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# FROM THE "WEST OF THE EAST" TO THE "EAST OF THE WEST": THE POST-SOCIALIST ECONOMIC AND STRUCTURAL TRANSITION OF CENTRAL AND SOUTH-EASTERN EUROPE

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**Abstract**

Despite its normative goals of deepening interstate integration, 'de-bordering' European societies and promoting a greater degree of territorial cohesion, the European Union remains a highly and intricately bordered space. Economic bordering within the EU involves the investigation of the geoeconomic relationships that have emerged as a result of global market re-integration and EU membership of post-socialist states during the economic transition of Central and South-Eastern Europe. The objective of this paper is to provide a comprehensive review of the transformation processes of the Central and South-Eastern European region.

*Keywords*: integration, transition, economic development, geoeconomics, core-periphery relations, urban development

## INTRODUCTION

The objective of this paper is to provide a comprehensive review of the transformation processes of the Central and South-Eastern European region. The scope of the study does not include the examination of the Baltic States (Estonia, Latvia, Lithuania) the post-Soviet states of Eastern Europe (Moldova, Ukraine, Belarus), and the neighbouring EU member states (Austria, Greece, Germany) however, they will be used as a suitable reference point from a neighbourhood perspective.

Despite its normative goals of deepening interstate integration, 'de-bordering' European societies and promoting a greater degree of territorial cohesion, the European Union remains a highly and intricately bordered space. Economic bordering within the EU involves the investigation of the geoeconomic relationships that have emerged as a result of global market re-integration and EU membership of post-socialist states during the economic transition of Central and South-Eastern Europe (CEE & SEE). In our study we apply a geoeconomics perspective assessing the role of Foreign Direct Investment (FDI) in the transformation as external capital dependency is one of the principal bordering patterns. The limitations of our approach are explained by the fact that we analyse CEE & SEE as part of a generalised heuristic of core-periphery relations in order to highlight the role of foreign economic influence. However, we suggest that these limitations are offset by our general conclusions regarding geoeconomic dependencies within the EU. This economic bordering is not new in the EU (Scott, 2002; Smith, 2002; van Houtum, 2002).

## STATES, INTEGRATION

Tables 1 and 2 provide a summary of the most relevant features of the countries in the region. As noted by the authoritative work of Illés (2002, 62) "due to the vast expanse of its territory, Central and South-Eastern Europe, a region evolving under highly variegated historical circumstances, will naturally show a large degree of differentiation, heterogenous levels of development both between and within countries". As the author notes elsewhere (Ibid., 19), in 1815, at the time of the Vienna Congress, no other autonomous state formation existed in the region besides the Russian, Habsburg, Ottoman and Prussian Empires, which were each others' neighbours. In 1914, the number of autonomous small states increased to six (with the dissolution of the Ottoman Empire), then to 13 in 1920 (with the break-up of the Habsburg and Russian Empires), and finally to 21 in 1993, after the collapse of the Socialist Federations (USSR, Yugoslavia, Czechoslovakia), and the process is still ongoing (Montenegro and Kosovo).

Table 1 shows which state formations have given rise to new independent states and highlights their success in terms of Euro-Atlantic integration. From this perspective, the region under study has become an integral part of the European Union and the North Atlantic Treaty Organisation. From a global perspective, the majority of the countries of the macro-region appear to have embarked on a successful development path (despite the uncertain and cumbersome nature of the transition from the Soviet-style system). To paraphrase Zoltán Hajdú (2006, 6) and Jacques Rupnik (2005, 33), the repositioning of these countries from being the "West of the East" to the "East of the West", or in Saul Cohen's formulation (Cohen 2003), from its geopolitical role of "shatterbelt" to a "gateway region" indicates a transformation process whose depth and significance challenges the discursive boundaries of a mere systemic transition.

**Table 1** Statehood and Euro-Atlantic integration in CEE & SEE

| State | Last establishment[1] | EU-relations[2] | NATO-relations[2] |
|---|---|---|---|
| Albania | 1912 (Ottoman Empire) | Candidate | NATO member (2009) |
| Bosnia & Herzegovina | 1992 (SFR Yugoslavia) | Candidate | Candidate |
| Bulgaria | 1908 (Ottoman Empire) | EU member (2007) | NATO member (2004) |
| Croatia | 1991 (SFR Yugoslavia) | EU member (2013) | NATO member (2009) |
| Czech Republic | 1993 (Czechoslovakia) | EU member (2004) | NATO member (1999) |
| Hungary | 1920 (Austria-Hungary) | EU member (2004) | NATO member (1999) |
| Kosovo | 2008 (Serbia) | Potential candidate | Potential candidate |
| Montenegro | 2006 (FR Yugoslavia) | Candidate | NATO member (2017) |
| North Macedonia | 1991 (SFR Yugoslavia) | Candidate | NATO member (2020) |
| Poland | 1918 (1945*) | EU member (2004) | NATO member (1999) |
| Romania | 1878 (1920*) | EU member (2007) | NATO member (2004) |
| Serbia | 2006 (FR Yugoslavia) | Candidate | Potential candidate |
| Slovakia | 1993 (Czechoslovakia) | EU member (2004) | NATO member (2004) |
| Slovenia | 1991 (SFR Yugoslavia) | EU member (2004) | NATO member (2004) |

Legend: 1 – Officially recognised as an independent state (former entity/new territory*); 2 – Date of entry.
Source: Own edition based on data from the CIA, the EU and NATO.

