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Summary

The main argument of this paper is based on the assumption that the European integration process has a vertical rather than horizontal character. The political relations reflect the international division of labour that has been placed on the axes centre-semiperiphery-peripheries. The centre contains the old member states of the EU (Group I[1]), the semiperipheries – the new member states (Group II[2] and III[3]), the peripheries – the Western Balkan states (Group IV[4]) and the EU Eastern neighbourhood[5].

When analysing GDP per capita dynamics, during the last twenty years, the greatest economic jump in comparison with the year 2000 took place in the peripheral economies,

1 Austria, Belgium, Demark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and – when appropriate – the UK.
2 Countries that have been included during the Big Enlargement of 2004: Cyprus, Czechia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.
3 Countries that joined the EU after 2004: Bulgaria, Croatia, Romania.
4 Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, Serbia.
5 Belarus, Moldova and Ukraine, although for reasons of clarity, the author refers sometimes to other post-Soviet republics.

i.e., in Eastern Europe and the Western Balkans (Group IV), followed by three new EU Member States (2007) (Group III), then the countries that joined the EU in 2004 (Group II), and finally, the relatively weakest growth was recorded in the old Union (Group I). The distance between the groups, however, has been preserved.

Analysis of the Human Development Index shows two trends; firstly, a positive and the greatest change can be noted in the I, II, and III groups, i.e., in the old Union and the new member states, which joined in 2004 and in 2007/11. Otherwise, the states without membership in the EU noted the least significant increase in the HDI. Secondly, the difference between particular groups of states has increased. The distance between the I and the II group has been preserved as well as the supremacy of the Old Union. The distance between the I, II, and III groups on the one hand and the Western Balkans and Eastern Europe, on the other, has increased, thus the gap between the EU and non-EU neighbouring states has deepened.

Taking into account the two indicators above, plus Actual Individual Consumption, a significant difference in the standard of living among the societies of the regions being compared here can be noticed. These differences persist, although they change slightly to the advantage of peripheral and semi-peripheral countries. Nevertheless, change is very slow, meaning that in practice it takes many decades for life levels to equalize – a period of time that eludes even abstract attempts at social, economic, political or any other predictions.

The strength of an economy can be shown by the Economic Complexity Index and GDP. These indicators clearly illustrate the persistence of the differences in the level of economic development. Differences that have been increasing since the 1980s. The semi-peripheral countries that joined the EU in 2004 have benefited the most. The remaining groups show a level of economic complexity that is more than half lower than in the states of the EU core, and also almost half lower than in the semi-peripheral countries.

Persistently high trade deficits also reflect the unfavourable access to capital and labour for these countries. Deprived of capital, and thus access to techniques, tools, infrastructure, etc., Western Balkans (WB6, Group IV) companies are not able to compete in the EU markets. In fact, access and effective functioning in the European market is only possible thanks to investments from EU countries. Such investors have not only capital but also know-how of the European market and significant administrative and quality requirements on the part of EU and state institutions. In other words, apart from the capital they have, EU investors know how to turn the money around, how to obtain external financing, and what problems and obstacles to anticipate in the demanding European market. These are the things that regional investors from WB6 miss most often. Under these conditions, WB6 countries can only compete to devalue the currency or lower labour costs in order to attract investment and / or increase export-oriented production to the EU's developed markets.

These socio-economic conditions have led to two major consequences: combined and uneven development within the European integration process, which, in turn, leads towards the preservation of division of labour and power within the Union.

Therefore, the EU Enlargement policy, as well as other policies directed towards the immediate neighbourhood of the EU in Eastern Europe as well as in North Africa, should take into account this uneven development, and this circumstance should be prioritised as a factor that determines political tensions of domestic and international character by preventing further development that would lift peripheric countries in the hierarchy.

Introduction

This text has been born out of a need to critically assess the enlargement of the EU and the process of EU integration itself. As such, it does not call for the deconstruction of the Union, but rather for an indication of its failures, that should be addressed and subsequently mended. While the majority of research papers, academic pieces, public documents, as well as press articles and other types of texts, focus on the misconduct of the neighbouring states in the Western Balkans, this paper looks into the miscalculations of the EU enlargement policy. The EU enlargement policy, as well as the European integration process in general, although bringing relative prosperity and stability, has been accompanied by ongoing political frustration.

It is worth noting that the enlargement policy should be perceived as a deepened, expanded, and better-founded matrix of the European Neighbourhood Policy. Therefore, this paper is especially relevant after the Russian invasion of Ukraine and following increased pressure to integrate Ukraine, Moldova, and Georgia into the EU.

The project is based on a critical approach toward the neoliberal explanation of the EU Enlargement for the following reasons: the founding fathers of what is known today as the European Union understood integration in terms of a liberal assumption of the widespread positive effects of all the participants. In fact, they began building the common European structures and institutions by highlighting common economic goals, political aims, and fundamental social values. The relative success, vis a vis the Eastern Bloc, of the Western European model of integration and development, had limited critical approach to the questions and directed attention to institutional solutions and procedural paths related to the European integration.

This liberal, and later neo-liberal, character of the European integration has been reflected in areas of trade and foreign investments of the European Union. Trade policy is crucial, firstly because of the value of this trade; between 1999 and 2010, foreign trade for the EU doubled reaching a level of 30% of the EU's GDP. In 2020, the value of trade between the EU and its ten top trading partners reached 2.687 trillion EUR. Moreover, between January 2002 and January 2020, exports of goods within the EU increased from 121 billion EUR to 256 billion EUR. In 2018, the EU members had a trade surplus equal to 152.1 billion EUR. In 2020 the EU current account surplus was 349 billion EUR, corresponding to 2.6% of GDP[6].

The same trends are shown by statistics related to foreign direct investment. According to the Eurostat: "at the end

6 Data available at Eurostat website: https://ec.europa.eu/eurostat/web/international-trade-in-goods [25.03.2022].

of 2017, the United States had the biggest share (34.2%) of the EU28's FDI stocks abroad, valued at 2.6 trillion EUR; the second-largest partner was Switzerland (13.4%). Otherwise, offshore financial centres had the third-largest share (12.3%) of the EU 28's outward stocks of FDI at the end of 2017 (...), while Asian countries together accounted for 15.2% of the EU28 total (principally Singapore, China, Hong Kong, Japan, India, and South Korea)"[7]. For comparison, the EU GDP in the second quarter of 2021 was 3.543 trillion EUR. The EU cohesion fund, the main financial tool aimed at strengthening the economies of the CEE states between 2014-2020 amounted to 64 billion EUR. The Next Generation EU (NGEU) recovery fund, adopted within the 2021-2027 financial framework, totals 806.9 billion EUR. This clearly shows how important FDIs and trade are to the EU economy.

On the other hand, production factors (capital and labour) move from the new member states and the EU neighbourhood to the western European World. Several million workers from countries such as Poland, Romania, Bulgaria, Serbia, Croatia, and North Macedonia moved to the United Kingdom, Germany, and other western European countries in order to find work. In effect, they provided western economies with cheap labour. These processes also helped the new member states by enabling inflow of remittances and a decrease in the unemployment rate, thus stabilising kin-countries' economies.

Integration of the CEE countries into the EU as well as the following economic expansion of the western companies,

7 Eurostat, *Foreign direct investment – stocks*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Foreign_direct_investment_-_stocks [25.03.2022].

principally in the form of FDI's, led to a transfer of profits to the western European company seats. Foreign investors very often benefited from tax exemptions offered by host countries in order to draw new investments.

The new member states of the EU have been subjected to demanding and strict budgetary rules and regulatory requirements. This imposed neoliberal principles that were relatively easy to adopt by states which already functioned within an open, liberal, capitalist market such as the United Kingdom and Ireland (joined in 1973), Spain and Portugal (joined in 1986), or Sweden, Finland, and Austria (joined in 1995). For the post-communist countries, who required approximately 10 years in order to carry out a comprehensive transition, the reforms were extremely costly and, as such, provided space and time for the establishment of a strong entrepreneurial base. The conditions were not suitable for concentration of capital, know-how, or human resources, which are required for the development of a sustainable economy, able to compete with the western European companies in the highest value-added sectors of the economy.

The same apprehensions are revealed by closer scrutiny of particular EU policies. The EU Cohesion Fund, for example, the main financial tool aimed at strengthening the economies of the CEE states between 2014-2020, amounted to 64 billion EUR. As such, it has been focused on environmental issues and transport networks. The transport policy has been modified to limit the competitiveness of the CEE companies by forcing them to adopt the Western scale of wages while providing services in Western Europe. The EU Green Deal, while aimed at the important issue of environmental protection, is based on access to expensive technologies and will require further economic transformation of the CEE states.

Therefore, in this policy paper, we will focus on answering the following questions: 1. How has the relative (compared to Western Europe) standard of living changed over time (1989-2020) in CEE and SEE? 2. How has the relative economic strength of the CEE and SEE states changed over the same period of time? A further question concerning the manner in which these two factors (the answers to Q1 and Q2) affect the relationship of power within the EU should be answered in a separate paper.

1. A need for fundamental changes

While theoretical considerations have often been dismissed by policymakers as useless in their day-to-day work, the author of this text believes that such an approach contains a significant error. An error that leads towards either failure to recognise an obstacle or problem, or to provide an incorrect solution.

