CENTRE FOR EUROPEAN
REGIONAL AND LOCAL STUDIES
UNIVERSITY OF WARSAW

Growth – Innovation – Competitiveness: to Foster Cohesion in Central and Eastern Europe (GRINCOH)

Main Theses

Grzegorz Gorzelak

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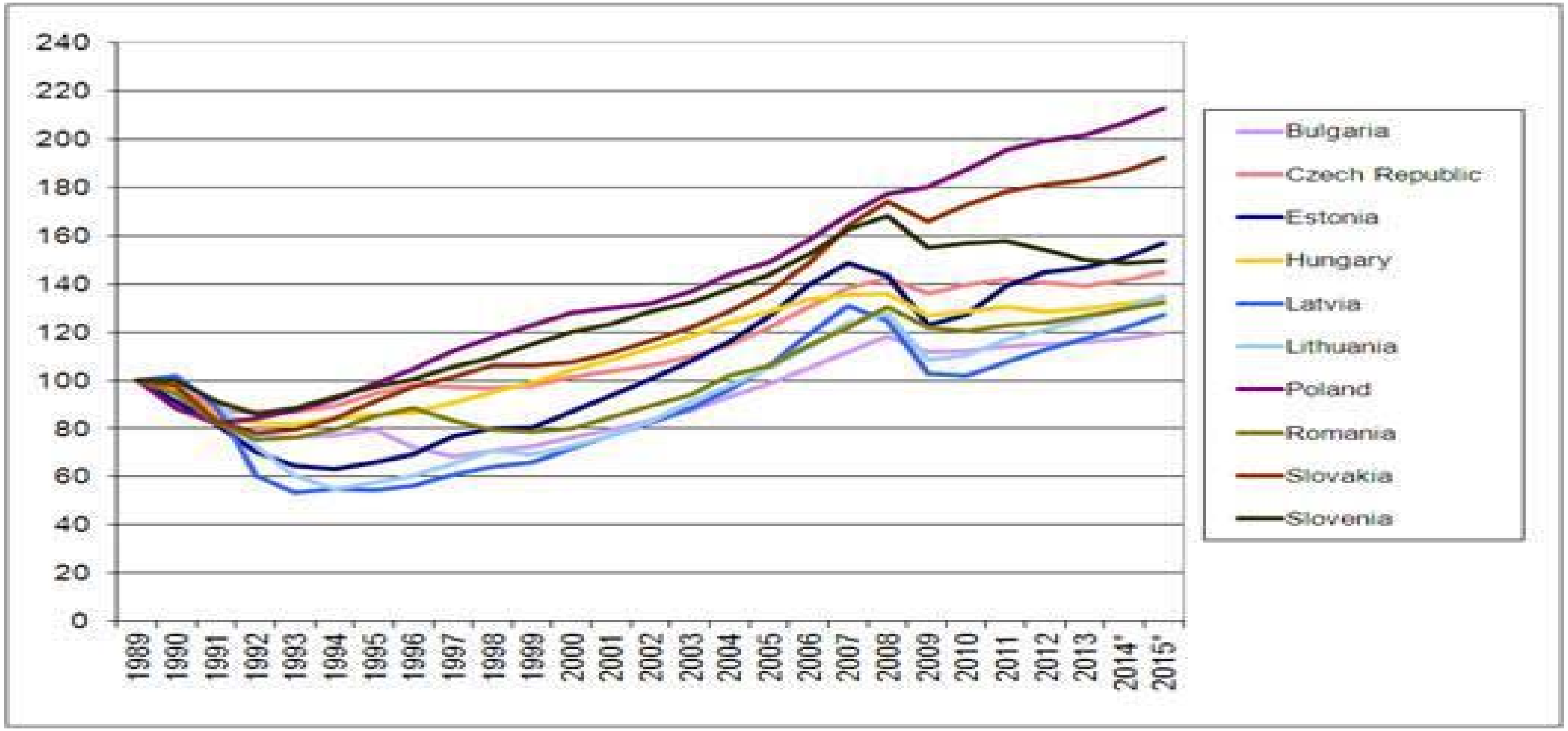
Main findings: economy. Success of transformation



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: better than Western Europe