As indicated by Table 2, with the exception of Poland and Romania, these are small countries at a global scale also in terms of their population. The region has the highest density of national borders globally, giving rise to Guinness World Records in areas such as the highest number of countries visited per day by different means of transport. The neighbourhood relations of the countries of the region are characterized by cooperation, interdependence and competition. Due to their limited size (population, territory, market, etc.) and power position, dependency situations have seldom been successfully addressed by autonomy movements. Indeed, fundamental processes of transformation have been witnessed in the global division of labour and the systems of cooperation, highlighting how the economic fate of the macro-region had already been inextricably linked to the global economy in earlier decades. The developed world has been the sole source of support for a region afflicted by chronic capital shortages and enduring states of disequilibrium. The Soviet Union was willing to provide economic benefits primarily in line with its political and military interests, undermining the integration efforts of these countries into the Western economic system for a long time. It is worth noting, however, that the region was not integrated into the Soviet economic system, nor were the separate countries integrated with each other. At its inception, in the beginning of the 1990s, the lack of integration made the degree of financial dependence even more critical. Transnational companies have been the main drivers of the region's global economic integration (Rácz, 2019).

**Table 2** General data of CEE & SEE states

| State | Territory | | Population | | Urban population | | GDP (PPP current Int.$) | | HDI | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Thousand km$^2$ | Rank | Million (2019) | Rank | % (2018) | Rank | Billion USD (2020) | Rank | Value (2019) | Rank |
| Albania | 28.7 | 141 | 2.8 | 140 | 62.1 | 95 | 41 | 116 | 0.795 | 69 |
| Bosnia & Herzegovina | 51.2 | 126 | 3.3 | 137 | 49 | 130 | 50 | 110 | 0.780 | 73 |
| Bulgaria | 110.9 | 104 | 6.9 | 108 | 75.6 | 58 | 164 | 74 | 0.816 | 56 |
| Croatia | 56.6 | 125 | 4.0 | 131 | 57.6 | 104 | 113 | 84 | 0.851 | 43 |
| Czech Republic | 78.9 | 116 | 10.7 | 87 | 74.1 | 61 | 436 | 47 | 0.900 | 27 |
| Hungary | 93.0 | 109 | 9.7 | 93 | 71.9 | 66 | 323 | 54 | 0.854 | 40 |
| Kosovo | 10.9 | 170 | 1.8 | 153 | N/A | N/A | 21 | 147 | N/A | N/A |
| Montenegro | 13.8 | 157 | 0.6 | 171 | 67.5 | 80 | 12 | 155 | 0.829 | 48 |
| North Macedonia | 25.7 | 146 | 2.1 | 150 | 58.5 | 101 | 35 | 129 | 0.774 | 82 |
| Poland | 312.7 | 70 | 38.2 | 38 | 60.0 | 97 | 1297 | 20 | 0.880 | 35 |
| Romania | 238.4 | 82 | 19.3 | 62 | 56.4 | 111 | 590 | 36 | 0.828 | 49 |
| Serbia | 77.5 | 117 | 6.9 | 107 | 56.4 | 111 | 133 | 80 | 0.806 | 64 |
| Slovakia | 49.0 | 128 | 5.5 | 119 | 53.8 | 119 | 179 | 71 | 0.860 | 39 |
| Slovenia | 20.3 | 151 | 2.1 | 149 | 55.1 | 118 | 83 | 95 | 0.917 | 22 |

Legend: The rank indicates the ranking according to the list of countries covered by the given statistics. Kosovo is not included in the current HDI ranking, in 2016 its HDI was approx. at the same level as Albania and Bosnia and Herzegovina. The UN has published Kosovo's urbanisation data for 2018, combined with Serbia. The share of urban population in Kosovo was approximately 50% in 2018, according to the official UN-Habitat website.
Source: Own editing based on data from the CIA, the UN, Eurostat, IMF and UNDP.

Illés (2002) has highlighted the instrumentality of TNCs in shaping processes of integration in post-socialist countries, but also the dependency relations which these cause. This echoes the insights of the VoC (varieties of capitalism) literature which enlarged the VoC typology with a third model in 2009, i.e., the so-called dependent market economy model (DME) that the Visegrad countries adhere to, characterized by strong FDI dependency, foreign bank dominance and external control (Nölke, 2018; Nölke &Vliegenthart, 2009; Gál & Schmidt, 2017; Gál & Lux, 2022). Their development paths show notable differences compared to the small tigers of Southeast Asia, as illustrated by the unique position of Central Europe as the “outsourced assembly platform” for European industry (Nölke & Vliegenthart, 2009), which, after a major setback, has experienced a powerful process of re-industrialization (Lux, 2017), leading to increased concentration and relocation into a CE Manufacturing core (Landesmann, 2003; Taylor, 2015). Indeed, as Illés (2002) pointed out in line with the discursive constructions of “new Europes” (Sokol, 2001; Smith, 2002), CEE & SEE countries have embarked on a unique development trajectory, with various degrees of advancement in democracy, pluralism and market economies. This is manifest in a differential ability to convert their inherently asymmetrical centre-periphery relations into mutual interdependencies or a basis for further development, as demonstrated, for instance, by the example of the regionally embedded, sophisticated and diversified CE automotive industry commonly contrasted with an industrially disconnected southern periphery (Pavlínek et al., 2009).

Table 3 provides a detailed summary of the key developments in foreign trade. German companies ensured the greatest level of integration for this region, besides a large number of Western European MNEs. By the mid-1990s, the size of German venture capital investment in the Brazilian city of São Paulo had exceeded the total value for Central, South-Eastern and Eastern Europe, including the former Soviet Union but excluding the GDR (Ibid., 2002, 203). Although the transition departed from a low baseline level, the leading (Central European) countries did not require 15 years to catch up with São Paulo. As indicated by the trend and potential, governments in the region were not so much compelled to focus their efforts on attracting new capital investment, but rather on strengthening domestic firms and making them more capital-intensive, due to the substantial gaps with TNCs in this respect.

