Differentiated European Integration
and the Changing Type of Capitalism
in Central Europe

Abstract
The objective of this paper is to analyse the double-layered diversification of the European integration system represented by the countries of Central Europe (CE). Here exemplified by the Visegrad Four (V4) states (Poland, Hungary, Slovakia, and Czechia), the region offers a unique laboratory of European differentiated integration (DI). The V4 positions itself on the outer-core of the European Union hemispheres. At the same time, the bloc itself is internally diversified in various, important aspects of integration (conflicting trajectories with Brussels, monetary integration, energy policy, relations with Russia, etc.). Unpacking this intra-V4 diversity will be accompanied by an exploration of the economic and institutional factors possibly affecting it. The political-economy perspective allows us to capture the determinants intersecting at the crossroads of economic and political dimensions. The authors will explore the selected building blocks of the system of differentiation inside the V4 group.

Keywords: Central Europe, Visegrad Group, European Differentiated Integration, Varieties of Capitalism

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Introduction

The authors of this paper seek to analyse the double-layered diversification of the European integration system as represented by the countries of Central Europe (CE). The region, represented here by the Visegrad Four (V4) states (Poland, Hungary, Slovakia, and Czechia), offers a unique laboratory regarding European differentiated integration (DI). The Visegrad Four forms a grouping that is known as “semi-peripheral”, and the countries in the group display some similar path-dependencies. The group positions itself on the outer-core of the European Union (EU) hemispheres, as described by Frank Schimmelfennig’s (2018) system of differentiation. As such, the V4 states make an interesting case for scientific exploration. At the same time, the bloc itself is internally diversified regarding various important aspects of integration (conflicting trajectories with Brussels, monetary integration, energy policy, relations with Russia, etc.). Unpacking this intra-V4 diversity will be accompanied by an exploration of the socio-economic factors affecting it. The political-economy perspective allows the authors to capture the determinants which intersect at the crossroads of economic and political dimensions.

The second gravity point of this analysis is going to focus on the evolving variety of capitalism as performed by CE economies. Notably, the term Dependent Market Economy (DME), coined for the V4 countries over a decade ago in order to describe their economic orientation, now seems apt to be called into question. Significant changes occurred in the political systems and economic policies of the countries due to the so-called “illiberal turns” (in Poland and Hungary) and “illiberal episodes” (in Slovakia and Czechia). The question which then appears is: are the V4 countries following the same path of evolution in terms of the institutional order (the variety of capitalism they represent)? The emphasis put on the issue of state agency by the V4 leaders makes the type of capitalism within the V4 apparently more similar to a Coordinated Market Economy (CME) such as Germany, because of their allowing more and more state intervention in the economy. On the other hand, less propensity to integrate with the EU rather resembles the UK’s extreme case of de-integration. Hence, does converging more to the British Liberal Market Economy (LME) type mean less inner-core integration?

This paper proceeds as follows: firstly, the V4 grouping is positioned on the map of various types of capitalism as well as on the map of differentiated integration. For this purpose, the authors reconstruct the main claims found in the literature dedicated to the issue of European differentiated integration and comparative capitalism. Secondly, the V4
countries joined the European Union in 2004 and a subject of a growing body of literature considers whether they constitute a separate and distinct cluster of economies with some unique features that would allow to qualify them as a distinct (Eastern) pole of integration. Thirdly, this specific position of the V4 countries is contextualised in the theories of the Varieties of Capitalism (VoC). Fourthly, this leads the authors to the presentation of some empirical data explaining the dynamics of institutional parameters of the V4 as a group as well as separate economies. Finally, such a comparative analysis is concluded with a summary that highlights the main trends present in the CE region.

