



# **GRINCOH Final Report: Main Theses**

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Growth – Innovation – Competitiveness: to Foster Cohesion in Central  
and Eastern Europe,  
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# Four and half years of cooperation

Centre for Regional and Local Studies (EUROREG)

The Vienna Institute for International Economic Studies (WIIW)

Institute of Economics, Hungarian Academy of Sciences (IEHAS)

School of Slavonic and East European Studies, University College London (UCL)

The Halle Institute for Economic Research (IWH)

European Policies Research Centre, University of Strathclyde (EPRC)

Building Environment, Science and Technology, Politecnico di Milano (BEST)

Bucharest Academy of Economic Studies (ASE)

Karelian Institute, University of North Finland (UEF)

Centre for Research in Economic Policy, University of Pécs (UP)

Institute of Baltic Studies (IBS)

Institute for Economic Research (IER)

Plus Country Representatives in Bulgaria, Czech Rep., Lithuania, Latvia, Slovakia.



# It was a brave proposal...

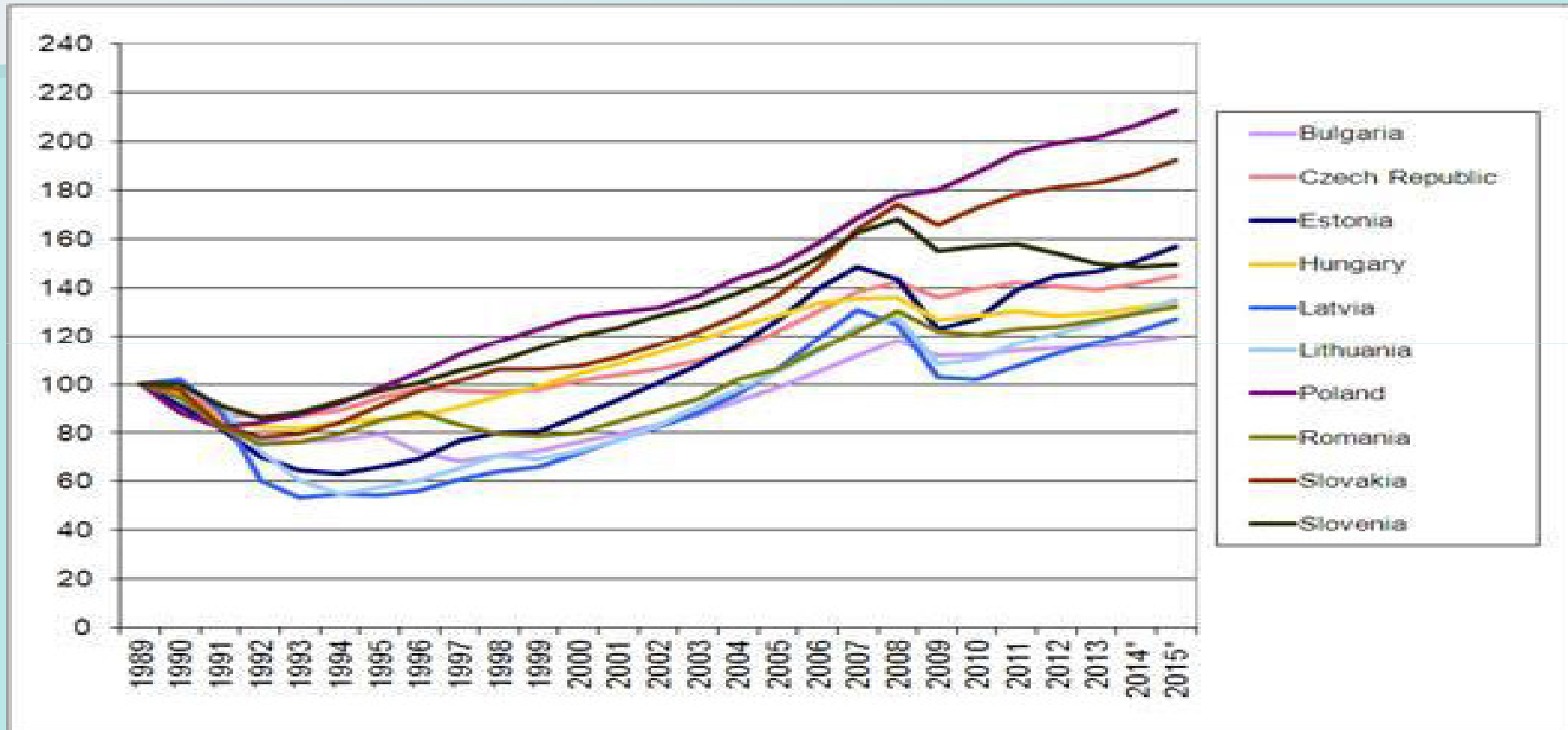
We did not succumb to the „traditional” approach to cohesion, in political correctness attached to „convergence”.

