



EUROREG

CENTRUM EUROPEJSKICH
STUDIÓW REGIONALNYCH I LOKALNYCH
UNIWERSYTET WARSZAWSKI

Central and Eastern Europe at Crossroads

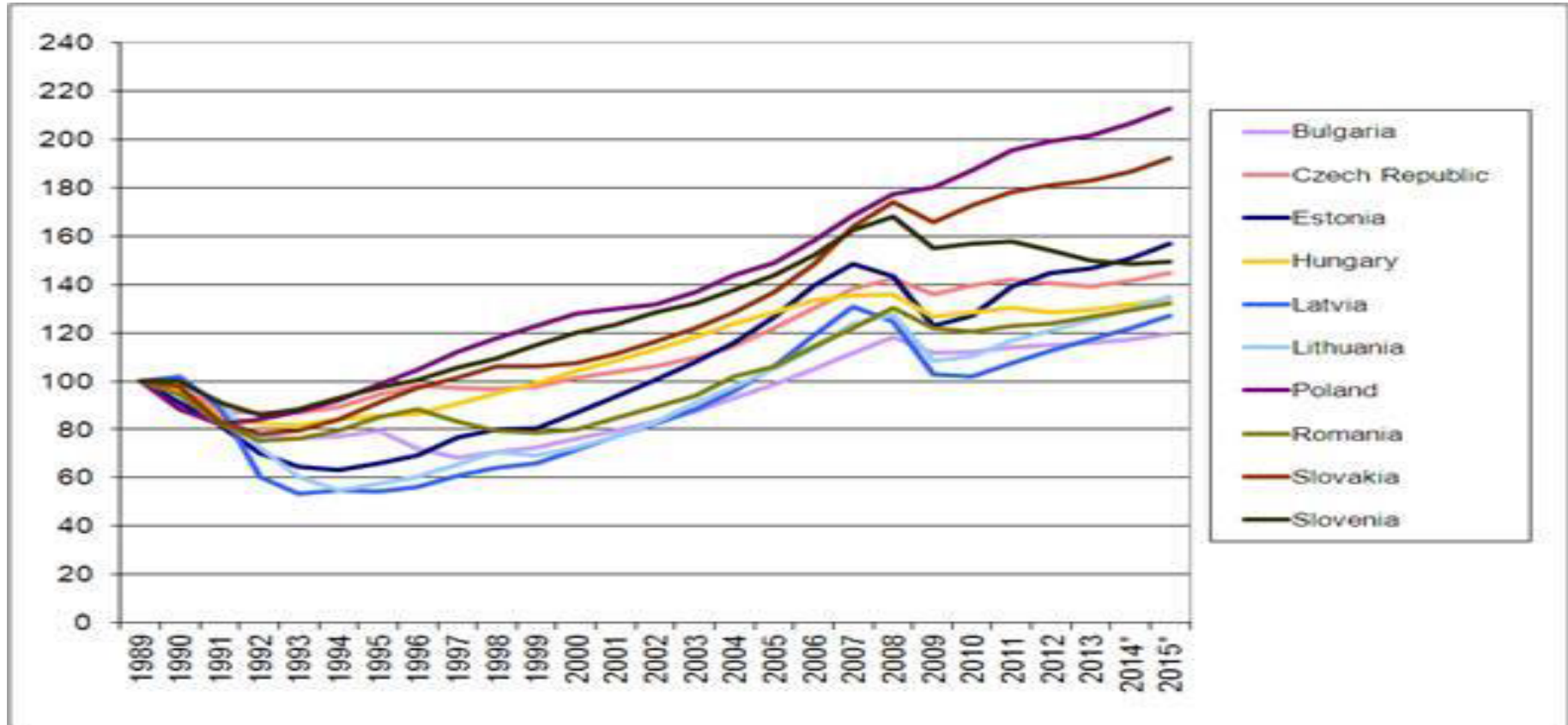
(main GRINCOH findings)

Grzegorz Gorzelak

**XXXVI Conferenza scientifica annuale „L'Europa e le sue regioni.
Disuguaglianze, capitale umano, politiche per la competitività”**

Arcavacata di Rende (CS), 14-16 September 2015

Main findings: economy



All countries demonstrated growth, though there were distinct groups. The crisis reshuffled the order: Slovenia and the Baltics lost the most.

