30 years of East-West integration in Europe: reflections on what we have learned and on challenges ahead

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This paper gives an overview of lessons learned from 30 years of experience of East-West integration in Europe. It covers issues related to the economics of transition of the Central, Eastern and Southeastern European (CESEE) economies after 1989, the relatively fast processes of institutional and economic catching-up, trade and production integration and the role of foreign direct investment (FDI). It also analyzes difficult labor market adjustments linked to structural change and changing skill demands, the strong forces leading to regional economic agglomeration and the recurrent difficulties in a range of economies in dealing with macroeconomic, particularly current account, imbalances. Finally, this contribution discusses the issues of reform reversals and political regression taking place in some CESEE countries and the political-economic analysis necessary to deal with these phenomena.

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Let me start with some personal notes: I got involved in transition issues while I was still at Cambridge during the eventful year of 1989. During the 1980s, I worked with a research team led by Professor Sir Richard Stone on the multisectoral structural modeling of the European economy. With my background as a Central European, the events of 1989 were too exciting to miss. In cooperation with some political scientists (such as John Dunn and István Hont) and the Polish Oxford economist Włodzimierz Brus, we organized a two-year-long seminar series on the transition process at King's College, Cambridge. Moreover, I became involved in projects coordinated by the Centre for Economic Policy Research (CEPR) on developments in Central, Eastern and Southeastern Europe (CESEE) and in a series of projects for the European Commission.

My interest in the historically unique processes of transformation in CESEE and the challenges for the European integration process as a whole led to my departure from England and, in the mid-1990s, to my taking up the position of Scientific Director of the Vienna Institute of International Economic Studies (wiiw). The wiiw was – and still is – specialized in analyzing developments in CESEE in particular and European integration more generally. Working at the wiiw provided ideal conditions for analyzing developments in CESEE and participating in many debates with academics and policymakers in CESEE and across Europe.

The developments unfolding in the CESEE region after 1989 comprised economic, political, social and cultural aspects. There were many things that I learned from observing and analyzing the transition processes in CESEE and their impact on overall European integration. As an economist with expertise on international economic integration and longer-term structural change, I shall focus on a subset

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of issues which have motivated new and enriched existing research lines. These range from an understanding of the early challenges and patterns of transition to differentiated patterns of catching-up and are, at times, also associated with evolving macroeconomic imbalances and challenges for macroeconomic policies. We shall also review what we have learned about patterns of trade and production integration between Eastern and Western European economies, the importance of the legal and institutional anchoring that is linked to the perspective of EU membership, about regional inequalities and patterns of agglomeration, labor market developments and the crucial role of demography and migration flows. Finally, we shall point to the importance of understanding developments regarding reform reversals, social differentiation and the implications for further strategies regarding European integration.

1 The processes of transition

Let us start with the transition process itself. There is no doubt that the dramatic events of 1989 sparked a systemic transformation that had unique features.

What was impressive in the first place was both the speed and depth of the liberalization process of the CESEE[2] economies that initiated the shift toward becoming market economies. This liberalization process (including privatization, price, current and capital accounts liberalization) was faster and – in all likelihood – more complete in the timeframe covered than anything previously witnessed in history. Second, the transition processes involved a range of economies which were geographically very close to advanced, high-income economies and which had already reached a very high level of economic integration among themselves.

Both these features singled out the group of CESEE economies in the period after 1989 and were at the root of a relatively successful process of catching-up in economic and institutional terms as well as of the process of pan-European economic integration we have witnessed over the past decades.

However, the first big surprise for economists in the early phase of transition was the depth of the initial "transformational recession" (a term coined by János Kornai; see Kornai, 1995). The initial stage of transformation was characterized by a dramatic decline in economic activity that brought GDP levels down by between 20% and 40% in the different CESEE economies.

Despite having analyzed the features of planned economies over the previous decades, the economics profession was not well equipped to advise on such a dramatic path of systemic change that involved a fundamental change in the mechanisms of allocation (of factors of production, of goods and services). Such a change amounted to a severe disruption of economic activity that could not be easily understood by means of traditional tools of economic analysis.