Instead, we risked proposing a new understanding of cohesion, in which economic performance, social awareness and innovativeness lead to „functional” cohesion, also in its territorial dimension.

Also, in spite of the general success of the post-socialist transformation and the first stage of EU membership, we were critical and sceptical about the previous course of economic development and its usefulness for the future.



# 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

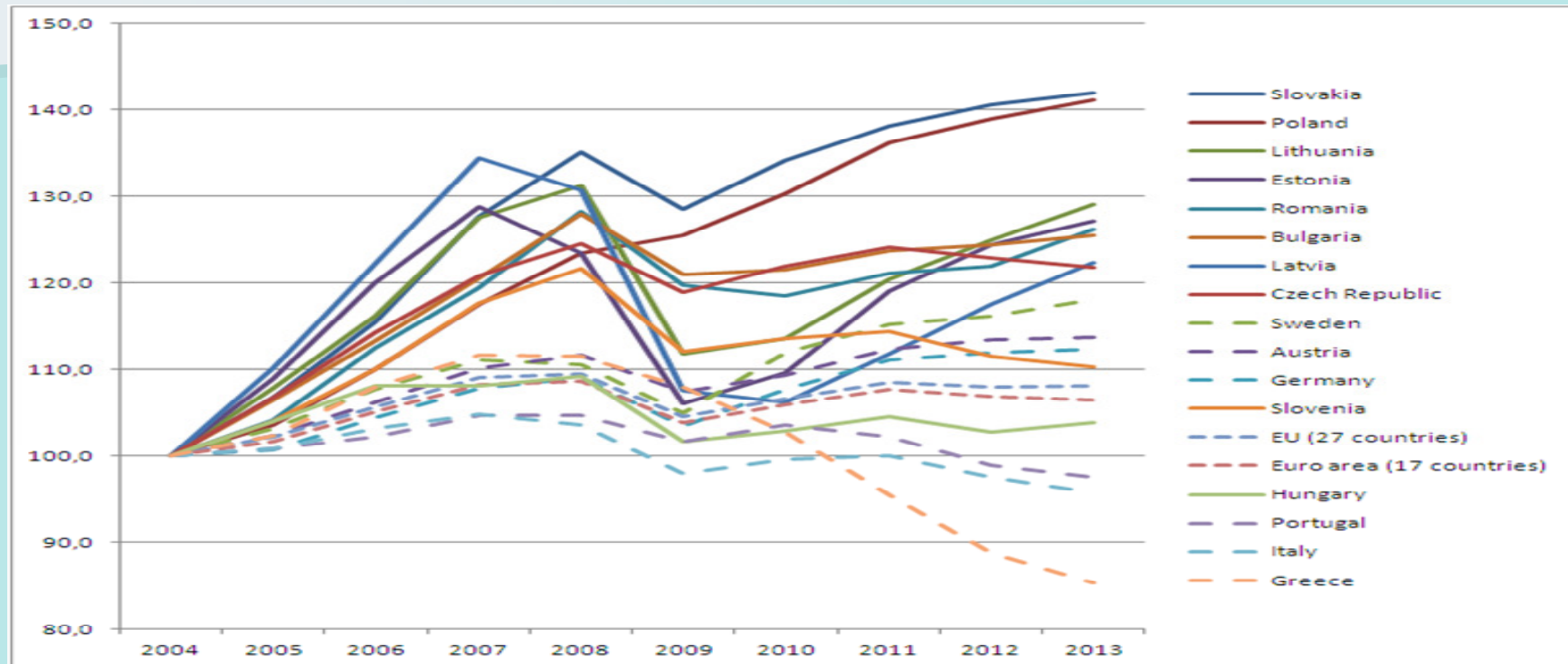


Figure 1: GDP growth, 2004=100

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.

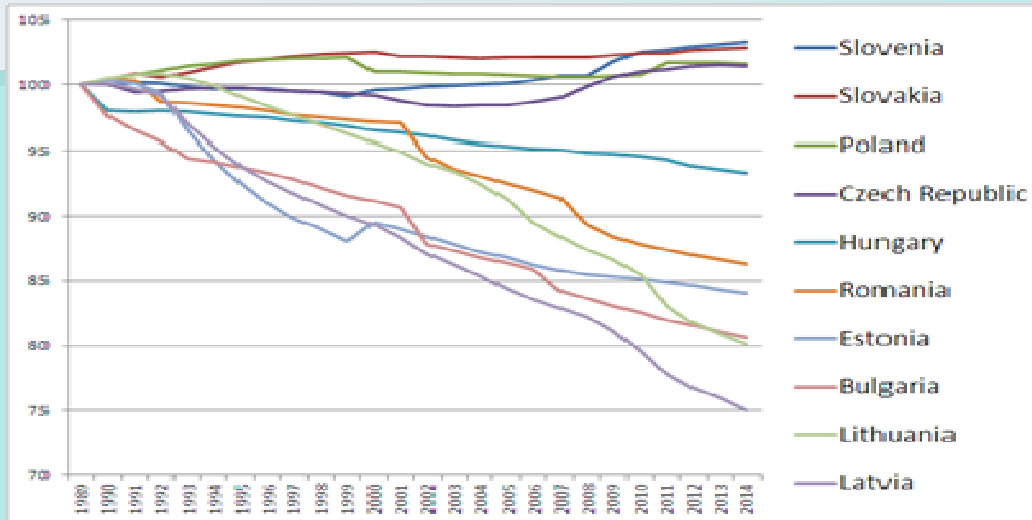
Also, the **innovativeness** of the CEEC economies has not grown sufficiently, and some indicators demonstrate stabilisation in R&D production and even **reduced patenting activity**.

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.

