefficient variation at regional level) mainly decreased in the EU, especially after 2015 (see Figure 5). There are however some increases in countries like Bulgaria, the Czech Republic or Romania. After the financial crisis from 2009, regional inequalities increased across CEE, as richer regions recovered faster compared to poorer regions, while the fiscal austerity measures exacerbated the effects. In the CEE countries, the variation coefficient of GDP per capita is higher in comparison with developed countries (i.e., Germany), especially in Slovakia, Romania and Hungary that record the highest inequalities in the EU.

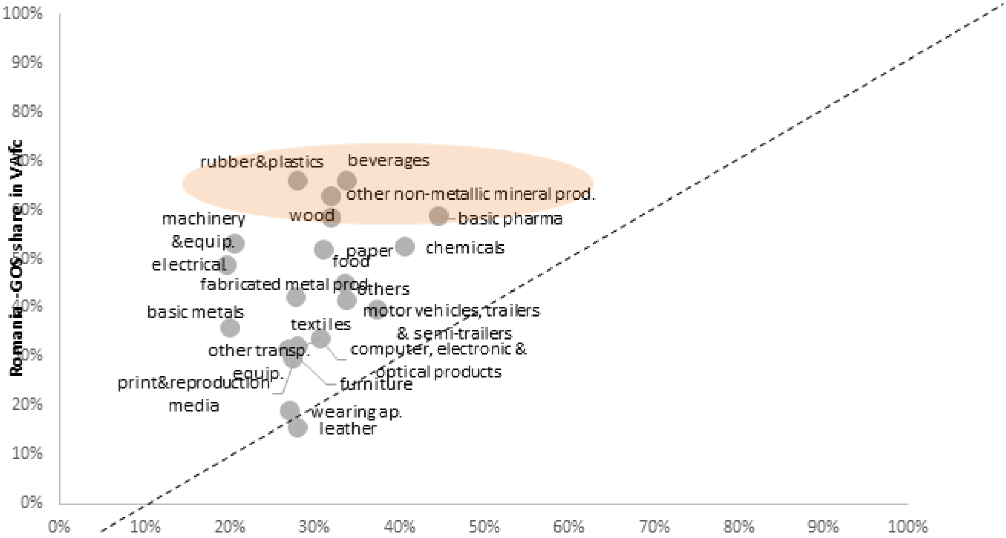
The CEE economic model?

Another explanation for the persistent East-West developmental divide can be linked to the developmental model of the CEE countries that is heavily reliant on the comparative advantage of cheap labour. It is related to the share of the value added that remunerates capital (i.e., investors) compared to labour (i.e., workers) in CEE countries compared with Western counterparts.

Figure 6 presents a sectoral comparison between the share of gross value added retained by foreign companies (i.e., gross operating surplus) in each sector in a CEE Member State (i.e., Romania) compared to a Western Member States (i.e., Germany) (See also Ștefan, 2019). The difference between the total gross value added and gross operating surplus is represented by the remuneration of employees. The dotted line represents practically a curve of indifference between the investor's decision to choose Romania or Germany as a place for the investment. It is noticeable that approximately in all selected sectors (with the exception of the manufacture of wearing apparel and leather products) the investor obtains a higher gross operating profit in Romania compared to Germany.

Also, some of the identified sectors are highly profitable from this perspective. For example, out of the value added at the cost of factors in sectors such as rubber and plastics or drinks, in Romania, about 70% goes to the gross operating surplus of the foreign investor, while 30% goes to the remuneration of employees. At the same time, if the investor were in Germany, the shares would be distributed in reverse, respectively 30% towards the gross operating surplus of investor and 70% towards the remuneration of employees. In other words, from the perspective of the share of gross operating surplus in total gross value added, all the sectors that are to the left of the dotted line are sectors in which the investment in Romania would be more profitable.

Figure 6. The share of gross operating surplus in Romania vs. Germany



Source: Eurostat

Thus, a low-value added economic model (i.e., cheap labour force, low corporate income tax) is dominant in the region. Ștefan and Nerău (2019) show that CEE countries are specialised mostly on the segments with a lower value added, like manufacturing and logistics, but also marketing (medium value added), the latter especially in countries with a larger domestic market, like Poland and Romania.

