

# The new imperialism in Central and Eastern Europe\*

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## Abstract

This study examines the Eastern enlargement of the European Union within the frame of imperialism. The existing literature on the Eastern enlargement has typically framed the transition of Central and Eastern European countries (CEECs) as “return to Europe” meaning their return to democracy, civil society and market economy. This perspective emphasizes that the enlargement has provided an integration of western and eastern parts of Europe. However, this study argues the Eastern enlargement has crystallized uneven development tendencies in EU rather than the integration. The European project expanded to Central and Eastern Europe (CEE) after the collapse of the Soviet bloc to restructure the region in line with the requirements of global capitalism. Thus, the new imperialism in Central and Eastern Europe has a unique characteristic by inclusion of these countries into the EU block. The result for these countries has been dependency on the regional market namely the European Single Market. The study mainly focuses on the analysis of this unique characteristic of the new imperialism in the CEE through an empirical analysis on the transformation of the CEECs’ economies during the integration process. It also provides a theoretical framework for the concepts of imperialism and new imperialism.

*Key words:* Eastern enlargement, European integration, imperialism, global capitalism.

## 1. Introduction

This study analyzes the imperialistic elements in the Eastern enlargement of the European Union in three steps. First, it discusses the objectives behind the enlargement. Second, it provides a theoretical framework for the concepts of

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imperialism and new imperialism. And finally, it focuses on the distinctive characteristics of the new imperialism in the CEE<sup>2</sup> through an empirical analysis on the transformation of the CEECs' economies during the integration process.

The Eastern enlargement was a controversial issue for the EU. The debate was regarding the doubts on whether to include lower-income countries of Central and Eastern Europe into the block. In fact, the EU had already developed some economic relations with the region before the dissolution of the Soviet Bloc. Similar to the US-aided restructuring of Western Europe and as a strategic reaction to similar US attempts such as the Marshal Plan, Joseph Stalin initiated the formation of the Council for Mutual Economic Assistance (COMECON or CMEA) in 1949 involving the USSR, Bulgaria, Czechoslovakia, Hungary, Poland and Romania to promote economic development and integration of the Eastern Europe (Ingham & Ingham, 2002: 4-5). While officially the CMEA 'did not recognize the 'capitalist' Community until 1972', some conferences and agreements took place between the two parts of Europe since the 1970s to develop trade relations and other economic cooperation (Ingham & Ingham, 2002: 6-8).

When enlargement came to the fore, some problematic issues became visible. The enormous population of CEECs in total, the asymmetry of income per capita between EU members and the CEECs, the problem of integrating the CEECs with the monetary union, and the possible problems regarding the Common Agricultural Policy with the accession of some CEECs that have significant agricultural labor were worrying issues. It was regarded that all these problems would create new contradictions for the European integration if the EU includes these countries in the block.

Unlike the doubts regarding the Eastern enlargement, Helmut Kohl (German ex-chancellor) was in favor of the enlargement (BBC, 1997). The support of Germany for the enlargement was based on 'the geographical proximity' and 'centuries-old economic links' between Germany and Central and Eastern Europe that can promote Germany's 'economic, security and political self-interests' (Zaborowski, 2006: 104-5). It would also provide military security of the eastern borders. A critical point implied by the German elites revealed the importance of the enlargement for them: 'no other state is equally as exposed to the risks and the

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<sup>2</sup> Central and Eastern Europe (CEE) implies an extensive zone includes the Visegrád countries in Central Europe, the Balkans, the Baltic States, and Eastern Europe. It makes a reference to former communist states. The term CEECs (or CEE countries) is a definition of OECD that refers to a group of countries consisting of Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania. All the CEE countries are currently members of the EU except Albania. In this study, when using the term CEECs (or CEE countries), I refer to the ten Central and Eastern European countries that became the EU members in 2004 and 2007 enlargements – known as the Eastern enlargement of the EU. Similarly, I use the term CEE to describe the region consisting of these countries.

costs of this policy' (cited in Zaborowski, 2006: 105). German elites could take this risk since Germany's relationship with the CEECs depended on the competitive advantage of its economy which made Germany as the leading trade partner of the CEECs (Trouille, 2002: 57-8). It must be emphasized that German companies had significant economic relations with the CEECs during the cold war period as well. The Federal Republic of Germany (FRG) was 'the second trading partner for Poland, Czechoslovakia and Hungary' right after the Soviet Union (Zaborowski, 2006: 107-9). For the very reason, the enlargement would bring more economic advantages to Germany more than any other members of the EU.

Everything aside, what were the main objectives behind the Eastern enlargement? The widely accepted answer to this question is providing the CEECs with an opportunity to 'complete their return to Europe' by establishing peace, democracy and a free market 'on the ashes of Communism' (Zielonka, 2006: 24). Liberal approaches interpret the Eastern enlargement as a success based upon establishing market economy and liberal democracy in the CEECs (Rupnik, 2000; Zielonka, 2006; Ross, 2011). Similarly, the Eastern enlargement is regarded as an achievement of the EU in terms of promoting 'market democracies' in the CEECs and providing unification of 'Europe's west and east' (Ross, 2011: 50).

However, the notion of creating a liberal democratic state was the major ideological means of an imperialist project towards the CEECs. Those countries were offered a duality like totalitarianism or civil society. The intellectual side of this project was prepared mostly by academics and media. The imperialist project was served as *transition to democracy*. For instance, Soros scholarship to promote the idea of civil society in the CEECs, Ralph Dahrendorf's writing on "transformation in Eastern Europe" to call to Karl Popper's "Open Society", and Habermas' efforts to propose a "communicative public space", which mean "a social engineering project" for the CEECs to transform from communist regime to capitalist market system were some parts of the intellectual background of this project (Gowan, 2002: 250-251).