**Differentiated Integration – Theoretical Background**

After the so-called “big bang enlargement” in 2004, Poland, Hungary, Slovakia, and Czechia found themselves in the European Union, which – already at that time – constituted a system of differentiated integration. In fact, their joining the EU club increased the level of differentiation, since one of the most important impulses in the dynamics of differentiation is that of expansion. In general, the story of European integration can be told as a story of its deepening and widening – these two dynamics have founded the mechanics of differentiation so far. Consequently, the progress in integration meant an increase in differentiation over time (Schimmelfenning, Winzen, 2019; 2020). However, the most recent political and economic developments in the European Union clearly show that differentiation has gained momentum and its dynamics have accelerated. One of the most important characteristics of the contemporary European integration process requires further exploration in order to advance our understanding of its dynamics and determinants. It is fundamentally important from the point of view of the scholarly explanations as well, as it is furthermore crucially salient from the practical point of view of the real (existing) phenomena, shedding some light on the critical position in which a uniting Europe has found itself.

The political idea of differentiated integration can be tracked back to the famous Tindemans report (1975), wherein, as a legal concept, it appeared in the Single European Act (1986). Academic debates on the topic find their roots in Dahrendorf’s formulation of Europe à la carte in the 1970s. Already by the 1980s, scholars had identified several variations of differentiated integration and, since then, the scientific discourse has expanded significantly. From that moment on, many various conceptualisations can be traced in literature, including flexible integration, a multi-speed Europe, Europe as an empire, a Europe of
variable geometries, concentric circles, hemispheres, etc. (Ferry, 2000; Kölliker, 2001; 2006; De Neve, 2007; Naurin, Lindahl, 2010; Barcz, 2015; Riedel, 2023). Yet DI is less studied in comparison with the huge amount of literature on integration as a whole. The reason for that may be because it has been limited by an assumption that DI would erode over time (Leruth, Lord, 2015). It was assumed that Member States (and their neighbouring regions) would converge over time, and that the same variously applied policies would find their cohesive end.

The concepts used, similar to the standard ones exploited in the DI literature, range from the *Europe à la Carte* metaphor, through Europe of different speeds, concentric circles and differentiated geometries, up to the diversified hemispheres of integration (Andersen, Sitter, 2006). More and more analysts, experts, and academics claim that the observed increase in differentiation has reached the limits wherein it carries the potential for disintegration (Riedel, 2018). Still, the new Member States of CE (not only V4 members, but also other countries that joined in the 2004, 2007, and 2013 extensions) found themselves at the core of the European integration project. Not all of them decided to enter the inner core (by accepting the common currency of the Euro), and most CE citizens live outside of the Euro-zone since the countries that decided to join the final stage of European Monetary Union (EMU) are relatively modestly populated, such as the Baltic states or Slovenia.

All the above-mentioned examples illustrate that the various semantics of differentiation provide a plethora of complex integration strategies, responding to the challenges of enlargement using variants such as multi-speed (time), variable geometry (space), and *à la carte* approach (Stubb, 1996, p. 294). The exploration of these semantics always leads to an acknowledging of the diversity which allows the union to embrace the flexibility necessary to deal with the strongly varying patterns of integration (de Gomes, Norberto, 2005; Bordignon, Brusco, 2006). The CE States needed to find their way around the system of differentiated integration. Within the enlargement rounds, one can clearly see that different State groupings within European integration were forming due to the different initial bases from which the Member States were starting.

Thus far, both in academic deliberations and in real-life politics, the DI concepts offered a way out from the dichotomous thinking between full membership and full non-membership. Moreover, nowadays these concepts are treated much more as a solution than a problem. Nevertheless, DI, as a scholarly concept, is a relatively new phenomenon in European studies, and wider: international relations; legal studies; political science; and economics (Andersen, Sitter, 2006; Tekin, 2012; Kroll, Leuffen, 2015;
Kubin, 2017). It grew alongside a real-life increase in differentiation (opt-outs, exemptions, enhanced cooperation, constructive abstention, special clauses, additional protocols, etc.). In the last two decades, differentiation has been a dominant feature of European integration. It is argued that approximately half of the EU’s policies are implemented in different ways (Lord, Leruth, 2015). Undoubtedly, studying DI contributes to a better and more refined theoretical and empirical understanding of the European integration process as such. Differentiation in Europe has reached a phase, scale, and depth such that it is legitimate to agree to the argument that it is a systematic characteristic of the European integration project as seen in 21st century (Hix, 2005). Frank Schimmelfenning, Dirk Leuffen, and Berthold Rittberger (2015) even wrote about the system of DI, in which differentiation is an essential and enduring characteristic of the EU.