**Table 3** The share of the major foreign trade partners, 2020

| State | Export, % | Import, % |
|---|---|---|
| Albania | Italy (45.4) Serbia (12.0) Spain (6.1) | Italy (25.1) Turkey (9.6) Greece (9.0) |
| Bosnia & Herzegovina | Germany (15.5) Croatia (12.9) Serbia (11.6) | Germany (12.3) Italy (11.5) Serbia (11.3) |
| Bulgaria | Germany (14.8) Romania (8.7) Italy (7.3) | Germany (12.0) Russia (9.9) Italy (7.4) |
| Croatia | Germany (12.8) Italy (12.5) Slovenia (10.3) | Germany (15.3) Italy (12.3) Slovenia (11.3) |
| Czech Republic | Germany (32.7) Slovakia (7.6) Poland (6.2) | Germany (23.2) China (18.1) Poland (7.9) |
| Hungary | Germany (28.0) Slovakia 5.4) Italy (5.2) | Germany (24.8) China (7.7) Austria (5.8) |
| Montenegro | Serbia (28.3) Slovenia (10.0) Undef. (7.1) | Serbia (19.8) China (10.4) Germany (9.7) |
| North Macedonia | Germany (47.2) Serbia (7.9) Bulgaria (4.7) | UK (15.6) Germany (10.7) Serbia (7.8) |
| Poland | Germany (28.9) Czechia (5.9) UK (5.7) | Germany (21.9) China (14.4) Italy (5.0) |
| Romania | Germany (22.8) Italy (10.7) France (6.7) | Germany (20.8) Italy (8.9) Hungary (7.3) |
| Serbia | Germany (12.9) Italy (8.4) Bosnia-H. (7.1) | Germany (13.6) China (12.5) Italy (8.4) |
| Slovakia | Germany (22.0) Czechia (10.5) Poland (7.9) | Germany (18.4) Czechia (9.9) Undef. (9.0) |
| Slovenia | Germany (18.0) Switzerland (12.1) Italy (9.3) | Germany (14.0) Switzerland (12.7) Italy (10.8) |

Source: Own editing based on data from the UN (2021).

From a geopolitical perspective, the position and status of Central Europe, having served as the major site/frontline of the confrontation between East and West during in Cold War era, has undergone a radical transformation after the demise of the Soviet Union (with the abandonment of its imperial ambitions) and the vanishing of this frontline. Political and economic instability is an enduring feature of the transitory "in-between" space of Central Europe (Smith, 2002; Scott, 2021; Páthy, 2022), as indicated by the repercussions of conflicts in Bosnia and Kosovo, reinforcing Western perceptions of the Balkans as Europe's "others" compared the more civilized and western-oriented region of Mitteleuropa. EU integration has not been the major force shaping the growing economic interrelatedness and integration of Eastern and Western parts of Europe or Germany's dominant position in the region. The fact that post-reunification Germany has become the dominant economic and political power in the EU (as already evident at the turn of the millennium) is undebatable. However, its economic significance derives not so much from reunification but rather the new geopolitical situation, no longer positioned on the margins, at the eastern periphery of "democratic Europe" but at its core. Despite Germany's historically strained and tumultuous relations with the CEE countries, it is within the primary interest of these states to develop partnerships with the former. The unique bufferzone situation of the CEE & SEE region no longer holds, however, certain neighboring countries have retained their importance, most notably, Turkey and Ukraine, while an increasingly aggressive and expansionary Russia, despite no longer being an immediate neighbor, exerts a significant influence on Central and Eastern European countries, causing a deepening of fault lines between them (Prochwicz-Jazowska & Weber, 2023). The key dilemma for Russia is whether it is willing to renounce its power and military ambitions and focus its attention and resources on its internal economy, reforms and development (following the highly successful example of Germany, Japan and Italy post-World War 2). The answer is quite obvious nowadays as demonstrated by the escalating Russian-Ukrainian conflict.

Table 2 reveals the outstanding position of Poland in terms of nominal GDP at purchasing power parity, which was not so straightforward twenty years ago. The main contradiction in Poland's regional engagement, namely, the asymmetry of its political and economic potential is quite telling in this respect. At that time, Poland was still lacking the economic preconditions for becoming a dominant power in Europe. That said, Illés (ibid) noted how Poland's international prestige, the influence of its foreign diaspora, its regional and international standing and Slavic character, already evident in the course of EU accession, would allow it to claim a leadership role. It is worth noting that in his account of the dependent market economy, the author did not delve into Poland's specific endogenous development path. The Polish economy's development in the 1990s was fundamentally and predominantly inward-looking, fully reliant on the internal market, and the intensity of its external economic relations, particularly those with the CEE & SEE region, did not reflect its position as a middle power, either in terms of economic development or the value of its exports. Polish export volumes barely exceeded those of the Czech Republic or Hungary, with a population a quarter of the size of Poland's, and foreign investments were lagging behind the comparator countries. In a twenty-year hindsight, the unique trajectory of Poland sheds a very different light on the concepts of development, success and dependency.

By the turn of the millennium, the CEE & SEE region had become an integral and inextricable part of Europe, a sort of "hinterland". At the same time, it is likely to retain its position as a unique region with its own interests, both in relation to Western Europe and the post-Soviet states (Scott, 2021).

In terms of foreign economic relations, the determining factors are the landlocked situation of the majority of states and their very different geographies, as a result of which foreign trade and economic cooperation has always been Europe-centric. The former empires acted as a powerful force shaping integration through the means of a currency and customs union. The collapse and dissolution of empires and the concomitant emergence of small countries was accompanied by a significant drop in the share of intra-regional trade. Not even the system of trade agreements and coordination under the CMEA under State Socialism was able to achieve a higher intensity of trade relations, reaching their historical low in the post-transition years, which, given the role of geographical distances, went against economic rationality.

