Conceptual Paper

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The coronavirus and center-peripheral relations in the economies of the European Union

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Abstract: From the perspective of the diversity of capitalism and that of economic sociology, the article deals with the issue of center-peripheral relations as one of the key dimensions of economic diversification that determines the development opportunities of the European Union. The collapse of the convergence processes during the 2008–2010 financial crisis revealed the separateness of development trajectories of various countries and geographical regions of the EU. Without reversing this phenomenon and working out new mechanisms of development convergence and institutions supporting them, the process of European integration will enter further structural crises that may lead to the disintegration of the EU. Various classifications of the core and of the peripheries of the euro area are characterized, within which several types of countries are identified with different economic characteristics (countries of the Northern core and of the Southern peripheries of the euro area, different types of peripheries in Southern Europe and in Central and Eastern Europe, the internal core and the external core or the outer core, and the internal peripheries and the external peripheries, as well as the super-peripheries including candidates or potential candidates to join the EU). The COVID-19 crisis has an asymmetric impact on the economic situation of the Member States. As with other crises, this impact will be the result of the interconnection of the prior state of economies, structural differences in growth patterns, and responses to new challenges brought about by the pandemic. Also, the consequences of the pandemic for the reconfiguration of center-peripheral relations in the EU are discussed, with a particular focus on the CEE.

Keywords: The impact of the pandemic on the economic future of the EU, center-peripheral relations in the EU, the diversity of the trajectories of capitalism development in Europe, similarities and differences of the EU peripheries, new classifications of the core and of the peripheries

JEL Classification: A14, A12, F15, P51

1 Introductory remarks

The article aims to characterize the economic center-peripheral differences as a structural factor of divisions within the European Union (EU), significantly strengthened by the course and consequences of the coronavirus pandemic. In accordance with the theoretical perspective of the dissimilarity of capitalism adopted by the author, this division results mainly from the distinctiveness of institutional variants of capitalism of the member states [Amable, 2003; Simonazzi and Ginsburg, 2015; Farkas, 2016; Rapacki, 2019;

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Grabner and Hafele, 2020], which are manifested in differences resulting from various economic "growth models" [Baccaro and Pontusson, 2016]. They are also reflected in the asymmetry of political influence as a product of the polarization of economic potential [Hall, 2018; Webber, 2019]. In research on European integration, the issues of center-peripheral divisions have long been marginalized. Since the beginning of this integration, the dominant theory has been neoclassical, and focused on efficiency and maximization of general welfare, which has not paid much attention to the question of equality and distribution of benefits among the participants in this system, countries, regions, or social groups.

According to this theory (as in the Solow–Swan model), every well-developing country seeks to embark on a similar path of sustainable growth. Poorer countries, where there is less capital and investment is more profitable, will grow faster and start catching up with richer countries, leading to convergence.[1] The prevailing belief, rooted in economic prosperity, was that it was possible to narrow development gaps within the European Economic Community (EEC). As a result, for a long time, no significant redistributive instruments were created at the EEC level since the main objective of integration was to remove barriers to mutual cooperation. The issues of bridging developmental disparities were the responsibility of the member states [Tsoukalis, 1997].

The approach to economic development in the EEC has changed significantly only since the mid-1980s due to its enlargement to include the less developed countries of Southern Europe, the construction of the common market (Single European Act), and the expansion to include the countries of Central and Eastern Europe (CEE). Differences between countries and regions in the EU acquired a dimension of a center-periphery divide, with the poorest areas concentrated in the southern, eastern, and western peripheries (the new German Länder). Further enlargement and deepening of integration forced the development of redistributive instruments in the EEC/EU in the form of regional, structural, and cohesion policies.

The 1980s also saw the emergence of a new theoretical school of thinking about development in a more holistic way – the endogenous growth theory. According to its assumptions, what is equally important as savings, investment, and technology are the following factors: the availability and quality of human capital, expenditure on research and development, the way the economy functions, openness to the world, and international cooperation. In this approach, convergence is not guaranteed; it is, rather, an opportunity, the use of which depends on the fulfilment of many conditions concerning the smooth functioning of the economy and an appropriate economic policy.[2] The diversity of national institutional frameworks (types of capitalism), as well as cultural specificities and historical experiences of member states, generates different responses of states to development challenges. The euro area crisis and the coronavirus pandemic have externalized the growing disparities in Europe in this regard. These phenomena, along with competing visions for integration, are reflected in the activities of the EU, including the introduction of the institution of enhanced cooperation in the Lisbon Treaty, manifested by the creation of the euro area and the Schengen system.

