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Manuscript of the article in English

"Changes in the pattern of Centre and Periphery: EU Integration of East-Central Europe [1]

(Possible Strategies for full Integration with the Centre)

1. Some general features of EU integration

In the last about half a century, we experienced fundamental changes in the European integration.

1. The EU, through the process of deepening, have reached a *high level of institutional integration.* International integration can be defined as a new quality of international cooperation; it creates new frameworks and structures in the organisation and functioning of the economy. The past decades saw the appearance of a great number of regional integration organisations (several dozens), which can range from free trade areas to economic unions. With some few exceptions (such as North Korea or Cuba) all of the ca. 200 countries of the world participate in at least one regional organisation. The process of global integration is stratified with regional ones, which are in mutual interaction and constantly counterbalance each other. The global and regional integrations together make up international integration.

The EU is unique among them. The EU has several distinguishing factors, namely: 1) it is the only integration organisation which has created *a complex single internal market* and reached the level of real economic union by *introducing a single currency* (the 18 Euro-zone members provide 77% of the EU total GDP), 2) they extended the *principle of cohesion to the level of the Union*, and 3) in institutional terms, it acquired *a certain political identity* (have become a *polity*) with *several elements of supra-nationality*. The EU is *a model for regional integration*. It is much more than a simple international organisation, but still much less than a classical federation.

2. The 28 EU members *cannot be considered as a monolithic and uniform group.* Their diversity increased on a great extent as result of several waves of enlargements. From the 1980s, the former Southern and Eastern peripheries have become members of the Union. In fact, based on their sub-regional characteristics (supported by a later analysis), the 28 members can be placed into different groups. As far as the Western European members are concerned, a distinction between North-Western (Austria, Belgium, Netherlands, Luxemburg, and Germany) and South Western Europe (France, Italy, Ireland and UK) is easily justified based on certain parameters of performance and connectedness. Under certain parameters, the UK can be placed into either group. Ireland has been on the Western periphery of Europe, but at least in terms of per capita

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GDP it overtook several developed partners. In a more strictly defined Northern Europe, the Scandinavian EU (Denmark, Sweden and Finland) should be distinguished (in terms of many parameters Norway can be considered as part of this group). These three groups are the *Centrum of the Union,* while we consider *the NWE and Scandinavian EU as Northern "Core" of the Union.*

The *Southern (Mediterranean) EU* members joined the EU already in the 1980s, but we consider the two Mediterranean new members (Cyprus and Malta, joined in 2004) as parts of the region. But among them, based on intensity and interconnectedness of relations, two groups could be distinguished. One we call as *Latin South* (Portugal and Spain), the other *Greek South* (Greece and Cyprus), while Malta is rather a special case.

The *new Eastern members can be put in three groups*. There are clear differences between Central Europe (the Czech Republic, Hungary, Poland, Slovakia, Slovenia, and Croatia) and the Eastern Balkans (Bulgaria and Romania). The latter group also claims a Central-European status for itself, but on the basis of historical and cultural traditions (Catholic-Protestant and Orthodox – Islamic) the distinction remains justifiable (although Romania is a special case). On the basis of their very different characteristics, the Baltic EU (Estonia, Latvia and Lithuania) clearly distinguish themselves.

Our focus here is on Central Europe, but the above countries should be referred to as "East-Central Europe", and based on historical, geographical and economic factors and ties, the Western extension of this sub-region should not be neglected. West Central Europe is defined as being composed of Austria, Germany and Italy (although, some researchers place Switzerland also into this group as Switzerland is a member of the Central European Initiative). In a narrower sense, only Southern Germany (Bavaria or Baden-Württemberg) and North Italy (Venice or Lombardy) belong to this region (parts of the former Habsburg Empire), but the separation would be too complicated. Historically, Germany often defines itself as Central Europe (Mittel-Europa).

3. In the last decades, the EU has developed to a high level of real-integration, which means high intensity of relations, interconnectedness and interdependences. We analyse and measure the level of integration with help of parameters of *integration profile.* (It is a method of measuring integration developed by researchers of Corvinus University of Budapest) The main parameters and dimensions of the profile analysis can be summarised in the following:

1. Real-economic integration (integratedness);
2. Institutional and regulatory integration;
3. Comparative performances;
4. Convergence and divergence.

2. Main characteristics of real-integration performances of the EU

We have chosen six parameters for a synthetic evaluation and measurement of the real-integration performance of EU members:

- Intensity of trade integration;
- Intensity of capital relations (capital import);
- Intensity of capital relations (capital export/import);
- Structural convergence;
- Sub-regional interconnectedness;
- Balancedness of integration relations.

Performance based on above parameters is summarized on a 1-5 scale. A higher score indicates a higher level of integration.

I. Intensity of trade integration:

Trade intensity can be analysed as either a process or as a state. Here we will concentrate on the state and, therefore, will use stock indices. Out of all the possible combinations, we choose the following:

1. *Share of export and import to GDP*, which can be related to total or intra-regional trade. The former indicates the intensity of global integration (integratedness), while the latter is a demonstration of the intensity of regional trade integration.

$Txt/Y \times 100$, or $Tmt/Y \times 100$.
(Txt and Tmt – total export and total import)

$Txi/Y \times 100$, or $Tmi/Y \times 100$.
(Txi and Tmi – intra-regional export or import).

The annual data express the *intensity and integratedness*, i.e., the state and the dynamics of the integration process. The indices, besides intensities, also indicate openness and dependencies. The higher the indices, the greater is a country's *openness and its dependence* on external factors and processes. In our analysis, we look at the internal export data.

Analysing the *intensity of trade,* we propose *five different categories (clusters)*.

0	10%		25%		40%		60%		100%
I	No	I	Low	I	Moderate	I	High	I	Very High	I

The below 10% trade share in GDP can be considered as the indication of no external dependence, a structurally closed economy, and a lack of intensity. Low intensity is considered here between 10-25%, moderate intensity between 25-40%, high intensity between 40-60%, while very high intensity (dependence and openness) above 60%. These ranges can be disputed, but in accordance with the literature, we accept 10% as a minimum dependency threshold, and 40% as a threshold of high dependence. The *scaling is relative*, in absolute terms, as 25% of share of trade in GDP is already a sign of high openness and dependence. This analysis can be carried out for goods or goods and services, export and import, and internal export. As export reflects competitiveness, export data is preferred. We use 2008 data, which reflect the state of integration before the crisis. The analysis of crisis impacts would need a longer time horizon, for which we do not have proper data.

