

THE ECONOMIC COMPETITIVENESS OF POST-SOCIALIST STATES ACCEPTED INTO THE EUROPEAN UNION IN 2004

Paweł Wójcik
Maria Curie Skłodowska University, Poland
pawel.wojcik.umcs@gmail.com

Abstract:

The purpose of this article is to examine the economic competitiveness of former Eastern Bloc states accepted into the European Union within the 2004 enlargement. The study concerned the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. In 2004 the analysed countries met the economic accession criteria which included the existence of effective market economy able to withstand the competitive pressure and the power of internal European market. Similarities between the examined states concern also their culture and history. The paper presents a comparative analysis of economic competitiveness based on the following factors: Growth Competitiveness Index (GCI); International Institute for Management Development competitiveness index (IMD) and Human Development Index (HDI). The comparison spans the years 2004–2014. Its results show changes of economic competitiveness in the analysed countries after becoming members of the European Union.

Keywords: enlargement of the European Union, European Union membership, economic competitiveness, post-socialist states, European Union

1. INTRODUCTION

On the 1st May 2004 the European Union expanded by ten new member states. It was the biggest enlargement in the EU history. Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia became the new members. Eight countries out of the accepted ones were members of the Eastern Bloc. Accession to the EU became a very important element in the transformation of these countries from socialist to capitalist economy. The 2004 enlargement countries expected development and economic growth which was to be made possible by their accession. One of the basic results of the enlargement was to be the increase in global competitiveness of the economy of these countries.

Economic competitiveness is a complex phenomenon and hence difficult to define. Three aggregate indices were used to measure the economic competitiveness of national economies: Growth Competitiveness Index (GCI); International Institute for Management Development competitiveness index (IMD) and Human Development Index (HDI).

The first part of this article describes the economic competitiveness and its complexity. The second part presents the changes in the economic competitiveness that took place in the analysed countries from 2004 to 2014.

2. THE ECONOMIC COMPETITIVENESS

The notion of competitiveness deserves a special interest of economists, as it enables development and discovering new knowledge. According to Nobel prize winner Friedrich von Hayek, every increase in competition allows to find new production opportunities and chances. Without proper competition certain opportunities are unknown and not used. Hayek remarks that competition has a more important role in less developed states than in developed ones, as the former have more undiscovered potential and a bigger role for competition to shape new habits and mentality beneficial to economy (Szymański, 2004, p. 35).

Competitiveness is usually defined based on the area to which it pertains. Therefore what can be distinguished is: microeconomic competitiveness concerning companies; mesoeconomic competitiveness concerning an economic sector or regions; macroeconomic competitiveness concerning national economy. The first two kinds are easy to define, yet the third one is very difficult.

Economic competitiveness is defined in literature in many different ways. Some authors state that competitiveness of a country is becoming increasingly better understood and hence better measurable. The choice of a single acceptable definition seems virtually impossible. Furthermore, it is easy to notice a tendency to discuss global competitiveness in first of all quantitative terms which can be expressed by numbers. Some researchers leave out qualitative values completely, which is a mistake. Two viewpoints which include the quantitative and qualitative aspect of economy are worth quoting here. The Organization for Economic Co-operation and Development (OECD) defines competitiveness as "the ability of companies, industries, regions, nations or supranational regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels on a sustainable basis" (Globalisation and Competitiveness: Relevant Indicators, 1996, p.20). The European Commission lays stress on the quantitative aspect devoting special attention to living standard of citizens. In one of its reports the Commission writes: "Competitiveness is taken here to mean a sustained rise in the standard of living of a nation or region and as low a level of involuntary unemployment as possible" (European Competitiveness Report, 2010, p. 22).

3. THE ECONOMIC GROWTH OF EASTERN EUROPEAN COUNTRIES ACCEPTED INTO THE EUROPEAN UNION IN 2004

The economic change which started at the end of 1980s in Eastern European countries became the beginning of economic growth. Integration with the EU is one of the greatest chances in their development.

