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**cover map** Traditional cultural borders of Europe: usage recommendation by the Standing Committee on Geographical Names, Germany.
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A House in Transilvania, Romania May 9, 2009

A church in Transilvania, Romania May 9, 2009

Artnouveau (Jugendstil) architecture in Riga, Aug. 24, 2010

Old Town in Riga, Latvia, Aug. 25, 2010

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# Peripheral Countries of the EU and Regional Policies

Yoji Koyama[1]

## Abstract

There are concerns about rapid emigration from 4 countries (Lithuania, Latvia, Romania and Bulgaria) causing rapid population decline. In other new EU member states, the emigration has been larger but at the same time the immigration has been also larger causing relatively stable population. Reasons for such a difference are explored. When we look at a country as a whole, it seems that thanks to the EU regional policies the economy has become more developed with its per capita GDP converging on the average of advanced EU member states. Within a country, however, economic inequalities increased. Probably the regional policies have some problems at NUTS 3 level. This paper is structured as follows: First, I explain how regional policies have been evolved in the process of the European integration. Then the establishment of the EU and the creation of the euro, and the impact of the global financial crisis on EU member states is explained. After giving a general view of population dynamics, I examined how workers moved across the member states in recent years. Next, after presenting how the cohesion policy budget was allocated among new EU member states from CEECs, actual situations in the above-mentioned 4 countries are examined. Finally, after having pointed out remaining problems, some conclusions are described.

**Keyword:** EU, Core, Periphery, Regional Policy, Cohesion Policy, emigration, depopulation

**JEL Classification:** J61, O52, P51

## Introduction

Since 2004, post-communist countries from Central and Eastern Europe (Central Europe + South Eastern Europe + the Baltic States) joined the European Union (EU) one after another, and also candidate countries[2] (Serbia, Montenegro, North Macedonia, Albania, and Bosnia and Herzegovina) in the Western Balkans are expected to join the EU in future. Reflecting their history of rules by great powers and communist system[3], these countries are economically less developed. If we call advanced EU

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[2] Now Kosovo is a potential candidate.

[3] Berend (2020, p. 7) says that the backwardness is the legacy of communism and the history of the preceding society, and he describes the economic history of Europe which has been divided into core and periphery from the 15th century through the present.

member states 'core', the new EU member states and the candidate countries can be called 'periphery'.

After having presented theory of 'cumulative causal relationship'[4] of Swedish economist Karl Gunnar Myrdal, Soko Tanaka (2016, pp. 234-235) explains how core and periphery have been formed as follows: As firms, technology, information, finance, etc. are accumulating in the core, the region can continue to enjoy benefit of them. Core becomes increasingly richer by absorbing workers and capitals from countryside while periphery moves from stagnation to decline as it loses labor power and capitals for economic activation and the infrastructure such as communication, transport and education is poor. Rich core becomes richer more and more, and the gap between rich core and poor periphery is expanding cumulatively (Soko Tanaka, 216, pp. 229-230). Other than this, also developments in international politics[5] play a part in the formation of cores.

In this way the neglect of inequalities in a country or an economic zone causes their expansion. It would intensify tensions between core and periphery causing political issues (for example, nationalism, and more radical nationalism, etc.). It is regional (cohesion) policy that solves (or mitigates) such problems.

In Japan there have been only a few studies focusing on region policies of the EU. Also, very few Japanese researchers study new EU member states after the eastward enlargement in 2004 in connection with regional policy. Kida (2014) analyzes 8 new EU member states from CEECs at NUTS2 level using per capita GDP at PPS and argues that inequalities among regions increased from 1995 through 2014 but that the pace of an increase in inequalities slowed down after 2013. In this point she finds an effect of the EU policy but does not mention the development in recent years.

In the past few years, I have been studying 'emigration from peripheral countries of the EU and their depopulation', making case studies on several countries. I would like to conclude a series of my case studies by discussing regional policies of the EU. I am aware that the EU level, the European Commission in particular, has very limited resources at its disposal and has limited influence even if it extended support to its peripheral countries, nevertheless I would like to confirm how the European Commission has given its influences on the periphery so far.

I have confirmed that continuous rapid emigration has been accompanied by a rapid decrease in population in Latvia and Lithuania as well as Romania and Bulgaria[6] while in other new EU member

[4] Fujita (2003) explains Myrdal's theory of cumulative causal relationship well.

[5] One of European Dependency School Rudy Weissenbacher (2019, p. 9) says as follows: Harry S. Truman, who succeeded the US President Franklin Delano Roosevelt in April 1945, helped the reconstruction of the European economy. He thought that the reconstruction of the Western German economy, an economic engine of the Europe, was important. According to Weissenbacher, since the beginning of the Cold War the US government took the following preferential policies for Germany: a. to grant West Germany a privileged position; b. benign treatment of elites from Nazis Germany in West Germy; c. sheltering West Germany from demands of repayment of war destruction and forced wartime credits on part of the invaded countries; d. Western European integration would receive regulations inspired by economic liberalism suiting the strong economic position, Germany was soon able to recover with US support, etc.

[6] Croatia seems to have problems similar to Romania and Bulgaria as its outflow of people has been significant, but the country was omitted from the object of consideration due to its delayed accession to the EU (in 2013).

states the emigration has been larger but at the same time the immigration has been also larger causing relatively stable population in total. What has caused such a difference among new EU member states? In this paper I will explain regional policies of the EU from a perspective of new EU member states from CEECs and consider what kind of effects they have brought in these countries. The period examined in this paper is from 1958 through 2020, but effects of COVID-19 pandemic are not discussed here.

This paper is structured as follows: First, I will explain how regional policies have been evolved in the process of the European integration; Then the establishment of the EU and the creation of the euro, and the impact of the global financial crisis on EU member states is explained; After giving a general view of population dynamics, I examined how workers moved across the member states in recent years. Next, after presenting how the cohesion policy budget was allocated among new EU member states from CEECs, actual situations in the above-mentioned four countries are examined. Finally, after having pointed out remaining problems, some conclusions are described.

## 1. Progress in the European Integration

### 1.1. Regional Policies in the Early Period

From the beginning (January 1958) the European Economic Community (EEC) extended political support encouraging the development in less developed regions and established the European Investment Bank (EIB) by joint investment. It was Southern Italy that was economically least developed among 6 founding member states. Nearly half of the total fund for loan to regional development was directed to Italy (Tsuji, 2003, p. 44). There was awareness of issues about promotion of development of less developed regions already at that time, but the European Commission, which was in a position to look out over the whole EEC, had no resource and power at its disposal for regional policies. According to Manzella (2011, pp.36-37), member states of the EEC (the EC after 1967) at that time were centralized, and they did not want the European Commission to speak directly to the regions, in a way 'bypassing' them. Such a situation changed in the early 1970s. The economic crisis that hit Europe at the end of the 1960s showed the direct relationship between in specific industries and problems in the regions where they were based, directing people's eyes to regional policies. In 1973 the UK and Ireland joined the EC. These two countries had severe problems of underdeveloped area. The former had structurally declining industries while the latter itself was a less developed country.

In the European Commission the directorate in charge of regional policy was established. George Thomson, coming from the UK, took office of the first commissioner for this area (1973-1977). He battled to get regional policy established and to make it into an important European policy, but he did not completely succeed because he did not have a lot of resources for the regional policy. In addition, it was largely the Member States that still managed it and decided which projects would be funded. Regional policy has not sufficiently become a European policy (Manzella, p.37).

It is Antonio Giolitti from Italy, the second regional policy Commissioner (1977-1985), that managed to start changing this situation. He was a socialist who in the Italy of the 1960s had worked at the political level to establish a strong idea of planning in economic policy. As regional policy commissioner, he managed to bring this idea of planning to the European level, but his efforts were a mixture of success and failure. It is Jacques Delors that changed the situation radically. Delors, who took office of the Chairman of the European Commission in January 1985, pushed for the internal market. In the process he firmly understood that in order to succeed the European market had to have more cohesion, to lessen the imbalances between rich and poor areas. Under Jacque Delors the regional policy became a really 'European' policy and really 'regional' policy in the sense that the European level (i.e., the European Commission) existed to decide where the funds would go and had the tools to decide (Manzella, p.37). Prior to explaining efforts toward realization of the single market under Delor, let me present the previous view on the budget at the EC/EU level.

### 1.2. Dominant Views from the 1970s through the 1980s

Soko Tanaka (2016, pp. 234-235) explains fiscal transfer which was conceived in order to overcome problems of core and periphery in the EU. He says that as for the fiscal transfer system in the monetary union, in fact, some researches on it as an essential system in the monetary union plan were done in the 1970s, and he mentions Marjorin report (1975) and Mcdougal Committee's report (1977).

So, I examined these reports. The EC was composed by 9 countries (6 original member states + the UK, Denmark and Ireland) at that time. In the Werner Report (1970) an idea of 'Economic and Monetary Union' (EMU) was expressed, movements toward the realization of the monetary union stagnated in the 1970s. The Marjolin Report perceived that since wealth concentrated in an area at the sacrifice of some peripheral regions it would be an urgent task to make a large-scale regional policy, and it said that the European Investment Fund would be important. The Mcdougall Committee Report analyzed experiences in state budgets of existing federal states (West Germany, USA, Canada, Australia and Switzerland) and 3 unitary states (France, Italy and the UK) and tried to find what should be the EC in future from these analyses. The Report analyzed relationship between the federal budget and provincial government's budget in the federal states and relationship between central government's budget and regional government's budget, and clarified that a considerable amount of funds has been transferred through federal budget and central government's budget from richer provinces and regions to poorer provinces and regions in order to support the latter. It is interesting to note that the Report says that in distant future they would be able to consider the European federation having public expenditures equivalent to about 20-25% of GDP like the USA and Germany. However, the scale of budget of the EC was only about 0.7% of total GDP of the EC member states. So, the Report supposed 3 stages: i) integration prior to federation; ii) federation having a small-scale public sector (5-7% of GDP excluding defense expenditure) and iii) federation having a large-scale public sector at the EC level. The Report thought of 'integration prior to federation' having public sector of 2-2.5% of GDP for the time being and made some proposals.