Share of trade of goods and services in GDP in the EU (2008, in %)

Country	Export of goods	Export of goods and services	Import of goods	Import of goods and services	Internal export in total	Internal export in GDP
Western European core countries						
Belgium	73.4	91.0	76.5	92.9	75.9	69.1
Netherlands	60.7	72.7	54.3	64.8	78.9	57.3
Germany	40.7	47.4	33.6	41.4	63.3	30.0
Ireland	43.9	81.2	31.1	71.3	62.8	50.0
France	20.9	26.5	24.0	28.9	63.9	17.0
Italy	23.6	28.9	23.6	29.4	58.9	17.0
Luxemburg	39.7	167.9	51.4	126.8	88.9	147.0
Austria	45.1	60.2	45.2	55.5	67.5	40.7
U. K.	17.4	28.1	23.8	31.4	57.0	16.0
Scandinavian EU						
Denmark	33.6	54.7	34.0	52.3	69.8	23.5
Finland	35.5	46.0	32.3	42.0	55.9	19.8

Sweden	38.5	53.5	34.7	46.1	60.1	23.1
Southern EU						
Greece	8.2	22.2	26.3	33.3	62.5	13.9
Spain.	17.7	26.6	25.7	32.2	69.6	18.1
Cyprus	7.7	49.8	42.3	62.1	69.3	34.5
Malta	36.1	80.2	57.0	83.9	46.8	37.5
Portugal	23.0	33.8	35.8	42.6	74.4	25.1
Baltic countries						
Estonia	53.8	76.1	65.7	80.4	70.1	53.3
Latvia	28.0	41.4	45.0	54.4	68.6	28.4
Lithuania	49.8	60.0	61.4	70.6	60.3	36.2
Central Europe (East)						
Hungary	68.3	81.2	68.2	80.3	78.2	63.5
Czech Rep.	66.5	76.7	63.7	75.7	84.9	64.7
Slovakia	73.5	82.4	74.6	84.3	85.4	70.4
Poland	33.2	39.9	37.8	43.5	77.8	34.4
Slovenia	54.0	68.0	61.0	70.2	68.1	46.3
East Balkans						
Bulgaria	44.8	70.5	70.4	83.7	60.0	42.3
Romania	24.5	30.9	37.9	43.7	70.5	21.7
EU27					67.5	
Japan	38.0	48.0	18.8	28.6	-	-
USA	15.3	18.4	14.5	18.0	-	-

Source: Europe in Figures, Eurostat Yearbook 2009. Eurosat.

For synthetic scoring, we rank the countries on the following five scales:

1 - <60%; 2 - 40-59%; 3 – 25-39%; 4 - 24 – 11%; 5 >10%.

II. Intensity of capital relations (capital export):

Factor market integration is important from the points of view of the efficient allocation of resources and the exploitation of the benefits offered by integration. It is measured with *labour and capital movements*, with the inclusion of flows and stocks. The export and import of capital (Cx and Cm) indicates the dynamics of integration, and their share in the GDP at a given moment is an indicator of the intensity of integration:

$Cx/Y \times 100$ *and* $Cm/Y \times 100.$

In order to measure intensity and dependence, we propose the same scale as in the case of trade. The only difference is that the border between moderate and high intensity is 45%, the EU average, instead of the previously applied 50%.

0 10% 30% 45% 60% 100%
I No I Low I Moderate I High I Very High I
Scaling of the level of intensity (dependence)

III. Intensity of capital relations (capital export)

From the points of view of the level of development and balancedness, the *relations of capital export and capital import* are also important:

Cx/Cm × 100.

In any given country, high level of foreign investments can express the high intensity of global or regional integration. However, if its capital export is minimal or is lacking, it indicates *unilateral dependences and an asymmetry in its integration*. In highly developed countries, these indicators are balanced, and this balance is on a high level of intensity in both dimensions.

The *most developed countries are characterized with net external investment positions besides high capital intensity.* In most of these countries, the capital export is about a third higher than the stock of received capital. The new member countries are still net capital importers, but the recent years they started to export capital on a growing scale.

FDI in EU countries in 2009 and in 2011

Country	Internal stock 2009 ($ bn)	Internal stock 2009 in % of GDP	External Stock 2009 ($ bn)	External stock 2009 in % of GDP	External stock in % of internal stock in 2009	Internal stock 2011 in % of GDP
Western European countries						
Belgium	947	200	892	188	94	195
Ireland	248	111	289	130	117	116
Netherlands	644	81	953	120	149	68
U. K.	1 104	51	1 580	73	124	50
Austria	173	45	163	43	95	38
France	985	38	1 493	57	150	34
Germany	945	29	1 250	41	141	25
Italy	364	17	486	23	135	15
Scandinavian EU						
Sweden	332	82	353	87	106	63
Denmark	154	50	198	64	128	44
Finland	85	36	130	54	150	32
Southern EU						
Portugal	115	49	69	29	59	46
Spain	632	43	626	43	99	42
Greece	42	13	39	12	93	10
East-Central Europe						
Hungary	100	78	20	16	21	60
Czech Rep.	126	64	15	8	12	58
Slovakia	53	60	3	4	7	53
Poland	185	43	29	7	16	38
Slovenia	15	31	9	19	60	31
Estonia	16	84	6	33	40	75
Eastern Balkans						
Bulgaria*	-	63	-	1	1.5	-
Romania*	-	35	-	1	2	-
EU27	7 598	46.6	8 888	54.5	118	42.8

* Eurostat data

Sources: OECD International direct Investment Database, Eurostat, IMF. OECD/DAF – INVESTMENT: DIVISION. October 2012.

In the synthetic scoring an average of shares of incoming and outgoing capital investments in GDP in 2009 are taken, and the countries are ranked according the following scaling:

1 - <60%; 2 - 45-59%; 3 – 30-44%; 4 – 11-29%; 5 - >10%.

IV. Structural convergence:

The structural convergence is one of the most important parameters a integration profiles. We compare the commodity structures of in internal export of the EU countries.

