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What are the main differences and similarities between Southern European and East Central European Political Economies?

Inês Pereira Dantas

Master in Political Economy,

Supervisor:
Doctor Paulo Miguel dos Santos Marques, Assistant Professor,
ISCTE - Instituto Universitário de Lisboa

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Department of Political Economy

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Abstract

The divergence of capitalistic systems and economic stimulus of growth are a big topic of interest in Comparative Political Economy and this dissertation is one more contribution for it.

Considering on the one hand the literature developed by (Hall & Soskice, 2001) and on the other hand, the one developed by Baccaro and Pontusson (2016), the aim of this dissertation is to analyse the differences and similarities between Southern and East Central European Economies growth, more specifically, Portugal, Spain and Czechia and Hungary, respectively.

By considering the country's context and evaluating some macroeconomic indicators. It was possible to develop a case study that reached the following conclusions: Czechia's foreign direct investment had very similar behaviour to the Southern economies, Portugal and Spain governments expenditure is a main factor of difference from the East Central Economies and these countries are highly dependent on external factors in order to generate growth. This work has some limitations, such as only focusing in four countries and considers a limited number of macroeconomic indicators.

The data considered was gathered mainly in OECD and Eurostat databases.

Keyword: economic growth; varieties of capitalism; state; European funds; growth models; exports.

JEL code: P21, P24, P33, P35, P51

Resumo

A diversidade dos sistemas capitalistas e os estímulos de crescimento económico tem sido um tema de grande interesse em Economia Política Comparada e esta dissertação é mais uma contribuição para o mesmo.

Tendo como base , por um lado, a literatura desenvolvida por Hall and Soskice (2001) e, por outro lado, a desenvolvida por Baccaro and Pontusson (2016), o objetivo deste trabalho é analisar as diferenças e as semelhanças entre o crescimento dos países do sul e do leste da europa, nomeadamente, Portugal, Espanha e Chéquia e Hungria, respetivamente.

Considerando o contexto de cada país e avaliando alguns indicadores macroeconómicos, foi possível desenvolver um caso de estudo que permitiu concluir o seguinte: o investimento direto estrangeiro da Chéquia e dos países de sul verificaram um comportamento semelhante; a despesa pública de Portugal e Espanha é uma das principais diferenças com os países do centro leste europeu e que o estes países são extremamente dependentes de fatores externos para gerar crescimento. Este trabalho tem algumas limitações, tal como o foco em apenas quatro países e a consideração de indicadores macroeconómicos, o que permite apenas uma análise mais superficial.

Os dados utilizados foram recolhidos, principalmente, da base de dados das plataformas digitais da OCDE e Eurostat.

Palavras-chave: Crescimento Económico; variedades de capitalismo; estado; fundos europeus; modelos de crescimento; exportações.

Código JEL: P21, P24, P33, P35, P51

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Chapter 1

Introduction

Economic growth and development have been significant areas of interest in the field of political economy since the end of the Second World War due to the substantial growth that several countries experienced during the post-war period characterized by rapid growth, industrialization, and globalization. This led to different performances and development of different strategies, thus to different types of capitalism.

The Southern and Central Eastern European countries have garnered considerable attention in recent comparative political economy studies due to their distinctive characteristics and economic performances, particularly in the aftermath of the 2008 economic crisis. These countries have exhibited several shared features, including the delayed implementation of democracy and their subsequent integration into the European Union. Furthermore, they have encountered challenges in achieving sustainable economic growth, similar to other European nations. Consequently, this topic has generated significant interest, prompting this dissertation to examine and delineate the similarities and differences between these two categories of capitalisms. To accomplish this, this paper develops a case study highlighting Portugal and Spain, in one side, and Czechia and Hungary in the other side, to elucidate the commonalities present among these countries' capitalism path. Therefore, the research question resumes to find what the main differences and similarities between the Southern European and East Central European capitalisms growth are, based on economic indicators. By undertaking this study, it will contribute to the existing body of literature focused on the divergence of capitalistic systems and the various economic stimuli observed in contemporary economies, particularly within the context of the European economy.

As main conclusions of this work can be resumed by the fact that these countries are still very dependent on external factors, and, that some expectations that can come from the main literature of this topic, ended up to not be verified. Additionally, the Mediterranean countries face a weak economic growth, contrary to the Eastern Central European, however with increasing intentions to develop.

The present study is structured in the following manner: it begins with a section dedicated to outlining the key distinctions and commonalities identified in the literature that define each variant of capitalism. Subsequently, a chapter is dedicated to elucidating the methodological approach employed in this research. This is followed by an analysis and some key economic indicators available to explore their economic evolution. Lastly, the study incorporates a discussion section and a concluding section to synthesize the findings and provide a comprehensive overview of the research outcomes.

Chapter 2

Literature Review

The subsequent chapter is dedicated to providing a comprehensive overview of the existing literature pertaining to the distinctions and commonalities between Southern European Economies and East Central European Economies. This section will mainly focus on recent pillars works within the field of Comparative Political Economy that have addressed this specific topic and deemed it worthy of investigation.

Chapter 2.1 Explaining Divergence

Chapter 2.1.1. Varieties of Capitalism

Understanding the differences between countries has been one of the biggest challenges in Political Economy, and, simultaneously, distinct types of capitalism were developed. Many historical occurrences, including wars, economic crises, and even development processes, have an impact on each country's economic life in different or overlapping ways. There have been numerous attempts over the years to explain the peculiarities and crucial aspects of each economy.

The work Varieties of Capitalism by Peter Hall and David Soskice (2001) examines capitalism at the institutional level and offers a unique perspective by focusing on the relationships that have been formed between economic actors (Hall & Soskice, 2001). This work emphasizes the importance of institutions and concludes that these are crucial to have efficient interactions between economic actors. In addition, they elaborate on the impact that culture and history had on the formation of different institutions.

The authors positioned the firm at the focal point of their investigation, where they identified five critical relationships that influenced a country's economic performance. The authors categorized nations into two types, namely, liberal market economies and coordinated market economies, based on their diverse interactions with the firm. The authors attributed these disparities to the financial system's fundamental role in shaping the internal structure, industrial relations, education, and inter-company interactions of the economies in question.

The key distinguishing features of Liberal Market Economies (LMEs) are centred around their market orientation, which serves as the foundation for most economic interactions. These characteristics include a focus on labor market flexibility, which allows for rapid response to economic conditions and facilitates easy acquisition of needed skills for companies; an educational system geared towards fostering general skills that promote adaptability to different employment scenarios; reliance on stock markets as a key source of financing; radical implementation of innovation; and a firm-centred approach to industrial relations.

CMEs, on the other hand, rely on strategic interactions more than market mechanisms for economic interactions. This is exemplified in the unique features of CMEs, such as access to finance through domestic banks or internal resources, limited shareholder involvement to maintain close control, an educational system that emphasizes vocational training to equip workers with the specific skills needed by companies, social agreements between firms and unions, and an innovation system based on incremental transfer.

In this perspective, the United States and the United Kingdom represent LMEs, and Germany and Sweden CMEs.

Despite the significance of varieties of capitalism as a crucial reference in institutional analysis literature, criticisms have been raised regarding its applicability. One such criticism is the limited ability of the dual-type model to encompass all other capitalism types that do not conform to this approach. Although the authors do not elaborate on this reasoning, Hall and Soskice (2001) indicate that countries such as France, Italy, and Spain belong to a mixed or hybrid model that lies somewhere in between CMEs and LMEs because they possess coordination capabilities at certain levels but are restricted in others. Furthermore, other types of interactions and circumstances cannot be comprehended or explained through this approach. The authors stress the significance of cultural factors, and therefore, since each country has its cultural traits, a two-type theory may not be suitable for adequately understanding and explaining all the complex interrelations of different countries.

Furthermore, the Varieties of Capitalism framework falls short in explaining the economic systems of countries that do not fit within the traditional CME and LME models, lacking the institutional complementarities necessary for these systems.

Countries such as Portugal, Spain, the Czech Republic, and Hungary are four examples of nations that require an alternative analytical approach due to their diverse economic structures that cannot be adequately explained by the two-type model.

Mixed Market Economies

The Mediterranean countries, as Hall and Soskice mention, are a version of the CME type, but it misses complementarities, thus, they have their variety of capitalism. Molina and Rhodes (2007) tried to explain the Italian and Spanish systems from the scope of Varieties of Capitalism, considering them a Mixed Market Economy (MME).

The authors have designed and proposed a model that better elucidates the situation of countries characterized by fragmentation, lack of efficient complementarities, and a combination of liberal and coordinated systems. These countries are unable to acquire a comparative institutional advantage due to the inefficiency prevailing at the institutional level, thereby impeding spillovers that are observed in the two ideal types, as cited in Molina and Rhodes (2007). Due to fragmentation, within the institutional framework, the economic actors act seeking to protect or compensate for the inefficiencies that the system has (Hassel, 2014). The key characteristic of these mixed market economies that the two authors identified is state intervention. The state, as there is not a fluent complementarity between economic actors, must be the element that tries to overcome the fragmentation of the system, which, often, is not the most optimal solution, however, it is the actor with the power to act and try to correct the imperfect interactions. For instance, there is more regulation in the labor market and the product market because there is no efficient response without state intervention, the institutions cannot articulate each other to give an optimal solution (Molina & Rhodes, 2007). In the examples given, the countries in the analysis had different paths that led to a combination of market and non-market modes of coordination based on their past trajectories. Within them, Italy and Spain have different ways to adjust or deal with the same situation, which is a good example of the diversity of these MMEs.

Overall, the four countries of the Southern European Economies are a peculiar version of the CME model, with their characteristics. They took paradoxical decisions, on one hand liberalizing some aspects of the economy, on the other regulating even more, thus the incapacity to define this type of capitalism follows the Mediterranean model,

capitalism that needs state intervention to protect firms and production groups of the economic circumstances (BURRONI, PAVOLINI, & REGINI, 2022).