In the early 1980s many leaders including Jacques Delors, the President of the European Commission, advocated the European social model. It aimed at the economic prosperity and social justice and its realization would be based on the presupposition that the central level has abundant funds to some extent. If European people were faithful to the idea of their grandfathers' generation who established the ECSC (European Community of Steel and Coal) and the EEC, i.e., realization of peaceful and prosperous Europe it should have proceeded toward fiscal federalism.

At present, however, the scale of budget at the EU level is only a little bit over 1% of total GDP of EU member states, and it has not reached 'integration prior to federation' in Mcdougall's stage classification. Some factors have been hindering the fiscal integration: First, the problem of collection place principle. As the significance of agriculture in the British economy has been small the UK has benefitted from the Common Agricultural Policy (CAP) less. British Prime Minister Margaret Thatcher, who came to power in April 1979, requested the EC to cut the obligatory contribution to the budget and establish the balanced finance. A campaign "return our money" that she led is famous (Endo, 2013, p. 144). Then it was agreed that since 1984, after all member states paid their contributions to the EU budget its part should be refunded to the UK. This is the UK rebate. The method was generalized and applied to all net contributing countries (countries whose payment of contribution to the EU budget is more than their receipt from the EU budget). Onoue (2014, pp. 212-213) evaluates that the agreed way of financing the EU budget was a disadvantage from a perspective of solidarity and unity in Europe. Second, neoliberal trend which increased its influence in the 1980s. Now this trend is dominant in the European Commission and the European Central Bank as well as international financial institutions like the IMF. The Ord liberalism, which is dominant among German politicians and bankers, has an affinity with neoliberalism. In the 1990s "after establishing single market and single currency, the policy of liberalization and globalization was pushed to the fore. Europe suddenly pushed its social aspect backward" (Onoue, 2014, p. 310). Third, the enlargement of the EU and the significant increase in the number of its member countries by EU accession of poorer countries of Central and Eastern Europe especially in the 21st century can be mentioned.

## 2. Progress toward the Single Market

### 2.1. Single Market

The customs union was completed in July 1968 earlier than the schedule by a year and a half. However, there remained 'non-tariff' barriers. Advantage of scale by expanded market has not emerged. Especially after two oil shocks in the 1970s governments of the member states were becoming more and more inward looking and reluctant to promote cooperation at the European level. At that time governments of member states protected their own industries through industrial policies and public procurement and nurtured firms of 'national champions', they have lost the international competitiveness in industries of advanced technology (Toshiro Tanaka, 2007). In the first half of the 1980s the EU was in a long-term stagnation due to its delay in technological innovation which was called microelectronics revolution.

Being overwhelmed by Reaganomics of the USA and the concentrated heavy rain-like offensive of exports of household appliances by Japanese firms, the EC was treated as 'Sick man of Europe' who sought refuge in protectionism (Soko Tanaka, 2001).

The EC came to a turning point in its life in the second half of the 1980s. In order to break down its stagnating economy business leaders in Europe gathered across borders in 1983. They emphasized the necessity for improvement of the international competitiveness of firms by making them enjoy advantages of scale through the creation of the EC-wide single market[7]. The Single European Act was signed in February 1986, and it came into effect in July 1987. This was in fact a treaty which amended Treaties of Rome with the aim to accelerate the European integration further.

White Paper on the completion of the internal market, which was published in June 1985, explained the methods of removal of non-tariff barriers in detail. Non-tariff barriers were classified into three kinds: 1) physical barriers; 2) technical barriers; and 3) tax barriers. These barriers should be removed by methods appropriate to each barrier. Physical barriers mean customs offices. External customs are preserved, but concerning internal movement of commodities customs should be abolished. Technical barriers mean non-tariff barriers in various areas stemming from differences in laws, social conventions, etc. For example, difference in technical regulations, industrial standards and certification in the area of goods; differences in professional qualifications and graduation qualifications in the area of human being, differences in corporate tax in the area of firms, discriminations by firms' nationality in government procurement, foreign firms in the area of financial services and transport services, etc. In order to remove these differences all member states were requested to adopt common systems of the EU, unification of professional qualifications and mutual recognition of partner countries' system. As for tax barriers, all member states were requested to keep rates of value added tax within scope of 14-20% and make their rates of excise tax closer to the average rate (Soko Tanaka, 2012, p. 36).

It was decided that internal market defined as 'a borderless area where free movement of goods, human being, services and capitals is guaranteed' should be completed no later than the end of December 1992. In this way single 'internal market' was constructed. At the root of this institutional construction there was neoliberal thought, and its guiding principle was competition. It was thought that European firms, which would survive competition on single large market without non-tariff barriers, would be able to compete with American and Japanese firms on the world market (Toshiro Tanaka, 2007).

### 2.2. Structural Funds

The Single European Act established economic and social cohesion as a competence of the European Community (Rauhut, p. 208). Next year, the fiscal reform of the EC (Delors Package II) was

[7] According to Takada (2014), at the initiative of Pehr G. Gyllenhammar (CEO of Volvo, Sweden) the European Roundtable of Industrialists (ERT) was established in 1983. In 1985 Wisse Dekker (CEO of Philips, Netherlands), one of main members of the ERT worked out and published Dekker Plan, showing tasks for realization of market integration and a process chart. The Single European Act (June 1985) was based on this plan.

implemented. With this reform, the EC's budget became a multi-year budget for the first time, and in addition to the existing own fiscal resources (customs revenue, agricultural surcharge and sugar surcharge) and value-added tax, contribution by member states was added. With this reform the amount of structural funds doubled. Incidentally, the European Commission never bear 100% of the cost necessary for the implementation of projects in regions. There has been the principle of co-funding, i.e., part of necessary funds should be paid by member states … to ensure that there is more commitment and ownership on the part of the member states and regions that are beneficiaries of the programs (Hall, 2011, p. 15). By introducing the principle of partnership, regions have become policy-making bodies participating in the multilayered governance (i.e. processes of planning, implementation, monitoring and evaluation) (Hasumi 2009, p. 18; Hirashima 2004, pp. 39-40).

'Community Initiative' led by the European Commission was created. INTERREG[8] has begun by this initiative (Hasumi 2009, p. 18). Aside from the cases of capital cities in Austria and Slovakia, regions close to borders in any country are mostly poorer, and border regions in its neighboring countries are similarly poorer. If regional cooperation across borders was promoted it would result in economic development in border regions.

In 1988 the Structural Funds were established. Target areas of support by the funds consist of two regions: less developed regions (20% of total population of the EC) and regions suffering from declining industries (10% of total population of the EU). It was decided that the Structural Funds should have the following 5 objectives: Objective 1: to promote development of less developed regions and structural adjustment; Objective 2: to change regions which are suffering from serious effects by declining industries; Objective 3: to tackle the improvement of long-term unemployment (denoting people of 25 or over 25 years old); Objective 4: to promote unemployment of young people (job seekers younger than 25 years old); Objective 5a: to speed up adjustment of agricultural structure; Objective 5b: to promote development of rural areas (Tsuji, 2003, p. 91). In addition, the Delors Package II of 1993 added Objective 6 in preparation for accession of Nordic countries. Objective 6: to promote development and structural adjustment in extremely sparsely populated areas (no larger than 8 persons in 1 km$^2$) (Tsuji 2003, p. 133; Hasumi 2009, p. 19). In the Structural Funds targets are not countries, but regions. A territorial unit called NUTS2[9], corresponding to a region with population of between 800 thousand and 3 million, is used.

## 3. Conclusion of the Maastricht Treaty and the Start of the European Union

### 3.1 Establishment of Cohesion Fund

Cohesion Fund[10] was established by the Maastricht Treaty. Its purpose was to support the efforts by

[8] As for INTERREG, Wakamori, et al. (eds.) provide us with very detailed information.

[9] NUTS is the abbreviation of Nomenclature of territorial units for statistics.

[10] According to Hall (2011, p. 6), the same policy is some times referred to as 'regional' policy, sometimes "cohesion" policy, but the two are almost interchangeable. However, it is not the same in the sense cohesion policy

relatively poor member states in preparation for the start of Economic Monetary Union. Specifically, the Fund was expected to provide these countries with financial support in order to make these countries invest infrastructure and prepare environment necessary for securing competitiveness in anticipated fiercer competition while satisfying the convergence criteria. The Fund was established in response to requests from Spain and some other countries. Target area of the support is countries, and the target of the support is limited to two areas: environment and transport infrastructure. It was prescribed that target countries of Cohesion Fund should be countries with their per capita GDP is less than 90% of the average of the community (EC). In fact, this criterion applied to four countries: Greece, Portugal, Spain and Ireland. Hence, these countries were often called 'Cohesion countries' until 2004 when post-communist countries from CEECs and two island countries in the Mediterranean Sea joined the EU (Tsuji, 2003, p. 129). According to Hasumi (2009), the budget of Cohesion Policy is used for the purpose of convergence (reduction in regional disparities), the improvement and employment, and European territorial cooperation (p. 19), and the combination of economic integration and political integration of the EU at the present stage is an attempt at the combination of the two models containing conflicting elements, i.e., the model of neoliberal free market integration and the model of European Federation composed of regions (p. 24).

