CENTRAL EUROPE IN THE EU:
BEYOND ECONOMICS

Grzegorz Gorzelak

The Evolving Role of Central Europe in the European Economy
„Crystal Ball” Panel.
7th Annual NBP Conference on the Future of the European Economy
20 October in Warsaw
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 MSs. 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.
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: dependance in technology imports

Employment share in low tech manufacturing

Share of employment in low-technology manufacturing, 2015
CEEC weaknesses: low innovativeness

European Regional Innovation Scoreboard 2016

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

Civilisational improvement. Lesser progress in economic competitiveness
The future of the CEECs in the EU

White Paper on the Future of Europe, March 2017

Priorities of the EU for the future and NMSs reactions:

1. Single market integration and trade (rather positive).

2. Monetary and economic union (Czech Rep., Bulgaria, Croatia, Hungary, Poland, Romania not in the Eurozone).

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 response, only Poland sceptic).
New targets for financing post 2020

• 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 (two?) speeds. Two budgets. Winners and losers.
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 – in several NMSs a reversal of institutional change.

One hypothesis: closed societies manipulated by „conservative” politicians.

„Social psychology” of Cohesion Policy: perception as „easy money” which we deserve „by nature”.

Priviliges without obligations.
The future role of CEECs in the EU

1. In most cases successful economic transformation, though challenges mounting for the future

2. A diverse group – more and less reliable MSs

3. But several NMSs challenge the EU principles and do not wish to join common policies (Euro perhaps the most important)

4. Also in some countries corruption is still a problem

5. Dramatic decrease of EU transfers possible and depending on consent to various common policies

The final message

• Culture matters. And nowadays institutions are the most important

• If the NMSs are marginalised in the EU because of their denial of the very principles of deliberative liberal democracy –

• and if they withdraw from participating in the most important common policies -

• they will not be able to overcome challenges facing their economic development.
Thank you for your attention

gorzelak@post.pl
www.euroreg.uw.edu.pl
www.grincoh.eu