The Southern Economies' banks were, in the 1990s, an important factor in their economies, as they were the key source of financing for non-financial firms. During the liberalization of the banking systems, they played an important role, however, with the sovereign debt crisis, the southern economies' banks came under pressure. Southern European Economies are part of the Eurozone, and its authority had a significant impact on their economies. These countries were the most targeted to receive the borrowed money from the continental European banks, when the financial crisis triggered and the European Central Bank started to impose austerity measures, the southern European governments had no other option than assume the consequences of their financial institutions and increase their sovereign and public debt. This aspect weakened these economies for the following years, being complicated to recover and stimulate the economy. Even so, these countries registered incredible development due to their entrance into the European Union.

In order to recover from the crisis and decrease expenses, a number of reforms were implemented, particularly in the areas of labor market and social protection. Due to significant state intervention, the labor market and collective bargaining are exceptional cases in these economies. Their industrial relations are greatly fragmented, and the labor market segment is as well. Consequently, during the economic crisis, strategies to devalue labor costs resulted in market liberalization, thereby leading to less institutional complementarity. Paradoxically, this led to greater dependence on the state, with the state unilaterally managing wage setting and policymaking. Furthermore, the welfare state experienced substantial cuts and reforms, reinforcing the centralization of power without the input of social partners and parliaments.

In this analysis, Portugal and Spain will be the countries representing the MMEs both fitting within the characteristics and the last events mentioned. Both countries have their version of this type of capitalism, having differences within them, but the overall is similar.

The Spanish case is fragmented at the organizational level (Molina & Rhodes, 2007) due to modifications of the production structure caused by the incoming foreign direct investment (FDI), since the 1980s, leading towards liberalization. However, it still

verifies a welfare system with insurance bases and rigid labor market regulations, having liberalized some aspects of it. Moreover, it is closer to the LME version, but with big obstacles that do not allow it to become one.

Portugal is a good example of the mixture of the CME and LME model, especially after the end of the dictatorship, the integration of the European Monetary Union, and, more recently, the intervention of the Troika. After the social revolution of 1974, Portuguese democracy registered a clear mark of social commitments (Fishman, 2010). However, when Portugal decided to belong to the EMU, some institutional adaptations were more challenging towards liberalization, and the labor market was the most affected, such as in the Troika intervention, where the changes were mostly in this market to recover from the crisis. Therefore, Portuguese capitalism had two completely different tendencies, which can explain their current economic system and the need for intervention of the state.

However, the fact that there is intervention of the state cannot be understood as an efficient intervention that replaces the ideal institutional connections. The Southern state have been associated with lack of policy coordination, very interventionist to control administration, some centralism and to have an inefficient to manage development problems (Capano, Lippi, Burroni, Pavolini, & Regini, 2022). As more economic actors entered the market and influenced the economic situation of the countries, state performance changed, especially during the austerity period. The Portuguese and Spanish governments registered a better adaptation to the globalisation, less centralistic state, but with still weak policymaking coordination as the rest of Europe (Capano et al., 2022)

Dependent Market Economies

Such as MMEs, there is another example of typology that, considering the Varieties of Capitalism, does not fit the concept of CMEs and LMEs, a type of capitalism that falls, too, in the concept of "hybrid" models of capitalism (Hall & Soskice, 2001), however a type different from the ones mentioned in the last's sections, which is Dependent Market Economies.

This type of capitalism developed by Nolke and Vliegenthart (2009) aims to provide a perspective on capitalism in East Central European countries. A key

characteristic is their dependence on foreign capital, with transnational corporations being at the center of the coordination mechanism for these economies. This economic actor plays a crucial role, which is also the main reason for the differences with other types of capitalism. For example, Transnational companies (TNC) prefer to manage their subsidiaries from the head office to maintain control over their invested capital and avoid possible interventions that may affect their operations. TNCs also maintain a good relationship with the "system of industrial relations" to keep labour costs low and to motivate their employees. As for the educational system, TNCs favour low investment in skills to keep their costs low, since cost efficiency is one of their main priorities. Furthermore, TNCs are not interested in investing in innovation; rather, they prefer to transfer innovations from the head company to these countries and keep the innovation process in their headquarters, allowing the country to benefit from modernization and improve competitiveness. As a result, labor markets in these economies are often rigid, and the economy is extremely dependent on TNC decisions. TNCs' decisions have a substantial impact on their investments, which may not always line with the interests of the population or the overall growth of the country, as TNCs prioritize the aims of its headquarters. To recover from these effects, countries need to consider more effective institutional complementarities, with policies that help to address the fragmentation and lack of coordination in these economies.

The East Central European countries are, based on data analysis, the example of this type because of their high imports of capital (Nölke & Vliegenthart, 2009). From their analysis, they identified that the main industries of these countries produce competitive goods, low costs, and high quality. In addition, these countries commonly have incomplete social pacts, and low social expenditure since the dominant negotiator is firm. Both the Czech Republic and Hungary are countries that perfectly fit into this "other" model of capitalism. In these countries, to facilitate the imposition of neoliberalism in their society, countries tried to compensate society for the sudden openness of the market, which justifies the authors Bohle and Greskovits (2007) for characterizing them as embedded neoliberalism. Moreover, these countries became part of the European Union, which allowed stabilization and opened their markets to different realities and opportunities. As an intention to attract transnational companies' investment, the government developed several types of policies focused on fulfilling these companies and the society that was not part of this sector (Dudziak, 2014). Thus, there is literature

that argues that in part the dependence on the TNCs, was highly accelerated by the entry requirements of the EU before the integration. These countries had a completely different reality from one decade to another; therefore, the EU had to pay careful attention to them, especially due to issues related to democratization and human rights. However, these high volumes of foreign investments do not avoid public constraints and economic slowdowns. During the economic recession of 2008, the Eastern Central European economies faced a slowdown in their economic growth. Employment fell, especially for low-skilled workers and the income contracted, mainly in Hungary. Overall, the Eastern Central European countries recovered in a better way than the Mediterranean one, and one key element for this performance was the EU cohesion funds.

As previously stated, the labor market in East Central European countries adopted numerous developing trends after 1989, resulting in certain privatizations, changes in labor rules, and an increase in the jobless rate. In Hungary and the Czech Republic, for example, a minimum wage was imposed, the labor market became more flexible, and unemployment increased in the start of the 1990s. Both countries have a minimum wage, however the Czech Republic's is low and does not reflect inflation, and there is additional minimum pay for medium- and high-skilled workers. In Hungary, contrary to what happens in the latter, the "National Labor Council" determines the minimum wage. The labour taxes in these countries are considered high, but more recently they faced enormous reduction (World Bank, 2021), which reinforces the literature statements. In addition, there was an establishment of the number of hours that a worker can work, with further details being negotiated between the two intervenient, having a limit of extra hours per week/year. Overall, the labour market of these countries benefited from the entrance into the EU, and even after the impact of the economic crisis of 2008, the labour market still evolved positively (Soulsby, Hollinshead, & Steger, 2017).

Chapter 2.1.2. Growth models

A distinct perspective in the field of comparative political economy emphasizes the economy from the demand side, complementing the supply-side focus. This approach analyses the components of aggregate demand (Baccaro & Pontusson, 2016). This approach draws on earlier contributions from the French Regulation School that argued that capitalism is naturally unstable and incorporates Post-Keynesian and Post-Kaleckian

insights regarding the significance of aggregate demand for economic growth and employment stimulation (Baccaro, 2022; Baccaro, Blyth, & Pontusson, 2022).

Baccaro and Pontusson's (2016) growth models perspective identifies the most important sectors that contribute for growth. By addressing macroeconomics, distributive factors, political forces, and institutional features, this framework offers a means for political economists to understand the various economic paths taken by different countries. While this theory uses four countries as examples, it offers a framework for comprehending other countries as well. This theory overcomes some of the critiques of Varieties of Capitalism by abandoning the rigidity of LMEs/CMEs, instead switching the analysis from the supply side to the demand side (Baccaro & Pontusson, 2016).

Until the end of the 1980s, a common growth model prevailed in the western European economies, the wage-led growth model. It was through wages that the economy was stimulated, by increasing wages, the domestic demand would increase (Streeck, 1997). Several instruments were used such as increasing the minimum wage, progressive taxation, and strengthening collective bargaining. Thus, through this growth model perspective, it was through wages that there could be a more equitable form to distribute income. However, critics point out that it could be a source of inflation and reduce competitiveness. In addition, due to the socioeconomic changes, this model does not exist in its pure form, having now different forms (Baccaro & Howell, 2017; Glyn, 2007).

Consumption-led growth financed by credit, investment-led growth, and export-led growth were based on the wage-led growth of the post-Fordist era (Baccaro & Pontusson, 2016). What has more impact in these growth models is the effect of consumption and export on economic growth, and how changes in these two drivers would influence it.

The consumption-led growth model financed by credit consists in stimulating economic growth by spending financed from credit. This scenario was clear in the early 2000s, the low-interest rates were attractive, and institutions were predisposed to lend. Although it is risky, and a good example of it is the great recession. To excessive borrowing succeeds if it is not balanced, financial instability, thus a debt crisis.

Finally, export-led growth is the main driver of growth in exports. Economies by exporting are receiving foreign earnings, used for investment and consumption. There are several strategies to implement this type of model, for instance, providing subsidies

to export, making free trade agreements, or devaluing currency. Nevertheless, this model has its disadvantages, and it can be associated with high dependence on foreign markets and global demand. In addition, this can lead the country to focus on foreign demand, undermining domestic demand, which can have an impact on the sustainability of growth. As its' main driver are exports, it relies on foreign demand. A debt and consumption-led growth model has a powerful driver of domestic consumption and can be identified by household credit and current accounts (Baccaro, 2022).

Baccaro and Pontusson (2016) conducted an analysis to identify differences between countries' growth models. They concluded that Germany's growth model is characterized by export-led growth, the United Kingdom's model is characterized by debt and consumption-led growth, Sweden's is a "balanced" growth model, and Italy's is characterized by stagnation due to the lack of a driver of growth. The authors also note that a country's growth model is not a fixed label and can change over time. This approach is more flexible than the varieties of capitalism framework. By examining the components of aggregate demand in each country, Baccaro and Pontusson were able to show how these components can change over time and contribute differently to economic growth. This approach allows for a more nuanced and flexible cross-national analysis that overcomes some of the limitations of previous contributions.

