

European Integration: Perspectives and Challenges
How 'Borderless' Is Europe?

Edited by: István Tarrósy, Ágnes Tuka, Zoltán Vörös and Andrea Schmidt

Pécs, 2014

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Dynamics of the Specialisation Patterns in the Old and the New Member States of the European Union

Gabriela Carmen Pascariu¹ – Ramona Țigănașu²

Abstract

The present paper has as starting point the need to pay additional attention on the influence of a country export sector in determining its output growth, a key issue being the cumulative causation mechanism, which underlines the interaction between the trade costs and the concentration of industries. Moreover, the new approaches in the trade theory reveals that the comparative advantage pattern fails to explain the inter-regional trade. Therefore, based on these assumptions, in this paper we intend to test if the hypothesis according to which the integration process tends to produce a short and medium term intense specialisation followed by a long term despecialisation, resulting from the need to ensure a wide range of comparative advantages and products in all fields, is confirmed or not. For this purpose, will be calculated the Krugman and Grubel-Lloyd specialisation indices for some old and new EU member states, for different types of products (manufactures, agricultural products, commercial services, fuels and mining products). Then, will be computed the specialisation potential of the EU countries, approach that will enable us to realize a hierarchy in terms of specialization, both of the European Economic Community founders and of the countries which were integrated into this structure much later, namely in 2004 and 2007. Essentially, the research results will allow us to notice if there is a strong correlation between how closely integrated economies are and the degree of intra-industry trade (horizontal versus vertical), and to conclude if the countries should increase the specialization or the diversification of export production to support an intra-EU convergence process.

Contextualizing EU's enlargement to Central and Eastern Europe

The expansion of the European Union towards Central and Eastern Europe had primarily a huge political issue at stake in the context of the reconsideration of global and regional power relationships in the last decade of the 20th century. Enlargement

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was seen as an opportunity for the European Union to strengthen its role of international player in the new global order, mainly in relation to the USA, but also to the new entrants at the top of the ladder in the post-bipolar world, Russia and China. In the meantime, the integration of Central and Eastern European countries offered a perspective on a true unity of the European continent, on the reinforcement of political stability across Europe and on the creation of a shared regional identity (Więclawski, 2010) as prerequisites for a future European political union, 'a destiny fulfilment', to put it in another way. For Central and Eastern European countries, joining the European Union guaranteed success, the sustainability of democratic reforms and the avoidance, once for all, of the risk to reinstate authoritarian systems (in the context of the political instability arising in the transition process) and, implicitly, a recession from the potential expansion of Russian influence in the area and a sidestep from a new 'Finlandization' process³). Obviously, we cannot ignore the anticipated positive economic impact, mostly for Central and Eastern European countries, in terms of boosting economic growth, of creating scale economies, of generating trade or agglomeration economies, which was later confirmed by further studies (Ilzkovitz et al., 2007); however, the EU15 economic interests were considered to be insignificant and shadowed by the political interests at stake for EU10 (Baldwin, 1995).

Passing therefore for a political priority to both West and East right after the shift in political regimes in the Central and Eastern part of the continent in the early 1990s, enlargement was envisaged as a 'fast global process' likely to end by the dawn of the new millennium (Foucher, 1996, p. 217). The optimism of Europeans was then rooted in the experience accrued during the southward enlargement and the proven success of the Community integration process associating market integration (negative integration) with complementary support policies, mainly the agricultural and cohesion policies (positive integration). Furthermore, a set of accession criteria was established in 1993 for future member states by the Copenhagen European Council, institutional reform measures were adopted across the EU with the Treaty of Amsterdam and the Treaty of Nice and the reform of 'major' European policies (under the 2000 Agenda) and new association agreements were concluded (in view of securing favourable conditions for political cooperation and commercial integration), to mention just the main support actions implemented by the EU towards such an ambitious goal.

Nevertheless, EU enlargement turned out to be much more difficult to achieve, while the absorption of new member states into the EU system proved much more complex than was initially thought and at much higher political as well as economic

³ Term used to illustrate the case when a leading country avails of its dominance and influence over a neighbouring 'small' country with reference to the type of relationships established between Finland and Russia during the Cold War.

risks. Roughly speaking: Central and Eastern European countries (CEECs) were beyond schedule in adopting the reforms required to achieve market economy; economies faced a major and difficult to manage restructuring in production and trade and proved to have a relatively low capacity to cope with free competition on the internal market; the Community *acquis* was generally transposed in due time, yet the technical and human resources needed to enforce European laws and to assist in European policies were developed rather late by the public administrative bodies, some disparities/limitations not being overcome so far (see the use of structural funds in regional development policies). As a matter of fact, the annual progress reports drafted by the European Commission for every state in the negotiation process showed that none of the countries fully met the Copenhagen Criteria at the time of adhesion, the most sensitive issues being related to the capacity of economies to get through with competition on the local market and of their public administration bodies to apply the European laws.⁴

Furthermore, the EU's enlargement was also obstructed by the delays in adopting the necessary local reforms. In a study published in 1997 in *Quo vadis Europe*, R. Baldwin drew attention to the EU's lack of consistent strategy on the integration of new states and on the need to take more clear-cut and effective actions towards a more powerful economic and political incorporation of future member states. During enlargement preparations, most community members, political leaders and even specialists in the concerned field rather concentrated on the acceding countries than on the EU; for quite a long period, they gave less attention to the need of reflecting upon EU's ability to integrate new entrants and mainly to handle the extreme diversity of economies and interest and to ensure a balance between such diversity urging flexible integration and extension methods, on one side, and the high level of integration already achieved (an economic and monetary union) which required higher convergence and coordination of national economic policies, on the other side (Wohlgemuth and Brandi, 2006: 26-31). The EU opted for a block expansion with a short intermediate phase for Bulgaria and Romania over a differentiated and multi-tier integration matching up the progress achieved by associate states in fulfilling the convergence criteria and the enhancement of the EU's capacity of integration, stability and achievement of a large political unity (Baldwin, 1997; Martens, 2011). This option was actually a denial of 'multi-speed Europe' (although it was a fact in the integration process and was later on materialized in the monetary union) because,

⁴ In a Deutsche Bank study released in 2000, only the Czech Republic, Poland, Hungary, the Slovak Republic and Slovenia would have succeeded in joining the EU in 2004 (under the best "small convoy" scenario); Bulgaria and Romania would have done it after 2008 and all the other countries in 2006) (*Eastward enlargement of the EU – accession scenarios*, Deutsche Bank Research, EU Enlargement Monitor September 2000, http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000030536.pdf).



even though it brought flexibility, it was carrying a major risk that the basic rules of the 'Community game' and the geostrategic outlook change and consequently determine new cleavages in Europe. As already stated above, the Union focused internally on institutional, agricultural policy and structural policy reform and externally on the support of associate countries in achieving the required political and economic reforms in addition to the integrating role of markets, specific to the Community system.

The enlargement took place shortly after the adoption of the Euro. In a speech in 1992, Wilfried Martens⁵ expressed his hope that the European consolidation would avoid the risk of an 'impetuous enlargement' that would threaten the thoroughness of integration and the future of the European project (Martens, 2011: 134-139). However, the European Union abode to the political schedule of the monetary union even though the involved economies did not meet the actual convergence criteria specific to an optimal monetary zone (Mundell), and not even all nominal convergence criteria defined in the Treaty of Maastricht, and furthered its eastward enlargement under the principle of 'variable geometry' with temporary derogations and transition periods although new member states failed to fully meet the accession criteria. Thus, the Union related thoroughness to enlargement against the major structural deficits and the gap between the economic power and the political one, the lack of an efficient economic governance and the low coordination between national and Community policies, the democracy and image deficit, the European citizens' little trust and interest in the European project, the lack of a true European identity and, consequently, of a feeling of solidarity and belonging to common values. Last, but not least, the European Union faced the economic crisis only 4 years after the first enlargement phase and one year upon the accession of the last two countries of this wave, Romania and Bulgaria. According to Eurostat, the EU27's growth rate of 3.2% in 2007 lowered to 0.4% in 2008, -4.5% in 2009 and 0.0% in 2013. The crisis not only impaired the absorption of new entrants into the internal market and the monetary union (reduction of trade flows, cash flows, macroeconomic instability), but also highlighted the above-mentioned systemic flaws/limitations of the integration process thus generating a high risk of Europe's lack of functionality and disintegration.

It may be therefore inferred that the EU's enlargement towards Central and Eastern Europe was not achieved under the best possible conditions (at least not similar to those of the southward expansion) to support the rapid integration and convergence of new entrants.

⁵ Belgian Prime Minister until 1992; President of the European People's Party between 1990 and 2013; member of the European Council for 12 years.

Integration, disparities and convergence.

Theoretical approaches and empirical evidences

Essentially, an integration process focused on economic unity in the form of a monetary union and on the achievement of a political union as the final process stage (Balassa, 1961) cannot be carried out in the absence of a high level of economic, political and institutional convergence. With the Copenhagen Criteria, the EU specifically sought to obtain minimum convergence before the accession of CEECs so that the actual enlargement would neither generate risks and failures nor would it delay the attainment of political unity goals. From an institutional point of view, the Copenhagen cooperation framework succeeded in ensuring a minimum convergence level for the political, legislative and administrative systems and the economic integration backed up by the liberalization of trade under the association agreements entailed a genuine structural convergence process between EU15 and EU10 (as we shall see hereinafter).

However, a short glance at the Central and Eastern European economies reveals that the latest enlargement wave deepened economic, social and territorial disparities within the Community, rendering more difficult not only the integration of new entrants into the system, but also generating new limitations and risks for the economic and political consolidation of the European Union. For instance, if the less developed EU15 countries recorded in 2005 a GDP /capita close to the European average of EU27 (EU15 plus the 2004 accessions plus Romania and Bulgaria), i.e. of 102% in Spain, 90% in Greece and 79% in Portugal, the poorest countries in the latest group, Romania and Bulgaria, recorded a GDP/capita of only 35% and 37% respectively (see table 1 in attachments) which broadened the extreme disparity from 1:5 within EU15 to 1:7 within EU27. The eastward enlargement translated in a GDP rise by 5% within the EU15 (11% in PPS) over a 20% increase in the population compared to the southward enlargement which entailed a 10% rise in the GDP (14% in PPS) and only a 22% rise within EU-9 (as in 1980) (EC, 2004). Productivity gaps doubled as well. Compared to a minimum 72.8% within EU15 for Portugal (based on PPS per employed person for 2005), the European minimum productivity lowered to 35.8% for Bulgaria (Eurostat, 2013).

