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Free trade with the former COMECON Countries as Unequal Exchange

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Two authors of this chapter were born to the East of what was once The Iron Curtain and two to the West. From both angles, the two systems – capitalism and communism – seemed to be as contrary to each other as possible. Few people are aware that in terms of industrial and trade policy, both classical capitalism and communism had a common root in the theories of German economist Friedrich List (1789-1846) (List, 1841). In fact, for the 200th anniversary of his birth in 1989, both East Germany (DDR) and West Germany (Deutsche Bundespost) celebrated Friedrich List's anniversary with postage-stamps. The two enemies who had split Germany between them even chose the same portrait of their common hero!

However, after the collapse of the Berlin Wall, the policy that was forced upon the former COMECON countries was not the old capitalism honoured by West Germany in 1989. Capitalist theory (but not practice) had given way to neoliberalism, a system that does not see any difference between economic activities. The theory that came out as a winner at the end of the Cold War was essentially David Ricardo's (1817) theory of international trade, restated by US economist Paul Samuelson (1948). Samuelson 'proved' that free trade, regardless of what was traded, would create a movement towards factor-price equalization (that the price of the factors of production, capital and labour) would tend to equalize across the globe. This neoliberal theory was immediately forced upon the former communist countries, leading to different degrees of deindustrialization.

List's theories became the theoretical foundation for the countries that followed England's path to capitalist industrialization. There are also two crucial links between the bourgeois economist Friedrich List and communism. The first one was his influence on Karl Marx (1818-1883). It seems Marx only started writing about economics after having read List's main work from 1841. 'Paradoxically enough, Marx was introduced to political economy, not by reading the Western classics, but by their chief German critic.' (Szporluk 1988, p. 21). Thoroughly understanding List's theory, Marx at one point states '..the Free Trade system works destructively…and carries antagonism of proletariat and bourgeoisie to the utterm ost point. In a word, the Free Trade System hastens the Social Revolution. In this revolutionary sense alone, gentlemen, I am in favor of Free Trade.' [1]

The second important link to communism was through Sergei Witte (1849-1915), the Russian Minister of Finance under the last two tsars. In 1889, when Witte had just entered government, he wrote a lengthy pamphlet on the work of Friedrich List. Inspired by List, Witte saw the future of his country in terms of industrialization and railroad building. When, after the 1917 Russian Revolution, people found to their surprise that the industrial policy of the Bolsheviks was essentially the policy prescribed by Sergei Witte starting 30 years earlier (von Laue, 1963).

Interestingly the first warning against the harmful effects of the policy that followed after the Fall of The Berlin wall, presenting 'a dramatically different view of how to help post-Soviet economies' was published in 1992, with Jan Kregel (who wrote chapter 16 in this volume) as one of the authors (Matzner, Egon, Gernot Grabherand and Jan Kregel, 1992).

Key points: Industry: increasing returns and imperfect competition. Agriculture: diminishing returns and perfect (commodity) competition.

Introduction

In this chapter, we examine the consequences of the largest opening and enlargement of the EU in terms of uneven economic development and resulting migration a) for the countries of Central and Eastern Europe (CEE), b) for the European Union as a whole, and c) also for the former CEE countries that remained outside the European Union (such as Belarus, Moldova, and Ukraine).

The study is divided into two periods. The first period begins with the end of the Eastern European free trade zone (COMECON) in 1991 and ends in 2004. The second period

[1] In Marx' 'Speech on the Question of Free Trade', quoted in Szporluk, p. 20.

starts with the so-called 'Big Bang' EU enlargement, i.e., integrating a large number of former COMECON countries into the European Union on May 1, 2004 (Bulgaria and Romania followed in 2007). Both periods led to varying degrees of deindustrialization and emigration from the CEE countries.

In 1991, and even more so in 2004, European ideology underwent a remarkable transformation. The value placed on industry and manufacturing gradually disappeared, giving way to a neoliberal vision (Reinert, 2020). According to this school of thought, accession to world markets and the European Union promised alignment with Western European living standards for the countries of CEE (Kijek and Matras-Bolibok, 2020). The view of international trade as it developed during the Cold War is consistent with U.S. economist Paul Samuelson's interpretation of David Ricardo's 1817 theory of trade (Samuelson 1948), according to which international trade would tend to lead to "factor price equalization," i.e., that prices for labour and capital would tend to equalize among nations. In this theory, all economic activities are considered qualitatively equal. Thus, if we were to send all the shoe shiners to one country and all the high-tech engineers to another, both countries and the workers would tend to become equally rich. As previously in Latin America (Reinert and Kattel, 2004), this theory has caused considerable economic damage in CEE countries.

Despite sceptical voices warning as to the excessive diversity and inadequate preparation of the CEE countries, attitudes toward accessions were generally positive. The elimination of existing geographic, socio-economic, and, in a sense, cultural boundaries toward a common destiny had now become one of the principles of the EU, as expressed by President Juncker when he stated that "the notion of convergence is at the heart of our economic union" (Juncker, 2015). An early lone voice firmly opposed to the optimistic folly of 'factor price equalization' was Harvard economic historian David Landes, who wrote to one of the authors in 1999 (Reinert, 2007, p. 294), "If we ever achieve factor price equalization, who says it will go up?" Landes had an inkling of what would happen: Integration with an Eastern European low-wage area led to downward pressure on wages in the old EU countries (Reinert and Kattel, 2007, 2004). Incidentally, it is increasingly argued these days that similar dynamics are at play in China-U.S. relations (Hirsh, 2020).