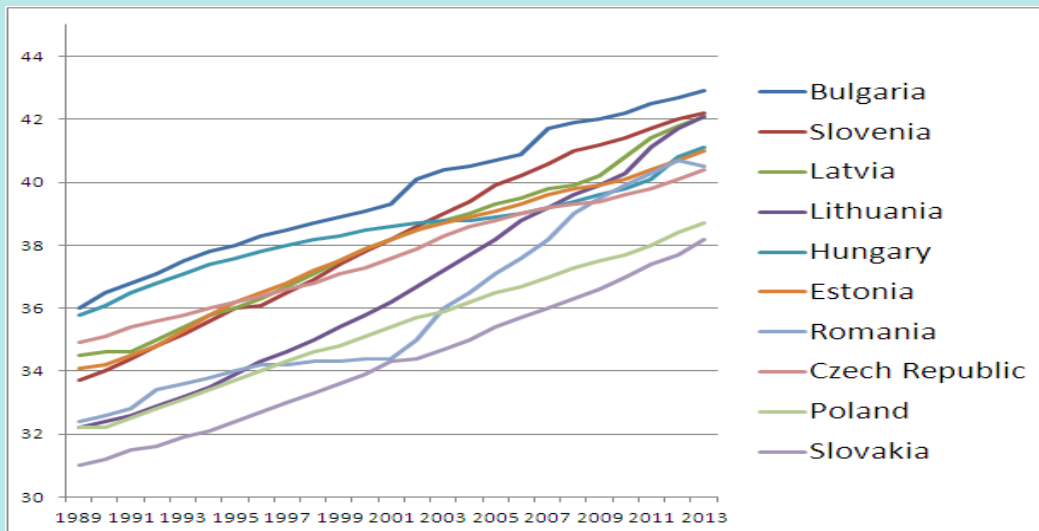


# Demographic challenge



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

The CEECs are not yet attractive for migrants from out 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.

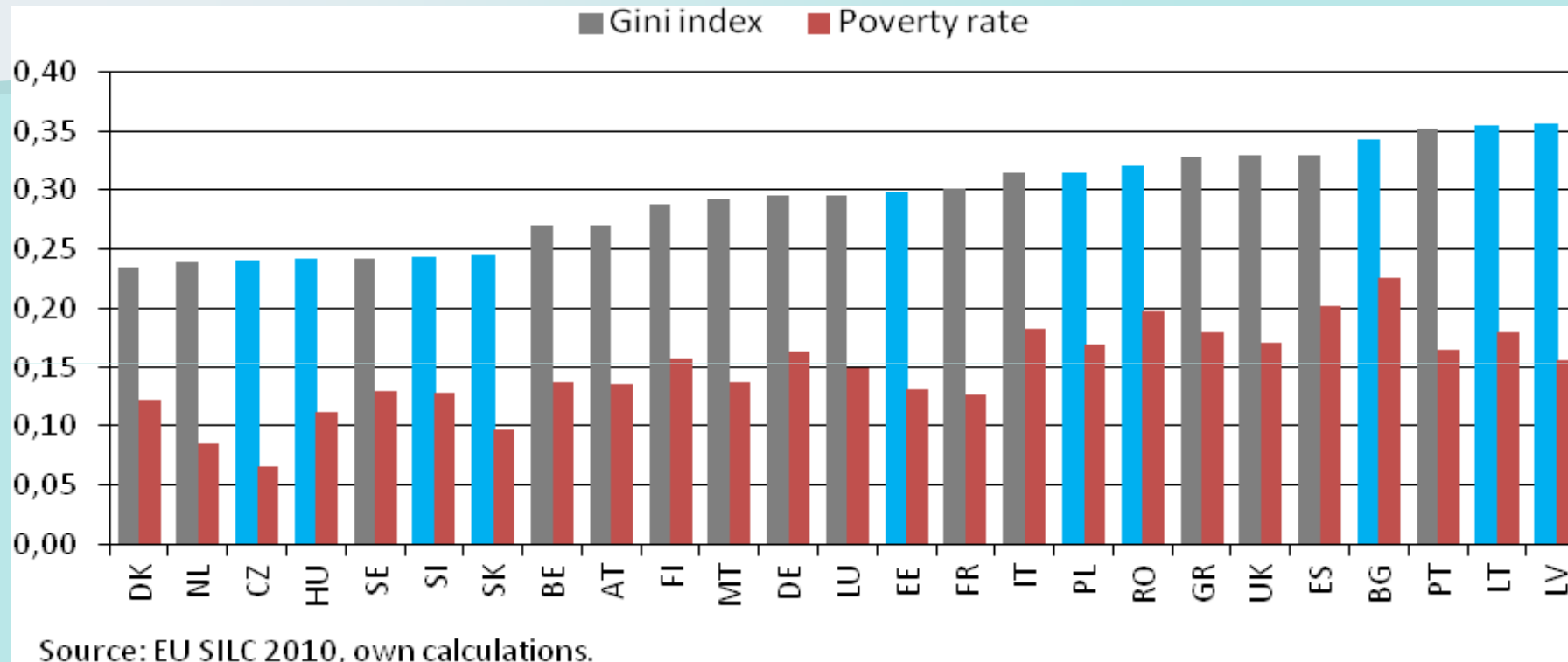
An improvement in skills level, but still low level of **life-long learning**.