An important point when we think of regional policies of the EU, 'principle of subsidiarity' is very important. This principle came to be stressed often since the Maastricht Treaty (in 1992), and it was clarified by the Amsterdam Treaty (in 1997). This is an idea that policies should be implemented at the level as close to citizens as possible, namely, at first by government of municipalities, and that if it is inefficient there then policies should be implemented at higher levels, province, nation and the EU (Endo 2013).

### 3.2 Creation of Single Currency Euro

The Economic and Monetary Union (EMU) started on January 1, 1999, and the single currency Euro began to be used. 3 years later, on January 1, 2002, both bank notes and coins began to be circulated. With this as impetus foreign trade among EU member states increased, and the economic integration advanced further. According to Hoshino (2009, pp. 24-25), the impact of creation and circulation of the single currency was very significant because the adoption of the euro spurred competition among financial institutions in Europe. The disappearance of risk of exchange rates fluctuation enabled financial institutions in euro-countries to escape from the limit of small domestic markets and expand their business in the eurozone. New EU member states from CEECs had vigorous funding demand. As financial markets have not developed in these countries bank-lending played a major role, and the interest rate margins were large. Thus, CEECs have become a place from which numerous West European banks hope to benefit.

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also encompasses policies for the labour market development. Policies for labour market are often nationally, rather than regionally, target.

### 3.3 Growth Strategies

At that time the EU lagged behind the USA in the area of ICT. The European Council in Lisbon in March 2000 decided the Lisbon Strategy to transform the EU economy into "*the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*" (European Council 2000). As this has not brought expected results, it was revised in 2005. A new start for the Lisbon Strategy was proposed (European Commission 2005). The EU, which experienced the global financial crisis and the eurozone crisis, launched a new strategy "Europe 2020", which was a growth strategy aiming at "smart, sustainable and inclusive growth" and putting emphasis on innovation, measures against climate change and technology. However, these growth strategies did not go well. A lack of financial support and weakness in social policies are mentioned as causes of their failures (JETRO 2010; Hasumi 2023).

## 4. The EU Accession by Post-Communist Countries in Central and East European Countries

From 1989 through 1990 socialism in Central and Eastern Europe collapsed, and these countries started transition to a market economy. In spite of Gorbachev's effort for reform, socialism in the Soviet Union also collapsed completely in 1991, and the Soviet Union broke up. Central and East European countries (CEECs) aspired to 'return to Europe', which practically meant membership of the EC (later, the EU). The EC responded to it by presenting the criteria for accepting new member states from CEECs. That is 'the Copenhagen Criteria' which in June 1993 the European Council held in Copenhagen adopted for membership as follows:

(1) Stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities (political criterion);
(2) Existence of functioning market economy as well as the capacity to cope with competitive pressure and market force within the Union (economic criterion);
(3) Ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union (administrative criterion).

These countries applied for membership one after another in the mid-1990s, and accession negotiations began separately in 1997. In May 2004 together with two small island countries (Cyprus and Malta), 8 post-communist countries (Poland, Hungary, Czech Republic, Slovakia, Estonia, Latvia, Lithuania and Slovenia) joined the EU, followed by Romania and Bulgaria in 2007, and Croatia in 2013. With the EU's eastward enlargement, its area expanded by 36% to 4.29 million $km^2$, and its population increased by about 30% becoming a giant power with more than 500 million.

The adoption of euro is their next challenge. Slovenia satisfied the convergence criteria in 2007 earlier than any other countries and joined the EMU (Economic Monetary Union, i.e., Eurozone). Then the Baltic States and Slovakia joined the eurozone one after another. Croatia, which joined the EU belatedly (in 2013) adopted the euro in 2022. However, Poland, Hungary, the Czech Republic, Romania and Bulgaria have not joined the eurozone yet.

Apart from the Czech Republic and Slovenia, the level of economic development of these New Member States are lower than that of the old Member States (EU-15). Therefore, the Cohesion policy is more important for them[11]. Wakamori (2007 p. 21) says that in the reformed regional (cohesion) policy all of the programs by structural funds should support goals of the Lisbon Strategy, i.e. 'competitiveness and employment' and that the regional (cohesion) policy is treated not as redistribution policy but as investment in working ability and innovation to improve competitiveness of regions.

## 5. Global Financial Crisis and the Eurozone Crisis

### 5.1 Germany's Superior Position in the EMU

The global financial crisis, which was triggered by the Lehman shock in September 2008, revealed contradictions inherent in the EMU. According to an economist of the European 'Dependency School' Weissenbacher (2019), already at the time of the EMS (European Monetary System)[12] the Deutsche Mark became the anchor currency. An emphasis on competition and laissez-faire gives the privilege to the economic core. Any country cannot have trade deficit continuously, and the burden of its adjustment is imposed only on deficit-countries. In 1995 at Germany's strong request, EU Member States concluded the Agreement on Stabilization and Growth requesting strict discipline (budgetary deficit less than 3% of GDP, cumulative budgetary deficit less than 60% of GDP, etc.).

Soko Tanaka (2016) says as follows: at the time when there were only 9 member states it was generally thought that once the monetary union was created, peripheral countries would lose power to devalue exchange rates of their national currencies, therefore, it would be necessary to have transfer system as its compensation. It was thought in the 20th century that if only a handful of member countries made a huge amount of profit from the economic and monetary union and other member states got the short end of the stick the integration would never advance. Leaders at that time boar the principle of 'an equal distribution of benefits from integration' in mind. Thereafter the EC/EU continued its enlargement southward (in 1981 and 1986), northward (in 1995), and eastward (in 2004, 2007 and 2013) with the number of its member states reaching 27. It seems that accordingly people's desire to aim for a federative state 'Europe' is gradually becoming weak. At present the EU remains at the level of confederation + α. Soko Tanaka (2016 p. 236) says that nowadays Germany, which made a huge amount of profit from the integration and euro depreciation, has forgotten the original spirit and uses 'no bailout' clause, which

[11] A Polish specialist on regional economy Wojewodzka-Wiewiorska (2017) says that as Central and East European countries have, generally speaking, larger rural population the investment from the Common Agricultural Policy (CAP) in human capital (for example, LEADER program) is also important.

[12] It was established by the European Community (EC), which is now the European Union (EU), in March 1979 in order to stabilize the exchange rates among the Member States with the European Currency Unit (ECU) being used as a common unit of account for currencies. Later the ECU became the euro.

already collapsed, as an excuse to make self-defense.

EU funds are allocated to less developed member states through Structural Funds, but it should not be regarded as one-sided burden on developed member states. According to Weissenbacher (2019 p. 181), between 30 and 40 percent of the total amounts transferred to cohesion countries through Structural Funds is being translated into imports from the other more developed countries of the EU. Poplawski (2016, p. 13) says that it was Germany that benefited most from the investment in Central Europe financed by the Cohesion Fund. A significant proportion of these funds was spent on infrastructure, which made it easier to transport goods between Germany and V4 countries. It was crucial for the German automobile companies for whom a good transportation network was a precondition for building modern production facilities in the V4 countries.

Liberal doctrines furthered deregulation of financial markets and forfeited capital controls. Strong preference to the status quo led to strengthened negotiation power of Germany causing transition to the final stage of the EMU and the imposition of its conditions on the contents. Weissenbacher asks, is this 'true' integration or 'a sort of colonial system'? (pp.176-182).

In the EU the German economy is by far strong. According to Paul Lever (2017), a British diplomat who has served as Ambassador to Germany, "Germany's formal position under the European treaties is no different to that of any other state – it is in theory up to the European Commission to make proposals for the European Council and the European Parliament to take decisions. But in practice it is Germany's view which is sought by the Commission before it acts, and by other governments before they decide. Without Germany's support it is now virtually impossible to secure change in Europe of any significant kind" (pp. 6-7). "It is not Germany which has set out to lead; it is others who have chosen to follow" (p. 27). Therefore, "Germany is a reluctant hegemon" (p. 26). In the Greek crisis in 2015 Germany proposed strict austerity measures as a condition for the support by Germany[13]. German Finance Minister Wolfgang Schäuble even mentioned a temporary Greek exit from the euro as one option to be considered. In spite of the fact that in the referendum held on July 5, 2015 Greek people showed clear denial of the fiscal austerity program requested by the EU and the IMF, on 13 July Greek Prime Minister Alexis Tsipras, leader of SYRIZA (Union of Radical Left) was finally obliged to accept such humiliating austerity measures.

### 5.2 Diverse Central and East European Countries

Although they all might be lumped together as post-communist countries, in fact Central and East European countries are diverse. Bohle and Greskovits (2017) classify these countries as follows: 1) the Baltic States as 'a pure neoliberalism'; 2) Visegrad countries (Poland, Hungary, Czech Republic and

[13] Soko Tanaka (2021) evaluates Angela Merkel, an ex-premier of Germany, as follows: "In the face of euro crisis she adhered to austerity budget, leading to worsening and prolongation of recession in the Southern European countries and helping anti-EU and anti- Germany political force take root in Greece and Italy. Negative effects of the imposition of the German way on other member states are still fresh in our memory".