It seems that both CEE countries and the EU were not fully prepared for this enlargement (Borg and Diez, 2015; Reinert, 2006). Moreover, various phenomena that could not be foreseen in the prevailing neoclassical economic framework, such as the economic crisis, the refugee crisis, and the rise of anti-European political forces, exposed shortcomings

and inefficiencies in the foundations of integration, leading to a high risk of dissatisfaction among the intended recipients of EU policies (Czech and Krakowiak-Drzewiecka, 2019; Skare and Porada-Rochoń, 2019). Undoubtedly, the European model of integration of two completely different economies was unprecedented in the world. Nevertheless, it showed uneven and unequal territorial effects of industrial change and globalization, associated with differing opportunities and living standards. Therefore, investigating these questions is so important in order to create guidelines for future policies.

Previous works

It has been argued that with the Eastern enlargement, the European Union has abandoned its earlier implicit strategy of symmetric integration and emphasized the role of solid manufacturing industries in all member states (Reinert and Kattel, 2004). It has also been noted that the relationship between "donors" and "recipients" of democracy promotion is asymmetric (Grimm and Grimm, 2019), meaning that in the context of administrative changes, "donor countries" have greater influence than "recipient countries," which ultimately behave as passive actors on the international arena.

As indicated earlier, neoclassical economic theory assumes that economic integration, together with free trade and market competitiveness, leads to equal remuneration of the factors of production - labour and capital - around the world. In practice, growth rates and wage levels depend heavily on local factors and the specific structure and context of individual economies - in other words, economic growth is "activity-specific." An old tradition that began with the work of Antonio Serra (Serra, [1613], 2011), is still very much alive in Alfred Marshall's founding work on neoclassical economics (Marshall, 1890), and was briefly revived by Paul Krugman in 1981 (Krugman, 1981), explains how inequalities can be exacerbated - rather than mitigated - by economic integration (Cieślik and Hien Tran, 2019). These theories simply distinguish between economic activities that are subject to diminishing returns to scale (where a factor of production is inherently limited) and where production costs increase beyond a certain point, and those that are subject to increasing returns to scale, where higher production leads to higher productivity and decreasing costs. Reinert (1980) showed how the major export commodities of three Latin American countries - Bolivia, Ecuador, Peru - produced well into the range of diminishing returns: Whenever production volume was reduced, production costs fell. A recent OECD report (2018) on Chile proves that the exact mechanisms in Chilean copper mining are at work. It is important to note that within a country or region, rising revenues lead to higher barriers to entry into an

industry, resulting in imperfect competition and rents that are passed on to the country or region in the form of higher profits, higher wages, and higher taxable income.

Goods produced with diminishing returns are usually commodities subject to perfect competition (commodity competition). When productivity increases, the benefits - by definition - tend to be passed on to consumers in the form of lower prices (Reinert, 1994). Activities with increasing returns have a triple blessing: decreasing costs under imperfect competition and high profits. In contrast, activities with diminishing returns face a triple curse: rising costs (beyond a certain point) with perfect competition and low profits. When these mechanisms come into play - for example, between the colonial power and its colonies - increased economic integration can lead to the rapid development of the wealthier and more prosperous regions at the expense of the peripheral areas.

Most of the literature on EU enlargement has focused on explaining the successful aspects of this integration (Crescenzi and Giua, 2016, 2018; Heider, 2018; Rapacki and Prochniak, 2019). The relatively small number of critical approaches focus mainly on political inequality and the uncertainty associated with further integration (Hodson and Puetter, 2019; Hooghe and Marks, 2019), the polarization of policies (Kuhn, 2019; Rauh et al., 2019), shortcomings of the European Monetary Union (Koyama, 2016), and social dumping (Bernaciak, 2014; Ricci, 2019). Relatively few studies have addressed industrialization in this setting (Duman and Kurekova, 2012; Medve-Balint and Scepanovic, 2019; Pavlinek, 2018), nor have they followed James Kenneth Galbraith's intuition of the looming dangers that "*if the East Europeans fall asleep on the train to Stockholm, they may wake up as the boat docks in Buenos Aires"* (Galbraith, 1991, p. 32).

The questions of which regions have benefited most from the combination of cohesion and industrial policy and what factors influence the success of integration remain largely unanswered. In this paper, we adapt some of the theses of the evolutionary (Schumpeterian) and historical schools of economic development (Reinert, 2007) to examine the different stages of the development of the EU project. We revisit some of the theses of the 1988 Cecchini report (Cecchini et al., 1988) regarding the expected benefits of the EU project in terms of increasing returns to scale in manufacturing. We want to examine the scope and limits of EU industrial policy by focusing on CEEs, which are classic examples of dependent market economies. We want to examine whether the rapid opening of their economies and subsequent accession deprived the CEE countries as a whole of economic activities in which productivity gains spread 'collusively' - in the form of higher profits and higher wages - and left them with low-tech activities in which the benefits from productivity gains spread as they

are assumed to do under perfect competition: namely, as lower prices for consumers (who may be located abroad). Note that without entry, the countries of CEE would have been able to retain at least some of the 'collusive' opportunities. The term 'collusive' here refers to the development and retention of activities where increased productivity leads to higher wages rather than lower prices, and to policies that bring government and industry together as accomplices in developing an advanced manufacturing sector with increasing returns (Reinert, 1994). We recognize that the differences among the countries are enormous, and we will try to take them into account as we look for common trends.