Varieties of Capitalism – Stretching the Conceptual Framework

VoC is the leading approach in the comparative political economy scholarship of the last 20 years (Hall, Soskice, 2001; Lane, Myant, 2007; Hall, Thelen, 2009; Peck, Zhang, 2013). Its two crucial notions are: coordination mechanism – the way in which economic activity is organised (generally choosing between market-or-state-oriented coordination); and institutional complementarity – the manner in which different elements (corporate governance, financial system, education and training, industrial relations, etc.) of the capitalistic system fit with one another and, as a consequence, create a certain institutional comparative advantage for a given economy.

One basic variety of the market economy (here synonymous with the term “capitalism”) is the Liberal Market Economy (LME, typically represented in the literature by, inter alia, the UK, the USA or Australia) which is based on a market type of coordination (competition and formal contracts) and gains institutional comparative advantage in terms of the “radical innovations” (creating new products). Another variety is the Coordinated Market Economy (CME, e.g., Germany, Austria, and Japan) which promotes state (or strategic) coordination (interfirm networks and associations) of the economy and specialises in the “incremental innovation” (improving already-existing products). The third variety, initially proposed for the V4 and later for other CE countries is the Dependent Market Economy (DME) which relies on attracting Foreign Direct Investment (FDI) and being an “assembly platform for
semi-standardised industrial goods” (Nölke, Vliegenthart, 2005) as its institutional comparative advantage. Here, the specific coordination mechanism would come down neither to the state nor to the market, but rather to the intra-firm hierarchies that prevail within transnational enterprises. As the concept of the DME was created just after the V4 countries’ accession to the European Union, we argue that some of the data supporting its main argument have to be updated. Hence, the first goal of this paper is to rethink DME eligibility as the region’s distinctive type of capitalism after almost two decades of macroeconomic convergence stemming from EU membership. Another interesting theme is the political dimension and the so-called “illiberal” turns (in Hungary since 2010, and in Poland since 2015), or episodes (during the recent decade in Czechia and Slovakia) which the V4 countries have experienced (Bustikova, Guasti, 2017; Cianetti, Dawson, Hanley, 2018; Vaduchova, 2020).

Often, the state agency issue has been underlined by the populist governments and their supporters, which could mean that these once-DME economies would follow the path of a German-esque, coordinated type of capitalism, and the scope of state interventionism in the economy would increase. On the other hand, the V4 countries (especially Poland and Hungary) came to be perceived as stragglers in the European integration process. This rather resembles the case of the UK, with Brexit being an extreme case of disintegration, since the CME countries, headed by Germany, are part of the core of integration. Interestingly, the two States that are located at opposite ends in terms of their tendency to integrate with the rest of Europe1 are at the same time commonly recognised as internally performing an inverse type of market economy.

Thus, the question arises: is there a correlation between institutional convergence towards LME or CME and, analogously, displaying more or less of a tendency to integrate? This paper tackles some of these research questions and does so in the comparative manner using mostly data for the V4 economies since their EU accession, benchmarking their performance with the CME and LME representatives. The goal of the paper is to answer the above-mentioned questions based on the following assumptions: 1) V4 (and possibly most of the CE) countries cannot be labeled as DMEs anymore because of the unification that occurred due to convergence, 2) the United Kingdom still serves as a typical example of the LME and Germany for the CME type of capitalistic regime.