Commodity structure of internal export of EU countries in 2010

(%)

Internal export	I.	II.	III.	IV.	V.	VI.
EU27	9.7	3.6	6.8	16.4	34.9	28.6
Western Europe						
Austria	7.6	3.8	4.1	10.7	36.5	37.2
Belgium	10.0	3.0	8.8	30.3	21.1	26.7
France	15.8	3.5	3.8	18.7	35.5	22.6
Germany	6.9	2.7	2.8	16.6	42.4	28.6
Italy	9.2	1.7	3.7	12.4	33.4	39.6
Scandinavian EU						
Denmark	20.4	3.9	12.9	13.2	21.1	28.3
Finland	2.2	6.6	11.6	9.1	23.9	46.7
Sweden	5.9	7.9	8.3	12.4	32.1	33.3
Central Europe						
Czech Republic	4.0	3.4	4.3	5.8	53.9	28.6
Poland	10.6	2.7	4.5	7.6	40.8	33.8
Hungary	7.3	2.8	2.5	8.4	59.2	19.8
Slovakia	4.2	3.2	5.6	4.8	51.1	31.1
Slovenia	5.0	4.1	3.0	11.2	44.0	32.7
Eastern Balkans						
Bulgaria	14.8	9.3	5.4	5.2	19.7	45.6
Romania	6.2	4.5	3.0	4.9	44.2	37.1
Southern EU						
Greece	25.6	5.2	7.1	17.1	10.2	34.8
Portugal	10.4	5.9	3.8	8.5	27.9	43.5
Spain	16.2	3.5	3.5	13.5	36.1	27.3
EU total export (in mn €)	245.405	92.494	172.243	414.866	883.958	686.588

Source: External and intra-EU trade, Annual statistical yearbook (Data 1958-2010)

SITC: 100
I. 0-1 Food, drinks and tobacco
II. 2+4 Raw materials
III. 3 Energy
IV. 5-6-8 Chemicals and manufactured goods
V. 7 Machines and transport equipments
VI. 9 Other

There are *some differences among the EU member countries in terms of the structure of their internal EU trade* (export).

The shares of manufacturing, and particularly that of machines and transport equipments, say a lot about the level of internal integration. Of course, the proportions are relative, and, therefore, their comparison could be misleading. What is striking, however, is that compared to the average proportions of the Western Core (except Belgium), *Central Europe is above that average*, indicating *a shift of the European manufacturing base to the region* in the last decade. With regard to the other manufacturing goods, they are also somewhat above, and of course there are certain trade-offs between the two product groups (as in the case of Hungary).

While Spain is a little above the average in these sectors, *the low level of the Southern EU* is also striking. That is particularly the case with Greece, concerning machines and transport equipments (10%). The Greek share of total internal manufacturing export (45%) is almost half of that of Central Europe (Czech Republic and Slovakia: 82%; Poland, Hungary and Slovenia: 77-79%). As agricultural export is concerned, Greek share is more than 25%, while it is 11% for Poland and 7% for Hungary

V. ***Sub-regional connectedness in EU integration***

The strengthening of integration relations has meant an increase of the share of intra-trade among the member countries. The growth of cooperation, however, was not proportional, as the *process was characterised with sub-regional concentrations*, particularly among the neighbouring countries. This is a general characteristic of European integration, and the process was further strengthened by the various enlargements.

The previous methods of *scaling* can be applied to the measurement of sub-regional concentrations as well:

0		10%		45%		65%		75%		100%
I	No	I	Low	I	Medium	I	High	I	Very High	I

Scaling of the level of intensity (dependence)

When *measuring sub-regional concentrations or connectedness*, we can depart from the *proportions of external and internal trade*. These proportions are roughly 65-35%, as far as internal and external trade are concerned. We have chosen 65% as the benchmark, above which we can speak of high interconnectedness (with very high levels above 75%). Between 45-65% interconnectedness is at a moderate, while a 10-45 per cent is an indication of low levels.

We propose the following scaling: 1: 75-100%; 2: 65-74%; 3: 45-64%; 4: 11-44%; and 5: 10<.

We wish to introduce the *notion of strategic partnership*; that is, *the proportion of the other is more than 10%* in the trade of a country or a region. *If these proportions are mutual, then, in spite of certain dependence asymmetries, we can speak about a relatively balanced interdependence.*

The EU *internal trade is highly concentrated sub-regionally.* The *Western European EU members*, besides the high intensity of their trade, are characterised by *a high level of connectedness* (which is above 65%) as well. In the case of Belgium and Ireland, about 85-86% of their intra-export goes to the sub-regional partners, but this proportion is close to 65% in case of the UK. About 75% of the intra-trade takes place within the Western European core countries.

Inside the core, *Germany is a central and strategic partner.* On average, 23.2% of the EU total trade is provided by Germany. The two extremes in this respect are Ireland with 11.4% and Austria with 43.1% of the German share. In spite of the high German participation, the countries of the region are also strategic partners of Germany, as their share is above 10% in the export trade of Germany. In terms of internal export, this is the case with France, Italy, The Netherlands and the UK, with Belgium and Austria close to this position. Consequently, despite of the German preponderance, *the core countries' relations are characterised by a balanced interdependence*. Nevertheless, the distinction between North and South Western Europe needs to be once again emphasized, mostly because of their different positions in terms of trade balances.

The relational structure of EU trade in 2009
(Percentage of internal export)

Country	Western-Europe	Germany	Central Europe*	Scandinavian EU	Southern EU
Northwestern core countries					
Belgium	84.9	25.8	4.4 (0.6)	3.7	6.2
Netherlands	81.5	33.3	5.6 (0.7)	4.8	6.7
Germany.	66.8	-	14.6 (1.7)	7.1	8.8
Ireland	86.2	11.4	2.2 (0.7)	2.6	8.4
Austria	69.4	43.1	19.9 (2.5)	2.7	4.2
Luxemburg	79.1	23.2	4.5 (0.6)	5.4	6.3
U. K.	64. 7	20.1	4.4 (0.7)		11.6
Southwestern Europe					
France	71.5	25.6	5.9 (1.2)	3.7	16.2
Italy	65.1	22.0	10.6 (7.3)	3.4	16.8
U. K.	64.7	20.1	4.4 (0.7)	6.7	11.6
Scandinavian EU					
Denmark	53.3	25.9	6.4 (0.8)	22.5	6.3
Finland	47.6	18.6	8.3 (0.8)	21.1	7.1
Sweden	60.8	17.4	6.7 (0.5)	23.6	6.1
Southern EU					
Greece	66.9	21.3	4.4 (4.7)	3.1	10.2
Spain	74.4	16.1	4.9 (0.9)	2.3	15.2
Cyprus	36.7	13.6	2.3 (2.9)	3.1	37.8
Malta	86.0	30.0	3.5 (0.7)	3.2	3.6
Portugal	55.4	17.4	2.8 (0.8)	3.2	35.7
Baltic countries					
Estonia	23.6	8.8	3.8 (0.3)	49.6	1.5
Latvia	28.1	12.1	7.5 (0.6)	11.6	2.9
Lithuania	43.9	15.1	13.6 (3.0)	18.0	15.1
East-Central Europe					
Hungary	66.0	32.3	16.5 (7.8)	2.8	5.8
Czech Rep.	69.3	38.3	20.7 (4.7)	3.4	3.7
Slovakia	56.4	22.6	33.3 (2.7)	3.2	3.9
Poland	69.5	32.8	14.1 (2.19	6.7	2.2
Slovenia	73.2	28.0	18.4 (4.2)	2.5	2.7
Eastern Balkans					
Bulgaria	53.2	17.4	7.3 (6.0)	1.7	21.0
Romania	60.1	23.6	22.2 (3.2)	1.7	5.6

Source: Europe in Figures, Eurostat Yearbook 2011. Eurostat.
In every case the regional share does not include the respective country.
* Central Europe + Eastern Balkans

VI .Balances of integration trade relations

The *balance of integration trade* (balancedness) is *a qualitative indicator*, which refers to the structure, the level of development and the competitiveness of countries. Imbalances are reflections of *asymmetries in trade integration*. (distinction can be made between balances for internal and external trade). *The balances of internal trade are one of the basic indicators of the development and state of regional integration.*

In relative terms (trade balance in % of GDP), the EU members can be placed into four categories:

1. High surplus (HS) countries with more than 3% in GDP;
2. Low surplus (LS) countries between 0 and +3%;
3. Low deficit countries (LD) between 0 and -3%; and
4. High deficit countries (HD) with more than -3%.