Slovakia) as ‘embedded neoliberalism’; 3) Slovenia as ‘neo-corporatism’; and 4) Romania and Bulgaria as ‘neoliberalism’. It is the level of welfare expenditure that distinguishes these two groups. As the Baltic States try to decrease the role of state in the economy the share of social welfare expenditure is low whereas Visegrad countries adopt neoliberal policies while preserving the heritage of socialist period (relatively considerate social welfare). As taking advantage of cultural and geographical proximity Western firms advanced to Central European countries forming relations of division of labor, their economies have been in rather good shape[14]. Slovenia inherited the tradition of from self-managed socialism[15]. Romania and Bulgaria in the Balkans are similar to Latvia and Lithuania in the point the share of welfare expenditure has been low.

In spite of diversity of the economic structure, economies of Central and Eastern Europe have some features in common. Namely, many local firms came to operate as suppliers of low layers of global production network (Rauhut, et al 2021, p. 174). As a result, presumably there is no room for high skilled workers in Lithuania and Latvia in the Baltics and Romania and Bulgaria in the Balkans, and consequently many of them were pushed out to advanced EU member states.

### 5.3 Impacts of the Global Financial Crisis on CEECs

Influences of the global financial crisis were various. Central European countries were damaged by the financial crisis to a certain extent, but as the countries other than Slovakia had flexible exchange rate system the damage was not so serious in these countries. In Slovenia, which has adopted euro in 2007 earlier than any other new EU member states from CEECs,

most people were immersed in ‘EU-Phoria’[16] and experienced bubbles and their burst. Then people became obliged to bear a huge cost of the bailout of banks and firms by the government. Also, the Baltic States experienced double-digit economic growth in the mid-2000s by accepting FDI, but were damaged by the global financial crisis. Latvia in particular was forced to adopt harsh austerity measures[17]. Although Estonia shared some similarities with two other Baltic countries, its economy is doing well because the country has been included in the economic area of Sweden and Finland and put emphasis on electronics-related industries.

Romania and Bulgaria have something in common with Latvia and Lithuania in the point that people suffered from austerity measures. I will explain more in detail using the case of Romania[18]. Emigration of high skilled workers such as high-tech specialists and medical workers to foreign countries already began before the crisis because of inadequate working conditions, a lack of rational

[14] See Chapter 2 of this book.

[15] As the government led by Franjo Tudjman immediately after the independence denied heritage from the self-managed socialism totally, Croatia is different from Slovenia. Perhaps Croatia is more similar to Romania and

[16] This expression is taken from the title of Rahman (2008).

[17] See Chapter 5 of this book.

[18] For more in detail see Chapter 7 of this book.

incentives, unsatisfactory career formation system, etc. In order to cope with 'labor crisis', the government took measures to increase wages of workers in the areas of health services and education by 20-24% in order to encourage them to stay in the country or return home from foreign countries. However, Romania was hard hit by the global financial crisis and fell into recession causing a rise in budget deficit. Following the excessive deficit procedure of the EU, the country was obliged to take austerity measures including reduction of public sector wage by 25% along with the reduction of subsidy and an increase in VAT rate (from 19% to 24%). This was measures which would discourage medical workers' eagerness. The number of Romanian physicians working abroad exceeded 14,000 as of 2013, representing a third of the country's total number of medical doctors. Meanwhile, the national health system survives on meager resources (Paun 2018, p. 4). Such a situation explains the poorest medical level which is reflected in the highest infant mortality in the EU (Sandu 2017, p. 18).

### 5.4. Convergence on the Average of EU-15

Table 1 shows changes in per capita GDP at PPS of post-communist CEECs with the average of old EU member states (EU-15) being 100. We can find that although these countries experienced the transformational depression in the mid-1990s their economies were on track for economic development until 2008. Apart from Poland, all the new EU member states from CEECs experienced negative growth due to the 2008-09 global financial crisis.

After the transition to a market economy, unemployment rates increased in all these countries, and some countries (Poland, Slovakia and the Baltic States) still recorded a double-digit unemployment rate in the first half of the 2000 (see Table 2).

**Table 1 Changes in Relative Development Levels of New EU Member States from Central and Eastern Europe (GDP per capita at PPS, Average of EU-15 = 100)**

| | 1989 | 1992 | 2000 | 2004 | 2006 | 2008 | 2010 | 2012 | 2014 | 2015 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Estonia | 54.2 | 36.1 | 36.8 | 48.5 | 57.1 | 61.3 | 57.9 | 67.7 | 70.0 | 70.1 | 73 | 75 |
| Latvia | 52.3 | 29.4 | 31.2 | 41.1 | 49.1 | 53.9 | 47.8 | 55.5 | 58.8 | 59.2 | 63 | 63 |
| Lithuania | 55.3 | 40.5 | 33.6 | 44.2 | 49.6 | 56.4 | 54.5 | 64.0 | 69.4 | 69.9 | 73 | 75 |
| Poland | 38.2 | 31.6 | 40.5 | 43.3 | 44.6 | 49.0 | 56.2 | 60.1 | 62.5 | 63.7 | 65 | 67 |
| Hungary | 55.8 | 44.3 | 46.2 | 54.5 | 55.4 | 56.9 | 59.0 | 59.8 | 62.5 | 63.7 | 64 | 65 |
| Czech Republic | 75.2 | 61.4 | 61.9 | 69.3 | 71.9 | 73.5 | 73.6 | 75.0 | 78.1 | 79.6 | 82 | 83 |
| Slovakia | 59.2 | 43.4 | 42.5 | 49.8 | 55.4 | 64.2 | 66.3 | 68.3 | 70.6 | 72.0 | 71 | 73 |
| Slovenia | 74.0 | 55.7 | 68.0 | 75.3 | 76.3 | 80.4 | 75.3 | 74.4 | 76.3 | 76.4 | 78 | 80 |
| **Bulgaria** | 46.6 | 34.2 | 24.3 | 30.3 | 33.9 | 40.2 | 40.4 | 42.1 | 43.1 | 43.3 | 47 | 48 |
| Romania | 34.0 | 25.0 | 21.9 | 29.4 | 33.9 | 43.6 | 44.9 | 49.4 | 50.6 | 51.6 | 58 | 60 |
| Croatia | 50.8 | n.a. | 42.1 | 49.8 | 51.8 | 56.9 | 53.4 | 54.9 | 54.4 | 54.1 | 57 | 58 |

Source: Mainly Table 2.1 prepared by Ryszard Rapacki and Mariusz Prochniak in book *Poland Competitiveness Report 2016*, page 38 is used; For year 1992 *Poland Competitiveness Report 2006*, Chapter 1, Table 2, prepared by Ryszard Rapacki in p. 20; For 2017 and 2018, Polish Competitiveness Report 2018, Chapter 1, Table 1.4. prepared by Ryszard Rapacki and Mariusz Prochniak in p. 20; As for the period 1989-2015 *Competitiveness Report* expressed the value of Poland as 100, but Koyama revised all values by recalculation with the value of the average of the EU-15 being 100.

**Table 2 Changes in the Unemployment Rates in New EU Member States and Candidates from CEECS (Unemployment Rate in Each Year)**

| | 1991 | 2000 | 2002 | 2004 | 2006 | 2008 | 20010 | 2012 | 2014 | 2016 | 2018 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Poland | 11.8 | 16.1 | 19.9 | 19.0 | 13.8 | 7.1 | 9.6 | 10.1 | 9.0 | 6.2 | 3.9 | 3.2 |
| Hungary | 7.8 | 6.4 | 5.8 | 6.1 | 7.5 | 7.8 | 11.2 | 11.0 | 7.7 | 5.1 | 3.7 | 4.3 |
| Czech Republic | 4.1 | 8.8 | 7.3 | 8.3 | 7.1 | 4.4 | 7.3 | 7.0 | 6.1 | 4.0 | 2.2 | 2.6 |
| Slovakia | 11.8 | 18.6 | 18.5 | 18.1 | 13.4 | 9.5 | 14.4 | 14.0 | 13.2 | 9.7 | 6.5 | 6.7 |
| Slovenia | 10.1 | 7.0 | 6.4 | 6.3 | 6.0 | 4.4 | 7.3 | 8.9 | 9.7 | 8.0 | 5.1 | 5.0 |
| Estonia | n.a. | 13.6 | n.a. | 9.6 | 5.9 | 5.5 | 16.9 | 10.0 | 7.4 | 6.8 | 5.4 | 6.8 |
| Latvia | n.a. | 14.5 | n.a. | 10.4 | 6.8 | 7.5 | 18.7 | 15.0 | 10.8 | 8.7 | 7.4 | 8.1 |
| Lithuania | n.a. | 16.4 | n.a. | 8.3 | 8.3 | 5.8 | 17.8 | 13.4 | 10.7 | 7.9 | 6.2 | 8.5 |
| Romania | 3.0 | 6.0 | n.a. | 8.0 | 7.2 | 5.8 | 7.3 | 6.8 | 6.8 | 5.9 | 4.2 | 5.0 |
| Bulgaria | 11.1 | 16.9 | 17.8 | 12.0 | 10.1 | 5.6 | 10.2 | 12.3 | 11.4 | 7.6 | 5.2 | 5.1 |
| Croatia | 13.2 | 16.1 | 14.8 | 13.8 | 12.7 | 8.4 | 11.8 | 16.0 | 17.3 | 11.2 | 8.5 | 7.5 |
| Candidates | | | | | | | | | | | | |
| North Macedonia | n.a. | 32.3 | 31.9 | 37.2 | 36.0 | 33.8 | 32.0 | 31.0 | 28.0 | 23.7 | 20.7 | 16.4 |
| Serbia | n.a. | 12.1 | 13.3 | 18.5 | 20.9 | 13.6 | 19.2 | 23.9 | 18.9 | 15.2 | 12.7 | 9.0 |
| Montenegro | n.a. | 19.3 | 23.7 | 27.7 | 29.6 | 17.2 | 19.6 | 19.7 | 18.0 | 17.4 | 15.2 | 17.0 |
| Albania | 8.3 | 16.8 | 15.8 | 14.4 | 13.8 | 13.0 | 14.0 | 13.4 | 17.5 | 15.2 | 12.3 | 11.7 |
| Bosnia and Herzegovina | n.a. | 39.7 | 40.9 | 43.9 | 31.1 | 23.4 | 27.2 | 28.0 | 27.5 | 20.5 | 18.4 | 15.9 |

Source: wiiw, *Forecast Report*, various issues.