The EU policy is a mixture of the three streams shown above in the table “mainstream theories for EU integration”. However, avoiding a discussion on the character of the European integration leaves important questions unanswered, problems unaddressed, and problems unsolved. In effect, the citizens and voters become alienated from their own political elites and from the idea of European integration, cooperation, and partnership. The idea of what was once a great vision of a prosperous and stable society, a world without wars and political violence, has become an empty shell. In fact, in recent years, every major EU-related referendum in the Western European countries has shown a sig-

Table no. 1. IR theoretical stream for EU integration

Theory of European integration	Problem of the EU enlargement	Solution	Money spent on
Liberalism	Lack of adequate institutions in the WB states, lack of "free market" mechanisms, corruption	Transformation of the state, economy and society according to the Western model	Financing structural changes, fighting corruption
Realism	Balance of power in the WB as a part of the conflict between greater powers	Diminishing influence of Russia/China/Turkey	Financing one's own camp of allies
Constructivism	Identity problem of the WB societies and leaders. Identity problem of the EU leadership/society	Changing identity by: education, media, PR, increased international contacts	Financing media and education, creating exchange programmes/grants, etc.

Source: own study.

nificant level of discontent with and misunderstanding of current European politics. Referenda on EU treaties in the Netherlands and France in 2005, and in Ireland in 2008, as well as the Brexit referendum, have shown just how much dissatisfaction remains within society, which is supposed to be content with its rights and welfare.

Therefore, it is important to emphasize that contemporary (mainstream) scientific discourse has a problem with the explanation of two ongoing phenomena that are very much linked to European integration. The first is the so-called illiberal turn in Central Europe, and the other is the bad economic situation in the immediate neighbourhood of Europe.

A critical approach to assessing contemporary development in Central Europe indicates that the side-effect of European integration is the high social cost of transformation. From this point of view, we observe the preservation of the existing relations of subordination of the vertical and feudal character, with different countries serving as the core and others as peripheries. The capitalist structure of the economy and the subsequently established social relations in Europe lead us also to another general conclusion.

The European Union, or a more broadly understood process of European integration, has been the subject of many elaborations that have ignored the findings. Most of them have been based on the two theoretical approaches dominating the academic and public discourse – neo-liberal and neo-realist. The main assumption of the mainstream liberal theories such as neo-functionalism[8], inter-governmentalism[9], or multilevel governance[10] is that the market forces are expressions of an inner rationality of human nature and constitute the realm of freedom in political affairs. The author of this paper disagrees with these claims, basing his criticism, (after Polanyi) on the assumption that market forces are in fact contradictory to social values, and society as such has been opposing a free market economy from the very beginning of its existence[11].

Moreover, this text rejects the very idea that the market forces accompanied by the liberalisation of international trade are a natural expression of free human will. Lack of economic development, cultural dependency, and poor political performance of the potential and new EU member states as well as their being permanently disadvantaged towards the West point to the need for a critical reconsideration of the European integration theories. Instead, another approach to relations between market-, economic-, social- and political power should be considered in the studies on

8 E.B. Haas, *The Uniting of Europe: Political, Social and Economic Forces, 1950-1957*, Stevens, London 1958; J. Tranholm-Mikkelsen, *Neo-functionalism: obstinate or obsolete? A reappraisal in the light of the new dynamism of the EC*, "Millennium Journal of International Studies", vol. 20, 1991, no. 1, pp. 1-22.

9 A. Moravcsik, *Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach*, "Journal of Common Market Studies", vol. 31, 1993, no. 4; Idem, *The Choice for Europe. Social Purpose and State Power from Messina to Maastricht*, Cornell University Press, Ithaca 1998; also: A. Moravcsik and F. Schimmelfennig, *Liberal Intergovernmentalism*, in: T. Diez and A. Wiener (eds.), *European Integration Theory*, Oxford University Press, Oxford 2009.

10 I. Bache and M. Flinders (eds.), *Multi-level governance*, Oxford University Press, Oxford 2004.

11 K. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Beacon Press, Boston 2001.

European integration and in particular on EU policy towards its neighbours.

The realist approach highlighted the necessity for integration of sovereign states in order to strengthen their relative power, improve security, etc.[12] The end of the Soviet Union, however, had already excluded any serious external threat to European peace for over twenty years. It is also difficult to conclude that the terrorist threat could be the main driving force for European integration. Liberal and realist theories do not explain the developments in Central, Eastern, and South-Eastern Europe that followed the fall of the Soviet Union and the dissolution of the Eastern Block, which will be the subject of a separate section of this work. The major criticism of realist theories is that they ignore the existence and significance of social actors in international relations while overestimating structural impact. Jan Zielonka's *Europe as an Empire* builds a picture of the European Union as a mediaeval empire of multilayers of power and legitimacy, international institutions and, on the other hand, liberal economic regimes. Yet, Zielonka, by ignoring the negative consequences of the free market economy and society, and free international trade, fails to explain the consequences of European integration and the illiberal turn in politics.

[12] R.J. Art, *Europe Hedges its Security Bets*, in: T.V. Paul, J.J. Wirtz and M. Fortmann (eds.), *Balance of Power: Theory and Practice in the 21st Century*, Stanford University Press, Redwood City 2004, pp. 179-207; S.G. Jones, *The Rise of European Security Cooperation*, Cambridge University Press, Cambridge 2007; L. Cladi and A. Locatelli, *Bandwagoning, Not Balancing: Why Europe Confounds Realism*, "Contemporary Security Policy" 2012, pp. 264-288.

The social constructivist theory provides very useful insights into the identity of its actors, their norms, values, etc.[13] Fierke and Wiener try, for example, to compare the enlargement of NATO and the EU through analyses of speech acts, contextual change, and institutional interests. "Analysis demonstrates how, given the dramatic change of context with the end of the Cold War, the meaning of the Cold War "promise" of the Helsinki final act was transformed into a threat"[14]. Yet, the question remains what particular social forces were standing behind these particular choices. Why the liberal order prevails within the discourse on European enlargement? Why and which institutions are deciding on the significance of some norms while ignoring others?

The critical theories concerned the co-constitution of production and power that provide the material foundation of social order[15], setting the right track for research on the European integration process, its causes, and consequences. For Ernst Mandel, the European Union ("community" at the time) was another stage of capitalist development, which enabled the accumulation of capital in Europe and as such, set the stage for competition between European and American capital[16]. A number of scholars have picked up the question

13 B. Buzan and O. Wæver, *Regions and Powers. The Structure of International Security*, Cambridge University Press, Cambridge 2003; J.T. Checkel and P.J. Katzenstein, *European Identity*, Cambridge University Press, Cambridge 2009; F. Schimmelfennig, *Strategic Action in a Community Environment: The Decision to Enlarge the European Union to the East*, "Comparative Political Studies", vol. 36, 2003, no. 1-2, pp. 156-183.

14 K.M. Fierke and A. Wiener, *Constructing institutional interests: EU and NATO enlargement*, "Journal of European Public Policy", vol. 6, 1999, no. 5, pp. 721-742.

15 A.W. Carfuny and J.M. Ryner, *Critical political economy*, in: A. Wiener and T. Diez (eds.), *European Integration Theory*, Oxford University Press, Oxford 2009, p. 228.

16 E. Mandel, *Die EWG und die Konkurrenz Europa-Amerika*, Europäische Verlagsanstalt, Frankfurt am Main 1968.

of the EU enlargement of 2004. For example, Bieler claimed that "neo-liberal restructuring in Central and Eastern Europe has to be secured externally via EU membership, based on an alliance between Central and Eastern European state élites and transnational capital, represented by the Commission and the European Round Table of Industrialists"[17]. Dorothee Bohle focuses on the neoliberal hegemony accompanying the EU enlargement[18]. John Agnew directs readers to the multilayer Europe, which serves as a platform for increasing EU global competitiveness[19].

By answering the question of inequality within the EU, the project aims at a critical evaluation of the theories of European integration. In the author's opinion, the inequality that will be shown in the following pages has been a product of the neoliberal model of the capitalist system that dominated the EU in the 1970s and remained a key factor for another 40 years. The turn towards green that Europeans witness today provides some sort of alternative to this but focuses on sustainability rather than equality or economic solidarity. Without relative levelling-up of economic development and quality of living of Europeans, populism, corruption, mistrust, and nationalism will reap a political harvest.

Additionally, we hope to be able to provide a better explanation of the EU dynamics as well as the ongoing changes in

17 A. Bieler, *The struggle over EU enlargement: a historical materialist analysis of European integration*, "Journal of European Public Policy", vol. 9, 2002, no. 4, pp. 575-597.
18 D. Bohle, *Neoliberal Hegemony, Transnational Capital and the Terms of the EU's Enlargement*, "Capital and Class" 2006, no. 88, pp. 57-86.
19 J. Agnew, *How many Europes? The European Union, Eastward Enlargement and Uneven Development*, "European Urban and Regional Studies", vol. 8, 2001, no. 1, pp. 29-38.

the new and old member states, and in their peripheries in the western Balkans. Although based on the factors that are commonly used in social sciences, this paper will endeavour to enrich the debate about European integration, the European Union, and democratic and free market economy transformation processes, which remains predominately based on a liberal approach towards domestic and international political domains.