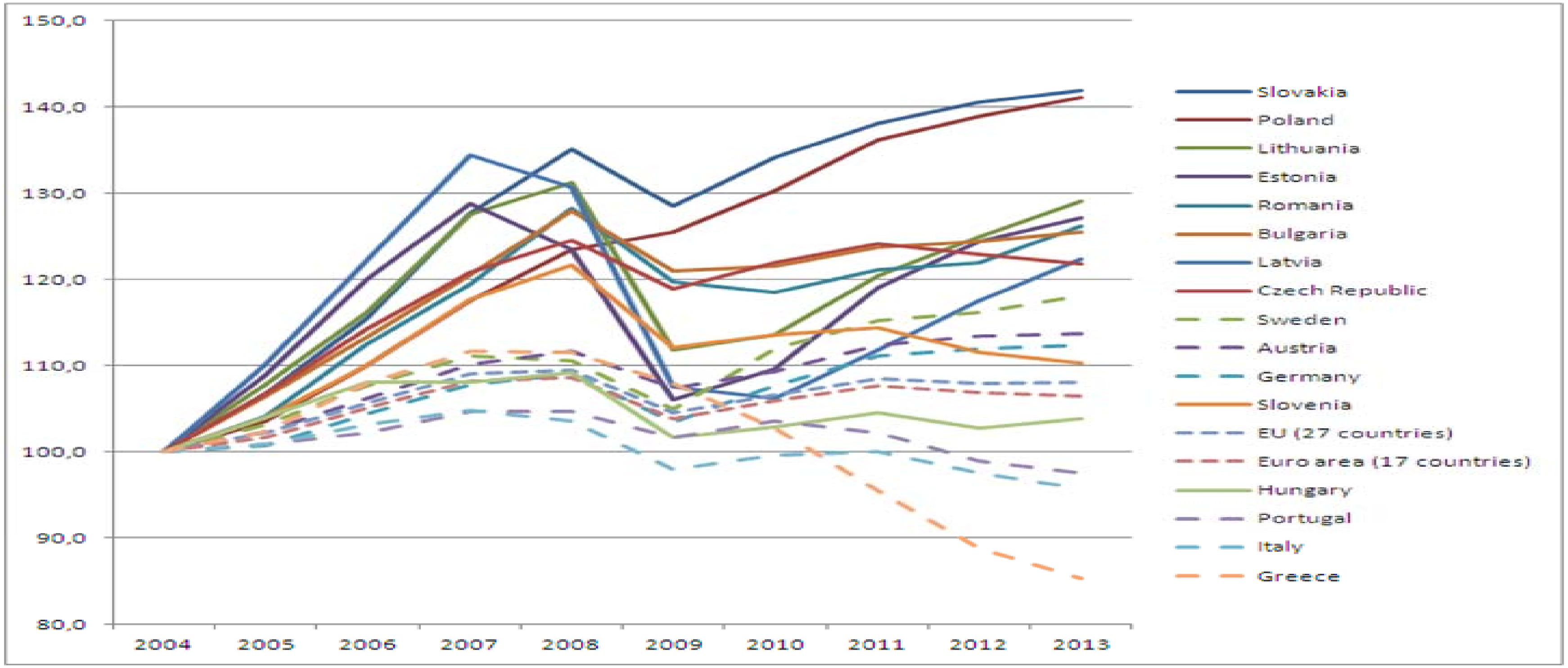


Figure 1: GDP growth, 2004=100

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?

Unfortunately, not. 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.

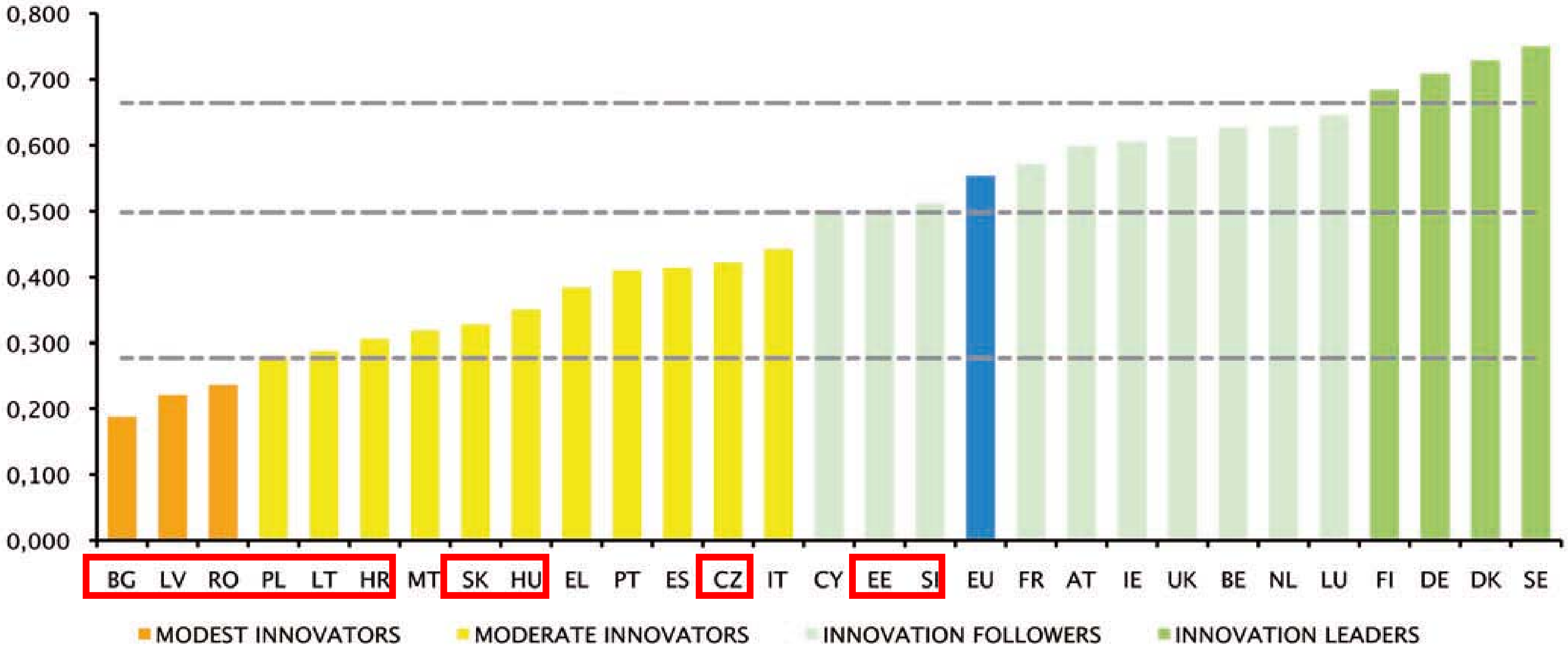
However, the technological activities of foreign subsidiaries in the CEECs are often implemented **without significant linkages** to various actors in the domestic innovation system.