Besides, the imperialist project towards the CEECs was carried out by the NATO enlargements as well. The US was quite willing to develop political and military relations with the CEECs after the end of the Cold War. The fact that the EU countries could not create a unified military force was an advantage for the US. The power of NATO (or the US) on Europe has strengthened by the expansion of it towards the Eastern Europe. The Eastern enlargement of NATO started with granting membership to Poland, Hungary, and the Czech Republic in 1999 and continued collaterally with the EU enlargement.<sup>3</sup>

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<sup>3</sup> Poland, Hungary, and Czechoslovakia created the Visegrád Group in 1991 in order to form a close cooperation for security, economic development, etc. The Visegrád Group was regarded as accelerator

In fact, the main objective behind the Eastern enlargement was a strategy that aimed to restructure these countries (which had experienced socialist economic, political, and social relations for decades) in accordance with neoliberal market rules and liberal social and political norms. In other words, the aim was re-establishing capitalist system in Central and Eastern Europe. The notion of return to Europe meant return to capitalism. The objective to achieve the integration of western and eastern parts of Europe was basically to provide capitalist integration of these parts. Consequently, a capitalist socio-economic order was established in the CEE as a result of the enlargement process. However, the enlargement has revealed the uneven structure of the EU and the hierarchy among the members. The CEECs have become the new periphery of the European capitalism.

In a word, the Eastern enlargement is a unique case for imperialism. Imperialism in the CEE has been actualized in a unique way by including the CEECs within the EU block and by making them dependent on the regional market. Then, what kind of dependency characterizes the new imperialism in the CEE? Before focusing on this question, it is crucial to discuss the concepts of imperialism and new imperialism.

## 2. Imperialism and new imperialism

The history of imperialism could be traced back to Roman Empire. However, the crucial points in analyzing imperialism would be to differentiate between the imperialism of pre-capitalist period and of capitalist period. The expansion of Roman Empire had also an imperialist characteristic. The Empire appropriated the land and the surplus by direct military force. This type of imperialism was seen in the conquest of the Americas by Spain and Portugal in the 15<sup>th</sup> and 16<sup>th</sup> centuries, as well. The primary motivation of this old ‘imperialism’ was appropriation of the surplus by extra-economic coercion and extortion by the conquest of the territories, but it ‘left the economic basis of conquered or dominated territories intact’. On the other hand, imperialism in the capitalist period has been based on the ‘inner necessity (of capitalism) to produce and sell goods on an ever enlarged scale’ that, in turn, has reshaped the ‘economies and societies of the conquered or dominated areas’ in line with the needs of the ‘capital accumulation at the center’ (Magdoff, 1978: 2-3). The colonization of America and Ireland in the 17<sup>th</sup> century by Britain was mainly based on this inner necessity of the capitalist mode of production

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for integration in the EU. Thus, NATO’s priority to include Poland, Hungary, and the Czech Republic (within the CEECs) into the Atlantic Alliance was not surprising. Then, NATO enlargement towards Eastern Europe held by including Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia in 2004; Albania and Croatia in 2009; Montenegro in 2017; and lastly North Macedonia in 2020.

(Wood, 2003: 89-90). In other words, it differed from the previous type of colonialism that took place for appropriating the land and the surplus, taking the luxury goods and slaves for trade and accumulating wealth.

More precisely, the emergence of capitalism changed the characteristic of imperialism. The old colonial powers, before capitalism, appropriated territories by extra-economic means and directly control these territories, but ‘capitalist imperialism’<sup>4</sup> (Wood, 2003) does not directly require the extra-economic means to have the territories under control, rather can ensure it by manipulating the market forces with economic means.

Imperialism had operated through colonization of the non-capitalist world since the seventeenth century. The imperialist rivalry among big capitalist powers for sharing the world increased after the second half of the nineteenth century. The studies of Hobson, Hilferding, Kautsky, Bukharin, Luxembourg and Lenin on imperialism were based on the analysis of this period. The common point of these studies was the emphasis on the rise of capital export leading to the internationalization of capital and on the formation of monopolies with an enormous power to drive international market. However, Lenin’s analysis has a distinctive feature inasmuch as asserting that imperialism is not a policy of capitalism or not a product of an ambitious capitalist group, but it is first and foremost a stage in the development of capitalism (Lenin, 1937). After capitalism emerged in England, it compelled the other states of Europe by ‘the capitalist imperatives of competition, capital accumulation and increasing labour productivity’; and English capitalism became an ‘external challenge’ for Germany and France (Wood, 2003: 119-20). Moreover, capitalism spread to non-capitalist world by colonizing these regions for the needs of capitalist production. This means that capitalism became imperialism in its development process. The importance to underline Lenin’s point is that imperialism is nothing short of advanced capitalism.

This period was also discussed in the history of imperialism as *new imperialism*, which ‘was distinguished particularly by the emergence of additional nations seeking slices of the colonial pie: Germany, the United States, Belgium, Italy, and, for the first time, a non-European power, Japan’ (Magdoff, 1978: 35). However, the term new imperialism became the main topic in imperialism debates since the US hegemony determined the new characteristic of imperialism that is

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<sup>4</sup> Ellen M. Wood uses the term *capitalist imperialism* for distinguishing imperialism from colonialism. In other words, the term refers to the difference between the imperial activities of pre-capitalist period and capitalist period. The former type was characterized by the appropriation of the land and the surplus of the conquered territories by direct military force. However, the latter has primarily been characterized by the expansion of the capitalist power in order to spread to new territories for providing the needs of its capitalist production and capital accumulation. Here, the emphasis is on the capitalist characteristic of imperialism.

also correspond to decolonization period. In other words, it was a new period for imperialism – ‘*imperialism without colonies*’- that the US re-established the imperialist system ‘through expansion of exports and enlargement of capital investment and international banking both in the home bases of advanced capitalist nations and in the Third World’ thanks to its advantageous economic and military position during the post-war period (Magdoff, 1978: 144-5).