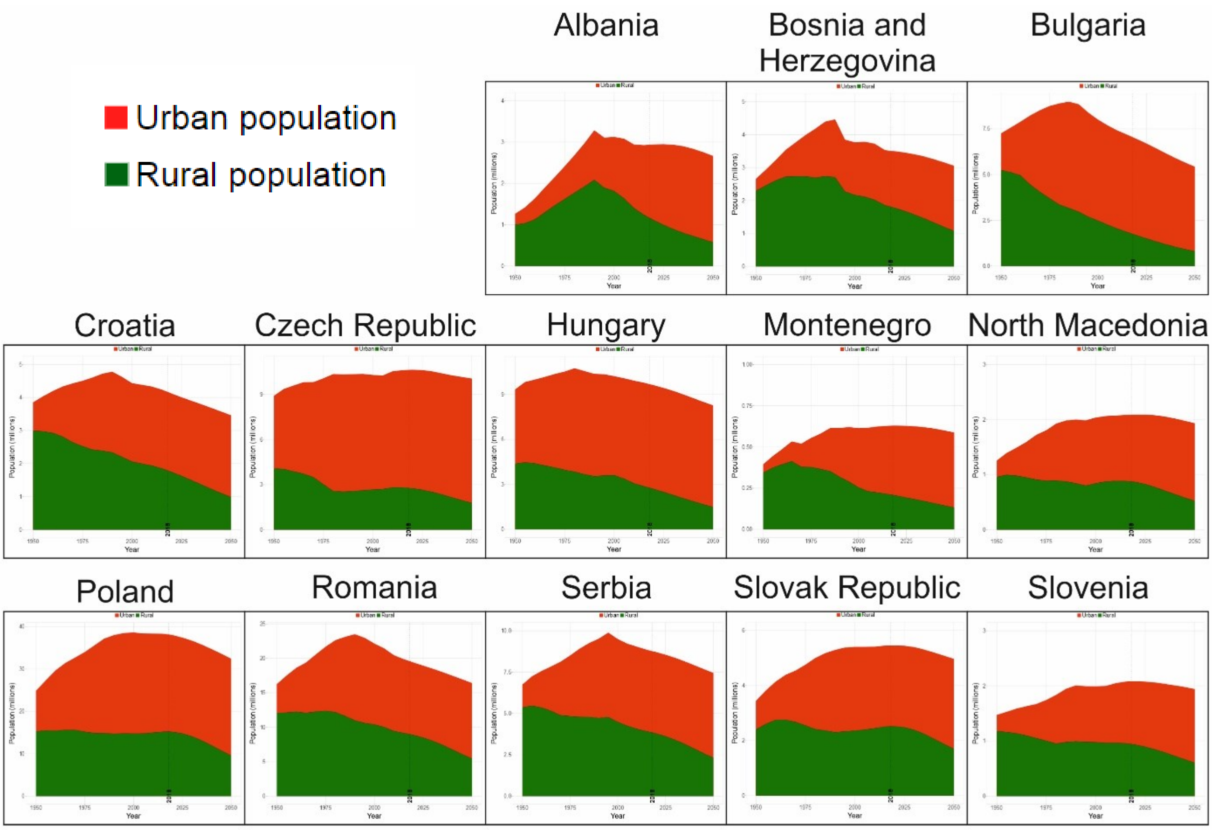
In the trade of the countries surveyed, transnational companies generate most of the turnover by outsourcing production to these countries, hence, a significant part of their substantially increasing exports comes from the assembly of foreign imported components. While the domestic value added and revenues generated in the host country remain small, it is worth noting that MNEs have also come to dominate trade between small CEE countries. Rising trade between firms located in different countries advances integration, notably, by creating the previously lacking elements of interdependence and cooperation.

Examining ongoing integration efforts in the region, in the long run, no evidence of joint action has been found at the scale of Central Europe (e.g., confederation ideas, federalization of the former empire), nor has the idea of Pan-Slavism acquired any meaningful substance (presumably due to the Russians), while the expansionist and power ambitions of the reunified Germany have been crowned with success (Baranov, 2018). After two lost world wars, Germany emerged as a winner from the third one, the Cold War.

## ECONOMIC AND URBAN DEVELOPMENT

As indicated by the last column of Table 2, internationally, the region's development and HDI indices are high (for four countries) or very high (for ten countries), which is a better indicator of actual prosperity and living standards than GDP per capita (see Berkes, 2016). The extent to which development, population, territory and prosperity are correlated with urbanization remains unclear as the proportion of urban inhabitants does not necessarily reflect the actual state of development in the context of CEE & SEE.

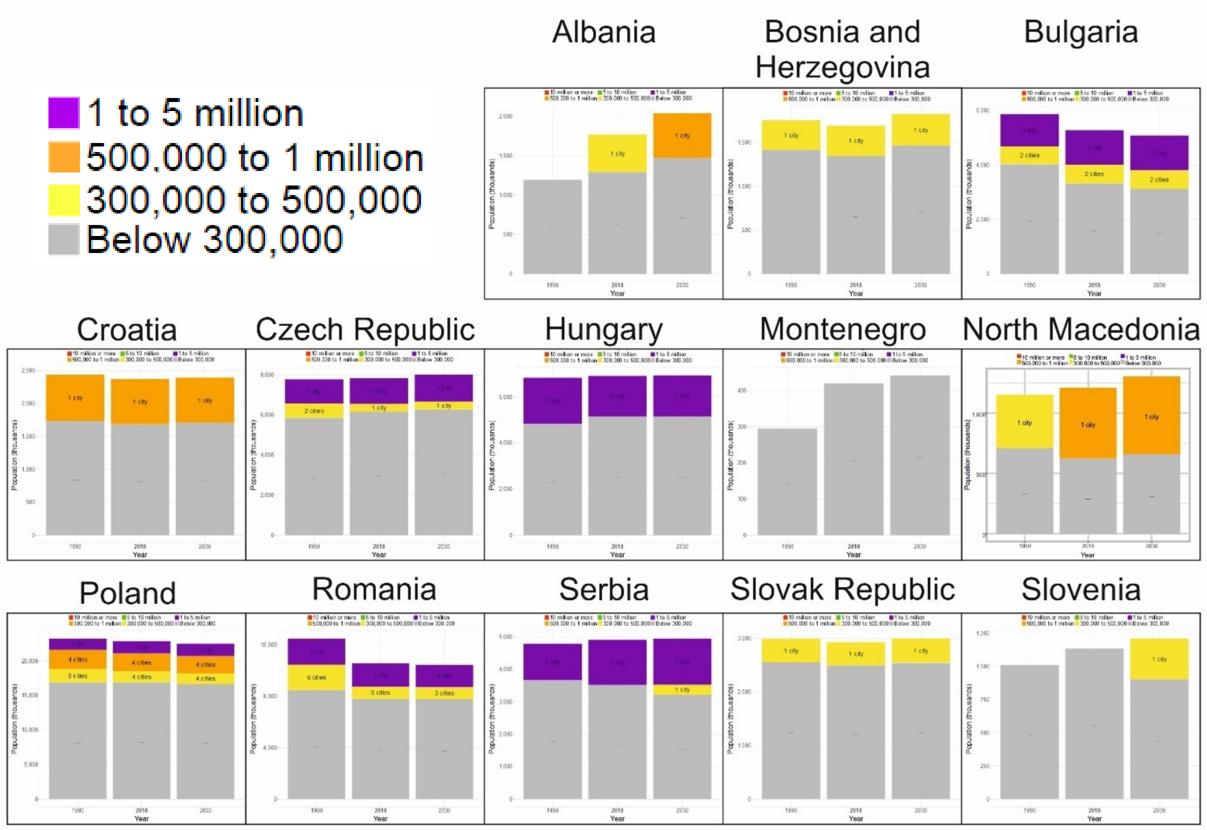
**Figure 1** The share of urban and rural population in CEE & SEE, 1950-2050