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.

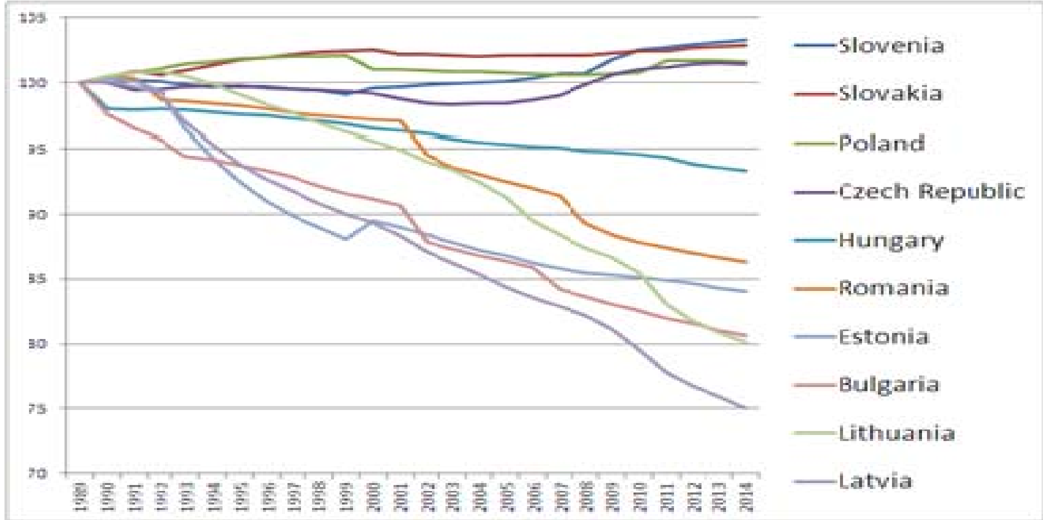
The disappearance of the former advantage enjoyed by the CEECs **in low-cost** types of production has not been replace by the generation of new sources of competitive advantage.

Poor innovation performance in most of new Member States…



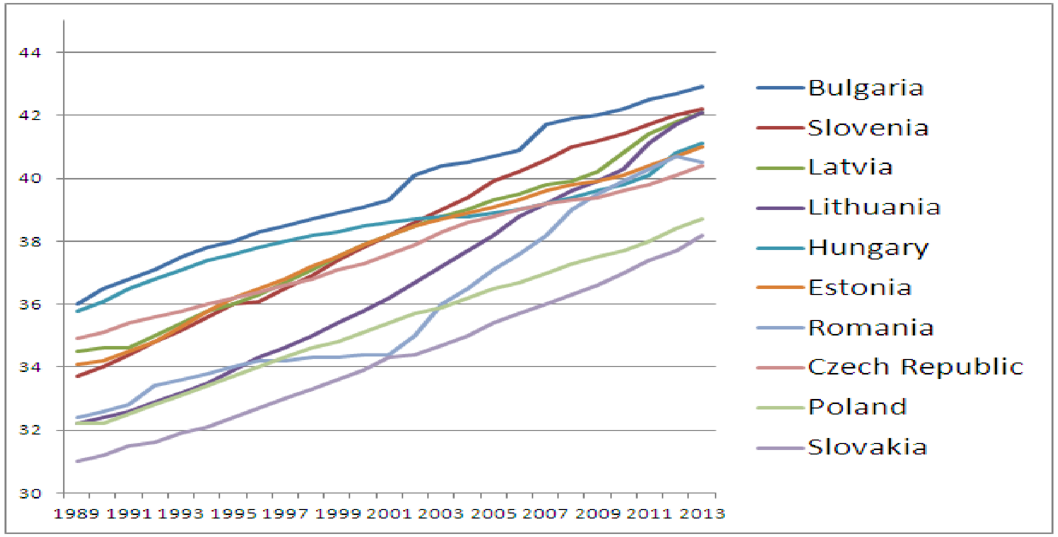
Source: *Innovation Union Scoreboard 2014*.

Demographic challenge



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

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



Ageing of population. Faster than in the EU-17.

Growing pressure on pension systems and cost of labour.

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Labour markets

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** .