Summary of trade balances of EU countries in 2009

Country	Share in EU trade (%)	Balance of internal trade	Internal trade balance in GDP %	Balance of external trade	External trade balance in GDP %	Trade balance with Germany
Surplus countries						
Belgium	9.2	+	HS	+	HS	+
Netherlands	12.6	+	HS	+	HS	+
Ireland	2.3	+	HS	+	HS	+
Germany	23.2	+	HS	+	HS	NO
Hungary	2.1	+	HS	+	HS	+
Czech R.	3.1	+	HS	+	HS	+
Slovakia	1.6	+	HS	+	LS	+
Mixed performances						
Denmark	2.1	+	LS	+	HS	-
Poland	3.6	+	LS	-	LD	-
Slovenia	0.6	-	LD	+	LS	+
Luxemburg	0.6	+	LS	-	HD	-
Finland	1.1	-	LD	+	LS	-
Sweden	2.5	-	LD	+	LS	-
Deficit countries						
Italy	7.6	-	LD	-	LD	-
Spain	4.9	-	LD	-	HD	-
UK	6.4	-	LD	-	HD	-
Lithuania	0.3	-	LD	-	HD	-
France	9.8	-	HD	-	LD	-
Austria	3.2	-	HD	-	LD	-
Greece	0.4	-	HD	-	HD	-
Portugal	1.1	-	HD	-	HD	-
Malta	0.0	-	HD	-	HD	-
Cyprus	0.0	-	HD	-	HD	-
Latvia	0.2	-	HD	-	HD	-
Estonia	0.2	-	HD	-	HD	-
Bulgaria	0.3	-	HD	-	HD	-
Romania	1.0	-	HD	-	HD	-

HS – High Surplus; LS – Low Surplus; LD – Low Deficit; HD – High Deficit

Synthetic real-integration Score Board, EU 27, 2009

Country	I	II	III	IV	V	VI	Average
Western Europe							
Belgium	1	1	1	1	1	1	1
Netherlands	1	1	1	1	1	1	1
Germany	2	3	3	1	2	1	2.0
Ireland	1	1	1	1	1	1	1
Austria	1	2	3	1	2	3	2.0
Luxemburg	1	1	1	1	1	2	1.17
U.K.	3	2	1	1	2	3	2.0
France	3	3	2	1	2	2.5	2.25
Italy	3	4	4	1	2	3	2.83
Scandinavian EU							
Denmark	2	2	1	2	4	2	2.16
Finland	2	3	2	2	4	2.5	2.60
Sweden	2	2	2	2	4	2.5	2.60
Southern EU							
Greece	3	4	4	3	5	4	3.83
Spain	3	3	3	1	4	3.5	2.92
Cyprus	2	3	-	-	4	4	3.25
Malta	1	4	-	-	4	4	3.25
Portugal	3	2	4	3	4	4	3.33
Baltics							
Estonia	1	1	3	-	3	4	3.4
Latvia	2	-	-	-	4	4	3.33
Lithuania	1	-	-	-	4	4	3.0
East-Central Europe							
Hungary	1	1	4	1	4	1	2.0
Czech Rep.	1	1	4	1	4	1	2.0
Slovakia	1	1	5	1	4	1.5	2.25
Poland	2	3	5	1	4	2.5	2.92
Slovenia	1	3	4	1	4	2.5	2.59
Eastern Balkans							
Bulgaria	1	-	-	-	4	4	2.8
Romania	3	-	-	-	5	4	3.33
EU27							

I. Intensity of trade integration;
II. Intensity of capital relations (capital import);
III. Intensity of capital relations (capital export);
IV. Structural convergence;
V. Sub-regional interconnectedness;
VI. Balancedness of integration relations.

In the case of a parameter, we rely on the formerly applied scaling approach. Performance is summarized on a 1-5 scale. A lower ranking indicates a higher level of integration. The synthetic scores are calculated from the mathematical average of six parameters:

Extremely highly integrated countries:	1: 1-1.99
Highly integrated countries:	2: 2-2.99
Medium integrated countries:	3:3-3.99
Low integrated countries:	4: 4-4.99
No integration:	5: 51 >

1. Extremely highly integrated countries: BE, NL, IE, and LU.

2. Highly integrated countries: DE, AT, FR, UK, IT, DK, FL, SE, ES, EE, SL, SK, HU, CZ, PL. and BG.

3. Moderately integrated countries: EL, CY, ML, LT, LV, EE and RO.

(In this group we have placed the Southern EU (except Spain), the Baltic countries (except Estonia), and the two Eastern Balkan countries. Their listing is influenced mainly by their lower capital intensity, which balances their trade relations.)

Five groups have been formally created, but the countries can be placed into three. In some cases, the performance can be low or marginal (the trade integration of Cyprus or Greece), but the minimum moderate level of integration is achieved by every single country.

In general, *the EU is characterised by a high level of global and regional integration, which creates a unique position for the Union in the global economy.* It should be noted that taking into account every parameters, *Hungary belongs with Benelux, Ireland and Czech Republic to the six most highly integrated countries of the European Union.*

5. Some feature of the regulatory integration of the EU

The European Union with single market and economic and monetary union is *a unique regional integration organisation* in the world economy. Considering the high diversity of the Union, the question arises how the different integration forms and policies of integration can be *uniformly and simultaneously introduced and applied* by the member states.