Method

Expansion and war have been part of social development since the very beginning of society, even if they had a purely tribal character. In fact, it is difficult to mark a clear distinction between imperialism and international relations[20]. Imperialism, understood here as a form of dominance constitutes the very character of IR. In general terms, it has been determined by the need for economic expansion and provoked by various factors. Economic expansion required a strong political position, which for most of history could only be achieved by superior military means being either greater numbers or technology. It is economic expansion, however, that stood behind imperialism, not the other way around. It is imperialism with its political and sometimes military tools that paved the way to economic dominance and control over the production assets. Empires varied; great and small, global and regional, ancient, medieval, and modern, all had referred to various models of dominance. Dynamics in the world economy, together with the level of

20 A. Gałganek, *Historia stosunków międzynarodowych. Nierówny i połączony rozwój*, Dom Wydawniczy Elipsa, Warszawa 2013, p. 974.

technological advances, modified its essence. For this reason, we can divide the process of expansion into four different, although more or less connected, groups.

For the record, we have divided the region of Europe analysed here into four groups, which reflect the level of advancement of integration within the EU project. These are group I, i.e., the EU14 – the "old" 14 countries belonging to the EU. Then, group II, or EU the 10, are the "new" 10 countries that joined the Union in 2004. Next is a small group (III) of three countries that, inter alia, due to the relatively low level of advancement of transformation and others, joined the EU later and on slightly less favourable conditions (EU3, i.e., Croatia, Romania, and Bulgaria). Group IV consists of the Western Balkans countries (Albania, Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia, and Serbia). The western Balkans, due to their "European perspective", and deeper institutional cooperation, remain well integrated with the EU. Sometimes, for better clarity, we should also refer to data available for Eastern Europe such as Belarus, Ukraine, and Moldova.

Table no. 2. Division on the axis centre-peripheries

Group	Countries
I[21]	Belgium, the Netherlands, Luxembourg, Denmark, Germany, France, Italy, Spain, Portugal, Sweden, Finland, Austria, Greece, Ireland
II	Poland, Czechia, Hungary, Slovakia, Slovenia, Cyprus, Malta, Lithuania, Latvia, Estonia
III	Bulgaria, Croatia, Romania

[21] Data will be gathered for the EU14/group I, although, when appropriate, the relevant data concerning the UK will be included.

Group	Countries
IV	Serbia, Kosovo, North Macedonia, Bosnia and Herzegovina, Montenegro, Albania
IVa	Belarus, Moldova, Ukraine

The above concept is similar to the concentric circles suggested by Barry Buzan and Ole Wæver in 2003[22].

It is important to note that data from some other countries will be introduced to highlight the differences and divisions as well as the main aspect of this paper – the failures and errors of the EU enlargement policy and the misjudgements of the causes and consequences of the *status quo*.

For most of the indicators, the author has used a period of 20 years between 2000 and 2019. Some other data, such as Actual Individual Consumption or the Economic Complexity Index, have different time extensions due to their availability. Other indicators, when available and comparable, have been used in a wider time frame – for example, the Human Development Index for particular countries has been shown for the period between 1990 and 2019.

In Chapter II, the positions individual countries occupy on the centre-periphery axis of the European integration will be indicated. From a global perspective, it is relatively easy to identify centres and peripheries. Problems arise when analysing areas that have been economically integrated and that additionally remain within one geographical, climatic, and cultural area.

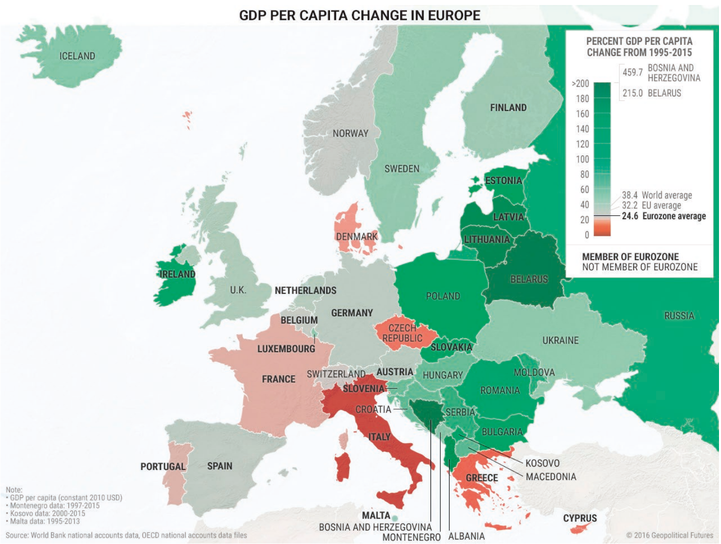
It is, however, of crucial significance to indicate that divisions and inequalities exist and, despite years of economic

22 B. Buzan and O. Wæver, op. cit.

transition of the former Eastern Bloc, and of European integration processes, they have not (with a few exceptions) changed significantly. This inequality in turn reflects a disproportion of political power and the international position of particular states.

The dynamics of GDP per capita in Europe suggest that countries outside Western Europe are catching up with the core. This is shown in the graphic below.

Graphic no. 1. GDP per capita change in Europe



Source: GPF Geopolitical Futures[23].

However, it should be remembered that the starting point – 1995 – used here as a reference point, marked one of the

23 GPF Geopolitical Futures, *GDP per capita change in Europe*, July 8, 2016, https://geopoliticalfutures.com/gdp-per-capita-change-in-europe/ [27.03.2022].

lowest moments of economic and social development in decades. It is like comparing the current architecture in Central and Eastern Europe with the architecture from 1945. To better understand the level of development of the four different groups of countries and their economies, we need to look at the same factor from a different perspective.

2. Divisions and inequality

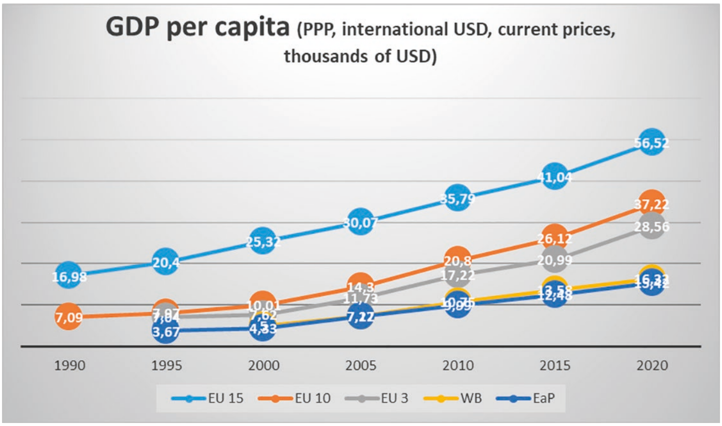
Below, we shall focus on two dimensions of inequality: economic strength and level of development. We will begin with the latter.

2.1. Development

Relatively high incomes are sometimes achieved by a non-developed economy; economically underdeveloped states make a profit by selling, for example, unprocessed goods or agricultural products, and this income and profit could be transferred outside the country or accumulated in the hands of the elite. In other words, despite the country's possible relative wealth, social tensions in peripheral countries would be high.

Therefore, the first indicator would be the standard of living in individual countries. We can establish this by comparing three separate GDP per capita (PPP) indicators, the Human Development Index, and the Actual Individual Consumption index. While they do not reflect a perfect picture of the level of human development and wealth, they will serve as sufficient to pinpoint the differences in development between different countries. To compare the dynamics of GDP per capita, we will refer to the data from the World Bank.

Diagram no. 1. GDP per capita in the EU and its neighbourhood



Source: own studies, data from the World Bank.

The tables below show in more detail the GDP per capita indexes.

Table no. 3. Changes in GDP per capita (EUR) in the Old EU

Member state	PKB per capita (EU14) 2000	PKB per capita (EU14) 2019
Luxemburg	55,361	121,292
Ireland	30,184	88,240
Netherlands	31,882	59,554
Sweden	29,629	55,819
Germany	27,209	56,278
Austria	29,715	58,946

Member state	PKB per capita (EU14) 2000	PKB per capita (EU14) 2019
Denmark	30,640	60,178
Belgium	27,794	54,904
France	27,501	49,435
Finland	26,794	51,426
Italy	27,082	44,248
Spain	21,592	42,195
Portugal	18,883	36,639
Greece	19,523	30,722
Average	31,254	57,848 (+85%)

Source: own studies, data from the World Bank.

Table no. 4. Changes in GDP per capita (EUR) in the new EU member states (Group II)

Member state	PKB per capita (2000)	PKB per capita (2019)
Malta	18,362	46,279
Cyprus	23,556	41,254
Czechia	16,241	43,299
Slovenia	18,007	40,983
Slovakia	11,380	34,066
Lithuania	8,449	38,501
Estonia	9,437	38,915
Poland	10,676	34,431
Hungary	11,857	34,507
Latvia	8,032	32,190
Average	13,600	38,442 (+182%)

Source: own studies, data from the World Bank.

Table no. 5. Changes in GDP per capita (EUR) in the new member states (Group III)

State	PKB per capita (2000)	PKB per capita (2019)
Croatia	10,586	30,140
Romania	5,850	32,297
Bulgaria	6,424	24,789
Average	7,620	29,075 (+281%)

Source: own studies, data from the World Bank.

Table no. 6. Changes in GDP per capita (EUR) in the EU Eastern neighbourhood

State	PKB per capita (2000)	PKB per capita (2019)
Belarus	5,808	19,997
Ukraine	4,106	13,341
Moldova	3,083	13,626
Average	4,332	15,654 (+261%)

Source: own studies, data from the World Bank.

