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# ECONOMIC GEOGRAPHY AND REGIONAL ECONOMICS

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## THE THEORY OF PERIPHERAL CAPITALISM: ON THE APPLICABILITY OF THE LATIN AMERICAN MODEL TO THE BALTIC STATES. AN ATTEMPT AT AN INTER-DISCIPLINARY ANALYSIS

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*The relevance of this study of post-Soviet transition lies in the focus on the technically theoretical problems that are nevertheless the key to understanding regional development processes in the East of the Baltic Sea. The research aims to verify the theory of peripheral capitalism as applied to the Baltic States. The first theoretical objective is to draw a distinction between the ideas of modernisation and transformation in a regional context. The second objective is to adjust the theory of peripheral capitalism to smaller states. To study the features of the transformation of economic and political systems in the Baltics, this article conducts comparative analysis. Systemic analysis and the principles of theoretical and empirical analysis are used as well. Building on this work, the study identifies the deficiencies of the theoretical and methodological potential of transition studies. These include claims that the theoretical and methodological potential of transition as applied to post-Socialist and post-Soviet Europe has been completely fulfilled. Geographical differences between Latin America and the Baltic States are so obvious that they eclipse economic similarities between the processes*

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*and development models characteristic of the two regions of the world. An analysis of current developments in Latin America makes it possible to forecast the economic and, to a degree, political consequences of the trends that are just emerging in the Baltics. This article seeks to prove the above thesis.*

**Keywords:**

transit, transformation, modernisation, theory of peripheral Latin American capitalism, Estonia, Latvia, Lithuania

## **Introduction.**

### **Transition theories as applied to the Baltics**

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Theoretical explanations of transition have been in demand for 30 years. Why do the problems of evaluating, systematising, and analysing the evolution of national economic models remain the focus of research? Some of the reasons are evident. The world economy constantly goes through changes and post-Socialist economic practices are becoming ever more diverse. Yet, the main problem is the quality of development rather than diversity. This statement can be scaled up: ‘the fundamental theoretical and methodological concept of the ‘transitology paradigm’ that treats current political transformations as a movement from an authoritarian regime to a consolidated democracy needs serious rethinking’ [1, p. 66]. This warning from 2004 has not been heard. The thesis about the end of the transition period continues to be discussed.

It was Francis Fukuyama, who made an enormous contribution to political science: although history did not come to an end, he clearly identified the turning point. The turn, however, took longer than one might have expected in the 1990s.

Elections to the European Parliament followed by voting for the EU leadership reanimated, rather than provoked, the old discussion about the efficiency of transition in Eastern Europe [2; 3].

The need for analysis is on the surface. The Baltics are the only part of the post-Soviet space that has acceded to the EU. Estonia, Latvia, and Lithuania are Russia’s neighbours. The performance of the three states was for a long time regarded as the touchstone. This gave another reason for growing attention from researchers. Socio-economic processes taking place in a neighbouring country are always an important object of studies, particularly, when national security is at play.

Other incentives for research in the area have a heavy theoretical component. The central question of our article is the relation between the concepts of transformation and modernisation [4; 5].

We believe that any modernisation is a transformation, but not vice versa. A transformation may be successful, beneficial to social and economic progress. In that case, it is modernisation. Yet a different outcome is possible: a transformation that leads to the evident or hidden degradation of the economic system and a qualitative decrease in social capital. There are such cases in the post-Soviet space. The Baltics, however, are not one [6, pp. 7–18].

Firstly, the economic systems of the Baltics did not develop merely under the slogan of transformation and modernisation. A fundamental component was westernisation. The understanding that westernisation was superficial came as a major disappointment. Institutions, which resembled their global and European counterparts, functioned differently or not at all. The thesis that there is only one way to handle a modern economy was accepted without reservations [7, p. 118], leading to equivocal results. Thus, even the experts who have a mostly positive view of the Baltic experience are doubtful about the accomplishments of Baltic modernisation: ‘It is difficult to give a clear answer to the question whether Estonian modernisation was a success’ [8, p. 7]. Although we do not support the perception of the Baltic reforms as a success story, we are not ready to label them as a failure.