Research hypotheses

Our research questions cover a broad period, from the fall of the Berlin Wall in 1989 to the present, focusing on the impact of the opening of the markets of the countries of CEE and their subsequent accession to the European Union in 2004-2007.

We skip the earlier stages of the EU economic development and start with the period 1957-1993, which is a continuation of the economic ideology of the highly successful Marshall Plan of 1947. According to this philosophy, the presence of manufacturing in all countries is necessary for them to achieve a satisfactory standard of living. Thus, Paolo Cecchini, in his 1988 report entitled "Europe 1992, The Overall Challenge" (Cecchini et al., 1988), was correct in noting: *The main benefits of the Single Market (estimated at the time of the report at ECU to be 200 billion or more) would come as a result of increasing returns to scale in manufacturing*. The opportunities for 'economies of scale' and for 'fixed investment costs with increased sales volume' were highlighted in the report.

This was the ideology on which the Marshall Plan and the EEC had been built. The Maastricht Treaty instead was signed in the spirit of the triumphalism of the market that followed the fall of the Berlin Wall in 1989, the spirit that began with Paul Samuelson's (1948) articles built on David Ricardo's 1817 theory of international trade. Cecchini's very explicit assumptions about the key role of manufacturing in creating benefits for participating nations were seemingly forgotten. However, the free trade shock of 1990 wiped out large parts of the manufacturing sector in the former COMECON countries. The introduction of the euro in 1999 - the freezing of exchange rates and the elimination of the main adjustment mechanism among European nations - had the undesirable consequence of causing many peripheral countries to lose their (manufacturing) industries with increasing returns, which formed the core of Cecchini's argument (Reinert, 2017a, 2018; 2019; Reinert and Kattel,

2007). Cecchini had no way to anticipate that some countries would largely lose their manufacturing as a result of changing economic paradigms.

On this basis, we test the theory that *countries prevented from developing export goods from increasing returns industries end up exporting people instead (*Reinert, 2007). In other words, we postulate the same relationship between economic structure and population density as Hoover did in his 1947 postwar analysis of the effects of the de-industrializing Morgenthau Plan on the population density of a de-industrialized Germany: "There is an illusion that the New Germany remaining after the annexations can be reduced to a "pastoral state." This is not possible unless we annihilate or expatriate 25,000,000 people" (Hoover in a letter to President Truman, March 18, 1947). This letter to Washington was undoubtedly an essential factor in the establishment of the Marshall Plan – the opposite of the Morgenthau Plan – a few months later (in June 1947). That diminishing returns cause migration had already been stated by the founder of neo-classical economics, Alfred Marshall (1890). Krugman (1981) also takes up a model of the US economist Frank Graham (Graham, 1923) and places increasing returns and the lack thereof in the context of what he calls a 'Hobson-Lenin view' based on the works on imperialism by Hobson (Hobson, 1902) and Lenin (Lenin, 1939).

On this basis, we will try to look at the phenomenon of migration within the EU - which is usually presented as an opportunity for both sides, i.e. both exporting and importing countries - as a process that can potentially produce winners and losers. To this end, we will look at the number, gender, and skills of economic migrants and the entrepreneurial activities of migrants in the host countries. Other hypotheses put to the test in this paper concern the economic structure of the CEE countries and the industrial composition of their economies. Finally, we address the question of what happened in the periphery of the periphery, i.e., what shocks were transmitted from CEE countries to countries beyond their borders, including Belarus, Moldova, and Ukraine.

Empirical analysis

Our analysis was performed based on publicly available data on the relationship between GDP, as well as the stock and flow of labour. The analysis covers two periods: the period of CEE's integration with world markets after the collapse of COMECON (1991-2019) and the period of transformation and international migration flow after the largest EU enlargement in 2004-2007.

Integration of disintegration? A long way to the global economy

It is vital to realize that there are various types of deindustrialization. There are three key differentiating factors: (i) per capita income from which the deindustrialization process begins, (ii) the nature of the manufacturing activities in relative decline and the non-manufacturing activities that are relatively growing, and (iii) the dynamics of the process (Tregenna 2009, 2011, 2014). In short, the adverse effects of deindustrialization are expected to be greater the lower the level of economic development at which it initiates. Moreover, there is enormous variability within sectors regarding cumulative productivity and contribution to the balance of payments. Thus, deindustrialization does not occur when the employment share in manufacturing decreases due to more rapid productivity growth here than in other sectors, as long as this takes place with a simultaneous increase in the employment level in manufacturing and an increase in the manufacturing share in GDP.