Eastern European states were treated as a weakly developed region and for this reason were eligible for financial support for the modernisation and restructuring of their economy (PHARE, SAPARD, ISPA for the EU candidates and the Structural Funds and the Cohesion Fund for its members). The common features of their sociopolitical situation were: increasing crisis (market instability, external debt); progressing problem with the legitimacy of the then government; geopolitical changes; costs of the arms race between the USA and the USSR as well as of Mikhail Gorbachev's reform policy (cancelling the Brezhnev Doctrine which accepted only the limited independence of Eastern Bloc countries) which were related to these changes. The last two factors did not play an important role in the case of Yugoslavia which ended close relationships with the Soviet Union as early as in 1948 (Wojnicki, 2007, p. 7).

It should be emphasised that on the verge of socialism's demise the sociological systems of the analysed states were similar. The range of economic liberty was the basic difference. Certain countries (Hungary, Poland) had private handicraft and services with Poland having even private farming. Economic effects resulting from economic changes were also of similar tendency. After only a few years of the transformation these countries achieved positive economic outcomes: higher economic development level than in 1989, stable internal market, stopped inflation increase (Kozłowska, 2011, p. 103-111).

Accession agreements made in the first half of 1990s were the first step towards a closer cooperation between the European Communities and post-communist states. Czechoslovakia, Hungary and Poland signed accession agreements in 1991. Due to Czechoslovakia's division the Czech Republic and Slovakia signed new agreements in 1993. Latvia, Lithuania and Estonia signed the agreements in 1995 and Slovenia a year later. The first agreements stipulated a 10-year-long temporary period, the remaining ones a 5-year-long one. The purpose of accession agreements was to form the framework for political dialogue which would enable close political relationships, trade development and harmonisation of economic relationships between the parties in order to promote dynamic economic growth in the associated states (Wojnicki, 2007, p. 68-69).

During the 1993 Copenhagen session of the European Council the candidate states were presented the requirements to meet in order to obtain the full EU membership. Copenhagen criteria included political, economic and institutional criteria. The economic criterion consisted in the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union (Economic accession criteria, 2014).

The next step towards the EU enlargement was the White Paper publication by the European Commission in May 1995. The Paper concerned the preparation of Eastern European associated states to integrate with the EU internal market. The Paper obliged the candidates to speed up the adjustment of their economy and legal system to the EU requirements. The document stated: "The European Council also emphasised that sound macro-economic policies are essential to the success of reform and of the pre-accession strategy. Progressive alignment with the Union's internal market policies will reinforce the competitiveness of the CEECs' economies and increase the benefits of transition thus contributing to the achievement and consolidation of macro-economic stability" (White Paper, 1995, point 1.10).

The post-socialist states accepted into the EU in 2004 were also to participate in the Lisbon Strategy of 2000. The Strategy's main aim was to rival the USA, the EU's main competitor in economic competitiveness. For this reason the plan set a new goal: "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (Lisbon European Council, 2000, point 5).

On 13th December 2002 the EU ended the negotiations with the ten candidate countries. This meant that all parties made clear and accepted the requirements under which the new countries were to join the EU. The accession treaty was officially signed on 16th April 2003 in Athens and eventually accepted on 1st May 2004.

4. THE METHOD FOR RESEARCHING ECONOMIC COMPETITIVENESS

A substantial number of factors which determine economic competitiveness level makes it difficult to create a coherent and good measure of competitiveness. It also results from the fact that competitiveness is to a big degree a qualitative phenomenon, hence difficult to measure. Interactions often difficult to observe which appear between different variables significantly influence the competitiveness level. Moreover, the action of different elements can be different with time, which makes their positive impact unnoticeable in the short term.

The most frequently applied indices were used to research the changes of economic competitiveness level: GCI; IMD competitive index; HDI. They allow to determine the place of a country in global rankings, thanks to which it can be analysed against other countries over many years. The measures applied in this article differ in their factual and methodological approach.

4.1. Growth Competitiveness Index

Assessed by the World Economic Forum, GCI is counted based on three indices: technology, public institutions and macroeconomic environment. Each of them is calculated on the basis of hard data and survey data. For the purpose of GCI calculation for different economies, states were divided into core innovators and non-core innovators, each group with a different way of estimating the index. States classified as core innovators have at least 15 patents concerning innovations in the domain of newest technologies per a million citizens per year (The Global Competitiveness Report, 2006-2007, p. 554-555).