As we have seen, although new EU member states from CEECs experienced the transformational recession, the 2008-09 global financial crisis and the eurozone crisis, their economies are converging on the level of advanced EU member states (EU-15), but I am concerned about population dynamics in these countries.

## 6. Population Dynamics

### 6.1 Population Decline

Population dynamics is determined by two factors, i.e., natural increase in population and international migration. In most countries in CEECs demographic transition has already occurred, and therefore phenomenon of low birthrate and aging society is prevailing. In these countries natural increase in population has become negative.

Looking at changes in population of these countries in the period 2004 through 2020, it is noteworthy that the population decreased most rapidly in two Baltic countries Latvia and Lithuania (by 17.7% and 18.7% respectively) followed by Balkan two new EU member state Romania and Bulgaria (by 11.2% and 10.9% respectively). Compared with the population in 1991 or 1990 immediately after the system change the rates of population decrease were quite large. The population decreased by 28.7% and 24.4% in Latvia and Lithuania respectively. In the case of Estonia, its population decreased considerably (15.1%) between 1990 and 2020, but looking at the period from 2004 through 2010, the rate of population decrease is much smaller (-1.5%) reflecting its better economic performance. In four countries from Central Europe and Slovenia changes in population were smaller. Apart from Hungary where the population decreased slightly, their population increased slightly.

**Table 3 Population Dynamics in New EU Member States from CEECs (Unit: thousand)**

| | 1991* | 2004 | 2008 | 2012 | 2016 | 2020 | Percentage change in 1991-2020 | Percentage change in 2004-2020 |
|---|---|---|---|---|---|---|---|---|
| Poland | 38,246 | 38,182 | 38,126 | 38,530 | 38,435 | 38,324 | 0.2 | 0.4 |
| Hungary | 10,346 | 10,107 | 10,038 | 9,850 | 9,814 | 9,750 | -5.8 | -0.4 |
| Czech Republic | 10,309 | 10,216 | 10,490 | 10,534 | 10,566 | 10,698 | 3.8 | 4.7 |
| Slovakia | 5,283 | 5,382 | 5,407 | 5,420 | 5,431 | 5,459 | 3.3 | 1.4 |
| Slovenia | 2,002 | 1,997 | 2,021 | 2,062 | 2,065 | 2,102 | 5.0 | 5.3 |
| Estonia | 1,565 | 1,349 | 1,341 | 1,310 | 1,316 | 1,329 | -15.1 | -1.5 |
| Latvia | 2,664 | 2,313 | 2,266 | 2,005 | 1,960 | 1,900 | -28.7 | -17.7 |
| Lithuania | 3,696 | 3,436 | 3,358 | 2,928 | 2,868 | 2,795 | -24.4 | -18.7 |
| Romania | 23,185 | 21,685 | 21,514 | 19,934 | 19,702 | 19,258 | -16.9 | -11.2 |
| Bulgaria | 8,632 | 7,781 | 7,623 | 7,260 | 7,128 | 6,934 | -19.7 | -10.9 |
| Croatia | 4,786 | 4,439 | 4,435 | 4,250 | 4,172 | 4,047 | -15.4 | -8.8 |
| Candidates | | | | | | | | |
| North Macedonia | 2,034 | 2,033 | 2,047 | 2,061 | 2,072 | 2,073 | 1.9 | 2.0 |
| Serbia | 8,119 | 7,463 | 7,350 | 7,199 | 7,058 | 6,899 | -15.0 | -7.6 |
| Montenegro | 615 | 622 | 629 | 620 | 622 | 621 | 0.1 | -0.2 |
| Albania | 3,287 | 3,127 | 3,177 | 2,900 | 2,876 | 2,838 | -13.7 | -9.2 |
| Bosnia and Herzegovina | 4,377 | 3,842 | 3,842 | 3,836 | 3,511 | 3,475 | -20.7 | -9.6 |

Note *: For the Baltic States and Albania data for 1990.

Source: wiiw, *Foecast Report*, various issues; For Candidates Lukic, et al. (2012), p. 17.

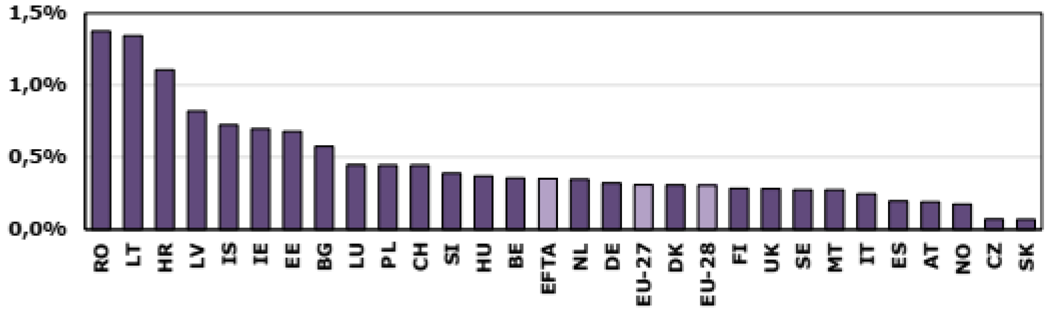
### 6.2 Intra-Mobility of Labor

The annual report of the European Commission (2021), which surveyed intra-mobility the European Union is important. This report uses an expression 'EU-28 movers'. The expression 'movers' is, I think, quite same as migrants. As the single market has been fulfilled and the labor markets have been unified people of the EU member states as EU citizens have become able to work in any member states. I guess that taking into consideration such circumstances, the report uses the expression 'movers' in order to distinguish them from migrants from outside the EU. In 2019 the number of EU-28 movers was about 17.9 million, of which the number of people at working age (20-64) was about 13 million, which corresponded to 4.3% of total population[19]. Two major countries of origin for the movers are Poland and Romania. Two major destinations are Germany and the UK, and the number of movers from both of them is also numerous presumably due to their return to the countries of origin.

This report also shows outflow rate of national as a percentage of the population in their own country of origin. The outflow rate was the highest in Romania at about 1.4%, followed by Lithuania at a little less than 1.4%. Looking at the previous several years, however, it was higher in Lithuania than Romania.

[19] EFTA people accounts for 0.1% and Third Party people accounts for 5.5% of total population of the European Union.

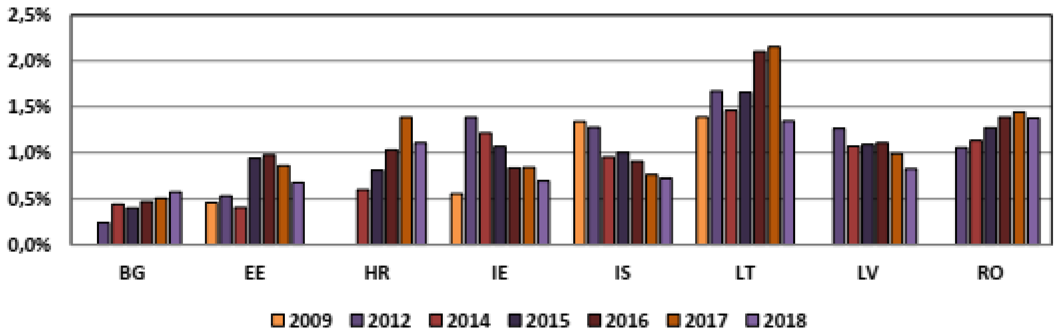
**Figure 1 Outflow rate of nationals as a percentage of the population in their country of origin, by country of citizenship, 2018**




Note: RO: Romania,; LT: Lithuania; HR: Croatia; LV: Latvia; IS: Iceland; IE: Ireland; EE: Estonia; BG: Bulgaria; LU: Luxembourg; PL: Poland; CH: Switzerland; SI: Slovenia; HU: Hungary; BE: Belgium; NL: Netherlands; DE: Germany; DK: Denmark; FI: Finland; UK: the United Kingdom; SE: Sweden; MT: Montenegro; IT: Italy; ES: Spain; AT: Austria; NO: Norway; CZ: Czech Republic; SK: Slovakia.

Source: European Commission (2021), p. 44.