At the regional level (NUTS II), disparities increased even more upon EU's enlargement from 15 to 27 member states; the poorest EU27 region registered a GDP per capita at the level of 2005, of only 24% of the European average (North East, Romania), compared to a GDP per capita of 303% in the richest region (Inner London, UK), name an extreme disparity of 1:12.6. The population doubled in regions with a GDP per capita below 75% of the Community average (approx. 25% of the EU27 population) while 12.6% of the population registered a GDP per capita below 50% of the EU27 average, most of it living in regions from Romania, Bulgaria and Poland. None of the EU12 regions registered a productivity rate above the European average, the average

industrial productivity rate within the EU12 being three times less than within EU15 (the least productive regions being in Bulgaria and Romania)⁶ (EC, 2008).

In addition, CEECs were and are characterized by significant gaps between them. Among CEECs, the best in economic terms are central countries, namely Slovenia, the Czech Republic, Slovakia, Hungary and Poland and the least developed are Eastern countries like Romania and Bulgaria (see Table 1 in Annexes)..

With a relatively higher GDP per capita and productivity rate and better geographical positioning (near the economic centre of the EU defined by the London-Hamburg-Munich-Milan-Paris area), Central European countries seemed to have better chances of catching-up than the Eastern countries, thus emphasizing the core-periphery dynamics for development specific to the European economic geography (Pascariu and Frunză, 2011).

In such a context, the key issue is to determine, on the one hand, whether the internal market system entails fewer disparities or, on the contrary, deepens the existing ones, and, on the other, the manner in which the existing gaps affect the integration process. In the absence of a wide multi-disciplinary literature agreeing on the impact of disparities on the European integration and on the integration-disparity ratio, we may still identify a number of explanations in the international trade and growth theories and, obviously, draw conclusions from the analysis of the integration process dynamics in almost 60 years of evolution.

First of all, it is worth mentioning that the economic openness in the process of the movement of goods and factors liberalization, just like the liberalization process specific to the European internal market, brings about a restructuring in production and trade through competitive exposure. Thus, the essence of the European economic integration is the enhancement of the effects specific to free market mechanisms at the European scale in the context of extensive competition on a large market (larger than the one enabled by national economies), namely: generating trade and wealth, specializing production and ensuring more effective distribution of resources (Viner, 1950); scale economies and learning processes (lower costs, higher demand and higher margins), that help increase productivity and improve competitiveness through investments in research/development, innovation and diversification of production and trade (Frankel and Rose, 1998; Samuelson and Nordhaus, 2001); inter-industries technological transfer and spillover (Hausmann and Klinger, 2007; Romer, 1990), mainly as a result of the foreign direct investment flows; economic growth (Solow and Swan, 1956; Myrdal, 1956; Henrekson et al., 1997; Pelkmans, 2001). However, the main question is whether such effects relate to the internal market or may be ob-

⁶ It is worth mentioning, however, that the CEECs joining the EU did not increase the dispersion of regional GDP per capita or of productivity rates; national gaps were lower within EU12 than within some of the EU-5 countries (Germany, France, UK).

tained beyond it in the trade liberalization and globalization process; in other words, in order to understand the impact of European integration, one needs to determine whether economic integration through the internal market actually generates extra growth incentives and, if so, how are the integration beneficial effects distributed among participants, in terms of income and economic growth. Empirical evidence is contradictory in relation to the first aspect. In this respect, Crespo-Cuaresma et al. (2005) refer to three studies: De Mello in 1999 and Landau in 1995 which found no proof of European integration impact on growth, on the one hand, and Henrekson et al. (1997) who show a growth allowance of 0.6-0.8% per annum arising from the effects of economic integration within the EC and EFTA, on the other hand. In the meanwhile, the European Commission studies on the impact of internal market point to an economic growth of 2.13% of the European GDP only for the 1992–2008 period, thus confirming the direct link between integration processes determined by the economic liberalization on the internal market and economic growth (EC, Single Market Act II, 2012).⁷

Next, concerning the distribution of the integration effects between member states, we are interested in determining whether economic integration generates more economic growth in less developed countries over developed ones thus driving a convergence of development levels in the long run or if, on the contrary, market liberalization triggers a gap widening process as more developed countries benefit more from the economic dynamics effects generated by the internal market.

The starting point in understanding the integration – economic growth – convergence relation is the analysis of economic growth models. The neoclassical theories of growth predict that less developed countries will register a more rapid growth under market liberalization than the developed ones, which, in time, results in a complete convergence of incomes and development levels; in other words, we have a negative relation between growth and regional inequalities (convergence perspective). On the contrary, more recent theories (post-Keynesian and those based on endogenous growth) establish a positive relation between growth and regional inequality, the economic integration rather leading to an increase in initial disparities (divergence theories). This is a short presentation of the main approaches:

1. In the neo-classical theory based on exogenous growth (Solow, 1956; Mankiw et al., 1992; Armstrong and Taylor, 2000) which dominated the literature by the mid-1980s, countries are similar in terms of preferences, demographic growth and technology; there is no technological breakthrough (this is an exogenous variable seen as a public good evenly accessible to all countries); returns on capital are diminishing and the mobility of factors is perfect (Button and Pentecost, 1999). If returns are diminishing and economies are open (upon removal of fee and non-fee

⁷ Using the macroeconomic model QUEST II.

barriers in the trading of goods and factors), the capital will move from developed economies (capital-abundant/capital-intensive economies in which the return on capital and the remuneration are low) towards emerging economies where the capital is a relatively scarce production factor and it therefore provides higher return and remuneration rates. The capital moves until the return rate matches the interest rate (see MacDougall diagram, 1958). At the same time, the labour factor moves backward, i.e. from developing countries towards the developed ones. Since capital is more mobile than labour force, developing economies will grow more and at a faster pace. Consequently, developed economies/regions will register growth rates below the developing countries, the result being a convergence of the endowment and production factors, return rates, income and, implicitly, development levels (beta convergence). Production and consumption patterns become similar, with an increase in industrial trade arising from the diversification of production and trade that supports a long-term economic convergence as the integration process enhances (Frankel and Rose, 1998; Hausman and Klinger, 2007). Thus, convergence appears to be the consequence of market liberalization in the context of economic integration, further enhanced by the adoption of a single currency (within the EU), which stimulates factor mobility through increased market transparency and lower transaction costs. The neo-classical model was rejected by Myrdal (1957) and Kaldor (1970) through the cumulative causation theory and, later on, through the endogenous growth (Romer, 1990) and New Economic Geography (Krugman, 1991) theories.

2. Under the *cumulative causation model* (Myrdal, 1957; Kaldor, 1970; Dixon and Thirlwall, 1975), highly-productive countries/regions will be more competitive on an extended free market and more capable to benefit from scale economies and to generate agglomeration processes, all these resulting in deepening the gaps (asymmetric development). The economic integration will increase competition and the specialisation degree of economies and capitals will be pooled in the most competitive, highest-demand regions in order to benefit from the positive externalities associated with industrial agglomeration processes which entail increasing returns (the theory of increasing returns is otherwise the main element differentiating the cumulative causation theory from neo-classical models). More developed economies will undergo intra-industry specialisation in highly-productive and capital-intensive activities and will expand their export sector. The increase in demand shall induce higher accumulation rates in economy, which will, on their turn, boost economic growth. The successive agglomeration and growth processes will thus deepen the disparities, especially in the case of large economic areas, which increase the cost of transportation (Krugman, 1991). Such a perspective on the effects of integration is also a theoretical support of a possible gap widening across the EU and a projection of a new type of core-periphery

relationships determined by the eastward enlargement. The peripheral character of the new member states' economies relates to their spatial periphery (large distances from the competitive core of the European economy and from its main outlets, with reduced accessibility) (Pascariu and Frunză, 2011). The acknowledgment of a cumulative causation model means that economic integration may lead through internal market mechanisms to the concentration of capital intensive activities, with high productivity in the Central-European countries, based on two-way trade in vertically differentiated products specialization, whilst Eastern-European countries will concentrate natural resources and labour-intensive industries, based on low skilled, low and medium technologies, with an one-way trade specialization according to traditional comparative advantages (Dupuch et al., 2004). Consequently, Central European countries may register a catching-up process (*the Spanish model*) while Eastern countries may emphasize the peripheral nature (*the Mediterranean model*) through an increase in initial disparities as experienced by Greece (until 1995) and Portugal (after 2000). Moreover, the core-periphery development specific to the European economy will deepen if the current crisis is not solved more rapidly and the economic growth is not reinstated to its level before the crisis, the negative relationship between economic growth and disparities being confirmed.

3. More recent approaches relying on *endogenous growth* and *The New Economic Geography (NEG)* support this idea. In the endogenous growth models (Romer, 1986, 1990; Lucas, 1988), the return on capital is increasing and the technological spillover is an endogenous variable which, along with the human capital, innovation and knowledge determines growth. After the innovative economies come the developed ones which have the possibility to invest in research and development or to buy new technology, place more money in the human capital and, since technology and human capital are positive externalities generating technological agglomeration and technology spillover processes, one may assume that developed economies will consequently concentrate high-technologies and capital intensive and creative activities. Here shall emerge the new ideas that will back up the diversification of production and increase in productivity and competitive advantages. Economies/regions with relatively low technical and human capacity, low income and little investment in research/development will depend on the transfer of technology and knowledge between developed regions and will specialize in industries based on low skilled and low and medium technologies (Armstrong and Taylor, 2000). Furthermore, since generating progress and even the capacity to absorb new technologies is conditional upon the degree of development, of education and training of the human capital, as well as upon the institutional environment, developed economies will be more capable to produce and use the technological breakthrough than the developing regions, even when

technology is similar to a capital good and moves freely, with a widening of gaps over time (Fagerberg, 1996).

4. Friedman (1966) suggests an *extended version of the cumulative causation theory* by the so-called *core-periphery model* which is the essence and the starting point of the New Economic Geography subsequently developed by Krugman (1991). Beyond the various theories relying on a core-periphery development, the main idea is that reducing transaction costs in the context of market liberalization will enhance the mobility of production factors and firms will establish in more accessible regions characterized by developed infrastructure, high potential for research, innovation and transfer of technology, extended market, well-trained workforce, diversified business services and a 'friendly' business environment (with no unclear administrative and/or cultural limitations). This entails an agglomeration/concentration of economic activities which represent the source of scale economies (both internal and external) and of localization economies which may lead to the formation of clusters with a major impact on economic growth. Agglomeration economies may generate both convergence effects and divergence effects according to the origin and intended use of capital flows. Since the main capital flow across the EU, after a long period of internal market integration and functioning in absolute freedom in the movement of factors, is North-North (between developed economies with similar structures of demand and supply), integration appears to generate divergence rather than convergence processes. Competitive industries (which may obtain scale economies and increasing returns and for which transaction costs are relevant) tend to concentrate in developed and central regions with high connectivity and accessibility while the periphery ones (underdeveloped economies/regions and/or with low accessibility and connectivity rates) attract activities for which regional costs are relatively higher than the transaction costs and scale economies are relatively small (Martin, 2003). We must mention however that many of the NEG models attest the occurrence of economic dispersion factors as economic integration intensifies and this leads to a polycentric structure and even to a disparity reduction in time.

