

The EU's secret empire

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Wealthy states treat Eastern Europe as a colony

Amid the schisms which increasingly sunder the EU's West from its eastern members, both sides are, for their own reasons, careful to suppress the bloc's big economic secret: that the Old EU runs the eleven newish members in Central and Eastern Europe as a colonial fief.

Against logic and justice, the EU's 340 million western rich suck in wealth from the 103 million eastern poor. The elites in Central and Eastern Europe (CEE) rarely rock the boat as they hate to admit the facts; many have been co-opted or cowed. But now and then resentment bubbles up. "We're not a colony, we're not a second-class member", Slovenia's premier growled at the European Commission last year. Clotilde Armand, a Frenchwoman who is a mayor in Bucharest, has also been clear that "much of the wealth in Europe flows from the poorer countries to the richer ones".

In the West, those in the know are not just quiet, they egg on the *bien-pensants* who are convinced that the Old EU keeps the East afloat. "See those pesky Poles, Czechs and Hungarians," your typical Eurocrat will whine. "They're lurching away from liberalism, even as their hot paws reach out for our largesse!" This kind of thinking is doubly skewed. The East's purported nastiness merely matches supposed Western sins (compare Hungary on gender with Denmark on its Muslims, say). It's the colonial status of CEE that really splits the EU, not any over-hyped cultural cleft.

To see what's going on, start with the deal struck when the eleven joined in or after 2004. CEE was weak after communism but was forced to throw open its borders prematurely. Capital from the Old EU was to compensate. But as so often in history, the biggest impact was unforeseen. As frontiers fell, there was a human haemorrhage in CEE as the West hoovered in ten million of its workers. Up to a third had higher education; they've driven much of the West's growth.

In Brussels, however, it is taboo to talk of this epochal shift of wealth. No one dares claim the credit for capturing those diligent white migrants, Christian in culture and capable of quick assimilation. Imagine the howls of "ray-cist!" if they did.

In the East, meanwhile, the elites are shamed to silence, for they're complicit in a population collapse of wartime scale. Croatia has lost almost a quarter of its people (an existential meltdown, one premier dared to moan). Romania, Bulgaria and the Baltic three of Lithuania, Estonia and Latvia have seen a fifth of workers go. Poland has lost over a tenth.

The social devastation has been horrendous. Hospitals have been hollowed out. Of the EU's top ten countries for excess Covid mortality, eight are in CEE. You can be sure that the dearth of doctors helped cause the 315,000 extra deaths tallied up to June. Overall, the demographic disaster has probably put paid to hopes of ever catching up. Beata Javorcik, Oxford professor and chief economist at the region's development bank EBRD, [judges](#) that "Eastern Europe could grow old before it gets rich".

The other unexpected consequence was a radical recasting of CEE's business landscape. This too is

a taboo topic in Berlin, and points West. Cash-rich offshore companies swooped in and bought the leading firms at knock-down prices. They rescued some bankrupt red behemoths (think VW with Skoda in the Czech Republic, Renault with Dacia in Romania). But it went much too far; with new implantations which followed, most key sectors in industry and services are now dominated from abroad.

In Poland, foreigners own a half of the manufacturing and retailing industries, mainly in the form of larger firms. Non-locals account for half of Czech and Polish industrial exports. In Hungary, it's four-fifths. This is unprecedented in countries with their competence. After all, the Czechs remember that in 1938 they were as prosperous as Switzerland and Sweden; the Poles and Hungarians recall that they were ahead of Spain before the latter's civil war.

Unpick the statistical thicket, and the balance is bittersweet. Take the lost workers. The rich-country club [OECD](#) says that in educating them CEE donated a mind-boggling €400 billion or more. This far exceeds anything Brussels has sent. (Poland spent €160 billion to educate the 2.6 million who've gone, so far it has received €138 billion.)

The boost to western GDP delivered by CEE's migrants is more massive still. The Old EU benefitted by over €1,000 billion in just the three pre-Covid years, official figures state. Then there's the corporate investment. It's now mature, so foreign profits and dividends sent home from CEE often exceed annual transfers from Brussels. And in any case, much EU money is spent on infrastructure, where western firms recoup up to four-fifths of the flows.

