

# EU Membership and Convergence: The Experience of Central and Eastern Europe



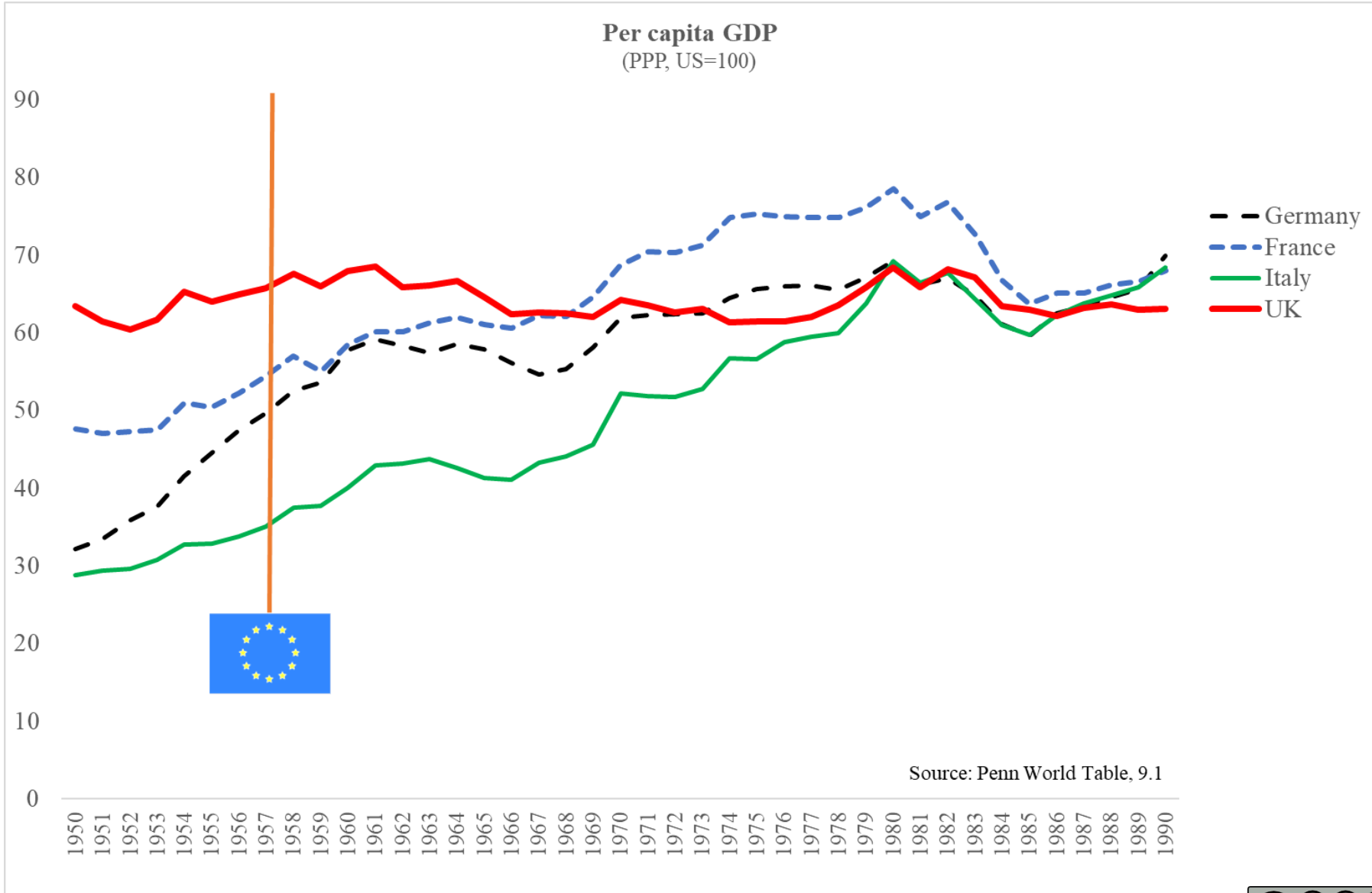
*István P. Székely*

European Commission, DG ECFIN and Budapest Corvinus University

*JVI Webinar, Vienna, July 7, 2022*



# Convergence in the EU



# The Framework

**Staying at the frontier:** Pushing out the frontier

**Convergence:** Journey to the **frontier** of economic, social and institutional development

## Dimensions

- Economic (“means”)
- Social (“ends”)
- Institutional (“ways”)
- Environmental (“life conditions”)