As the developmental gap will decrease, such factors of competitiveness will disappear, and CEE governments should improve the non-costs competitiveness through more investment in human capital (e.g., education, health), administrative capacity and bureaucracy, ease of doing business, internationalisation and digitalisation. Such reforms could move these countries away from the middle-income trap (i.e., economies stagnating at middle-income levels that fail to transition into a high-income economy). Dăianu (2019) shows that steady productivity gains are key to surmounting the middle-income trap and achieving convergence.

Still, we note the uneven performance of CEE Member States with respect to digitalisation, measured by the Digital Economy and Society Index (DESI). Although the region overall lacks competitiveness in this respect, there are some overachievers (i.e., Estonia, Lithuania) and underachievers (i.e., Croatia, Hungary, Slovakia, Poland, Romania, Bulgaria) (European Commission 2020). One of the expressions of this digital divide is the emergence of "digital vulnerable countries", with large shares of citizens with low digital skills and less accessibility to new technologies (Vasilescu et al 2020). In CEE, Hungary, Greece, Romania and Bulgaria are included in this group. Furthermore, the use of technology outside the IT sector (e.g., the implementation of Artificial Intelligence and nanotechnology in other fields) is drastically limited in CEE (Dall 2020). There is indication that setbacks experienced by the states in the region are linked to more general developmental causes, as the digital vulnerable countries are countries with a GDP below EU average: Hungary 62.4% of EU average, Greece 82.4% of EU average, Romania 50.4% EU average and Bulgaria 49.5% EU average.

In the simultaneous context of heavy reliance on cheap labour, and access to the Single Market, the CEE countries have also faced the challenge of outward migration over the past decade. Migration figures from the UN show significant outward patterns in the case of two CEE countries: Romania (7.3% of its population yearly) and Poland (5.1%). Other countries in the region have a similar problem, Latvia, Lithuania or Bulgaria seeing a fifth of their populations moving abroad. While the internal migration amongst Member States in the Single Market brings the demographic vulnerability to CEE countries facing a brain-drain (i.e., the relocation of highly skilled citizens to other EU Members States, where better opportunities reside), the inward migration from outside the EU pose surprising identity challenges to these countries that are much less affected in real terms than often suggested. Historically speaking, the ethnic diversity once featured in CEE turned into greater homogeneity though the changes brought by the World War II, and the more recent intake of migrants are not sufficient to reverse this trend (Lehne 2019). On its side, the "demographic panic" stems from an aging population, low birth rates, and intra-EU and extra-EU migration (Krastev and Holmes 2019). The phenomenon disproportionally affects countries in CEE compared to their Western counterparts: Latvia, Lithuania, Bulgaria, Poland, Romania, Greece, Estonia, where workers prefer to leave for the developed countries in the Western or Northern Europe (Ienciu and Ienciu 2015). To give only one example of the magnitude of the issue, the number of Romanians with a BA, MA or PhD diploma living abroad was 144% higher in 2017 compared to 2008 (Gravriloaia 2020). Drivers of this phenomenon include the inconsistency or inefficiency of existing national public policies, the lack of a quality education system (Ienciu and Ienciu 2015), as well as of better employment and earnings opportunities (Astrov et al. 2021).

In terms of the level of protection the state affords to its market, the amounts allocated by each country should consider both the power to finance the state aids (i.e., budgetary revenues) and the developmental needs. Achieving convergence to Western Europe, usually requires targeted measures in CEE regarding the aforementioned lagging regions or job creation. Such developmental needs are usually approximated by a low GDP per capita or high inequality between regions within the country.

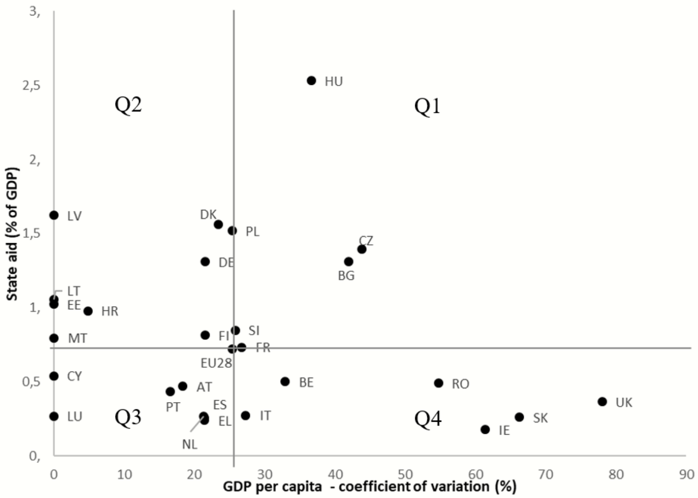
There is no clear trend at European Union level – including among the new Member States (see Figure 6). There are states which, despite a relatively low GDP per capita, allocate a small amount of state aid (e.g., Slovenia). On the other hand, there are states with a high per capita GDP, which intervene significantly through the use of state aid (i.e., Bulgaria, the Czech Republic and Hungary). Similarly, there is no clear trend in terms of inequalities between regions: there are states with high income inequalities[8] (i.e., Romania, Slovakia) that do not have a proportional allocation of state aid.