As far as the basic market integration forms concerned, including the single market assume relatively uniform and comprehensive implementation. The case was different with *launching the project of economic and monetary union.* It was clear that the different countries are not equally prepared, and already the future stability and satisfactory operation of the project was at stake. Furthermore, there were substantial differences in the interests among the countries. It is not surprising that so far the euro has been introduced only in 18 countries, while the other countries participation is delayed by formal opting out agreements, or by different type of policy choices, which put their joining into the uncertain future. One typical case of staying out is the Schengen Agreement, but the same applies to some of the reform packages, particularly those which were brought for improving the governance of the euro-zone. The past decades, particularly as far as its higher forms are concerned proved that the EU integration more and more corresponds to the notion of *„variable geometry" or „multi-speed" Europe.*

In the following, we try to summarise the participation of different member countries in the main frameworks. While in the single market all the members participate, as the Schengen Agreement is concerned already several countries remain outside. All the euro-zone members participate in the euro reform projects (Euro Plus, Fiscal Compacts, Bank Union or ESM). The Euro Plus Pact was joined by many non-euro-zone countries, in fact only 4 countries (UK, Sweden, Czech Republic and Hungary) remained outside. Hungary, formally, was mainly against the company tax harmonisation. On the Fiscal Compact and Bank Union only UK declared its rejection, while the other non-euro-zone countries either joined or conditioned their participation (Sweden, Czech Republic and Hungary).

Participation in monetary integration structures

Countriy	**Single Market**	**Euro-Zone**	**ERM I – II.**	**Euro Plus**	**Fiscal Compact**	**Bank union**	**Schengen**
Western-Europe							
Belgium	+	+	+ (I)	+	+	+	+
Netherlands	+	+	+ (I)	+	+	+	+
Germany	+	+	+ (I)	+	+	+	+
Ireland	+	+	+ (I)	+	+	+	0
Austria	+	+	+ (I)	+	+	+	+
Luxemburg	+	+	+ (I)	+	+	+	+
U.K.	+	0	+ (I)	0	0	0	0
France	+	+	+ (I)	+	+	+	+
Italy	+	+	+ (I)	+	+	+	+
Scandinavian EU							
Denmark	+	0	+ (I-II)	+	+		+
Finland	+	+	+ (I)	+	+	+	+
Sweden	+	0	0	0	C		+
Southern EU							
Greece	+	+	+ (I-II)	+	+	+	+
Spain	+	+	+ (I)	+	+	+	+
Cyprus	+	+	+ (II)	+	+	+	C
Malta	+	+	+ (II)	+	+	+	+
Portugal	+	+	+ (I)	+	+	+	+
Baltikum							
Estonia	+	+	+ (II)	+	+	+	+
Latvia	+	0	+ (II)	+	C	+	+
Lithuania	+	0	+ (II)	+	C	+	+
Eastern – Central – Europe							
Hungary	+	0	0	0	C		+
Czech Republic	+	0	0	0	C		+
Slovakia	+	+	+ (II)	+	+	+	+
Poland	+	0	0	+	+		+
Slovenia	+	+	+ (II)	+	+	+	+
Eastern Balkan							
Bulgaria	+	0	0	+	+		0
Romania	+	0	0	+	+		0
European Economic Area							

Norway	+	-	-	-	-	-	+
Island	+	-	-	-	-	-	+
Lichtenstein	+	-	-	-	-	-	+
Switzerland*	C	-	-	-	-	-	+

Sources: Official EU Documents.

C – Conditional, limited with derogations.
ERM – Exchange Rate Mechanism

- Switzerland formally is not member of the European Economic Area, but it fulfil most of the requirements of the single market.

When attempting to measure institutional integration *we do not venture for quantified evaluation*. We *put the performance of the member countries into three boxes*.

I. Very highly integrated countries;
II. Highly integrated countries; and
III. Moderately integrated countries.

I. Among the *very high integrated countries* we can list the *18 euro-zone countries*. These countries practically apply all of the policies, legal and regulatory systems of EU (acqui communautaire). Only exception is Ireland and Cyprus, but there relation to Schengen can be explained by special geographical and political reasons. The "*very high" qualification of these countries is justified by the fact, that these are the only countries, which have full singe market and currency in the global economy.*

II. We put among *the highly integrated states four countries* (Denmark, Poland and Lithuania).They are not members of the euro-zone, but they take part in Schengen and participate in the monetary reforms. From 2015, Lithuania joins the first group. Poland is not yet member of ERM, but she can be euro-zone member in foreseeable future. The relations of Denmark are very close to the euro-zone membership.

III. There are *7 members* (United Kingdom, Sweden, Czech Republic, Hungary, Bulgaria, Romania and Croatia) which belong to the *moderately integrated countries.* Beyond that they are not euro-zone members, they do not participate in ERM, and they stay out fully or partly from the euro reform mechanisms. Bulgaria, Croatia and Romania are still out of Schengen and the restrictions on free movement of their labour are still in force against Croatia. The future euro-zone membership of these countries is uncertain. There are differing reasons for that. UK is definitely opting out, while in the others either the political will is missing, or it is not yet clear, when they will be able to meet the Maastricht conditions (Bulgaria, Croatia and Romania).

We have to stress, that upon their levels and intensity of integration, and participation in the institutions and policies of the EU, *there is no reason to classify any member lower than moderately integrated country.*

6. Convergence and divergence in the EU

According to integration theories, *convergence is considered as an important feature of integration processes. Integration itself means the closing up of levels of developments or the gradual disappearance of differences.* The lack or disappearance of these differences is taken *partly as a criterion or precondition, or partly as a desirable consequence of integration.* In charters of many integration organisations, convergence is fixed as a general political objective or priority. In EU Treaties, cohesion and solidarity is a basic political commitment.

Closing up of the peripheries is one of the success stories of EU integration, even if it was contradictory and far not satisfactory. This closing up was particularly successful in the case of the North, but there was an undeniable catching up of the South as well. Before the Second World War, Finland and Norway were poor countries, and they were close to the level of Central Europe. Their closing up was the result of several factors (in case of Norway oil), but the integration processes played a particularly important role. Norway is not an EU member, but through free trade arrangements and the European Economic Area (the Single Market), it is able to enjoy the positive impacts of integration processes. The case of the South has been more contradictory.

The *history of the relation of the Eastern periphery* to the Western Centre took different path. According to historic data, the level of development of Hungary and Spain were about the same in 1960, while the Hungarian level was about 50% higher than that of Portugal or Greece. But for Hungary, and in fact for the whole Central and Eastern European region, the following 30 years could be labeled as lost decades. Following the intention of Soviet policies, these were the decades of "peaceful competition", during which the Soviet leadership wished to catch up to the American level by 1980. The basis of this complacent conceit was the assumed superiority of "socialism" over capitalism. This, however, was far from reality, on the contrary, from the 1970s onwards, emerging globalization brought more and more to the forefront the complete inaptitude of the bureaucratic and closed central planning systems in face of the global challenges. The result was a humiliating defeat and further peripherialisation. The differences were further aggravated by the 1989-1993 transformation crisis. By the 1990s, the proportions turned around, and Portugal and Greece were 50% above the Hungarian average, while Spain almost doubled its lead over Hungary.