## Super dimensions

- Fairness
- Sustainability



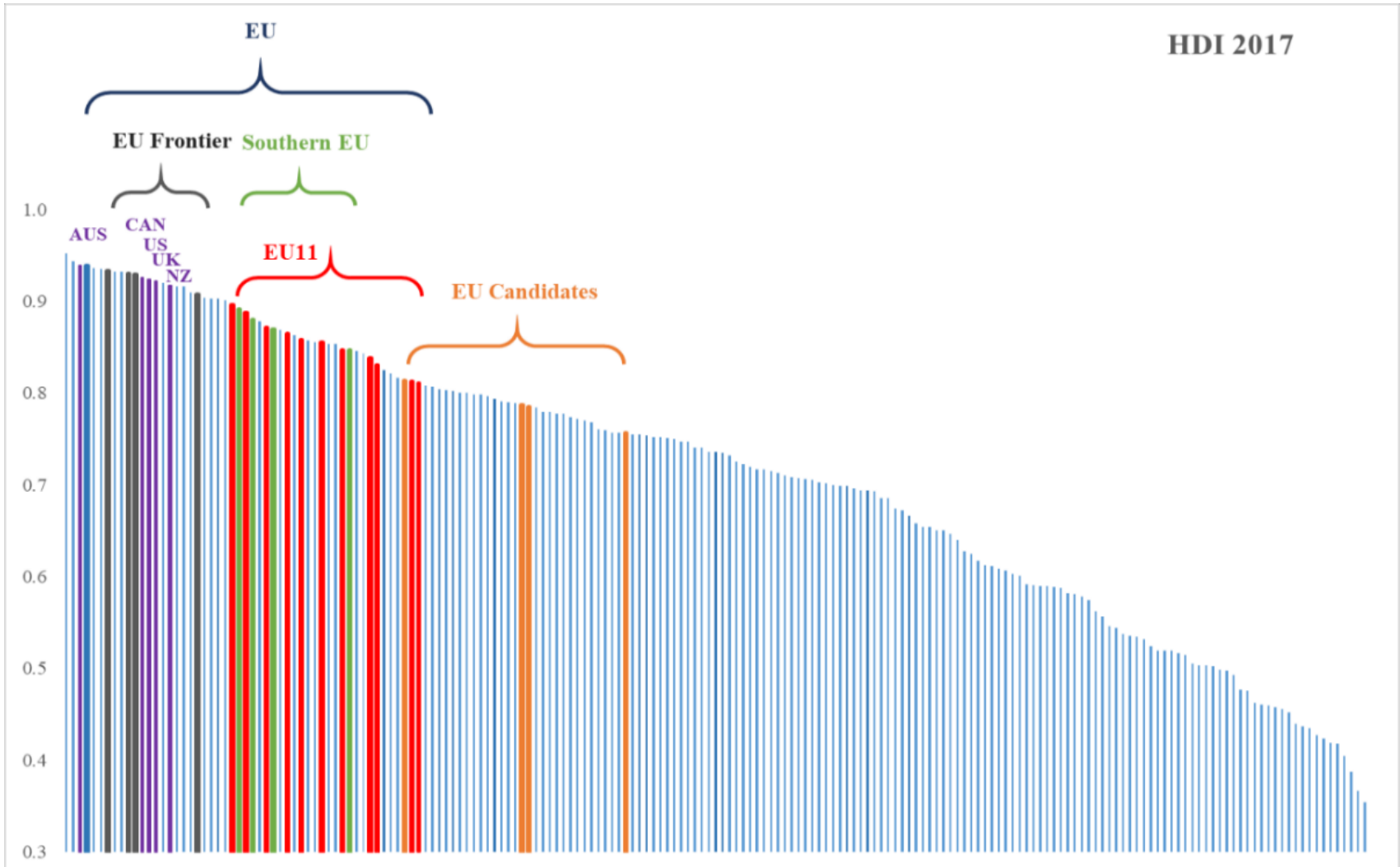
## Channels of interaction

- Trade
- Investment
- Finance
- Migration
- Knowledge
- Institutions