Whereas Harry Magdoff used the term new imperialism for the war periods and for the rise of the US hegemony, today the term is mostly used for describing the imperialism of global period. According to David Harvey, an important characteristic of the new imperialism is ‘accumulation by dispossession’ through ‘the forcing open of markets throughout the world by institutional pressures exercised through the IMF and the WTO, backed by the power of the United States (and to a lesser extent Europe)’ (2003: 181). Accumulation by dispossession has been performed associated with neoliberalism and privatization (Harvey, 2003: 181-2). The new imperialism, thus, has operated compatible with the new mechanisms of global capitalism. In fact, the new imperialism is something relevant to internationalization of capital in global period. The new imperialism of global period is not ‘the relation between a capitalist and a non-capitalist world’ (Wood, 1999: 3) just like in classical period of capitalist imperialism. Furthermore:

‘It is not just a matter of controlling particular territories. It is a matter of controlling a whole world economy and global markets, everywhere and all the time. This happens not only through the direct exploitation of cheap labor by transnationals based in advanced capitalist countries but also more indirectly through things like debt and currency manipulation. Inter-imperialist rivalries have changed too. They are still there, but in less direct, unambiguous military forms, in the contradictory processes of capitalist competition.’ (Wood, 1999: 3)

In fact, imperialism has never refrained from using military interventions for controlling particular regions when needed. However, the important feature of the global period is that imperialist states have structured the territories by penetrating them with the pressure of international institutions such as IMF, World Bank and WTO among others. The IMF adjustment packages, the World Bank reforms, or new trade agreements were not imposed against the will of dominant coalitions in the less developed countries. These international institutions could make an impact on policies only if dominant domestic actors had a vested interest in those transformations.

Global capitalism maintains itself, on the one hand, by concentration of production and investment in regional blocks (Weiss, 1997; Petrella, 1998); and on the other hand, by liberalizing and privatizing national markets via the dominance of these institutions. The new imperialism in global period is a consensus among

imperialist powers on penetration of the new set of rules of global capitalism to the rest of the world. The new set of rules clearly refers to the rules of neoliberal economic project: liberalization of economy, privatization of public sectors, decreasing wages and government expenditures, dependency on trade rules of the WTO, and financial dependency on the IMF and the World Bank. And, it is crucial that this process has been exactly introduced as *integration*. This magic word dissembles the new imperialism in the CEE as well.

### 3. Dependency on the European Single Market

The Eastern enlargement of the EU was a unique case among the previous ones. The uniqueness of the Eastern enlargement comes from that it took place in a strict conditionality. Unlike previous enlargements of the EU, the applicant countries have been obliged to meet several criteria for membership since the Copenhagen European Council in 1993. No doubt, the previous enlargements took place in accordance with some admission requirements. However, the admission of the CEECs were handled under the strict criteria that had never been applied to any applicant before.

In fact, the Copenhagen criteria have referred to a new framework for the EU enlargement policy. The applicant countries have to meet the three major criteria according to the Copenhagen European Council:

- ‘stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities’ (*political criterion*)
- ‘the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union’ (*economic criterion*)
- ‘ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union’ (*acquis criterion*) (European Council, 1993, p.13)

The criteria have pointed to a transformative enlargement policy for the EU. That is why the criteria became one of the primary dynamics of the transformation of the CEECs. The EU strategy regarding restructuring the CEECs had maintained within an enlargement perspective after the Copenhagen Council. Hereby, the transformation process of the CEECs became the accession process to the EU for them as well. The EU took part in this process by funding them to impose conditions for economic and social transformation and to direct them for membership (Grabbe, 1999, p. 5). The Copenhagen process showed the way to the CEECs for membership. However, the EU member states were not neutral like a jury that would judge whether these candidates meet the membership criteria. Rather, the EU member states took an active role in transformation of the CEECs.

The EU strategy towards the CEE had already been performed before the Copenhagen Council. Trade and cooperation agreements removed the old barriers between the Community and the CEECs. The EU started to manage its strategy by the Europe agreements to liberalize the CEECs' trade and by creating the PHARE (Poland and Hungary: Assistance for Restructuring their Economies)<sup>5</sup> and founding the EBRD (European Bank for Reconstruction and Development)<sup>6</sup> to promote the CEECs by funding them for neoliberal transformation. The PHARE program included funding the CEECs for institution building and (especially) for investment.<sup>7</sup> The PHARE was one of the instruments of the EU's pre-accession strategy<sup>8</sup> to develop institutional structure and to support infrastructure investment in the CEECs, and thus to provide them with the opportunity to prepare their markets for the accession to the EU. The PHARE was managed by the cooperation of the Commission, the European Investment Bank (EIB), the EBRD, and the World Bank. It was like a 'Marshall Plan' (Gowan, 2002: 193; Puente, 2014: 69) towards the CEECs. In brief, the EU along with global economic institutions directly managed the process of establishing market economies in the CEE.

The unique characteristic of the new imperialism within the EU block is the formation of a regional market, which is the European Single Market. It is the domination of the strong economies (primarily Germany) of the EU that operates the Single Market. Thus, the weaker ones become dependent on the Single Market. This type of dependency is clearly performed in the case of the CEECs. Germany has been the main actor that subjects the CEECs to the Single Market. Remember the efforts of Germany in favor of the Eastern enlargement. Before the enlargement process, Germany was the second trade partner of the Central European countries just after the Soviet Union. By virtue of the enlargement to the region, Germany has taken the leading position in the CEE. Today, Germany is the main trading partner of the most of the CEECs. It is on the first rank among the trading partners

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<sup>5</sup> When the PHARE was created in 1989, it was organized as a funding program towards Poland and Hungary. However, it was expanded to the other CEE countries during the enlargement process of the EU towards the region.

<sup>6</sup> EBRD was one of the most crucial institutions during this process since it was founded in 1991 in order to support the former communist countries to establish market economies.

<sup>7</sup> The 30% of the budget of the PHARE was used for institution building and the 70% of it for investment.

<sup>8</sup> Pre-accession strategy is a term used for a certain stage of the EU enlargement process since the enlargement process towards the CEE. In 1995, the European Commission published a White Paper towards the CEECs as a guideline for the accession of them. It clarified the pre-accession strategy according to which the first condition for membership would be to adjust to the Single Market rules that basically means the liberalization of economy. Pre-accession strategy towards the CEECs was mainly practiced with the instruments like Europe Agreements, the EBRD, the PHARE, the ISPA (Instrument for Structural Policies for Pre-Accession) and the SAPARD (Special Accession Programme for Agriculture and Rural Development) programmes.

of the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, and Romania in both export and import. For the Baltic States, Germany is the second import partner and on the top places among the export partners. Moreover, German capital is one of the main investors in the region. In brief, the economic dependency of the CEECs to the European Single Market substantially means dependency on German economy.