The practices of institution-building in Estonia, Latvia, and Lithuania after 1991 were based on the principle that ‘the best way to material affluence and prosperity, to standards of living comparable with the French and German average, is Europeanisation with strategic support from the US’ [9, pp. 19–20]. The replicated economic attributes were partly familiar to the architects of the reforms from the textbook *Economics: Principles, Problems, and Policies*. On the one hand, that seemed absolutely logical: ‘Since the struggle ended in the victory of the capitalist system, the key institutions of defeated socialism had to be dismantled and reconstructed to the design of the victorious system’ [10]. The same happened in Russia and Kazakhstan despite the latter’s remoteness from the nominal West.

On the other hand, a mistake was made. The economic institutions of the West are ever-transforming and ever-evolving. The ratio between economic and political priorities constantly changes. In copying the institutions, it was important to take into account history and geography. ‘[P]ost-communist countries were compelled to adopt 20,000 new laws and regulations — none of which were really debated in their parliaments — to meet the requirements for accession to the EU’.<sup>1</sup> Yet another mistake was to confuse liberalism in

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<sup>1</sup> Krastev, I. The metamorphosis of Central Europe. URL:<https://www.ips-journal.eu/regions/europe/article/show/the-metamorphosis-of-central-europe-3219/> (accessed: 15.06.2020).

politics and ideology and liberalism in economic practice. ‘There is a huge difference between a neoliberal policy, particularly an economic policy, and truly liberal demands for independent courts, accountability of public officials, struggle against corruption and electoral fraud, and the rule of law from top to bottom’ [11].

The major problem of the Baltic States was the idealisation of the actual positive effects of liberalisation, including economic openness. ‘[T]he impact of liberalization on inequality is muted when countries are at higher levels of financial development or when no financial crisis ensues after liberalization. This lends further support to the view that the benefit-to-cost ratio of liberalization is higher for countries above a certain level of financial development and where countries have adequately strengthened financial regulations before liberalization’ [12, p. 48]. The thesis once put forward by Milton Friedman has been proven by Poland, which was very cautious when opening its markets, especially the financial market. Although the openness of the national financial system and the virtual elimination of national control over the movement of capital ‘confer[] many benefits in theory, in practice liberalization has often led to economic volatility and financial crisis’.<sup>2</sup>

David Woodruff, a professor of political science at the Massachusetts Institute of Technology, writes: ‘democracy’s success has been that it aids in the design of locally appropriate policies, policies that take for granted that dynamiting inherited industries is unlikely to be the best course’ [14]. It is difficult, almost impossible to argue with the above statement. It was made, however, not in 1991 but several decades later when all political and economic decisions had already been taken. Or, to put it differently, Woodruff’s words are anything but practical recommendations. The thesis of the esteemed expert is lucid: building a democracy takes its toll, particularly on the quality of governance. What should one do if the toll has been taken but thirty years later the quality of democracy continues to raise questions? ‘The established and enduring autocratic tendencies in some countries do express ... incomplete and, in many areas, unjust and unequal transformation into a democracy and a market economy.’<sup>3</sup> The above was

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<sup>2</sup> Furceri, D., Prakash L. Opening Up to Inequality: After countries remove restrictions on capital flows, inequality often gets worse. URL: [https://www.elibrary.imf.org/view/IMF022/23064-9781513570532/23064-9781513570532/23064-9781513570532\\_A014.xml?language=en&redirect=true](https://www.elibrary.imf.org/view/IMF022/23064-9781513570532/23064-9781513570532/23064-9781513570532_A014.xml?language=en&redirect=true) (accessed: 15.06.2020).

<sup>3</sup> Bröning, M. ‘Too German, too Western European’. URL: <https://www.ips-journal.eu/interviews/article/show/too-german-too-western-european-3595/> (accessed: 14.06.2020).

written after Estonia had formed a government led by the far-right Conservative People's Party of Estonia and members of the French National Front had visited Tallinn. 'It is therefore clearly possible to have economic arrangements that are fundamentally capitalist and political arrangements that are not free' [15, p. 10].