Table no. 7. Changes in GDP per capita (EUR) in the Western Balkans (group IV)

State	PKB per capita (2000)	PKB per capita (2019)
Bosnia and Herzegovina	4,549	15,883
Montenegro	6,004	23,189
Albania	3,862	14,496
Kosovo	3,561	11,870
North Macedonia	6,128	17,607
Serbia	6,021	19,013
Average	5,020	17,009 (+238%)

Source: own studies, data from the World Bank.

The above tables show that the greatest economic jump in comparison to 2000 took place in the peripheral economies, i.e., in Eastern Europe and the Western Balkans, followed by the three new EU Member States (2007), then the countries that joined the EU in 2004, while the relatively weakest growth was recorded in the so-called Old Union. Nevertheless, it should be emphasized that the level of GDP per capita expressed in international dollars was still undoubtedly the highest in the latter group. The percentage of the average for each group in relation to the EU14 is presented in the table below.

Table no. 8. Change in GDP per capita (EUR) in relation to the EU14

	EU14	EU10	EU3	Eastern Europe	Western Balkans
2019	57,848 (100%)	66%	50%	27%	29%
2000	31,254 (100%)	43%	24%	13%	16%

Source: own studies, data from the World Bank.

However, GDP per capita does not reflect the real standard of living. An indicator that, in addition to economic data (gross national income), also includes data on the standard of living (life expectancy, health, education level) is the Human Development Index[24].

The trends shown above can be confirmed by the Human Development Index in the table below.

Table no. 9. HDI in EU14 1990-2019

	1990	2019
Ireland	0.773	0.955
Germany	0.808	0.947

24 Human Development Index, https://hdr.undp.org/en/composite/trends [21.01.2022].

	1990	2019
Sweden	0.821	0.945
Netherlands	0.836	0.944
Denmark	0.806	0.940
Finland	0.790	0.938
Belgium	0.813	0.931
Austria	0.803	0.922
Luxemburg	0.797	0.913
Spain	0.761	0.904
France	0.786	0.901
Italy	0.776	0.892
Portugal	0.718	0.864
Greece	0.761	0.888
Average:	0.789	0.92

Table no. 10. HDI in new member states (Group II)

	1990	2019
Slovenia	0.774	0.917
Czechia	0.738	0.900
Malta	0.752	0.895
Estonia	0.735	0.892
Cyprus	0.735	0.887
Lithuania	0.728	0.882
Poland	0.718	0.880
Latvia	0.711	0.866
Slovakia	0.741	0.860
Hungary	0.708	0.854
Average:	0.734	0.883

Table no. 11. HDI in new member states (Group III)

	1990	2019
Croatia	0.677	0.851
Romania	0.708	0.828
Bulgaria	0.708	0.816
Average:	0.697	0.831

Table no. 12. HDI the Western Balkan states (Group IV)

	1990	2019
Montenegro	0.802 (2010)	0.829
Serbia	0.722	0.806
Albania	0.650	0.795
Bosnia and Herzegovina	0.679 (2000)	0.780
North Macedonia	0.677 (2000)	0.774
Kosovo	Lack of data	Lack of data
Average:	0.706	0.796

Table no. 13. HDI in eastern European states

	1990	2019
Belarus	0.686 (2000)	0.823
Ukraine	0.725	0.779
Moldova	0.690	0.750
Average:	0.700	0.784

From observation of the HDI, we can draw two basic conclusions. Firstly, the greatest positive change can be noted in groups I, II, and III, i.e., the Old Union and the new member states who joined in 2004, 2007, and 2011. Otherwise, the states without membership in the EU noted the least significant increase in HDI. Secondly, the difference between particular groups of states has increased. The distance between groups I and II has been preserved, as well as the supremacy of the Old Union. The distance between groups I, II, and III on the one hand, and the Western Balkans and Eastern Europe on the other has increased, thus the gap between the EU and non-EU neighbouring states has deepened.

Eurostat has used Actual Individual Consumption (AIC), another indicator of population material wealth.

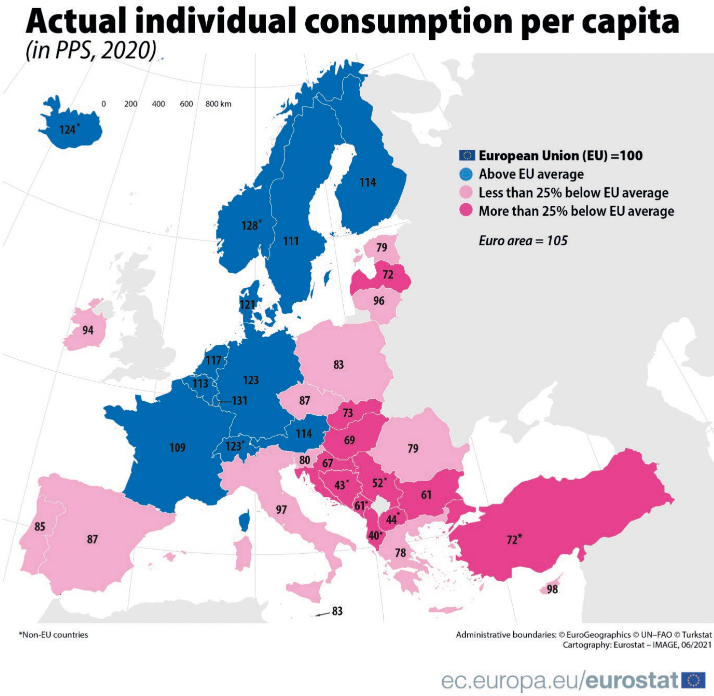
Actual individual consumption, abbreviated as AIC, refers to all goods and services actually consumed by households. It encompasses consumer goods and services purchased directly by households, as well as services provided by non-profit institutions and the government for individual consumption (e.g., health and education services). In international comparisons, the term is usually preferred over the narrower concept of household consumption, because the latter is influenced by the extent to which non-profit institutions and general government act as service providers.

Although GDP per capita is an important and widely used indicator of countries' level of economic welfare, consumption per capita may be more useful for comparing the relative welfare of consumers across various countries[25].

The map below shows AIC per capita in the EU and the candidate country in 2019.

[25] Eurostat, Statistics Explained, *Glossary: Actual individual consumption* (AIC), https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Actual_individual_consumption_(AIC) [18.03.2022].

Graphic no. 2. AIC in the EU member states and candidate countries



Source: Eurostat[26].

None of the new Member States is in the first AIC group (above average). According to Eurostat commentary, in 2020, nine Member States recorded AIC per capita above the EU average. The highest level in the EU was recorded in Luxembourg; 31% above the EU average, followed by Germany

[26] Eurostat, *First estimates of purchasing power parities for 2020*, June 21, 2021, https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210621-1#:~:text=Actual%20individual%20consumption%20%28AIC%29%20is%20a%20measure%20of,the%20EU%20average%20across%20the%2027%20Member%20States [18.03.2022].

(23% above) and Denmark (21% above). The Netherlands, Austria, Finland, Belgium, Sweden, and France recorded levels between 5% and 20% above the EU average.

In thirteen Member States, AIC per capita was between the EU average and 25% below it. Eight of the new Member States are in the second AIC group (equal to the average or up to 25% below the average) including Romania. In Cyprus, Italy, Lithuania, and Ireland the levels were 10% or less below the EU average, while Spain, Czechia, Portugal, Malta, Poland, and Slovenia were between 11% and 20% below. Romania, Estonia, and Greece were between 21% and 25% below the EU average.

The remainder of these countries – Latvia, Slovakia, Hungary, Croatia, and Bulgaria – are in the last AIC group, where the AIC index is at least 25% lower than the EU average. Five Member States recorded AIC per capita 25% or more below the EU average. Slovakia, Latvia, Hungary, and Croatia were between 25% and 35% below, while Bulgaria had an AIC per capita of 39% below the EU average[27].

The Western Balkans countries are in the same, third and last group, although their rates are generally lower than those represented by the EU Member States, with the exception of Montenegro whose AIC index for a long time was higher than Bulgarian. The table below shows the evolution of the index for selected countries in relation to the EU average.

27 Ibid.

Table no. 14. Changes in AIC

	2016	2017	2018	2019	2020
EU	100	100	100	100	100
Eurozone	105	107	106	106	105
Poland	75	77	78	79	83
Hungary	63	65	66	67	69
Czechia	78	84	84	85	87
Slovakia	77	68	69	69	73
Slovenia	75	80	81	83	80
Lithuania	86	89	91	92	96
Latvia	67	70	70	71	72
Estonia	71	74	75	76	79
Malta	81	82	84	85	83
Cyprus	90	95	96	95	98
Croatia	59	64	65	66	67
Romania	63	70	74	79	79
Bulgaria	53	55	57	58	61
Bosnia and Herzegovina	41	41	41	41	43
North Macedonia	41	42	42	42	44
Serbia	45	48	48	49	40
Albania	39	38	38	39	52
Montenegro	54	57	59	60	61
Kosovo	N/A	N/A	N/A	N/A	N/A

Source: Eurostat[28].

In 2016, there were 7 states in the second AIC group, in 2017 – 6, as this indicator decreased sharply for Slovakia, and

[28] Data for 2017, 2018 and 2019: Eurostat News Release 181/2020 – 15 December 2020, Consumption per capita in purchasing power standards in 2019, *Consumption per capita varied between 58% and 135% of the EU average*, https://ec.europa.eu/eurostat/doc-

in 2018, again 7 states, and later, including 2020 – 8 states. All other countries were in the third AIC group, the lowest. Bulgaria and Montenegro recorded a similar AIC index despite the fact that one of these countries is in the EU and the other is outside it. Romania can boast good results, where the standard of material living has increased significantly, and AIC increased from 63 to 79. A bad result was seen in Slovakia, where AIC fell from 77 to 69. Bosnia and Herzegovina, Albania, and Macedonia were the three poorest. Here, countries have made only limited progress. AIC for Serbia increased by four and for Montenegro by six.