The new imperialism in the CEE has been operated through trade flows and capital flows that make these economies dependent on the regional market. Since the German market has become the major supplier, buyer and investor in most of the CEECs, we will analyze the economic relations of ten CEECs with Germany on behalf of the EU. The empirical analysis aims to provide some insights regarding the dependency of the CEECs on the European Single Market since the beginning of the enlargement process. In other words, the analysis focuses on the process from the beginning of the 1990s to the present. First, bilateral trade between the CEECs and Germany will be examined. Then, the FDI flows to the region and its link with trade will be discussed. And finally, a general outlook on the balance of payments statistics of these countries from the 1990s to the present would provide an explanation regarding the dependency of the CEECs on the European Single Market.

Before analyzing the data regarding bilateral trade between the CEECs and Germany, it is necessary to ask that: How do trade relations create dependency in global capitalism? Neoliberal view supposes that competition is the basis of gaining advantage in trade relations, which is primarily based on classical liberal theories especially *the theory of comparative advantage* of David Ricardo. According to Ricardian theory, the best option for the trading partners is specializing in production of the good that they are comparatively advantageous in bilateral trade. This theory is basically depended on the assumption that the trading partners meet in equal positions in international trade arena. The revisions of Ricardo's theory also depend on this assumption (King, 2013: 468) and ignore the inequalities among trading partners. The common characteristic of all these liberal theories is the emphasis on *competition* 'as the economic rationale for neoliberalism'; however:

'It is not the absence of competition that produces development alongside underdevelopment, wealth alongside poverty, employment alongside unemployment. It is competition itself... Free trade between nations operates in much the same manner as competition within a nation: it favours the (competitively) strong over the weak.' (Shaikh, 2005: 43)

As Anwar Shaikh emphasizes, competitive free trade provides advantage to the strong over the weak. This point is the basis of Marxist critiques on competitive free trade argument. The Marxist critiques have pinpointed the *uneven and combined development* of capitalism and *unequal exchange* in bilateral trade. The

discussions on unequal exchange primarily refer to Arghiri Emmanuel's argument that 'low wage countries export commodities that embody much greater quantities of labour than the imports that they obtain from high-wage countries' (King, 2013: 466). These points explain unequal exchange in bilateral trade as 'the transfer of surplus value from the periphery to countries in the core on the basis of different productivity rates' (Bieler & Morton, 2014: 40). In other words, it is a means of exploitation in capitalist hierarchy.

It is crucial to remark that unequal exchange is a result of uneven and combined development of capitalism. Leon Trotsky (2010) used the term at the beginning of the twentieth century to discuss the possibilities of socialist revolution in backward countries like Russia in terms of capitalist development. While contemporary capitalism has spread all over the world, countries experienced different levels of capitalist development, hence, gaps, pockets or clusters of development. In other words, capitalist relations of production could only be reproduced in the forms of uneven development across regions and countries. This is a clear characteristic of imperialism.

Since the core capitalist countries were highly industrialized, they specialized in technology-intensive production. On the other side, peripheral countries concentrated on labor-intensive production. However, international division of labor in production is not so simple in period of global capitalism. The shift in the place of production, production fragmentation, offshoring, subcontracting, and the close link between FDI and trade in global capitalism complicate the picture. Nonetheless, core capitalist (or imperialist) countries take the advantageous position in global economy by creating high added value in production, by moving the important scale of manufacture to low-wage countries, by having an impact on determining the terms of trade, and by debiting the less-developed countries. That is why unequal exchange becomes inevitable in such conditions of uneven development. Combined development, on the other hand, refers to the dependency as the main characteristic of the relationship between the forms of uneven development since capitalism is the hegemonic system in the world.

In this context, the case of the CEECs reflects the uneven and combined development within the EU. While the CEECs have experienced an economic development since the 1990s, it is a 'dependent development' for the CEECs as Carchedi (1999; 2001) puts it. The CEECs trade volume has increased to the degree that they are integrated into the regional block. As a clear characteristic of global capitalism, world trade has mostly concentrated within the regional blocks, on the one hand; and among the regional blocks (global trade), on the other. However, principally the core capitalist countries that have high productive capacity can trade

among the regional blocks.<sup>9</sup> These countries have an impact on determining the terms of trade in both global scale and regional scale through the international corporations like the WTO. As a result, the less-developed countries mostly trade within the regional blocks. In other words, those countries become dependent on the regional markets. Accordingly, the CEECs' trade on a large scale takes place within the European Single Market.

Table 1 shows that the CEECs trade within the Single Market for the most part. As it is seen, all the ten CEECs mostly trade within the EU since the EU as an export destination and as an import origin gets a share more than 60% for all the CEECs. These rates are similar for the other EU members as well. For almost all EU members, the share of intra-EU trade in their total trade is about more than 50%. This is a general trend in global capitalism. However, it is remarkable that the share of the EU in exports of some of the CEECs like the Slovak Republic (85.1%), the Czech Republic (83.7%), Hungary (79.4%), Poland (78.9%) indicates that they primarily produce for the EU market.

**Table 1**

Share of EU (28) and Germany in the CEECs' trade, 2016, %

	Exports		Imports	
	EU (28) *	Germany**	EU (28) *	Germany**
<b>Bulgaria</b>	66.8	13.7	66.1	13.1
<b>Czech Republic</b>	83.7	32.4	67.3	30.6
<b>Estonia</b>	69.2	5.9	66.7	11
<b>Hungary</b>	79.4	28.2	78	26.3
<b>Latvia</b>	73.8	6.8	79.8	12.3
<b>Lithuania</b>	60.7	7.7	70.5	12.1
<b>Poland</b>	78.9	27.3	59.6	28.3
<b>Romania</b>	75	21.5	77.1	20.5
<b>Slovak Republic</b>	85.1	21.9	58.3	20.2
<b>Slovenia</b>	76.6	19.3	70.8	16.8

Source\*: World Trade Organization Statistics Database, Country Profile, 2016.