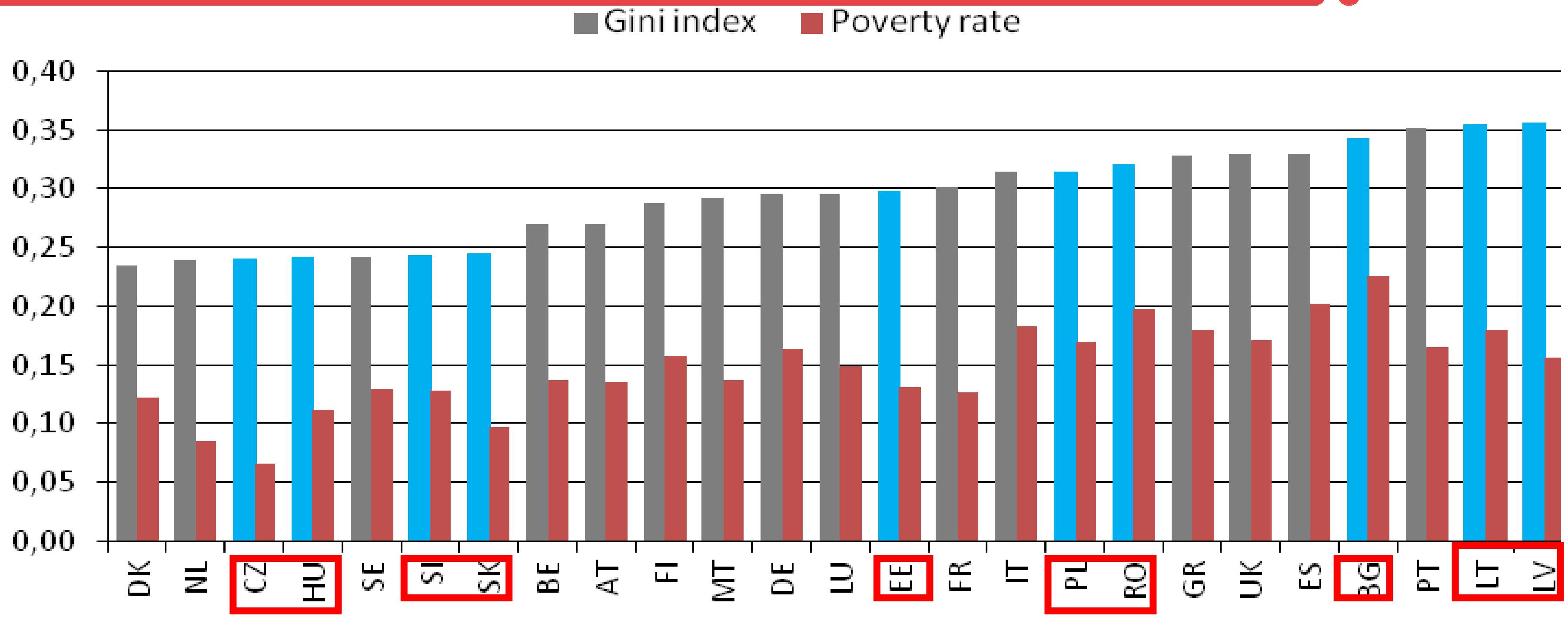
Youth unemployment about twice as high as the national average, but not as dramatic as in the southern MS.

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

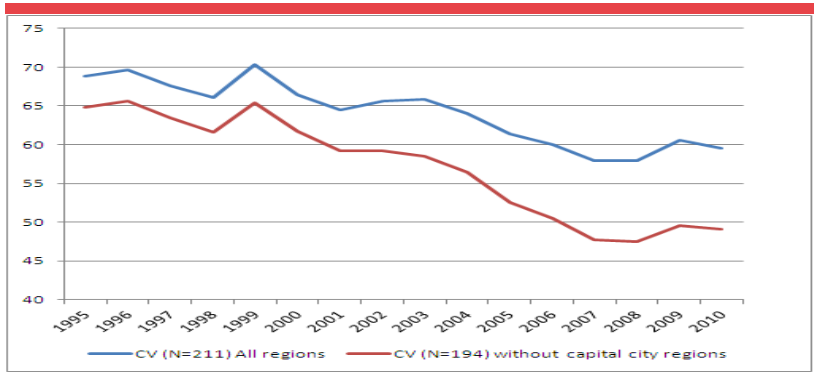


Source: EU SILC 2010, own calculations.

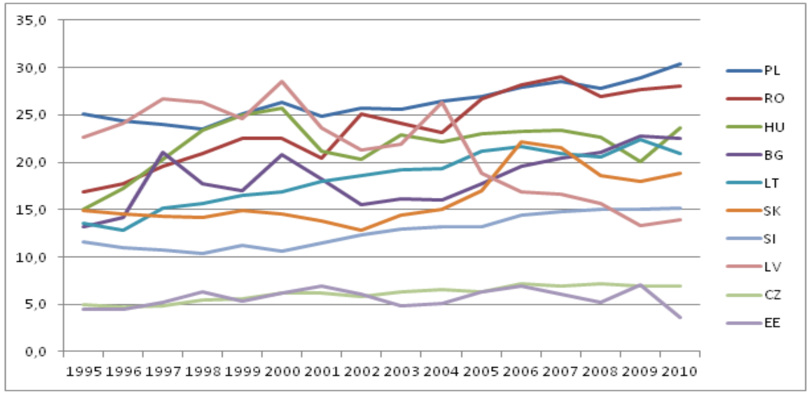
Varied levels of income inequalities. Also, varied reactions to the crisis.