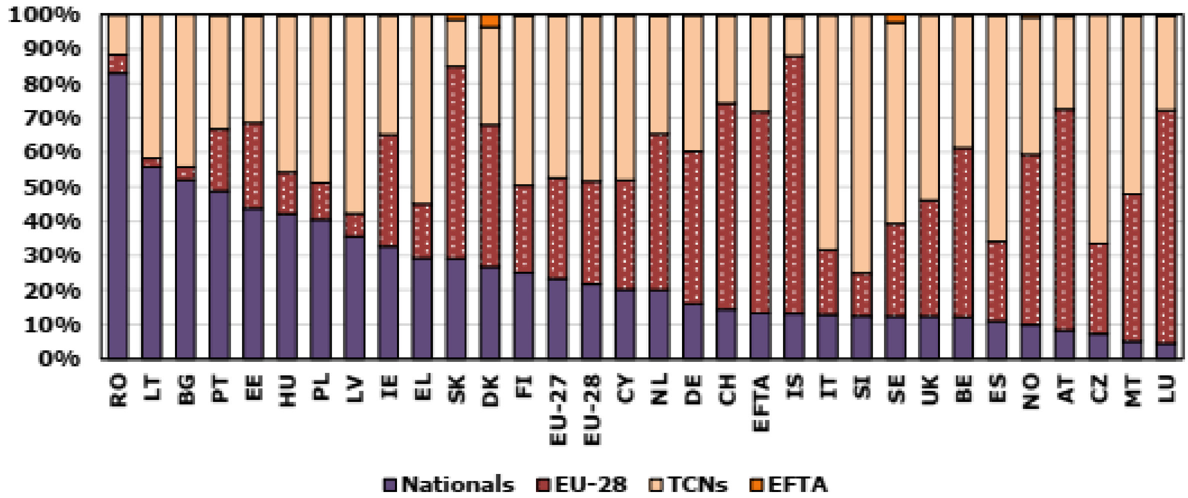
**Figure 2 Trend of outflow rate of nationals (20-64 years) for main countries of origin, 2009-2018**




Source: Ibid, p. 44.

This report provides us with information about return mobility. Figure 3 shows information about inflows (20-64 years) by group of citizenship, i.e. nationals (citizens of their own country), people from other EU member states (expressed as EU-28), third-party county nationals and people from the EFTA countries. The share of inflow of own nationals (return mobility) is the highest in Romania at over 80%. It means that other than return of its own nationals the share of inflow of people from other countries is very small. Apart from Slovenia and the Czech Republic, the share of return mobility of the own nationals is relatively high in EU member states in CEECs. It is remarkable that share of inflow of people from other EU member states in higher in Slovakia.

**Figure 3 Composition of inflows (20-64 years) by group of citizenship by country of destinations, 2018**




Note: TCNs refers to Third-party Country Nationals.
Source: Ibid, p. 45.

Sectors of activities where many movers work are manufacturing, wholesale and retail trade, construction, accommodation and food service activities, human health and social work activities, administrative and support service activities, transportation and storage, professional, scientific and technical activities, etc. (in order of numbers). It is noteworthy that the share of high-skilled workers is high among movers. In 2019, 4.1 million out of the 11.9 million EU movers of working age were high-skilled (34%). However, the report points out that one-thirds of all high-skilled workers are working in an occupation below their skill level. At the same time, reflecting population aging the number of movers working in the health and long-term care sector in advanced EU member countries is increasing.

This report gives us future prospect. If mobility rates would persist as they have since 2009, Romania would lose 30% of its population by 2060. Large outflows from sending countries would therefore negatively contribute to slowing the convergence between member states, impacting areas such as infrastructure, education and even population ageing. The report expresses the following concerns, "If high outflows of younger people from countries in Southern and Eastern Europe persist amid natural population ageing, those countries may face significant problems in financing welfare programmes and providing for the elderly through public pensions. Skills shortages may also intensify as result of high outflows of young people, presenting problems in the wider economy" (p. 141).

## 7 Cohesion Policy

### 7.1 Cohesion Policy Budget

I am concerned about emigration from 4 countries (Lithuania, Latvia, Romania and Bulgaria), which has been proceeding at a rapid pace, as well as depopulation progressing simultaneously in the past 30 years. CEECS, except for former Yugoslav Republics, were requested to pursue excessive specialization in the communist period. According to Dyba, et al (2018), overinvestment in outdated technologies resulted in uncompetitive productive structures on the open market. As new EU member states from CEECs consist of regions where per capita GDP is smaller except metropolitan areas, the cohesion policy is important. The amount of funds allocated from the EU budget is not so large, but EU cohesion polity has given new impulses for development in CEECs.

Let us take up these issues and examine cohesion policy more concretely. At first, I will present an outline of cohesion policy budget in two programing periods (2007-2013 and 2014-2020) based on a study by Dyba, et al (2018).

**Table 4 The structure of Cohesive policy budget by thematic objectives in CEECs 2007-2013 (% from budget of the Member States allocated to selected aims, based on annual implementation report 2013).**

| Thematic objectives/Member State | PL | HU | RO | CZ | SK | BG | LT | LV | SI | EE | CEECs |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tranport, Energy & IT | 47 | 36 | 26 | 37 | 37 | 30 | 36 | 33 | 29 | 23 | 38 |
| Environment | 10 | 17 | 24 | 11 | 13 | 26 | 15 | 16 | 24 | 22 | 15 |
| Social Issues | 10 | 16 | 10 | 10 | 21 | 10 | 14 | 19 | 9 | 21 | 12 |
| Innovation & RTD | 14 | 6 | 6 | 17 | 11 | 5 | 14 | 15 | 19 | 19 | 12 |
| Capacity building | 3 | 3 | 18 | 4 | 4 | 12 | 4 | 3 | 3 | 2 | 6 |
| Human capital | 7 | 4 | 3 | 8 | 5 | 6 | 6 | 3 | 5 | 3 | 6 |
| Other SME and business support | 5 | 10 | 3 | 4 | 3 | 6 | 4 | 2 | 5 | 5 | 5 |
| Culture, heritage and tourism | 3 | 4 | 2 | 5 | 3 | 2 | 3 | 1 | 5 | 5 | 3 |
| Urban and territorial dimension | 2 | 2 | 8 | 4 | 3 | 3 | 5 | 8 | 1 | 0 | 3 |
| Total (100%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Total (in billion EUR) | 63.9 | 28.6 | 23.6 | 21 | 11.8 | 7.4 | 6.7 | 4.3 | 4.3 | 3.3 | 174.9 |

Note. Some of the thematic objectives are aggregated: Transport, Energy & IT = Rail + Road + Other transport + Energy + IT services and infrastructure. Social Issues = Labor market + Social Inclusion + Social infrastructure.

Source: Dyba, et.al (2018), p. 82.

Looking at the structure of cohesion policy budget by thematic objectives in CEECs in the 2007-2013 programing period (Table 4), the largest amount was allocated to transport, energy and ICT (38% for CEECs as a whole), followed by environment, social issues, innovation and R&D. The amount of budget allocated to culture, tourism, etc. was smaller.

As the formation of thematic objectives has changed in the next period it is not easy to compare both periods, but we can find that transport, energy and ICT were attached importance (29% of total for CEECs as a whole). Next, climate & environment, education & employment, and research & innovation were attached importance. As for the amount, Poland was allocated the largest amount of budget, and it is natural when we take into account the fact that this country has the largest population in CEECs, but the proportion of allocated budget to member states is not necessarily in proportion to their populations.

**Table 5 The Structure (% from budget of Member States) of the Cohesion policy budget by thematic objectives in CEECs 2014-2020, based on finances planned.**

| Thematicobjectives/Member state | PL | CZ | RO | HU | SK | HR | BG | LT | LV | EE | SI | CEECs |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Network infrastructures in transport, energyICT | 35 | 32 | 31 | 19 | 29 | 19 | 20 | 21 | 31 | 14 | 11 | 29 |
| Climate & Environment | 21 | 23 | 33 | 27 | 25 | 33 | 38 | 27 | 25 | 21 | 24 | 25 |
| Education & Employment | 13 | 14 | 14 | 22 | 12 | 13 | 12 | 20 | 14 | 19 | 17 | 14 |
| Research & Innovation | 11 | 14 | 4 | 10 | 17 | 8 | 7 | 10 | 11 | 22 | 15 | 11 |
| Social Inclusion | 8 | 8 | 8 | 9 | 9 | 8 | 9 | 8 | 10 | 10 | 7 | 8 |
| Competitiveness of SMEs | 9 | 5 | 3 | 9 | 3 | 12 | 8 | 8 | 7 | 7 | 19 | 7 |
| Technical Assistance | 3 | 3 | 3 | 1 | 4 | 4 | 4 | 3 | 2 | 3 | 4 | 3 |
| Efficient public administration | 0 | 1 | 3 | 9 | 2 | 2 | 3 | 2 | 0 | 1 | 2 | 2 |
| Total (100%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Total (billion EUR) | 90.0 | 28.7 | 27.4 | 25.3 | 17.7 | 9.8 | 8.6 | 7.8 | 5.1 | 4.9 | 3.7 | 229.1 |

Note: Some of the thematic objectives are aggregated: Climate Change Adaptation & Risk Prevention + Environment Protection & Resource Efficiency + Low-Carbon Economy; Education & Employment = Educational & Vocational Training + Sustainable & Quality Employment; Network Infrastructures in Transport and Energy & ICT = Network Infrastructures in Transport and Energy + Information & Communication Technologies.

Source: Dyba, et.al (2018), p.83.

I would like to add that unlike to the Japanese way of a single year's budget, the budget of the EU is based on the rule of multi-year programing. There are many programs to be implemented, and each program receives money from several Funds (for example, Cohesion Funds, Structural Funds, etc.). The original sources of revenue at the EU level are contributions from member countries according to their GNI (Gross National Income), revenue from customs duty and a part of value added tax which member states collected. Total amount of these revenues is only less than 1.2% of the GDP of the European Union. All member states receive money allocated by Structural Funds, Cohesion Fund, etc. Poorer member states receive amounts of allocation larger than they contributed to the EU budget, meaning an excess of receipt over contribution. In contrast, richer member states contribute more money to the EU budget than they receive, meaning an excess of contribution over receipt. Let me explain this taking Romania for example, this country received 54.5 billion euro in total from 2007, the year of its EU accession, through 2019. In the same period the country contributed about 19 billion euro. Overall, the country got net inflow of 35.5 billion euro (an excess of receipt over contribution) (Iordan, et al, 2021, p. 56).

