

CENTRAL EUROPE AND BALTICS: Rise and Reintegration Great Success. What Comes Next?

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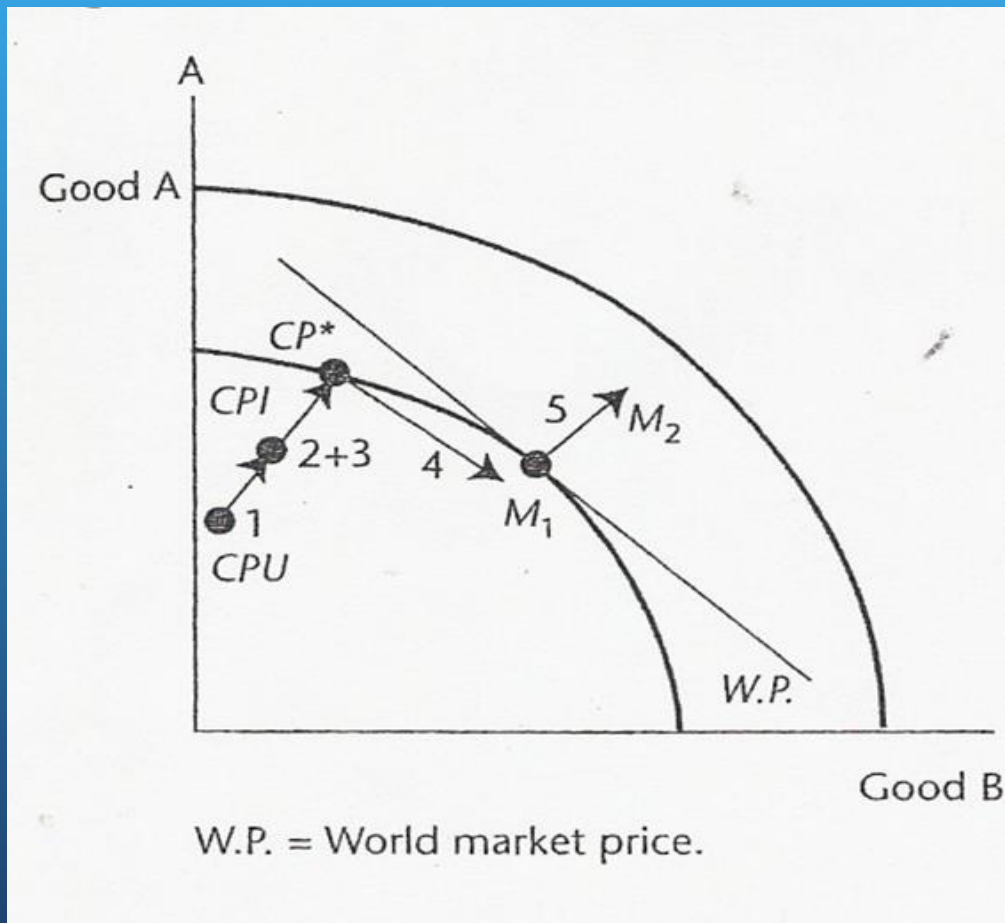
INTRODUCTION

- In interest of time, I will focus on second issue raised in Conference Concept note :
 - What are the new sources of growth in CEB?
 - What is the “new model” so often mentioned?
- To discuss where CEB is going next, useful to understand where one is coming from; start with questions:
 - What was nature of growth since 1989 ?
 - What different stages did it pass through ?

FOUR MAIN POINTS TO EMPHASISE

- I. First 2 decades: growth transition-based ,*i.e.* correcting *socialist distortions* , NOT conventional growth
- II. Future growth **WILL BE** more conventional *i.e.*
 - Investment/expansion [K+L+HK] + productivity
 - Can be export or consumption driven, product upgrading , IT services , etc.
- III. EU trade-invest. links will remain predominant, but strongest **NEW** comp.adv . of CEB : relations East
- IV. Policies needed to support new model

TRANSITION GROWTH=EFFICIENCY: MOVE FROM INSIDE, TO FRONTIER



II. FUTURE GROWTH:

Is More Conventional The New Model ?

- **MAIN DRIVERS OF GROWTH** no longer correcting distortions ,but more conventional factor expansion (even L!) + productivity
- **DISTINCTION TRANSITION vs. EXTENSIVE GROWTH** -- important for policy strategies
- **QUALIFIER:** socialist distortion corrections **NOT YET COMPLETE**; institutions still lag behind OECD, thus room to refine and continue efficiency gains.
 - However ,must recognise INST. achievements substantial; today CEB rankings for ROL, EDB, **CORRUPTION** = or > SEASIA Tigers!!

II. (cont'd) MOST LIKELY SOURCES OF NEW GROWTH

- EU exports still grow , about = EUGDP – but share unlikely to increase
- Even for constant share, need continued tech-intensification + INV to meet Eastern competition
- Catch-up consumption/infrastructure continues
- Major new opportunity: CEB a bridge for trade & investment with Eastern neighbours; many reasons to believe CEB producers/investors have strong advantage in these markets

III. CEB ADVANTAGES IN EAST

- CEB 1990-2010 experienced what FSU (arguably) about to see
- Lower wages with high-skills familiar concept, best exploited by CEB investments in FSU, in-migration to fill growing L & HK gaps
- Language and historical affinities, familiarity with systems, both formal and informal
- Even with some instability [Crimea, Donbas] CEB investors know better how to function in East

BOTTOM LINE :CEB as bridge WEU<>FSU
has many new growth opportunities

IV. POLICIES NEEDED TO SUPPORT NEW OPPORTUNITIES

- **FIRST:** WC recipes still apply : maintain fiscal-monetary stability, complete institutional dev.
- **SECOND:** INV/GDP should return to mid-20's- must ensure/improve positive investment climate
- **THIRD:** invest in education, encourage reverse brain-drain
- **FOURTH:** Special but non-distortive support for HI-TECH research, incubators.
- **FIFTH:** diplomatic and economic actions to create stable , thriving, and accessible Eastern markets - not least: help bring end to RUS-UKR conflict

DZIEKUJE BARZO--

DYAKUYU ZA UVAHU—

THANK YOU FOR
YOUR ATTENTION