Source: Own editing based on UN data (2018)

It is therefore worth looking at Figure 1, which, drawing on the UN database and country-specific city definitions, illustrates the size and proportion of the urban-rural population. The figure clearly indicates population loss for the vast majority of countries in the region under State Socialism. The underlying factors are natural decrease, low fertility rates in all cases, and in some countries, international migration can offset domestic loss from natural decrease. The rising share of urban inhabitants coincides with the more substantial decline in the rural population and the inflow of rural migrants. Depopulation at the lowest level of the settlement hierarchy is a general and common characteristic of the CEE & SEE region not least due to the selective outmigration of the highly qualified population (Sucháček & Pytliková, 2017). This, alongside UN projections on the Visegrad countries, reinforces the claim that depopulation is likely to remain a defining trend for all of the countries. Hence, while there may be no significant rise in the number of urban inhabitants, its proportion will certainly increase. A key trend in territorial development is the changing distribution of the population according to settlement hierarchy, not so much as a result of intensive or extensive urbanization but population decreases in the smallest rural settlements and the relative transformation of the position of small and medium-sized towns as an effect of suburbanization in metropolitan areas. Cities as the centres of economic activity and the primary locations of FDI and international firms show the most significant population-retention capacity in the long run.

**Figure 2** The distribution of the urban population according to settlement category in CEE & SEE, 1990-2018-2030




Source: Own editing based on UN data (2018).

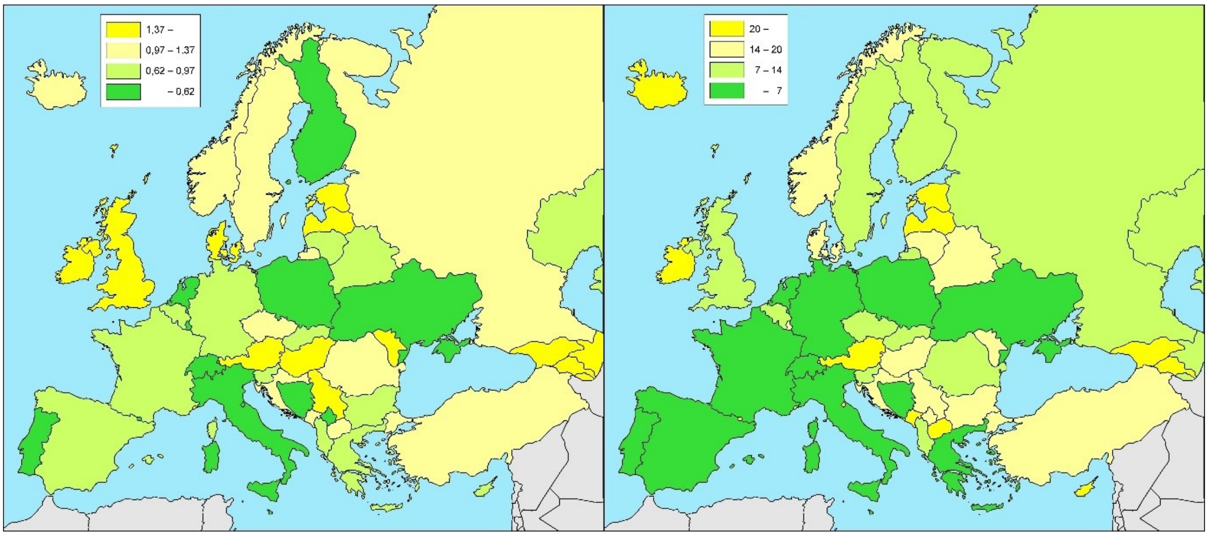
City size distributions in the urban network are illustrated by UN figures (Figure 2). The largest category, i.e., megacities of ten million, is absent in the region, and cities of one million inhabitants are found in less than half of the countries. The data indicate a relatively stable urban population for the period between 1990 and 2030, with some countries (Albania, Montenegro) showing a rising trend due to a very low baseline level. In some countries the declining share of the overall urban population is attributable to drastic population loss. The distribution reveals that, with few exceptions, these countries are dominated by a single metropolitan area, their national capitals acting as major nodes and key command and control centres in their respective national urban and regional systems. Besides the capital cities, the secondary beneficiaries of the transition are the big cities with favorable locational factors situated in the western part of the countries (e.g., Győr, Kosice, Timisoara, Oradea, Plzeň), capable of attracting FDI and thus undergoing rapid economic restructuring and giving rise to several success stories (Rechnitzer & Berkes, 2021; Rechnitzer, 2022). By contrast, the eastern half of the macro-region concentrates the majority of stagnating or lagging behind areas, e.g., the former industrial centres and socialist towns, with demographic erosion, a fragmented settlement structure, sporadic urbanization, problems of economic restructuring, and the weakness of centrifugal forces of regional centres highlighted as their enduring features. Due to the sparser network of cities, the development of regional centres is disconnected from their predominantly rural hinterlands, showing a lower complementarity and interdependence (Rechnitzer & Páthy, 2022). Despite their commitment to the normative ideal of polycentrism, the majority of the countries are struggling with the "capital city syndrome" (Zdanowska, 2015; Scott, 2017; Rechnitzer, 2022), with the exception of Poland, the only country in the macro-region characterized by an absence of macrocephaly and the presence of cities of international significance (e.g. Kraków, Łódź, Wroclaw, Poznań). Poland shows the features of the polycentric setting with numerous and evenly spatially distributed representation of large and medium-sized towns, and a network of fully-fledged, balanced regional centres (Zdanowska, 2015; Páthy, 2017). By contrast, in centralized monocentric settings the second tier of the urban network is dwarfed by the capital in terms of both size and function. This is particularly evident in the Romanian, Bulgarian or Hungarian case where despite numerous state-led initiatives a counter-pole system could not be formed within the city network (Rechnitzer et al., 2019; Szabó et al., 2021; Sandu, 2023).