Considering the above, it appears that there is no consent in literature on the integration-growth-convergence relationship. Empirical studies reflect the same diversity in results and conclusions, even though most of them see a positive link between integration, growth and convergence. For instance, one of the most frequent quotations is that of Sala-i-Martin (1996), that obtained a convergence rate of 2% per year generated by the economic integration. Ben-David and Kimhi (2000) get for the 1960–1985 period an overall divergence process and a convergence by country clusters if they liberalize trade. In the European economy, the national convergence processes related to the regional divergence processes. For instance, in the 1980–1988 period,

the EU registered an annual national convergence rate of 0.5%, of 0.7% in 1988–1994 and of 0.9% in 1994–2001. Greece, Spain and Portugal moved from a 68% GDP per capita in 1988 to a 79% GDP per capita in 1999, with an average growth rate of 1% above the Community average in 1994–2001, while the poorest 10 regions registered a 50% GDP per capita in 1986–1996 instead of 41%, although interregional disparities (standard gap) went up from 26.7% to 28.3% within approximately the same period (Drăgan et al., 2013: 48).

In the case of EU's enlargement to Central and Eastern Europe, Crespo and Fontoura (2001) find that for the period 1995–2001 (following the start of association agreements), all CEECs registered a convergence of trade specialisation patterns through the increase in product and trade specialisation, in technology and skilled labour-intensive products, although a major part of exports, especially in relation to Romania and Bulgaria, remained specialized in labour-intensive factors and concentrated in low and medium technology sectors.

Accordingly, based on a study of the economic dynamics within EU25 (CEECs and the old member states) throughout the period 1996–2007, Rapacki and Próchniak (2009) find that EU enlargement significantly contributed to the economic growth of the CEECs-10 countries and their catching up with the EU15. Average growth rates by both country and the two regions and their initial GDP per capita value are in reverse relationship as new member states registered a faster EU15 catching-up in the second part of the subject period (the beta convergence coefficient increased from 0.78% within 1996–2001 to 4.15); such increase was supposedly determined by the imminent accession and the more accelerated post-accession integration processes (Rapacki and Próchniak, 2009: 4–17).⁸ For the same period approximately (1995–2005), the reverse relationship between the low GDP per capita and the economic growth rate (beta convergence) is also confirmed by Melchior (2009), yet in association with the widening of regional disparities). The prospect of convergence and the subsequent confirmation of the reverse relationship between the GDP per capita and the economic dynamics in the integration process were also anticipated by Baldwin, Francois and Poters (1997). They estimated an annual growth of 0.2% of GDP for EU15 and of 1.5% for accession countries (in the static scenario) in the aftermath of enlargement.

The conclusion that may be inferred from the analysis of growth and convergence models as well as of the related empirical studies on the European economy is that convergence is possible as the effect of economic integration, but it depends on the

⁸ However, the authors say that, on the average, the two regions would reduce gaps by half in 25 years, with a variation of 8 to 33 years for CEECs considered individually. What is important is that no projection of a new core-periphery model in CEECs was found, considering the convergence rates. For instance, if authors estimate a halving of disparities at 30 years for Bulgaria and 20 years for Romania, Hungary would need 28 years, Poland 25 and Slovakia 20 to do the same.

pattern of industrial and trade specialisation, public policy, public investments, quality of institutions, the accumulation of knowledge, the quality of the intermediate inputs, innovation, technological transfer. Consequently, regional development policies relating to the internal market should focus on developing those factors, which may contribute to bridging economic, social and territorial disparities in the long run.

Disparities. Nominal convergence versus actual convergence

The significance of the issue of regional disparities within the European integration process derives from the economic and political risks it carries. Basically, the presence of disparities has a destabilizing impact on integration because: it delays or even slows down growth; may represent an inflation factor; generates high costs in supporting development across underdeveloped regions (Buzelay, 1996). Initial disparities may deepen or narrow down depending on the impact of market liberalization on growth and growth distribution among member states. The long-term maintenance of major economic, social and territorial disparities may trigger unbalances, instability, dysfunctions and risks for the monetary union and may also affect the political consensus in favor of European integration.

As the integration process deepens (evolution towards the internal market, the European Monetary Union) and upon successive enlargements, the European economy has been faced with a complementarity in convergence (disparity reduction) and divergence processes (disparity increase) against a long-term tendency to bridging gaps, especially at the national level. The evolution of the European economy has confirmed that the convergence processes are fuelled by the periods of economic growth (while divergence processes by periods of recession and crisis), that such processes take place essentially by clusters of countries/regions and that they depend on the pattern of specialisation, public policy, public investments, quality of institutions, technological transfer, etc. Hence, the switch in the EU cohesion policy intervention system dynamics, from a liberal concept to an interventionist one, from the focus on the solidarity principles and redistributive function to the one on sustainable growth and development, from the concrete/sectoral approach to an integrated one, by constant adaptation to the evolution of the integration process and to redefining strategic objectives. Under these circumstances, the evolution of the cohesion policy from its beginning to the present day may be divided into two main phases:

- **1957-1987:** a period when, despite the disparities and problems caused by the internal market functioning in Central and Eastern Europe, it was considered that convergence could be obtained as a result of the internal market (the European concept applied was specific to the convergence theories and to the functional integration system);
- **1989-2013:** a period when it was accepted that, due to the specificity of the European integration process (dynamics, development level and structure of member

country economies, the integration mechanisms adopted – internal market, monetary union), the internal market and the integration process as a whole do not generate a convergence process, at least not to the extent required by the internal market to operate effectively and by the EU to meet its strategic objectives. As a result, the convergence needed to ensure the EU's functioning and the attainment of strategic objectives may only arise from the complementarity between the internal market and European policies; regional convergence turned into a special objective and even into an integration principle under the Treaty of Maastricht (the European concept applied was specific to the convergence theories and to the neo-functional integration method); it is actually the time for the outline and development of a true European regional policy put into motion by the first set of measures adopted in 1988 and called the 'Delors I Package'. Two approaches are distinguished in this period. Although the redistributive role and the structural funds allocation solidarity dominated the first two planning periods (1989–1992 and 1993–1999) (with a focus on patterns of nominal convergence), in the next two periods (2000–2006 and 2007–2013), the cohesion policy was aligned to the strategic objectives of the Union and was called to play its part in the sustainable growth of regions through the convergence of economic performance and the improvement of endogenous development factors (actual convergence).

This dynamics of approaches made it possible for the cohesion policy to convert from an essentially redistributive policy into a structural one focused on supporting innovation and technological development, on the development of human capital and on the improvement of endogenous growth factors, founded on the reality of a core-periphery pattern. The deep insight into the way in which economic growth is achieved and into the effects of the economic integration process specific to European integration on growth and convergence is crucial in directing public interventions (at the European, national and regional level). The current period of vast reforms in the Union's economic governance against the effects of the economic crisis compels European and national political decision-makers to pay greater attention to both redistributive and growth and cohesion policy development factors. Under an effective regional/Community cohesion policy associated with shared strategic objectives, member states and the EU may join their actions in a coordinated and coherent way to enable a better spreading of both economic activities and resources across national territories and implicitly across the Community and to support sustainable development within the EU.

However, notwithstanding any diverging opinions in the literature on the integration – growth – convergence relationship and the part that public interventions may play in this relationship, it is obvious that the long-term evolution of the integration process and the achievement of the political union objective across a continental EU depends first of all on the actual convergence, namely on the convergence of pro-



ductivities, on the timing of business cycles (reduction of asymmetric shocks), on the convergence of productive structures, of the formal and informal institutional system and on others. An essential part is played by the production and trade patterns convergence that we plan to analyze in the next pages.

Convergence vs. divergence in the production and trade patterns

In terms of the integration – specialisation relationship, we have two main classical perspectives:

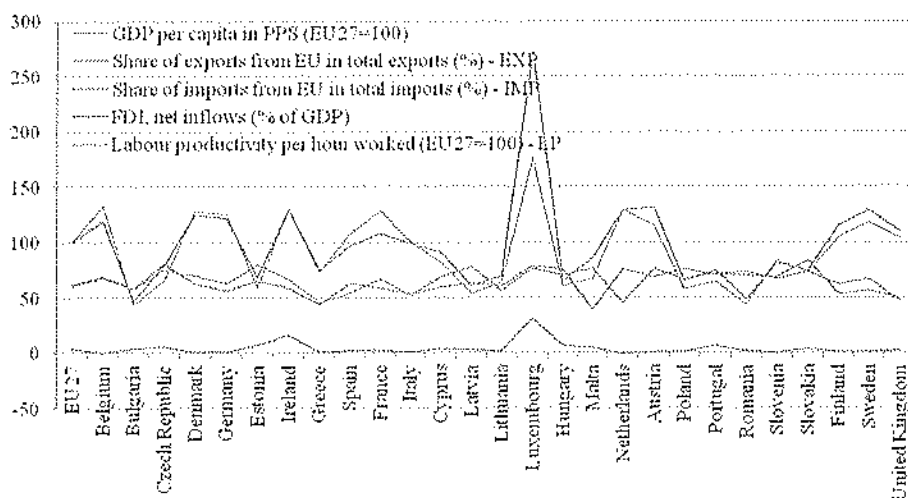
- The intra-industry trade occurs from *the diversification of production and trade* and supports a long-term economic convergence process on the long term, simultaneously with the acceleration of integration (Frankel and Rose, 1998; Hausman and Klinger, 2007);
- The acceleration of integration triggers *the increase in the degree of specialisation* based on the comparative advantage and an increase in core/periphery disparities (Balassa, 1965; Grubel and Loyd, 1975; Dupuch et al., 2004).

Nevertheless, some of the latest studies highlight the presence of a “U” curve in the growth-specialisation export relationship according to this design: *First Stage*: specialisation based on the comparative advantage in a reduced number of industries (inter-industry specialisation predominantly); *Second Stage*: diversification with IIT horizontal and IIT vertical (learning and information externalities, scale economies, diversification of domestic demand, inter-industries technological transfer and spillover, the financial industry diversification; *Third Stage*: specialization with IIT horizontal (scale economies; searching for comparative advantages in technology, human capital, innovation). Therefore, the more the economies develop and get absorbed into the global economy, the more they tend to get less specialized (reverse relationship between growth/integration – specialization) (Ben-David and Kimhi, 2001; Agosin, 2007; Hoekman et al., 2007).

From the historical evolution point of view, the development process underwent several changes due to the progress of national economies and the variation of their structure and, based on the former two, due to the specialisation in trade. If we refer to the EU states, one may distinguish the group of states relying on modern technology and high-grade international specialisation that enables them to get a consistent weight in the total of global exports, at one end. At the other end, we find the underdeveloped countries with one-way international specialisation and a minor share in the world exports GNP. In seeking competitiveness, a country should focus on supporting the industry (Cartas, 2008: 3). The European experience shows that the industry is a strategic branch of the national economy in all developed economies. The most important is the processing industry because maintaining a strong and effective industry of the kind is essential for the full exploitation of a nation's potential to grow.