In particular, the political economy of transition was ill understood, i.e. the interaction of political and economic processes of systemic change. Given this interaction, certain important reform steps were either blocked or supported by different social and economic actors. The urgency of the need to influence these processes was definitely greater than the understanding of these processes. Only gradually, a body of analytical results was developing based on the application of

[2] *In this article, I will mostly consider a wider group of CESEE economies going beyond those that joined the EU in 2004, 2007 and 2013. Issues of transition and the relationship with the EU remain important in the EU candidate countries of the Western Balkans as well as in countries without a foreseeable EU membership perspective, such as Belarus, Georgia, Moldova and Ukraine.*

new insights of positive political economy and institutional economics (for a synthesis of these results, see Roland, 2000).

What became clear early on was that geographical position, institutional and behavioral anchorage (especially in the *acquis communautaire* and, prior to that, in the conditions defined by the Copenhagen criteria for an EU membership perspective) had great influence on the direction and speed of systemic change and also on the speed and extent of economic recovery. The nature of the relationship and integration with an advanced group of economies such as the EU-15 was quickly recognized as essential when it came to understanding the differentiation of transition processes across the CESEE countries (between those countries that became EU members at different points in time, those that received EU candidate status, and those with very distant or no membership perspectives).

1.1 Growth and catching-up dynamics

All in all, the growth experiences of the transition economies after the first phase of transformational recession conformed to the picture painted by standard economic growth theory regarding the possibility of lower-income economies to converge with higher-income economies (see e.g. the classic textbook on economic growth by Barro and Sala-i-Martín, 2004). Convergence processes could be understood on the basis of either the traditional neoclassical growth model, which predicts that lower-income economies are characterized by low capital-to-labor ratios and relatively high rates of return, or newer growth theoretical formulations, which define the potential for catching-up on the basis of technology gaps and the scope for technology transfer.

However, standard economic growth theory was mostly formulated in rather aggregate terms, and this turned out to be insufficient for understanding the processes of convergence of the CESEE transition economies. In particular, it did not contain sufficient information on why we observed differentiated processes of catching-up among the CESEE countries and, furthermore, on the fact that there were specific features of these catching-up processes which could only be detected at a more disaggregated level. Examples of the importance of a disaggregated assessment were the role of state-owned enterprises and of *de novo* enterprises in different sectors, the importance of the agricultural sector and the extent of initial under-representation of tertiary activities (a feature of communist countries) as well as regional patterns of growth.

One important issue already mentioned above was the relevance of the institutional and behavioral anchorage of the CESEE countries in an EU accession or EU candidacy process. This institutional anchorage was important for two reasons: (1) as a signal to the internal actors, i.e. the economic and political actors in the individual countries, so that their expectations regarding future developments could be aligned, and (2) as a sign of reassurance to outside actors, in particular those that could provide capital, knowhow, support in the setting-up of new types of activities (e.g. in the banking system) and in the modernization of traditional types of activities.

1.2 Trade integration, trade specialization and cross-border production integration

There are a number of interesting aspects in the development of trade structures and trade specialization which, in many ways, also demonstrated the insufficiency of traditional trade theory in analyzing and predicting the development of trade patterns between the CESEE countries and the EU-15, which became CESEE's most important trading partners by far.

The first aspect was the speed of trade reorientation: Before the start of transition in 1989/90, the majority of CESEE economies were members of the Council for Mutual Economic Assistance (CMEA), which was a tightly-knit trading bloc in which trade patterns were generated through a process of planned direction of trade and production flows across CESEE. The breakdown of the CMEA meant that the CESEE economies could reorient their trade flows but were also deprived of a secure market position in other CMEA economies. This meant that in the first phase, until about 1995, trade flows among former CMEA member countries collapsed and there was a very rapid process of trade reorientation, mostly toward the EU-15 economies.

Then there was the speed by which traditional patterns of trade specialization changed in many (though not all) CESEE economies that witnessed a dynamic process of upgrading export structures, both in inter- and intraindustry trade. What were the reasons behind this development? One reason is the same that drove the growth process in general: the potential to benefit from a technology transfer (in a wider sense, i.e. by learning not only about production processes but also about product design, marketing, contractual practices with Western trading partners, etc.).

Early studies on the likely pattern of trade specialization between CESEE and the more advanced EU economies were undertaken within the frameworks of static Ricardian and Heckscher-Ohlin-Samuelson (HOS) theories: The prediction based on these frameworks was that the CESEE countries would specialize in economic activities in which they would have a comparative advantage vis-à-vis their Western European counterparts. Such activities would be lower-tech and less skill- and research and developement-intensive than those of their Western European trading partners. These frameworks in their static formulations were soon understood as being at odds with the rapid processes of upgrading export structures, both at the industry and the product levels.