Mediterranean Growth Model

A Mediterranean growth model focuses on the commonalities among the four economies of Portugal, Spain, Italy, and Greece. These were domestic demand-driven growth models, but they became weaker in the post-crisis years. As wages remained low and domestic demand needed to be stimulated, these countries turned to borrowing money, resulting in an overwhelming accumulation of debt, the debt % of the GDP before and after the crisis grew significantly in these economies.

Spain, in particular, was the closest country to be considered debt-driven growth as it registered an enormous increase in access to credit during this period. This exemplifies the vulnerability of the southern economies. When the crisis hit, the number of lenders reduced, and strategies such as reducing imports, austerity measures, and structural reforms were partially obligated to face the economic situation.

As a way to stimulate the economy, the countries started trying to increase their exports, mostly because of the less restrictive fiscal policy. However, these exports were mostly considered small and price sensitive. Therefore, for these economies to be supported, a significant evolution in the quality of exports is needed. The less price-sensitive high-tech exports are necessary, which is not what the exports of the Mediterranean countries verify (Baccaro, 2021).

Therefore, they cannot be called export-led due to their weak and sensitive control. The exports are very small to justify this change.

Portugal is the country whose performance verified a possible evolution of export-led growth, but it will have great difficulties if it does not turn to a high value-added export, due to its high dependency on tourism (Baccaro, 2022). Spain registered a tendency, as mentioned before, of change, however, with less success than Portugal.

Eastern Central European Growth Model

The Eastern Central European countries (Czech Republic, Hungary, Slovakia, and Poland) suffered during the adaptation to the entrance into the European Union, the transition from a centrally planned, state-controlled system to a market-based economy closely accompanied the process. The first strategies applied tried to build their capitalism, but still, communist fragments tried to develop their economies with the industrial legacies that remained (Bohle, 2018). This failed, which led to a re-adaptation of the strategies, leading to no option for these countries, besides turning to FDI (Bohle, 2018; Bohle & Regan, 2021). Such a decision was a turning point in these countries' economies, the openness to this type of investment was a principal factor for growth. The four countries tried to outdo each other, creating different strategies to be more attractive to foreign investment, which ended up benefitting and attracting foreign investors (Bohle, 2018).

The Northern countries felt captivated by the "cheap but skilled" labour, and the German and Austrian companies followed the interest in these countries and relocated their productions to strategically get comparative advantages (Bohle, 2018, p.244). Until today, the FDI has been the main driver of growth in the Eastern Central European countries, which is a big consequence of the preparation of the entry into the EU strategies, which transformed those economies towards the attraction of this type of

investment, having developed the state-led industrial policies with this objective (Bohle & Regan, 2021). Overall, the growth model of these countries is embodied in FDI-led growth, which is a specific kind of export-oriented growth (Blyth et al., 2022; Bohle & Regan, 2021), which represents the dependency on the FDI inflows. In addition, those inflows are strongly related to the proximity with Germany, allowing it close control of the investments. The type of exports of these countries are not price-sensitive and the percentage of exports of GDP, after the crisis, became more significant because the consumption shrank during that period, intensifying, even more, the export-led growth of the countries (Blyth et al., 2022). This type of growth model is different from the core export-led, such as the case of Germany, because it needs to import to export. In addition, the type of exports is different within the same model, being the case of the Eastern Central European countries a specialization in the electronics, pharmaceutical, and automobile manufacturing (the case of Hungary, for instance), medium-tech sectors (Bohle & Regan, 2021).

Chapter 2.2 Key Similarities between Southern and East Central Europe

The Varieties of Capitalism and Growth Model perspective share some similarities in their characteristics. Despite their differences, Mixed Market Economies and Mediterranean growth models depend on state intervention to respond to institutional fragmentation. Similarly, Dependent Market Economies and Eastern Central European growth model depend on foreign investments. Following the examination of the different drivers of growth, the analysis will now shift towards identifying convergent characteristics among these economies. The focus in this chapter is on identifying similarities among the four countries, rather than their differences.

Peripheral European Economies

These four countries are semi-peripheral economies, in the context of European economy. These countries are considered peripheral within the European context, primarily owing to their delayed economic development relative to other nations and their existing economic lag compared to the core countries. This core countries will be considered the central European countries, such as Germany and France. The concept of periphery entails the presence of informal mechanisms that mitigate conflicts arising from delayed

economic development, leading to tensions between capital and labor (Rodrigues, Santos, & Teles, 2016). Therefore, the analysis will investigate their economic development process that led to their current situation to identify similarities.

The concept of peripheral countries has been described in various ways; however, it remains indefinite according to de Sousa Santos (1985). Wallerstein attempted to classify the world system by distinguishing peripheral and central countries; however, it is unclear where the periphery starts and the center ends, which makes it difficult to analyse this issue clearly. His definition considered central countries and peripheric countries, thus semi periphery would be the intermediary between them. Wallerstein did not enrich his definition, and, if the analysis was based on it, Portugal would not be considered a semi peripheral country after the colonial empire (Sousa Santos, 1985) due to capital accumulation. Thus, a deeper concept can be considered, and, as Sousa Santos mentioned it is a very complex process to create some general concept. In this paper, the peripheral diversity will be taken into account based on the political options at the national level and at the European Union level, since all countries are part of the European Union and had to adjust to common political strategies and rules (Vukov,2023). Also, the analysis will be focused on the comparison of east European countries and South European countries to the core European countries and their economic performance to keep up to their level. Despite this, the countries being examined here are considered semi-peripheral from the European perspective because they have a lower level of development than the core European countries (such as Germany and France) and have fragmented interactions between society and capitalism (de Sousa Santos, 1985). Moreover, this fragmentation makes it difficult for these countries to compete with core countries, which leads to specialization in untradable goods.

European Funds

The European Union, in order to help countries develop and keep up with the core European economies, helps countries via European Funds, being four of the biggest receivers of European Funds. The semi-peripheral classification justifies the position of the four countries as being neither in the core nor in the periphery (Rodrigues, Santos, & Teles, 2016).

As several variables can be looked at to understand the semi-periphery, one of the variables that can help distinguish are the growth rate. If we consider European growth

rate it can identify some discrepancies between central, semi peripheric and peripheric countries and the evolution of the economy before and after the European integration. Additionally, as the importance of European Funds is undeniable for economic development, this aspect deserves specific attention for this analysis, being, thus, considered, in this specific study an important similarity.

Chapter 3

Differences and similarities: A synthesis

As the purpose of this dissertation is to identify the main differences and similarities between these two different capitalisms, we had to explore where those capitalisms fit in the literature. The following step consists of what can we understand, from the former literature, that deserve a special attention for this analysis. Therefore, the following points will be the main focus in this study.

Differences:

- The role of the state in the Southern European Political Economies is highly mentioned in the literature as the main actor to manage the economy as there is a lack of complementarities. In the Central East European Political Economies, is not expected that the state has such a central role.
- The economic expansion of the Eastern Central European nations is contingent upon foreign direct investment. In contrast, the Mediterranean economies exhibit a paucity of scholarly attention toward this particular variable, with a greater emphasis placed on domestic market dynamics within the academic literature.
- The two types of countries have different types of exports, the Central Eastern European countries export more products from medium-high R&D intensity activities and from the Southern European, less skilled intensity products.

Similarities:

- There is peculiar economic performance compared to the European Union countries' core and, considering their GDPs, an underperformance from both Central Eastern European and Southern European economies.
- Their dependence on European Union Structural funds in order to recover their backwardness from the principal European economies' development.

Chapter 4

Methods and data

This study will focus on two categories of countries, namely Southern European countries, and East Central European countries, which specifically refer to Portugal and Spain, and Czechia and Hungary, respectively. These four countries have been a topic of discussion in several recent studies due to their economic characteristics, as highlighted in the previous chapters. Additionally, they are neighbouring countries that entered the European Union in the same year, with Spain and Portugal entering in 1986, and Czechia and Hungary entering in 2004. Furthermore, they share similar democratic implementations and are semi-peripheral countries in the European context.

These four countries are considered peripheral, in a European context, and share significant characteristics that have influenced their economic development. Thus, the objective of this study is to investigate the effects of these characteristics on the economic development of the four countries, and to determine the factors that led them towards a semi-peripheral economic status, and subsequently, shaped their economic growth models.

To conduct the present research, a qualitative approach and methodology seemed better suited. Therefore, case study guides the following analysis. This is a common method for comparative studies in qualitative analysis. This method is characterized by a deep analysis that focuses on small N, which cannot be provided by other methods. The primary goal of this study is to contribute to the existing literature by examining the Southern and Central East Economies, identifying their differences, and highlighting their similarities, so it is important to comprehend what led those countries to their current economic situations and understand what impact their characteristics had in their economic strategy and how it changed with the external factors. The study will focus on the period between 2000 and 2020, which allows the analysis of the adaptation to the various challenges faced during this time, which led to changes in their economic performance, the growth strategies implemented had to readapt. The data gathered is mainly from secondary data and OECD and Eurostat data.

The economic indicators that will be used were chosen correspondingly to the questions that were defined in the later chapter.

The following chapter will be the core of this study an exposure of economic data of each country and the European countries.

Chapter 5

An analysis of the economic path

The following chapter contains the core of this study. It starts with a major contextualization of each country's economic path, succeeding data analysis from key economic indicators.

Chapter 5.1 Contextualisation

Historic contextualisation

The last five decades have been characterised by special economic challenges such as the Great recession, which impacted the world economy, therefore some countries had better reactions to it than others. The four countries that will be under analysis in this dissertation, Portugal, Spain, Czech Republic, and Hungary, gained special attention in this time frame because their economies registered several changes. They underwent to a delayed implementation of democratic institutions compared to other European nations. Portugal and Spain transitioned to democracy during the 1970s, while Czechia and Hungary did so in 1989, following the fall of the Berlin Wall. The Iberian countries shared a similar path, both having overcome a dictatorship in the 1970s and subsequently joining the European Union in 1986. The dictatorship started in 1926, years before the second World War, and Portugal main sector of activity was the agricultural sector (Aguiar & Figueiredo, 1999). During the dictatorship, the Portuguese society missed out on several opportunities for economic growth due to the government's self-sufficient policies. Instead of opening up to the international economy and development, Salazar's regime invested in the agricultural sector, aiming for independence from other countries (Aguiar & Figueiredo, 1999). However, in 1957, Portugal joined the European Free Trade Association under pressure from its commercial relationship with the United Kingdom.