Table 1 includes economic indicators used for detecting deindustrialization (understood as a decrease in the share of manufacturing value-added in GDP) in CEE since 1990. Comparing those countries with Germany, a significant decline in the industrial potential in all countries can be observed, both in the short (1995-2000) and long (1995-2019) term. Severe deindustrialization occurred in Latvia, Moldova, Romania and Ukraine, where the decrease in manufacturing value-added share in GDP in 1995-2019 ranged from 30 to 60% (table 1). A slower pace of deindustrialization can be observed in Czechia, Hungary, Lithuania and Slovakia, which had a rate of change close to Germany's economy, which is probably the result of the substantial inflow of FDI to these countries between 1990-2015 (Cieślik, 2019). The most worrying phenomenon is the permanent decline in the share of manufacturing value-added of all countries in the period 2005-2019; therefore, it is not limited to the initial period of the analysis.

Table 1. Percentage change in manufacturing value-added as a percentage of GDP.

Period	ISO code[2]											
	BU	CZ	DE	EE	HR	HU	LT	LV	MD	PL	SK	UA
1995-2000	-3.33	9.68	0.04	-9.14	-9.47	5.05	0.21	-22.78	-37.53	-17.10	4.95	-47.30
1995-2019	-23.79	4.15	-5.33	-24.31	-35.18	0.24	-3.33	-42.40	-51.25	-13.13	-2.88	-64.99

Source: World Bank and OECD. (Bulgaria – lack of data).

Deindustrialization can also be analyzed through the prism of employment. Table 2 reveals that in all CEE countries in 1995-2009, the average wage in manufacturing has

[2] BU – Belarus, CZ – Czechia, DE – Germany, EE – Estonia, HR – Croatia, HU – Hungary, LT – Lithuania, LV – Latvia, MD – Moldova, PL – Poland, SK – Slovakia, UA – Ukraine.

dwindled compared to wages in the entire economy. This tendency is opposite to that observed in the German economy and faces the common opinion of manufacturing as the 'wage leader' in national economies. The compensation of work in manufacturing was significantly reduced in the post-accession period, which could be explained by low productivity growth in manufacturing compared to other industries. Another explanation is a slow change in manufacturing structure, with the persistence of a substantial fraction of low-wage sectors, e.g. textile or wood industries. This hypothesis is also supported by the data included in Table 3, i.e. showing the technological intensity in the manufacturing sector as R&D expenditure measured as a fraction in the added value.

Table 2. Labour compensation per employee in manufacturing relative to the total economy (1995-2009)

ISO	Year														
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CZ	100.8	101.4	100.2	102.4	103.3	103.4	103.0	102.5	100.7	102.4	102.0	101.5	102.6	101.2	96.9
EE	89.6	90.7	98.0	96.8	92.9	93.9	92.3	99.8	95.5	91.1	91.8	97.4	94.2	88.3	87.4
DE	128.7	130.0	131.4	133.1	134.1	136.9	137.4	138.0	139.0	141.5	142.5	146.3	146.6	146.0	142.3
HU	110.1	110.0	109.3	104.7	106.3	109.2	101.6	94.5	92.1	92.9	93.2	92.4	93.2	91.4	91.8
PL	112.9	114.7	115.7	116.8	115.8	119.8	113.4	114.6	112.0	110.7	108.3	106.3	106.9	105.3	104.3
SK	100.6	99.0	96.9	96.7	97.8	101.9	102.8	102.0	103.9	103.2	101.2	105.1	105.0	107.2	103.8

Source: OECD STAN.

Table 3. R&D intensity using value-added for the manufacturing sector

Year	ISO code					
	CZ	EE	DE	HU	PL	SK
1995	2.14	1.13	6.75	1.32	0.97	1.08
2009	2.85	1.06	8.23	2.48	0.62	0.75

Source: OECD STAN.

Table 3 underlines a significant difference in the technology intensity between Germany and CEE counties. Estonia, Poland and Slovakia achieved no more than 20% of the technological power of Germany. Only Czechia and Hungary recorded an increase in R&D expenditure in the manufacturing (as a fraction of value-added). Radosevic (2017) notes that the EU is moving towards manufacturing modernization based on large-scale investments in smart specialization and highly-innovative R&D activities. From that perspective, the CEE countries can be perceived as peripheral.

Since the beginning of the transformation in the 1990s, small CEE countries have been strongly export-oriented. In almost every CEE country in 1993-2008, the share of manufacturing products in total exports exceeded 80%. In Czechia, Estonia, Hungary, Latvia and Slovakia, the ratio of exported goods and services to GDP is highest in the EU, and manufacturing is the dominant export sector (table 4). Czechia, Hungary, and Slovakia focus their export activities mostly on automotive, telecommunications, and electrical products due to substantial investments of Volkswagen and Skoda. The significant share of

telecommunications products in Estonian exports is due to the strong Swedish branch of Ericsson. While Latvia and Lithuania are an exporter of raw materials and wooden products, and Poland exports furniture and ships.

Table 4. Manufacturing export in a total of goods export (%)

Year	ISO code				
	CZ	DE	HU	PL	SK
1993	88.21	94.58	91.33	86.24	97.20
2008	95.68	91.14	94.24	94.48	95.24

Source: OECD STAN.

The literature (Deardorff, 1980; Greenhalgh et al., 1994) treats trade balance as a good approximation of international competitiveness, expressing a country's ability to succeed in the global market. The inability to meet the domestic demand, leading to an increase in imports, is reflected in the negative trade balance and indicates the lack of competitiveness of domestic industries. Such a trade balance can convert to permanent if the export structure cannot adjust to the global market's needs.