The key factor for the EU to keep its competitive edge is the specialisation in average or high tech capital-intensive industries. The economic growth and the prosperity of a society depend to a great extent on the productivity dynamics in various industrial sectors and on its capacity to ensure a constant reorientation of its labour and capital resources towards industries with a dynamics open to technological breakthrough and to changes in consumption demand planning. A supporting factor for the industrial sector is the encouragement of subcontracting-based production methods which helped attach more importance to small and medium enterprises (SMEs) whose competitiveness influences the performance of large suppliers (Stegăroiu, 2004: 480).

Figure 1. Macroeconomic indicators in the EU states



Source: own representation after Eurostat data, 2013

We believe that an overview of the general macroeconomic context within the EU is required in order to get a more specific idea on the specialisation situation in some EU countries. In this context, the exports and imports from the EU performed by member states, the foreign direct investment flows and labour productivity, all these with a direct impact on the GDP/capita value, are very important (Figure 1). This is precisely why Luxembourg, the country with the highest productivity (176.3 over the EU27 average=100) and FDI rate (31.02% of GDP), is not by accident reaching the highest rates of GDP per capita in PPS (272 over the EU27 average=100). Close to France, Belgium and Germany, this little state turned out to register solid growth and low inflation and unemployment rates throughout history. Moreover, the industrial sector dominated by steel became more and more diversified and included chemical products, rubber, etc. Its economy depends on approximately 40% foreign and cross-border workforce. In crisis, Luxembourg adopted governmental measures

to stimulate and support the banking system. Despite these measures, the budget deficit reached 5% in 2009, but fell to 1.1% in 2011 and 0.9 % in 2012. Thus, Luxembourg registered the largest current account surplus as rate per cent of GDP in the Eurozone, mainly due to its financial services industry. It is worth reminding that it focused on strengthening the supervision of local banks to the detriment of foreign banks' activities (Index Mundi, 2013).

Besides Luxembourg, Ireland (GDP=130; FDI=15.66%; LP=129.7) and France (GDP=108; FDI=2.50%; LP=127.8%) also occupy top positions and among Central and Eastern Europe states, we may mention: the Slovak Republic (EXP=83.9%), Czech Republic (EXP=80.9%), Estonia (FDI=7.40%), Hungary (FDI=6.77%), Slovenia (LP=84.2), Czech Republic (65.9%). Also, as seen in table 1, there is a strong correlation between a state's development level, ISD and labour productivity (LP). By calculating the Pearson correlation indices, we find, in table 1, that there is over 50% inter-conditionality between EXP and LP (93.3%), GDP and LP (89.7%), GDP and FDI (62.7%), GDP and EXP (54.9%).

Table 1. Pearson correlation indices

		GDP per capita in PPS (EU27=100)	Share of exports from EU in total exports (%)	Share of imports from EU in total imports (%)	FDI, net inflows (% of GDP)	Labour productivity per hour worked (EU27=100)
GDP per capita in PPS (EU27=100)	Pearson Correlation	1,000	,118	,053	,627**	,897**
	Sig. (2-tailed)		,549	,790	,000	,000
	N	28	28	28	28	28
Share of exports from EU in total exports (%)	Pearson Correlation	,118	1,000	,383*	,250	,017
	Sig. (2-tailed)	,549		,044	,200	,933
	N	28	28	28	28	28
Share of imports from EU in total imports (%)	Pearson Correlation	,053	,383*	1,000	,360	-,138
	Sig. (2-tailed)	,790	,044		,060	,484
	N	28	28	28	28	28
FDI, net inflows (% of GDP)	Pearson Correlation	,627**	,250	,360	1,000	,334
	Sig. (2-tailed)	,000	,200	,060		,083
	N	28	28	28	28	28
Labour productivity per hour worked (EU27=100)	Pearson Correlation	,897**	,017	-,138	,334	1,000
	Sig. (2-tailed)	,000	,933	,484	,083	
	N	28	28	28	28	28

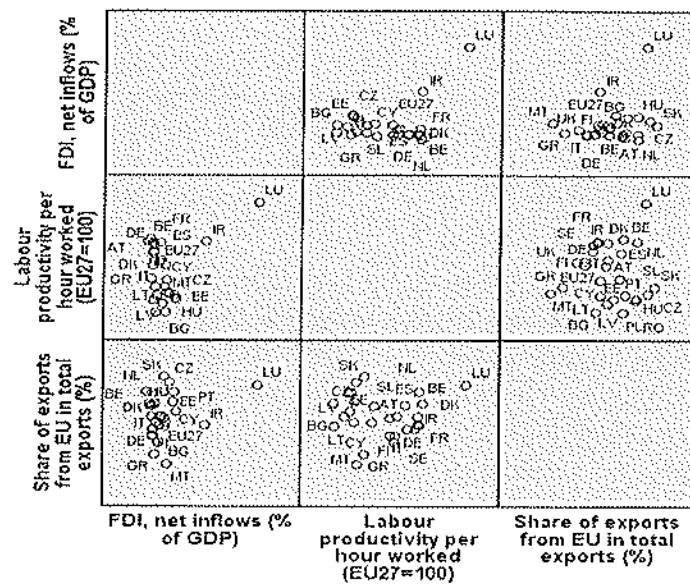
** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Source: own calculations based on Eurostat data, 2013

Actually, in Figure 2, the member states' position compared to the EU27 average can be observed. Luxembourg's positioning above the average is obvious, being the leader at the level of all the analyzed indices. Also, Ireland, Belgium and France hold a high labour productivity and export rate, as well as favourable conditions for FDI.

Figure 2. The relation FDI-LP-EXP



Source: own representation based on Eurostat data, 2013

All these elements, defined as independent variables (EXP, LP, FDI), enable all the above-mentioned countries to be the most developed in the EU and therefore, there is an $R=0.962$, an $R^2=0.926$, $\text{Sig.}=0.000$ between the GDP/capita dependent variable and the independent variables, which means we may be over 99% certain when we state that there are very strong connections among the variables taken into account (Table 2).

Table 2. Model Summary^a

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.962 ^a	.926	.914	12,519	1,596

a. Predictors: (Constant), Labour productivity per hour worked (EU27=100), Share of exports from EU in total exports (%), Share of imports from EU in total imports (%), FDI, net inflows (% of GDP)

b. Dependent Variable: GDP per capita in PPS (EU27=100)

Table 3. Coefficients^a

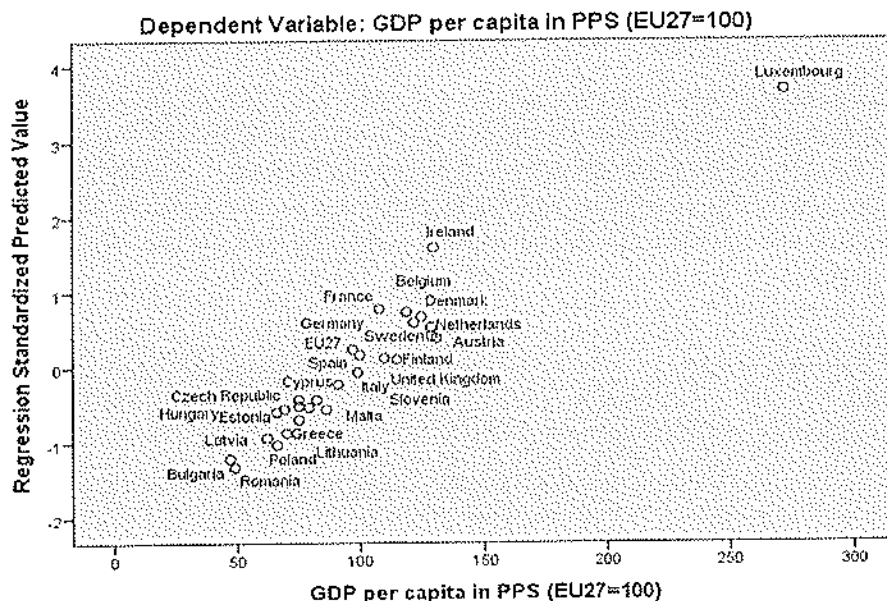
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-13,099	22,630		-.579	,568
Share of exports from EU in total exports (%)	,020	,243	,005	,083	,935
Share of imports from EU in total imports (%)	,134	,289	,031	,466	,646
FDI, net inflows (% of GDP)	2,398	,455	,354	5,274	,000
Labour productivity per hour worked (EU27=100)	1,000	,080	,783	12,463	,000

a. Dependent Variable: GDP per capita in PPS (EU27=100)

Thus, the obtained regression model is as follows: $GDP/capita = (0.020 * EXP + 0.123 * IMP + 2.398 * FDI + 1.000 * LP) - 13.099$ (table 3). If there is a 0.02% increase in export, a 0.12% increase in import, a 2.39% one in FDI, with one LP unit, the GDP per capita will increase by one unit. It is not by chance that Luxembourg, Ireland, the Netherlands, which hold the top positions in terms of FDI, EXP, LP, also have the highest GDP per capita (Figure 3).

Figure 3.

Scatterplot



Source: own representation based on Eurostat data, 2013

Starting from the same indicators, we can calculate the so-called "specialisation potential" (SP):

$$SP_{ij} = \frac{X_{ij} - \min X_i}{\max X_i - \min X_i}$$

where SP_{ij} represents the specialisation potential of a country; X_{ij} is the i variable value in the j country and $\max X_i$ and $\min X_i$ are the maximum and minimum values of the variables taken into account. SP will ultimately be the weighted average of EXP, IMP, FDI, LP.

The results of our analysis are presented in the Table 4.