Source\*\*: The World Fact-book Publications, Central Intelligence Agency, 2016.

<sup>9</sup> Here, an exception is China in terms of global trade. While China is not a core capitalist (imperialist) country, it is one of the biggest actors of global trade under favor of its high productive capacity and its enormous trade volume.

Most importantly, the share of Germany in exports and imports of the CEECs is pretty high. Germany is the buyer of 32.4% of the supply of the Czech Republic. Germany's rate is over the quarter of the exports of Hungary (28.2%) and Poland (27.3%); and about one fifth of the exports of the Slovak Republic (21.9%), Romania (21.5%), and Slovenia (19.3%). The share of Germany in Bulgaria's export is lesser, but still significant (13.7%). It is crucial that Germany is the main export partner of the CEECs, except the Baltic States. For the Baltic States, the rate is relatively less, but Germany is still one of the top export partners of these countries as well. When it comes to import rates, the share of Germany is much the same for Central European countries (CECs)<sup>10</sup> and for Romania and Bulgaria. Therefore, Germany is the main supplier of these countries. The significant point is that the share of Germany in the imports of the Baltic States is almost the double of its share in the exports. In fact, Germany is the second import partner of the Baltic States.

The share of Germany in the CEECs' trade corresponds to the highest rate of the CEECs' intra-EU trade. Furthermore, the share of Germany that exceed 20% in the exports and the imports of the CEECs is quite a high rate in foreign trade. In that case, the question of who the advantageous country in bilateral trade needs to be asked. Here, it can be useful to examine the commodity composition of bilateral trade between Germany and each of these countries for evaluating whether this relation indicates a dependency. Yet, there is a striking point in the commodity composition of trade between the CEECs and Germany that the weight of intermediate goods in the shares of both exports and imports of the CEECs with Germany is pretty high.<sup>11</sup> In brief, the commodity composition of bilateral trade between the CEECs and Germany does not provide insights regarding the advantageous positions in bilateral trade. Therefore, the high rate of intermediate goods in such a trade relation needs to be further elaborated.

In the period of global capitalism, the international division of labor in production has shifted significantly. One of the main characteristics of this change is the production fragmentation, hence the term *production/supply chain*. It means 'the final product supplied to the customer is composed of the value added of goods and services from a number of countries'. An apparent result of production fragmentation is that 'countries specialise in particular stages of production rather than in the manufacture of specific goods' (Ambroziak, 2018: 2).

The new international division of labor leads countries to concentrate on the production of intermediate goods. Since production of intermediate goods becomes important parts of countries' manufactures, trade in intermediate goods also gains

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<sup>10</sup> It refers to the Czech Republic, Hungary, Poland, the Slovak Republic, and Slovenia.

<sup>11</sup> See Bilateral Trade Database by Industry and End-use category, OECD. Stat, June 2017.

significance. Furthermore, this trend is not valid only for the peripheral countries but also it is a dominant feature of the world trade.

Then, if the trade in intermediate goods is dominant both in the exports and imports of the CEECs with Germany, what makes German companies advantageous in bilateral trade with the CEECs? It will be a guiding light to examine *trade in value added* statistics of the CEECs with Germany to find meaningful answers to this question. In particular stages of production process, countries add value to the product. Since production is fragmented among different countries, the value added which is created in a particular stage of production flows to many countries. This flow is known as *global value chains (GVCs)*. As the GVCs refer to the flow of added value by trade, trade statistics have been measured in both gross terms and value added terms in order to get more accurate data.<sup>12</sup> This is a result of the increasing importance of intermediate goods in trade. It is remarkable that the share of intermediate products exceeded the half of the world's trade in 2011.<sup>13</sup> It has high rates in intra-EU trade as well just like in bilateral trade between the CEECs and Germany.

The trade in value added indicates 'how much of the value added created in a country is absorbed or consumed in another country' (Ambroziak, 2018: 4). The term implies the value added contained both in trade of intermediate products and final products. Thus, unlike trade in gross terms, trade in value added makes it possible to clarify the tasks of countries in the fragmented structure of the world production. In bilateral trade, according to value added terms, a country's statistics of *domestic value added embodied in foreign final demand* refers to the *exports of value added* of that country. It means that how much additional value was created in that country that would be then exported to producers or consumers of a foreign country in the form of intermediate or final products/services. On the other side, *foreign value added embodied in domestic final demand* expresses the purchased amount of value added originated from a foreign country in the form of final products or services, which is the *imports of value added*. Similarly, trade balance can be measured in both gross terms and value added terms in bilateral trade. While aggregate trade balances do not differentiate with regards to gross terms and value added terms, it can show substantial change in bilateral trade (Ambroziak, 2018: 20). The important point is that trade in value added terms allows to determine the advantageous country in bilateral trade in terms of benefit from income and employment (Ambroziak, 2018: 4; Timmer, Los, Stehrer & de Vries, 2013: 651-2). In brief, the advantage in trade does not come from specializing in a sector, but in

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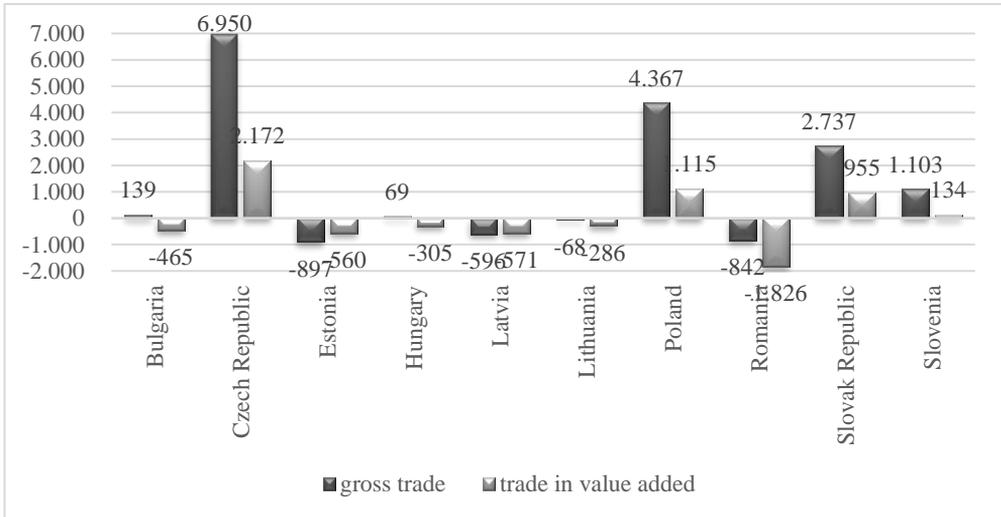
<sup>12</sup> Trade in Value Added (TiVA) initiative has worked under the coordination of OECD for this purpose.