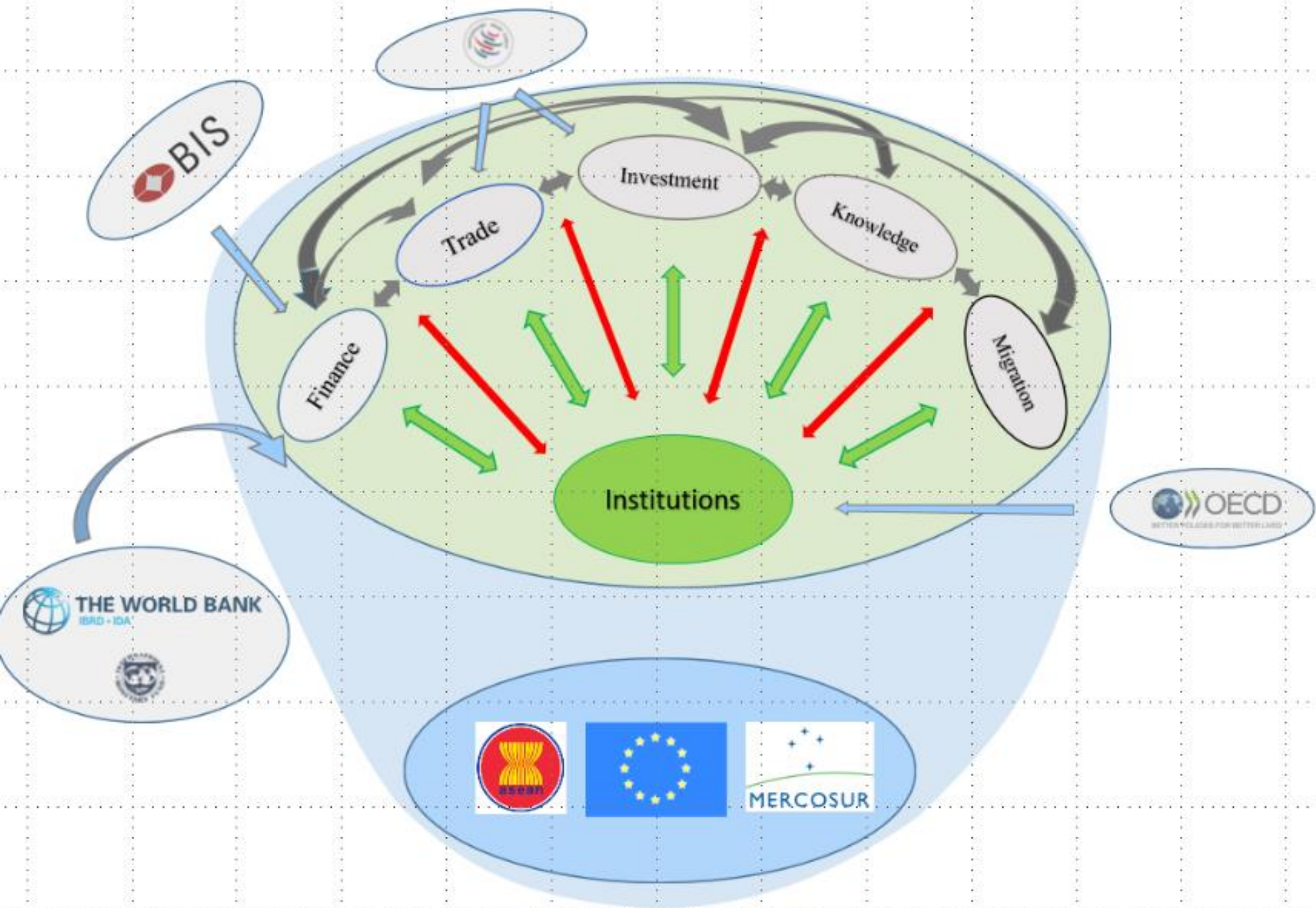
Source: Székely, I.P. *The Impact of the European Union on the Economic, Social, and Institutional Development of its Member States*, Palgrave-MacMillan, 2022 (forthcoming).