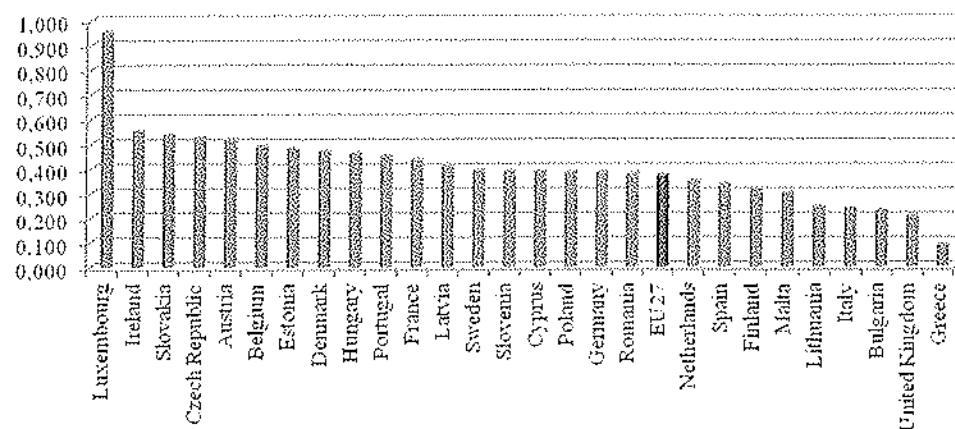
Table 4. Specialisation potential in the EU countries

	EXP	IMP	FDI	LP	SP
EU27	0,528	0,441	0,096	0,425	0,372
Belgium	0,690	0,648	-0,049	0,672	0,490
Bulgaria	0,432	0,383	0,098	0,005	0,229
Czech Republic	0,933	0,859	0,145	0,168	0,526
Denmark	0,541	0,732	-0,023	0,636	0,472
Germany	0,403	0,525	-0,009	0,614	0,383
Estonia	0,601	1,000	0,211	0,121	0,483
Ireland	0,448	0,628	0,487	0,649	0,553
Greece	0,114	0,012	0,002	0,229	0,089
Spain	0,546	0,268	0,054	0,479	0,336
France	0,443	0,631	0,047	0,635	0,439
Italy	0,327	0,219	-0,023	0,427	0,238
Cyprus	0,477	0,683	0,108	0,290	0,389
Latvia	0,546	0,948	0,072	0,081	0,412
Lithuania	0,479	0,331	0,017	0,152	0,245
Luxembourg	0,904	0,919	1,000	1,000	0,956
Hungary	0,820	0,718	0,190	0,129	0,464
Malta	0,000	0,905	0,122	0,176	0,301
Netherlands	0,824	0,000	-0,072	0,645	0,349
Austria	0,673	0,882	-0,018	0,540	0,519
Poland	0,817	0,631	-0,016	0,109	0,385
Portugal	0,713	0,764	0,181	0,158	0,454
Romania	0,695	0,813	0,009	0,000	0,379
Slovenia	0,664	0,631	-0,037	0,306	0,391
Slovakia	1,000	0,827	0,091	0,229	0,537
Finland	0,325	0,504	-0,011	0,464	0,321
Sweden	0,399	0,628	-0,011	0,557	0,393
United Kingdom	0,249	0,075	0,040	0,457	0,205

Source: own calculations based on WTO data, 2013

As expected, by analyzing Table 4, one may notice that the first positions, with the highest specialisation coefficient, are held by old EU member states: Luxembourg (0.956), followed by Ireland (0.552), the Slovak Republic (0.537), Czech Republic (0.526). If we refer to each component of the specialisation coefficient, with the exception of Luxembourg, in terms of export coefficient, the top position is held by Slovak Republic (1.000) followed by Czech Republic (0.933), the Netherlands (0.824), Hungary (0.820), and Poland (0.817). As for imports, the top positions are held by Estonia (1.000), Latvia (0.948), Malta (0.905), Austria (0.882), and the Czech Republic (0.859). Foreign direct investments are closely related to labour productivity, which enables Ireland to have a 0.487:0.649 ratio. We note the negative example of Romania where labour productivity is the lowest in the EU. We present the EU27 states' hierarchy according to the specialisation potential in the Figure 4.

Figure 4. Specialisation potential at EU27 level



Source: own representation based on own calculations

The EU expansion experience shows that integration stimulates a catching-up process, the states being more and more diverse, with an increase in inter-industry specialisations, in a manner similar to central economies (the European trade is predominantly of the inter-industry type). Eastern economies are mostly specialized in low-tech industries which incorporate intense work, the perspective generated by the integration process being different. Central European economies tend to overcome disparities with an accent on industrial diversity and inter-industry trade while Eastern countries tend to maintain their inter-industry specialisations with a low diversification level. As shown in figure 4, Romania's specialisation potential is above the EU's average, an aspect which demonstrates the existence of some domains in which it holds a clear competitive advantage (agriculture, services etc.) as well as of international demand for exports in these fields.

Methodology and data

Given the fact that a nation's specialisation sets the growth acceleration process into motion, we consider appropriate an analysis of the fields in which there are comparative advantages based on which states chose to specialize in the 2000–2012 period. On the one hand, we will analyze 5 Central and Eastern European states (Bulgaria, Hungary, Poland, Lithuania, Romania) – the so-called “supporters of cohesion” – which are less developed and have shown a particular interest in the growth and retrieval of the already existing disparities processes; on the other hand, we will analyze 4 states in the opposed group – “supporters of wiser public spending”: Italy, France, Germany, the Netherlands, all of these known as developed countries which put a stress on competitiveness. Our choice of these groups of states was based on the fact that we wish to find whether the *hypothesis* according to which the integration process tends to produce a short and medium term intense specialisation followed by a long term despecialisation, resulting from the need to ensure a wide range of comparative advantages and products in all fields, is confirmed or not. Such an attempt will enable us to identify, after carrying out the analysis, the European Economic Community founding states' position, as well as that of the countries which joined this structure later, in 2004 and 2007, in terms of specialisation. For this purpose, we will calculate the *Krugman and Grubel-Lloyd specialisation indices* of every state, for different types of products (manufactures, agricultural products, commercial services, fuels and mining products). The Krugman index for export compared to EU27 has been calculated in the following manner:

$$\text{Krugman specialisation index for export} = \frac{\text{EXP in a branch}}{\text{Total EXP in a country}} - \frac{\text{EXP in a branch in EU27}}{\text{Total EXP of EU27}}$$

The Grubel-Lloyd index has been determined by the following calculation:

$$\text{Grubel – Lloyd index} = \frac{(\text{EXP} \div \text{IMP}) - \text{EXP NET}}{\text{Total trade (EXP} \div \text{IMP)}}$$

We mention that the data necessary for the analysis has been gathered from official statistics (WTO, Amecodatabase, Eurostat). Starting from the analysis results, we are going to draw some adjustment measures in crisis within the conclusions section, though without claiming that our approach is exhaustive.

Main results of the analysis

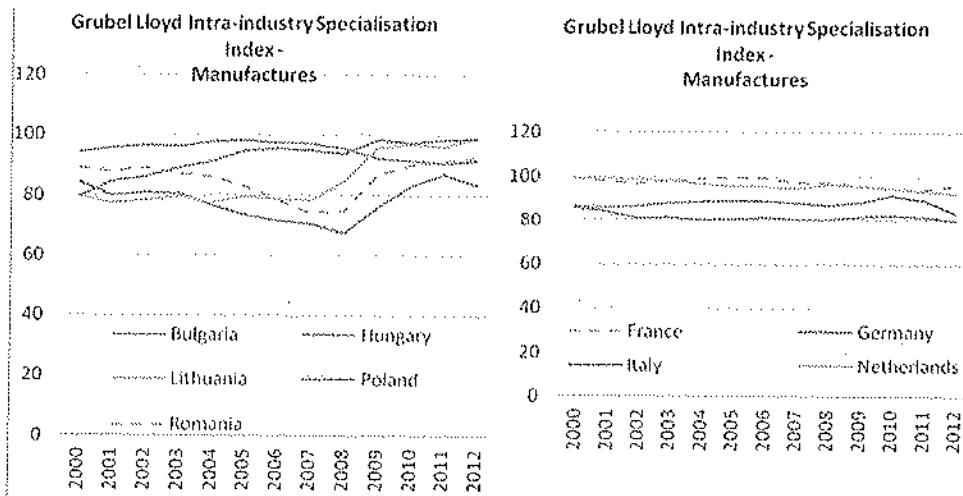
In the 1980s, Central Eastern Europe (CEE) knew comparative advantages in intense labour force or traditional products (textiles, clothing, shoes, paper trade), natural sectors (basic metals, oil products, fuels) as well as in other groups of products in which the labour force cost is more important than technology (Traistaru, Nijkamp and Longhi, 2002). In the big resource consuming sectors, the CEE specialisation suddenly increased in the early 1980s, when the countries exporting oil products from the Western markets benefited from the low price of the oil imported from the former

Soviet Union. If we refer to another field, i.e. that of agricultural and food products, the comparative advantage of CEE went through major fluctuations throughout that period and then rapidly reached positive values by the end of the last decade, after a sudden fall in the previous years.

Starting in 1990, the CEE economies have strengthened their connections to the European Union by means of commercial exchanges and foreign direct investments. In this context, a series of questions occurs: Was there a relocation of manufacturing activities?; Was there a change in the regional specialisation models?; Have the New Member States regions specialized/diversified? If we consider all these challenges, we reach at least one clear conclusion: the increase in the EU and global economic integration is likely to lead to industrial activity relocation as well as to a change in the specialisation models at the region levels in the joining countries or in the ones which are about to join. While new candidate countries will join the integration process, it is very likely that they will be preferred for production relocation in the detriment of the EU internal regions. The endowment with production factors as well as the geographic proximity to European markets determine the production location in the countries which are about to join the EU. Therefore, the ones which were initially less advantaged would have the possibility to rapidly overcome disparities so as to create extended cohesion. This also served as a model for the states which joined the EU in 2004 and which have significantly increased their specialisation in manufactured products (Hungary, Poland) in the last years, the same trend being followed by the two countries which joined the EU in 2007, Romania and Bulgaria. In the last years, the specialisation trend is linear in the case of the founding countries, which confirms that the longer the period since accession, the more diverse the production. Overproduction, which triggers the appearance of high-tech products on the market, particularly in developed countries, occurs. Figure 5 shows the specialisation discrepancies in “manufactured products”.

The different specialisation levels lead to different scale economies. Normally, a powerful specialisation determines high scale economies, which denotes a consistent concentration of economic activities in the high technology fields with good salaries and a considerable added value. High scale economy industries have the tendency to locate close to industrial centres while the intense work ones tend to locate in the regions endowed with extensive workforce. As far as the economic performance at the EU level is concerned, it varied in 2012. Some economies in the region still have to overcome the crisis-imposed disparities in terms of production. Despite the recent slight increase rates of 3 up to 5%, the production in Latvia and Lithuania is still below the pre-crisis top level in real terms, thus reflecting the frail post-crisis situations. Other economies where production is below the pre-crisis level are Bulgaria, Hungary, Romania. However, Poland's economy went through a cyclic recovery in the second semester of 2012 while Hungary went into a recession for the whole of 2012.