Figure 1 reveals that in 1992-2008, a negative trade balance was observed in analyzed CEE countries. The worst situation occurred in Poland, where import exceeded export for almost the whole period after the transformation. Since 2003/2004, only Czechia, Hungary, and Slovakia strengthened their GDP growth through a positive trade balance.

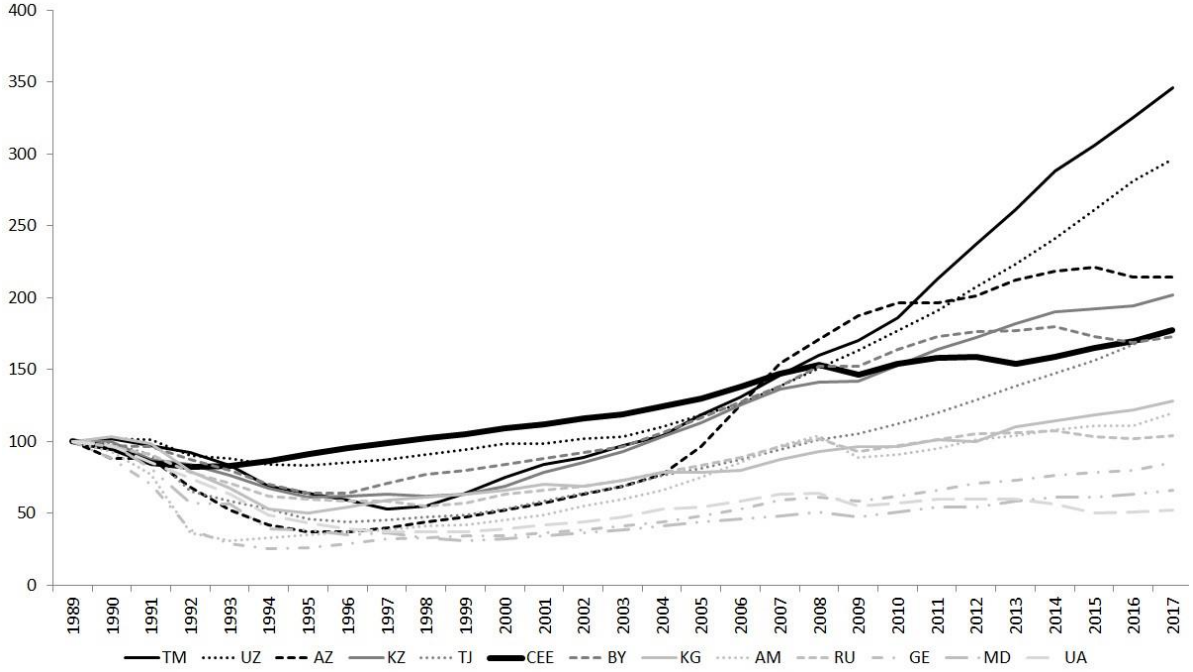
Figure 1. The trade balance in manufacturing (years 1992-2009)

Source: OECD STAN.

Figures 2 and 3 present GDP growth in the former Soviet Union and CEE countries belonging to the European Union. The scale on both visualizations was fixed to allow direct

comparisons. It can be noticed that GDP growth curves in the former Soviet Union countries were steeper than those in CEE countries.

Figure 2. GDP growth in the Former Soviet Union[3] (1987 – 2017)