Taking into account the three indicators discussed above, we can observe a significant difference in the standard of living of the societies among the regions compared here. These differences persist, although they change slightly to the advantage of peripheral and semi-peripheral countries. Nevertheless, the change is very slow, meaning that in practice it takes many decades for life levels to equalize – a period of time that eludes even abstract attempts at social, economic, political, or any other predictions.

Taking the above into consideration, we can clearly distinguish the line between developed and less developed states. Moreover, the level of integration is correlated with the stage of integration within the EU. The exceptions here would be countries like Greece and Portugal which have undergone very deep economic and financial crises, and

uments/cd3fcb0f-faee-d0ce-0916-9be3ac231210 [09.03.2022], data for 2016: Eurostat News Release 91/2017 – 13 June 2017, First estimates for 2016, *Consumption per capita varied by more than one to two across EU Member States*, https://ec.europa.eu/eurostat/documents/2995521/8065733/2-13062017-AP-EN.pdf/edd7c511-ce00-4788-ae99-7d310456d195 [09.02.2022].

Malta, Cyprus, and the Czech Republic that, due to various factors, enjoy the highest level of development within the EU10 group.

2.2. Strength of economy

Per capita wealth would tell us how likely social tensions are, but the indicators presented above will not tell us much about the quality, stability, and strength of the economy of particular states. It is the Economic Complexity Index (ECI) that reflects the level of stability, and thus resistance to cyclical market shocks, market destabilization resulting from sudden political changes, armed conflicts, or even natural disasters. In other words, the higher the ECI, the more stable the economy. We will, therefore, see that the division between the old and the new EU Member States, and those outside the sphere of influence, differs in economic complexity.

The table below shows the changes in the ECI level since the 1980s. The available data does not always cover all the countries discussed. All the important data related to the EU enlargement have been calculated. In 1980 and 1985, three Southern European countries – Greece, Spain, and Portugal – joined the EU. 1990 was the year in which the transition to a market economy gained momentum in Central and Eastern Europe. 1995 reflects the accession of Austria, Finland, and Sweden to the European Union. The years 2001 and 2005 show the next steps in the process of Central and Eastern Europe's accession to the EU. Finally, the years 2010 and 2015 mark the EU's integration policy in the post-crisis era.

Table no. 15. ECI in individual countries of the old EU (Group I)

(EU15)								
State	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**
Luxemburg								
Ireland	1.26	1.46	1.58	1.47	1.57	1.44	1.34	1.44
Netherlands	1.13	1.41	1.66	1.42	1.37	1.05	1.04	1.37
United Kingdom	1.83	1.9	2.13	1.87	1.96	1.7	1.56	1.6
Sweden	1.97	1.96	2.31	2.2	2.03	2.02	1.68	1.85
Germany			1.88	2.27	2.25	2.13	1.85	2.09
Austria	1.73	1.8	2.1	1.98	1.68	1.91	1.67	1.62
Denmark	1.3	1.61	1.86	1.68	1.56	1.27	1.27	1.24
Belgium	1.49	1.64	1.74	1.61	1.57	1.17	1.19	
France	1.58	1.79	1.88	1.76	1.65	1.47	1.49	1.43
Finland	1.44	1.73	2.07	1.96	1.88	1.92	1.66	1.73
Italy	1.64	1.77	1.94	1.67	1.47	1.41	1.34	1.15
Spain	1.17	1.36	1.5	1.31	1.17	0.92	1.04	0.84
Portugal	1.03	0.97	0.86	0.42	0.6	0.59	0.67	0.37
Greece	0.46	0.51	0.32	0.18	0.35	0.15	0.29	0.21
Average	**1.38**	**1.53**	**1.70**	**1.55**	**1.50**	**1.36**	**1.29**	**1.30**

Source: The Observatory of Economic Complexity[29].

[29] The Observatory of Economic Complexity, https://oec.world/en/home-a [02.01.2017].

The relevant indicators for the 10 new member states (2004) look as follows:

Table no. 16. ECI indicator for the new member states (Group II)

(EU10)								
State	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**
Malta								
Cyprus								0.51
Czechia				1.43	1.55	1.64	1.62	1.66
Slovenia				1.4	1.39	1.63	1.38	1.44
Slovakia				1.31	1.44	1.31	1.36	1.31
Lithuania				0.19	0.14	0.68	0.64	0.71
Estonia				0.35	0.35	0.83	0.78	0.96
Poland	1.22	1.2	1.07	0.8	1.03	0.97	1.12	1.14
Hungary	0.98	1.2	1.09	0.97	1.09	1.31	1.38	1.36
Latvia				0.13	0.1	0.68	0.65	0.75
Average	**1.10**	**1.20**	**1.08**	**0.82**	**0.88**	**1.13**	**1.11**	**1.09**

Source: The Observatory of Economic Complexity.

For the three Member States that joined the European Union last (2007 and 2013):

Table no. 17. ECI indicator in the EU3

(EU3)								
State	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**
Croatia				0.71	0.69	0.84	0.89	0.7
Romania	0.81	1.14	1.11	0.67	0.58	0.66	0.73	0.64
Bulgaria	0.75	1.29	1.05	0.49	0.49	0.32	0.58	0.43
Average	**0.78**	**1.21**	**1.08**	**0.62**	**0.58**	**0.60**	**0.73**	**0.59**

Source: The Observatory of Economic Complexity.

For the Eastern European and the Western Balkan states:

Table no. 18. ECI indicator for the Eastern European and the Western Balkan states

Eastern Europe and the Western Balkan states								
State	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**
Belarus				0.59	0.6	1.06	0.68	0.86
Montenegro								
North Macedonia				0.26	-0.23	-0.18	-0.01	-0.29
Serbia							0,66	0.61
Albania	0.61	0.16	-0.05	-0.6	-0.22	-0.32	-0,5	-0.83
Bosnia and Herzegovina				0.52	0.2	0.49	0.57	0.35
Ukraine				0.4	0.73	0.57	0.68	0.73
Moldova				0.19	0.17	-0.01	0.04	-0.39
Average	**0.61**	**0.16**	**0.05**	**0.15**	**0.208**	**0.26**	**0.30**	**0.14**

Source: The Observatory of Economic Complexity[30].

The above tables clearly show the persistence of the difference in the level of economic development. Differences have been increasing since the 1980s. The semi-peripheral countries that joined the EU in 2004 benefited the most. The remaining groups show a level of economic complexity that is more than half lower than in the states of the EU core and almost half lower than in the semi-peripheral countries.

The last factor to consider is GDP, which has been briefly addressed in the introduction. The criticism to which this factor is subject mainly concerns the level of people's quality

30 Ibid.

of life, which this indicator largely ignores. However, this issue was discussed at the beginning of this chapter. The GDP indicator in nominal prices will show us the size of the economy, regardless of the quality of life of consumers or the quality of public services, etc. In other words, we will see how much money is available in individual markets – what is the economic strength of individual countries and regions. The table below also contains data on the percentage of industry, agriculture, services, and processing in the GDP of individual countries and the change between 2010 and 2019.

Table no. 19. GDP and its composites in EU14 (Group I)

	GDP		Agriculture		Industry		Manufacture		Services	
	Billions of USD		% GDP		% PKB		% PKB		% PKB	
	2010	2019	2010	2019	2010	2019	2010	2019	2010	2019
Austria	391.9	446.3	1	1	26	26	16	17	62.3	62.5
Belgium	481	529.6	1	0	21	19	13	12	67.7	69.7
Denmark	322	348.1	1	1	20	21	11	13	65.4	64.9
Finland	249.2	268.8	2	2	26	24	17	14	58.9	60.3
France	2,642.6	2,715.5	2	2	18	17	10	10	70.7	70.2
Germany	3,396.4	3,845.6	1	1	27	27	20	19	62.3	62.4
Greece	299.4	209.9	3	4	14	15	7	10	71.6	68.1
Ireland	222.1	388.7	1	1	23	35	19	31	66.5	56.7
Italy	2,134	2,001.2	2	2	22	21	14	15	66.3	66.3
Luxemburg	53.2	71.1	0	0	11	11	5	5	78.3	79.2
Netherlands	846.6	909.1	2	2	20	18	10	11	68.4	69.8
Portugal	237.9	237.7	2	2	20	19	12	12	66.1	65.5
Spain	1,420.7	1,394.1	2	3	23	20	11	11	66.3	67.9
Sweden	495.8	530.8	2	1	24	22	15	13	62.8	65.2

Table no. 20. GDP and its composites in EU10 (Group II)

	GDP		Agriculture		Industry		Manufacture		Services	
	Billions of USD		% GDP		% GDP		% GDP		% GDP	
	2010	2019	2010	2019	2010	2019	2010	2019	2010	2019
Cyprus	25.7	24.6	2	2	14	13	5	5	71.6	71.9
Czechia	207.5	246.5	2	2	33	32	21	22	55.6	56.2
Estonia	19.7	31.4	3	3	24	23	14	13	60.2	61.4
Hungary	131.1	161	3	3	25	26	18	18	56.3	55.3
Latvia	23.8	34.1	4	4	21	19	12	10	64.4	64.1
Lithuania	37	54.2	3	3	26	25	17	16	60.7	61.6
Malta	8.7	14.8	1	1	18	12	11	7	68.7	75.8
Poland	479.3	592.2	3	2	29	29	16	17	56.2	56.9
Slovakia	90.2	105.4	2	3	31	29	18	18	58.2	58.1
Slovenia	48.2	53.7	2	2	27	28	17	20	58.8	56.9