No significant change is anticipated in this respect in the near future, as indicated by the remarkable stability of the urban network or the developed structure of economic sectors (see Rechnitzer et al., 2014; Sávai et al., 2022), showing only minor shifts and modest rearrangements. Importantly, after a steep decline of their population in the 1990s, diverging demographic processes have begun to take shape in the post-millennial development of regional centres of several countries, with the majority qualifying as "small big cities" with a population of 100 to 200 thousand (Páthy, 2017; Rechnitzer & Páthy, 2022). However, studies examining the major trends of polarization in the urban network in selected CEE countries (Csizmadia & Páthy, 2010; Dogaru et al., 2014; Berkes & Páthy, 2014; Berkes, 2020; Korcelli & Olejniczak, 2021) do not necessarily confirm positive developments for second-tier city regions, undermining their networked FDI-based development due to a lack of knowledge assets and critical size. Moreover, the socio-spatial transformation processes of the city regions themselves are indicative of heteropolitanization (Gentile et al., 2012; Neugebauer & Kovács, 2015) understood as the growing prevalence of socially, economically, culturally and spatially heterogeneous and complex urban spaces. By the same token, the structurally weak macro-regional centers in the Western Balkans cannot counteract the dominance of the respective capitals, given the small size and the limited resources of the former Yugoslavian successor states which barely exceed the size of a Western European NUTS2 region.

In the successor states, we see the consolidation of the new state territory and their own network of cities. The development of the new capitals is the most significant (Figure 3).

**Figure 3** Capital city-centricity in Europe

A) Share of capital city in total population, % B) Population share of the capital and the following five cities

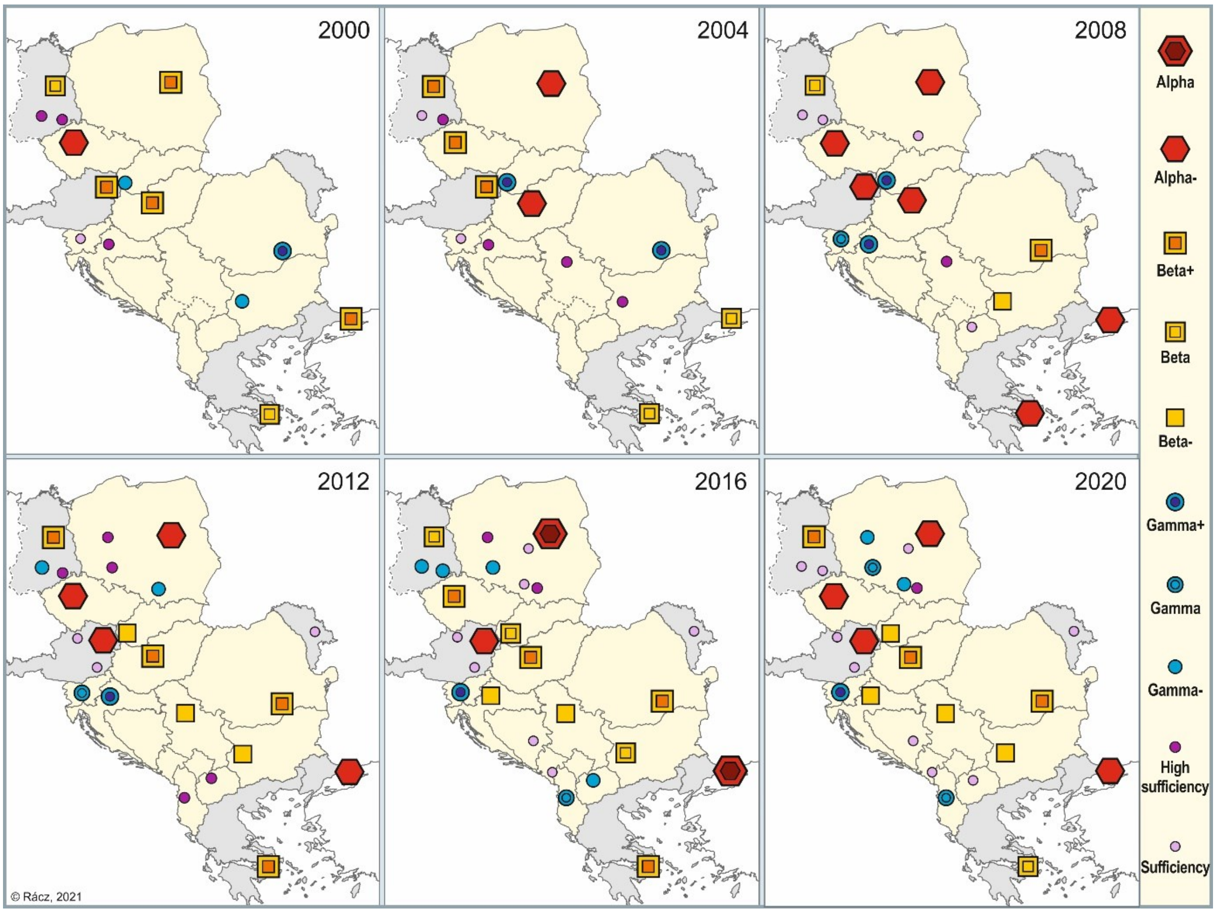



Source: Own editing based on data from national statistical offices.