In order for readers to understand the regional policies more concretely, let us look at a brochure (total page is 62) titled *Impact and Results of Cohesion Policy: Benefits from V4 Cohesion Policy to the EU-15 and Project Examples from V4+*, which is a result of a common contribution of Visegrad Group countries in an extended format. i.e. Czech Republic, Hungary, Poland, Slovakia together with Croatia, Slovenia and Romania. This brochure was prepared by the Polish Ministry of Economic Development during the Polish Presidency in the Visegrad Group in the period of July 2016 – June 2017. First, the brochure shows the main findings of the research study: 1) 25-30% of real V4 GDP convergence with the EU average comes from cohesion policy investments; 2) V4 GDP in 2015 was higher by 5.8% than in the case of 'no cohesion policy' scenario; 3) EU-15 has contributed about EUR 120 billion to cohesion policy but 80% of its contribution to cohesion policy, i.e. EUR 97 billion returned to their economies in 2007-2015, and Germany accounted for 40.2% of total economic benefit that returned from V4. It is interesting to note that the brochure at first stresses that also EU-15 got large benefit from its active participation in the cohesion policy. The reason is presumably that V4 wants to invite many companies in EU-15 to participate continuously in various projects in cohesion policy in V4.

In addition, the brochure says as follows: Thanks to the macroeconomic impact of cohesion policy (the increase in aggregate demand and production capacity) almost all regions of V4 countries reduced their GDP gap to the EU average. In 2004 only4 of V4 regions came to exceed 75% of the EU GDP per capita average, while 10 years later in 2014 already 40% of regions (14) were above that level (p. 8).

In the latter half of the brochure 19 cases of projects in V4 as well as Romania, Croatia, Slovenia and INTERREG are briefly presented with photos. Let me present some of the cases. Czech Republic: Science and Technology Centre (Thema area: R&D/innovation/science); Hungary: Liszt's Academy of Music – the resurgence of European music academic education centre (Employment and education); Poland: Waste Management Plant for Special Purpose Association of Municipalities (Sustainable energy/climate/environment); Poland: Revitalization of Lower Town District in Gdansk (Urban revitalization and social inclusion); Slovakia: Digitalisation of technological process in design (Research and innovation/ICT); Croatia: Extracting value-added ingredients from wine waste (Research and innovation); Romania: Constanța Motorway (Transport); Slovenia: Competence Centre for Human Resources Development (Employment/education); INERREG: Marine Know-How Transfer for LNG in the South Baltic Sea Region (R&D/innovation/science); INERREG: Access to Technology and Know-how in Cleaner Production in Central Europe (Sustainable energy/climate/environment).

As for public finance, I would like to add that unlike single fiscal year in Japan the rule of multi-year accounting is used in the EC/EU. A program is implemented with funding from various Funds. There are programs which have not been completed within the schedule period. A difficult point for Japanese people to understand is a low absorption rate of EU funds (a proportion of actually distributed funds to available EU funds). The way of distribution of funds in the EU is quite different from the Japanese way in which the central government in Tokyo distributes the predetermined amount of fund to projects in regions all at once. In the case of the EU, at first member states propose projects, then after screening the European Commission decides the amounts of distributed funds, however, the European Commission does not distribute the total amount at once but distributes funds after checking the progress of the work at each stage of the implementation of the project. Besides, the distribution of FU funds presupposes appropriate burdens (co-financing) on the part of member states. If member states could not prepare the co-financing, then the European Commission would not provide funding, resulting low absorption rates.

In this regard, very informative is Septimiu-Rares Szabo (2017) who is a practitioner at the government of Romania and has served as a coordinator of various programs of Cohesion Policy. According to him, Romania has consistently been the EU member state with the lowest absorption rate. After 8 years of implementation, the rate has only marginally passed 50%, around 20% below the EU average (p. 242). From this explanation we can find that indeed Romania's absorption rate is low, but the absorption rates of advanced EU member states are 70% or so. He says that the administrative capacity of the Romanian institutions has been a major factor in the low absorption rate and that many institutions faced a shortage and high turnover of staff, low salaries and limited technical expertise, leading to delays in contracting, evaluations and payments, a lack of strategic planning and mostly public procurement irregularities (p. 242).

If Romania could increase its absorption rate of EU funds to the EU average, the country would be able to realize more activated regional economies and employment increase through effective use of EU funds. In order to do this, however, it would be necessary to improve the administrative ability of the country's institutions, especially institutions at the middle level. It would also require better treatment of staffs. It seems to take a long time to overcome these drawbacks taking into account its history in which the country has had extremely centralized administrative apparatus for a long time including its communist period. I guess that situations are similar in Bulgaria, another EU member state in the Balkans.

### 7.2 The Actual Situations in the 4 Countries

Let us examine the actual situation in the four countries based on Country Reports of 2014 on achievements of Cohesion policy, which were elaborated by outside experts commissioned by the European Commission Directorate-General Regional Policy, as well as Country Reports of 2022 which the European Commission itself elaborated.

The amount of funds allocated from Structural Funds and Cohesion Fund is not so large when we view it as a percentage of GDP of the EU while from the standpoint of these poorer small member states it amounts to a considerable value. In the case of Lithuania, for example, the share of EU support in state investment program was 70% in 2012. As a result of EU structural support, average real GDP growth rate in 2004-2013 (based on the prices of 2005) is estimated to have been 1.6 percentage points higher than without the support (Maniokas and Miseliuniene, 2014, pp. 3-4). The same can be said for remaining 3 member states. In the case of Bulgaria, EU funds (especially from ERDF) were paid for improvement of basic infrastructure (46.3%), support for a balanced territorial development (20.4%), enhancement of the quality of the human capital (15.5%) and promotion of entrepreneurship, good governance and business environment (14.8%) (Shalafov and Stefanov, 2014, p. 9). The report says that Bulgaria would not have achieved its current economic and regional development level without the ERDF support, especially regarding to the modernization of the basic regional infrastructures (p.24).

However, there remain some problems. The principle of co-financing is necessary in order to make member states, i.e. beneficiaries of programs, involve more actively and have ownership, but in some cases the principle is a heavy burden on beneficiaries. Country Report on Lithuania says that the implementation of EU-financed projects creates tension for public finances as municipalities have to borrow in order to find the necessary co-financing for EU-supported projects (Maniokas and

Miseliuniene, 2004, p. 35).

Bulgaria 2022 Country Report tells us serious situations in the health care system as follows: Total life expectancy in Bulgaria, at 73.6 years, is 7 years below the EU average. Limited access to healthcare, mainly a consequence of high out-of-pocket payments, as well as unequal regional distribution and the low number of health professionals (primarily nurses), has been feature of the Bulgarian health care system for many years. The system is hospital-centered, to the detriment of ambulatory care. This is a result of low public expenditure on healthcare and public health (5.9% of GDP in 2020, 2.1 percentage points below the EU average) covering only around 60.6% of total healthcare costs, against 79.5% on average in the EU (pp. 10-11).

I think that such a poor healthcare system in Bulgaria acts a push-factor. Situations are similar and serious in the four countries. One of reasons for persisting emigration from these countries in spite of their economic development and their conversion on the average of the EU is presumably a widening gap between regions within a country.

Indeed, thanks to assistance by the EU, these countries attained economic development at higher growth rates and converge on the average of the EU, but this finding is correct only when we look at each country as a whole. There are regional economic inequalities within each member state. Generally speaking, FDI tends to concentrate in the capital city in each country. In this way, in spite of assistance by the EU, regional economic inequalities within each member state are expanding. According to Iordan, et al. (2021), economic development has been localized in two regions, Bucharest-Ilfov and West. In 2019 the Bucharest-Ilfov region were at 160% against the EU average in terms of GDP per capita at PPS, and the West was at 71%, which was almost same level as the country's average (70%). The levels of all other regions were below 60%, and the poorest was North-East at 44%. Apart from the exceptional region Bucharest-Ilfov, economic inequalities improved in some regions in terms of GDP per capita at PPS on the one hand they expanded in other regions on the other hand. Iordan, et al (2021) explain this point by saying "territorial cohesion has evolved unsatisfactorily". In addition, they say that in contrast to the gaps between regions, those between counties are more pronounced.

Similarly, Country Reports on Latvia tells us serious situations in its regions. According to Country Report of 2014, the economic recession exacerbated regional disparities in wages and emigration. Emigration in particular has been different across regions. The report says that between 2000 and 2011 the Riga population declined by "only 8.4%", but I think that this number is already enormous, taking into account that Riga is the capital city. In the same period Latgale, located in eastern part of the country and adjacent to the Russian border, lost more than a fifth of its population.

According to Country Report of 2022, the Riga region has nearly three time the GDP per capita (118% of the EU average) of the region of Latgale (33%) (p. 14). With 68% of the population living in cities and 32% in rural area, the unemployment rate is higher in rural areas than in urban areas (9.1% compared to 7.7%). In the case of young people in NEET (not in employment, education or training), this rate is higher in rural areas than in urban areas (15.6% vs. 12.2%). As for people at risk of poverty or social exclusion, rural areas have more people than urban areas (28.7% vs. 21.6%) (p. 53). Shortages of qualified workers limit growth, and at the same time the lack of good job opportunities contributes to depopulation of the poorest regions, along with limited affordable housing options (p. 14). All these factors seem to drive a considerable number of people emigrate to advanced EU member states.