After accession and crisis

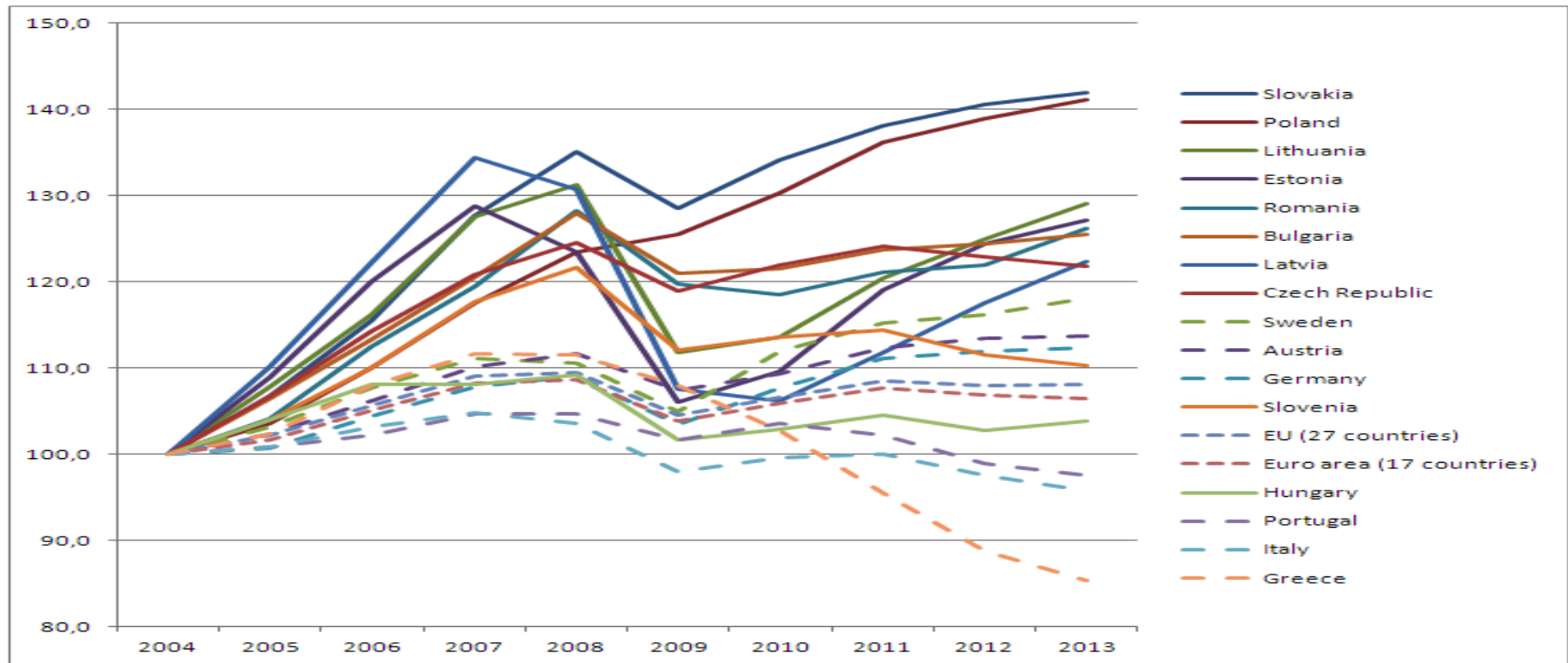
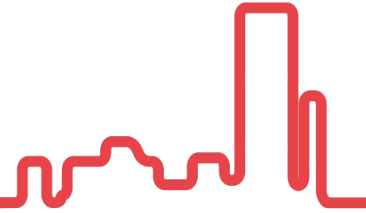


Figure 1: GDP growth, 2004=100

Even the slowest growing CEECs grew faster than the fastest EU-17 MS. None of the CEECs noted a decline as deep as the worst EU-17 MS. However, in general convergence to the West slower than before the crisis

Can it last forever?



Our answer is „**no**”. Why?

Because the catching-up process was mostly based on external resources in - the CEE economies attracted more FDI and more foreign savings as a percentage of GDP than the EU-17 economies and enjoyed higher fixed investment shares of GDP.