However, the share of capitals in the total population shows a varied picture and the region is not unique in European comparisons (average: 17%, median: 14%). Of course, a different picture would emerge if we were to look at the national population share of the metropolitan agglomeration, or functional urban area, rather than the administrative area of the capital. The functional development of capital cities also has a significant impact on the nature of the spatial structure and the development of inter-urban and inter-state relations. Taking into account the trends of the last two decades, capital cities continue to strengthen, their central functions become more complex and their development is faster than that of other cities. Macro-regional centres are relatively weak or cannot even be seen as real counterweights, which is a natural consequence of the small size and scarce resources of the states, which are only sufficient to 'produce' one large city. At the same time, the progress of the 'big cities' following the capital in the hierarchy is spectacular. The proportion of the population of the capital cities and the five metropolitan areas following the capital also expresses a kind of polycentricity (or, in our case, monocentricity, capital-centricity). However, in a European comparison (average: 1.1, median: 0.97), the region cannot be considered unique from this point of view.

The most modern global cities' added value is represented by the so-called APS (advanced producer services) firms, whose evolution is illustrated in Figure 4.

**Figure 4** GaWC global cities in CEE & SEE, 2000–2020




Source: Own editing based on data from Globalization and World Cities Research Network (2021)

Although the previous two figures indicate natural decrease and declining or stagnating metropolitan populations for most of the countries, Figure 4 reveals the presence of advanced producer service firms in the major cities of the region. Some neighboring countries (East Germany, Austria, Moldova, European part of Turkey, Greece) are also depicted on the map as a reference to highlight the emergence of services FDI alongside industrial FDI in the CEE & SEE region and the capital-centricity of this process, with the exception of Poland (Rácz, 2019).

Due to the differences in performance and income preserving development gap between EU15 and CEE can also be seen that economic bordering is inherent to the systemic and geo-economic relationships that have emerged as a result of EU integration of post-socialist states during the economic transition of CEE. We argue that processes of economic bordering are inherent to the geo-economic relationships that have emerged as a result of EU market integration and membership of post-socialist countries in the form of dependent development of the Eastern European semi-periphery or super-periphery (Sokol, 2001) of the EU. In this context, economic bordering examines the links between post-socialist transformation, internal problems of capital accumulation and the dominance of FDI, and the conditions for economic integration, while also assessing the results of the convergence achieved. At the same time, neoliberal narratives emphasized East-West convergence, a "normalization" of Eastern Europe by returning it to the European mainstream (Smith, 2002), promoting its catching-up (liberalization, marketing, privatization, and FDI) whereas post-crisis disappointment exacerbated post-2008 slowdown and stagnation, increased vulnerability and economic imbalances in the region (Smith & Swain, 2010). Indeed, compounded with a widening urban-rural divide, emerging conservative issue-based alliances and populist manifestos across Europe (Rodriguez-Pose, 2018; Gorzelak, 2019; Anghel, 2020; Dijkstra et al., 2020), territorial imbalance-related problems arising from persistently low levels of regional economic growth in less developed, non-agglomerated parts of the EU can lead to growing political and economic instability, undermining the European integration project. The varying degrees of economic dependence and economic performance across the region are also related to the differential exposure to FDI in the countries and the success of heterogeneous institutional, political systems and economic policies (Drobniak et al., 2017). We argue here that economic borders reflecting a different economic performance gap between CEE and the West are still alive, rigid and slow to change.

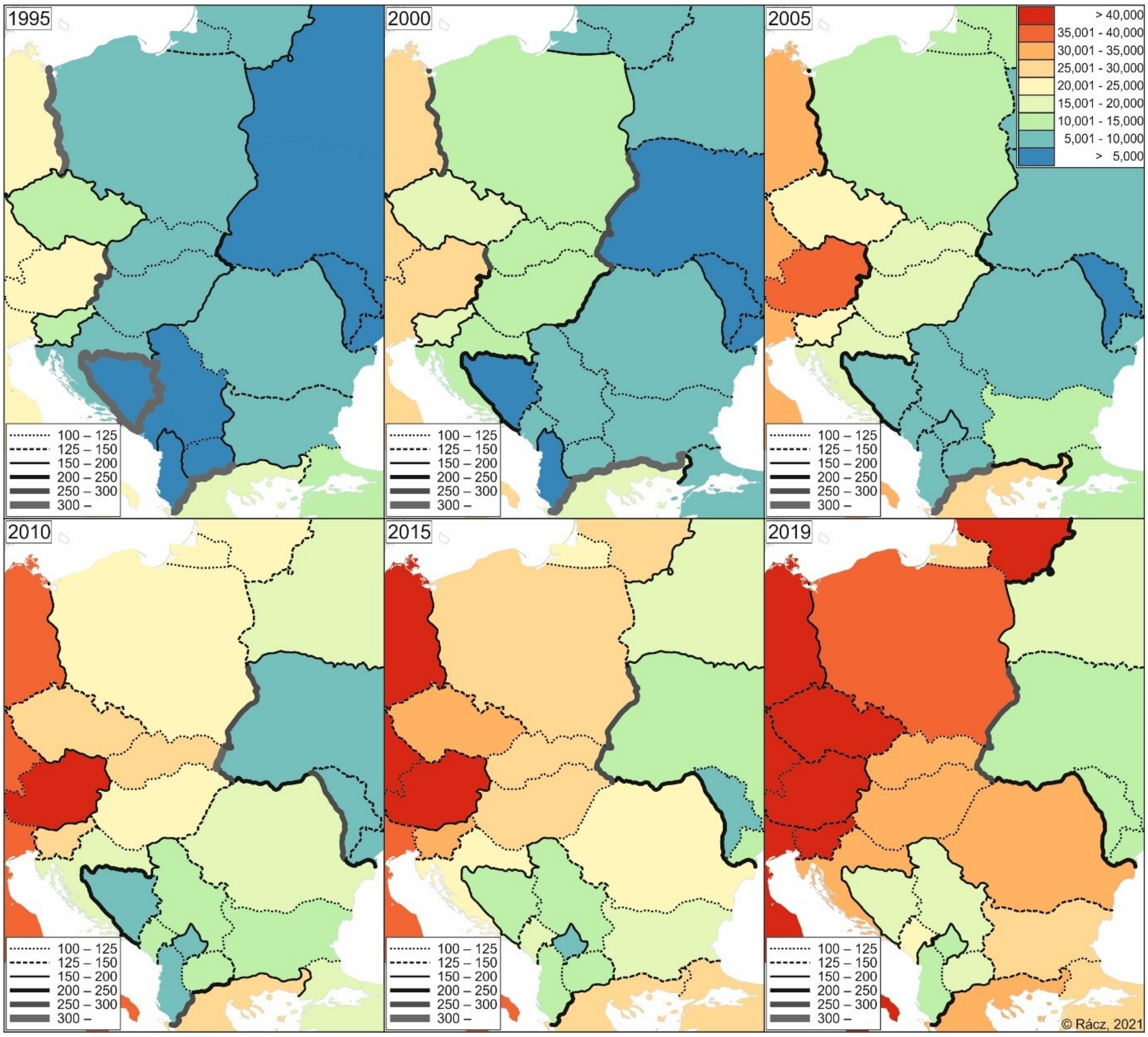
## FAULT LINES – INSTEAD OF A CONCLUSION