The interim results are as follows. None of the characteristics of the Baltic economic models is unique or entirely new in economic theory. The challenge lies in finding an optimal combination of these characteristics, identifying their mutual influence, measuring their cumulative effect, and verifying their specific properties. 'There is a serious danger facing a researcher of modern economic growth, namely, becoming engrossed in tracking similar changes undergone by societies that differ so much in their cultural traditions and trying to build a strict development trajectory mandatory for all nations' [16, p. 23]. That is why the tools of theoretical analysis should be constantly improved; traditional approaches, developed; and new ones, employed.

This study aims to examine the development of the Baltic States from the perspective of the theory of peripheral market or peripheral capitalism.

### **The theory of peripheral capitalism: key concepts and applicability to the Baltics**

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All contemporary economic theories apply to a degree to states of different size. We are interested, however, in those that are:

1) applicable to small states;

1) comprehensive; their results can be employed interdisciplinary, i.e. they take into account the history, geography, and local political processes [17, pp. 60–78].

In the 1960–1970s, a new line of research, dependency theory, germinated in international social studies. It has also been called the theory of dependent development, dependent capitalism, peripheral development, and peripheral capitalism. At first, it sought to explain how economically disadvantaged periphery, represented by most Asian, African, and Latin American states, develops.

Naturally, the dichotomy Western Europe — Eastern Europe was far from the focus of theoretical debates. We believe that the failures of classical modernisation, which turned into vulgar westernisation in Eastern Europe, necessitate the search for new applicable theoretical models.

Central to numerous dependency theories is the idea that the economy and politics of a country are shaped by the development of a dominant economy/

economic bloc. These theories, including the theory of peripheral capitalism, hold that the world economy has several hierarchical levels. Grossly generalised, these are the centre, the periphery, and the semi-periphery. This division was inspired by the fact that '[p]roximity in geographic, cultural, and institutional terms allows special access, special relationships, better information, powerful incentives, and other advantages in productivity and productivity growth that are difficult to tap from a distance' [18, p. 245]. This begs the questions: what distances are meant here and, what is more important, is periphery identified in geographic or economic terms?

Cuba, Chile, Argentina, and Mexico are equally the periphery of the American world. Geographical distances are of no consequence here. The same holds true for Europe. Germany's neighbour, the Czech Republic is a periphery, just as Portugal and Estonia are. The above thesis by Michael Porter, however, does not cater for the post-Socialist transition. If the transition is treated as a category of economic and political science, the Czech Republic and Estonia appear farther than one might expect from the European core. This does not cancel dependencies but makes dependencies more diverse and more difficult to examine.

With some reservations, modernisation theories maintain that, by copying the economic and political institutions of a certain country or region, it is possible to ensure both a higher economic growth rate and a new quality of economic and political development. Contrarily, dependency theories emphasise that states cannot move from being the centre to becoming the periphery and vice versa, just as an Indian cannot change his or her caste. A prominent advocate of the theory writes about this approach: 'The myth of the worldwide expansion of capitalism has evaporated as has the myth of development of the periphery in the image and likeness of the centres' [19, p. 21].

The theory of peripheral capitalism was a response not to the liberal economic approaches of the 1990s but to the failures of all theories and practices, including Keynesian ones. The latter claimed that replicated institutions and import substitution are a way to overcoming backwardness. The essence of modernisation is the belief that all countries go through the same stages in their development. Peripheral states, therefore, are found at the stage where developed countries were in the past. Countries that once made an impressive leap forward, viz. Singapore, Taiwan, South Korea, have been cited as examples of successful modernisation [20–22]. We nevertheless believe that these states are the proverbial exception that proves the rule. From the perspective of economic development, their success cannot be viewed as a gradual upward

movement. In 1945, none of the three countries existed; in 1975, none regarded them as the touchstone, unless authoritarian rule could be considered the desired standard. The case of the Baltics is very different.