Hence, over time, more sophisticated and also more appropriate analytical frameworks were used: theories which analyze the emergence of horizontal and vertical patterns of intraindustry trade (see e.g. Hummels et al., 2001; Schott, 2004; Dulleck et al., 2005); theories which look at the dynamics of trade specialization jointly with differentiated productivity catching-up (see Landesmann and Stehrer, 2001 and 2002); theories of fragmentation, of trades in "tasks", and of outsourcing (see Arndt and Kierzkowski, 2001; Grossman and Rossi-Hansberg, 2009; Feenstra, 1998), etc. All these approaches capture features of East-West economic integration more appropriately than the simple application of traditional static trade theory.

Furthermore, the importance of foreign direct investment (FDI) in the upgrading processes of the CESEE countries' tradable sectors was recognized. Most of the CESEE countries had, within a short period, become economies with a very strong presence of foreign investors, and these played an important role in promoting productivity growth, redesigning product programs and strengthening export capacities. The location decisions of foreign investors also were major factors behind the re-industrialization process that took place in the more successful CESEE countries and behind the development of a new industrial belt of cross-border production networks in Central Europe (see Stehrer and Stöllinger, 2015).

1.3 Labor markets: productivity catching-up, structural change and skill bias

One of the features of the catching-up processes of the CESEE countries was that employment developments were initially very disappointing after transition started, despite a very favorable experience of output (or GDP) developments compared with the EU-15. This phase was one of "jobless growth", while, more recently, we have been observing another phase characteristic of many CESEE economies: that of "employment-constrained growth." There are a number of explanations for this U-shaped pattern of employment growth that characterizes labor market developments in many CESEE countries.

First, the very low responsiveness of employment to GDP growth (i.e. the low employment elasticity with respect to output growth) in the initial phase, after the economies recovered from the initial transformational recession, can simply be seen as the other side of the coin of real income catching-up driven by productivity catching-up. Thus, if the difference in the growth rates of GDP and aggregate employment were the same in the EU-15 and in the CESEE countries, there would be no catching-up of productivity levels between the two groups of economies. This is, of course, arithmetically correct but does not provide much insight into the underlying processes.

Second, a more sophisticated argument was developed in Landesmann et al. (2004). Here, we argue that more complex structural convergence processes lie behind the relative output and employment performances in CESEE. The argument is as follows: At the outset of transition, the CESEE countries had a wide range of industries in which labor productivity gaps to Western European industries were particularly high and in which, consequently, there was a strong potential for productivity catching-up (particularly manufacturing industries and – in many CESEE countries – agriculture). On the other hand, the services industries were strongly underrepresented in comparison with Western European countries. The CESEE countries then underwent not only a convergence process of productivity levels at the aggregate level but also a structural convergence process, i.e. the output composition of their economies and hence the representation of different sectors in the aggregate economy became more similar to those in the advanced Western European countries. Thus, the shares of heavy manufacturing industry and of agriculture declined and those of the services industries (particularly market services, such as retail trade, business and financial services) increased. Services industries are more labor-intensive, and hence, a shift in the output structure toward services increases the employment elasticity of aggregate economic growth. The combination of productivity catching-up (differentiated by industries) and of a structural convergence process (with labor-intensive services industries gradually gaining in importance) thus caused a sharp fall in the employment-output elasticity in the initial phase after transition, followed by a recovery of that elasticity afterward. This led to the U-shaped pattern of aggregate employment growth observed in the CESEE countries over the longer period from 1990 to 2008. More recently, many

CESEE economies have moved into a "labor shortage" regime, which has to an important extent been due to the large outflow of population from the CESEE countries, particularly of young and skilled workers. This phenomenon will be covered in more detail in section 2.1.

1.4 Regional patterns of growth, agglomeration and structural change

At the regional level, we expected a change in development patterns from the outset, as the opening of the CESEE economies toward Western Europe could be expected to change the regional orientation of economic activity in the transition economies. However, a number of additional factors were at work, leading to the important phenomenon of agglomeration, in particular to a very significant strengthening of the economic importance of capital cities and a sharp increase in regional inequality. In most of the CESEE countries, the levels of intra-country regional income inequality surpassed those observed in Western Europe.

What were the explanatory factors in these developments? Without any claim to completeness, the following have played important roles, leading to a sharp increase in regional inequality and tendencies toward the agglomeration of economic activity (particularly in capital cities).