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1 The Federal Republic of Germany is often understood in the European integration literature as the “inner core” and the United Kingdom became “the outer periphery” after the Brexit agreement came into force.
Empirical Data – Presentation and Discussion

Macroeconomic Convergence and European Integration Performance

Table 1: V4 Countries, Germany, and United Kingdom GDP Per Capita (Constant 2015 USD) in 2004, 2012, and 2020 (as a Percentage of the EU Average)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>2004</th>
<th>2011</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>2004</td>
<td>29.8</td>
<td>37.9</td>
<td>45.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>2004</td>
<td>38.9</td>
<td>38.7</td>
<td>45.7</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2004</td>
<td>38.6</td>
<td>50.2</td>
<td>55.3</td>
</tr>
<tr>
<td>The Czech Republic</td>
<td>2004</td>
<td>50.7</td>
<td>56.2</td>
<td>61.2</td>
</tr>
<tr>
<td>Germany</td>
<td>2004</td>
<td>126.3</td>
<td>134.1</td>
<td>131.1</td>
</tr>
<tr>
<td>The United Kingdom</td>
<td>2004</td>
<td>152.1</td>
<td>142.6</td>
<td>143.9</td>
</tr>
</tbody>
</table>

Source: The authors’ own calculations based on World Bank data.

Indisputably, the V4 countries experienced an intensive convergence in terms of the level of income per person as well as other macroeconomic indicators (unemployment, stability of prices, etc.). Table 1 shows the real (adjusted for inflation) GDP per capita evolution as the percentage of the EU average at seven-year intervals. The first point marks the threshold of accession (2004) and the last depicts the state of affairs right before the COVID-19 pandemic crises (2019). Moreover, the mid-point is presented, which falls on 2011. The same indicator has been shown for the ideal-typical examples of LME (the United Kingdom), and CME (Germany). The per capita income measure serves as an approximation of the standard of living in a given country. Solid improvement can be observed for all the CE countries with no exception among the V4 which improved their score by 12.4 p.p. on average in the given period, while Germany only did so by 4.9 p.p. Importantly, the British income level fell from over 152% of the EU average to less than 144%.

Table 2 depicts another dimension of new and old Member States’ macroeconomic convergence which is a gradual synchronisation of the observed business cycles represented by the annual GDP growth rates. The correlation coefficients of the V4 countries’ growth dynamics against the same measure for the EMU were calculated in the two equal periods: from 1993 (marking the split of the then Czechoslovakia) to 2005, and from 2006 to 2018. In the first interval, covering approximately the period
between the V4 countries’ political and economic transformation and their EU accession, the correlations were very low (for Slovakia it was even negative). Noteworthily, all the CE economies experienced a so-called “transitory recession” in the 1990s. For the second period, the coefficients grew substantially with the highest level for Czechia (even higher than for Slovakia – the only V4 EMU member) and the lowest in Poland.

Table 2: Correlation Coefficients of GDP Growth Dynamics (Annual Percentage Change) in the V4 Countries and the EMU

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Poland</td>
<td>0.36</td>
<td>0.65</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.43</td>
<td>0.82</td>
</tr>
<tr>
<td>Slovakia</td>
<td>-0.14</td>
<td>0.84</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>0.10</td>
<td>0.94</td>
</tr>
</tbody>
</table>

Source: The authors’ own calculations based on World Bank data.

For the purpose of depicting the evolution of the European integration process since the “big bang enlargement”, the authors use the common indicators published by the European Commission. Intra-EU trade (the sum of exports and imports) of goods and services expressed as the percentage of the nominal GDP is presented in Table 3. The V4 economies are, in terms of this area, some of the best-integrated countries in the EU with Slovakia even being the leader in the ranking for all the Member States when looking at the goods trade only (125% of GDP). It also holds second place when considering aggregated measures (both goods and services) amounting to 142% of GDP which, on the other hand, shows a huge difference between the share of trade in goods and services. Such disparity is nevertheless common for each V4 economy.