<sup>13</sup> See Eurostat Statistics Explained, Global value chains and trade in value added, [http://ec.europa.eu/eurostat/statistics-explained/index.php/Global\\_value\\_chains\\_and\\_trade\\_in\\_value\\_added](http://ec.europa.eu/eurostat/statistics-explained/index.php/Global_value_chains_and_trade_in_value_added)

a particular stage of production within fragmented structure of global production (Timmer et al., 2013: 652-3).

Since Germany is the leading trade partner of the CEECs, an important rate of value added created in the CEECs is exported to producers or consumers of Germany in the form of intermediate or final goods/services. Similarly, the significant share of foreign value added absorbed or consumed in the CEECs is originated from industries in Germany. Figure 1 reveals the trade balance of the CEECs with Germany in gross and value added terms. As it is seen, bilateral trade balances of the CEECs with Germany is dramatically lower in value added terms than the balances in gross terms, except Estonia and Latvia. The highest difference is in the Czech Republic. While bilateral trade balance of the Czech Republic with Germany is almost 7 billion USD in gross terms, it is 2.1 billion USD in value added terms. The difference is more than 3 billion USD in Poland, about 1.8 billion USD in the Slovak Republic, and about 1 billion USD in Slovenia. These differences clarify that whereas the Czech Republic, Poland, the Slovak Republic, and Slovenia have a surplus in bilateral trade with Germany, they generate less income since under a value added calculation their exports to Germany significantly decline. Bulgaria and Hungary also have a trade surplus with Germany in terms of gross trade; however, both countries have trade deficit considering value added trade. Estonia, Latvia, Lithuania and Romania, on the other side, have trade deficits with Germany in both gross and value added terms. Yet, value added-trade balances of Lithuania and Romania with Germany increase their trade deficits. In this regard, the result for the countries who have bilateral trade deficits with Germany in value added terms (Bulgaria, Hungary, Lithuania, Romania, Estonia, and Latvia) is as follows that Germany's value added exports in these countries' final demand is more than their value added exports in German final demand.

**Figure 1**  
 Bilateral trade balances of the CEECs with Germany in gross and value added terms, 2011, US Dollar, million



Source: The Trade in Value Added (TiVA) Database (OECD, Stat): December 2016

Notes: 'The Trade in Value Added (TiVA) database is a joint OECD-WTO initiative. Its aim is to allow better tracking of global production networks and supply chains than is possible with conventional trade statistics. The data are presented for all years from 1995 to 2011.' (OECD).

Comparing the statistics regarding bilateral trade between the CEECs and Germany in gross and value added terms shows that Germany is the advantageous country. The value added trade balance indicates that the CEECs (primarily the CEECs) take lesser advantage from bilateral trade with Germany when comparing to the gross trade balance. The value added calculation reduces the surpluses of some CEECs and increases the deficits of some of them in bilateral trade with Germany. Value added statistics clarifies that the trade relations with Germany reflects a dependency for the CEECs.

The role of Germany in the CEECs' economy comes not only from trade relations, but also from its direct investments to these countries, especially to the CEECs. German firms are major investors in the region collaterally to the trade relations with the region. The Visegrád four<sup>14</sup> have an important role in German automotive and machinery production as some of German firms in these sectors has moved part of their production to eastwards (Heiduk & McCaleb, 2017, para. 1).

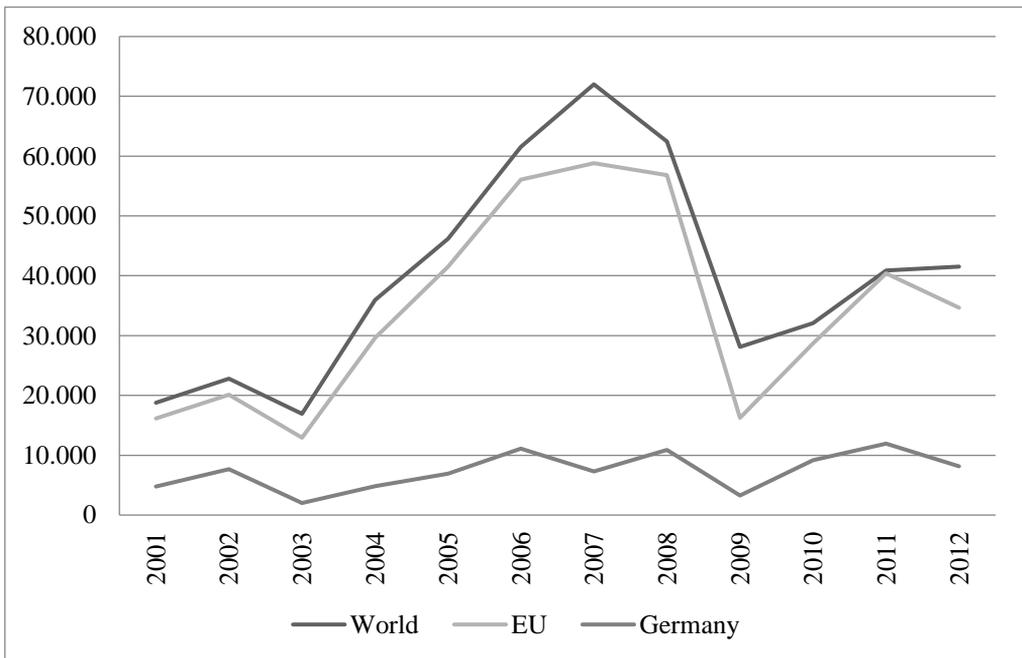
<sup>14</sup> The Czech Republic, Hungary, Poland and Slovakia are known as the Visegrád four.