Although the concepts of "flexible integration," "concentric circles," or "Europe of many speeds" have been present in the EU discourse for a long time, their premises and implications have usually been presented as mostly political. The impact of EU economic heterogeneity on the asymmetric political influences in Brussels of states and subregions has rarely been considered. On the other hand, the dominance of the convergent perspective made the diversifications of socio-economic processes not adequately translate

1 The concept of convergence is used here in relation to the trend of equalizing the average level of GDP per capita measured with the purchasing power parity in highly developed EU countries (real convergence). Labour productivity indicators in the economy, the synchronization of economic fluctuations, the equalization of the level of technology, and the process of institutions, production and organizational structures, as well as cultural patterns all becoming similar are also important measures of convergence.

2 The EU-15 was characterized by large economic disparities, which far exceeded those of the US, already before the accession of the CEE countries. On the origins, theoretical assumptions, stages of implementation, and measures of cohesion policy and redistribution in the EEC/EU and their implications, see Tsoukalis [1997, 2005]. This policy area in the EU raises numerous controversies related, inter alia, to the different approaches of Member States to its goals and assumptions, and the relatively small pool of funds allocated for their implementation in the EU budgets, as well as divergent assessments of the effects [Begg, 2011; Molle, 2011].

into academic reflection, political decisions, and institutional changes. The collapse of the convergence processes during the 2008–2010 financial crisis revealed significant differences in the trajectories of economic development, which are manifested in the growing divisions into centers and peripheries within the EU [Agh, 2014]. The coronavirus pandemic in 2020 has radically exacerbated these divides, and has also given them a new, dramatic character. Without stopping them and developing new convergence mechanisms, the process of European integration will enter further structural crises that may lead to the division or disintegration of the EU [Krastev, 2017; Webber, 2019].

The subject matter of the article has been covered from the perspective of diversity of capitalism. This perspective is, for several reasons, methodologically particularly useful for the study of structural diversities and tensions in the EU. It provides academically grounded tools for characterizing such trends as part of the long-term rivalry of different economic systems operating in the EU. It draws attention to the need to recognize significant institutional differences between member economies, and also clearly indicates the more effective ones. It emphasizes the role of path dependency which, in the institutional dimension, to a large extent determines the directions of development of individual economies also on the scale of entire EU regions. The example of the CEE countries proves that it is possible to depart from the previously formed system of path dependency. However, this departure requires a radical political change that transforms the institutional architecture of the existing economic order [Jasiecki, 2013, 2019; Rapacki, 2019].

The article is structured as follows. The first part outlines how the euro area crisis has influenced the revival of center-periphery concepts in the EU. The second part characterizes the process of dualization of capitalism in the EU and the tendency toward its fragmentation into a structural division, into North ("the core") and South and Central-Eastern development "peripheries" with different rules of operation and institutional rationality. The third part outlines the similarities and differences of the EU peripheries. The fourth part discusses the new classification of the EU core and those of its peripheries as conceived by Bartlett and Prica. The fifth part presents the impact of the coronavirus pandemic on the changes in the relationship between the EU core and its peripheries, and the qualitative changes they lead to (the creation of the Recovery Fund, the Europeanisation of debts, etc.). The article closes with conclusions.

2 The crisis of the euro area and the revival of the center-peripheral concept

The financial crisis in the euro area spread out into all EU countries and showed dysfunctions, asymmetries, and contradictions in the Economic and Monetary Union (EMU). It has become a catalyst for the cumulation of crisis-generating factors, occurring also in other dimensions of Europe: economic, social, political, migratory, institutional, and geopolitical. The penetration and overlapping of these crises hit the foundations of the entire integration project and triggered a re-evaluation of dominant views in many dimensions, including economic development, structural problems of capitalism, and the governance and legitimacy of the EU. Among other things, the concept of convergence, underlying the enlargement of the EEC and the EU, was undermined. The course of the crisis in the euro area showed the differentiation of economic development models, as well as the systemic risks resulting from the dissimilarity of European capitalist variants and relations among them [Iversen and Soskice, 2018].

As a result, the EU, instead of establishing development strengthening framework, became a source of destabilization and uncertainty. The idea underlying European integration was to create the most competitive economy in the world. The key to these ambitious goals was seen in the single currency and in the common market. The introduction of the euro, aimed at contributing to the integration of Europe, had the opposite effect: it deepens the disparities and conflicts between the countries of surplus and those of deficit, between importers and exporters, and between the "South" and the "North" [Zielonka, 2014]. Such tendencies directed attention to the creation of a new model of center-peripheral relationships, which differentiate the chances of the Member States achieving real convergence within the EU and may even permanently marginalize some of them.

