In front of fiercer competition from outside Europe (especially from emerging countries), of the contraction of the internal European demand, following the crisis and the problems with public finances, and of the process of European integration that fostered increases in both wages and inflation in Eastern countries, European countries can no longer prosper without a clear long-run development strategy as they used to do before 2007.

The brief presents possible alternative growth strategies that the two blocks of European countries (Western and Eastern countries) can put in place to react to the structural changes produced by the crisis that call active industrial strategies. Scenarios are built in such a way that the results obtained depend on an interaction of different strategies of the two groups of countries. The analysis involves the development of scenarios over a time span of 18 years, from 2012, the latest year with actual data, up to 2030.

Evidence and Analysis
Results are rather interesting and have clear policy relevance (Fig. 1). A general remark is that the effects of Eastern countries development strategies are highly influenced by the strategies chosen by the Western countries, while the opposite does not hold.

The most expansionary result is obtained by a regain of industrial activities of the Western economies: when the EU15 move towards an industrial model, Eastern countries gain more. If the choice of an industrial growth model of Western countries is matched by an effort of Eastern countries to move towards a modernization of their economies, the result achieved is even greater (Scenario B with respect to C). Interestingly enough, scenario D, the most similar to the present situation, in which both groups of countries increase the quality of the strategies, but remain in their actual productive specialization trajectories, is the least expansionary.

**Policy Implications and Recommendations**

Specific policy implications can be highlighted for CEECs. Even if their future trajectories strongly depend on what happens in the Western countries, a modernizing strategy is the most expansionary one for Eastern countries. If Western countries also move towards an industrial strategy, a modernizing strategy pays off the most. More than competition effects that could arise when both blocks of countries pursue an advanced industrial strategy, input-output linkages and synergy effects between complementary industry activities seem to take place and generate their positive spillovers. Moreover, if Western countries pursue a strategy of reinforcing their service activities, and opt for a post-industrial strategy, Eastern countries’ best strategy is a modernizing one (Scenario A).

In terms of regional disparities, a further interesting result emerges. A modernizing strategy for Eastern countries does not mean, as expected, higher increases in regional disparities; on the contrary, this choice is associated to lower increases in regional disparities, whatever the choice of Western countries is, thanks to the spillovers and positive effects that modernization generates in all sectors and regions that drive to higher GDP growth rates in Eastern countries, and a relatively lower inter-national disparity level. This is an important encouragement for moving towards an endogenous growth pattern in CEECs.

To sum it up results show that a strategy of modernization of CEECs economies leads to a more expansionary scenario; this strategy pays the most for Eastern countries if Western countries also move towards an industrial strategy. Interestingly enough, this choice is also associated to lower increases in regional disparities.
Figure 1. Annual Average GDP growth rate
Legend: a) Absolute annual GDP growth rate; b) c) and d) annual average GDP growth with respect to scenario A

RESEARCH PARAMETERS
The main objectives of the GRINCOH project is to deal with two major challenges facing the CEECs that are central to the goals of cohesion: they need to embark on a more innovation-driven process of development to secure long-term competitive and sustainable growth; and, at the same time, they need to create conditions for their citizens that allow them to enjoy more equal opportunities and to mobilise their full potential for economic and social development. The specific objectives of the project are: (a) to establish development scenarios for the CEECs for the period up to 2020 under different assumptions of political frameworks, institutional conditions and development strategies; (b) to identify the implications for sustainable growth – based on innovation and the development of technological capabilities – and greater economic, social and territorial cohesion in the CEECs; and (c) to advise on future policy options for the CEECs, and in particular for EU Cohesion policy.

**PROJECT IDENTITY**

**PROJECT NAME**
Growth Innovation Competitiveness: Fostering Cohesion in Central and Eastern Europe (GRINCOH)

**COORDINATOR**
Uniwersytet Warszawski, Warsaw, Poland, www.uw.edu.pl

**CONSORTIUM**
Bucharest Academy of Economic Studies, Bucharest, Romania
Halle Institute for Economic Research, Halle, Germany
Hungarian Academy of Sciences, Research Centre for Economic and Regional Studies, Budapest, Hungary
Institute for Economic Research, Ljubljana, Slovenia
Institute of Baltic Studies, Tallinn, Estonia
Politecnico di Milano, Building Environment, Science and Technology, Milan, Italy
University College London, School of Slavonic and East European Studies, London, UK
University of Eastern Finland, Karelian Institute, Joensuu, Finland
University of Pécs, Centre for Research in Economic Policy, Pecs, Hungary
University of Strathclyde (EPRC), European Policies Research Centre, Strathclyde, UK
Vienna Institute for International Economic Studies, Vienna, Austria

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**WEBSITE**
www.grincoh.eu
For more information

Grzegorz Gorzelak g.gorzelak@uw.edu.pl
Maciej Smętkowski m.smetkowski@uw.edu.pl

Further reading

R. Capello, A. Caragliu, U. Fratesi: *Global Trends and the Economic Crisis: future alternative European Growth Strategies*