Post-socialist economies have achieved a rather fragile equilibrium that allows for distinct kind of economic development intrinsically rooted within an international division of labour. However, this fragile equilibrium is not only dependent on internal development, but also largely depends on continuous external shocks (2008, COVID, energy crisis) to which the region's small and open economies are less resilient.

The slow catching-up of CEE countries towards the EU average can be observed at the national level but there is no significant income convergence detected. However, integration has led to fragmentation and more significant heterogeneity at the sub-national level. Instead of a summary, the paper concludes by briefly addressing the role of borders as fault lines.

Figure 5 illustrate economic development and the evolution of economic fault lines. The figure shows the relative development of the neighboring countries, by depicting the ratio of national GDP per capita in the border area (the thickness of the borderline indicating the size of the gap).

**Figure 5** Economic development and fault lines in CEE & SEE, 1995-2019




Legend: The colors indicate GDP per capita values at purchasing power parity (USD current prices), while the line thickness indicates GDP per capita ratios of neighboring states or provinces.
Source: Own edition based on data from the World Bank (2021).

Notwithstanding the lack of income convergence, CEE countries appear to be slowly catching up with the EU average at the national level. Their very low initial GDP and FDI bases are largely responsible for this trend (Bevan & Estrin, 2004), but in the long run, their FDI-led model does not contribute to prosperity, welfare and domestic capital accumulation, due to significant income outflows and the increasing appropriation of surplus value in an east-west direction (Gál & Lux, 2022; Drahokoupil & Galgóczi, 2015). However, this integration has led to fragmentation at the sub-national level, as demonstrated, for instance, by the spatially uneven distribution of FDI at the forefront of re-industrialization (Páthy, 2022; Gál & Lux, 2022). Figure 5 shows, for instance, the reconstruction after the South Slavic wars (Bosnia and Herzegovina), the positive impact of EU accession (Austria and Germany vs. the V4 countries; Hungary vs. Romania), the aftermaths of the 2008 economic crisis (loss of comparative advantage: Greece and Slovenia), and the post-2014 effects of the war in Ukraine. The figure confirms the statement of Iván Illés (2002, 276) according to which "the most important challenges of integration are never articulated within a single country, but in relation to two or more countries". The common spatial structural challenges facing the CEE & SEE countries have been amplified by the 2020 coronavirus crisis, triggering a series of covidfencing measures with negative implications for regional and local economic development, particularly in European cross-border areas (Medeiros et al., 2020). The pandemic has led to intensifying health inequalities and the emergence of new types of inequalities, highlighting the role of settlement hierarchies, core-periphery relations and social stratification in determining the severity of COVID outcomes (Kovács et al., 2020; Uzzoli et al., 2021; Szentes et al., 2023).

In terms of the outstanding development and growing role of capital cities, it is confirmed that their absolute and relative weight is inevitable. 1) On the one hand, this is a specific consequence of the change in the political structure. On the other hand, the small size (potential, resources) of most of the states also means that capital-centricity is extreme. Only the number one city is able to develop and promote the development of its capital. 3) Thirdly, because of the top-down modernisation along the settlement hierarchy, the development of capital cities always precedes that of other cities in time, thus increasing their relative advantage and their functional expansion. The strengthening of the entire urban network, its polycentric, balanced development, is only the next step. Plans and programmes in almost all countries already point to this. Integration links have set in motion this new stock of capital cities in a European dimension, where, however, none of the cities are functionally significant.

At the same time, we have discussed the different core-periphery ideas in terms of their suitability for interpreting the geoeconomic context. We have evaluated the role of foreign capital, and the FDI model in particular, in conditioning geo-economic relations and exacerbating the vulnerability of CEE economies. External capital dependency in postcolonial dependency regimes poses long-term disadvantages for the accumulation of financial, human, and even social capital a problem that can be considered a historical weakness of CEE, especially after periodic "transformation crisis" caused by frequent regime changes and the accompanying transformation losses (Huigen & Kołodziejczyk, 2023). The limitations of our approach are given by the fact that we analyze CEE as part of a generalized heuristic of core-periphery relations in order to highlight the role of foreign economic influence and investment in CEE. However, we suggest that these limitations are offset by our general conclusions regarding geoeconomic dependencies within the EU.

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