Meanwhile, Spain was under Franco's regime after a major civil war in the late 1930s, and the country adopted policies that were not market-based, closing off to the international economy. The new authorities shared a strong anti-market attitude, and their economic policies often hindered private initiative and investment (Fraile Balbín, 1998).

The causes of democracy in the four countries bear some similarities, in that the collapse of the preceding political order allowed for the emergence of democratic

possibilities. Nevertheless, the degree of change was more profound in Eastern Europe, where the transformation was more drastic (Pridham, 2009). The countries of the East experienced a shift from central planning to market-oriented policies, a decentralization that was akin to nation-building. It can be argued that the Southern European countries made a more gradual adjustment to the democratic system than their Central and Eastern European counterparts. In Portugal, there was a concerted effort to reorganize several key variables that directly impacted the economy and society. In contrast, Spain's transition was less revolutionary, as the ruling elite was incentivized to maintain their positions in the new system (Fishman, 2010). Additionally, the economic growth rates of the four countries were inferior to those of the Nordic and Central European nations during the period of their democratic transitions.

The integration in a common market was an important feature in these countries' economic path, as it is a challenging process because it implies abandon the national control over the market (Balassa, 1967) and, as it is the example of the European union, some powers related with policymaking transfer to a supranational entity (Balassa 1961). Therefore, there are some benefits and costs related to this situation, for instance, the common regulation and strategies can have a better outcome for some countries and the opposite for others because each country has its economic characteristics, level of development, local context, the economic actors have diverse capacities, thus determined policies or rules can have an unpredictable effect on some countries and not on others. In addition, the gains and costs of integrations are not equally distributed, certain producers, for instance, can be winners and other losers with this process (Bruszt & Vukov, 2018).

The political and economic transitions in Portugal and Spain resulted in remarkable growth and development, particularly after their accession to the European Union, which improved their living standards and provided access to foreign markets. These two countries are part of the Southern European Economies, along with Greece and Italy, due to their comparable features. In contrast, the Czech Republic and Hungary experienced significant development in recent years, transitioning from centrally planned economies to market-based economies after the fall of communism in 1989. Their entry into the European Union in 2004 provided them with new opportunities for growth. These two countries belong to the East Central European Economies. Although the four countries differ significantly, limited research has focused on identifying similarities and differences between their types of capitalism through time, specifically.

In the 1970s, both authoritarian regimes ended, as in Portugal, a military uprising occurred, calling for democratic values and the termination of the colonial war in Africa. In Spain, the death of Franco triggered the transition to democracy (Fishman, 2010).

During the specified historical epoch, both the Czech Republic and Hungary embarked upon industrialization policies designed to bolster the expansion of their respective manufacturing sectors. However, these endeavors were interlaced with periods of external dominion, notably Nazi subjugation during World War II and subsequent Soviet control following the war. Within Hungary, the years following World War II witnessed the implementation of socialist economic policies, engendering comprehensive state intervention in the economic sphere. This interventionist approach precipitated a phase of pronounced growth and expansion due to controlled investments, although this growth proved evanescent. Subsequent years were marked by a lamentable shortfall in economic growth, attributable to inefficacious investment strategies and a dearth of technological advancement (Vonyó, 2010).

Similarly, contemporaneously, the Czech Republic, then known as Czechoslovakia, embarked upon a course of action characterized by investments in infrastructure and industrial modernization. Regrettably, the outbreak of World War II heralded a period of Nazi occupation for the nation, followed by Soviet ascendancy after the war's culmination. Subsequently, extending from the post-war era until the 1980s, the Czechoslovak economy was steered by central planning, signifying an extensive government footprint within the industrial sector. Due to its pronounced emphasis on industrial production, the nation was susceptible to the economic tribulations of the 1930s, a period of adversity which greatly impacted its trajectory.

In the subsequent decades, particularly the 1950s and 1960s, the Czechoslovak economy experienced a discernible upswing, principally underpinned by the rapid expansion of heavy industry and engineering. Nevertheless, the ensuing years bore witness to economic stagnation and sociopolitical turmoil, as the government grappled with an accumulation of economic challenges, encompassing soaring debt, inflation, and a burgeoning discontent within the populace concerning the socialist system. Additionally, post-war conditions, including a rigid industrial framework and a demographic dearth, significantly influenced the economic performance.

In 1989, a transition to democratic governance transpired, and market-based policies began to assume a central role in economic strategy. Both Hungary and the Czech

Republic traversed analogous trajectories toward democracy; however, it is noteworthy that the Czech Republic had previously experienced a democratic republic in the 1930s, which served as an influential precursor to the system instituted subsequent to 1989 (Vonyó, 2010).

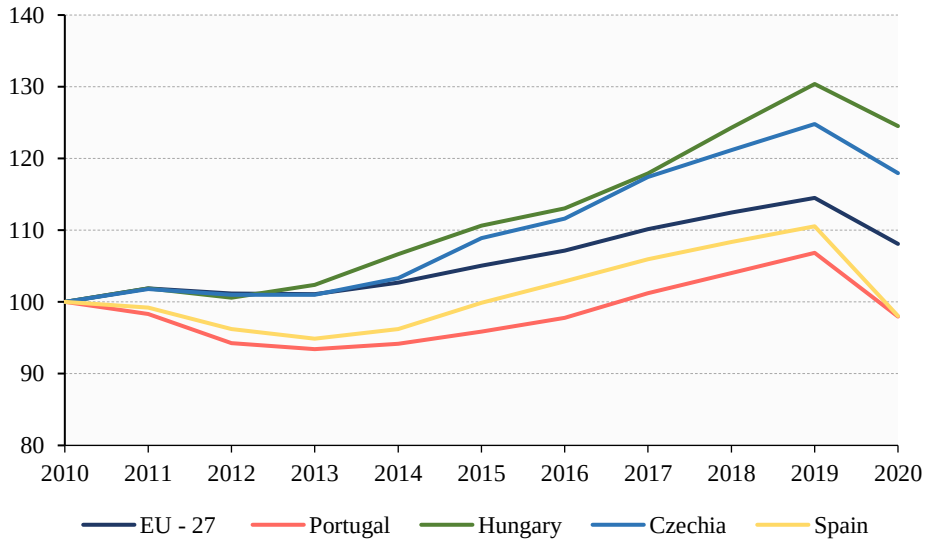
By the 1970s, the main countries in the European Union had already achieved significant development compared to Spain and Portugal. A key requirement for EU membership was the integration of the single market, which entailed eliminating national control over domestic actors. Given the reality of the southern economies in the 1980s, this was a major change. In addition, the single market and the free movement of capital required infrastructures and institutions that could, as EU actors, regulate the market in each member state. This had a significant impact on the southern economies, despite the structural funds provided by the EU to reduce disparities between countries and help implement their policies. The opening of the market had a negative impact on the domestic economy because the institutional coordination expected failed due to their fragility. The institutional net that should be created or reenforced was not guaranteed, thus these economies faced some challenges to overcome these moments that, instead of motivating competitiveness, these changes turned these countries more fragile (Meyer-Sahling 2009). The accession of the eastern European countries to the European Union in 2004 was a more cautious and complex process, considering the specificities of their situation. This process involved state-building, and the EU closely monitored it, as it marked an important milestone in the end of communism in these countries (Vukov, 2023). The EU helped these countries with the institutional change and built institutions to the long-term level, which avoided negative effects during this process. In contrast, Spain and Portugal's integration into the Eurozone represented an even deeper change compared to Czech Republic and Hungary. As a result, the southern countries incentivized rather than controlled access to credit in order to stimulate their economy, leading to adverse consequences during the global financial crisis (Vukov, 2023).

Membership in the European Union undoubtedly constituted a pivotal milestone in the economic development of these countries. Nonetheless, their inherent characteristics, such as their limited success in producing or participating in higher value-added segments of production chains, as well as the price sensitivity of their exports, have contributed to their enduring peripheral status (Prebisch, 1950; Vedres and Nordlund, 2018).

Recent Economic contextualisation

It is an economic consensus that both Central East and Southern European countries registered major development since their democracies were declared and their entry into the European common market, however, this consensus is based on economic data. Therefore, for a feasible analysis, this specific section is based on economic indicators. As it was stated before, these countries performances succeed a period of late implementation of democracy, thus, in the European spectrum, they represented countries that, when started to show more factors of development their starting point was way behind the most developed countries at the time, therefore difficult to compete or keep up with them.

Figure 1: GDP growth rate in percentage



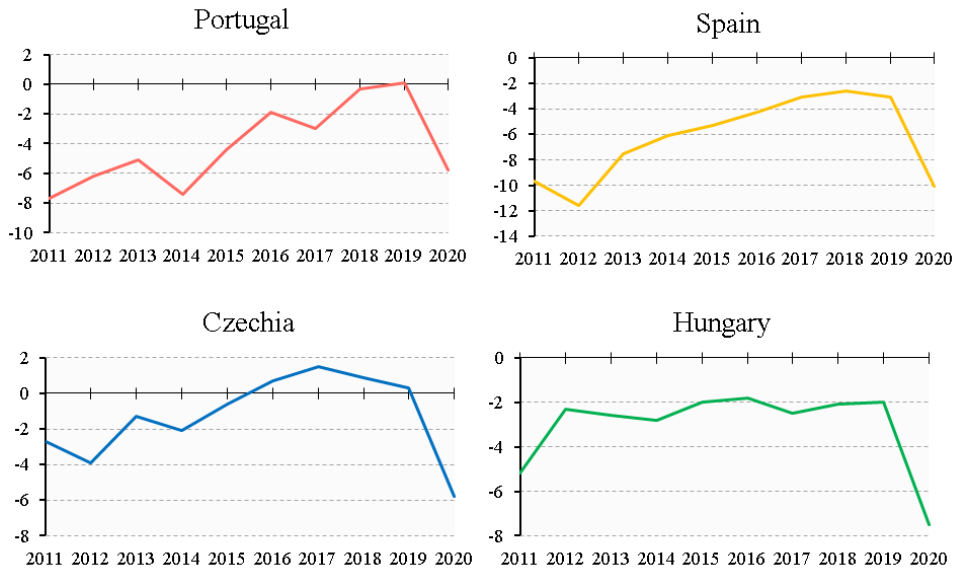
Source: Eurostat – National Accounts

Taking this into account and considering the growth rate presented in figure 1, Portugal and Spain are clearly the countries that still have the tendency to have a performance that did not surpassed the EU average. Czechia and Hungary, contrary, had a better economic performance, compared with the European average. The recover from the great recession was quicker in the East Central European countries, the few years after the 2008 crisis, their growth rate registered an evolution close to the EU average, but the

distinguishable recent performance is undeniable and one of the reasons for them interest in these countries.