This model focuses on the conditions and consequences of developmental differences at the regional, national, and EU levels, which are considered by the core categories (innovative and adaptive) and by the periphery categories (imitative and archaic). In different theoretical variants it is used in, among other things, research of international political economy on economic development, in political geography, sociology of politics, in regionalist studies and in labor market analysis [Rokkan and Urwin, 1983; Hall and Ludwig, 2010; Hooghe and Marks, 2017]. However, the starting point of the post-war European integration initiated by the states of the so-called Six (Benelux, France, Germany, and Italy) defined a similar level of economic development, as well as their significant convergence with each other, which favored the consolidation of economic and social systems.[3] The foundation of the successive enlargements of the EEC/EU was the assumption, derived from the neoclassical theory of economic growth, that Western Europe, being the "center" of political, economic, and cultural strength, would attract less developed countries located in its vicinity. In the 1980s, this phenomenon occurred in relations with southern countries (Greece, Spain, and Portugal), and later with CEE. Until the crisis in the euro area, the prevailing view was that this direction of systemic changes produced "the catching-up effect," conducive to economic convergence and democratic changes [Zielonka, 2006; Aslund, 2008]. After 2008, new economic trends provided arguments for theories that globalization and European integration may also increase development gaps between regions, states, and groups of countries [Krugman, 1998; Gambrotto and Solari, 2015; Crouch, 2020]. The coronavirus pandemic provides another confirmation of such concepts.

3 The dualization of capitalism in the EU

Since the 2008–2010 crisis, the nature of the discussion on the division of the EU into the center and peripheries has changed. The conviction about "catching up" with Western Europe was confronted with the actual directions of economic changes, including the divergence between the differently defined "core" and "peripheries" states of the EU.[4] In the subject aspect, two basic approaches to the center-peripheries divisions were distinguished: (1) characterizing the divisions in the euro area countries; (2) considering different types of peripheries in Southern Europe and in CEE. Initially, the issues raised were considered mainly in the context of the division of the euro area into the countries of the northern "core" ("hard core") and Southern Europe as a "periphery," which resulted from the key importance of this area for the EU.

Such a division ("duality of development") results from the coexistence of two main variants of capitalism, which generate different interactions between macroeconomic policies and institutions of the member states, not conducive to the development of the entire EU. The former is often referred to as "northern capitalism" based on exports, and the latter as "southern capitalism" relying on the domestic market [Regan, 2015; Iversen and Soskice, 2018].[5] Northern capitalism, the main driving force of the euro area, is made up of Austria, Belgium, Finland, France, and the Netherlands, with Germany at the forefront as the largest economy of the EU. They develop thanks to institutions promoting international competitiveness and export of industrial production. Their macroeconomic policy is based on systems of power dominated by pragmatic, capable of cooperating, political parties, restrictive monetary and fiscal policies, wage coordination within the system of wages negotiated between employees and employers, and developed vocational education supported by the public sector. The distinguishing feature of this development variant is the long-term achievement of a trade surplus on the current account and maintaining the budget balance.

Greece, Spain, Portugal, and Italy, whose economies are based on the domestic demand, are the states of "southern capitalism." Their development since 1999 was driven primarily by easy access to EU loans and an increase in wages at the expense of budget and tax relaxation. The macroeconomic policies of

3 From the beginning, southern Italy stood out in terms of a lower level of economic development in the Group of Six.

4 There is no consensus among researchers in defining the "core" and "peripheries" of the EU. See: Palier et al. [2018], Streck [2017], Barlett and Prica [2018], Galgozi [2014], and Bohle and Greskovits [2012].

5 The division into the "North" and the "South" amounts to simplifying the model. In practice, not all euro area countries can be unequivocally associated with it. For example, France is sometimes considered a broker of the South, gradually moving economically away from the "North" [Webber, 2019].

these countries are implemented by governments that are usually based on weak political parties with strong clientelist (and corruption) ties with interest groups. Power is exercised by governments with a low capacity to develop coherent programs and implement collective action. As the economies of these countries are characterized by their significant division into formal and informal sectors, wage competition is uncoordinated, which fosters social conflicts, strikes, etc. Vocational education is underdeveloped and does not facilitate the transition from school to the labor market, increasing youth unemployment rates. The economies of the "South" are characterized by a predominance of imports over exports in the trade balance and frequent deficits in national budgets. In such circumstances, the introduction of the euro did not lead them to macroeconomic convergence with the "North," and the growing financialization reduced the competitiveness of the "South," which did not increase its innovation. At the same time, the abandonment of traditional instruments of improving competitiveness, such as the devaluation of national currencies, deprived them of the possibility of conducting a flexible economic policy.[6] Access to cheap capital from the "North" obscured the relevance of these issues, leading to excessive private and public debt. As a result, the euro became a factor deepening economic differentiation in the EU, and the euro crisis revealed growing imbalances between the "North" and the "South" [Regan, 2015; Nölke, 2016]. The asymmetric integration of the two types of capitalism within the euro area has greatly strengthened the position of the northern "core" in relations with the southern "peripheries."[7]