# Social Development

Human Development Index, 2017



Source: Székely, I. P., 2020. The super dimensions of development and the EU: Fairness, University of Colorado, Boulder, mimeo. UNDP

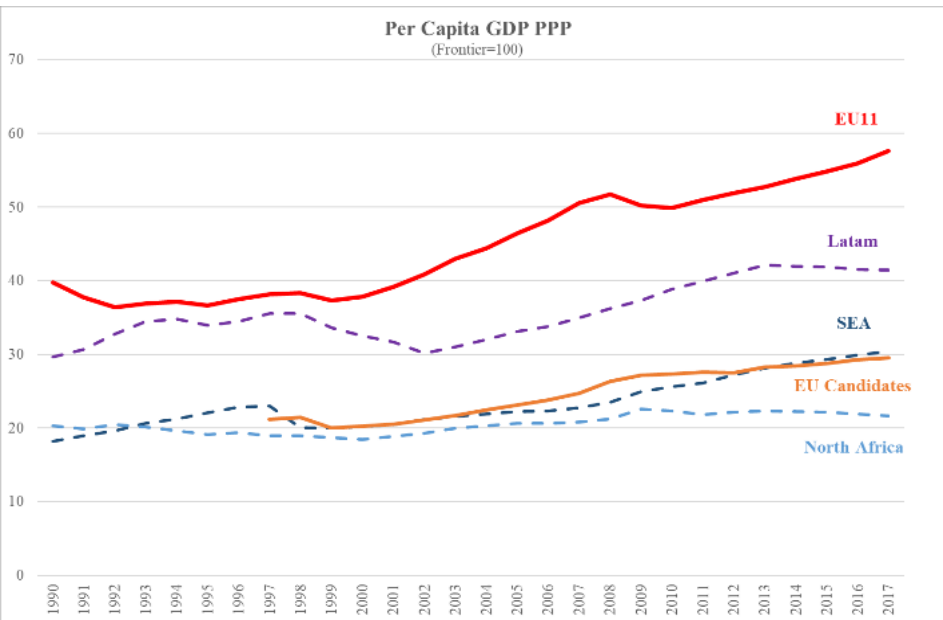


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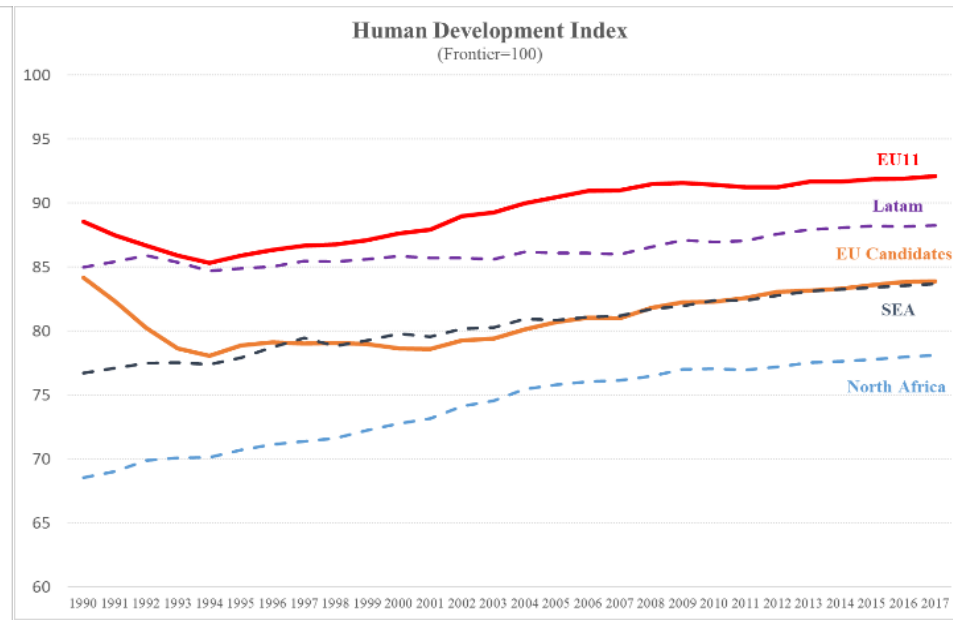


# Eastern Enlargement

## GDP



## Human Development



Sources: For per capita GDP World Bank, for Human Development Index, UNDP.