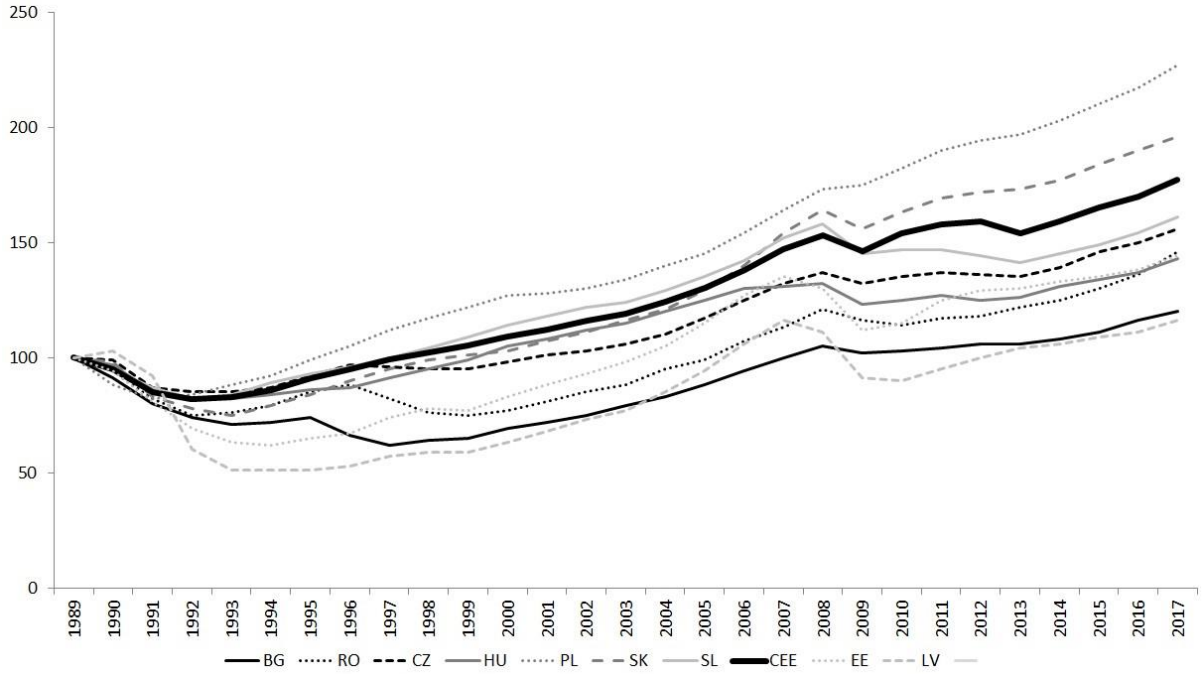


Source: Popov, V. (2019) (Popov, 2019).

Uzbekistan is a remarkable country that successfully implemented the old-fashioned strategy of substituting imports from Latin America.[4] Such a policy favours the domestic industry by imposing high tariffs on imported goods. With the help of Japanese companies, Uzbekistan even managed to start a local production of buses and trucks. Thus, Uzbek policy is similar to the 19th century US policy, which allowed for free import of raw materials, but the tariffs were set based on the standard that "the higher the added value, the higher the import duty".

Figure 3. GDP growth in the Central and Eastern European countries belonging to the EU (1987 – 2017)

[3] TM – Turkmenistan, UZ – Uzbekistan, AZ – Azerbaijan, KZ – Kazakhstan, TJ – Tajikistan, KG – Kyrgyzstan, AM – Armenia, RU – Russia, GE – Georgia.
[4] See also Vladimir Popov's chapter 14 in this volume.



Source: Popov, V. (2019) (Popov, 2019)

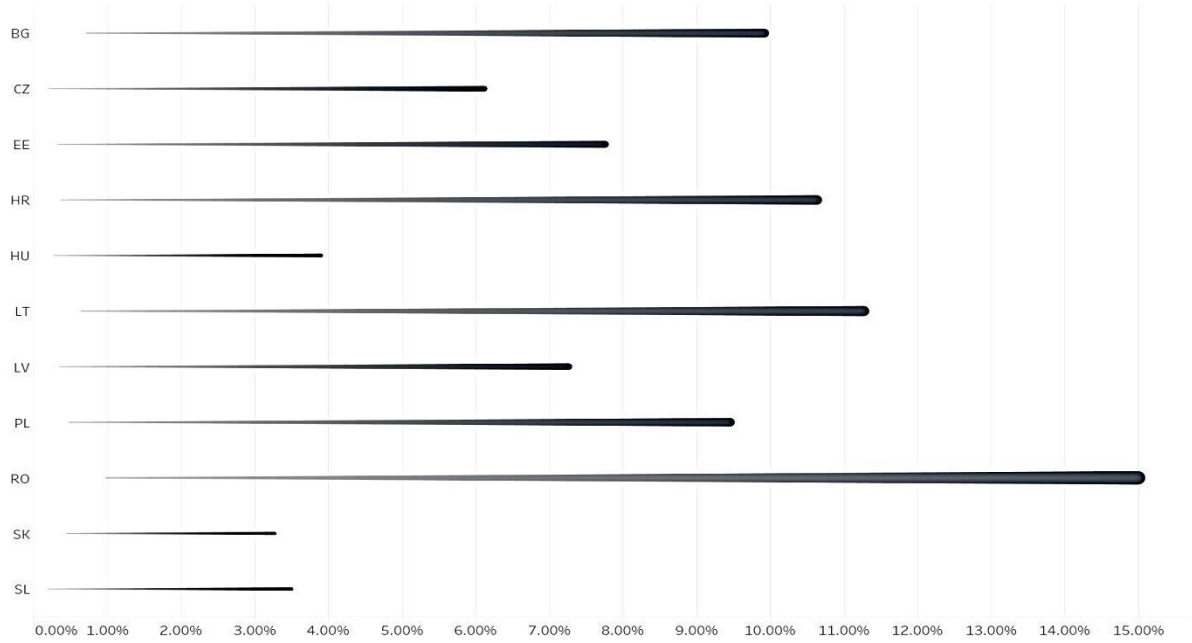
Migration

The labour markets and the demographic situation in the newly associated countries were formed by the economic performance in the CEE countries and the EU's free movement of people policy. In 2004 migrations were a relatively marginal phenomenon. CEE residents usually migrated to 1-2 selected countries (mainly Germany and the United Kingdom), while their presence in the remaining EU15 countries was negligible. However, the migration processes have intensified over the analyzed 15-year period from 2004 to 2019. The fraction of Bulgarians living in "the old EU" countries in 2004 was 0.71%, and it was the highest migration rate among the CEE countries. In 2004, 0.33% of all Poles lived in Germany, which was nearly 70% of Polish emigrants. In 2004 Czechia had the lowest ratio of emigrants, with only 0.05% of inhabitants living in EU15 countries, mainly Germany.