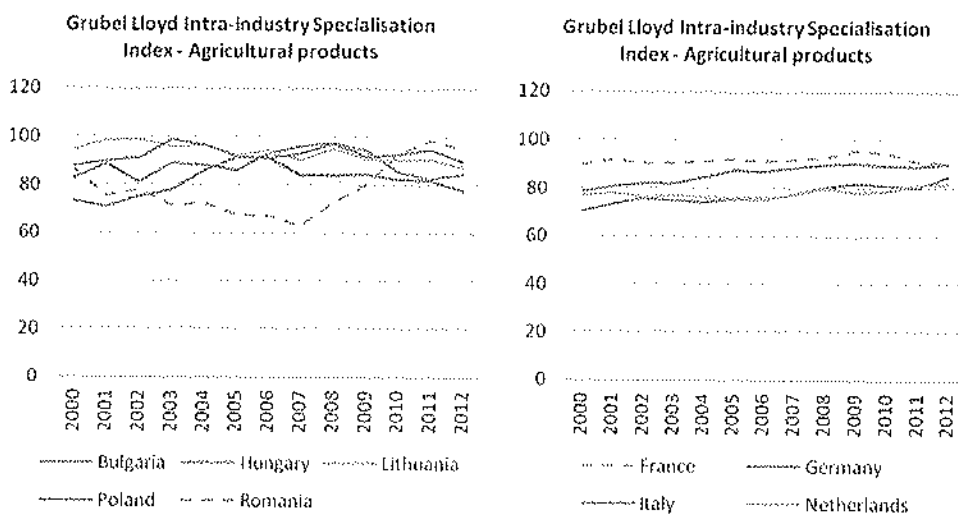
Figure 5. Grubel Lloyd intra-industry specialisation index on manufactures



Source: own representation based on WTO data, 2013

All these facts have caused oscillations at the specialisation level of agricultural products. We notice the Grubel-Lloyd index increase after Romania's accession which places it on the most favourable position among the analyzed states. Also, we notice the linearity in the case of the EU's developed countries, France being the most specialized in agricultural products (Figure 6).

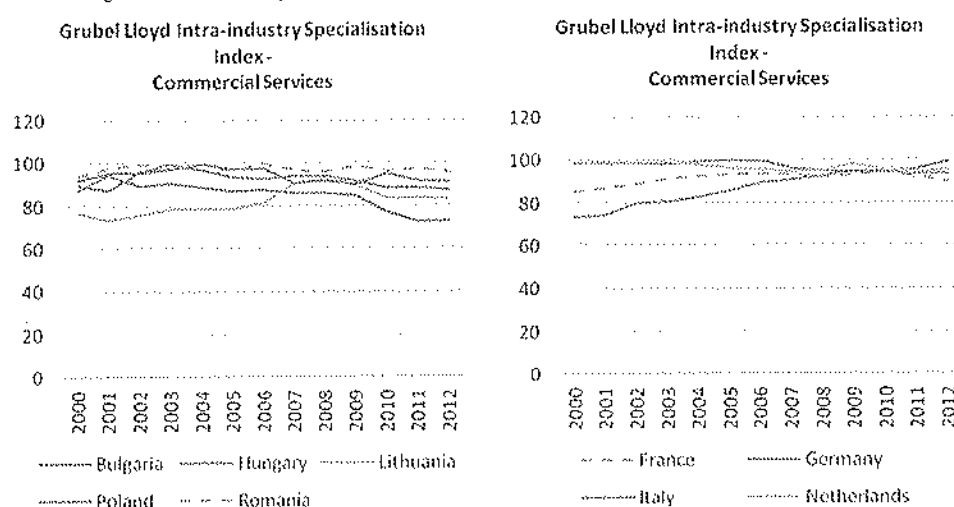
Figure 6. Grubel Lloyd intra-industry specialisation index on agricultural products



Source: own representation based on WTO data, 2013

At the sector level, the comparative advantage model is different for every country. The main explanation resides in the fact that the CEE countries have different socio-economic, institutional, etc. environments and have liberalized and reformed their economies at different degrees and thus, differences in terms of manufacture production, political stability, administrative reforms have occurred which finally led to a different evolution in terms of comparative advantages. Recent studies have shown that the specialisation models in many of the CEECs changed in time, often rapidly, when the movement of production towards high-tech and highly skilled workforce industries took place (Fertő, 2007). Thus, in terms of commercial services have produced some structural changes, although not significant during the analysed period (Figure 7).

Figure 7. Grubel Lloyd intra-industry specialisation index on commercial services



Source: own representation based on WTO data, 2013

The crisis macroeconomic climate significantly influenced the specialisation of commercial services in the analyzed countries. In Poland, retail sales constantly increased, in annual terms, until December 2012, which contributed to the real salary increase tendencies, and inflation fell to approximately 1.4% in September 2013. Also, industrial production increased by 5% in the third semester (EBRD, 2013). The greatest economy in CEE, Poland, is relatively protected against the Eurozone problems due to its extended commercial relations with Russia. In 2012, it spent massively on the Euro 2012 Football Championship infrastructure. Moreover, the fall in internal demand and the need for fiscal consolidation slowed down economic growth in the second half of the year, being below 3% in 2012 and 2013. These were some of the factors, which contributed to a commercial services specialisation a little below

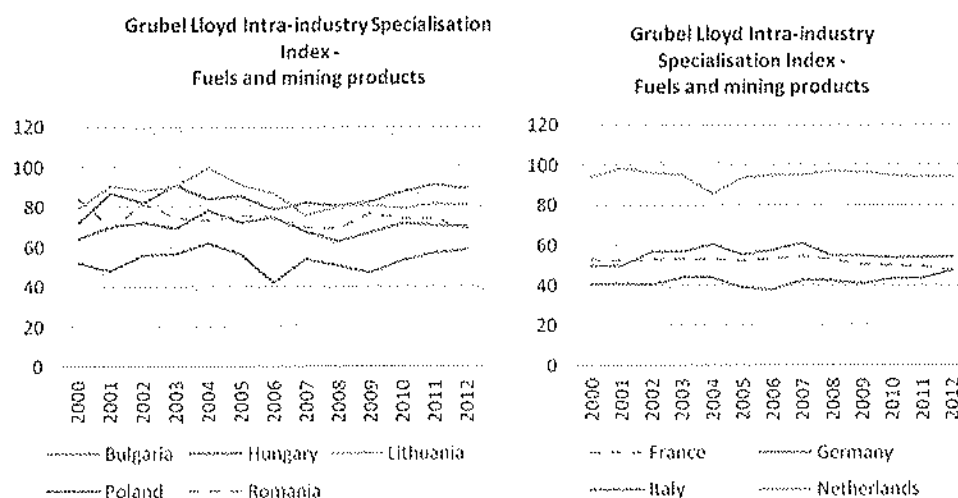
Romania's level. Hungary went through a cyclical recovery, with the second semester of growth in 2013. This improvement was mostly determined by the public infrastructure spending as well as by an improvement in internal consumption due to an increase in the real salary. Despite all these, the production level is still the same as the one at the beginning of 2009. The forecasts for 2014 predict a positive marginal increase of around 1.2% (EBRD, 2013).

In 2013, a modest economic growth was registered and the GDP increased by 1.3% in the second semester in Romania. Although inflation fell and fiscal performance improved, the economic growth perspectives are still extremely dependent on the Eurozone. The government aims to privatize important state corporations like CFR Marfă, Oltechim – the chemical products company, copper mines and energy companies. By taking such measures, the government aims, among others, to increase the mining and fuel products specialisation. At present, among the analyzed CEE countries, the best-positioned ones, in this respect, are Bulgaria and Lithuania (Figure 8). The economy in Bulgaria shows some slight signs of recovery and the export performance continues to improve. The positive elements are related to stable prices, to low public debt and to the country's constancy in reaching EU standards from the fiscal point of view despite a modest increase in the governmental deficit target (2% of GDP) for 2013. Nevertheless, internal demand is rather weak which means that there will be a modest increase in the next period. Lithuania has been affected by the external demand decrease. Based on supplementary productivity as well as on the export market share increases, the country seems well prepared to take advantage of the incipient European recovery. The increase rates for 2014 are expected to be between 2.5 and 3.5% (Eurostat, 2013). Despite all these, industrial production and exports can be exposed to changes in individual industries or in individual investors' strategies.

Therefore, CEE economies are confronted with various economic challenges. On the one hand, low incomes increase internal consumption deficit and, on the other hand, the public services budget is often reduced. However, there are some positive aspects as well: stimulated by the slightly improved economic performance in the Eurozone, exports function well and an improvement in the access to markets outside the EU is noticed. Also, inflation is generally low in the whole region. Despite all these, the progress in structural reforms remains poor, being limited by the difficult economic environment. One thing is certain, though: the economic growth perspectives in CEE will very much depend on the Eurozone evolution. The developed countries in our analysis (France, Italy, Germany, the Netherlands) are part of the Economic Monetary Union and therefore, for as long as their economies function well, this state of affairs will be reflected on the whole Union. In completing the Grubel-Lloyd specialisation index, we calculated the Krugman specialisation index for the two EU member categories: old and new (Figure 9).

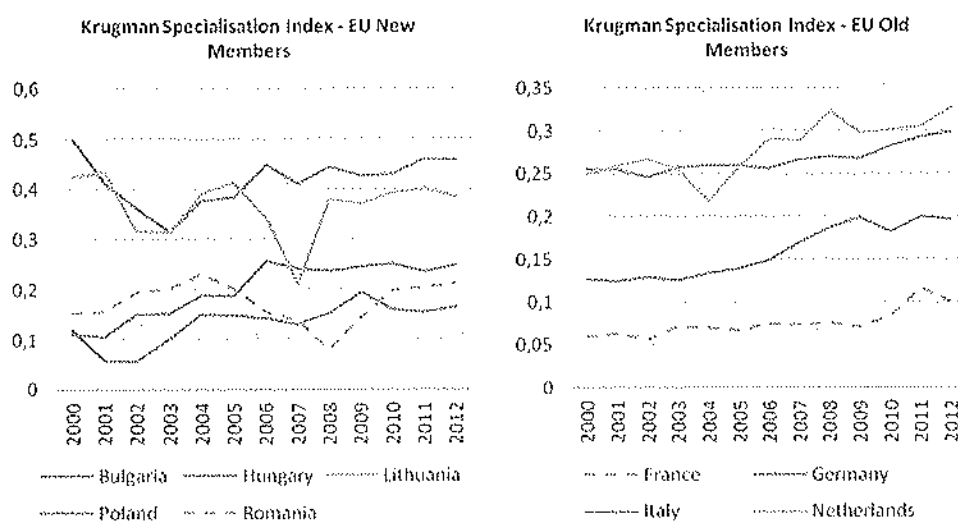


Figure 8. Grubel Lloyd intra-industry specialisation index on fuels and mining products



Source: own representation based on WTO data, 2013

Figure 9. Krugman specialisation index for new and old members



Source: own representation based on WTO data, 2013

Thus, in the old EU member group, the strongest specialisation is held by the Netherlands, followed by Germany. Throughout the analyzed period (2000–2012), Italy and France had a 0.2 index, which means that the more developed and better integrated within the global economy some countries are, the more probable it is for them to give up specialisation and turn towards trade diversification. In the new member states group, Bulgaria and Lithuania detach in their average term tendency

to reach the other states' specialisation level, being rather focused on finding new market niches than on extending narrow production lines.