The factors that primarily attract the German investors to the CEECs are cheap and skilled labor, conditioned infrastructure, and the advantage of geographical proximity (Ambroziak, 2018: 12; Heiduk & McCaleb, 2017, Conclusion section, para. 1). The movement of German automotive industry to the Visegrád four includes investments mostly of the Volkswagen Group to production of automotive parts and components and final products as well. The important thing is that the German subsidiaries in the CEECs produce a substantial part of the exports of the Visegrád four to Germany (Heiduk & McCaleb, 2017, Conclusion section, para. 1).

Since FDI flows are directly related with trade relations, the flows to the region mostly come from the EU, especially from Germany. The CEECs's markets have attracted foreign direct investments especially after getting into the EU market (Figure 2). The FDI inflows to the CEECs sharply increased from 2003 to 2007. In other words, the participation of the (eight) CEECs to the EU in 2004 lured the investors into the region. However, this trend lasted until the global crisis. During the crisis years (2007-2009), the flows to the CEECs dramatically fell. It has then fluctuated after the crisis.

**Figure 2**

Total FDI flows in the CEECs, by geographical origin, 2001-2012, USD, million



Source: UNCTAD FDI/TNC Database, April 2014.

Like in trade relations, the FDIs considerably flow within the regional blocks in global capitalism. The share of the EU in FDI flows in the CEECs was about 83% of total FDI came from the world during these years. The rate was similar for each country as well. It changed from 70.1% in Latvia as the lowest to 92.1% in Poland as the highest (Table 2). This means that the CEECs have been dependent on the EU market in FDI just like in foreign trade.

As mentioned above, German economy is not only the senior supplier and buyer for the CEECs, but also is a major investor in these countries. Between the years 2001-2012, about 20% of total FDI from the world into the CEECs came from Germany. The share of Germany was 30.9% in Hungary, 21% in Poland, 20.9% in the Czech Republic, %18.6 in the Slovak Republic, 16.4% in Romania, and 11.5% in Lithuania (Table 2). It is relatively low in the remaining countries. The most part of FDI flows that came from Germany went to Poland (around 31.4 billion USD). It is crucial that 81.8% of the German direct investments to the region flowed to the Visegrád four. As it is mentioned, automotive and machinery production attracts most of these investments come from Germany. The Visegrád four also attracted 66.5% of total FDI came from the EU between 2001 and 2012. Thus, it can be claimed that the Visegrád four or the Central European countries have become the workshop of the EU, notably of Germany.

**Table 2**  
Total FDI flows in the CEECs, 2001-2012, USD, million

Country	World (USD, million)	EU (USD, million)	Germany (USD, million)	Share of EU (%)	Share of Germany (%)
<b>Bulgaria</b>	49846.5	40470.4	3272.4	81.2	6.6
<b>Czech Republic</b>	77189.2	66906.0	16114.3	86.7	20.9
<b>Estonia</b>	17122.2	14793.7	153.7	86.4	0.9
<b>Hungary</b>	61942.6	45378.4	19124.4	73.3	30.9
<b>Latvia</b>	10328.4	7243.9	377.1	70.1	3.7
<b>Lithuania</b>	12018.3	10458.3	1376.4	87.0	11.5
<b>Poland</b>	149363.6	137612.3	31424.1	92.1	21.0
<b>Romania</b>	63336.8	57646.0	10365.8	91.0	16.4
<b>Slovakia</b>	28928.7	24222.8	5389.7	83.7	18.6
<b>Slovenia</b>	9136.4	7311.8	447.4	80.0	4.9

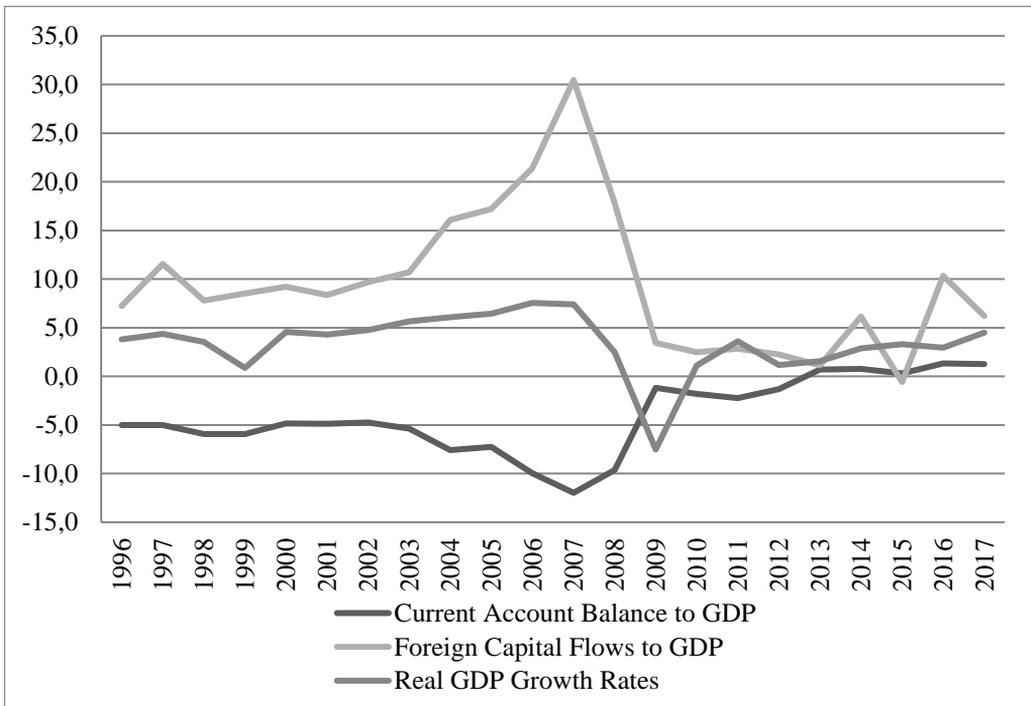
Source: UNCTAD FDI/TNC Database, April 2014.