Note: EU Frontier includes Austria, Denmark, Netherlands and Sweden; EU11 includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. EU Candidates include Albania, North Macedonia, Montenegro and Serbia; Latam includes Argentina, Chile, Costa Rica, and Uruguay; North Africa includes Algeria, Jordan, Morocco and Tunisia; SEA includes Indonesia, Korea, Malaysia and Philippines. Simple, unweighted averages of country observations.

### Dimensions

- Economic ("means")
- Social ("ends")
- Institutional ("ways")
- Environmental

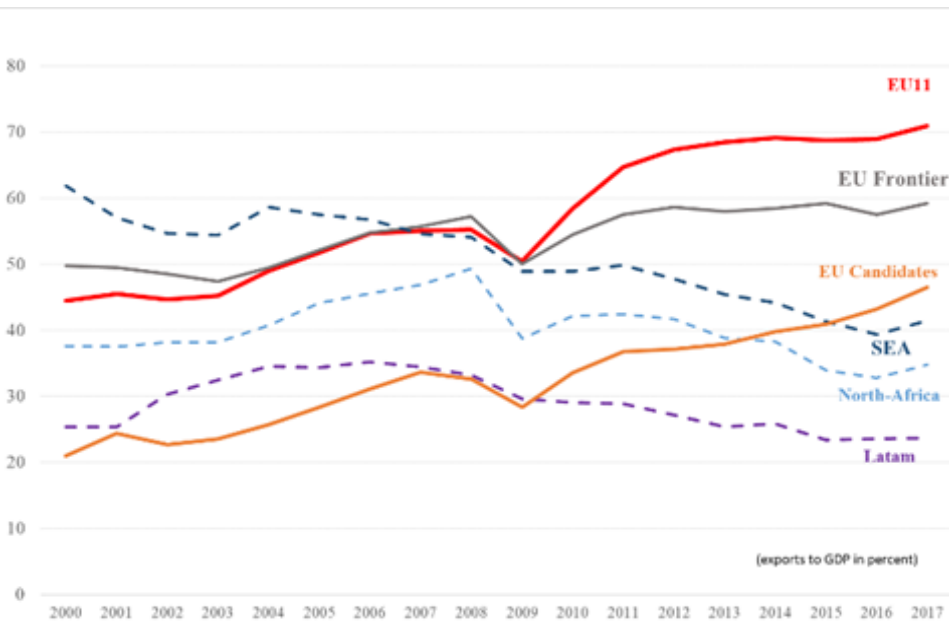
### Super dimensions

- Fairness
- Sustainability

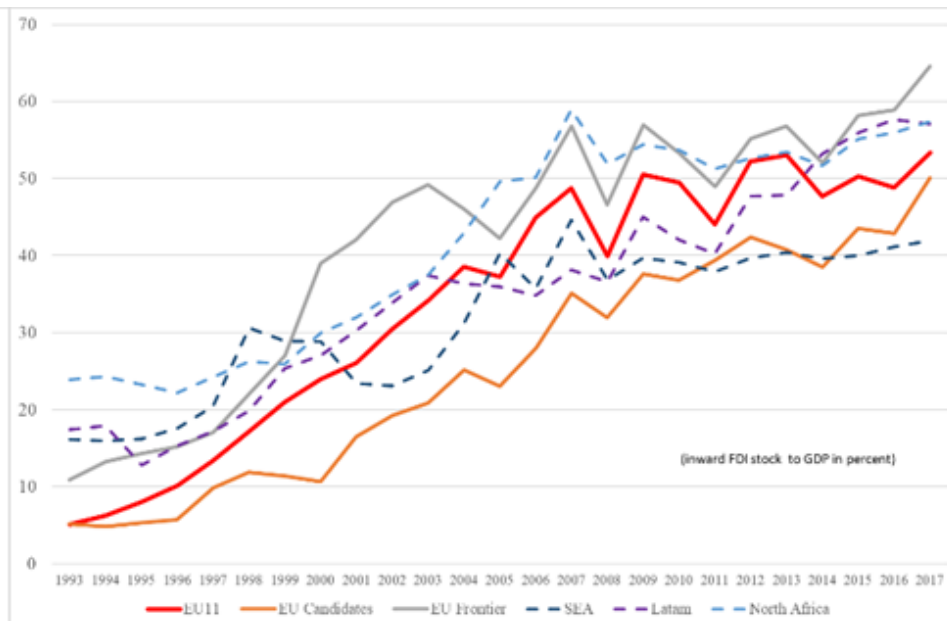


# The Trade and Investment Channels

## Exports



## Inward FDI



Source: World Bank, UNCTAD

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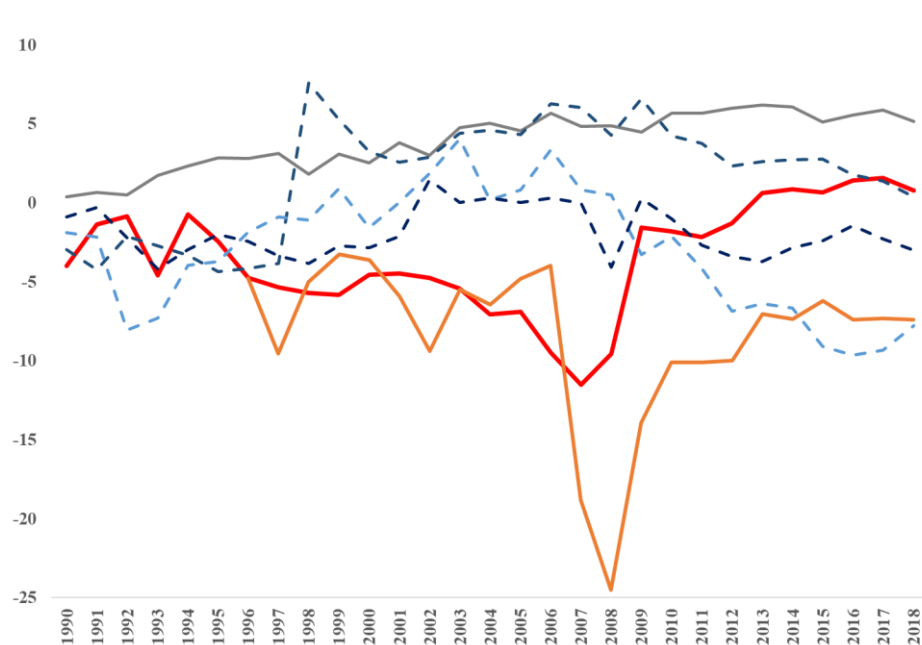




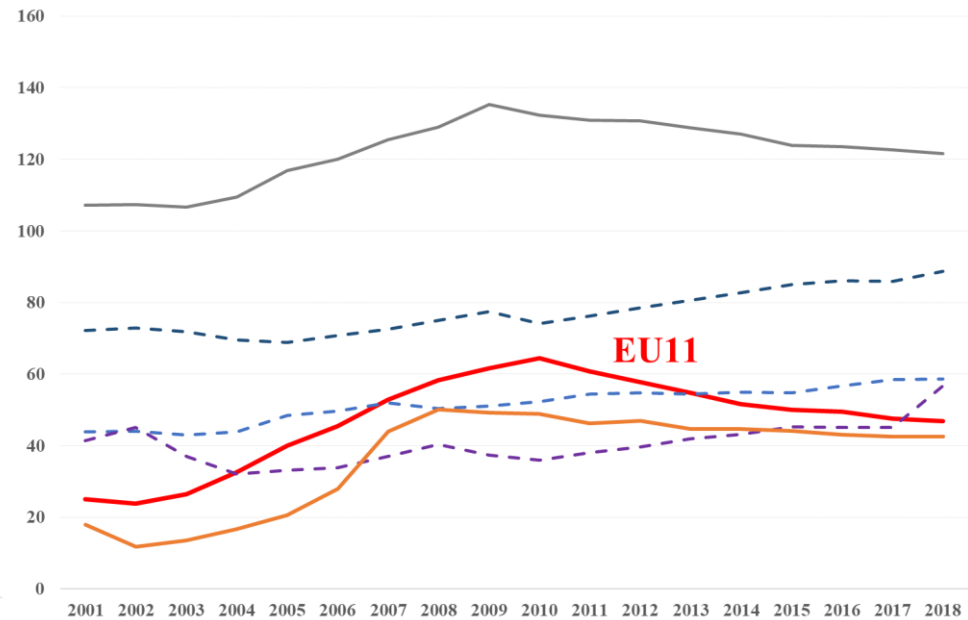
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# The Finance Channel