4.2. International Institute for Management Development Index

The IMD index is estimated by the International Institute for Management Development and published yearly in the *World Competitiveness Yearbook*. Just as GCI, this index provides the assessment of macroeconomic competitiveness of an economy and the overview of factors influencing its level. The IMD index measures the ability of a society to create and maintain an economic and legal situation beneficial to the competitiveness of national economy and the improvement of enterprise sector. It is calculated based on over 300 indices regarded as factors determining the competitiveness of an economy or its lack. The main factors used to count the IMD index are Economic Performance, Government Efficiency, Business Efficiency and Infrastructure (IMD World Competitiveness Yearbook, 2014, p. 479-484).

4.3. Human Development Index

Published by the United Nations Development Programme, HDI is becoming more and more often perceived by economists as the best measure to estimate economic competitiveness. It was created to emphasise the importance of people and their potential as the ultimate criterion for assessing the overall growth of a country, not only economic growth. The index is based on three major factors of human development: a long and healthy life; being knowledgeable; having a decent standard of living (Human Development Index, 2014a).

5. THE CHANGES IN ECONOMIC COMPETITIVENESS OF THE ANALYSED COUNTRIES ACCEPTED INTO THE EU IN 2004

5.1. Growth Competitiveness Index

Changes in competitiveness according to GCI in the years 2004-2014 are very diversified. Over a decade Slovenia (-37), Slovakia (-32) and Hungary (-21) suffered a substantial fall in the ranking whereas Estonia (-9) and Lithuania (-5) experienced a small drop. The Czech Republic (3) and Latvia (2) achieved insignificant development. Poland (17) which was in the lowest place out of the examined countries in 2004 reached the biggest growth. In 2004 GCI ranking Estonia was first with Slovenia, Lithuania, Hungary, the Czech Republic, Slovakia, Latvia and Poland in further places. After ten years Estonia was the leader while the Czech Republic, Latvia, Lithuania, Poland, Hungary, Slovenia and Slovakia occupied the remaining positions.

Table 1: The analysed states in the 2004-2014 GCI ranking

State	Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
the Czech Republic	Rank	40	29	29	33	33	31	36	38	39	46	37
	Change in rank to base year		11	11	7	7	9	4	2	1	-6	3
	Change in rank to year before		11	0	-4	0	2	-5	-2	-1	-7	9
Estonia	Rank	20	26	25	27	32	35	33	33	34	32	29
	Change in rank to base year		-6	-5	-7	-12	-15	-13	-13	-14	-12	-9
	Change in rank to year before		-6	1	-2	-5	-3	2	0	-1	2	3
Hungary	Rank	39	35	41	47	62	58	52	48	60	63	60
	Change in rank to base year		4	-2	-8	-23	-19	-13	-9	-21	-24	-21
	Change in rank to year before		4	-6	-6	-15	4	6	4	-12	-3	3
Latvia	Rank	44	39	36	45	54	68	70	64	55	52	42
	Change in rank to base year		5	8	-1	-10	-24	-26	-20	-11	-8	2
	Change in rank to year before		5	3	-9	-9	-14	-2	6	9	3	10
Lithuania	Rank	36	34	40	38	44	53	47	44	45	48	41
	Change in rank to base year		2	-4	-2	-8	-17	-11	-8	-9	-12	-5
	Change in rank to year before		2	-6	2	-6	-9	6	3	-1	-3	7
Poland	Rank	60	43	48	51	53	46	39	41	41	42	43
	Change in rank to base year		17	12	9	7	14	21	19	19	18	17
	Change in rank to year before		17	-5	-3	-2	7	7	-2	0	-1	-1
Slovakia	Rank	43	36	37	41	46	47	60	69	71	78	75
	Change in rank to base year		7	6	2	-3	-4	-17	-26	-28	-35	-32
	Change in rank to year before		7	-1	-4	-5	-1	-13	-9	-2	-7	3
Slovenia	Rank	33	30	33	39	42	37	45	57	56	62	70
	Change in rank to base year		3	0	-6	-9	-4	-12	-24	-23	-29	-37
	Change in rank to year before		3	-3	-6	-3	5	-8	-12	1	-6	-8
out of (the number of states analysed)		104	117	125	131	134	133	139	142	144	148	144