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

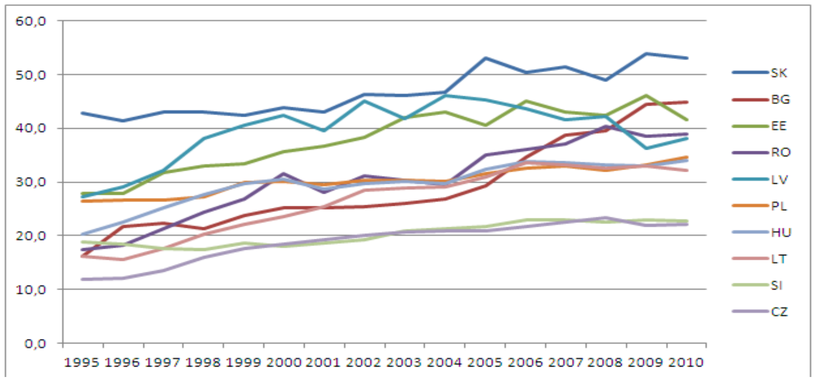
Convergence of countries, divergence within countires



Regional convergence, but..



Metropolisation - the strongest factor of divergence.



Without the largest cities in some CEECs - weak convergence

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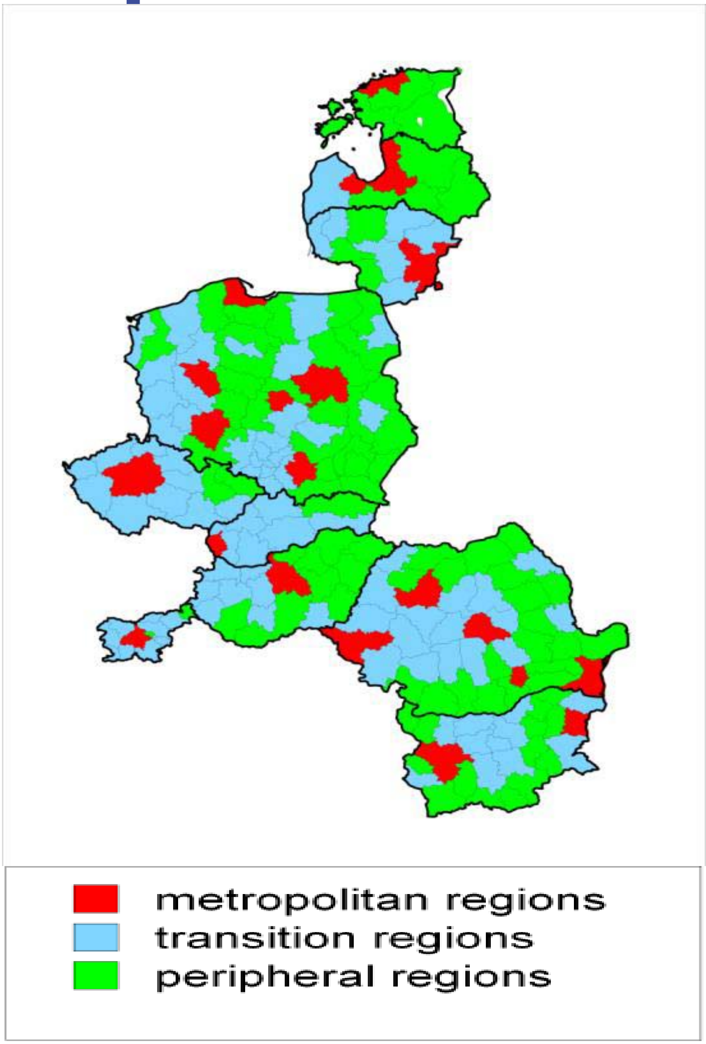
Regional typologies and spatial processes



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.

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Institutional convergence and impact of politics

Institutional convergence of the CEECs began after 1989.

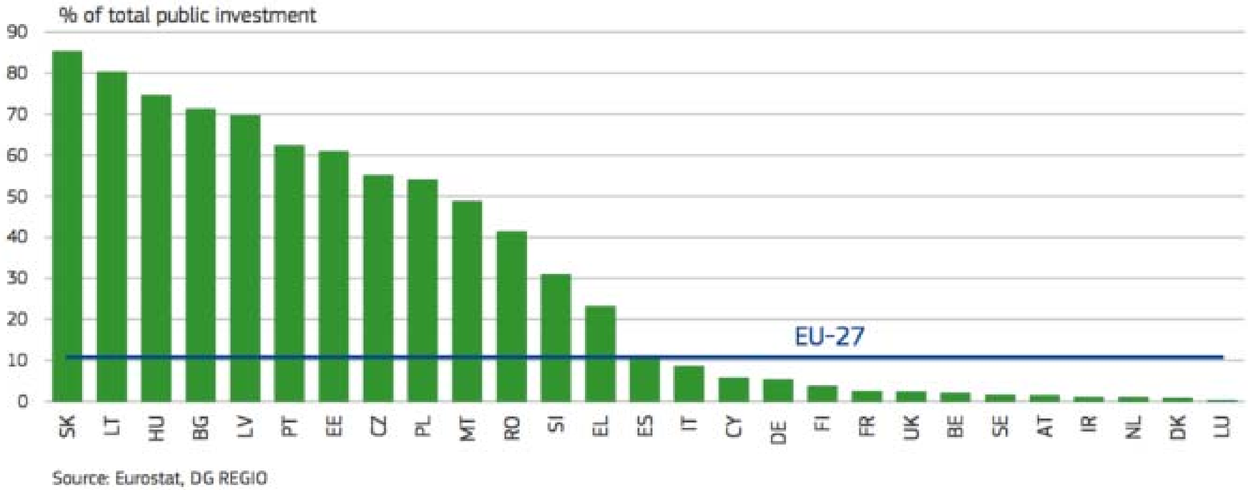
It proceeded until 2003, mostly due to the phase of accepting the *acquis communautaire* along with the association phase.

