CENTRAL EUROPE IN THE EU: SUCCESSES AND FAILURES, THREATS AND OPPORTUNITIES

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Success of transformation
GDP dynamics, 1989=100

Most countries demonstrated growth, though there were distinct groups.
After accession and crisis: generally better than Western Europe

Even the slowest growing CEECs grew faster than most of the fastest EU-17 MS. None of the CEECs noted a decline as deep as the worst EU-17 MS. However, convergence to the West slower than before the crisis.
2018 forecast

Map by the Economist, Source: European Commission
Can it last forever? NO!
Major challenges for the new Member States

The catching-up process was mostly based on external resources.

Innovativeness of the CEEC economies has not grown sufficiently.

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

The danger of disappearance of the low-cost types of production, weak new sources of competitive advantage.

Demographic challenge: low fertility rates, outmigration, aging societies, pressure on pension systems.

Environmental challenge: dependence on fossil fuels, heavy pollution, underdeveloped environmental infrastructure.

Caught in the „middle income trap”. Can the membership and Cohesion Policy help them overcome it?
CEEC weaknesses: demography

Change in population, 2001-2011

Population change (1989=100)

Median age of population
CEEC weaknesses: dependence in technology imports

Employment share in low tech manufacturing

Share of employment in low-technology manufacturing, 2015

Low-technology manufacturing is defined as the following sectors of activity: 11, Metal products; 13, Food products; 14, Textiles; 15, Furniture; 16, Wood products; 17, Leather products; 19, Printing and publishing; 23, Other manufacturing excluding medical and dental instruments.

Source: Eurostat

KIT Project
CEEC weaknesses: low innovativeness

European Innovation Scoreboard 2016

Map 14 Regional innovation growth performance, 2008-2014

For Cyprus, Estonia, Latvia, Lithuania, Luxembourg and Malta, performance group membership is identical to that in the European Innovation Scoreboard 2016 report.

Source: Montfort Economic and Social Research Institute on Innovation and Technology.
Dependance on transfers from the EU

ERDF & CF as a % of Government Capital Investment 2007-2013
EU27 = 6.5% AVERAGE
Regional patterns CEE
GDP per capita 2014, euro

Absolute values

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<thead>
<tr>
<th>GDP per capita 2014</th>
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<tr>
<td>21 000 do 34 000</td>
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<td>14 000 do 21 000</td>
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<td>12 000 do 14 000</td>
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<td>5 000 do 6 000</td>
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<td>3 000 do 5 000</td>
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Country=100

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<tr>
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<td>125 do 140</td>
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<td>105 do 125</td>
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<td>95 do 105</td>
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<td>75 do 95</td>
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<td>60 do 75</td>
<td>71</td>
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<tr>
<td>43 do 60</td>
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</tbody>
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country average = 100
Regional growth, 2008-2014

In percent

Real GDP growth 2008=100
- 123 to 138.9 (22)
- 114.8 to 123 (19)
- 109.5 to 114.8 (30)
- 103.4 to 109.5 (37)
- 98.4 to 103.4 (31)
- 92.9 to 98.4 (39)
- 84.4 to 92.9 (31)
- 60.4 to 84.4 (7)

Country = 100

Real GDP growth 2008-2014
country average = 100
- 110 to 136.9 (16)
- 105 to 110 (21)
- 102 to 105 (26)
- 98 to 102 (38)
- 95 to 98 (41)
- 90 to 95 (45)
- 60.6 to 90 (29)
Convergence of countries, divergence within countries

Regional convergence, but….

Metropolisation - the strongest factor of divergence. Weakening?

Without the largest cities in some CEECs - weak convergence
Regional patterns, Poland

GDP per capita, 2014, NUTS3, Poland=100

Real GDP growth, 2010-2014, NUTS3, Poland=111.7
The future of the CEECs in the EU

White Paper on the Future of Europe, March 2017

Priorities of the EU for the future:

1. Single market integration and trade (?).
2. Monetary and economic union
   (Czech Rep., Bulgaria, Croatia, Hungary, Poland, Romania out).
3. Migration and security (strong opposition in most).
4. Innovation and technological progress (weak absorption).
5. Environmental protection and decarbonisation
   (Poland & Greece against)
6. Foreign and defense policy (rather positive, Poland sceptic).
Share of non-nationals in the resident population, 1 January 2016 (%)
Attitudes towards refugees quota

A Possible EU Coalition of the Willing on Refugees

- Support an EU refugees quota system if paired with coordinated external border control
- Support a quota system & coordinated border control agreement as long as a number of their refugees get distributed among other EU states
- Undefined positions/not in Schengen
- Very unlikely to agree
- Strictly opposed to a European solution
New targets for (smaller?) financing

• Less for:
  – regional development;
  – health care
  – labour market intervention

• More for:
  – innovation;
  – handling immigration;
  – environment (decarbonisation)
  – defence and security
Scenarios for Europe

1. Carrying on
2. Nothing but the single market*)
3. Those who want more do more
4. Doing less more efficiently
5. Doing much more together

*) plus the money

As a result: Europe of several speeds
Institutional divergence, conservatism and social attitudes

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.

Since 2003 the convergence process slowed down in all countries. Without external pressure own propensity for institutional improvements was low.

Recently – a reversal of institutional change.

One hypothesis: closed societies manipulated by „conservative” politicians

„Social psychology” of Cohesion Policy and the CAP: perception as „easy money” which we deserve by definition.

Priviliges without obligations.
The role of CEECs in the EU

1. CEE as a laboratory of change
2. In most cases successful economic transformation, though challenges mounting in the future
3. A diverse group – more and less reliable members
4. But „bad boys” challenge EU principles and do not agree to join common policies (Euro perhaps the most important)
5. Unfortunately Poland appears to be the „leader of the gang”
6. Also in some countries corruption is still a problem
7. Dramatic decrease of EU transfers possible and depending on agreements to various common policies
8. Polexit? Hunexit?
9. Hopefully not.
Institutions, stupid!

Thank you for your attention

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