Source: own calculation based on: [The Global Competitiveness Report, 2004, 2006, 2008, 2009, 2010, 2011, 2012, 2013, 2014]

5.2. International Institute for Management Development competitiveness index

According to the IMD index, Slovenia (-10), Hungary (-6), Slovakia (-5), Lithuania (-3 compared to 2007) and Estonia (-2) experienced the biggest fall in the ranking in 2004-2014. The Czech Republic (10) reached an improvement in position. With the last place from the examined countries in the 2004 collation, Poland (21) achieved the biggest growth. Compared with the places in 2004, Estonia was in the best position whereas Slovakia, Hungary, the Czech Republic, Slovenia and Poland in more distant ones. Lithuania and Latvia did not take part in the IMD research that year. In 2014 Estonia was still first with the Czech Republic, Lithuania, Latvia, Poland, Slovakia, Hungary and Slovenia further on.

Table 2: The analysed states in the 2004-2014 IMD ranking

State	Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
the Czech Republic	Rank	43	36	31	32	28	29	29	30	33	35	33
	Change in rank to base year		7	12	11	15	14	14	13	10	8	10
	Change in rank to year before		7	5	-1	4	-1	0	-1	-3	-2	2
Estonia	Rank	28	26	20	22	23	35	34	33	31	36	30
	Change in rank to base year		2	8	6	5	-7	-6	-5	-3	-8	-2
	Change in rank to year before		2	6	-2	-1	-12	1	1	2	-5	6
Hungary	Rank	42	37	41	35	38	45	42	47	45	50	48
	Change in rank to base year		5	1	7	4	-3	0	-5	-3	-8	-6
	Change in rank to year before		5	-4	6	-3	-7	3	-5	2	-5	2
Latvia	Rank	-	-	-	-	-	-	-	-	-	41	35
	Change in rank to base year		-	-	-	-	-	-	-	-	-	6
	Change in rank to year before		-	-	-	-	-	-	-	-	-	6
Lithuania	Rank	-	-	-	31	36	31	43	45	36	31	34
	Change in rank to base year		-	-	-	-5	0	-12	-14	-5	0	-3
	Change in rank to year before		-	-	-	-5	5	-12	-2	9	5	-3
Poland	Rank	57	57	58	52	44	44	32	34	34	33	36
	Change in rank to base year		0	-1	5	13	13	25	23	23	24	21
	Change in rank to year before		0	-1	6	8	0	12	-2	0	1	-3
Slovakia	Rank	40	40	39	34	30	33	49	48	47	47	45
	Change in rank to base year		0	1	6	10	7	-9	-8	-7	-7	-5
	Change in rank to year before		0	1	5	4	-3	-16	1	1	0	2
Slovenia	Rank	45	52	45	40	32	32	52	51	51	52	55
	Change in rank to base year		-7	0	5	13	13	-7	-6	-6	-7	-10
	Change in rank to year before		-7	7	5	8	0	-20	1	0	-1	-3
out of (the number of states analysed)		60	60	61	55	55	57	58	59	59	60	60

Source: own calculation based on: [IMD World Competitiveness Yearbook, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014]

5.3. Human Development Index

According to HDI, only two states, Hungary (-8) and Latvia (-3), suffered a drop in the 2004-2013 ranking. Estonia (7), Lithuania (6), Slovakia (5), the Czech Republic (2), Poland (2) and Slovenia (2) experienced the biggest development level. In comparison with the 2004 collation, Slovenia was in the highest position whilst the Czech Republic, Hungary, Poland, Estonia, Lithuania, Slovakia and Latvia followed. After ten years Slovenia was still in the first position with the Czech Republic, Estonia, Poland, Lithuania, Slovakia, Hungary and Latvia further on.