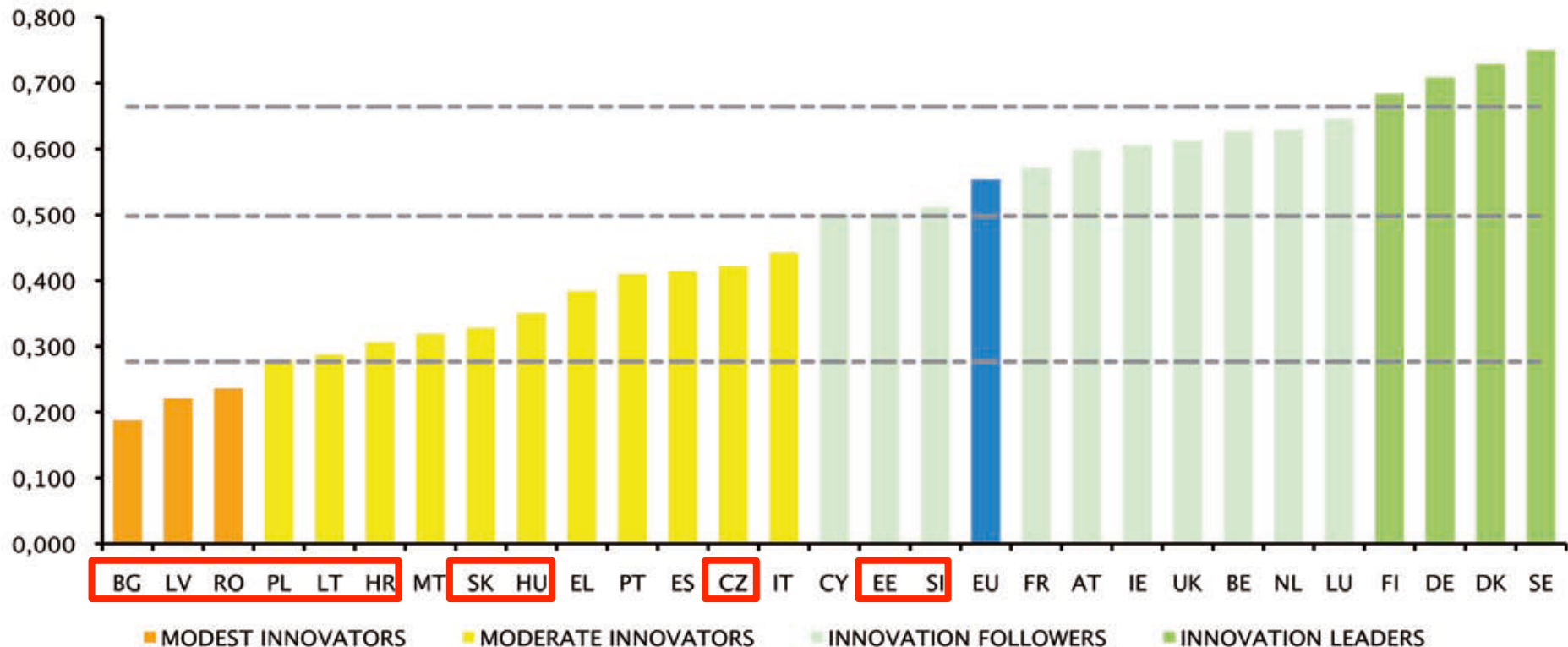
However, the technological activities of foreign subsidiaries in the CEECs are often implemented without significant linkages to various actors in the domestic innovation system.

Also, the innovativeness of the CEEC economies has not grown sufficiently, and some indicators demonstrate stabilisation in R&D production and even reduced patenting activity.

External sources of competitiveness are drying out, and internal potentials are still undeveloped.