However, there are some issues concerning such a view of European economic integration. For example, a well-known empirical fact is that the smaller economies tend to trade more (which is reflected in the data on “small-open economies”: Hungary, Czechia, and Slovakia), as well as the fact that some other exogenous factors (the number and size of neighbouring economies, the physical length of the border, and access to the sea) influence the share of trade volume in GDP (Alesina, Spolaore, Wiaczarg, 2005; European Commission, 2020). Another issue concerns the methodology behind the indicator. Germany, often described as the primus of integration, shows a deficit in intra-EU trade, largely because of importing vast amounts of sub-components from the CE and then exporting technologically-advanced products overseas (which results in
a substantial extra-EU trade surplus). Hence, the typical measures of the scope of economic integration (already mentioned for intra-EU trade levels, but also for “openness” indices – the share of imports in the GDP) used in the official documents of the European institutions say little about the true comparative landscape. Moreover, they do not say much about the crucial phenomenon in the European integration process – its differentiation.

Table 3: Intra-EU Trade of Goods and Services (as a Percentage of GDP) in the V4, Germany, and the United Kingdom, 2004–2019

<table>
<thead>
<tr>
<th></th>
<th>Goods</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2019</td>
</tr>
<tr>
<td>Slovakia</td>
<td>129.5</td>
<td>125</td>
</tr>
<tr>
<td>Hungary</td>
<td>76.2</td>
<td>101</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>74.5</td>
<td>90.2</td>
</tr>
<tr>
<td>Poland</td>
<td>47.7</td>
<td>65</td>
</tr>
<tr>
<td>Germany</td>
<td>33.7</td>
<td>40</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>19.5</td>
<td>19.7</td>
</tr>
</tbody>
</table>

Source: The authors’ own calculations based on Eurostat data.

DI theory tries to embrace the process in a more complex way. Beyond purely economic stock and flow measures, it also considers some political and legal dimensions (Leuffen et al., 2012; Schimmelfenning, Winzen, 2020). The essence of the approach is to provide a description of the unequal pace in the increasing integration of different Member States, but they are selective in the way in which they participate in some core EU policies. Table 4 provides examples of DI performed by the V4 countries in terms of some selected aspects: adopting the euro currency (in the case of Slovakia only); belonging to the Schengen area (all countries); joining the European Public Prosecutor’s Office (EPPO, in the cases of Czechia and Slovakia); participation in the Migrants Allocation Mechanism (MAM, none of the countries); general public support for the EU policies (high in Poland) and the political class’s discourse on opting for a one-speed Europe; and the acceptance of the Recovery and Resilience Facility (RRF) by the European Commission. Each policy has its formal-legal foundations apart from public opinion and political policy measures which are of a non-legal nature, but are also often included in DI research as a proxy for the social dimension of integration. The examples listed relate to the relevant policies, mostly established at the level of primary European law, but a lot of differentiation also takes place in the matter of secondary law derogations (Duttle et. al., 2017).
Table 4: Differentiated Integration in the EU

<table>
<thead>
<tr>
<th>Area of DI</th>
<th>Poland</th>
<th>Hungary</th>
<th>Czech Republic</th>
<th>Slovakia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurozone</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>Schengen</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>EPPO</td>
<td>-</td>
<td>-</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>MAM</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>RRF</td>
<td>-</td>
<td>-</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Public opinion*</td>
<td>+</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Political discourse**</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

*“+” has been assigned to a country with above-average public support for the EU in the latest Barometer survey (Autumn 2022).

**“+” has been assigned to a country where politicians tend to support a one-speed vision of European integration based on the InDivEU database “Government’s preferences 2008–2020” country reports.

Source: The authors’ own elaboration.