Notes: The data of Romania are available from 2003 to 2012.

The economic dependency of the CEECs on the European Single Market have arisen from foreign trade dependency, on the one hand; and from financial flows that debiting these countries, on the other. As of the accession of the CEECs to the EU, foreign capital flows<sup>15</sup> to these countries significantly increased (Figure 3). These flows led to an economic growth in the CEECs to a certain extent until 2007. This also brought along the rise of current deficit in these countries especially between 2003 and 2007, which was the period that the foreign capital flows to the CEECs dramatically increased. Concordantly, their net external debts significantly rose during this period.<sup>16</sup> It follows that the dependency of the CEECs on the EU market reached a peak especially between 2003 and 2007.

**Figure 3**

Balance of Payments and Growth Rates, average of ten CEECs<sup>17</sup>, 1996-2017, %



Source: Own calculations based on International Monetary Fund, World Economic Outlook Database, April 2018. The data regarding real GDP growth rates were obtained from: The World Bank, World Development Indicators, June 2018.

<sup>15</sup> Foreign capital flows refer to the capital inflows from non-residents. The data regarding foreign capital flows was generated by using Boratav's (2003) method of calculation.

<sup>16</sup> See "Net external debt – annual data, % of GDP" data in *Eurostat*.

<sup>17</sup> The average of ten CEECs shows the general tendency regarding transformation of these economies from 1996 to 2017.

However, the crisis period (2007-2009) resulted in a sharp drop of foreign capital flows. The dependency of the CEECs on external financing increased the vulnerability of their economies (Galgóczi, 2009: 24). Thus, they had to experience a serious economic recession during the crisis years. The growth of the external debt in crisis period also increased their vulnerability. As a result, some of the CEECs negotiated and signed stand-by agreements with the IMF (Boratav, 2009: 11). The IMF loans and retrenchment were imposed to the CEEC governments as the solution for the consequences of the crisis (Galgóczi, 2009: 28-9). After the crisis, the CEECs' economies have achieved a growth until 2011, but they could not reach the growth rates prior to 2007. The foreign capital flows have fluctuated but have fallen below the levels of the 1990s as well. The current deficit has decreased and some of these countries have had surplus. In brief, the economic growth that the CEECs had experienced after 2003 was mainly depended on foreign capital flows. This dependency was seen obviously in the crisis period. It was a clear indicator of the vulnerability of these economies.

#### 4. Conclusion

One of the significant characteristics of imperialism within the EU block is that it has not performed by military means. Evidently, this is the distinguishing feature of the new imperialism. However, when considered the imperialist experiences of the twentieth century, even present experiences, the imperialist powers resorted to military means if need be. The military interventions of the US and NATO in the Middle East are clear examples. Nevertheless, it would be a false belief to detach these experiences from the European imperialist powers. As a part of NATO, they have been involved in these interventions. The European governments even took charge in the NATO interventions in Yugoslavia in the 1990s to reshape the Balkan territories. It is clear that extra-economic means are still useful for imperialism. They were applied in the case of the CEECs as well. During the transformation of the CEECs, ideological and political means of neoliberalism were actively operated in these countries. A new capitalist class that engaged in liberal democracy, civil society and market economy in the CEECs were strongly supported by the European governments as well as business circles. The socialist and communist parties in the CEECs ceased to be a threat as they were contained within the so-called Socialist International.

Notwithstanding that, the new imperialism in the CEE has been carried out mostly by economic means. The fragmented structure of global production and the new division of labor have led to the shift of certain parts of the European production to the CEECs due to cheap labor in these countries. Correspondingly, they have become dependent on the EU market and particularly on German market

in foreign trade. The process for them has become a neoliberal transformation that made these economies vulnerable and dependent on financial flows. To the extent that the market conditions are determined by the strong economies of the EU, the result for the weaker ones has become exploitation and dependency.

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## Özet

### Orta ve Dođu Avrupa'da yeni emperyalizm

Bu alıřma, Avrupa Birliđi'nin Dođu geniřlemesini emperyalizm erevesinde incelemektedir. Dođu geniřlemesi ile ilgili mevcut literatür, Orta ve Dođu Avrupa ülkelerinin (CEECs) dönüřümünü sıklıkla, demokrasiye, sivil topluma ve piyasa ekonomisine dönüř anlamına gelen "Avrupa'ya dönüř" ifadesiyle açıklamaktadır. Bu bakıř açısı geniřlemenin, Avrupa'nın batı ve dođu kesimlerinin entegrasyonunu sađladığını vurgular. Bu alıřma ise Dođu geniřlemesinin, entegrasyondan ziyade, AB ierisindeki eřitsiz geliřim eğilimlerini belirginleřtirdiđini öne sürüyor. Avrupa projesi, Sovyet blođunun öküřünden sonra Orta ve Dođu Avrupa'ya (CEE) dođru geniřlemiş ve bölgeyi küresel kapitalizmin gereklerine uygun bir biçimde yeniden yapılandırmıştır. Nitekim, Orta ve Dođu Avrupa'daki yeni emperyalizm, sözü edilen ülkelerin AB blođuna dahil edilmesiyle özgün bir nitelik kazanmıştır. Bu ülkeler aısından sonuç, bölgesel pazara diđer bir ifadeyle Avrupa Tek Pazarı'na bađımlılık olmuřtur. Bu alıřma özetle, Orta ve Dođu Avrupa ülkelerinin entegrasyon sürecindeki ekonomik dönüřümlerine iliřkin ampirik bir alıřmaya dayanarak, Orta ve Dođu Avrupa'daki yeni emperyalizmin bu özgün karakterinin analizine odaklanmaktadır. alıřma aynı zamanda emperyalizm ve yeni emperyalizm kavramları üzerine teorik bir ereve sunmaktadır.

*Anahtar kelimeler:* Dođu geniřlemesi, Avrupa entegrasyonu, emperyalizm, küresel kapitalizm.