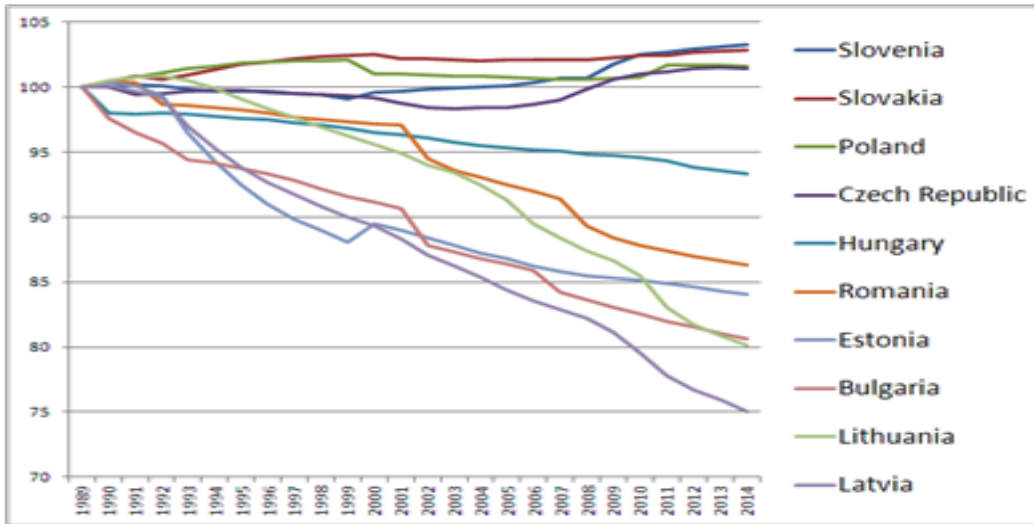
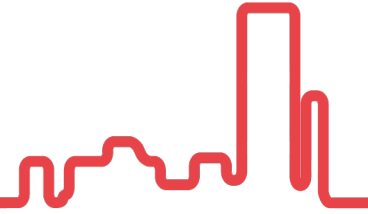
The disappearance of the former advantage enjoyed by the CEECs in low-cost types of production has not been replaced by the generation of new sources of competitive advantage.

Poor innovation performance in most of new Member States...



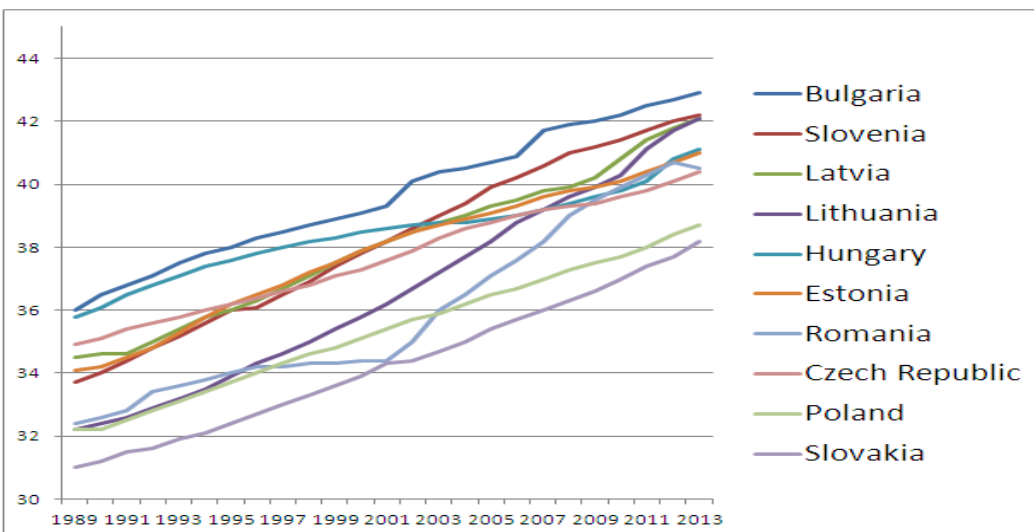
Source: *Innovation Union Scoreboard 2014*.

Demographic challenge



Declining number of population due to low fertility and high outmigration.

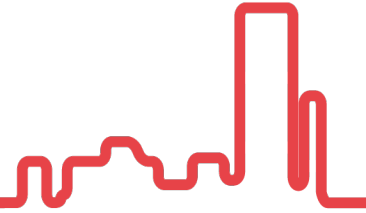
The CEECs are not yet attractive for migrants from outside of Europe.



Ageing of population faster than in the EU-17.