In 2019, the situation had changed radically; the number of emigrants residing in the EU15 sky-rocketed. The negligible Czech emigration from 2004 increased to almost 6% in 2019, with nearly 80% of Czech emigrants living in Germany. Currently, the largest outflow is observed in Romania, where around 15% of the population lives abroad (mainly in Italy, Spain and Germany). Germany and Great Britain are still the most desirable migration destinations for CEE inhabitants. A interesting linguistic pattern can be observed as people move to countries within the same linguistic families – Italy being the primary destination for Romanians and Finland for Estonians.

A comet chart from figure 4 reveals that the migrant stock from CEE countries in 2004 did not exceed 1% of the inhabitants of the origin country (comet tail - light grey colour). The highest share was observed in Romania (0.9% of inhabitants), Bulgaria (0.7%) and Latvia (0.6%). Fifteen years later, increase and diffusion of migration can be observed (comet's head - dark grey colour). Today 15% of Romanians, 11.27% Latvians, 10.63% Croats, 9.91% Bulgarians and 9.45% Poles live abroad

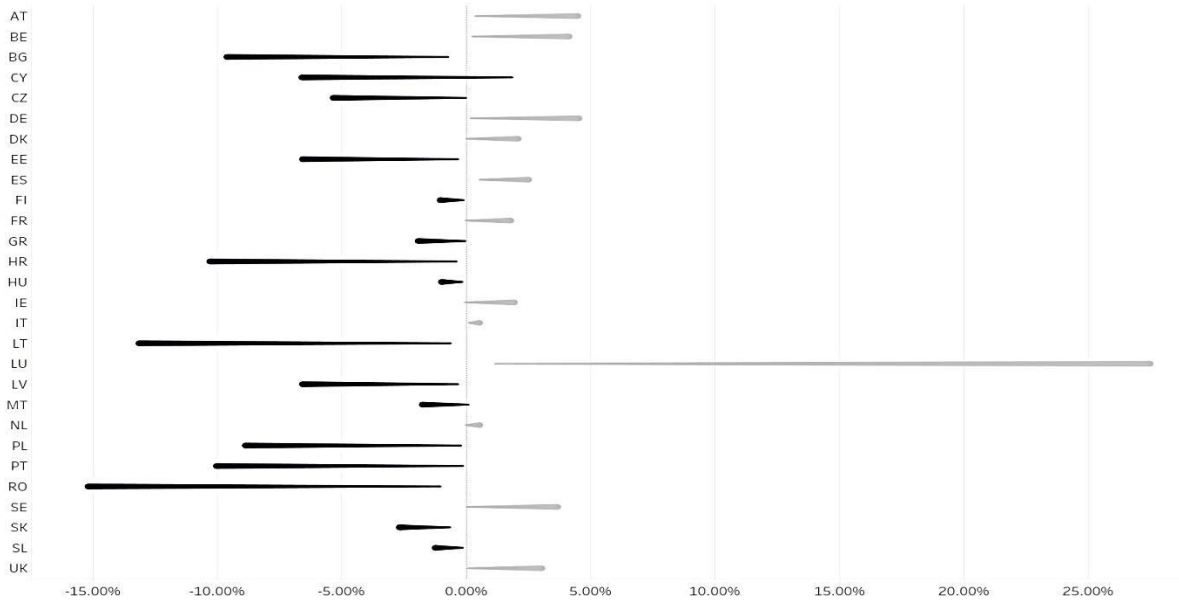
Figure 4. Percentage of CEE's population living in the "old" European Union countries in 2004 and 2019



Source: Authors' study based on data taken from the United Nations Population Division.

In 2004, a positive net migration (grey comet tail) was documented in eleven countries, and none of them was from CEE (Figure 5). In 2004, the highest net migration ratio reaching 1.32% was observed in Cyprus and the second-highest (1.14%) in Luxemburg. In 2019, all CEE countries still had a negative net migration. However, changes took place in the volume of migrants to the EU15 countries, which resulted from the expanded outflow of people from CEE countries. In 2019, Luxemburg had the highest percentages of immigrants (27%), Austria and Germany (4.5%), Belgium (4%), United Kingdom and Sweden (over 3%) as destination. At the same time, Romania recorded a negative net migration of over 15%; Lithuania -13%, Bulgaria -9.5% and Poland almost -9%.

Figure 5. Net migration rate among EU countries as a percentage of the population*



*migration to and from non-EU countries was not taken into consideration

Source: Authors' study based on data taken from the United Nations Population Division.

Considering differences in the gender of emigrants between countries, it turns out that women constituted a more significant proportion (up to 6% difference in 2019). This number did not rise meaningfully over the analyzed period (see Table 5). It turns out that in Italy, 67% of migrants are Moldovan women.

Table 5. Women as a percentage of total migrants in 2004 and 2019.

Year	ISO code											
	BG	CZ	EE	HR	HU	LT	LV	MD	PL	RO	SK	SL
2004	53.00	55.52	54.81	52.41	50.98	56.41	55.03	52.16	54.64	53.12	52.72	55.76
2019	56.77	55.40	54.96	51.67	50.04	55.14	55.16	53.24	51.52	53.14	53.55	53.89

Source: Authors' study based on data taken from the United Nations Population Division.

Table 6. The percentage of Belarusians, Ukrainians and Moldavians living abroad in 2005 and 2019.