On the plus side, the region is now a supply chain *Powerhaus* (so the German financial paper *Handelsblatt* calls it). The Old EU syphons out components and embeds them in exports to China and elsewhere. Poland outranks France, Italy and Spain as supplier to Germany. CEE is also the Old EU's key, and wholly captive, market.

Its German hegemon depends on it. In 2020 Berlin exported €179 billion-worth to the eleven, [compared](#) to €103 billion to the US, €96 billion to China and a measly €23 billion to Russia.

The region's economies have duly grown, but figures for real GDP per capita yield bitter reminders of the challenge still ahead. Poland generates only around one-half of the EU's average, the Czech Republic two-thirds. Of course, this occludes the distance to the advanced Northwest. Your [average](#) Pole produces 26% of what a Dane does, your Czech, around one-third. Bulgaria generates a mere 14% and Romania 18% of Denmark's output per head.

Will CEE ever catch up? The odds aren't promising. Demography and China's galloping self-sufficiency are brakes enough, but the colonial system could be the clincher. To enjoy advanced-country wealth you must match the productivity. Here CEE desperately needs to improve its pathetic innovation, but dominion status now is a major block.

In a branch economy non-local firms sit atop the best value chains. Foreigners skim the largest returns and send the profits back. Nothing guarantees they'll reinvest. They do most development at home, and nothing forces them to share. The IMF confirms that increasingly they force their CEE offshoots to buy high-value inputs from outside. And foreign-owned firms are barred from classic routes to growth, such as building brands or buying out the competition.

So CEE depends on its native firms. They tend to be small and are hard pushed to innovate. They battle with EU bureaucracy and fight a plethora of extra ploys. Certification games can add a fifth to export costs (Northern Ireland ring a bell?). Public tender rules prevent you from favouring your own. You want your government to develop new sectors? State aid rules are draconian. In one of

those rare public outbursts Poland's Premier Mateusz Morawiecki lamented: "The technology-rich EU sells us their VWs and Renaults. But when our truck drivers enter their markets, they go for protection".

Dense webs of incumbents rig the rules. "In Brussels they feign surprise when no CEE companies turn up to plan standards," a Czech official in charge of high-tech policy told me. "It's pure hypocrisy. Our firms are too small, they aren't in the old boy networks. Time and again the regulatory game's been fixed before we get there, stitched up by the usual suspects".

Lacking big industrial groups, the East is locked out of giant high-tech projects on which billions are lavished. The West hogs spending on space, defence and research and development (€120 billion is earmarked for these to 2027). Though it has over a fifth of the EU's population, scandalously CEE received a mere one-twentieth of the €65 billion disbursed for R&D in 2014-20. (Compounding the insult, non-members Israel, Norway and Switzerland cashed in more.)

Things will get worse as the EU devotes more to chips, champions and other chunky goals which favour established players. Expect Old EU firms to grab most of the €56 billion in Covid recovery grants allocated to CEE (only 13% of the total, discrimination again). Then there's the absurd net zero carbon target. The region can't afford it. Nevertheless, cheap energy sources will be banned. CEE's competitiveness will be squashed, and the region's taxpayers will be made to subsidise western producers of green kit such as wind turbines and their ilk.

There's little sign, then, that native firms can achieve global scale and productivity *en masse*. Meanwhile, foreigners will retain every incentive to milk their implantations and withhold the best technology. So CEE faces a "middle income trap". It'll be stuck behind for good, even as the Old EU's anachronistic economies themselves battle to keep up with the US and Asia.

Of course, within the bloc the economic crevasse will still count. Too wide, and there'll be a massive new *mezzogiorno*, festering with resentment, depopulating fast and prone to implode at any point. To minimise this threat Brussels must urgently cut a New Deal for its inland empire. It should free up its rules and help the region's businesses to expand.

For their part, politicians in CEE should call out the colonialism and extract freedom for their firms. If there's no radical change, the Old EU had better brace for the strange populisms and other ills that a chronically two-tier Europe would unleash.

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