Table no. 21. GDP and its composites in EU3 (Group III)

	GDP		Agriculture		Industry		Manufacture		Services	
	Billions of USD		% GDP		% GDP		% GDP		% GDP	
	2010	2019	2010	2019	2010	2019	2010	2019	2010	2019
Bulgaria	50.4	67.9	4	3	23	22	N/A	N/A..	59.6	60.7
Croatia	59.8	60.4	4	3	22	20	13	12	59	59.1
Romania	166.2	250.1	5	4	38	28	23	17	46.4	58.2

Table no. 22. GDP and its composites in the Western Balkans (Group IV)

	GDP		Agriculture		Industry		Manufacture		Services	
	Billions of USD		% GDP		% GDP		% GDP		% GDP	
	2010	2019	2010	2019	2010	2019	2010	2019	2010	2019
Albania	11.9	15.3	18	19	25	20	5	6	44.0	48.6
Bosnia and Hercegovina	17.2	20	7	6	22	24	11	13	55.6	55.5
Kosovo	5.8	7.9	14	7	24	27	11	12	46.4	47.4
Montenegro	4.1	5.5	8	7	17	16	5	4	58.6	59.2
North Macedonia	9.4	12.7	10	9	21	24	10	13	55.1	54.6
Serbia	41.8	51.4	7	6	25	26	15	15	51.7	51.2

Table no. 23. GDP and its composites in Eastern Europe

	GDP		Agriculture		Industry		Manufacture		Services	
	Billions of USD		% GDP		% GDP		% GDP		% GDP	
	2010	2019	2010	2019	2010	2019	2010	2019	2010	2019
Belarus	57.2	63.1	9	7	35	31	23	21	43.5	48.8
Moldova	7.0	12.0	11	10	20	23	10	11	54.5	54.2
Ukraine	136	153.8	7	9	26	23	13	11	55.1	54.4

The tables above show the differences between the old Union and the new Member States, along with peripheral countries. Only Belarus, Serbia, and Ukraine have GDP indicators comparable to other European countries that are similar in terms of demographics. The difference is visible among smaller countries: Moldova, Albania, Kosovo, North Macedonia, or Montenegro on the one hand, and Cyprus, Malta, or Estonia on the other. The share of agriculture in the GDP of the Western Balkans and East-European countries is also significant. Group II and III preserved their relatively strong industry and manufacturing segments of the economy. The bulk of the Group I GDP is generated by services, with the exception of Ireland, which has significantly increased its industry and manufacturing sectors.

3. Trade

The ongoing debate on the integration of WB6 countries with the European Union is based on a neo-classical approach to economic exchange and the integration of separate economies into a single, well-functioning organism. A free-market economy and free trade are the foundations of the gradual integration of the EU periphery into the EU single market. As Bob Milward writes, the idea of the comprehensive benefits of free international trade has become so widespread and institutionally entrenched that critical voices have become inaudible, especially around the negotiating tables. The acronym TINA (There is no alternative) has been used with regard to free trade. In line with this logic, any other solution to international trade conditions is simply not credible and its effects would be suboptimal. The optimal and rational solution, in accordance with the assumptions of classical theories of a liberal basis, such as David Ricardo's theory of comparative costs or Hecksher and Ohlin's theory of abundance of income, is the free, unhindered flow of goods as well as services, labour, and capital. State protectionism is a curse and free trade benefits all participants[31].

In the case of the Western Balkans, these principles have been guaranteed, inter alia, by Stabilization and Association Agreements and the so-called Autonomous Means of Trade. These instruments are intended to increase trade and thus prepare WB6 for EU membership when the time comes. At the same time, political ties have been developed. Although called a dialogue in the official nomenclature, they had the character of a monologue, lesson, or contribution. This triggered further political pressure to reform the EU-like economy, enabling further integration with the Union.

The 2020 International Monetary Fund report on the situation in North Macedonia is a good example of a selective, potentially misleading, and consequently harmful assessment of the situation. The authors emphasize that although economic growth in North Macedonia has been "solid" over the past two decades, it has not been sufficient to significantly reduce the income gap in North Macedonia compared to the European Union. Drawing on the experience of other countries, the accession to the EU, to which North Macedonia is aspiring, has the potential to strengthen growth prospects. Currently, the macroeconomic indicators and regulatory quality of North Macedonia are comparable to those of Central and Eastern and South-Eastern Europe (CESEE) at the start of accession negotiations with the EU. However, like other Western Balkan countries, North Mace-

31 B. Milward, *International Trade and Sustainable Development. Economic, historical and moral arguments for asymmetric global trade*, Routledge Studies in the Modern World Economy, Routledge, London and New York 2020, p. 13.

donia's position appears less favourable in terms of corruption control and the rule of law. Empirical analysis shows that EU accession negotiations and the related improvement in the quality of institutions, the rule of law, and corruption control can significantly increase income convergence[32].

So, let us now look at the experiences of the EU10. The transformation of 1989 and its consequences led to a rapid reorientation of the economies of Central and South-Eastern Europe, including trade routes. Central and Eastern Europe were quickly integrated into the EU market, both in terms of imports and exports. New markets were subordinated to the core as a periphery and as such became Western buyers of industrial goods, suppliers of less developed products, and component producers for Western companies. Francois Lemoine, a senior economist at the Centre d'Études Prospectives et d'Informations Internationales (CEPII) in Paris, noted: "since 1989, trade relations between the EU and Central and Eastern Europe have intensified rapidly, and the increase in trade flows has been accompanied by the establishment and strengthening of co-operative links between western and eastern industries. Western companies expanded their production networks to Central and Eastern Europe as part of their internationalization strategy. This strategy has two different goals: improving price competitiveness and taking advantage of potential markets"[33].

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32 IMF, IMF Staff Country Reports, *Republic of North Macedonia. Selected Issues*, "IMF Country Report no. 20/25", January 2020, p. 2.

33 F. Lemoine, *Integrating Central and Eastern Europe in the European Trade and Production Network*, "Working Paper 107", July 1998. Prepared for the Kreisky Forum and BRIE Policy Conference "Foreign Direct Investment and Trade in Eastern Europe: The Creation of a Unified European Economy", Vienna, June 5-6, 1997. Published jointly with the Center for German and European Studies, University of California, Berkeley, p. 4.

The dynamics of trade between Central and Eastern Europe and the EU accelerated significantly already in the 1990s. The table below presents the dynamics of trade between Central and Eastern Europe and the EU.

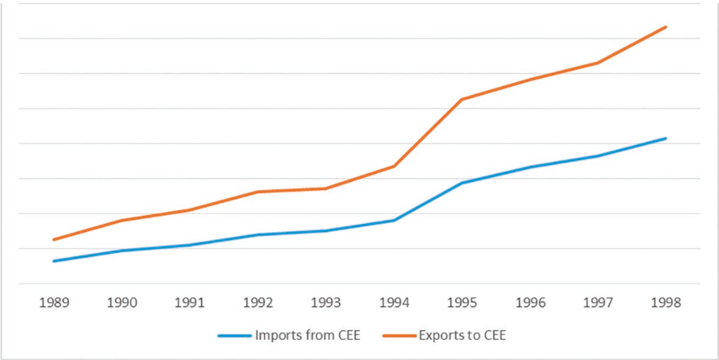
Table no. 24. Value of trade between selected EC / EU countries and Central and Eastern Europe in the 1990s

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Export value in billions of USD										
Germany	6,884	11,464	11,904	15,093	16,092	19,137	26,934	30,664	33,217	39,629
Italy	1,459	2,162	2,378	3,490	42,283	5,379	7,476	9,437	9,656	10,461
France	1,161	1,348	2,011	2,582	2,355	2,761	3,963	4,662	5,609	6,692
UK	932	1,094	1,244	1,919	2,115	2,451	3,416	4,397	4,811	4,743
All EC/EU	12,627	18,618	21,658	27,802	30,231	35,934	57,135	66,296	72,940	82,760
Year-to-year change (%)	15.77	47.45	16.33	28.37	8.74	18.86	59	160.3	10.02	13.46
Import value in billions of USD										
Germany	5,657	8,646	11,081	14,229	13,857	17,517	25,168	25,213	27,022	33,328
Italy	2,438	2,462	2,562	3,254	2,959	4,164	5,749	5,915	6,587	7,411
France	1,542	1,815	1,825	1,937	1,758	2,168	2,857	3,458	3,712	4,548
UK	1,223	1,268	1,140	1,333	1,528	2,051	2,675	2,741	3,180	3,647
All EC/EU	12,401	17,398	20,159	24,524	23,717	30,753	47,772	50,358	53,090	63,720
Year-to-year change (%)	7.6	40.3	15.87	21.65	-3.29	29.67	55.34	5.41	5.42	20.02

Source: IMF statistical Yearbook 1997 and June 1999[34].

34 B. Lippert, K. Hughes, H. Grabbe and P. Becker, *British and German Interests in EU Enlargement. Conflict and cooperation*, Chatham House papers, Continuum, London and New York 2001, p. 42.