4 Similarities and differences of the EU peripheries

The euro crisis has increased the influence of concepts considering the EU in a way that distinguishes two groups of countries in the EU peripheries – Southern Europe and CEE [Galgozi, 2014; Bruszt and Vukov, 2015; Epstein and Rhodes, 2018]. The resonance of such an approach is embedded in the research on the eastern enlargement of the EU, which is applied to new member states, i.e., the perspective of the diversity of capitalism. Some of them, referring to Bruno Amable's typology, consider the CEE states as separate, in many respects, from the Western models of capitalism [Amable, 2003]. Since accession to the EU, the CEE countries have often been compared to other European forms of capitalism. Research on institutional similarities proves that the countries of the region (including Poland) are in this respect the closest to Southern Europe, although in some respects there are also signs of closeness to two other models of capitalism: liberal and continental.[8] Such similarities include labor market institutions and industrial relations, social security, education and knowledge, and the housing market. Other features bringing these two groups of states closer are political and institutional deficits, such as lower – compared to the core countries – quality of governance and public administration, and weakness of social dialog partners, as well as high importance of foreign capital and low innovativeness of domestic enterprises [Jasiecki, 2013, pp. 381–398; Farkas, 2016, pp. 48–492; Rapacki, 2019, pp. 204–209].

There are also significant differences in the development of CEE and the countries of the "South." In the period of accession to the EU, the CEE countries were (with some exceptions, such as Slovenia and the Czech Republic) among the poorest member states. They form a mosaic of mostly small states that are characterized by diverse potential and pace of development as well as by large income differentiations. Since the 1990s, some of them have achieved significant economic successes, experiencing the best period in their history, and apart from Bulgaria and Romania, all of them are classified as high-income countries.

6 Currency devaluation was replaced in the euro area by "internal devaluation," which was supposed to limit demand in the economy and force price cuts in enterprises but contributed to a significant decrease in production and an increase in unemployment.

7 The most important manifestation of the institutionalization of the new division was the establishment in 2010 of the control of the "troika" (the IMF, the ECB and the EC) over the management of public finances in the states, which were imposed by these bodies with programs of radical budget cuts, employment reduction, tax increases, and labour market deregulation, thus radically limiting their economic sovereignty.

8 Such a situation makes the institutional systems of CEE be classified as different types of capitalism or as a mixed type considered to differ from the "pure" Western models [Ahlborn et al., 2016; Rapacki, 2019].

It is a consequence of shaping economic models that favor a much higher GDP growth in some CEE countries than in the southern EU countries.

In this respect, particularly important are institutional reforms introduced in the wave of radical system transformations and a large inflow of direct foreign investment building the industrial and export potentials (distinguishing this region from Southern Europe relying on portfolio investment). Some CEE countries discount the location advantage of their close proximity to the "North" of the EU. Transferring capital and technology, expanding the market, combining labor resources and the benefits of production specialization, and being included in international supply chains provided significant development impulses for Slovenia, the Visegrad Group countries, and the Baltic republics. They have become significant exporters; they generate positive trade balances and have stable budgets. In turn, Germany and other northern countries, by relocating part of production and services to CEE, strengthened the competitive position of the EU core, which facilitated exports to China and to other Asian markets. In this context, the peripheralization of Southern Europe, in comparison to the leaders of transformations in the CEE region, was partially accelerated also by the disproportionate distribution of benefits from the eastern enlargement of the EU [Popławski, 2016].

At the same time, research into the diversity of capitalism points out significant negative aspects of the development in CEE vis-à-vis that in Southern Europe. One of the best known characteristics of this development is presented by the concept of the "dependent market economy," according to which the systemic changes in the Visegrad Group countries have led to the creation of a new type of capitalism. Its distinguishing feature is the leading role of transnational corporations that took over ownership in strategic sectors and in the largest enterprises, and that also exercise control over key economic institutions (such as investment financing or innovation transfer). Since the second half of the 1990s, these corporations have become the main factor behind the dynamic development of some countries in the region, relying primarily on exports to the EU, especially to Germany.