Adherents of dependency (peripheral development) theory have consistently criticised the concepts of modernisation theory, arguing that lagging countries are not early versions of the modern market economies of the centre. These experts maintain that the characteristics of the periphery and semi-periphery make them a completely different phenomenon. Countries of the (semi-) periphery have unique features and structural distinctions; their position in the global economic system is purely dependent.

The chief advocates of dependency theory, Andre Frank [23, pp. 155–248] and Paul Baran [24, pp. 164–170], write that the historical roots of inequality lie in the relative backwardness of periphery societies, their poor inclusion in the world economy, their informal status of dependent and subordinate partners. States that have been classified as the ‘periphery’ lose their ability to develop independently; they tread the path of dependence and backwardness. Overall, the researchers assume that the centre is interested in keeping the periphery underdeveloped. Similarly, the ‘semi-periphery’ seeks to press home its competitive advantage over the periphery.

This leads to the question as to how the theory of peripheral capitalism works in a setting of the second decade of the 21<sup>st</sup> century. Obviously, it cannot be employed in full and in its initial guise. What amendments should be made? How do theoretical approaches change when applied to not Uruguay, Ecuador, or Columbia but Estonia, Latvia, and Lithuania? To answer these questions, we put forward fourteen theses.

1. Calibration of the theory is needed because not all peripheral states have the formal status of developing countries. Countries of both the periphery and the centre are market economies. This means the same capitalism and the same laws of the market. Peripheral capitalism does not work according to some different laws, as many proponents of the theory of peripheral capitalism believed. The universally recognised elements of theoretical reflection on the market economy should be augmented with a few necessary components. The most important of them is the path dependence concept proposed by the Nobel Prize winner Douglass North. He defined the term as ‘the consequence of small events and chance circumstances can determine solutions that, once they prevail, lead one to a particular path’ [25, p. 92]. A ‘particular path’ is, for instance, transit and transportation functions of the economy: they may disappear, yet the economic model shaped by them will persist.

2. It is necessary today to take into account not only the economics of industrial and agricultural production but also services, including financial and educational ones. These services, which create high value-added, testify to the superior, non-peripheral status of a country. Naturally, they have nothing to do with the classical ‘beach-castle-restaurant’ tourism industry.

3. Quite a long time ago, Theotonio dos Santos advanced the following thesis: ‘[t]he relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion’ [26]. Of course, in the 1970s, this approach could not be applied to the then divided Europe.

The situation has changed since then. Today the periphery and semi-periphery have much more opportunities. These opportunities arise when the centre is gradually growing and its political and economic power is increasing. This applies perfectly to the Baltics. Acceding to the European association of 1993 and 2003 was an extremely attractive prospect [27]. The aspirations of the Estonians, the Latvians, and the Lithuanians could have been different if they had had to deal with the European Union of 2019.

4. Evenly spread economic growth is impossible just as it is impossible to attain universal equality among people or states. Dependency theories do not deny this fact. Their point is that the approaches that are dominating the world economy inevitably contribute to disparities between the centre, the semi-periphery, and the periphery. The centre gains a competitive edge by setting the rules for the world economy, migration, diffusion of innovation, and the price scissors [28]. If the rules are not acceptable for the centre any more, it waives them and in doing so exercises its monopoly right. In the 1970s and 1980s, this was not evident. There was an illusion that, albeit not always just, the rules were permanent.

5. Keynesian strategies of import substitution and industrialisation have experienced a revival [29–31].

Protectionism in international trade, billed as a mechanism to expedite structural transformations and keep domestic demand within national borders, turned out to be popular with the centre too [32–34].

6. The case of theories in question suggests, that unlike the 1960s and 1970s, almost all economic concepts have received an interdisciplinary interpretation as well as interdisciplinary critique [35].