The EU's Country Report of 2017 on Lithuania points out as follows: "Inequality of incomes in Lithuania is one of the highest in the EU, and has been increasing since 2012[20]. … In Lithuania, it could be contributing to high emigration" (European Commission, 2017, p. 1).

## 9. Remaining Challenges

**From Emphasis on Metropolitan Areas to Polycentric Development**

Rauhut, et al.(2021) say that in the period from the end of the 1990s through the mid-2000s the urban policy of the EU and the cohesion policy of the EU had something in common. In their opinion richer cities were regarded as main driving forces of the economic growth, and metropolitan areas were in focus, as a result[21], a mechanism increasing rather than decreasing gaps (p.98). Emphasis on cities by the cohesion policy is based on a postulate that the economic growth which was arising from cities trickles down to surrounding regions. But in the same case marginalization and decline is inevitable (p.143). The wealthiest regions have benefited more from the European Cohesion Policy and its funds than those which are less wealthy, despite the larger concentration of EU funding going to lagging regions (Rauhut, et al, p.186).

Similar comments are made by a report by ESPON[22] with a title "Making Europe Open and Polycentric – Vision and Roadmap for the European Territory towards 2050" shows recognition that the conversion process has suddenly reversed. The turning points were the 2008-09 global financial crisis as well as the subsequent Greek crisis and the Eurozone crisis. Competition was given more emphasis. According to this report, metropolitan areas were winners, and rural areas were losers. Austerity measures decreased social expenditures and increased social inequalities. Developed EU member states such as Germany were again developing due to increased productivity while less developed member states responded by a decrease in real wages thereby resumed their development. The report warns, "Low-income-based competitiveness represents a development trap that counteracts the accumulation

[20] In fact, in the process of transition to a market economy Estonia's Gini coefficient increased sharply and peaked at 0.39 in 1993. Then it decreased gradually recording 0.356 in 2014 and decreased further to 0.317 in 2018. In contrast, Lithuania's Gini coefficient increased somewhat late, exceeded that of Estonia in 2005, peaked at 0.379 in 2015. Afterwards it was staying at 0.37 range. See Figure 4 in Chapter 5.

[21] According to Rauhut, et al (2012), the theory which has led the EU's cohesion policy is "a theory of growth pole", and the root of this economic though is a French economist Francois Perroux (1903-1987).

[22] ESPON is the abbreviation of "European Spatial Planning Observatory Network". It is an EU funded program which is doing investigations, provision of information, designing territorial policies, etc. Its activities cover not only EU member states but also Iceland, Lichtenstein, Norway and Switzerland. For more in detail, see the website of the ESPON (http://www.espon.eu/).

of financial and social capital, hinders upgrading to high value-added production, and encourages migration to higher-wage regions" (pp. 20-21). Although immediately after the global financial crisis the number of emigrants from new EU member states to advanced EU member states decreased temporarily, then the emigration increased again.

Alternative scenarios for the European territory for 2030 and 2050 are defined and evaluated in the ESPON report. Using a concept of 'polycentric development'[23], the report presents a trial calculation. It is interesting to note that according to results of the trial calculation, public policies promoting secondary city networks will lead to the higher growth rate than policies favoring capital cities and metropolitan areas. Also Rauhut, et al (2021, p. 201) argue that 'polycentric development' should stay as a main goal in the context of the cohesion policy.

**Depending on Immigrants from Outside Poorer Countries**

Romanian researchers (Anghel and Mierina, 2019) mention two solutions for the problem of massive emigration from the country. The first solution is to promote return migration of emigrants. If these emigrants return home they should have positive effects on their mother countries, but the percentage of their return migration seems rather low. The second solution, which in fact began already after 1990, is to promote immigration of people who has the same ethnicity as majority people in Romania but live as a minority group in adjacent countries. The Hungarian government has been actively accepting people of the Hungarian origin living in neighboring countries such as Romania, Slovakia, Serbia and Ukraine. Similarly, Romania has been accepting people from Moldova. Other than this, there can be another option, i.e., to accept immigrants from third-party countries, but people in CEECs have not welcomed so much to accept these people for a long time. In the face of continuing emigration, shrinking population and a shortage of labor power, however, in recent years these countries have had no choice but to accept labor migrants from the third-party countries. For example, Romania began programs to accept labor power from East Asia, and similarly Poland accepts labor power from India and Philippines.

**Shortage of Capitals**

Generally speaking, post-communist countries in CEECs suffer from shortage of capitals, therefore they are eager to get foreign investment. As foreign direct investment (FDI) stay in host countries for a longer term unlike short-term capitals, it is very useful, but it is not necessarily immobile. There are "ultra-mobile and impatient foreign investors" as Bohle and Greskovits (2017) mention. It would be necessary to create a mechanism in which private capitals are guided to poor member states under the guarantee of the EU. The so-called Junker Plan provided a mechanism which brought out investments by private

[23] Alternative scenarios for Europe's future development toward 2030 were defined as follows: "market- based growth favoring large metropolis" (Scenario A); "public policies promoting secondary city networks (Scenario B): and "public policies with more social and regional redistribution at European level" (Scenario C). Forecasts of these scenarios are presented too. As for GDP growth, its growth rate is the highest in Scenario B (annual rate: +2.30%), followed by Scenario A (+ 2.20%). It is the lowest in Scenario C (+ 1.80%). (pp. 33-34)

funds with public investment and lending by the European Fund for Strategic Investment (EFSI) serving as leverage. This plan for investment by both public and private institutions was launched in November 2014 immediately after Mr. Jean-Claude Juncker took office of the President of the European Union. The plan aimed at investment of 315 billion euro in total for the three years from 2015 through 2018[24] (*Nihon Keizai Shimbun*, September 15, 2016). At first, I thought that this was a plan that I expected, but this investment fund was not limited especially to less developed member countries, but it was open to all member states.

I would like to add that I am concerned about very low ratios of R&D expenditure to GDP in the above-mentioned 4 member states. In 2020 the average ratio of R&D expenditure to GDP in the EU was 2.19% while it was 0.47% in Romania, 0.76% in Bulgaria, 1.1% in Lithuania and 0.71% in Latvia.

**Western Balkans**

Looking at EU candidates in the Western Balkans, which is 'Periphery of Periphery' (Bechev, 2012), the population decline in Bosnia and Herzegovina, Albania and Serbia is also serious (Table 2). In the case of Bosnia and Herzegovina its population decreased sharply from 1991 through 2004 due to fierce ethnic conflicts. Ethnic conflicts cast a shadow also over Croatia and Serbia. Most of post-communist countries in CEECs are experiencing negative natural increase in population due to the declining birth rate. In addition, in some of these countries their population is rapidly declining due to continuous emigration

## Conclusions

As the European Commission has only a small amount of resource at its disposal, we should not put too much expectation on it, but if we mention its positive aspects, the EU has extended economic assistances to new EU member states from the Cohesion Fund, Structural Funds and other funds. Thanks to such assistances, the new EU member states were able to attain rapid economic development, and the levels of their economic development are converging on the average of advanced EU member states.

Still there remain many challenges. For example, the economic policies of the EU put emphasis on competition, and consequently capital cities and metropolitan areas in new EU member states have developed at higher rates. The 2008-09 global financial crisis dealt new EU member states severe blow. In order to overcome the crisis many member states were obliged to adopt austerity measures. International competitiveness was put more emphasis than before. In some countries (for example, the Baltic States) there were some attempts to improve competitiveness by cutting real wages. Such attempts were done at the sacrifice of workers and inhabitants in regions. When we look at a country as a whole,

[24] The so-called Juncker plan was taken over to the Invest EU Programme (2021-2027).

it seems that thanks to the EU's regional policies the economy has become more developed with its per capita GDP converging on the average of advanced EU member states. Within a country, however, economic inequalities increased. Probably the regional policies have some problems at NUTS 3 level.

In least developed regions of new EU member states, especially Latvia, Lithuania, Romania and Bulgaria new jobs have not been created sufficiently. In these poorer member states rapid outflow of workers to advanced member states is continuing. A point that these 4 countries have in common is that they adopted neoliberal polices after the transition to a market economy.

In contrast, in countries of Central Europe with "embedded neoliberalism" as well as Slovenia of "neo-corporatism" many people are emigrating to other EU member states as workers, at the same time many foreign people are immigrating as workers. Overall, their population has been more stable compared with the above-mentioned 4 countries. Their policies have succeeded in restraining excessive outflow of people and at the same time attracting immigrants from other countries (EU member states as well as non-EU countries) to some extent.

Considering from the standpoint of the above-mentioned 4 countries and Croatia as well as candidate countries from the Western Balkans, massive outflow of high skilled workers, who could play important roles in their own countries' development, would be a great loss.

Advanced EU member states such as Germany continue to develop by absorbing high skilled workers from poorer member states on the one hand, while poorer member states continue to depopulate on the other hand. When we consider problems of inheritance of culture, preservation of national land, protection of natural environment, etc. comprehensively, the continuing outflow of high skilled workers would be a great loss not only for the countries concerned but also the EU as a whole. I think that the significance of the European integration is now being called into question. In EU documents, albeit not so often, an expression "polycentric development" is sometimes found. The EPSON report puts emphasis on the concept "polycentric development". I think that this concept should be attached more importance in regional policies of the EU.

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