Similar dependencies are also present in other CEE countries, which is related to their role of subcontractors, which constrains the prospects of convergence to the EU core level [Nölke and Vliegenhart, 2009; Pula, 2018]. Interpretations of the concept of a dependent market economy have become part of the discussion on development opportunities for the entire CEE region. A variety of concepts are formulated, characterizing the inferior positions of these countries, which also emphasize their diverse conditions producing different variants of capitalism that position themselves differently in relations with the core of the EU [King and Szelenyi, 2005; Bohle and Greskovits, 2012]. Researchers referring to the theory of the world system and the theory of dependence compare the region to the dependent capitalism of Latin America (Myant and Drahokoupil, 2011, see also the special issue of the French magazine "Revue de la regulation", Autumn 2018, devoted to dependent capitalism and the peripheralization of CEE). The euro area crisis confirmed the legitimacy of some of the critical apprehensions and comparisons, the indicators of which were difficulties in accessing investment capital and the collapse of GDP, of exports, and of the inflow of foreign investments, or a sharp increase in the cost of mortgage loans in CEE. Along with the weakening or reversal of convergence tendencies in the EU, these indicators have become a manifestation of the deterioration of the development strategy relying mainly on cheap labor and export production to the core countries, as well as a warning against further consequences of pursuing such economic policy [Jasiecki, 2016].

The common distinguishing feature of the peripheral nature of the "South" and CEE was the discussions on the "middle income traps." This term characterizes situations when it is impossible to move from the stage of rapid development relying on extensive factors (such as raw materials and cheap labor) to the stage relying on innovation and competition in the area of high technology goods. In the "South," Greece and Portugal are manifestations of the phenomenon. The CEE countries relying on importing capital and technology and on cheap labor are also approaching a situation of having to face similar challenges. Without shifting the development model to innovation and accumulation of technologically advanced capital, both groups of states are threatened by the scenario of reproducing their role as EU peripheries.

5 New core and peripheries classification

In discussions about the economic diversification of the EU, it is worth recalling the classification of the European core and peripheries, which was proposed by Will Bartlett of the London School of Economics and Political Science and by Ivana Prica of the University of Belgrade. In their opinion, the standard versions of such classifications are too simple and static, which requires a change in approach to a more multidimensional and dynamic one. The main novelty of the classification is its extension to four categories covering EU Member States (internal and external "core" and internal and external "peripheries"), as well as the addition of the category of candidate countries or potential candidates for EU accession. The analyzed countries are considered in terms of structural imbalance between core and periphery. (Table 1)

Table 1. Classification of the European core and peripheries of the economy (2020)

	EU member states		Candidate states or prospective candidates
	Core	**Peripheries**	
Euro area (19 states)	Internal core: Austria, Belgium, Finland, France, the Netherlands, Luxembourg, and Germany.	Internal peripheries: Cyprus, Estonia, Greece, Spain, Ireland, Lithuania, Latvia, Malta, Portugal, Slovakia, Slovenia, and Italy.	
States outside the euro area (8 states)	External core: Czech Republic, Denmark, Poland, and Sweden.	External peripheries Bulgaria, Croatia, Romania, and Hungary.	Super-peripheries: Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, and Serbia.

Source: Modified table based on W. Bartlett, I. Prica, *Debt in the Super-Peripheries: the case of the Western Balkans*, "Third World Thematics: A TWO Journal" No. 2/2018.

The criteria adopted for including countries into these categories were participation in the euro area and selected macroeconomic indicators: the current trade balance, foreign debt, state budget, and public sector debt. The classification of each state into a particular category reflects the condition of each of the economies between 2003 and 2015. The above, modified proposal does not indicate some of the later data due to i.e. delays in international statistics and the course of the pandemic from spring 2020 disrupting economic estimates. However, it does note the key changes in the economies of the EU countries in recent years. Due to Brexit, it leaves out the United Kingdom, which used to be included in the "external core." In turn, joining the euro area changed the situation of Slovakia and that of the Baltic republics, which moved from the "external core" to the "internal peripheries."

The classification distinguishes seven euro area countries in the "internal core" category, which is made up of the most prosperous countries of "northern capitalism." However, some of them, such as France and Belgium, even before the COVID-19 crisis, showed a deterioration of important indicators below the EU average, e.g., in terms of GDP, the public debt, and trade balance. The category of "internal peripheries" is the most numerous. It is made up of the 12 euro area countries, the majority of which, apart from Italy and Spain, are small countries that between 2008 and 2010 experienced deep recession, including the devastating effects of "internal devaluation". This category differs within the division into the "South" and CEE. The pre-pandemic part of the "South" slightly improved its trade balance, but its public debt was still high and GDP growth continued to be low. By contrast, CEE showed a high GDP growth and kept its public debt below the EU average.