Per capita GDP of some EU countries between 1960 and 2009
(on ppp – EU average – 100%)

Country	1960	1973	1990	2004	2012
Austria	-	-	117	127	131
Germany	-	-	115	117	121
Belgium	113	112	115	121	119
Finland	111	115	118	116	115
Greece	44	71	88	94	75
Portugal	41	59	62	77	75
Ireland	63	61	74	143	129
Spain	59	77	76	101	97
Hungary	60*	-	41	63	66
Czech Rep.	-	-	61	75	79
Slovenia	-	-	74**	85	82
Slovakia	-	-	61	57	75
Poland	-	-	33	46	66
Lithuania	-	-	18	52	70
Latvia	-	-	15	47	62
Estonia	-	-	22	57	68
Romania	-	-	15	34	49
Bulgaria	-	-	12	35	47

*Estimated data in comparison to the Western European countries. It is not an EU average.
**1995
*** The new members' data are for 1992, which was the peak year of the transformation crisis.
Sources: Statistical Annex of European Economy, 2003. Spring. Europe in Figures, Eurostat Yearbook 2009. Eurostat. Statistical Books. European Commission. 2012.

After overcoming the transformation crisis from the mid-1990s, new trends appeared, and the East joined catching up processes of other peripheries. Catching up was particularly rapid in the case of the new EU member countries. On average, these countries produced about a ca. 2-2.5% growth surplus, which would have been sufficient for 20-30 years of convergence (depending on the level of the individual countries). Some countries, in various periods, achieved a spectacular growth performance (such as the ca. 10% growth of the Baltic countries in the early 2000s), which accelerated their convergence. After 2004, there was a certain diversification in the catching up performances. The convergence of Slovenia and Hungary slowed down and eventually halted, while the Baltic countries, Poland and Slovakia overtook them. Hungary was caught up by Poland; it was also overtaken by Slovakia, Lithuania and Estonia. As the crisis after 2009 hit most of the new members seriously, the process of convergence was broken, which warns us to be cautious about long-term expectations.

Concerning the economic structures the *convergence of the new members was more marked.* The structural changes were initiated by the transformation crisis, which meant that these countries rapidly approached to the structural patterns of developed EU countries.

In Hungary, between 1989 and 2001, the share of the agriculture in GDP fell from 16% to 4%, while the share of services grew from 42% to 67.5%, which could be considered as a remarkable convergence to the EU averages. Similar processes can be observed in the other new members as well. In fact, if we look at the 2009 data, while certain differences have remained, they are far from being qualitative in character, particularly as far as the Core and the Central European members are concerned.

The structural convergences are also reflected in trade structures and the intensity of relations. Needless to say, the averages can cover large qualitative differences. The fine-tuning of structural convergence takes a longer time.

It is generally agreed that the per capita GDP data in themselves are not sufficient, and they can even give a distorted picture. Lately, several institutions or banks (Deutsche Bank Research) ventured to produce so-called *complex convergence indicators*, which can give a slightly more appropriate and accurate picture about the state of convergence. What this complex approach means is that instead of a unilateral concentration on the per capita GDP, several other indicators are also taken into account.

7. The European Centre and Southern and Eastern European Periphery

We can consider the Western European and the Scandinavian members of the EU as *centrum of the Union*. These are the "old" member countries, except Greece, Portugal and Spain. Their level of development is relatively close to each other, and the same applied to their economic structures. They are characterised by high intensity of relations, and close interconnectednees of their economies.

In spite all of these, the Centre can not be considered as homogenous. They *differ in terms of their structures, balancedness, macro-economic performance and institutional integration from each other.* The South-western members (France, Italy and UK) are characterised by chronic internal trade deficits, even if they are mostly low deficit countries.

The same North-South division characterise their macro-performance. Two countries, Ireland (13.9%) and the UK (11.5%), in 2009, produced two digit budget deficits, but France (7.5%) was also an above average country. The indebtedness of Ireland, UK and France largely increased during the crisis. With their above 100% indebtedness, Ireland (117.6) and Italy (127%), in terms of the sovereign debt crisis, they shared the difficulties of the countries of Southern periphery. The UK and France with their around 90% debt got close to that status. The debt level of Belgium in 2012 with 99.6% was also on a dangerous level, but it improved compared to 1999 (113.6%), and during the financial crisis it increased only slightly. The growth and inflation performances of the Centre were similar (except high growth of Ireland before 2009). The unemployment, however, was rather divergent in these countries, both in their developments and levels.

Concerning institutional integration, The UK, Denmark (opting out) and Sweden do not entered the Euro Zone, and The UK and Sweden abstain from participation in the monetary cooperation structures. Denmark is member of the ERM2, and takes part in the monetary reform proposals. The UK and Ireland (due to special relations to its neighbour) stayed out of Schengen.

The North-South division of the Centre means that South Western Europe got close to the Southern periphery (particularly Italy), although UK and Ireland are special cases. At the same time, the *Northern Core is one of the most developed and integrated regions of the world*, and it mostly corresponds to the objectives of the Lisbon Program (the most competitive region of global economy), except the dynamism, which was hoped to be achieved by the whole Union by 2010.

There are substantial differences among the periphery countries as well.

East Central Europe:

1. Hungary (9th), Czech Republic and Slovakia are among the first 20 in the KOF Globalisation Index ranking. Poland is 25th, Slovenia 30th and Croatia 33rd .
2. In terms of trade intensities all the countries are in the very high category (Slovenia with 68%, close to that), except Poland which is a moderate intensity country (due to its large size).
3. In capital intensity, on the import side Hungary is a very high intensity country, while high intensity characterise Czech Republic and Slovakia. Poland and Slovenia fall into the moderate intensity group. In the recent years, their capital export started, in case of Slovenia its capital export is 60% of its import, the same proportions are 21% for Hungary, 16% for Poland, 12% for Czech republic and 7% in Slovakia in 2009. They have already some local TNCs, but transnationalisation of SME sector is not yet existent.
4. There is a high structural convergence of trade, which we measure mostly in proportion of manufacturing export in the total.
5. Czech Republic, Hungary and Slovakia have trade surpluses both in their internal (EU) and external export, and also in their trade with Germany. They are high surplus countries (surplus exceeding 3% of GDP). Poland and Slovenia have mixed performance, in case they are either low deficit or surplus countries.
6. Region's level of connectedness to the Centre is very high (except Slovakia, but it is due to high proportions of trade with Czech Republic). Their main partner is Germany (23-38%), but they are strategic partners of Germany (16%) as a region. Their connection to the Centre is mostly through Western Central Europe. Central Europe represents a certain sub-regional concentration of EU integration.
7. The region was hardly hit by the recent crisis, but they avoided the sovereign debt crisis. It is due to their very favourable initial debt positions. Their debt level was around 30-50% of GDP before 2009, and in spite of above average debt increases of some countries (Slovenia, Slovakia, Czech Republic), their debt level remained bellow of 60% ceiling (40-55%). Hungary is an exception, its debt level increased already between 2004 and 2009 from 59.5% to 79.8%, but after that is remained on the same level.
8. The *institutional integration of the region is much more contradictory*. They fully comply with the single market (derogations mostly have run out), and they joined Schengen. From them only Slovenia and Slovakia introduced the Euro. Czech Republic, Hungary and Poland have taken different positions. They so far have refrained to participate in ERM2, and their joining the Euro-zone remained uncertain. While the Euro-zone membership of Poland might be realised in the foreseeable future, in Czech Republic and Hungary the question is not on agenda. They practically rejected the possibility of participation in the Euro reform measures, and their public opinion is against the introduction of the Euro. Although, the very high intensity of integration and interconnectedness would have justified an early Euro joining (saving of probably substantial transaction costs, and evasion of Swiss franc debt crisis), but the particular and narrow