The Southern countries struggled more to react to this economic situation, explained by their deeper financial situation. After their entry in the Eurozone, Portugal and Spain were highly affected by the new financial reality. These two countries, as already stated, had difficulties in converge with the European core countries and registered low competitive level. Therefore, as they entered the monetary Union, accessed cheaper credit, which was an opportunity to raise their domestic demand, since through wages was not a realistic option (Pérez, 2022). Consequently, their debt ratio registered a considerable increase. In addition, it is important to note that this met the Monetary Union strategy, as the objective was convergence between countries, eased by the abolition of the exchange constrains. As everything has its equilibrium, if the Southern countries increased their debt, other countries had to register a surplus, which was the case of Germany, the main contributor. The Southern countries did, indeed, converge, however, as the US subprime instability affected the European banks, the vulnerability of the Southern economies showed up, not because of their participation on that sector, but their loaners' (Pérez, 2022).

Figure 2: General government deficit (-) and surplus (+) percentage of gross domestic product (GDP)



Source: Eurostat - National accounts indicator

This led to a sovereign debt crisis, which particularly influenced their deficit level. As it can be inferred from the data above, the values presented are more aggressive in the Portuguese and Spanish case, reflecting the worsening of the public finances, something that the Mediterranean growth model already mentioned. The financial instability was aggravated by the austerity measures adopted. However, there is a clear recover, especially in the Portuguese case, from the crisis period, which can be explained by the troika intervention in 2014, what conducted to several social sacrifices to achieve these results. The deficit levels of Hungary and Czechia have a different behaviour, their levels have more stable and do not represent a major worry for these countries, which is explained by been less affected by the financial market situation of that period. The values transmit a relative struggle the years closer to the crisis, however stable most of the period. The Visegrad's economic performance suffer a slowdown from the values of the pre-crisis, since the environment affected the main source of growth, exports. The Hungarian situation was more fragile during this time than the Czech situation, however a factor that contributed for their better reaction to the crisis, even considering that they too struggled, was their positive effect on GDP growth: foreign direct investment. Its effects can be identified by capital accumulation, by the evolution of both technologic and human capital in the country that is receiving it, and it has been identified as a key feature for economies in transition to grow, due to the lack of funds for it, if stable and consistent (Ciobanu et al., 2020).

Chapter 5.2 Analysing differences

The forthcoming chapter aims to delineate distinctions between the two countries under analysis. This chapter's primary objective is to delve into economic indicators, which serve as instrumental tools in discerning potential disparities between the two nations.

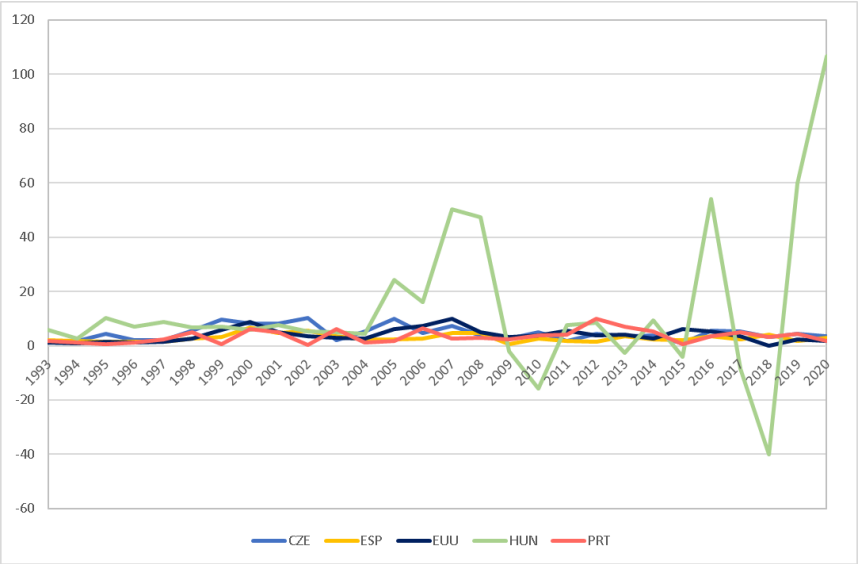
The forthcoming analysis will encompass a set of key indicators. Firstly, we will examine Foreign Direct Investment (FDI) inflows as a percentage of Gross Domestic Product (GDP) to ascertain the significance of disparities in this pivotal driver of economic growth. Secondly, we will assess exports as a percentage of GDP to gauge variations in the levels of exports. Moreover, we will scrutinize the proportion of high-tech exports as a percentage of the total exports, a critical indicator in evaluating countries'

distinct production within this specific category of products, as outlined in existing literature. Lastly, to gain insights into the extent of state intervention, our focus will be directed toward government expenditure and the regulation of product markets.

Foreign Direct Investment

The Eastern Central European countries strategy followed the idea of investment on their manufacturing sector, having as support the state, economic actors and multinational companies working together making the most of what remained from the late system. Thus, it was an economic strategy since their yearly years of development, after implementation of democracy, still very important today. The Eastern Central European countries went through a critical economic period and their decision was crucial for their current situation, and the special element was attracting FDI (Vukov, 2023). This was, and still is, a key distinction with Southern economies. Instead, Portugal and Spain had a different vision for their competition in the common market, they invested in national companies, sectors with price-sensitive characteristics and non-tradable sectors, which ended up being a non-successful strategy because these were not competitive enough or fragile to the economic environment (Burroni, Colombo, & Regini, 2021).

Figure 3: Foreign Direct Investment inflows as percentage of gross domestic product



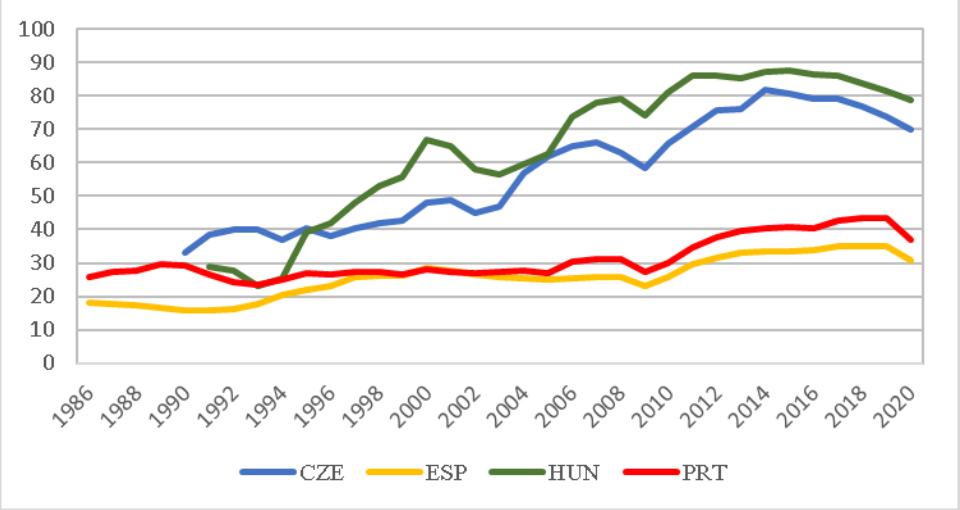
Source: World Bank

As it can be observed in figure 3, is that the Portuguese and Spanish FDI inflows are very closer to the Czechia reality, the variations do not register an enormous difference between the three countries mentioned before and correspond to the European average variations, something that is unexpected. Contrary, Hungary faced intense variations of FDI, especially after 2004, the enlargement of the European Union. Czechia has a similar behaviour to the two Southern European economies in this specific variable that, supposably, is the main driver of their growth.

Exports

As globalisation got more intense, more countries entered the common market and offered lower costs, therefore companies started to move their productions from Mediterranean countries. In addition, the type of manufacturing that each type of country invested was different, the main the Eastern Central European countries invested on high knowledge intensive industries (Burroni, Colombo, & Regini, 2021) which, when integrating a common market with abolition of barriers has less probability of lose competition.

Figure 4: Exports as percentage of Gross domestic product



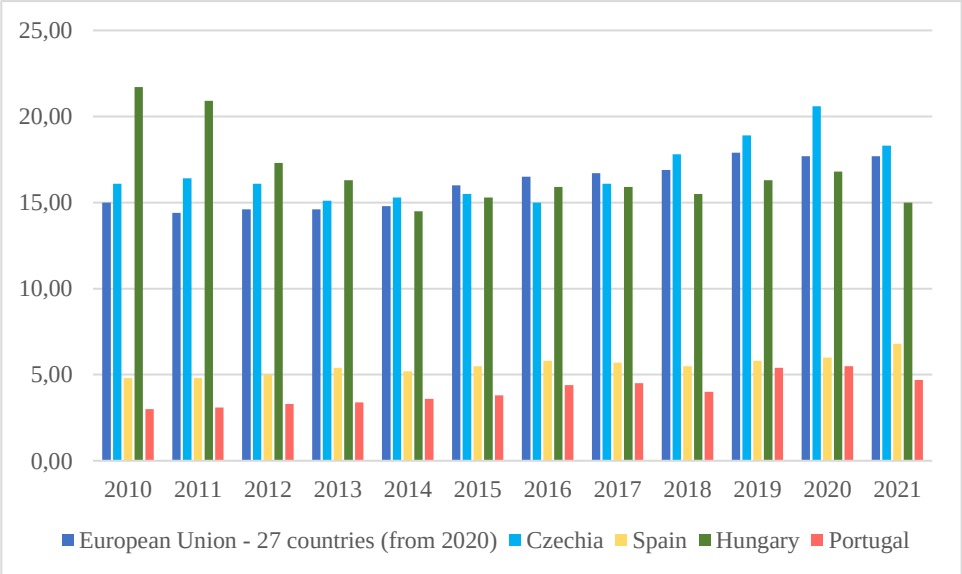
Source: World Bank

One big difference from East Central European and the Mediterranean countries present is the stability of economic growth stimulus, more specifically, in their strategy to generate growth. Portugal and Spain, as mentioned before, after the sovereign crisis adopted a different type of growth. Even thought, there is still no strong determinant stimulus that justify a change in their type of growth, recently, they seem to shift toward an export-led growth, however a weak version of that (Burroni, Colombo, & Regini,

2021). This phenomenon is discernible in Figure 4, where a modest inclination toward an enhanced significance of exports in these countries is observable. However, the type of exports that Portugal and Spain have are mainly untradable, the ECE countries have a clearly defined strategy that allows a sustainable growth of exports, even for the reaction of moments of global instability. Figure 5, presented hereinafter, serves as an instrumental tool for elucidating the salient disparities between the two categories of nations. Notably, Czechia and Hungary are conspicuously singled out due to their pronounced levels of high-tech exports, which closely approximate those observed within the European Union.