The "external core" is made up of four non-euro area countries that differ in the sphere of institutional variants of capitalism. All of them survived the euro crisis relatively well (Poland almost unscathed), in part due to their strong ties with the "internal core" countries, and the fact that they retained their own currencies, which made it possible for them to avoid the shocks of "internal devaluation". Before the pandemic, they achieved a significant GDP growth. They also have a level of public debt that is lower than

the EU average and an equilibrated trade balance. On the other hand, the "external peripheries" include four other CEE states outside of the euro area. Three of them are the poorest EU countries but they plan to join the Euroland with the hope of increased support from the EU in adjusting to the requirements of the single currency.[9]

The last of these categories, i.e. "super-peripheries," is made up of six small countries that are candidates or potential candidates for joining the EU. They are among the poorest European countries, far from meeting many of the requirements of EU accession. While some may soon become EU members, it is difficult to expect them to move beyond the status of "external peripheries."[10] The future accession of the Western Balkans to the EU will therefore significantly increase its heterogeneity and, with the entry of several South-Eastern European countries into the euro area, it will strengthen various categories of the peripheries.

The classification by Bartlett and Prica is based on macroeconomic indicators. However, belonging to the EU core or to the periphery is also determined by factors of a political nature. In the EU, an important role is played by the Treaty-determined (according to demographic criteria) voting power in the EU Council, which, after Brexit, strengthens especially the position of Germany and France [Szymańska and Zaręba, 2019], the prestige and image of the state, and the ability to create political alliances, as well as effective lobbying. For example, Poland and Hungary, accused by EU institutions of violating democracy, the rule of law, and individual rights, are losing their ability to constructively influence European mainstream decisions. Regardless of the condition of their economies, as states of Eurosceptic "illiberal democracies," they are being politically marginalized [Sadurski, 2019]. They cannot play the role of important policy actors comparable to the EU "core" countries.[11]

6 The coronavirus and new relations between the core and the peripheries

The COVID-19 crisis has had an asymmetric impact on the economies of the EU Member States. It overlaps with pre-existing structural problems and contributes to their aggravation. As in 2008–2010, overcoming the crisis is a derivative of the initial condition of economies, growth models, and responses to new challenges. The pandemic focused on the center-peripheral division in the euro area as it hit the southern countries the hardest, and the northern core countries and CEE much less, as shown by coronavirus mortality rates, and by economic and social statistics. According to the classification by Bartlett and Prica, it is the "South" that forms the main segment of the "internal peripheries." The region is distinguished by stagnant and regressive tendencies that have been growing in Italy for two decades, and since 2008 in Spain, Greece, and Portugal. They illustrate the poor condition of these economies, but above all the underlying development model, which determines their response to the COVID-19 crisis.

As a result of the pandemic, in spring 2020 the economic activity in the EU decreased by as much as one-third (compared to the previous year), and this impact was the most concentrated in Southern Europe. This situation creates a starting point for rebuilding the economies of the CEE countries – especially the Visegrad Group and the Baltic republics – which is much more favorable than that of the "South" [Bielecki, 2020]. The negative impact of the pandemic in some CEE countries is also weakened by remaining

9 Bulgaria and Croatia may join the "internal periphery" in 2023, as they have already started the official procedure, ERM II, of joining the euro area.

10 Kosovo and Montenegro unilaterally adopted the euro as their own means of payment, while Bosnia and Herzegovina introduced the convertibility of the local currency into euro. Albania, Macedonia, and Serbia have also linked their currencies to the euro to varying degrees. The region's investment attractiveness is weakened by authoritarian tendencies, and appropriation by the ruling parties of the media and judiciary, as well as political clientelism and corruption. They cover their liabilities with foreign loans, have large budget deficits, and obtain little foreign investment [Barlett and Prica, 2018].

11 It is sometimes emphasized that after Brexit, a new configuration of countries of particular importance in the EU, led by Germany, France, and Poland, representing politically the largest countries in the North, South, and East of the EU, could have developed [Webber, 2019, p. 222].

outside the euro area, which enables the devaluation of national currencies and reduces the costs of adjusting to the crisis resulting from internal devaluation.[12] It is no coincidence that the extraordinary remedial measures taken in the EU focus on aid to the "South," the most important manifestation of which is the May 2020 initiative of Chancellor Merkel and President Macron to establish the recovery fund, which was supported by the EC with the *Next Generation* program (€500 billion in the form of non-repayable grants and €250 billion in the form of loans). The fund will be financed with bonds issued by the European Commission and guaranteed by the Member States, as well as own revenues.

Some supporters of these proposals see them as the beginning of a new reintegration of the EU, comparable to the actions of Alexander Hamilton, who laid the fiscal foundations of American federalism.[13] In its radical variant, the recovery fund would open the way to incurrence of debts by the EU, issuance of Eurobonds, and transfer of new competences onto the Brussel level. These interpretations refer to the proposal to establish an EU-level equivalent of the US federal treasury. At the EU level, it would create tools for the implementation of the common industrial and technological policy, fiscal and social policy, and environmental policy, the implementation of which requires a significant increase in budgetary resources [Blankenburg et al., 2013]. This approach is supported by some countries, but not merely by those in the "South," which have little capacity to launch stimulus packages and increase the public debt [Jasiecki, 2021].