7. A major theoretical problem was the distinction between dependency theories, stages theories, and the theory of echelons in world capitalism de-



velopment, for instance, that proposed by Alexander Gerschenkron. His theory holds that the development of countries was pre-programmed long before modern market economies had emerged. Echelon theory is of particular interest when applied to Eastern Europe, particularly, the Baltics [36]. It is easy to see that the countries that simply did not exist during the rise of capitalism could not achieve capitalism independently (as those of the first echelon did). Either they attained it under external influence, which initiated self-development sources (second echelon), or capitalism was transplanted from outside (third echelon) [37]. We believe that the Baltics fall into the second or the third category.

8. A serious problem of the approach in question was that most of its authors were from Latin America, which they considered the periphery. This perspective is questioned today and, naturally, it was questioned 45 years ago. If Latin America is the periphery, how should one classify Africa and most of Asia? The idea of fitting the diversity of national economies into the centre and periphery categories is constrictive but difficult to put into practice [38].

9. The Prebisch–Singer hypothesis, without which the theory of peripheral capitalism does not stand up, has attracted much criticism. It was formulated for a perfect market economy and hardly or not at all allowed for political factors. The classical version of the Prebisch–Singer hypothesis holds that countries that manufacture the end product benefit most, whereas raw material-exporting economies inevitably worsen their situation. The hypothesis drew on analysis of prices of agricultural and, partly, industrial goods. Expensive raw materials and, with some reservations, fuel were barely taken into account, just as services were. There was much debate about verifying the hypothesis and turning it into a theory. A comprehensive study by the International Monetary Fund (2010) tracked fluctuations of raw materials prices from 1650. The research proved that, in the long term, prices of any type of raw material would decrease as compared to prices of industrial goods [39, p. 12].

Our concept maintains that the Prebisch–Singer hypothesis is equally applicable to the services sector. In its case, the centre distributes activities that generate maximum profit. This concerns, foremost, the powerful financial services segment. Other types of services, which are less profitable or even loss-making by design, emerge and function in the periphery.

Below we will consider a case that has become a trademark of Estonia and Latvia. Over the past 30 years, all attempts of the states and businesses to create a national financial system have failed in these countries [40]. Each time, everything was very much in line with the laws of the market, admin-

istrative pressure was kept to a minimum, and, what is even more important, the Estonian and Latvian governments had no desire whatsoever to protect national banks. Scandinavian banks, reliable agents in the global financial system, however, were in no need of either competitors or assistants in Estonia and Latvia. The result was the oligopoly of Nordea, SEB (Skandinaviska Enskilda Banken), and Swedbank. That situation did not bother the Estonian and Latvian authorities in the least. US-initiated investigations of several European banks, including Latvia's ABLV, caused the collapse of the very last large bank with state capital. Lithuania's Ukio Bankas and Latvia's Trasta Komercbank were liquidated. In the context of this article, however, something different stands out. Once faced with the pressure coming from European regulators and allegations by the US Department of the Treasury, Swedish and Danish banks started to shut down their operations in the Baltics. They were accumulating the profits, whereas local financial institutions were to deal with the losses.

In 2018-2019, the situation in the banking sector of the Baltics deteriorated. The US administration accused local banks and branches of Nordic banks of handling money of dubious origin.<sup>4</sup> On February 9, 2019, the top management of Denmark's largest commercial bank, Danske Bank, announced that it was pulling out of the Baltics. The stock prices of Swedish banks were falling. The choice was whether to withdraw and sustain moral losses or to stay and suffer material ones.

10. Note that 'the essence of path dependence theory is that the range of choices here and now is strictly determined by a choice made somewhere else a long time ago' [41, p. 36]. For the Baltics, this factor is decisive. Economic decisions are pre-patterned by current politics, which, in its turn, draws on historical precedents. Although such a situation is covered by theory, its practical applicability depends on the actual scale [42].