Diagram no. 2. Dynamics of trade between the CEE and EC/EU



Source: IMF statistical Yearbook 1997 and June 1999[35].

Table no. 25. Trade deficit between Central and Eastern Europe and the EC/EU (billions of USD)

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1989-1998
0226	1.22	1.499	3.278	6.514	5.181	9.363	15.938	19.85	19.04	82.109

As can be seen in the above table, it is Western Europe that has expanded its exports to Central and Eastern Europe more than Central and Eastern Europe to the West. The accumulated foreign trade deficit during this time amounted to over 82 billion USD. The same trends could also be observed in later years.

The year before the great enlargement of 2004, trade with the euro area remained at – or increased to, around 60% in

[35] Ibid.

the case of V4, Slovenia, and Romania; 50% of Bulgarian, Croatian, B&H, and Macedonian trade was directed to the EU market; 40% of Turkish and Baltic trade; and around 80% of Albanian trade[36].

The trade integration of the new and old Europe increased rapidly in the years leading up to EU integration. In the years 1993-2003, the share of Central and Eastern European countries in trade with the euro area countries almost doubled, from 5.7% to 10.6%. In 2003, the share of CEE and SEE in the trade of the Eurozone was 13% (10.6% in CEE countries and 2.3% in SEE countries). This is almost the same as the United States (13.6%) and much more than Japan (4.3%), China (5.4%), and Russia (1.5%)[37]. The same trend can be observed after the enlargement of the EU in 2004. The case of German involvement in Central and Eastern Europe is very characteristic and telling here. As summed up by Konrad Popławski from the Centre for Eastern Studies in Warsaw, economic cooperation between Germany and the V4 has brought mutual benefits in recent years. After 1989, Germany assumed the position of the most important trade and investment partner of the V4 countries. As such, it had a decisive influence on the direction of economic changes in individual countries. German companies from sectors such as automotive, finance, and energy have gained significant market shares. To complete the picture, it must also be emphasized that in recent years, the economic importance of the V4 has also grown in Germany. The countries of the

36 M. Bussière, J. Fidrmuc and B. Schnatz, *Trade integration of Central and Eastern European Countries. Lesson from a gravity model*, European Central Bank, "Working Paper Series No. 545", November 2005, p. 9.

37 Ibid., p. 11.

Visegrad Group have jointly become Germany's most important trading partner while maintaining relatively balanced trade relations[38]. The overall value of French exports to the Visegrad Group increased from 12.4 billion USD to 19.8 billion USD. Data on the remaining EU countries are presented in the table below.

Table no. 26. Changes in exports of selected EU15 countries to the V4 countries (billions of USD)

Exporting state	2004 (billions of USD)	2016 (billions of USD)	change %
Germany	65.8	141.3	115
France	12.46	19.83	60
Netherlands	8.49	23.41	175
United Kingdom	7.	11.	57
Belgium-Luxemburg	5.95	(data 2015) 11.39	91
Sweden	4.16	6.48	56
Denmark	2.29	3.92	71

Source: Economic Complexity Index[39].

Going back to WB6, and taking Serbia as an example, Customs duties on all products imported from Serbia into the EU (apart from a few agricultural products covered by preferential tariff quotas) were removed by the EU in 2000. The reduction of import duties on EU-sourced goods began nine years later, in January 2009, when Serbia voluntarily initiated the implementation of the trade-related part of the Stabilization and Association Agreement, known as the In-

38 K. Popławski, *Rola Europy Środkowej w gospodarce Niemiec konsekwencje polityczne*, Ośrodek Studiów Wschodnich, "Raport OSW" 2016, p. 4.

39 The Observatory of Economic Complexity, https://oec.world/en/home-a [02.01.2017].

terim Agreement. This agreement introduced an asymmetric trade liberalization in favour of Serbia in terms of both industrial and agricultural products. Although these agreements look favourable for Serbia, it is worth remembering that in 2000 the country had just ended a nearly ten-year-long period of armed conflict on its territory and abroad. A conflict leading to international isolation from the Western world, the successful secession of parts of its territory, and the complete breakdown of production and trade and production chains. According to the World Bank, Serbia's GDP in 2000 was about three and a half times lower than the GDP of smaller Croatia (6.5 billion USD to 21.67 billion USD, respectively)[40].

In 2000, the EU granted autonomous trade preferences to all Western Balkan states. These preferences, which expired at the end of 2020, allowed all WB6 exports to enter the EU free of duties and quantitative restrictions (only sugar, wine, baby beef, and some fishery products enter the EU under preferential tariff quotas). The consequences were similar for the entire WB6. In the period 2003-2019, exports to the EU28 increased from 4.1 billion EUR to 24.7 billion EUR. At the same time, imports from the EU28 increased from 10.1 billion EUR to 32.9 billion EUR. This means that the trade deficit also increased from around 6 billion EUR to billion EUR. In the years 2003-2019, the deficit exceeded 120 billion EUR. At the same time, intra-regional trade under CEFTA 2006 grew "only" from 4 billion EUR in exports and

[40] European Commission, *Western Balkans. EU trade relations with Western Balkans. Facts, figures and latest developments*, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/western-balkans_en [26.04.2022].

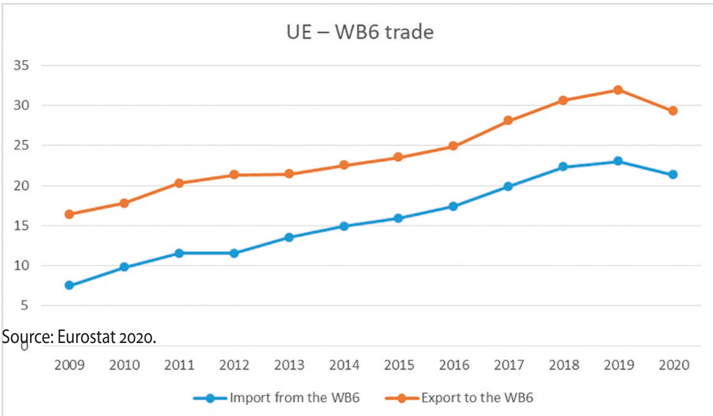
3.9 billion EUR in imports in 2012 (23% and 12% of overall trade, respectively) to 5.6 billion EUR in exports and 4.8 billion EUR in imports (18% and 10% of overall trade, respectively) in 2018[41].

For comparison, in the period 2007-2020, i.e., the period covering the two EU financial frameworks, the European Union allocated 8.1 billion EUR to all six WB countries and another 4.1 billion EUR to a multi-beneficiary program that included Turkey and Iceland (2011-13) and Croatia (2007-13). Allocating these funds does not mean that they are spent effectively; some of them were misallocated, some were simply stolen, and some were "re-sent" back to the EU. There is also EU emergency relief. The latest program was devoted to fighting the negative consequences of COVID-19. Out of 3.3 billion EUR, only 38 million EUR was allocated to immediate support for the health sector, 455 million EUR for the reactivation package, 389 million EUR for aid funds for social and economic recovery, and 750 million EUR for macro-financial assistance. However, 1.7 billion EUR was provided for preferential loans granted by the European Investment Bank. Therefore, it is highly unclear how much of these funds actually ended up in the pockets of WB6 entrepreneurs, hospitals, or social services. According to many anonymous commentators, most of the funds go back to the budgets of EU old Member States, for example, through high consultation fees or purchase of high-tech equipment, software, etc.

41 Data available at https://data.worldbank.org/.

The chart below shows the value of imports and exports of European Union countries with the countries of the Western Balkans from 2009 to 2019.

Diagram no. 3. Value of imports and exports of European Union countries with the countries of the Western Balkans from 2009 to 2019 (billion EUR)



Source: Eurostat 2020.

Table no. 27. The amount of the trade deficit of the WB6 countries with the EU from 2009 to 2019 (billion EUR)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
8.9	8	8.7	9.8	7.8	7.6	7.6	7.5	8.2	8.3	8.9	7.9

Source: Eurostat 2021[42], own studies.

42 Eurostat, Statistics Explained, *Western Balkans-EU – international trade in goods statistics*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Western_Balkans-EU_-_international_trade_in_goods_statistics&oldid=512860#:~:text=The%20EU%20was%20the%20main,imports%20from%20the%20Western%20Balkans [22.03.2022].

The above data, from the official website of the EU statistical office – Eurostat, clearly indicate the huge trade deficit experienced by smaller, poorer WB6 economies. Moreover, the persistently high trade deficit also reflects the unfavourable access to capital and labour for these countries. Deprived of capital, and thus access to techniques, tools, infrastructure, etc., WB6 companies are not able to compete in the EU market. In fact, access and effective functioning in the European market is only possible thanks to investments from EU countries. Such investors not only have capital but also the know-how of the European market and the significant administrative and quality requirements on the part of EU and state institutions. In other words, apart from the capital they have, EU investors know how to turn the money around, how to obtain external financing, and what problems and obstacles to anticipate in the demanding European market. These are the things that regional investors from WB6 miss most often. Under these conditions, WB6 countries can only compete by devaluing their currency or lowering labour costs in order to attract investment and/or increase export-oriented production to the EU's developed markets.

4. Financial involvement

In order to show the scale of involvement of the EU economies in the Western Balkans, and hence, the level of economic impact and character, we should address the issue of FDI and financial assistance originating from the EU and directed towards the Western Balkans.