In the first quadrant of Figure 7, we can find countries with a need-based interventionist approach to countering economic disparities. While we do not have exact data of the location of state aid beneficiaries, it can be argued that in Hungary, Poland, the Czech Republic, or Bulgaria, state aid has been deployed in a context of subnational disparities. As such, it is a mediating policy. The Baltic States grouped in Q2 show a relatively high level of state aid despite the absence of regional disparities.

[8] Measured by the coefficient of variation, respectively the ratio between the standard deviation of GDP per capita in the regions of country X and the average GDP per capita of the respective regions in country X.

Given the Baltics' smaller territorial size, interventionist economic policies might target income inequalities, rather than geographical ones, in such cases.

Figure 7. Relation of state aid and inequalities between regions by country



Source: Eurostat and European Commission data

What CEE countries have in common is a strong centralisation of public expenditure. If, at EU level, the ratio between central government expenditures and local government expenditures is 2.4, almost all CEE countries have a much higher ratio, culminating with Hungary where the Central Government outspends local governments by 6-fold.

For all these economies, in the aftermath of the COVID-19 pandemic, a huge decline in private consumption and investment is expected, due to rising unemployment, decreasing confidence in the private sector, and uncertainties about future developments. However, given the centralised model of these economies, public consumption is expected to have a positive contribution to growth as a result of increasing public sector intervention.

Discussion and Conclusion

Central and Eastern Europe (CEE) made a swift transition from the centralised economy of the Soviet bloc to market economy. This involved a series of transitional problems in institutional resilience (both administrative and political), as well as a somewhat incomplete economic model of development. Much of the socio-economic package of reforms in CEE has been imported from elsewhere in the process of institutional convergence for EU integration. The gains for the countries in the region are clear: economic growth, higher geopolitical security, socio-cultural "vindication" with a return to the Western world. However, challenges persist, and this article presented one of the root causes of instability in the region, and potential divides in the European project: poor socio-economic cohesion.

Despite an important process of convergence for the new Member States, there are persistent challenges in the catching-up process. First and foremost, it is only in CEE that we can still find poor regions with lower than half the average GDP per capita in the EU. For some of the CEE Member States, European funds, state aid and structural reforms have alleviated subnational economic dispersion, but for many of them disparities persist. There is no discernible regional pattern of interventions in this regard. With funding allocations for cohesion policy set to decrease, it is more important than ever to find effective means of lowering subnational economic disparities across all CEE Member States.

We argue that the economic model of development in this region can also be linked to the persistent divides between Western and Eastern Member States. Much of the CEE economic activity has been based on cheap labour and lower positions in the global value chains. This creates a developmental trap that affects the socio-economic potential of these countries.

What is the way forward? We show in this article that the East-West divide has clear economic underpinnings, and not political or ideological ones. We can clearly link many of the political divides in CEE to economic grievances and convergence needs. The periphery status of many of the countries in the region adds additional tensions in this process. It is therefore important to nurture a shared European identity – one that is based on common problems, and common solutions for both new and old Member States. This is why there has to be a trustworthy partnership between West and East that is mutually beneficial; the Single Market allows significant gains for Western Member States, while European transfers and integration can help alleviate economic dispersion in Eastern Member States. Especially now, in the context of the current economic downturn, the very stability and legitimacy of the European project relies on its ability to bridge developmental divides and ensure cohesion amongst Member States.

We explored the socio-economic challenges of the region as a whole, but future research can pinpoint national and subnational specificities of development, bringing to light a “new economic model” for the region, one that can live up to the challenge at hand.

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