interests of their influential political and business elite were against this step. The staying out seemingly has not helped them in coping with the crisis.

Eastern Balkan:

1. Romania is 38th and Bulgaria 40th on the KOF globalisation list.
2. Trade intensity of Bulgaria is high, while that of Romania fall into the moderate category. (Size plays some role.)
3. We do not have comparative data on capital intensity, but it is high for Bulgaria and moderate for Romania. Their capital export is marginal.
4. Bulgaria is characterised by low and Romania by moderate structural convergence in their export.
5. Both are deficit countries in their all relations and they are high deficit countries.
6. Romania has high connectedness to the Centre, Germany has 24% and Eastern Central Europe 22% shares in its trade. Romania is part of Central European sub-regional concentration. Bulgaria's connectedness is moderate with the Centre, the share of Germany is only 17%, and 7% with Eastern Central Europe. For Bulgaria, Greece is a strategic partner.
7. Both countries were hardly hit by crisis, but they avoided the sovereign debt crisis. It was due to their low initial debt levels. Between 2004 and 2012, the debt level of Bulgaria increased from 15% only to 18.5%. The debt level of Romania increased above the average from 24% to 38%, but it still far bellow of the ceiling.
8. *Eastern Balkan* joined only the internal market and some of derogations even in this field are still in force. They are not members of Schengen, and they are still far from meeting the requirements of joining the Euro-zone.

Baltic countries:

1. Estonia is 25th, Lithuania 36th and Latvia 44th on the KOF list. She is the last among the EU members.
2. In trade Estonia belongs to the high intensity countries, while Latvia and Lithuania are in the moderate group.
3. In capital relations, Estonia is characterised with very high intensity, while Latvia and Lithuania belong to the moderate category. Estonia has relatively high level of capital export (40% in relation to import).
4. In terms of structural convergence, we do not have comparative data.
5. They are deficit countries in their all relations, and they have high deficits except Lithuania in its internal EU trade.
6. They connection to the Centre is low or moderate (Lithuania), and the share of Germany is particularly low (Estonia 8.8%, and Germany is only the third trade partner). The Baltic countries connection to the Centre is rather though Finland or Sweden.
7. The financial crisis brought drastic changes in budget of Latvia and Lithuania. The Latvian deficit between 2004 and 2009 jumped from 1% to 9.8% and the Lithuanian from 1.5% to 9.4%. The 1.6% surplus budget of Estonia turned 2% deficit. By 2012-2013, through drastic austerity measures all of them stabilised their budgets, and they brought them down around one percent (Lithuania 3%). They also enjoyed good initial positions, but only Lithuania increased its debt from 30% to 40%. They are still bellow the average. Estonia has 10% and Latvia 41% debt.
8. From the *Baltic countries* so far Estonia and Latvia joined the Euro-zone.

They all joined the ERM2 and take part in the Euro-governance reform. Lithuania may join the Euro-zone in 2015. They are members of Schengen.

Southern European periphery:

1. Portugal 8th, Cyprus 11th, and Spain 17th are among the 20 most globalised countries. Greece is on the 24th and Malta on the 31st place.
2. In terms of trade integration, only Malta is in the high intensity category, while Cyprus is on the moderate level. All of the other are characterised by low intensity of their trade relations.
3. In capital intensities are on the moderate levels, while Greece is close the marginal category. Both Spain and Greece have close to 100% capital export (to import), but with differing intensities. The Portuguese capital export is about 60% that of import, and it was rapidly increasing in the last decades.
4. Southern EU countries are service economies, mainly due to their tourist and financial sector (Cyprus). Their industrial export capacities are relatively limited. The share of machines and transport equipments in the Greek export is only 10%, while it is 60% in case of Hungary, and 40% for Poland. The same proportions are near 40% in case of Spain and 28% in case of Portugal.
5. All the countries have high deficits in all relations, except Spain, which has low deficit in its trade with EU partners. Italy is in the same category, even so its deficits are low.
6. In the South the connectedness to the Centre is moderate, but it is low for Greece. For the Southern EU, besides Germany, the strategic partners are France, Italy and the UK. This strategic partnership is particularly strong among the Latin EU countries.
7. There is a *striking difference between South and East in terms of involvement of sovereign debt crisis.* All the countries of the South are affected by this crisis (except Malta), and Italy joined them from the Centre. In this respects, one can also say that Italy got closer to the periphery.
8. The *Southern EU countries* are all members of the Euro-zone and Schengen (Cyprus with some exception). They are *fully integrated into the institutional and regulatory systems of the EU.* The question arise how far this helped their catching up and their real-integration. Some blame the Euro, and there are proposal that getting out of some countries from the Euro-zone is the only solution of the crisis.