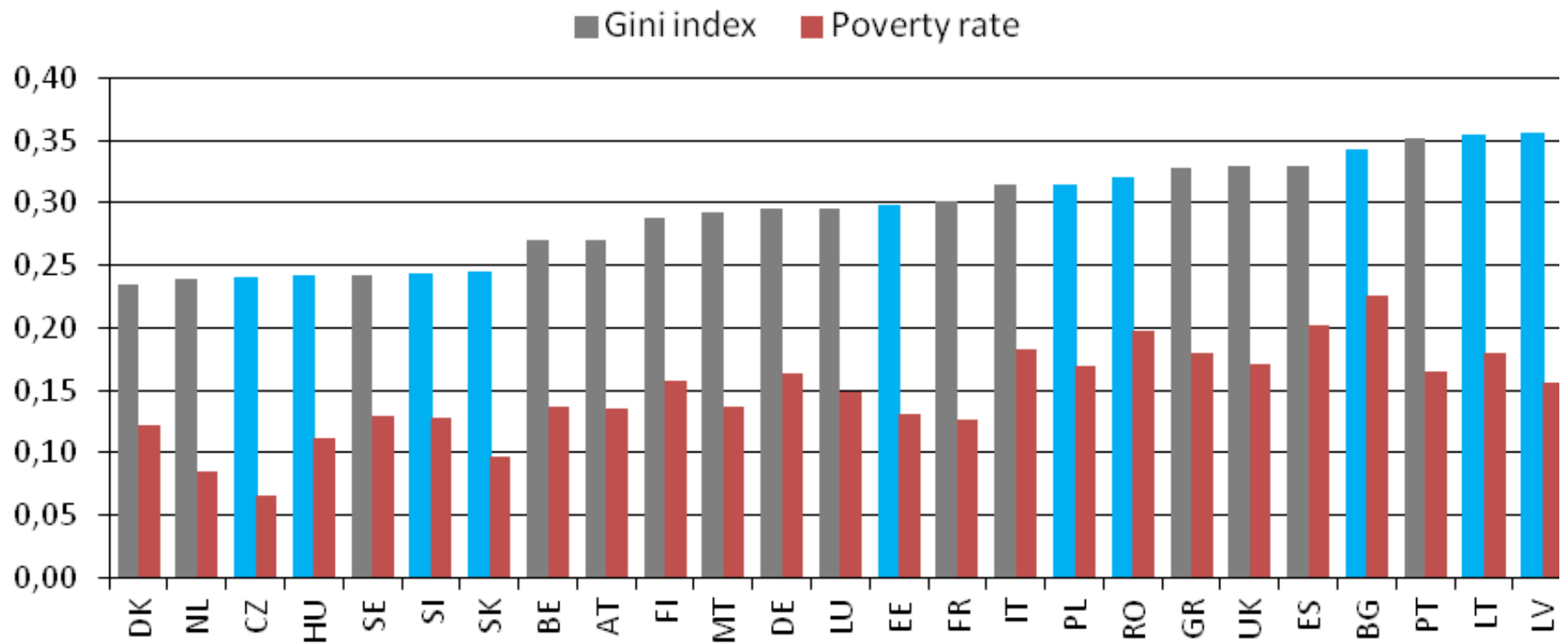
Growing pressure on pension systems and cost of labour.

Labour market



- Large **differences** between the CEECs.
- **Fluctuating** situation on the labour market according to the general situation of the national economy.
- **Female** employment grows slower in the CEECs than in the EU-17.
- Low-educated in the worst situation – permanent massive **unskilled unemployment**.
- **Youth unemployment** about twice as high as the national average, but not as dramatic as in the southern MS.
- Much **lower spending on labour policies** (in relation to GDP) than in the EU-17.
- An improvement in skills level, but still low level of **life-long learning**.
- Multidimensional disadvantages of the **Roma population**, also due to unsuccessful social and educational policies.