Table 3: The analysed states in the 2004-2013 HDI ranking

State	Year ¹	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
the Czech Republic	Rank	30	32	36	36	28	28	27	28	28	28
	Change in rank to base year		-2	-6	-6	2	2	3	2	2	2
	Change in rank to year before		-2	-4	0	8	0	1	-1	0	0
Estonia	Rank	40	33	40	40	32	34	34	33	33	33
	Change in rank to base year		7	0	0	8	6	6	7	7	7
	Change in rank to year before		7	-7	0	8	-2	0	1	0	0
Hungary	Rank	35	36	41	43	38	36	38	37	43	43
	Change in rank to base year		-1	-6	-8	-3	-1	-3	-2	-8	-8
	Change in rank to year before		-1	-5	-2	5	2	-2	1	-6	-6
Latvia	Rank	45	43	50	48	39	48	43	44	48	48
	Change in rank to base year		2	-5	-3	6	-3	2	1	-3	-3
	Change in rank to year before		2	-7	2	9	-9	5	-1	-4	-4
Lithuania	Rank	41	35	46	46	35	44	40	41	35	35
	Change in rank to base year		6	-5	-5	6	-3	1	0	6	6
	Change in rank to year before		6	-11	0	11	-9	4	-1	6	6
Poland	Rank	37	37	42	41	37	41	39	39	35	35
	Change in rank to base year		0	-5	-4	0	-4	-2	-2	2	2
	Change in rank to year before		0	-5	1	4	-4	2	0	4	4
Slovakia	Rank	42	42	44	42	36	31	35	35	37	37
	Change in rank to base year		0	-2	0	6	11	7	7	5	5
	Change in rank to year before		0	-2	2	6	5	-4	0	-2	-2
Slovenia	Rank	27	22	29	29	22	29	21	21	21	25
	Change in rank to base year		5	-2	-2	5	-2	6	6	6	2
	Change in rank to year before		5	-7	0	7	-7	8	0	-4	-4
out of (the number of states analysed)		177	177	182	182	175	169	187	185	185	185

Source: own calculation based on: [Human Development Report, 2006, 2007/2008, 2009, 2010, 2011, 2013, 2014b]

6. CONCLUSIONS

The rankings used in this paper allowed to analyse the changes in economic competitiveness of each state which joined the EU in 2004.

Changes in competitive positions of the examined countries as to GCI and the IMD index over the 10-year-long period are similar, but different with regard to HDI. Despite a fall in place in the GCI and IMD comparisons, Estonia, Lithuania, Slovakia and Slovenia reached an improvement in the HDI ranking. Hungary suffered a drop in all collations whereas the Czech Republic and Poland achieved higher places. Latvia experienced a small betterment in the GCI ranking and an insignificant fall in the HDI one.

The analysed states exhibited a varied degree of place changes over the decade 2004-2014. The biggest variety was evident in the GCI ranking where Poland experienced the highest improvement (17 places) and Slovenia the highest drop (37 places). Worth mentioning is the number of countries which took place in the comparison. In 2004 the list of countries in the GCI collation amounted to 104 and to 144 in 2014. A lower diversification was observable within the IMD ranking. Poland reached the

¹ There is no 2009

highest betterment (21 places) and Slovenia the highest fall (10 places). Smaller differences may result from a smaller number of countries taking part in the comparison (60 in both 2004 and 2014). Although most states took part in the HDI study, the states examined in this article showed the lowest variety of position changes in this ranking. In 2004 the list had 177 states and 185 in 2013. Estonia experienced the highest improvement (7 places) and Hungary the highest drop (8 places).

Observing the changes in economic competitiveness of the analysed Eastern European countries which joined the EU in 2004, special attention should be paid to Poland, the Czech Republic, Hungary and Slovenia. Poland which was in the lowest place in the 2004 GCI and IMD comparisons made up for the biggest losses and improved its position in the HDI ranking. The Czech Republic also bettered its position in all collations, but not so significantly as Poland. Hungary, in turn, suffered the biggest drop in all rankings. Only Slovenia experienced a higher fall in the GCI and IMD comparison, but slightly improved its place in the HDI collation.