The fields of activity in which states hold a high specialisation degree (the Grubel-Lloyd specialisation index is close to 100) can be seen in the enclosed annexes (named "Specialization or Diversification in Export Production?"). Thus, as far as the CEE states are concerned, in the 2006–2009 period, Bulgaria had a strong specialisation in agricultural products and then, after 2010, it has had a high specialisation coefficient in fuels, mining and manufactures. Hungary stands out in terms of manufactures and commercial services; after 2008, there has been an increase in manufactures in Poland; Romania witnessed an increase in commercial services in the 2000–2012 period and, after 2010, in agricultural products. As for developed countries, France holds competitive advantages in manufactures, agricultural products, commercial services; in the 2006–2012 period, Germany witnessed a significant increase in commercial services; in the analyzed period, Italy registered a strong specialisation in commercial services followed by manufactures and the Netherlands saw a high specialisation degree, with values close to 100, in three domains: commercial services, fuels and mining and manufactures.

Conclusions

Generally, the mechanisms of European integration (internal market, European Monetary Union) generate the convergence of the specialization patterns and of the European economies competitiveness. On their way to specialization countries should go through several stages: 1st stage: specialization based on comparative advantage in small number of industries (mostly *inter-industry specialization*); 2nd stage: diversification, with *horizontal IIT* and *vertical IIT* (learning and information externalities, economies of scale, diversification of domestic demand, inter-industry technological transfer and spillover, diversification of the financial sector); 3rd stage: *horizontal IIT specialization* (economies of scale, search for comparative advantages in technology, human capital, innovation).

The results of the study emphasize that growth and economic convergence at regional and national level is sustained on medium term by specialization and on long term rather by diversification of production and trade (prior to the establishment of the internal market the specialization knows an increase and after its implementation appears a diversification of production and trade). Usually, *the developed economies (old EU members)* have comparative advantages in the knowledge – intensive industries (horizontal IIT specialization), related to diversification of specialization and of obtaining economies of scale while *the catching-up EU countries (new EU members)* have vertical IIT specialisation, according to their comparative advantage. Internal market supports a process of convergence regarding the specialization models and the convergence is stimulated by the periods of economic growth and takes

place essentially on clusters of countries/regions. The periods of economic growth sustain the catching-up process for the peripheral economies of the EU, especially for the Central and Eastern ones (growth rates superior to the European average). The increased dynamics of the trade flows (superior to the European average) in the peripheral economies proves the important contribution to ensuring the economic growth, but their external vulnerability as well.

The crisis of the European economies shows their reduced capacity of economic recovery, risking to increase disparities. The EU27 registers a de-specialisation trend, concentrating on high-tech and high-skills industries, with a high potential to sustain economic growth, productivity and employment. As economies become more developed and more integrated into the global economy, tend to renounce to specialization (inverse relationship between growth/integration and specialization). The tendency of the Central and Eastern European economies is to increase the production and trade specialisation, diminishing the potential of growth and convergence (e.g. in agriculture: Bulgaria, Romania, Hungary; in manufacturers: Romania, Lithuania Poland; in commercial services: Poland, Romania, Hungary). These countries have proved a great catching-up power and this because they had to adapt to tougher conditions on the EU internal market (very competitive environment). As we have already shown, the study demonstrates the growing trend of specialization prior to the establishment of the internal market and the tendency of diversification of production and trade after this process (*see the annexes*). In such circumstances, it should be taken into account the following aspects:

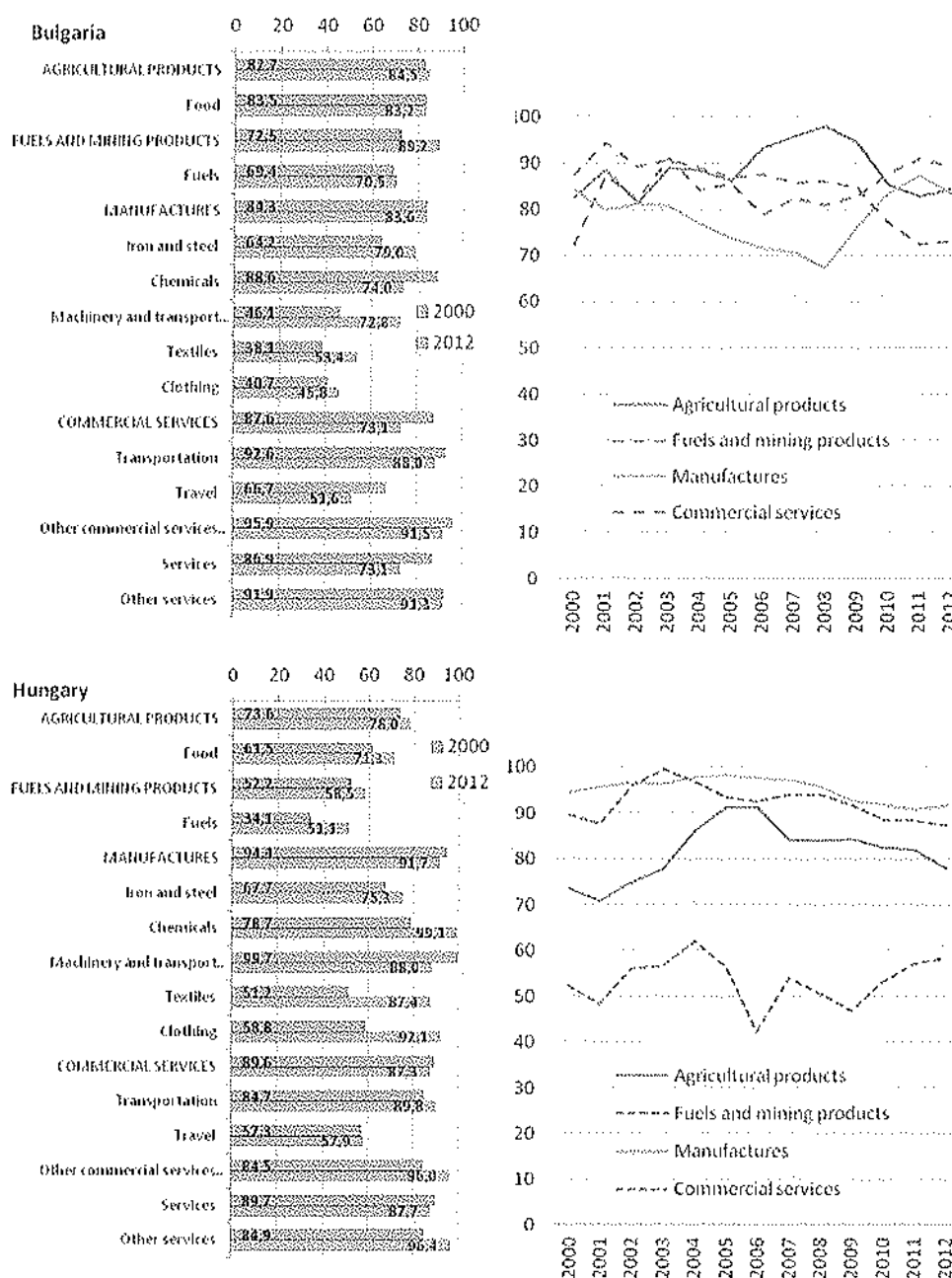
- The convergence of the production structures and of the trade patterns is essential to reduce the economic peripherality of the Eastern European countries;
- It is necessary to improve the functioning of the internal market and to increase its contribution to the more efficient distribution of resources according to the comparative advantages, to the generation of scale economies and stimulation of the processes of spreading the industrial agglomerations/concentrations – the development of complementary poles of growth;
- It is necessary for the member states to contribute more to reduce the deficit of implementing the directives of the internal market in the national legislations;
- It seems more important for CEE countries to diversify the production and trade and to specialize their export based on scale economies;
- The need to develop an European cohesion policy in which the territoriality has become one of the basis pillars, along with the economic and social one.

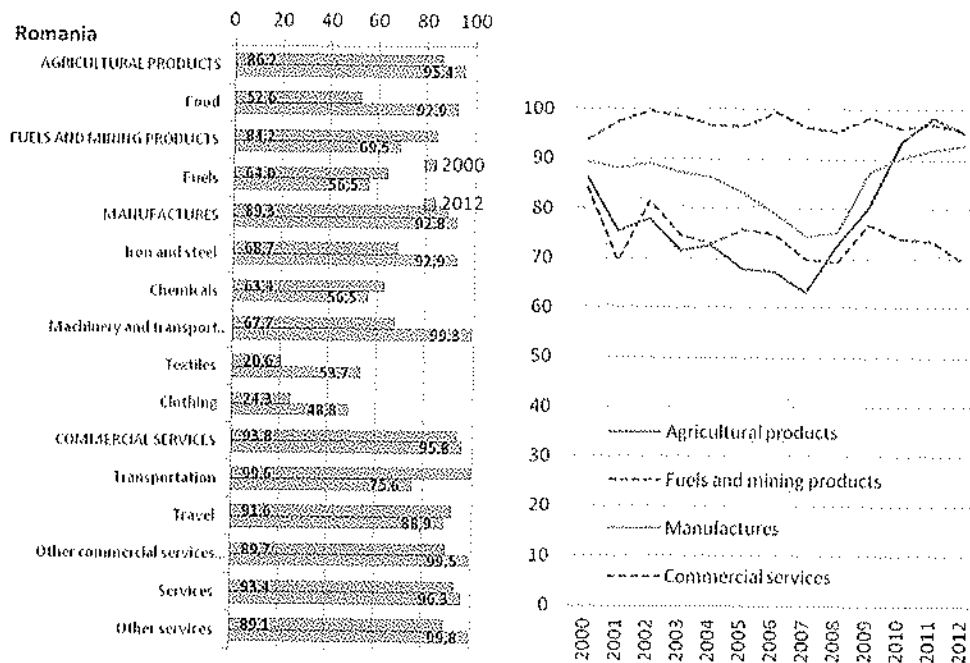
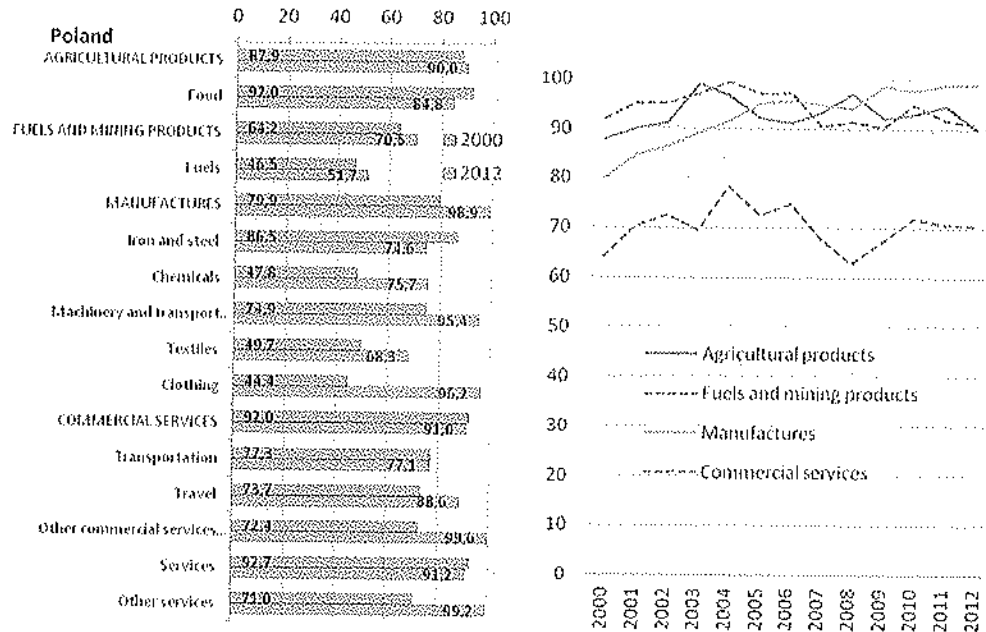
Annexes