In the last 30 years, the *position and status of those countries of Sothern and Eastern peripheries* of the Continent, which joined the EU, *has fundamentally changed.* The intensity of their integration (intergratedness) has substantially increased, and they have become members of the European Union. They have intensive relations with each others, and they became part of a network of high interdependence and interconnectedness. These countries are part of the internal market, and the derogations set for the new Eastern members are running out gradually. Thanks to all of these, in the last decades*, the Southern and Eastern peripheries have become part of the Centre.* In other words, the *Centre has internalised these peripheries*, which consequently have become part of a structure that *is characterised by a relatively balanced interdependence in spite of certain asymmetries.* The *historical importance of these changes can be hardly overestimated.* For the East, it means that after many centuries, the region (among others Hungary) can "return" to the mainstream of European development. In a wider perspective, Central and Eastern Europe now *has the opportunity to become an organic part of the European Centrum.*

Integration and convergence of these regions is far from being completed, many *patterns of periphery are still in existence.*

In spite of closing the development gaps, the differences have remained significant. All of these countries are bellow the average of the Union (except Spain and Malta, which are practically on the EU average), and some of the countries (Romania and Bulgaria) are bellow half of that level. In the last 20 years, however, the gap between South and East closed, and now not only Slovenia and Czech Republic, but Slovakia also reached the level of that of Greece, and Lithuania, Estonia, Poland and Hungary are not far behind. The *lagging behind of East is no longer qualitative, it is rather quantitative.*

The differences to the most developed countries are, however, substantial. The per capita GDP of the neighbouring Austria is almost double of that of Hungary. The differences can be even higher in finer structures such as infrastructure (for example, the instrumental furnishing of the public health system or education, etc.)

In the last decades, the modernisation of the Eastern peripheries was based largely on foreign direct investments, which increased *the dualistic character of economy.* Against the highly competitive foreign TNCs, there is a sector of local SMEs with low or a complete lack of competitiveness. The transnationalisation of the domestic company sector has only started. A *balanced integration of the region would assume the acceleration of the transnationalisation of the national company sector, particularly that of the SMEs.*

Related to this, the main deficit of structural integration is that *the competitive export capacities are largely based on import inputs*, while the domestic value added contains low innovation and knowledge contents. These disproportions characterise the supply channels and the trade of components. The favourable global positions are based mostly on investments of foreign companies, which shifted their production to a large extent to the Central European region. The sustainability of competitiveness would assume strengthening the foundations of a knowledge-based economy and society (research and education strategies would be needed). Similar problems may be in the Southern peripheries, but we have not analysed the issue.

One of the general features of the periphery is *loss of incomes through external relations.* While *integration brings efficiency and welfare gains, their distribution has remained asymmetric.* There are all sorts of forms of revenue losses, such as *manipulated profit transfers, high risk premiums, yields of government bonds, debt services and the different forms of speculative income outflows.*

The *financial performance score board clearly indicate the gap between the Centrum and the Peripheries, which after 2009 has seemingly increased.* The majority of the Centre has preserved their triple A credit rating, and Belgium was the only country, which managed to improve it. There were two countries, Ireland and Italy, which suffered substantial worsening, and they got into the club of the sovereign debt countries.

In the peripheries only Malta and Estonia was able to improve their credit rating (to A+) between 2009 and 2012. For all of the others they worsened, only their extent was changing. In 2012, Hungary had the second worst credit rating (BBB-) after Greece (CCC).

Financial performance Score Board 2012

Country	1. Public Debt in GDP (%)	2. Debt Service In %	3. Yields of Government Bonds	4. Credit Ratings in 2000	5. Credit Ratings in 2012
Western Europe					
Belgium	99.6	3.2	3.00	AA-	AA
Netherlands	71.2	1.5	1.93	AAA	AAA
Germany	81.9	1.8	1.50	AAA	AAA
Ireland	117.6	3.4	6.17	AAA	BBB+
Austria	73.4	2.2	2.37	AAA	AAA
Luxemburg	20.8	0.1	1.82	AAA	AAA
France	90.2	2.5	2.54	AAA	AAA
Italy	127.0	4.9	5.49	AA-	A-
U. K.	90.0	2.9	1.74	AAA	AAA

Scandinavian EU					
Denmark	45.8	0.6	1.40	AAA	AAA
Finland	53.0	0.2	1.89	AAA	AAA
Sweden	38.2	0.2	1.59	AAA	AAA
Southern EU					
Spain	84.2	2.4	5.85	AA+	BBB
Portugal	123.6	4.5	10.55	AA	BB+
Malta	72.1	-	4.13	AA-	A+
Greece	156.9	5.4	22.50	A-	CCC
Cyprus	85.8	-	7.00	AA	BB+
The Baltics					
Estonia	10.1	0.1	-	A	A+
Latvia	40.7	-	4.57	A	BBB
Lithuania	40.7	-	4.83	BBB+	BBB+
East-Central Europe					
Hungary	79.2	4.3	7.89	A+	BBB-
Czech Republic	45.8	1.2	2.80	A+	AA-
Slovakia	52.1	1.6	4.55	BBB+	A+
Poland	55.6	2.3	5.00	A+	A
Slovenia	54.1	1.6	5.81	AA	A-
Eastern Balkans					
Bulgaria	18.5	-	4.50	BB	BBB
Romania	37.8	-	6.68	B	BBB
EU27	85.3	2.23	3.74	-	-
PIGs	-	4.30	9.37	-	-
Core-countries	-	1.93	3.35	-	-
New Members	-	1.85	4.76	-	-

Sources: Eurostat, http://countryeconomy.com/ratings

Due to their low indebtedness, all of the Eastern countries have favourable debt service burdens, except Hungary. In 2012, Hungary's debt service rate was about the double of the EU average, and it was (4.3%), but Greece (5.4%), Italy (4.9%) and Portugal (4.5%) even higher than that. In terms of government bond yields, besides Ireland and Italy, all the periphery countries were above the EU average. Hungary (7.89% in 2012) was on the third worst place after Greece (22.5%) and Portugal (10.55%), and it was even above that of such sovereign debt crisis countries as Ireland (6.17%), Spain (5.85%) and Italy (5.49%), probably due mostly to the fact that Hungary is a non Euro-Zone member. In the last 10 years, that meant substantial financial losses for the periphery countries, and in most cases, the transfers from EU structural funds have only slightly compensated for these losses.

T*he directly non-economic components of the periphery have not been mentioned above. These include* elements such as the *high level of corruption and policy incompetence, deficits of democracy or a low level of political culture.* In these respects, the catching up to the Centre requires longer times.

Integration into the Centre offers favourable conditions for the future, but *full catching up is not automatic.* The development of the EU has clearly shown that convergence and levels of development are closely connected, but the whole process depends mostly on the attitude, the policies and the successful adjustment of the countries.

The integration processes in the EU have passed the point of no-return. In history anything can happen, but a turn around could result in dramatic consequences. Some countries may leave the Euro-zone, but the related welfare losses seem to be much higher than that of consolidation. This is even the case with the dissolution of euro-zone, not to speak about the EU. Losses in competitiveness and welfare in this case could be disastrous and socially and politically unacceptable. The EU is at a turning point, but at the so far achieved level of integration, the only relevant option is further integration. The motor and carrosserie should be repaired and strengthened, and the ways of efficient and democratic governance should be found and learned. It assumes long and hard process, but all of the other choices are unacceptable and undesirable.

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