Multidimensional disadvantages of the **Roma population**, also due to unsuccessful social and educational policies.





# Social cohesion

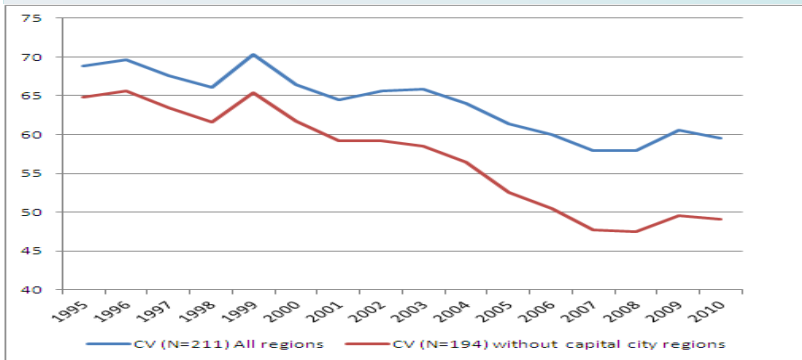


Varied levels of income inequalities. Also, varied reactions to the crisis.

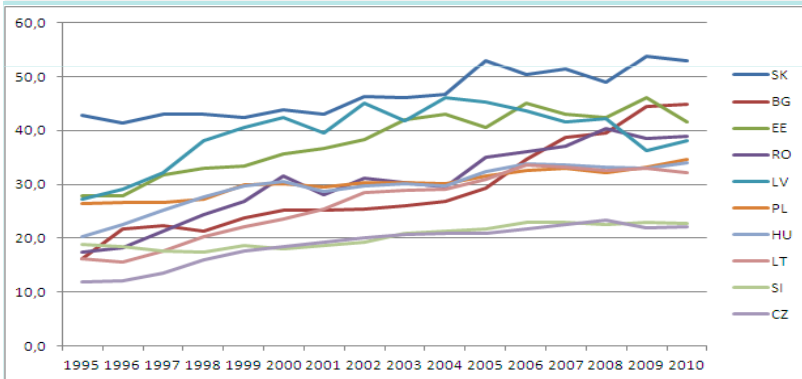
The lack of social cohesion (inequality and poverty) is weakening labour market participation - one of the outstanding social potentials of growth.



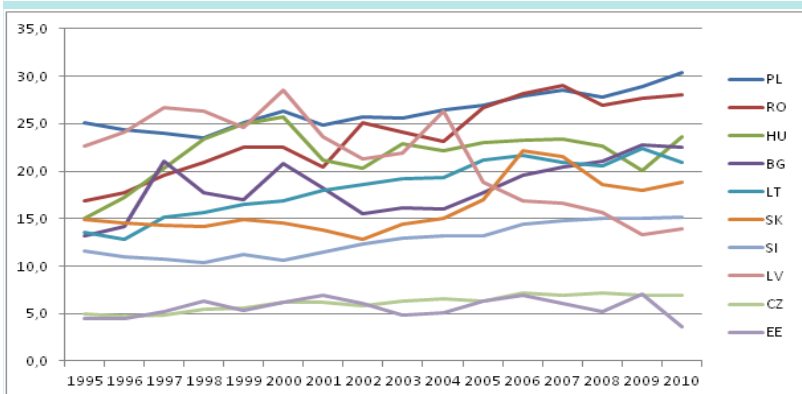
# Convergence of countries, divergence within countries



Regional convergence, but..