4.1. FDI

The scale of FDI stocks in the Western Balkans is presented in the table below.

From the table above, we can clearly see that the EU is the dominant economic actor in the WB. If we add regional, US, UK, Norwegian, and Swiss investments, we see that the outside (i.e., non-Western, and non-regional) engagement is visible but of minor significance. The next table shows the scale of FDI compared to the local economies.

Investments in the Western Balkans are, therefore, a significant part of their gross domestic product. The most significant part of the FDI originates from the EU.

Table no. 28. Inward FDI stocks in Western Balkan economies – top 10 investor countries (as a percentage by countries, 2019)

Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia
Switzerland 18.7%	Austria 18.2%	Germany 12.8%	Russia 11.4%	Austria 13.5%	Netherlands 14.5%
Netherlands 15.2%	Croatia 15.7%	Switzerland 12.1%	Serbia 6.1%	United Kingdom 11.6%	Austria 13.2%
Canada 14.0%	Serbia 13.9%	Turkey 11.0%	Italy 6.0%	Greece 9.1%	Germany 7.7%
Italy 9.4%	Slovenia 7.5%	Austria 5.9%	Cyprus 5.5%	Netherlands 7.0%	Luxembourg 6.3%
Turkey 7.5%	Netherlands 5.5%	Slovenia 5.3%	United Arab Emirates 5.3%	Slovenia 7.0%	Russia 6.1%
Austria 6.9%	Russia 5.4%	United States 5.1%	Croatia 5.0%	Germany 6.4%	Italy 5.2%
Bulgaria 6.0%	Germany 5.3%	United Kingdom 4.6%	Switzerland 3.9%	Turkey 6.0%	Switzerland 5.1%
Greece 5.9%	Italy 4.5%	Albania 4.5%	Slovenia 3.7%	Hungary 3.6%	Norway 4.1%
France 3.9%	United Kingdom 4.0%	Sweden 1.8%	Austria 3.2%	Bulgaria 3.4%	France 4.0%
Cyprus 2.5%	Switzerland 3.1%	Italy 1.3%	Luxembourg 2.8%	Switzerland 3.2%	Hungary 3.9%

Source: Z. Zavarská, *Global Value Chains in the Post-pandemic World: How can the Western Balkans Foster the Potential of Nearshoring?*, WIIW, "Policy Notes and Reports", no. 58, March 2022.

Table no. 29. FDI net inflows as a % of GDP in the WB

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Albania	18.3	7.4	9.8	8.7	8.8	7.8	7.9	7.8	7.8	7.1
Montenegro	12.2	15.1	10	10.8	17.2	5.1	11.5	8.8	7.5	11
Bosnia and Herzegovina	2.5	2.2	1.7	2.9	2.3	1.8	2.8	2.9	2.1	2
Kosovo	8.4	4.7	5.5	2.8	5.4	3.6	3.9	4	3.6	5.1
North Macedonia	4.8	3.4	3.7	0.5	2.9	5.1	3.3	5.1	4.3	0.06
Serbia	10	2.9	4.2	4.2	5.9	5.7	6.5	8	8.2	6.5

Source: World Bank Data, own studies.

4.2. Financial assistance

The EU is also a donor of the major capital inflows to the WB economies. For example, in October 2020, the European Commission adopted the Economic and Investment Plan for the Western Balkans. Its goal is to provide a stimulus for the "long-term economic recovery of the region, support a green and digital transition, foster regional integration and convergence with the European Union"[43]. The plan involves 9 billion EUR of funding. The overall amount of Instrument of Pre-accession Assistance (IPA III for years 2021-2027) was 14.2 billion EUR.

The above is designed to show that the level of involvement of the EU institutions and enterprises is relatively high for the region of the Western Balkans. According to the dominant assumptions of FDI and international trade theories, these, stemming from the West's funds, know-how, as well as expertise, social contacts, etc., should have provided new momentum for progress and development in the Western Balkans. They did not.

43 Economic and Investment Plan for the Western Balkans, October 7, 2020, https://www.wb6cif.eu/2020/10/07/economic-and-investment-plan-for-the-western-balkans/#:~:text=Economic%20and%20Investment%20Plan%20for%20the%20Western%20Balkans,regional%20integration%20and%20convergence%20with%20the%20European%20Union [27.04.2022].

Conclusions

This policy paper does not exhaust the question of European enlargement policy or the peripheralization process within and beyond the EU. It does, however, prove the existence of two phenomena that accompany the European integration process: the uneven and combined development and preservation of existing power relations within the EU. It is important to emphasize that both questions, of combined development as well as power relations, require further research that is not possible here due to the limitations of this work.

Combined and uneven development

Observing the European Union and its immediate neighbourhood provides an image of circles around a Western European core. The closer to the core, the more chances that the economy is prosperous, the country stable, and the society relatively wealthy, or wealthy enough. Group I is the most developed, and Group IV is the least favourable group. In fact, we could add some subgroups such as the southern

European states, Spain, Portugal, and Greece. They joined as developing states in the 1980s and remain the least advantaged within Group I. The countries of Western Europe (Austria, Sweden, and Finland), which joined in the 1990s, were already on a much higher level of development than Spain or Portugal in the 1980s and, as such, they endure. In this paper, we have shown that the development of the Western Balkans, although visible in absolute terms, remains practically non-existent when analysed in relation to the "core" EU countries. In other words, the development is uneven – the greatest beneficiaries of the European integration project are the richest countries, well embedded within the EU structure. Those on the peripheries reap the least of the benefits.

We can also conclude from this that there are many indicators that such development is combined. The development of one economy occurs at the expense of new member states, and the EU neighbourhood. Such a relationship allows one economy to develop faster while hampering the development of the other, subordinated periphery. In other words, highly technologically advanced and well-capitalised western economies benefit from access to the markets and cheap labour in CEE and SEE/WB. In turn, peripheric economies are forced to compete only by labour costs, which in turn provokes major disbalance in social welfare, etc.

Preservation of power relations

This uneven development serves as a platform that enables the preservation of power relations within the EU. Relations that favour the old Union over the new one. As a net payer to the common EU budget, old member states of the EU, who remain behind its original logic, as well as established liberal democracies, claim to be more equal than the newcomers.

The hegemony that accompanies this relationship provides the rationale behind such a set-up. As mentioned above, it is a conviction that the combination of experience, welfare, and institutional set-up should serve as a model and a point of reference for developing economies. As such, representatives of the old Union would serve as advisors and ultimate judges of progress in the new member states of the Union, and beyond.

The inability of peripheric and semi-peripheric states to change the status quo results from their poor economic, social, and political outcomes. These states have neither the strength nor the quality to build an argument. Subsequently, the uneven development reinforces their peripheral status, which in turn diminishes their political influence and, therefore, reproduces their inferior position within the European integration process.

What's next? Economic expansion through technological dominance

With the fall of the Berlin Wall and the disintegration of the Eastern Bloc, it became clear which of the ideologies remained victorious in the ring. And, in an ideologically unipolar world, the dominant thought can easily become a hegemonic one. Subsequently, the Western core, under the banner of liberal capitalism, began a new wave of expansion, which covered most of Europe. Former ideological adversaries such as China and Russia also adopted similar socio-economic models, avoiding as far as possible, however, the Western patrimony. The concepts such as "free market" or "international trade", accompanied necessarily by "liberal democracy" and a set of "human rights" protection mechanisms, became a dominant part of international discourse and were widely accepted.

Most economically advanced countries have had to find another way to preserve this status. Territorial conquest and colonisation remain mostly out of the question. Conquering foreign markets in the traditional way, by sending cheaper and better products, requires some additional tools. One of these is technological advancement, which enables the core countries to stay one step ahead of the peripheries, reproducing cheaper and gradually better products. China, for example, and some other Southeast Asian countries such as Vietnam, Indonesia, etc., have gained relatively high positions in international relations by using cheap labour and selling their products to the more advanced markets.

To remain in an advantageous position relative to its peripheries, a country needs to advance technologically. Technological advancement means the ability to use particular new products and services. This can be achieved in the following, interlinked ways; by establishing relevant legal frameworks protecting widely understood intellectual property rights, and thereby supporting this sort of technological advancement; by developing markets for the relevant products, i.e., by creating demand, by limiting production in other places, limiting access to alternative products, etc.; by means of foreign policy aimed achieving particular political constellation.

EU concentration of capital, technological progress, internal peripheralization, and ideology of liberal markets

The European Union and its Western core represent a classic example of the evolution of the central states, their markets and politics. Central, Eastern, and South-Eastern Europe remain on the periphery, with semi-peripheral positions constantly changing. In this division of labour, an interesting role is played by Scandinavian countries, which replaced poverty with political stabilisation, socio-economic development, and technological advancement. Nevertheless, the core, semi peripheries, and peripheries generally overlap with the division of "old" EU member states, "new" EU member states, and the states covered by the European Neighbourhood Policy and the enlargement policy.

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POLICY PAPERS

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This text has been born out of a need to critically assess the enlargement of the EU and the process of EU integration itself. As such, it does not call for the deconstruction of the Union, but rather for an indication of its failures, that should be addressed and subsequently mended. While the majority of research papers, academic pieces, public documents, as well as press articles and other types of texts, focus on the misconduct of the neighbouring states in the Western Balkans, this paper looks into the miscalculations of the EU enlargement policy. The EU enlargement policy, as well as the European integration process in general, although bringing relative prosperity and stability, has been accompanied by ongoing political frustration.

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