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.

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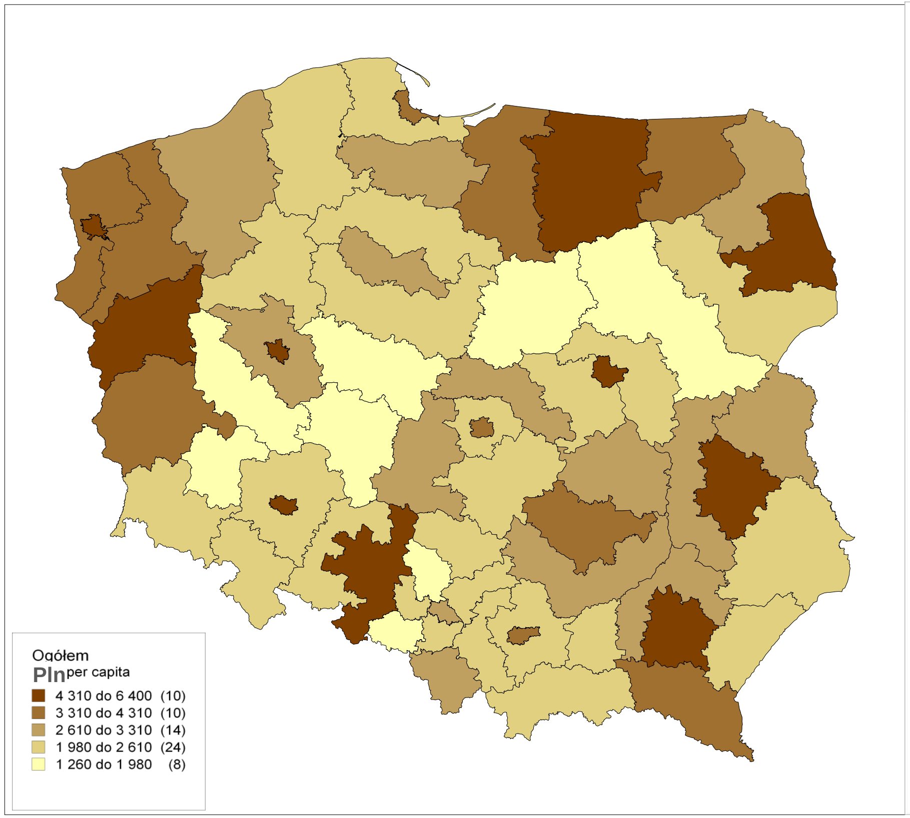
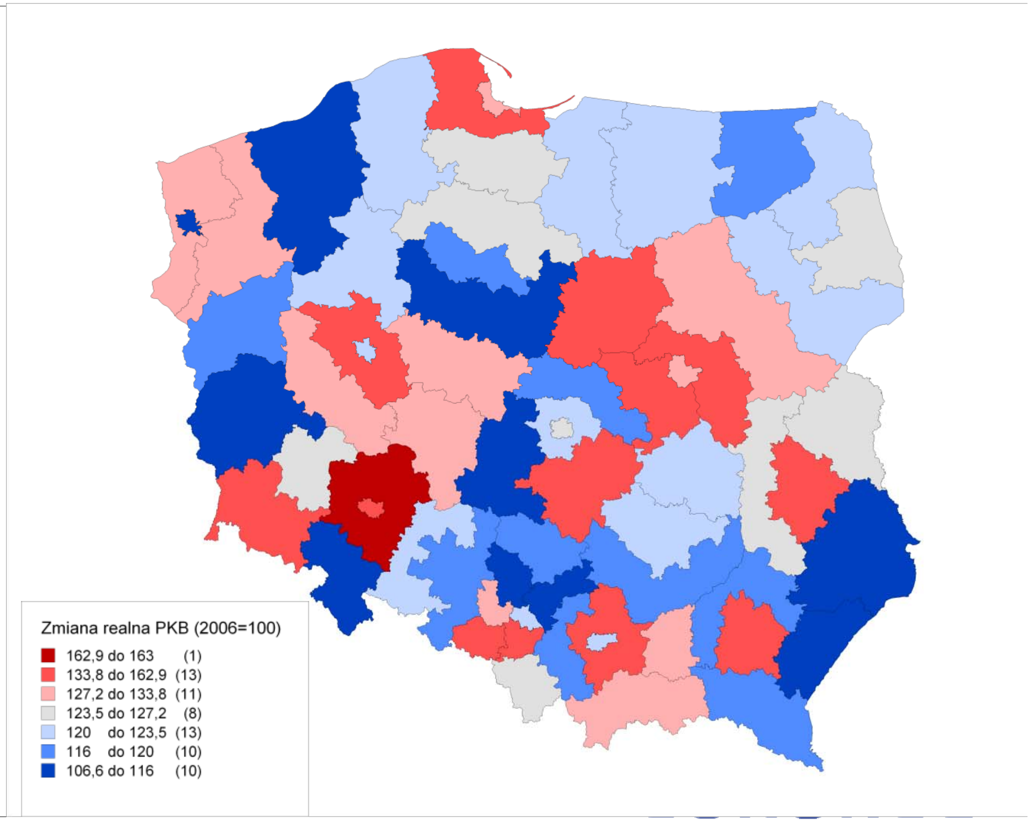
In Poland, NUTS3