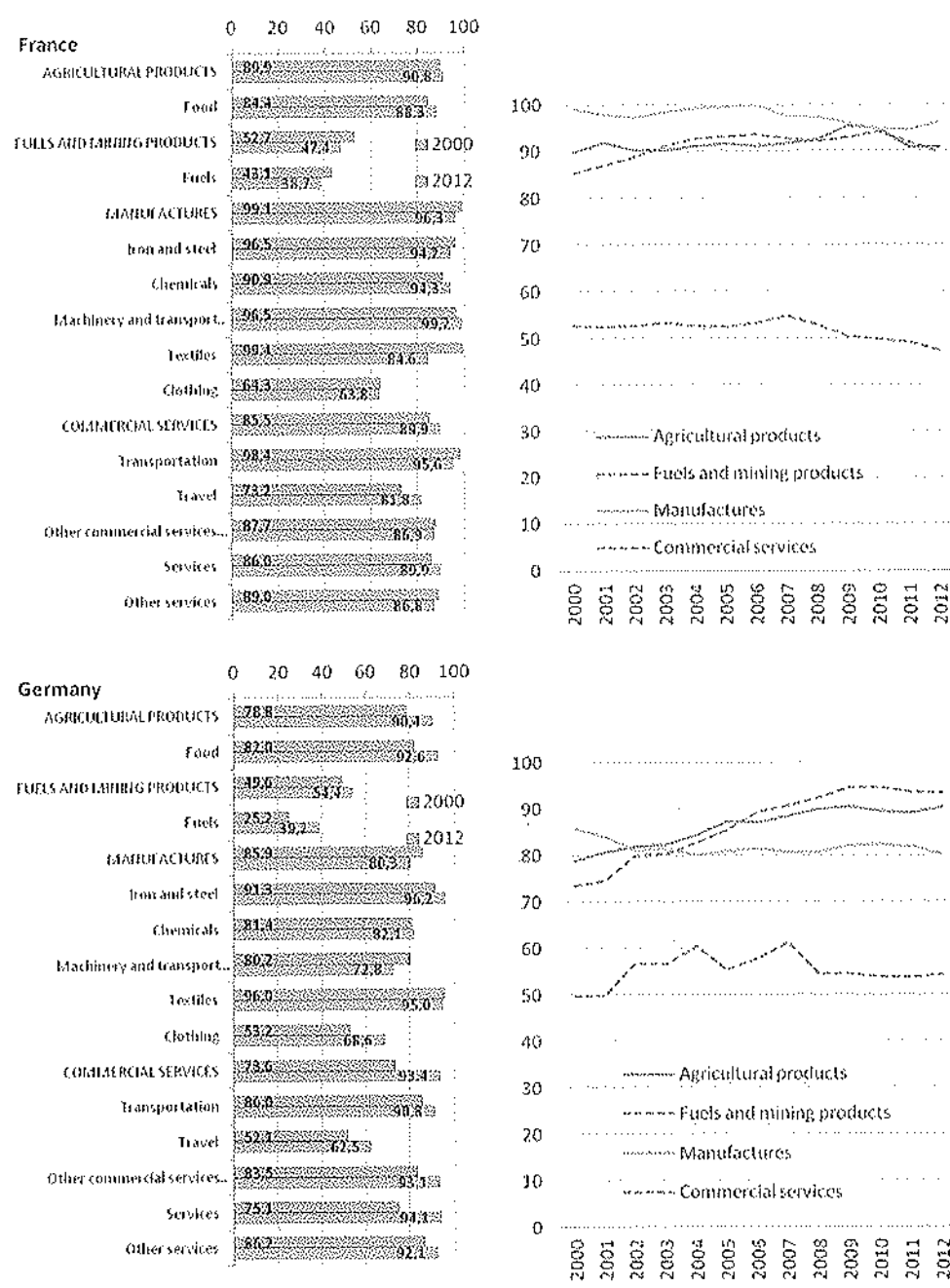
Table 1.

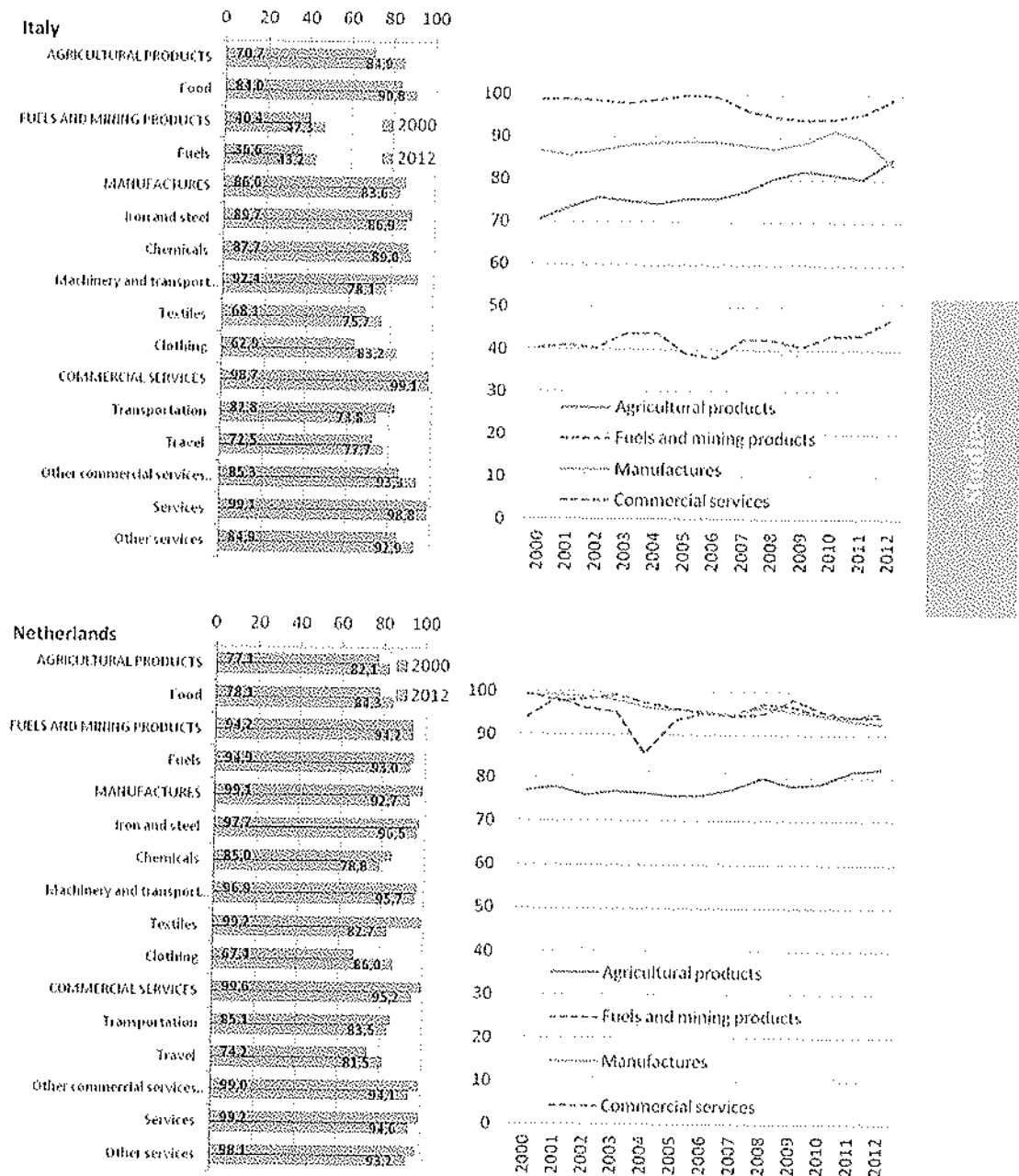
Year 2005	GDP (PPS per inhabitant)	Employment rate (15 to 64 years)	Labour productivity (% EU27) (based on PPS per employed person)	Gross value added (% GDP)			
				Agriculture; fishing	Industry (except construction)	Construction	Services
EU27	100	63,4	100	1,8	20,2	6	72
EU15	112,7	65,3	110,5	1,6	19,9	6	72,5
Belgium	120	61,1	130,3	0,8	19,2	4,8	75,2
Bulgaria	37	55,8	35,8	9,1	23,2	5,8	61,9
Czech Republic	79	64,8	72,9	2,9	30,1	6	61
Denmark	123	75,9	107,1	1,4	20,1	5,4	73,1
Germany	115,5	65,5	108,4	0,9	25,4	4	69,7
Estonia	61	64,4	60,7	3,5	21,5	7,1	67,9
Ireland	144	67,6	135,4	1,6	24,9	10	63,5
Greece	90	60,1	95,8	4,9	13	6,3	75,8
Spain	102	63,3	101,3	3,2	18,2	11,5	67,1
France	110	63,7	116,3	2,3	15,1	5,7	76,9
Croatia	57	55	74,5	5	21	7,6	66,4
Italy	105	57,6	111,9	2,2	20,7	6	71,1
Cyprus	93	68,5	82,9	2,8	11,3	8,2	77,7
Latvia	49,4	63,3	47,8	4	15,6	6,2	74,2
Lithuania	54	62,6	54,9	4,8	25,2	7,5	62,5
Luxembourg	253	63,6	170	0,4	10,6	6,1	82,9
Hungary	63	56,9	67,6	4,2	25,2	4,8	65,8
Malta	80	53,9	94,5	2,6	17	4,2	76,2
Netherlands	130	73,2	114,4	2,1	18,8	5,4	73,7
Austria	125	68,6	118,3	1,6	22,2	7	69,2
Poland	51	52,8	61,6	4,5	24,7	6	64,8
Portugal	79	67,5	72,8	2,8	18	6,9	72,3
Romania	35	57,6	36,1	9,5	28,1	7,4	55
Slovenia	87	66	83,1	2,7	27,4	6,7	63,2
Slovakia	60	57,7	68,7	3,7	29,7	6,7	59,9
Finland	114	68,4	111,1	2,8	25,8	6,7	64,7
Sweden	121	72,5	111,9	1,2	23,3	4,8	70,7
United Kingdom	124	71,7	114,9	0,7	16,9	6,1	76,3

Source: Eurostat database

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Source: own calculations and representations based on WTO data, 2013.

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