Social cohesion

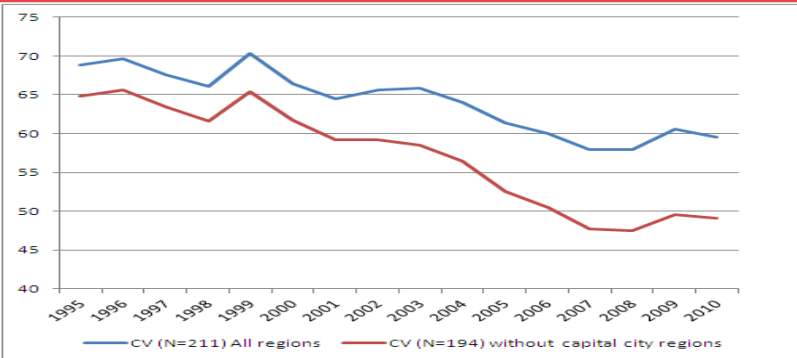


Source: EU SILC 2010, own calculations.

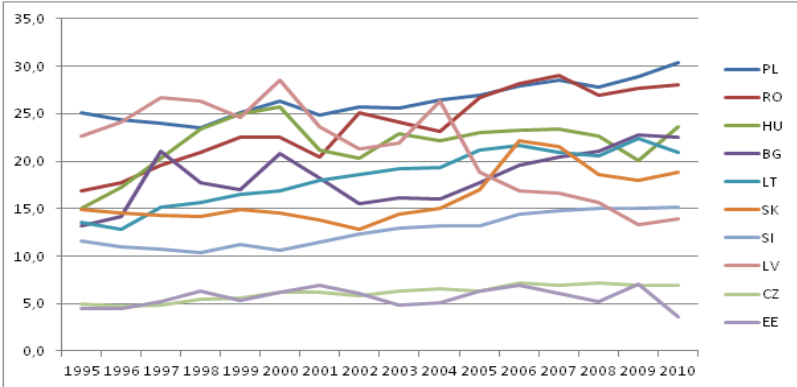
Varied levels of income inequalities and reactions to the crisis.

The lack of social cohesion (inequality and poverty) is weakening labour market, and thus potential for growth.

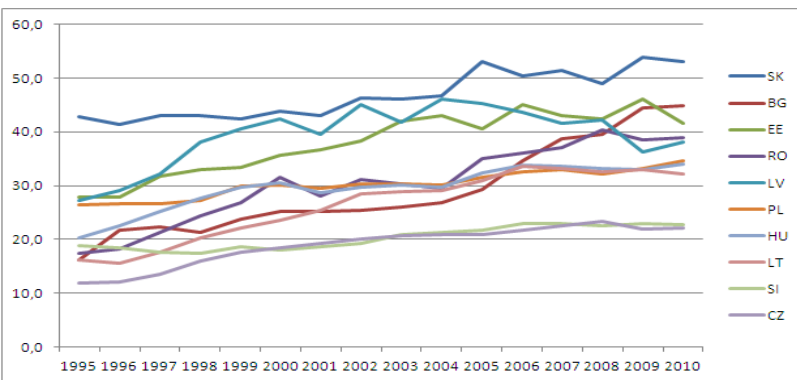
Convergence of countries, divergence within countries



Regional convergence,
but..

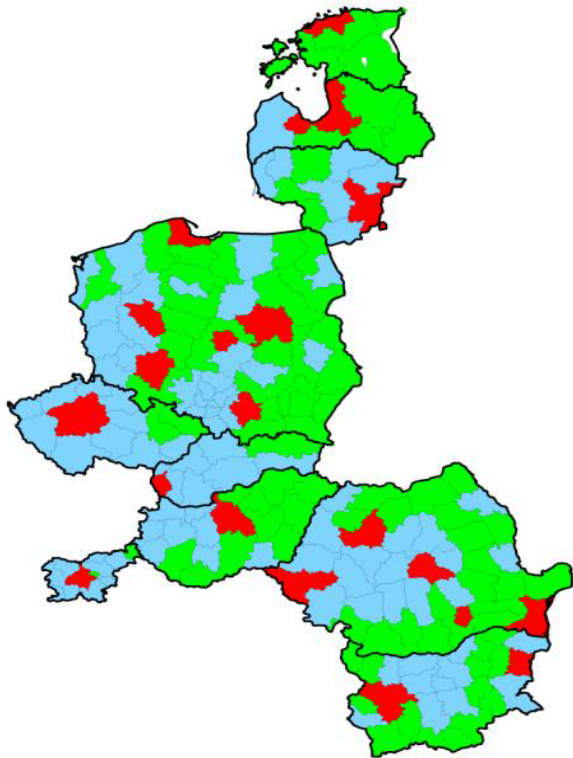


Metropolisation - the
strongest factor of
divergence.