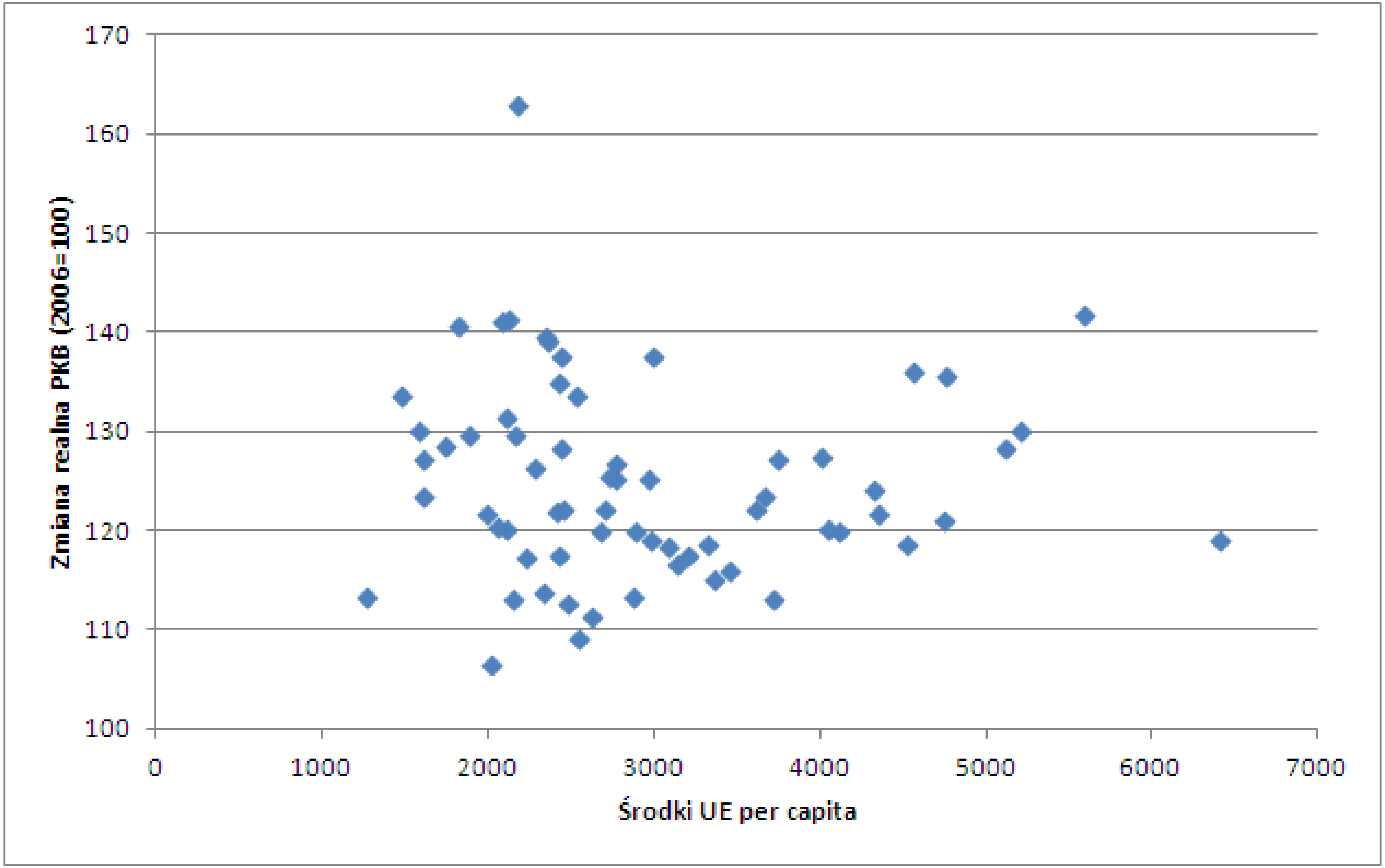
Cohesion Policy outlays per inhabitant 2007-2012