One factor is the aforementioned catching-up process in tertiary activities, which were traditionally underrepresented in the CESEE economies and which, in the early phases of transition, could develop most easily in capital cities or strong urban agglomerations. Such urban agglomerations provide the sophisticated markets and the necessary concentration of people with higher-level skills and, furthermore, the scope for complementarities between tertiary activities necessary to support the development of a vibrant services sector.

The other factor that has supported the tendency toward regional inequality is the strong concentration of FDI activity in regions bordering Western European economies. Such locations have facilitated the easy integration into cross-border production networks and have been able to make use of the more developed logistics and transport infrastructure in their neighboring Western European regions. As infrastructure might improve more widely, further labor supply pools may be tapped, and uneven land prices may also attract FDI to a wider range of regions; this – supported by appropriate regional and labor market policies – could somewhat reduce the degree of regional inequality in the future.

Regions with structural problems or regions at the periphery are a more persistent cause for regional inequality. These include regions that suffer from their geographical position away from the border to Western Europe but also from the legacy of past heavy industrialization in the socialist period, which means that they were severely affected by the deindustrialization processes in the initial period of transition. Lagging regions also include poor agricultural regions that have not been able to sufficiently attract new activities. Such regions have suffered from (at times massive) emigration and a deterioration of the demographic profile as young people leave and also from an erosion of the skill base as the better trained are more mobile. They remain "poverty-trapped" regions faced with social misery and also the political implications of such traps (see section 2.4 for details).

2 More recent processes impacting transition

2.1 Migration flows: projections, impacts and perspectives

East-West integration processes in Europe have always had important implications for labor market integration. The cross-country or cross-regional integration of labor markets can be indirect (the impact on labor markets resulting from trade integration or international investment flows) or direct (i.e. through cross-border labor flows). Migration regimes between the CESEE countries and the EU-15 remained very restrictive until the accession of the first group of new CESEE EU Member States (NMS-8). Hence, the main channels through which labor markets in CESEE and in Western Europe were affected were the indirect channels (trade, FDI, outsourcing, etc.). Only just prior to EU enlargement (which went hand in hand with visa liberalization) and afterward did migration flows become important conduits of labor market integration. This was continually strengthened when the transitory restrictions with regard to labor market access were at first gradually and then fully lifted in 2011 and 2013, respectively. The gradual opening of EU labor markets happened at different points in time in different countries, which also led to diverted migration flows across the EU-15 economies (as some countries, such as the United Kingdom and Ireland, opened their labor markets immediately upon accession of the first group of NMS while others, such as Germany and Austria, kept transitional access restrictions for the full seven-year transition period).

Migration is a complex topic. I will therefore mention only a few of the features that have emerged from work done on this topic in the context of East-West integration in Europe.

Much of the research commissioned by the European Commission and other political institutions was directed toward understanding the scale of migration flows to be expected between the CESEE countries and the incumbent EU Member States under a regime of liberalized access to EU labor markets (in this context, an important study was Brücker et al., 2009). Given the focus of most economic research on the labor market effects of migration (see e.g. Kahanec and Zimmermann, 2010), this was a strange direction of commissioned research on migration, as the main impacts of migration on labor markets were expected not from the scale but the socioeconomic composition of migrants (especially by skill groups).

Hence, there was a strange inconsistency: Public and political interest was focused on the scale of migration flows, while most of the detailed economic research findings on the impact of migration would emerge from microeconomic research focusing on the socioeconomic composition of migrants and their complementarity or substitutability with the host countries' labor force. This inconsistency also reflected the relative neglect of commissioned research on the sociocultural integration of migrants in the respective host societies. This led to an underestimation of political responses to large-scale migration flows in short periods of time (such as in the United Kingdom in the years following 2004, culminating in the prominence the issue of East-West migration received in relation to the Brexit referendum).

Another issue that has been underemphasized until recently is the potentially detrimental impact of outward migration from the CESEE countries on the demographic situation and labor shortages in the countries of origin. Only recently has this topic been taken up (see Leitner and Stehrer, 2019). It is now quite clear that emigration plays an important role in the new "labor constraint" regime experienced in quite a few of the CESEE countries where unemployment rates are among the lowest in the EU. This labor shortage is particularly acute in the more highly skilled segments. The wiiw's view is that the demographic implications of (past and current) migration flows now represent one of the most important longer-term constraints for persistent catching-up and high growth in CESEE (see e.g. Leitner and Stehrer, 2019). They also have important political economy impacts, such as the "elderly bias" in public spending (see e.g. Vanhuysse, 2009 and 2012).