REFERNECE LIST

1. Economic accession criteria (2014, February 22). Retrieved from http://ec.europa.eu/economy_finance/international/enlargement/criteria/index_en.htm
2. *European Competitiveness Report 2010* (2010), European Commission, Brussels.
3. *Globalisation and Competitiveness: Relevant Indicators* (1996). "STI Working Papers", no. 5, OECD, Paris.
4. Human Development Index (2014b, February 15). Retrieved from <http://hdr.undp.org/en/content/human-development-index-hdi>
5. *Human Development Report 2006: Beyond scarcity: Power, poverty and the global water crisis* (2006). UNDP, New York.
6. *Human Development Report 2007/8: Fighting climate change: Human solidarity in a divided world* (2007). UNDP, New York.
7. *Human Development Report 2009: Overcoming barriers: Human mobility and development* (2009). UNDP, New York.
8. *Human Development Report 2010: The Real Wealth of Nations: Pathways to Human Development* (2010). UNDP, New York.
9. *Human Development Report 2011: Sustainability and Equity: A Better Future for All* (2011). UNDP, New York.
10. *Human Development Report 2013: The Rise of the South: Human Progress in a Diverse World* (2013). UNDP, New York.
11. *Human Development Report 2014: Sustaining Human Progress: Reducing Vulnerability and Building Resilience* (2014a). UNDP, New York.
12. *IMD World Competitiveness Yearbook 2004* (2004). IMD World Competitiveness Center.
13. *IMD World Competitiveness Yearbook 2005* (2005). IMD World Competitiveness Center.
14. *IMD World Competitiveness Yearbook 2006* (2006). IMD World Competitiveness Center.
15. *IMD World Competitiveness Yearbook 2007* (2007). IMD World Competitiveness Center.
16. *IMD World Competitiveness Yearbook 2008* (2008). IMD World Competitiveness Center.
17. *IMD World Competitiveness Yearbook 2009* (2009). IMD World Competitiveness Center.
18. *IMD World Competitiveness Yearbook 2010* (2010). IMD World Competitiveness Center.
19. *IMD World Competitiveness Yearbook 2011* (2011). IMD World Competitiveness Center.
20. *IMD World Competitiveness Yearbook 2012* (2012). IMD World Competitiveness Center.
21. *IMD World Competitiveness Yearbook 2013* (2013). IMD World Competitiveness Center.
22. *IMD World Competitiveness Yearbook 2014* (2014). IMD World Competitiveness Center.
23. Kozłowska, M. (2011). Europejskie kraje postsocjalistyczne – kraje zakończonej transformacji systemowej. In S. Swadźba (Ed.), *Systemy gospodarcze. Analiza porównawcza* (pp. 103-111). Uniwersytet Ekonomiczny, Katowice.
24. *Lisbon European Council 23-24 March 2000. Presidency conclusions* (2000).
25. Szymański, W. (2004). *Interesy i sprzeczności globalizacji. Wprowadzenie do ekonomii ery globalizacji*, Difin, Warszawa.
26. *The Global Competitiveness Report 2004/2005* (2004). World Economic Forum, Geneva.
27. *The Global Competitiveness Report 2006-2007* (2006). World Economic Forum, Geneva.
28. *The Global Competitiveness Report 2008-2009* (2008). World Economic Forum, Geneva.
29. *The Global Competitiveness Report 2009-2010* (2009). World Economic Forum, Geneva.
30. *The Global Competitiveness Report 2010-2011* (2010). World Economic Forum, Geneva.
31. *The Global Competitiveness Report 2011-2012* (2011). World Economic Forum, Geneva.

32. *The Global Competitiveness Report 2012-2013* (2012). World Economic Forum, Geneva.
33. *The Global Competitiveness Report 2013-2014* (2013). World Economic Forum, Geneva.
34. *The Global Competitiveness Report 2014-2015* (2014). World Economic Forum, Geneva.
35. *White Paper. Preparation of the associated countries of Central and Eastern Europe for integration into the internal market of the European Union* (1995). COM (95) 163 final, Brussels.
36. Wojnicki, J. (2007). *Droga Europy Środkowej do Unii Europejskiej (Czechy, Słowacja, Słowenia, Węgry)*, Wydawnictwo Sejmowe, Warszawa.