11. Within the dependency theory, interactions between formal and informal economic and political institutions are crucial. Formal institutions can be transplanted with varying success to foreign environments, whereas informal institutions are endemic as a rule. 'Underdeveloped formal institutions, combined with strong informal institutions (to a greater degree) and some marginal formal norms (to a lesser degree) can produce institutional mutants'.<sup>5</sup> That is

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<sup>4</sup> Ewing J. Sanctions on Russia and North Korea Put Tiny Latvia in U.S. Cross Hairs. URL: <https://www.nytimes.com/2019/07/17/business/latvia-money-laundering.html> (accessed: 15.06.2019).

<sup>5</sup> Malkina, M.Yu. Path dependence explained from difference perspectives. URL: <http://ecsocman.hse.ru/text/16213320> (accessed 14.05.2019).

exactly what is happening in the Baltics. Institutional mutants are difficult to diagnose since they have all the outer attributes of effective institutions of the centre.

12. What other characteristics of a local, or peripheral, market do the Baltics have? Firstly, there is a suite of characteristics typical of smaller states in general. Among them are insufficient capital and knowledge [43]. Instead of investing in Estonia, Apple opted for Denmark and Ireland. The decision was prompted by high power rates and the reluctance of local officials to understand the needs of the investor, *Eesti Ekspress (EE)* reports.<sup>6</sup> The company also abandoned its plan to build a server park in the Estonian town of Paldiski. The Estonian media wrote earlier about a billion euro investment.<sup>7</sup> Against this background, the performance of Estonia's Nortal, which works in the same field as the 'giant success story', seems modest: in May 2019, the IT 'giant' Nortal received 50 million euros in bond proceeds.<sup>8</sup>

Competencies needed for effective development in the times of the third and fourth industrial revolution are key to the social capital of any state [44; 45].

The USSR left behind much of its nuclear power technology and employee competencies in Lithuania; automotive industry and railway machinery competencies in Latvia; and precision engineering and shale chemistry, in Estonia. All of these competencies have been essentially lost. 'The situation can be easily called depressive. Without strong fundamental science, there is no higher education, there are no high value-added businesses, and, finally, there is no knowledge-intensive Estonia'.<sup>9</sup>

13. In theory, peripheral economies will benefit from the centre relocating some of its production facilities (usually those manufacturing parts, components, and units rather than performing final assembly). In the case of the European periphery, this process is geographically anchored [46; 47]: Sweden is moving production to Estonia; Germany, to Lithuania, etc. Geographical proximity makes it possible to benefit from differences in salaries and taxes. Thus, intra-European economic relations prove the thesis advanced by the

<sup>6</sup> High power rates and passive officials deprive Estonia of 1 billion euros (in Russ.). URL: [http://prosvet.ee/ArtNews9.aspx?news\\_id=12615&news\\_type](http://prosvet.ee/ArtNews9.aspx?news_id=12615&news_type) (accessed: 15.06.2019).

<sup>7</sup> Apple abandons its plan to build server park in Paldiski (in Russ.). URL: <https://err.ee/235438/smi-apple-otkazalsja-ot-planov-stroitelstva-servernogo-parka-v-paldiski> (accessed : 10.06.2019).

<sup>8</sup> Head of Nortal: We're too big for Estonian banks (in Russ.). URL: <https://www.dv.ee/intervju/2019/06/09/glava-nortal-dlja-bankov-jestonii-my-slishkom-veliki> (accessed: 12.07.2019).

<sup>9</sup> PhD in gene technology: Politicians have to stand by their words (in Russ.). URL: <https://www.dv.ee/mnenija/2019/05/28/doktor-nauk-politiki-dolzhen-otvechat-za-svoi-slova> (accessed: 15.06.2019).

then director of the Fernand Braudel Center for the Study of Economies, Historical Systems, and Civilizations, Immanuel Wallerstein. He argues that the relocation of production facilities, which has been observed from the 1970s, to semi-peripheral countries seeks to reduce wages, move utilisation costs to the economic periphery, cut raw material renewal costs, and minimise tax payments [48, p. 262]. This is the most important proof that the theory of peripheral capitalism can be applied to the Baltics.