2.2 Macroeconomic vulnerabilities: current accounts, exchange rate regimes, speed of growth of financial intermediation

One of the important macroeconomic features of most CESEE countries, as would be the case for many catching-up economies more generally, was that they were characterized by large and relatively sustained current account deficits over much of the transition period. The fact that current account deficits emerge is – in many ways – natural in that catching-up economies are (and should usually be) net capital importers (a circumstance that is reflected by current account deficits). Such net capital imports facilitate the catching-up process by exploiting possibilities of productivity catching-up, filling gaps in the spectrum of economic activity (e.g. in financial intermediation) and establishing cross-border production linkages.

However, given the very high degree of capital market integration in Europe, persistent current account deficits can also be a source of vulnerability – both in the short run, in that capital flows might be strongly sensitive to shocks, and in the longer run, when countries build up foreign debt positions and these might turn out to be unsustainable. The recognition of current account positions being unsustainable might, in turn, be a function of changes in external scenarios (such as a change in general risk perception or a general shift in global interest rates) as we witnessed in many CESEE countries following the financial crisis in 2008.

The experience of the CESEE countries in this respect has added to the knowledge about current and capital accounts' vulnerability in emerging market economies (as have previous crisis experiences, such as the Asian, Russian, Turkish and Latin American crises). Two issues of the CESEE countries' recent experience are particularly interesting in this respect. The first is the speed by which the increase in financial intermediation took place in many of the CESEE countries over the recent decades and the role that foreign banks have played in this process. The second issue relates to the importance of exchange rate regimes and policies. These have played rather crucial roles in the different experiences of the CESEE countries.

The degree of foreign banks' involvement in the region was a specific feature of the CESEE countries' experience as it reflected their geographic location and their institutional and behavioral anchoring in the overall European economy. The links of CESEE countries to international capital and, particularly, credit markets came largely under the control of Western European banks, and these banks (given the legal and economic security that anchorage in EU accession or candidacy processes seemingly provided) have been more than willing to be the main agents pushing toward a rapid expansion of financial intermediation. This process was further enhanced by the anchorage of a relatively large number of CESEE economies in various forms of pegged or fixed exchange rate regimes and an expected path toward membership in Economic and Monetary Union (EMU) that – in the eyes of both international lenders and the borrowing economies – led to the perception that the danger of devaluation was rather small. The strong growth of private sector borrowing (often in foreign currency) resulted from this situation, generating also different responses in countries with flexible exchange rate regimes and countries with fixed exchange rates following the outbreak of the international financial crisis. This experience in the CESEE countries has contributed to our understanding of the benefits and costs of different exchange rate regimes and of the need for cross-border financial market regulation in the context of integrated capital markets in Europe.

2.3 The importance of EU enlargement, the problem of "in-betweens", and Europe's neighborhood

The impact of EU enlargement cannot be judged without also examining the developments in European countries that are laggards in the European integration process. These comprise the countries that seem to spend a long period in the waiting room of EU accession (such as the countries of the Western Balkans and, even more strikingly, Turkey), the countries with little prospect of EU membership in the foreseeable future (such as Belarus, Georgia, Moldova and Ukraine) and those that do not aspire to such membership (Russia).

It is true that many of these countries have also seen considerable increases in average GDP per capita since the mid-1990s. However, they have, for the most part, also been subject to bigger bouts of macroeconomic instability (often very large current account deficits and volatility in capital in- and outflows) than the countries that successfully became full members of the EU. They have also experienced much higher emigration rates than the "ins" and have been much less integrated in the cross-regional production networks that had proven so important for the reindustrialization processes in CESEE. Furthermore, they have also become much more open to the geopolitical strategies pursued by regional and global powers from outside the EU (China, Russia, Turkey, United States). Apart from anything else, this has led to a factionalization (into interest groups) among the elites of these countries as regards the future direction of these countries which, in turn, made a consistent development strategy more difficult. It is clear that further rounds of EU enlargement and also the EU's relationship to countries that are unlikely to become full EU members in the foreseeable future have to be carefully considered in the light of these developments.