Destination[5]	Country of origin (2005)			Country of origin (2019)		
	BY	MD	UA	BY	MD	UA
CA	---	0.20	0.12	---	0.53	0.14
CZ	---	0.15	0.16	---	0.23	0.18
DE	0.21	0.49	0.40	0.21	0.60	0.44
EE	0.14	---	---	0.15	---	---
ES	---	0.24	0.13	---	0.54	0.15
FR	---	0.11	---	---	0.2	---
GR	---	0.23	---	---	0.28	---
IE	---	---	---	---	0.12	---
IL	0.27	0.47	0.31	0.28	0.3	0.35
IT	0.17	2.41	0.25	0.18	5.32	0.28
KG	0.15	0.11	---	0.16	---	0.1
KZ	0.59	0.28	0.60	0.61	0.35	0.67
LT	0.53	---	---	0.55	---	---

[5] CA – Canada, US – the Unitied States of America.

LV	0.68	---	0.10	0.71	---	0.11
PL	0.94	---	0.56	0.97	---	0.63
PT	---	0.31	---	---	0.57	---
RO	---	1.13	---	---	5.00	---
RU	8.67	7.93	6.99	8.96	8.29	7.85
US	0.48	0.71	0.63	0.50	1.34	0.71
UZ	0.29	---	0.28	0.30	---	0.32

*only values higher than 0.1% are displayed.

Source: Authors' study based on data taken from the United Nations Population Division.

Table 6 displays the distribution of migrants from Belarus, Ukraine and Moldova in mid-2005 and mid-2019. For these three countries, Russia is the main target (approximately 7.5% of the residents of each country are living there). A comparison of data included in table 6 does not indicate significant fluctuations in migration patterns between 2005 and 2019. A dramatic change can be seen in the increased fraction of Moldavians living in Romania (from 1.13% to 5%). No other significant changes have been seen over the past 15 years. In the case of Belarus, the number of emigrants increased by 0.1 percentage points, whereas in Moldova, the growth was lower than one percentage point. In Ukraine, the number of emigrants raised by 0.2 percentage points. To conclude, the outflow of CEE inhabitants to EU15 countries has not been compensated by a parallel inflow from the former COMECON countries.

Discussion and Conclusions

According to Hirsh (2020) economists are now "on the run" after their analysis seriously misfired, with Krugman reciting the most explicit *mea culpa* after realizing the damage done to US wages by competition with China. Unlike the United States, part of Europe, mainly the old one, managed a profit from the asymmetric trade balance using EU12 inhabitants as a source of cheap labour. Reinert has defined this process as an 'assumption-based rent': rents that accrue to richer countries due to the basic assumption of neo-classical economics. Migration movements within the European Union is not a hot political topic as are refugees and economic migrants from Africa and the Middle East. Undoubtedly, the import of cheap labour has hurt wages in the wealthier EU15 countries. Wage levels in the United Kingdom construction sector have been considerably reduced. There also seem to be somewhat negative *migration hierarchies*, or 'trickle-down' effects. Paradoxically, in Western Ukraine, the good news is that the construction workforce migrates to Poland to replace employees who have migrated elsewhere. At the same time, in Moldova, one is told that the good news is that there are many construction jobs in Ukraine. The official EU narrative of the enlargement as a path to wealth for all (Cecchini et al. 1988) obviously produced many losers.

One problematic aspect of migration that is not explicitly treated in this work is the resulting loss of essential professions and skills. For example, the outflow of physicians and nurses may render the country of origin more vulnerable, as we are witnessing due to the COVID-19 pandemic (Szpakowski et al., 2019; Żuk et al., 2019). Moreover, deindustrialization always leads to increased migration, sometimes as an unstoppable sequence of deindustrialization, de-agriculturization, and de-population (Reinert 2017b, 2013). In Mexico, an extreme case is Chiapas; another case is Moldova in Europe, where children tend to grow up with their grandparents because both parents are working abroad. It can be argued that lower wages also produce winners and losers in old Europe. Some of the emigrant CEE citizens would prefer to remain in their homeland if they did not lack chances in the present quasi-colonial organization.

While we do not possess a valid counter-factual, the contrast of Figures 6 and 7 suggests that it is legitimate to wonder if the CEE countries would have fared better economically by not joining the EU. The introduction of the common currency has made things worse for the periphery, where inflation continued in Italy and Greece but stopped immediately in Germany. Whereas devaluations of the local currencies previously solved such imbalances within the European Union (be they liras, drachmas or escudos), the only adjustment mechanism now left is moving people, often against the will of both the exporting and the importing migrants countries. The euro has worsened the migration problem, and one can assume that the relative success of Poland is partly due to avoiding pressures to replace zlotys with euros.

At the time, experienced economists argued passionately against the 'shock therapy' generally unanimously recommended by Western economists. Kregel et al. (1992) encouraged a more gradual approach, avoiding the shock therapy came to happen in 2004. Opening up for free trade inside the old COMECON countries at the time of the 1989 collapse would have eased the transition considerably by letting countries at similar levels of technological level 'learn' to compete inside a market economy. Apparently, there are only a few regrets. When will Europe's CEE finally awake from the lethargy of the 'Samuelsonian/Ricardian Dream' (Reinert 2020; Reinert et al., 2021) of factor-price equalization?

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