This inference can be drawn from the data presented in Figure 5, which reveals that East Central European countries exhibit a significantly higher proportion of high-tech exports compared to their Southern European counterparts. It is worth noting, however, that Portugal and Spain display a modest upward trend in this regard. Nonetheless, the values associated with these two Southern European nations remain considerably lower than those recorded by their East Central European counterparts and fall below the European average.

Figure 5: High-tech exports as % of the total exports

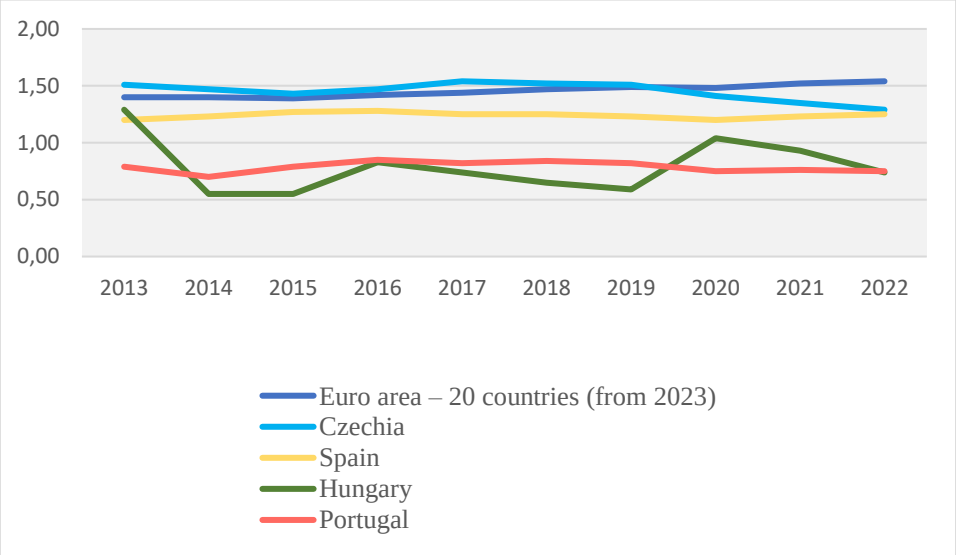


Source: Eurostat – Science and Technology: High tech exports

The Mediterranean countries have struggled with the transition to less price sensitive structure and a major contribution for it is the lack of policies supporting it. The weak institutional web requires the state as the economic actor intervening in stimulating

and spread innovation, but their inefficiency to find a strong strategy has been harder than anticipated.

Figure 6: Share of Government Budgetary Allocation to Research & Development in total general government expenditure



Source: Eurostat – Science and Technology: Research and development

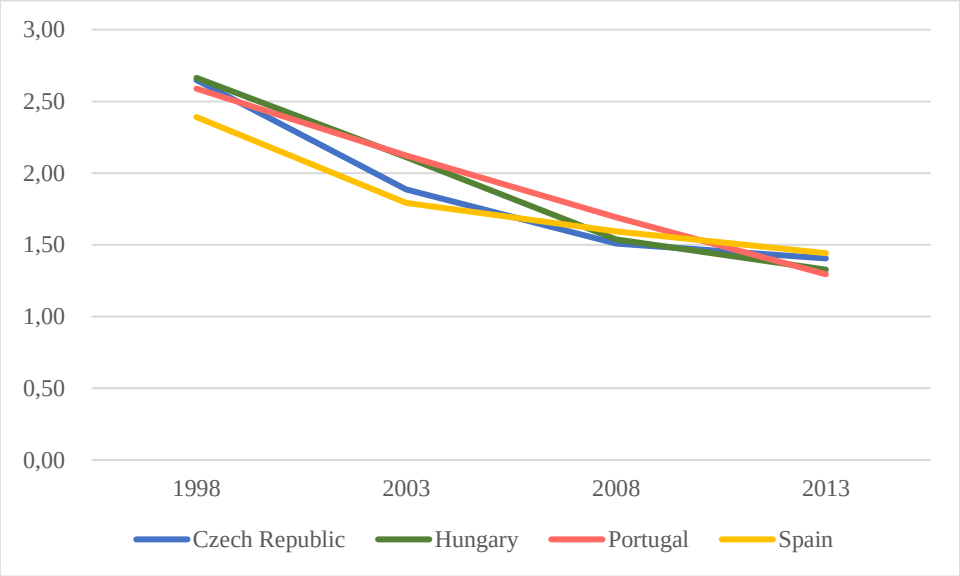
This path dependency of the southern states has proven to be stronger than radical changes, those only possible if the governments are willing to bear these costs (Garritzmann, 2017). As depicted in Figure 6, government expenditure does not appear to wield a substantial influence. The Czech Republic records a share quite akin to the European average, while Spain exhibits values closely aligned with the average of the countries. Conversely, Portugal and Hungary manifest lower proportions of government expenditure dedicated to research and development, with the Hungarian values demonstrating a greater degree of variability when compared to the Portuguese figures.

State intervention

The role of the state has a difference importance in Mediterranean countries and in Eastern Central European countries, in Portugal and Spain, the state does intervene more. Therefore, in Mediterranean countries, the state is the economic actor close to the social problems, since the institutional network is not able to respond to society needs, being this the biggest cause high public expenditure (Tendera-Wlaszczuk & Szymanski, 2015).

The states of East Central Europe are more related to being more focused on what transnational companies needs than on social needs (Nölke & Vliegenthart, 2009).

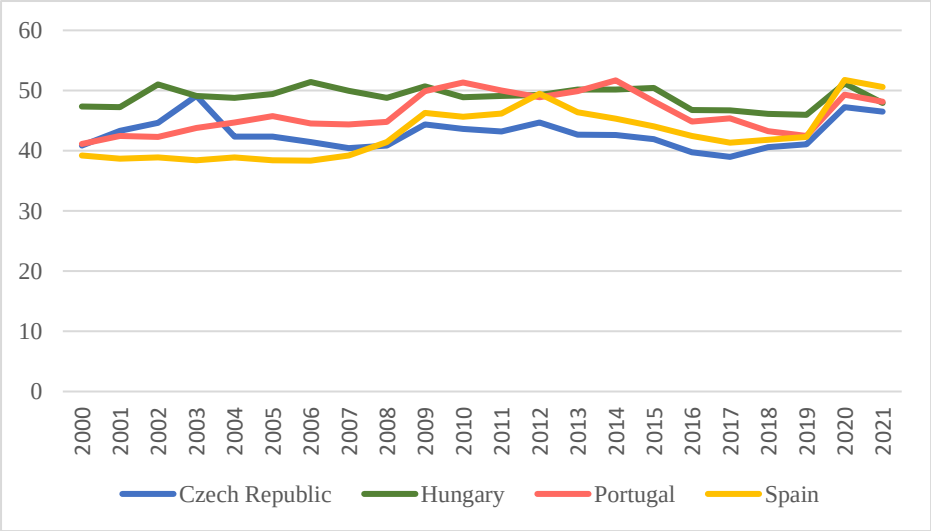
Figure 7: Product market regulation



Source: OECD (2023)

As Figure 7 illustrates, market regulation in the examined four nations exhibits a trend toward diminishing and converging levels. This observation contrasts with the anticipated scenario of a more pronounced state influence on the economies of Portugal and Spain. This trend serves as a significant indicator for comprehending the regulatory impact on these four countries' markets, reflecting a diminishing regulatory influence that could imply reduce competition. However, to draw definitive conclusions from these values across the four nations, one must consider the specific regulatory factors at play. For instance, decreasing values between of Portugal could be attributed to the deregulation of the Portuguese labor market.

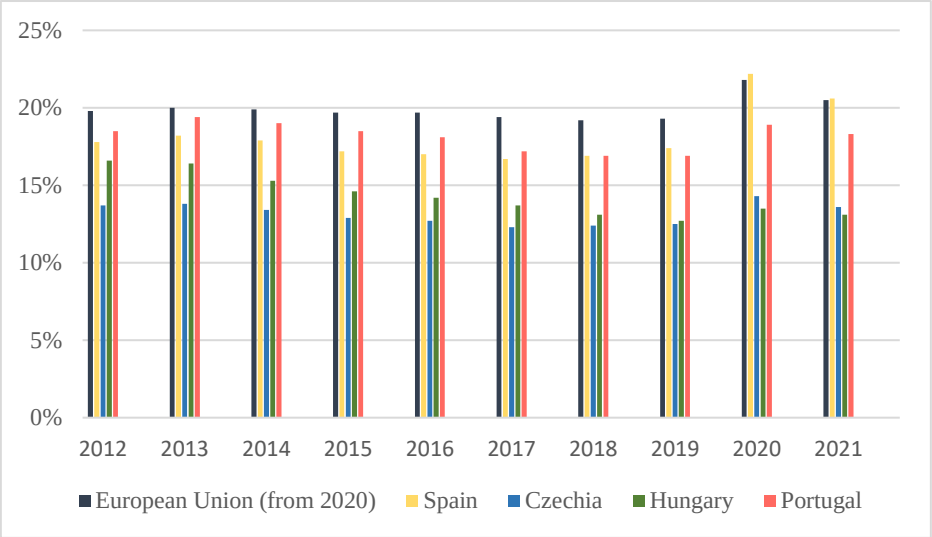
Figure 8: Government expenditure, percent of GDP



Source: International Monetary Fund (2023)

For further understanding where the main differences on state intervention are, it is considered the government spending, as percentage of GDP The difference between Mediterranean countries and Eastern Central European countries, considering figure 5, is not significant. The values presented on figure 6, register, a tendency of the government's spending become similar, even if a prior difference can be identified, for instance, Hungary registered a higher government expenditure, compared to the other three countries. The Mediterranean countries underwent a period of austerity measures, during the Global Crisis, which impacted the southern welfare states, having Spain and Portugal applied reforms that led to converge with continental European approach (Guillén, Jessoula, Matsaganis, Branco, & Pavolini, 2021).