Regarding the wider geopolitical and geoeconomic dimension that Europe is facing, one might also say that after 1989, the European integration process for a long time proceeded along rather naïve and technocratic lines. It failed to take account of the fact that outside the EU, "big power" politics (or, at times, "medium power" politics) have shaped the bulk of international relations (and will increasingly do so in a multipolar world). This has become very obvious over the past decade in the growing (and, at times, escalating) conflictual relationship with Russia regarding the destiny of Ukraine and of other buffer states such as Georgia and Moldova. Furthermore, China's strong interest in the Balkan countries (and even in EU Member States such as Bulgaria and Hungary) as part of its One Belt, One Road (OBOR) policy clearly shows that the EU is not the only relevant big player in CESEE. This comes on top of the important role that the U.S.A. has always played in political and security terms.

The refugee crisis is another instance of power-political interventions in Europe's neighborhood (the Middle East and Northern Africa) which has had significant spillover effects on Europe. It has become evident (especially after the failure of the Arab Spring) that the EU has failed miserably as a development engine for most of its neighbors that have no accession perspective. It is still a little-understood issue why being in the neighborhood of a very large, rich entity such as the EU has had so little development spillover effects. Instances of failed states and failed economies now characterize much of the EU's immediate non-European neighborhood. It is clear that the EU will have to make a major effort to rethink and reshape its neighborhood and development policies and that it also will have to become a more serious player in international relations. Whether the internal political dynamics within the EU will allow this to be the case is another issue.

2.4 Reform reversals, political regression and European integration

The EU's eastward enlargement brought about a rapid economic convergence between Eastern and Western European countries, but recently, there have been increasing signs of social and political divergence within Europe. The single market and free movement of capital and labor have produced many of the expected positive economic effects. Nevertheless, reform reversals emerged, leading to more systematic reversals in some countries, most notably in Hungary and Poland. We observe a reversal of anti-corruption trends, and there are further signs of institutional and political regression as well. This has happened despite countries' strong (legal and institutional) anchoring in the EU and the significant economic impact of financial support to new EU Member States, especially through the Cohesion Fund. The difficulty of behaviorally adjusting to fast-moving structural change (see also Székely and Ward-Warmedinger, 2018) has contributed significantly to these relatively new trends. This is particularly observable in those parts of society (differentiated by age, skills and regional location) that have been negatively affected by strong regional agglomeration effects of economic activity, rising inequalities and the changes in educational requirements that rapid economic integration and convergence entailed.

The phenomenon of unevenly distributed gains and losses from rapid structural change can also be observed in many of the advanced economies in Western Europe and in the United States. However, in many of the CESEE countries, the long phase of authoritarian rule during the communist period and, often, the lack of a prolonged period of democratic experience before that provide a rather shaky basis for stable democratic institutions. Hence, the development of "illiberal democracies" within the EU and the socioeconomic basis of populist forces are worrying and still insufficiently understood phenomena in Europe as a whole and in the CESEE countries in particular. It will require a lot of attention by social scientists and political actors alike as the legacy of the financial crisis has still not been fully overcome, development levels in an integrated Europe remain quite diverse and EU-level institutions remain relatively weak (for interesting recent contributions on some of these issues, see Krastev, 2017, and Eichengreen, 2019).

3 Conclusion and looming challenges

The above is just a selection of a range of topics which have been at the forefront of the discussion of the most remarkable historical experiment of the past 30 years, that of transition in Central, Eastern and Southeastern Europe (CESEE) and of East-West integration in Europe. For a number of CESEE countries, the processes of East-West integration have culminated in EU membership. But the role of the EU and of European integration extends beyond the CESEE countries that have joined the EU. This article covers some of the topics that have occupied researchers and policymakers alike over this 30-year period. They range from the immediate issue of transition, i.e. the transformation of formerly planned economies into market economies, to the growth dynamics of catching-up economies, the evolution of trade and cross-border production integration, uneven regional growth and labor market developments as well as vulnerabilities in the macroeconomic setup of very open, externally highly liberalized economies. The associated nature of deep structural changes and instabilities experienced by the populations in CESEE are still shaping the complicated political landscape currently unfolding in Europe. They are likely do so in the future as well. Thus, an understanding of the nature of structural change, its unequal impact on different segments of the population and of policies that help to cope with the strains brought about by these processes will provide ample scope for the present and the next generation of economists and other social scientists to apply and further develop the tools of our analysis. Their efforts should also provide an important contribution to successfully managing both the speed and nature of future European integration.

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