However, as a result of strong centrifugal tendencies, many EU countries – especially the richer ones – are distancing themselves from federal connotations of new forms of economic cooperation. The creation of the recovery fund is important predominantly as a means to rescue the euro area and support countries affected by COVID-19. However, the role and principles of how this fund will operate are not a foregone conclusion. It is difficult to state unequivocally to what extent it will be a temporary EU anti-crisis instrument, or whether it will become the nucleus of the federal budget. In this respect, several most important circumstances can be identified. The Recovery Fund makes the debt incurred by the EU member states a communal obligation, which was long opposed by the chief payer – Germany. It creates a new form of a transfer union in which richer countries are to support poorer countries. This concept is opposed by the "frugal countries"—Austria, the Netherlands, Sweden, Denmark, and Finland—that fear that the "South" will use the aid to pay off its debts and then go into debt again without improving its competitiveness. The Czech Republic, which will soon join the group of net payers, also shows some resistance.

EU funds will be available starting from 2021 (while the recovery fund is to operate only until 2024), which will further diversify the situation of individual countries, especially given that, with the new budget, the expected financial aid is to constitute only 2%–3% of EU GDP.[14] These are resources that, while mitigating the effects of the coronavirus pandemic, are unlikely to significantly change the center-peripheral development trajectories, including the growing economic distances.[15] It is all the more significant that these distances are reinforced by very large differences in the amount of financial support granted by individual governments, which is related to the size of their economies and the fiscal space they have at their disposal.

Generally, in the richer "core" countries, the scale of such support is significantly higher than in the "peripheries." During the crisis, the European Commission relaxed the rules governing the granting of economic aid by the state – a move that serves to strengthen countries such as Germany, which provides great financial support to their enterprises.[16] Actions like these erode the common market. They raise concerns

12 Against this background, the situation of the Western Balkans is the least favorable because those countries are underdeveloped and not very competitive and are also less connected with the core countries.

13 A. Hamilton, one of the founders of the United States, in 1790 as the Secretary of State in the government of President Washington, made a decision to collectivise the debts incurred by 13 states after the War of Independence in 1775–1783. He also created the first institutions of what was to become the central bank.

14 One of the main weaknesses of the EU is the functioning of a monetary union without a federal budget. Federal states have budgets of 20%–50% of GDP. To a limited extent, it may be 5%–7% of GDP. In the EU, which is not a federation, it was small, around 1% of EU GDP [Pawłowski et al., 2020].

15 In the discussion on the recovery fund, one of the German experts summed up the prevailing situation as follows: "everyone knows very well that this is a reasonable price for maintaining the euro, which benefits German exports" [Wójcik, 2020].

16 The so-called general exit clause allowing for exceeding the limits in public finances due to the COVID-19 epidemic. In Poland, as part of adjustments to these regulations, the Public Finance Act was amended, making it possible to suspend the application of the stabilizing tax rule for the period of 2–4 years.

that "core" companies, supported by richer governments, will take over companies from the "peripheries," thus increasing their market shares. Given the prevalence of these circumstances, it is difficult to expect an effective change in the economic growth model in the peripheral countries, especially in the "South."

It would require much larger financial resources as well as deep institutional and structural changes that could suppress the path of development dependencies rooted for generations. The example of CEE proves that it is feasible. However, political and systemic changes in Hungary after 2010 and in Poland after 2015, similarly to the discussion on the "middle income traps" in the "South" and in the CEE, prove that the scope, direction, and durability of such transformations are not obvious. The effectiveness of the announced by the European Commission implementation of the new European economic model, more competitive and consistent with the challenges of the future in the sphere of ecology, digitization and new technologies will be the final test. However, the effects of the Lisbon Strategy and the Europe 2020 program do not provide strong grounds for optimism.

7 Conclusions

The pandemic crisis has demonstrated in a new way the value of the center-peripheral concept in explaining the growing asymmetries in the development of the Member States and of the EU as a whole. This issue is considered within the framework of various theoretical and methodological concepts. Their common denominator is the characteristics of the premises for a slowdown or regression of convergence tendencies in the EU and the diversification of economic models in the Member States. Since the crisis of 2008, the primary focus has initially been on the division of the euro area between the northern "core" based on exports and the southern "peripheries" based on the domestic demand. This issue has entered the mainstream of neo-institutional research on changes in the EU conducted under the diversity of capitalism perspective analysis of contemporary economies.