The Changing Variety of Capitalism in the V4 Countries

The core feature of the proposed DME type was its outstanding ability to attract Foreign Direct Investment (FDI). Although CE economies, headed by the V4, are still topping the rankings of countries most often hosting such capital flows, the relative numbers do not prove their distinctiveness in this matter anymore. The inward-to-outward FDI volumes ratios dropped dramatically: in Hungary, the ratio went from 6.4 to 3.2; in Czechia from 17 to 4.1; in Poland from 47 to 9.8, and in Slovakia 40.3 to 14.3. This, together with the already-mentioned economic convergence which is progressing in the EU, leads one to assume an institutional convergence as well. Thus, the authors have reviewed the rest of the typical VoC indicators which were used to determine the DME type in the past. The analysis relies on the measures compiled into a “coordination index” in some studies (Hall, Gingerich, 2004; Casey, 2009).

Figure 1 shows the irrelevance of the stock market as a way to raise capital for enterprises in the V4 countries. The Czech and Hungarian stock markets’ capitalisation expressed as a share of GDP even fell since their accession to the EU, while the Polish and Slovakian stock markets have increased only symbolically. The role of bank credit, on the other hand, rose substantially in all the V4 economies (apart from Hungary where, technically, it stagnated) and it is now the highest in Slovakia (67.2% of GDP, compared to German 85.2%). Interestingly, in Germany,
private bank credit for companies fell, while stock market capitalisation rose in the given period, which resonates with some commentators that the German economy has changed recently into a more LME-typical, short-term oriented form of market economy.

Figure 1: Dominant ways of raising capital in the V4 economies, Germany, and the UK, 2004 and 2020: stock market capitalisation (as a percentage of GDP) in the upper panel, and bank credit for the private sector (as a percentage of GDP) – the bottom panel.

Source: The authors’ own calculations based on World Bank data.

Another dimension of the standard VoC framework directly concerns the institutional determinants of the emergence of innovation. Here, the two “input” variables will be mentioned. Public spending on (all kinds of) education has been falling in three of the four Visegrad countries by around 1 p.p. on average and remaining at the same level in Czechia,
and this is the first variable. At the same time, they rose in the UK and Germany. The second being that the GDP size-adjusted expenditures on research and development (R&D) improved slightly in the V4 economies, but still remained almost half a per cent lower than that of Germany (3.1% of GDP in 2020). On the “output” side, in turn, one can still observe (see: Figure 2) relatively poor V4 country performance in terms of the number of so-called “triad” (meaning “registered in the USA, the UK or Japan”) patents per million inhabitants. Nevertheless, the score has improved in relative terms stemming from both a slight rise in measurements in the V4, as well as some significant fall in the UK and Germany (because of increased global competition).

**Figure 2: Triad Patents per Million Inhabitants in the V4, Germany, and the United Kingdom, 2004 and 2018**

![Figure 2: Triad Patents per Million Inhabitants in the V4, Germany, and the United Kingdom, 2004 and 2018](image)

Source: The authors’ own calculations based on OECD (number of patents) and World Bank (population) data.

Figure 3 summarises another area of the VoC analysis – industrial relations. All the countries presented recorded a decline in terms of the unionisation level (expressed as the number of employees enrolled in a trade union as a percentage of all employees), with the biggest, two-digit drops in Germany (-12.5 p.p.), and Hungary (-10.1 p.p.). The V4 economies’ labour markets – where, on average, 10.5% of employees are members of trade unions – are in this case more similar to the German case (17%). The UK tends to have the highest union density within the group, amounting to 23.5% in 2018.
Almost every country dropped also in terms of the number of employees whose wage contracts are covered by collective bargaining. The exception is Czechia, which improved this measure by nearly 3 p.p. and in 2016 ranked, interestingly, between Germany (an outstanding share of 65.8% – sitting in 1st place) and the UK (26.3% – in 3rd place). This issue also shows some more diversity among the V4 countries. The last parameter concerns the levels of general public spending on social policies as a percentage of the economy’s output. OECD data suggest that
all the countries show moderately stable numbers in the period from 2004 to 2018 and the results range narrowly from 17.2% of GDP in Slovakia (a +1.4 p.p. change) to 25.3% in Germany (-0.7 p.p.).