Without the largest cities in
some CEECs - **weak
convergence**

Regional typologies and spatial processes



- metropolitan regions
- transition regions
- peripheral regions

Transition regions: the most interesting.

Several cases of successful industrial restructuring, usually with FDI involvement.

Border regions in stable underprivileged situation.

Transport infrastructure: a necessary, but not a sufficient condition for regional growth.

Definite, but still unsatisfactory improvement in natural environment.

Institutional convergence and impact of politics

A red line graphic that starts at the bottom right, moves up and down in a jagged pattern, and then rises sharply to the top right corner of the slide.

Institutional convergence of the CEECs began after 1989.

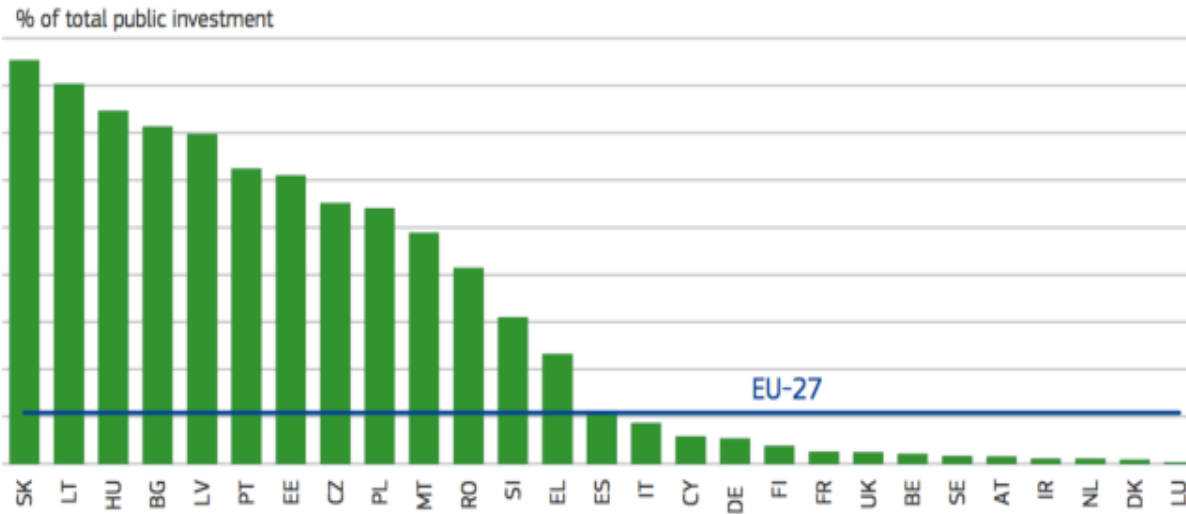
It proceeded until 2003, mostly due to the phase of accepting the *acquis communautaire* along with the association phase.

Establishing effective, appropriate, market-supporting institutions has been regarded as the necessary condition for an internal common market and is reflected in European Union law.

However, since 2003 the convergence process slowed down in all countries. Without an external pressure own propensity for institutional improvements seems to be low.

A weak relation between the political profile of government and type of economic policy: „left” more socially oriented, „right” opting for more liberal type of policies.

The role of Cohesion policy



Source: Eurostat, DG REGIO

An important source of public investment (up to 90%!).

Strong reliance of CP funds in public policies.

The inflow of external funds does not necessarily induce sustainable, efficient growth demand-side effects prevailing over the supply-side effects).

Traditionally weak policy management and implementation systems and constrained domestic public expenditure.

Infrastructure consumes up to two thirds of spending.

Difficult inter-ministerial co-ordination (silo effect).

Why do we commit the same mistakes that other had already committed?

A social psychology of Cohesion Policy ...



The assumed sequence underlying CP:

we give funds – less developed regions grow faster – people have better living - usually does not work.

In public consciousness all benefits of EU membership are **limited to the funds** coming from the EU.

Fetish of absorption: we have to spend all, preferably on infrastructure (the easiest and most visible).

Easy money **easily spent:** we look for problems to spend the money and not for money to solve the problems.