From this theoretical point of view, the crisis of 2008–2010 has already proved that the key problems of the EU economic development are primarily a product of the Euroland rules that form the relationship between "northern capitalism" and "southern capitalism." These rules, favorable for the "North," turned out to be counter-productive in overcoming the crisis of the "South," and strengthened regressive and stagnant tendencies as well as the diversification of development trajectories in the EU countries. In connection with this discussion, concepts emerged distinguishing two types of the EU peripheries – the "South" and the CEE. In many respects, these subregions are institutionally similar to each other, but there are also significant differences between them, including those resulting from the different role of the southern peripheries and that of CEE in relations with the northern core. Due to these differences, the "South" loses its income and development potential, and the CEE (to a different extent) gains relatively greater benefits in the EU division of labor and income. The direction of systemic changes, the advantage of a geographic location, and the appeal for investment of some CEE countries provided them with significant economic impulses, which triggered convergence with the EU "core" in the 1990s. However, the euro area crisis revealed the systemic limitations of these countries' development strategies. These limitations include low innovation and an exceptionally large role of foreign investors leading to the consolidation of the model of dependent market economy. As a result (although for different reasons), despite the dynamic development, CEE is beginning to approach the "middle income traps" discussed also in the context of the southern countries.[17]

The effects of the COVID-19 pandemic have drastically sharpened the problem of center-peripheral divisions in the EU. The issue of aid for the "South" confirms that the leading CEE countries are approaching the northern core in terms of production structure and export volume. On the other hand, the "South"

17 For example, in terms of production volume, the CEE region has already overtaken Spain and Great Britain and is approaching France. However, despite the increase in the technological level and the added value of their production, wages in the industrial sector in Poland are still four times lower than those in Germany and not much higher than those in China. Similar wage proportions (with local adjustments) also occur in other countries of the region. (*Source:* https://300gospodarka.pl/news/pensje-w-przemysle-wPolsce-sa-czterokrotnie-niższe-niz-w-niemczech-i-niewiele-wyzsze-niz-w-chinach-to-wciaz-nasza-glowna-zaleta [15th July 2020]).

continues to underperform in this respect, which is reflected in the income generating situation [Bruszt and Vukov, 2015, p. 53].[18] As a result, economic forecasts suggest that after the pandemic, a significant part of the pole of poverty in the EU may permanently stay in southern Europe [Bielecki, 2020] – especially since the temporary suspension of the common market rules increases, for richer and stronger countries, the opportunities to act, which can be implemented at the expense of less developed countries.

In the context of such discussions, it is worth recalling the new classification of the European core and peripheries by Bartlett and Prica. They characterized four categories of EU Member States. Compared to other classifications, the system suggested by Bartlett and Prica allows a more precise and dynamic characterization of European center-peripheral divisions. For example, the "external core," along with Denmark and Sweden, includes the Czech Republic and Poland, which places the position of these countries in the EU in a new way, significantly modifying the analytical background of comparisons. The coronavirus crisis has become another catalyst for fundamental economic change. It accelerates the formation of a new hierarchy in center-peripheral relations, increases the role of the internal core (especially that of Germany), strengthens the economic position of the CEE countries that are part of the external core and of the internal peripheries, and also points to the progressing development distances within the EU. It also confirms the thesis that "differentiated integration is not a temporary deviation from the ideal of convergence, but a method of managing different development trends in the economies of EU countries" [Farkas, 2016, p. 505]. Even before the coronavirus crisis, their manifestation was the "EU of three speeds": the stagnant development of the northern core, the approaching CEE, and the slowing-down "South." Subsequent enlargements of the EU (to include, e.g., the Western Balkans) will strengthen such divergent tendencies, which would result in further fragmentation within the division into different categories of the core and the peripheries.

At the same time, the pandemic forces the introduction of political and economic innovations that open up new opportunities for the development of the EU, such as the recovery fund and the "Europeanisation" of debts. On an ongoing basis, the proposals discussed in this area will facilitate the economic reconstruction of the "South" and maintain the duration of the Euroland. It remains an open question whether they will contribute to overcoming the asymmetry in the development of various EU peripheries in the longer term. From the CEE perspective, especially that of the Visegrad Group countries and the Baltic republics closely linked economically with the northern core, they have an opportunity for fast economic recovery. The more so as they can also count on long-term benefits from reshoring, the reallocation of production and investment transferred from Asia to the vicinity of Western Europe after the negative experience of the pandemic. However, taking advantage of such opportunities also depends on the pragmatic policy of the CEE countries, including the formation of coalitions with leading partners from the EU.

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18 Even before the coronavirus pandemic, in terms of per capita income (taking into account real purchasing power), the Visegrad Group countries and the Baltic republics were rapidly approaching the countries of the South, and some (the Czech Republic, Slovenia, and Poland) had overtaken Greece and Portugal.

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