The final dimension of the analysis relates to the changing competitiveness of the European economies. Figure 4 presents a composite indicator of the OECD’s Product Market Regulation (PMR), published in 2003 and in 2018. After accession, all the V4 economies recorded an improvement bigger than the average in the OECD in the period (the biggest being in Poland and Hungary). However, in this period, the CE countries analysed converged more towards Germany (which also upgraded its score) than to the UK (which has the highest level of competitiveness).

Figure 4: Competitiveness in V4, Germany, and the United Kingdom, 2004 and 2018

Source: OECD Product Market Regulation (average). The scores have been standardised so that the bigger value indicates a more competitive economy.

Conclusions

The key question that was approached was whether the V4 countries have followed the same evolutionary path in terms of the institutional order (the variety of capitalism) they represent. And, consequently, the issue was whether this evolutionary trajectory influences the position they have taken on the map of differentiated integration.

The first conclusion to be drawn is the statement that general economic factors correlate positively with long-term trends of the pro-EU orientation (measured, e.g., with the standard trade openness) of the V4 states and their economies. Their income per head converges towards the EU average,
and their business cycle is more and more compatible (especially after the economic crisis) with the fluctuations in the Eurozone. The picture, however, becomes more complex when one looks through the lenses of differentiated integration theory. It is the political factors (especially in Poland and Hungary) that put these states on a conflicting path with Brussels, and, as a consequence, they position those States on the outer-core of the differentiated European integration system. The long trends over three decades which were already observed before EU accession, accelerated and consolidated after 2004. It is even legitimate to say that the times of crisis acted as some sort of critical junctures – the periods of economic turmoil bringing more equalisation as regards many of the economic parameters in question. However, this growing convergence of the V4 grouping in relation to the EU average is accompanied by some significant divergence inside the Visegrad countries’ move towards integrating the mainstream of EU policy.

Yet, the assumption of a so-called “hybrid” type of capitalism for the V4 group is to be maintained, based on empirical data investigation. Although in most of the areas (competitiveness, ways of raising financial capital) in the process of becoming more and more similar to the CME type continues, other institutions (education and innovation systems) resemble more closely those of the LME. Converging towards the CME may be partially the result of a statistical effect related to the weight of the German economy and the economic governance model it promotes. The CE economies, being closely inter-connected to the German supply chain, adjust to its dominant features. This type of imitative development has been effective so far in the catch-up strategy of the EU’s new Member States from the CE region. Nevertheless, it is worth indicating that the middle-income trap, literature suggests there will be expected slowdowns as the aspiring economies get closer and closer to average levels. An important limitation of our analysis is that we focus only on the mechanism of the coordination side, without thoroughly examining the paths of (in)complementarities that these institutions have created in the V4 economies.

Additionally, the Brexit process (the UK’s leaving the EU already began in 2016 and continued until 2021) is an important factor in this analysis. Not only was the British economy (and still is, to some extent) an important partner for many of the V4 economies, but the UK’s absence from the EU favours the less liberal component in the decision-making process in Brussels also. Since the VoC literature indicates that it is London that represents one of the examples of the Liberal Market Economy model, its absence from inside the EU means the lack of an
important, liberal pole. The only remaining pole of economic governance inside the EU is represented by the CME model, and this could imply its further diffusion among other Member States.

These new findings open a broad path for further investigations to be undertaken in the future. Firstly, the hypotheses generated in the spirit of the middle-income trap literature require systemic verification in the Central European setting. So far, most of the studies have been conducted in Asia or South America, with only a few exceptions in Europe. Secondly, and relatedly, the literature on DME needs to be revisited, since the FDI inflow in relation to the economy’s size has been falling gradually since its highest levels after accession.

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