## Current account balance (% of GDP)



## Credit to the private sector (% of GDP)



— EU11 — EU Frontier - - SEA - - North-Africa - - Latam — EU Candidates

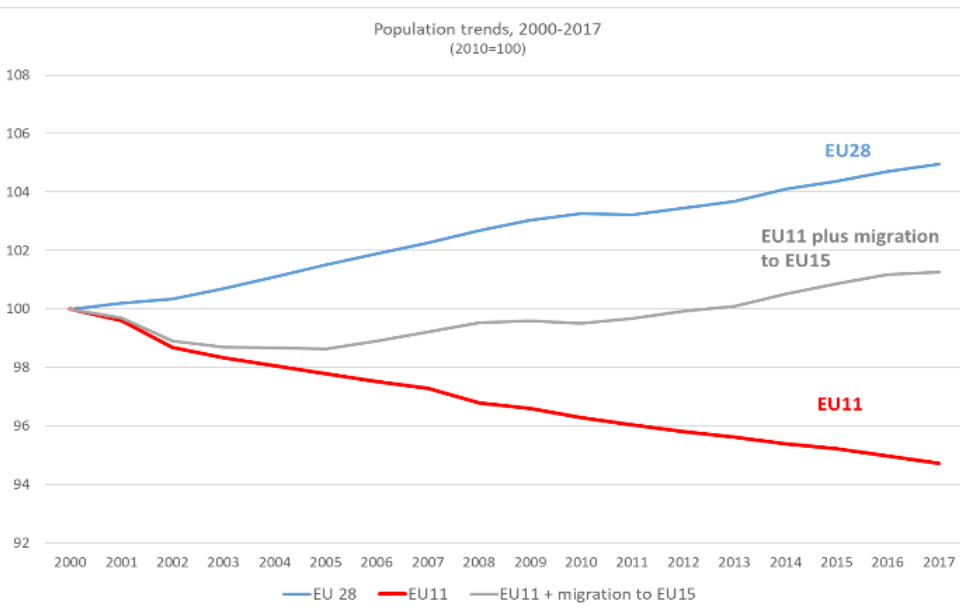
Source: World Bank, WDI

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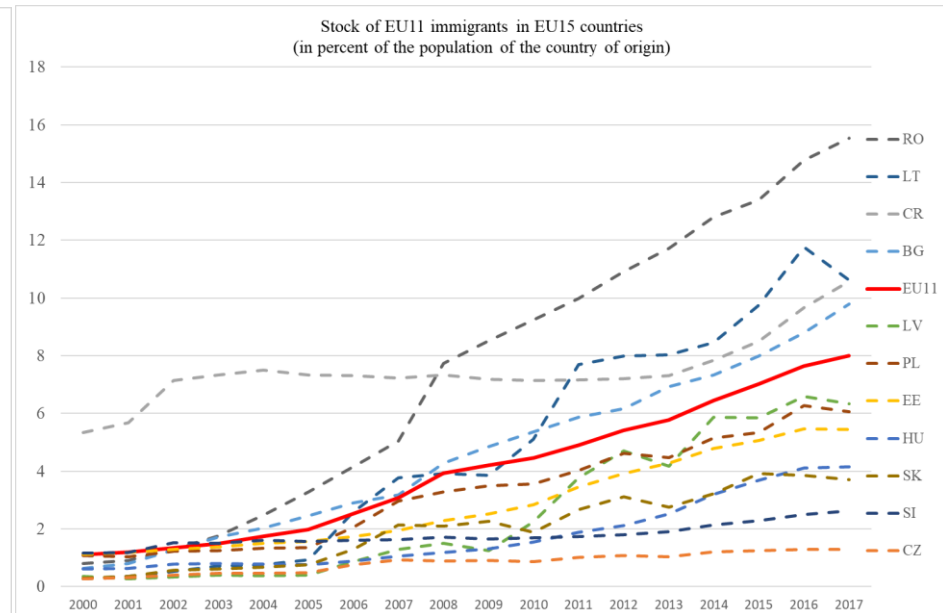