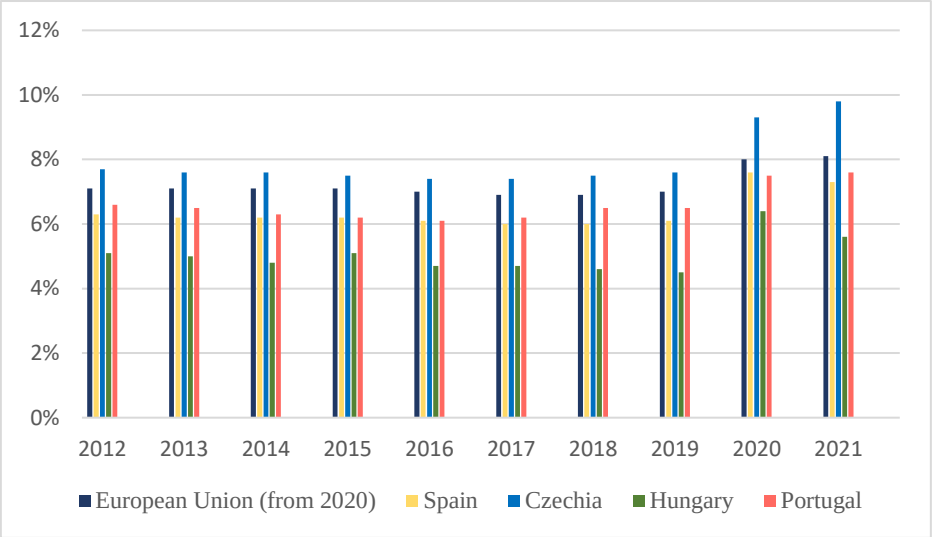
Figure 9: General government expenditure on social protection



Source: Eurostat Government Statistics

Even Though, their social protection expenditure remains with an increasing perspective, and it is indeed, higher than the Eastern Central European countries. This aspect reflects the "highly fragmented corporatist income maintenance system" (Guillén et al.2021, p.149) and reinforces the idea that the state is a very important actor in the Southern economies. During the reforms applied after the Great recession, the social protection was considered the principal aspect that pushed the Southern economies from being competitive (Guillén et al., 2021). In the Eastern Central European countries, the social protection does not reach the values of the Mediterranean countries considered in figure 6. Hungary might be the country with more future challenges, specially concerning issues related with risk of poverty and social exclusion (Kiss, 2015). Czechia, has too a low social protection expenditure, however, it provides, from the Eastern Central European countries, a high pension (Kiss, 2015).

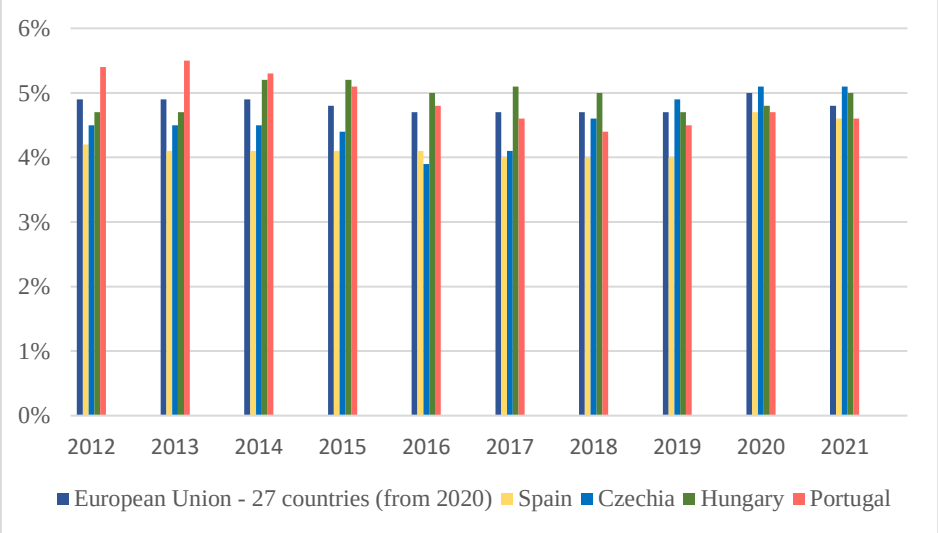
Figure 10: General government expenditure on health



Source: Eurostat Government Statistics

Relatively to other important sector of government expenditure, health, it is possible to conclude that Czechian government supports this sector more than other country, even above the European average, which is explained by most of the health care being public fund (Bryndová et al., 2023). Hungary is the country with less government expenditure on health. In 2020, the increase in all countries expenditure to health is explained by the covid-19 pandemic.

Figure 11: General government expenditure on education



Source: Eurostat Government Statistics

In education, there is a similar government expenditure in the four countries. The Eastern Central European countries registered a significant increase, reaching levels

higher than the European average. This behaviour of Czechia and Hungary is justified by the increasing concern of improve the educational system and reduce regional inequalities (Halász, Garami, Havas, & Vágó, 2001; Jahnke). The Portuguese government expenditure, as % of GDP, slowed down and in Spain it verified a slight increase, in the period of analysis.

Chapter 5.3 Analysing Similarities

The forthcoming chapter will center its focus on the aspects previously delineated in Section 3, thereby making a substantial contribution towards drawing more comprehensive conclusions. The indicators to be discussed encompass the percentage of public investment funded through cohesion policy, serving as a measure to gauge the extent to which this policy has facilitated investment in countries. Additionally, the GDP per capita as percentage of the EU GDP per capita will be considered, offering insights into the disparities or convergences between individual countries and the broader European Union.

European Funds

The Central eastern economies and southern economies share the same reality, in a European context, they have fragilities that the core countries do not face or at least not at the same level. With the integration process, these countries' vulnerabilities became more exposed. The level of integration in the Southern economies was more intense than in the Eastern economies, not only they integrated a common market, but also the monetary union. In his specific case, Czechia and Hungary have their own national currencies.

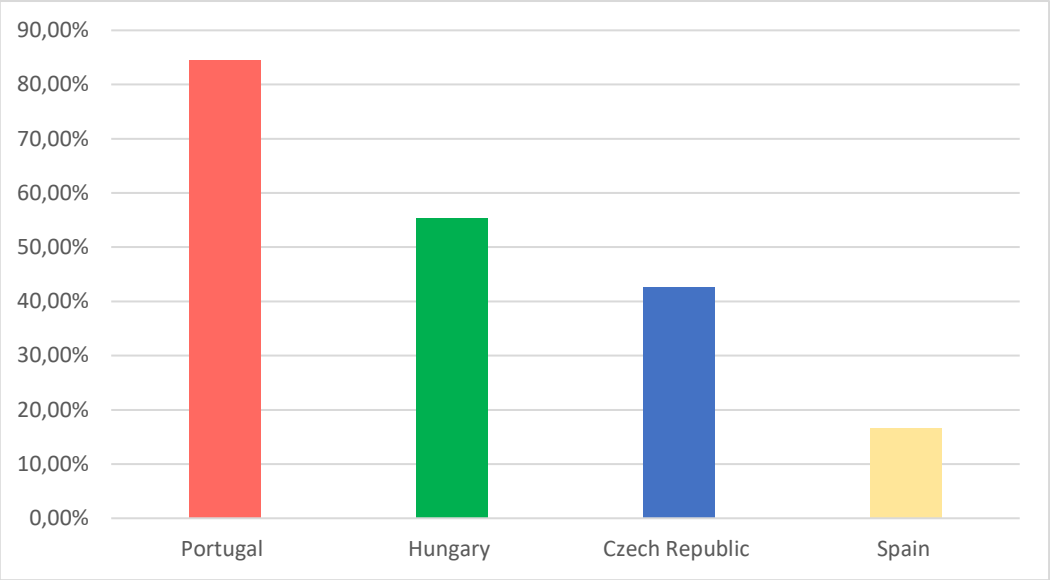
While the process of integration of both countries in the Southern economies was based on preparing countries to have the economic indicators required to be considered prepared, and in structural funds to foster development, in the Eastern economies there was a bigger attention in preparing the institutional structure. The main reason for this different approach was due to the unsuccessful sustainable development of the Southern economies (Bruszt & Vukov, 2017).

Portugal and Spain became a European Union member in 1986 and, the objective was to, the access to liberalization, stimulate economy and enable convergence between

the peripheral countries and the core (Bruszt & Vukov, 2017). However, the national system was overestimated, they were expected to manage the adaptation of the new reality. Domestic actors failed to the European expectations, they could not respond to the magnitude of the liberal environment and, the structural funds effects were not as determinant as supposed, in the long-term, the Southern economies used them mainly for infrastructural development, hence the effect did not correspond to the principal objective of the funds (Medve-Bálint, 2018). Additionally, as the European Monetary Union was implemented, Portugal and Spain had access to cheap credit, which was intended to foster convergence and investment, became, instead, a source of enormous debt ratios. In contrast, Eastern economies had a much-monitored integration, there was a bigger concern about the institutional base, and it allowed countries to strengthen their vulnerabilities and be prepared for the liberal environment of the European market, they guaranteed that these countries would be able to compete in the market and support development. The European entities performance with the Central East Economies in their integration was completely different from the Southern economies precisely to avoid what Southern economies registered, a failed integration, considering the main objective of convergence. In addition, these countries received European funds, having, too, directing them to infrastructural investments (Medve-Bálint, 2018).