GDP dynamics, 2007-2012,





No relationship



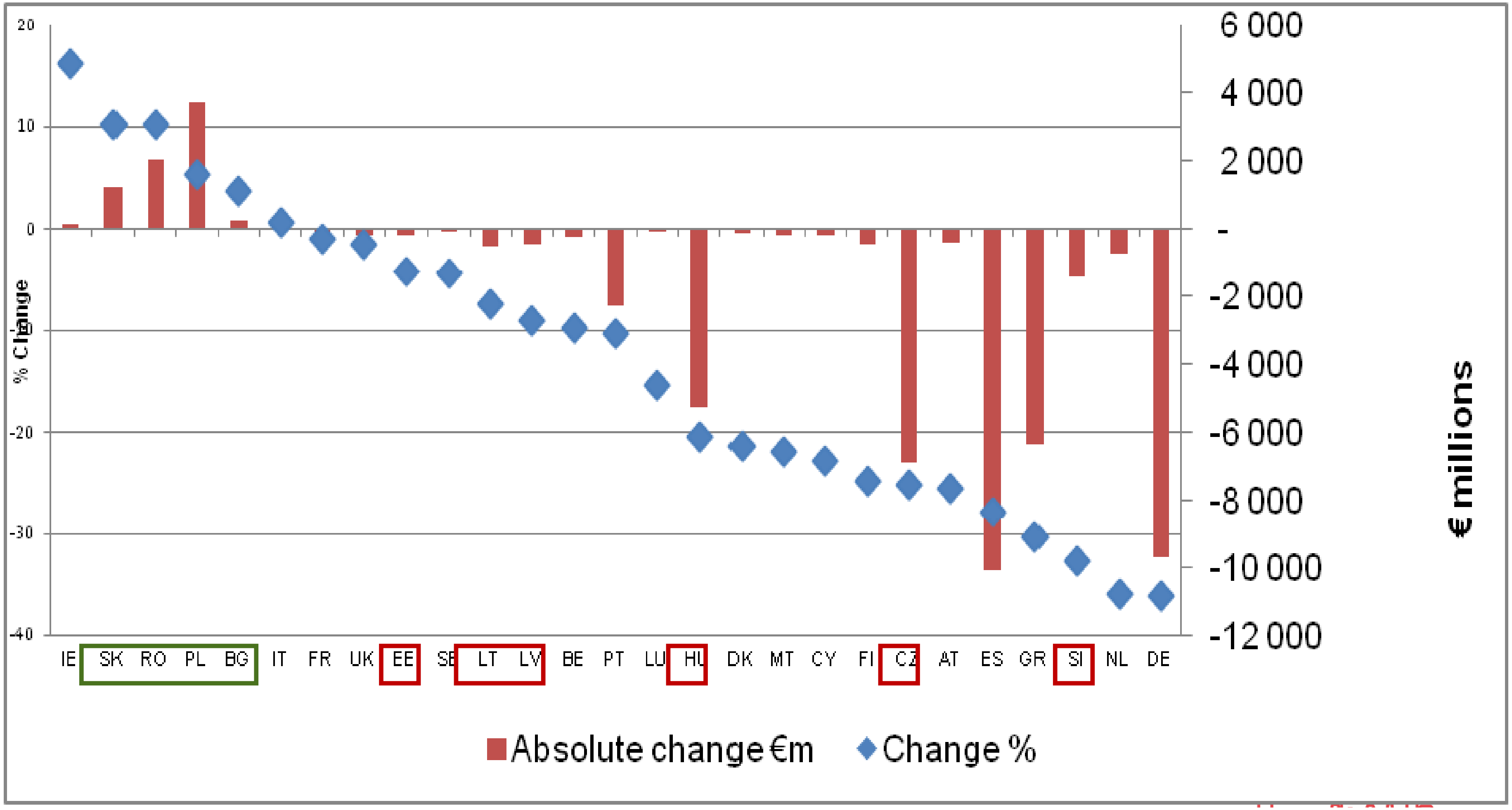
What do the local governments think about the effects of EU funds coming to their municipalities (N=1251, 2013/2014)

Effects	Big & very big	Average & weak	No effect	No opinion
Accelerated economic growth	22.1	**51.3**	8.4	12.8
New jobs created	11.5	**60.1**	12.3	9.4
Increased agricultural output	23.8	37.3	19.3	13.1
More competitive businesses	15.7	**49.0**	11.8	16.6
Inflow of new investors	12.5	**48.4**	20.9	10.6
Decreased unemployment	7.8	**55.5**	15.6	13.2
Improved standards of living	**44.5**	41.0	2.8	7.1
Improved environment	**55.9**	30.1	4.0	5.0

What changes should be introduced for 2014-2020? (N=1251, 2013/2014)

Type of change	Per cent
Increase the volume of funds	**81.7**
Loosen the criteria for awarding funds	68.7
Reduce reporting and control requirements	71.5
Increase non-returnable grants for firms	70.8
Increase returnable grants for enterprises	63.2
Increase funds for local infrastructure	**83.8**
Reduce funds for training	**52.3**
Increase direct payments for farmers	64.5
Strengthen the LEADER programme	64.9

Perspective 2014-2020: winners and losers



Source: EPRC, Strathclyde, for GRINCOH

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 infrastruture.

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 insttutions do not want to learn anything.

Suggestions for Cohesion policy

Change in psychological attitude towards a readiness to apply own financing - which should be promoted already during the current (2014-2020) 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.

However, own efforts necessary

- Cohesion policy will not save the new Member States, in the same manner as it will not save the Southern MSs.
- A need of more selective policy towards FDI and better responsiveness of national/regional environments of innovation impulses.
- Institutional reforms badly needed.
- Better social and labour policies could lead to increasing growth.
- Regional differentiation will have to proceed – strengthening of diffusion process the main challenge of regional policies.

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A final message

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.

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Thank you!

gorzelak@post.pl

www.euroreg.uw.edu.pl

www.grincoh.eu

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