14. The middle-income trap is a situation observed in not only Chile and Brazil [49]. Since the theoretical side of the concept is common knowledge, we will focus on only one aspect discussed by both academics and practitioners: is limiting salaries a way out? In the case of the Baltics, where salaries are below the EU average, this is not a real solution. The reaction of the influential Estonian businessperson Raivo Vare is quite typical: ‘...although salaries are growing faster than anything else is, and our competitiveness in the structure of the economy is declining, this is not enough; psychologically we are within the gravitational reach of Nordic affluent societies. Catering to this psychology, politicians are doomed to do what they are doing now’.<sup>10</sup> In other words, the problem of the Baltics is both financial performance and psychological dependence on geographically proximate but economically remote models [50; 51].

## **Conclusion**

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We believe that any theoretical concept that places regional development trends into the global economic context can be valid in the case of one location and invalid in the case of another. This approach can yield unexpected results and open up a new angle on the analysis of what seems to be traditional objects of research.

The Baltics are part of the great European integration project [52–54]. Its economic and geographical scale means a complex internal structure, within which all countries are equal but some ‘are more equal than others’. From the theoretical perspective, this situation is the norm and the objective reality of any large economic or political association that has a centre and a periphery. The periphery is ‘dependent, controlling only its own resources at

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<sup>10</sup> *Poverina*, E. Raivo Vare: Hunting foreign workers may have unpredictable consequences for the Estonian economy (in Russ.). URL: [https://rus.postimees.ee/6732813/rayvo-vare-possledstviya-ohoty-na-gastarbajterov-dlya-estonskoy-ekonomiki-mogut-byt-nepredskazuemymi?utm\\_campaign=20190719&utm\\_content=2&utm\\_medium=email&utm\\_source=rus.postimees.ee](https://rus.postimees.ee/6732813/rayvo-vare-possledstviya-ohoty-na-gastarbajterov-dlya-estonskoy-ekonomiki-mogut-byt-nepredskazuemymi?utm_campaign=20190719&utm_content=2&utm_medium=email&utm_source=rus.postimees.ee) (accessed: 18.07.2019).

best, and it is more exposed to fluctuations in long-distance markets' [55, p. 5]. A vivid example is the effect of livestock epidemics in China on pork prices in Estonia.<sup>11</sup> The periphery, however, can have a high status in its own eyes or even in the eyes of its allies and partners, or even deliver impressive economic performance. Powerful European convergence mechanisms constantly calibrate and gloss over the whole picture. It seems, nevertheless, that the situation in Estonia, Latvia, and Lithuania is perfectly compatible with the concepts of the theory of peripheral capitalism. Any local or global crises will remove the gloss and, once again, raise the question as to what should be done with the conflict- and problem-ridden periphery [56, p. 4]. This question will have different answers at different scales.

Effective development of Europe and mutually beneficial cooperation with the US, China, and Russia could aid in achieving real cohesion between the French-German core and the Eastern (Southern) periphery [57; 58]. In that case, the Baltics would be at the centre of an economic cooperation space that brings together Europe and very different regions of Asia; this could require open recognition of the discussed approach or a silent consensus of the leaders.

This is not a very likely scenario. Thus, Estonia, Latvia, and Lithuania will face gradual simplification of the structures of their economies, particular, in the sectors receiving support from Brussels. The countries will lose competencies in hi- and mid-tech areas, whereas the service sector will overdevelop.

Our point is that being a periphery in geographical, economic, and political terms is a factor that has a very slow effect on economic development. Without a large-scale world crisis, the model that has become traditional for the Baltics will not undergo a qualitative change, as Latin American experience suggests. The pandemic and economic turbulence urge to reconsider the Baltic economic model, its theoretical framework, and practices.

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<sup>11</sup> Will pork rise in price amid Chinese livestock epidemic? (in Russ.). URL: <https://ee.sputniknews.ru/economy/20190719/17223981/Podorozhaet-li-svinina-v-Estonii-iz-za-bolezni-zhi-votnykh-v-Kitae.html> (accessed: 15.06.2019).

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