Since the last European crisis, European entities have been much closer and more inflexible in their policies. For instance, the European funds must be justified and proved to be applied to the sector initially agreed, otherwise countries have sanctions. This allows the European Union to have more control and conduct countries to the European objectives. Consequently, the Southern countries registered an increasing on allocating to other investments but physical investments, related to assist businesses (Medve-Bálint, 2018).

Figure 12: Percentage of cohesion policy funding in public investment per Member State



Source: Eurostat and ECFIN AMECO.

As evident from the data presented in Figure 12, Portugal emerges as the nation with the most substantial proportion of its public investment sourced from cohesion funds. This circumstance may be linked to the Portuguese government's capacity to attain fiscal relief. In contrast, Hungary reports a noteworthy allocation of cohesion funds towards public investment, which stands in contrast to the situation observed in the Czech Republic and notably Spain. Spain records an unexpectedly low proportion of public investment financed through cohesion funds, deviating from anticipated patterns.

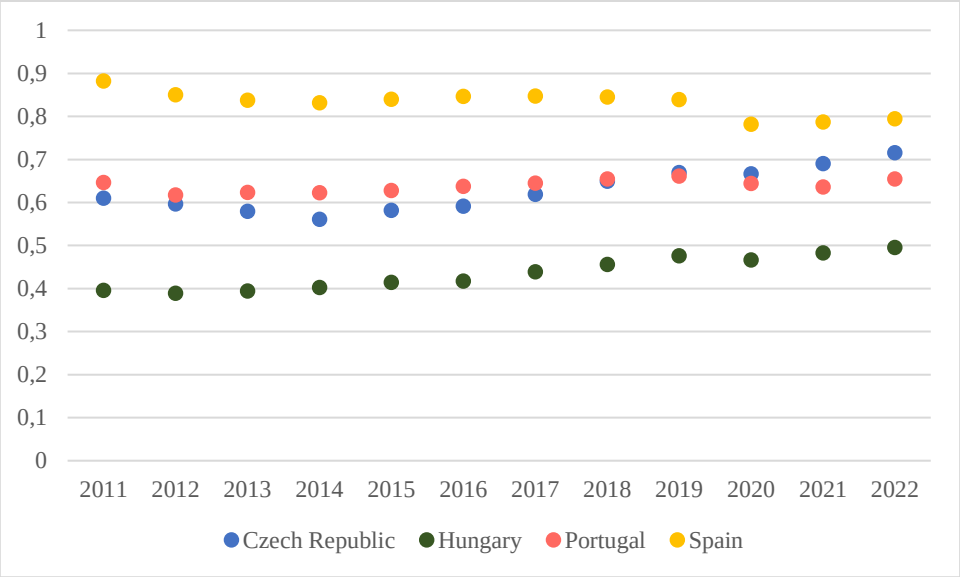
Growth rate

These four nations are not typically classified as core member states within the European Union, primarily attributed to their comparatively delayed economic development. Nevertheless, their economic progress has evolved over the years, and the forthcoming analysis promises to yield valuable insights and conclusions.

Figure 13 elucidates the dynamic comportment of the gross domestic product (GDP) within the four nations over recent years, expressed as a proportion in relation to the European Union per capita gross domestic product. An initial observation that can be articulated is the Spanish performance being the closer to the EU GDP per capita. Evidently, the Eastern Central European nations exhibit a trajectory of convergence with the European Union levels, however behind the overall levels to Spain and Portugal. The analysis allows the following comparison: Portugal's has a very similar performance to Czechia’s, being, recently, slightly surpassed by the East Central European country.

Hungary is the only country under the 0.5 of the GDP per capita of European Union, until 2021, starting to get closer to the other countries values.

Figure 13: GDP in % of the EU GDP per capita



Source: Eurostat – National account

Chapter 6
Discussion

Following the analysis in Chapter 5, several noteworthy findings emerge, some of which correspond with the existing literature on the topic, while others deviate from expectations. Overall, this study presented some surprising data, specially related to FDI in Czechia, the lower of social protection of East Central Europe and the divergence of Portugal with the other countries.

In contrast to the assertions made by Bohle and Regan in 2021, the Foreign Direct Investment (FDI) of Czechia, as a percentage of its GDP, bears a striking resemblance to that observed in Portugal and Spain. However, the data gathered suggests a level of similarity between Czechia and these Mediterranean countries, contrasting the anticipated disparity. In contrast, Hungary aligns more closely with the expected behaviour of an Eastern Central European country, displaying a distinct economic trajectory compared to Portugal and Spain.

In the domain of exports, the findings concur with the research by Bohle and Regan from 2021, as mentioned previously. Notably, the East Central European nations exhibit higher levels of export value. The Czech and Hungarian economies distinguish themselves with a pronounced degree of competitiveness within the liberal market, primarily attributed to their knowledge-intensive product offerings, rendering their production less susceptible to price fluctuations.

Conversely, the exports of Portugal and Spain have experienced growth, primarily hinging on non-tradable goods, particularly tourism, as posited by Baccaro (2022). This reliance on tourism as a primary export avenue carries inherent risks, given its finite sustainability horizon due to its lack of dependence on domestic production. Therefore, it is incumbent upon the Southern economies to consider future strategies to ensure the enduring viability of their economic performance. Additionally, the government expenditure in R&D in Portugal was lower than in Spain. This leads us to conclude that, considering their fragmentation (Molina and Rhodes, 2007), the state has to be the economic actor helping firms upgrade their performances, therefore increase their investment in this specific matter.

Although the expectation was that Eastern Central European countries would exhibit superior economic performance while maintaining a lesser focus on social welfare, compared with the Southern European countries (Molina and Rhodes, 2007), the data within this dissertation leads to different conclusions. Government expenditure in these four countries appears remarkably similar. While social protection corresponds to expectations, Eastern Central European countries display a greater expenditure in the education and health sectors. Furthermore, the influence of the state on the market appears consistent among the four nations.

The Southern European Economies were expected to exhibit economic growth that aligns with the concept of peripheral growth within the European context, Portugal specially. Both have experienced challenges stemming from the European economic crisis, resulting from overestimating the potential for domestic actors and international interactions to foster economic growth and the inadequacy of prior national policies (Vukov,2023). These vulnerabilities were laid bare during the economic crisis and have since become a defining characteristic of these economies. In comparison to Czechia and Hungary, the Southern European economies grapple with high debt ratios, substantial deficits, and a limited industrial structure, making it challenging to compete and act as a catalyst for growth, unlike their Eastern counterparts. Nevertheless, Spain, Portugal and Czechia economies have registered convergence of GDP per capita to the EU's, especially Spain. Contrary, Hungary, has the lowest GDP per capita as percentage of European Union, being the country still representing the peripheral growth.

Ultimately, both types of economies heavily rely on European Funds for development (Bruszt & Vukov, 2017). Portugal appears to be the country whose structural funds have been more directed to public investment, however, cannot be understood as being the biggest receiver. As previously mentioned, both categories of countries have benefited from structural funds, primarily directing investments toward infrastructural projects, contrary to initial expectations of more development-focused endeavours. Despite a predilection for such allocation, the Southern economies seem to have altered their approach to European Funds, shifting their focus away from infrastructures to other purposes (Medve-Bálint, 2018).

These four economies share a common characteristic: dependency. Despite their differences, they all exhibit a perpetual reliance on external support for fostering development and growth. In the case of Eastern economies, this reliance is tied to

multinational decisions, while in the Southern case, it is closely tied to state strategy, within the purview of European Union entities guiding them toward sustainable convergence with the core. Dependency on external assistance is a prominent feature of peripheral growth, although it's worth noting that core economies are not entirely independent either. However, vulnerabilities within these economies render them particularly reliant on external aid and commitments.

Conclusion

The main objective of this dissertation was to discuss what were some key differences and similarities in Southern countries compared with East Central European countries growth path. Considering the main literature about international differences and performances, it is possible to conclude that there are several circumstances that put each country in today's reality, even if the starting point and some European policies were similar.

In this dissertation, the diversity of capitalism and the drivers of growth behaviour was the main topic, focusing on Czechia and Hungary, representing the East Central European economies, and on Portugal and Spain, representing, the Southern economies. The principal literature about this topic leads us to believe that the four economies behave in a certain manner, however, this work found that some expectations derived from the literature are not verified on the actual economic growth and behaviour of these economies. For instance, the Czechian economy registered a Foreign direct investment very similar to the European average and the Southern economies, a finding that was not expected from the literature, therefore, their economic growth must have other explanation that what the growth models mention. Furthermore, the Eastern Central European governments expenditure does not transmit a different behaviour of the state, except on social protection. Portugal and Spain governments have an important role relating this sector, even after the austerity measures applied after the global crisis, these societies are still very dependent by their role. Additionally, there is a struggle of the Southern states to manage to export high tech goods and changing the industrial network, which is understandable, but needs more state investment in R&D in order to fulfil this change and develop a sustainable export-led growth. Czechia and Hungary, in the one hand, and Portugal and Spain in the other hand, their main similarities remain to the European structural funds and Portugal, Spain and Czechia having a similar GDP per capita converging to the EU GDP per capita, remaining Hungary with, recently, a slight convergence. Overall, their performance is getting closer to the core countries.

Finally, the four countries are, indeed, principal receivers of European funds, however, there has a difference of controlling where they are applied; Czechia and Hungary have been facing incredible growth rates that surpassed the European growth.

The impact that the European Union has on these countries' performance, specially the Southern, is a characteristic that led to a change on their policymaking control.

This work as its limitations, such as the consideration of only 4 countries and the low number of macroeconomic indicators that it considers. Therefore, as there is an increasing interest in understanding these two types of economies, there are various questions that can be object for further analysis. For instance, related with the Southern economies, why are these countries still in struggle to break the weak knowledge industry cycle? Why are they stuck to the low added value? But also, some questions about the East Central European economies, what are their limitations? Does the unbeatable growth have weaknesses?

The current economic environment has been challenging for the four countries and, once again, their strategies will be crucial to recover and manage the social impact of the economic situation.

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