Own, genuine **strategic thinking** replaced by following the CEC guidelines. Strategies meaningless, oriented only to **justify receiving and spending** the EU funds.

Evaluation fragmented, often subordinated to the expectations of the institutions that are to be evaluated. And often these institutions do not want to learn anything.

Scenarios for Europe



A strategy of modernisation of the CEECs economies leads to a more expansionary scenario. If Western countries also move towards an industrial strategy, a modernising strategy pays off the most for both groups of countries.

This choice is associated with lower increases in regional disparities.

Whatever the choice made by Western countries, thanks to the spillovers and positive effects that modernisation generates in all sectors and regions, there is a drive towards higher GDP growth rates in Eastern countries, and a relatively lower inter-national disparity level.

A growing importance of second-order (non-capital) cities.

The scenario results strengthen the main message of the whole GRINCOH project, highlighting the importance for the CEECs to move towards an endogenous growth pattern.

And finally – policy suggestions

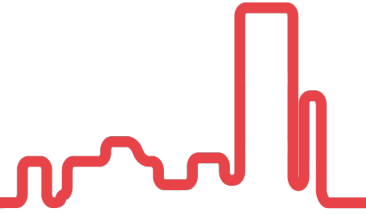
A red line graphic that starts as a horizontal line and then rises into a jagged, step-like pattern on the right side of the slide.

The CEECs should move towards a new and different stage of development, relying less on FDI and more on endogenous investments, taking advantage of technological multipliers and technological spillovers from multinational companies into the local fabric.

National and EU R&D and innovation policies should be strengthened and should be much more country-specific and should recognise differences in the compensatory effects of EU Structural and Investment Funds. Also, this would require much better understanding of the different roles of RDI in different regions.

An integrated system of social policies should be established that would create a policy mix in different fields of social protection (in family policies, rehabilitation policies, labour market inclusion and activation, childcare, etc.

Policy suggestions cont.



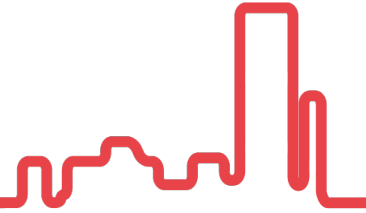
Labour market policies should be oriented to focus on the problem of massive numbers of unskilled workers.

More life-long learning should be developed.

A higher capacity, better selected, better trained and better motivated civil service can be expected to contribute to improving policy-making in the field of labour market policy.

Institutional harmonisation has to be adapted to the institutional framework of each country. In some of them, limiting rent-seeking behaviour by stakeholders and fighting corruption appear to be basic requirements.

Policy suggestions cont.



There is a need to improve national and local government activity in the promotion, financing and management of regional development projects.

There is a necessity to enlarge development areas beyond the small group of core areas (metropolises, capital regions), towards second (and third)-rank cities.

Regional development policies should act through integrated territorial projects and “territorial platforms”, keeping in mind the multi-dimensional nature of development and the necessity to focus on the specificities and potentials of territories.

And suggestions for the Cohesion policy



Change in **psychological attitude** towards a readiness to apply own financing - which should be promoted already during the current (2014-20) financial perspective.

More stress on the creation of **innovative economic structures** and entities at the expense of funding infrastructure, also in the R&D sphere .

Infrastructure should be created only where and when its underdevelopment is a barrier for economic efficiency and social cohesion.

More engagement in **interregional cooperation** in the spheres co-financed by Cohesion policy, especially in areas such as R&D and innovation creation and dissemination.

Evaluation should become more strategic and substantial and less formal, more objective and integrated in order to overcome the fragmentation of Cohesion policy into several Directorates General.

A final message of GRINCOH

A red line graphic that starts as a horizontal line and then rises into a jagged, step-like pattern on the right side of the slide.

The traditional division of the EU into “old” and “new” Member States becomes obsolete, due to two phenomena: completion of the post-socialist transformation process, and diversified reactions of particular European countries to the financial crisis which have not followed a clear east-west division but were also revealed north-south differences.

Thus the typologies of the EU Member States have become more complex, making the interrelationships within the EU also more complicated.

A red line graphic that starts as a straight horizontal line from the left edge of the slide and then transitions into a jagged, step-like pattern on the right side.

Thank you for your attention