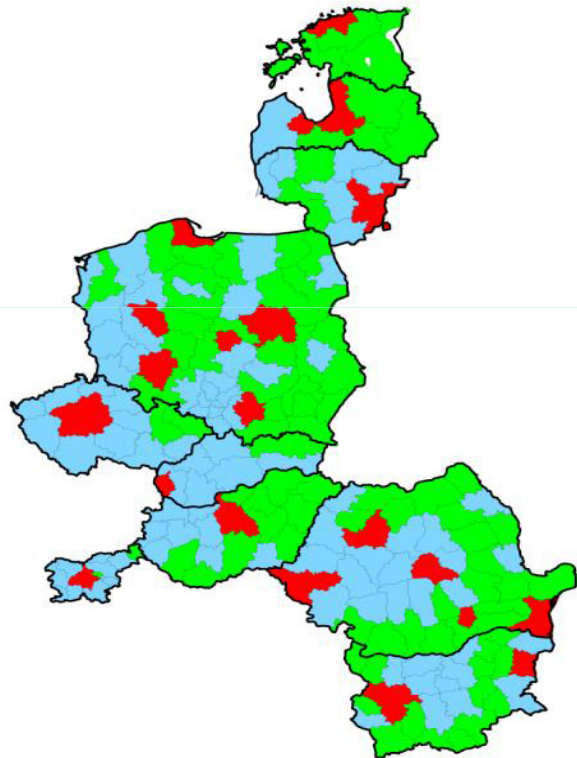
Metropolisation - the strongest factor of divergence within countries.






Without the largest cities in some CEECs - small and relatively stable differences between regions.



# 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

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.

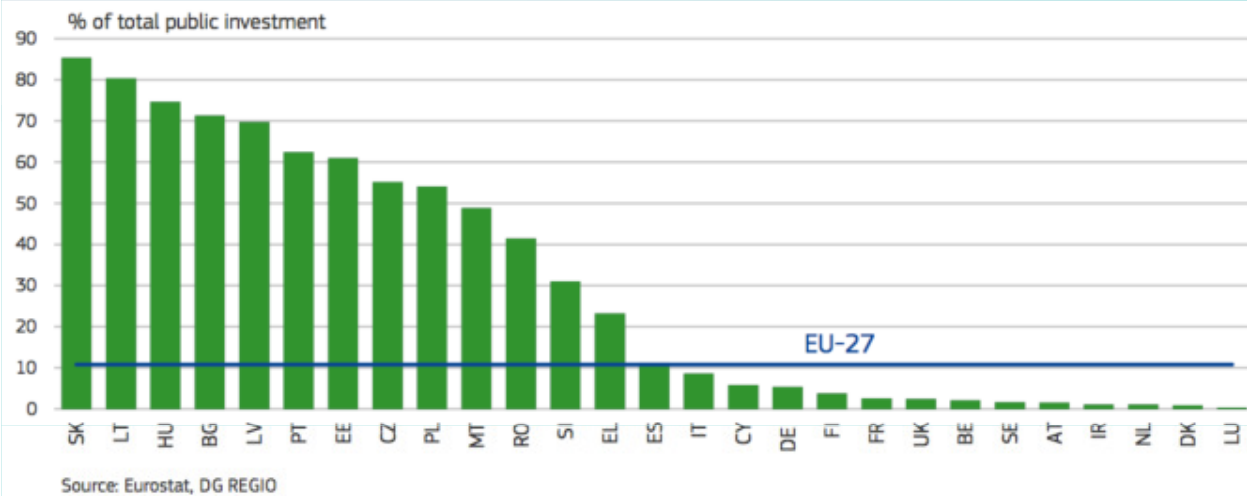
Establishing effective, appropriate, market-supporting institutions has been regarded as the necessary condition for an internal common market and is reflected in European Union law.

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



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.

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

Fetish of „absorption” overshadowing strategic choices.

Infrastructure consumes up to two thirds of spending.

Difficult inter-ministerial co-ordination.

Also, fragmented and often formal evaluation.



# 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 that 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

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

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.



# Thank you!

## And let us think about a next chance for co-operation.