# The Migration Channel

## Population trends



## EU11 citizens living in EU15 countries (% of home country population)



Source: Eurostat

### Channels of interaction

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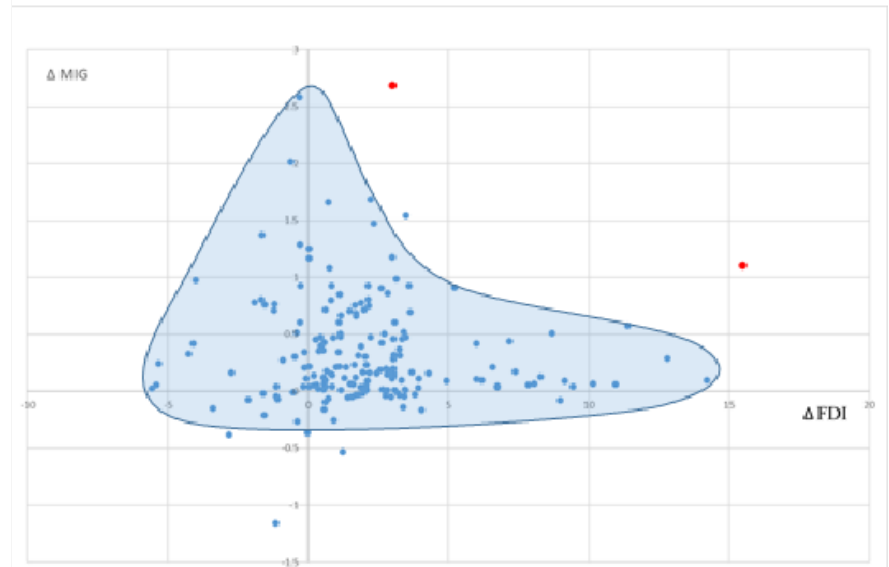
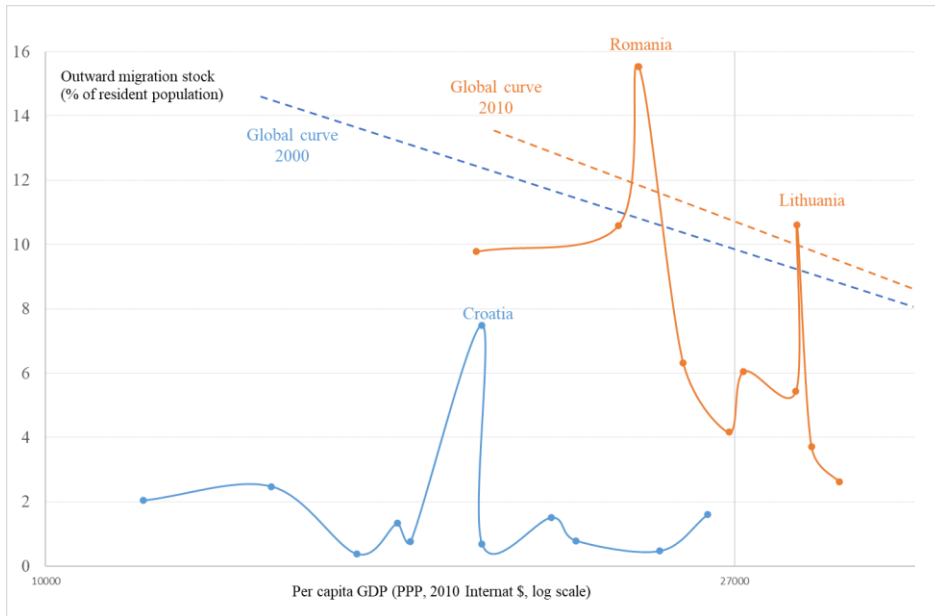


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# The Migration Channel

## Outward migration and economic development

## FDI and outward migration in EU11 2000-2017



Sources: World Bank for per capita GDP and OECD International Migration Database for migration.

Note: Scatter diagram, with GDP per capita (PPP constant 2011 international \$, log scale) on the horizontal axis and the ratio of the nationals living abroad to resident population of the country concerned (in %) on the vertical axis. Countries are ordered according to their per capita income in the year concerned (2004 and 2017) and every point represents a pair of observations for an EU11 country (per capita GDP and emigration stock).

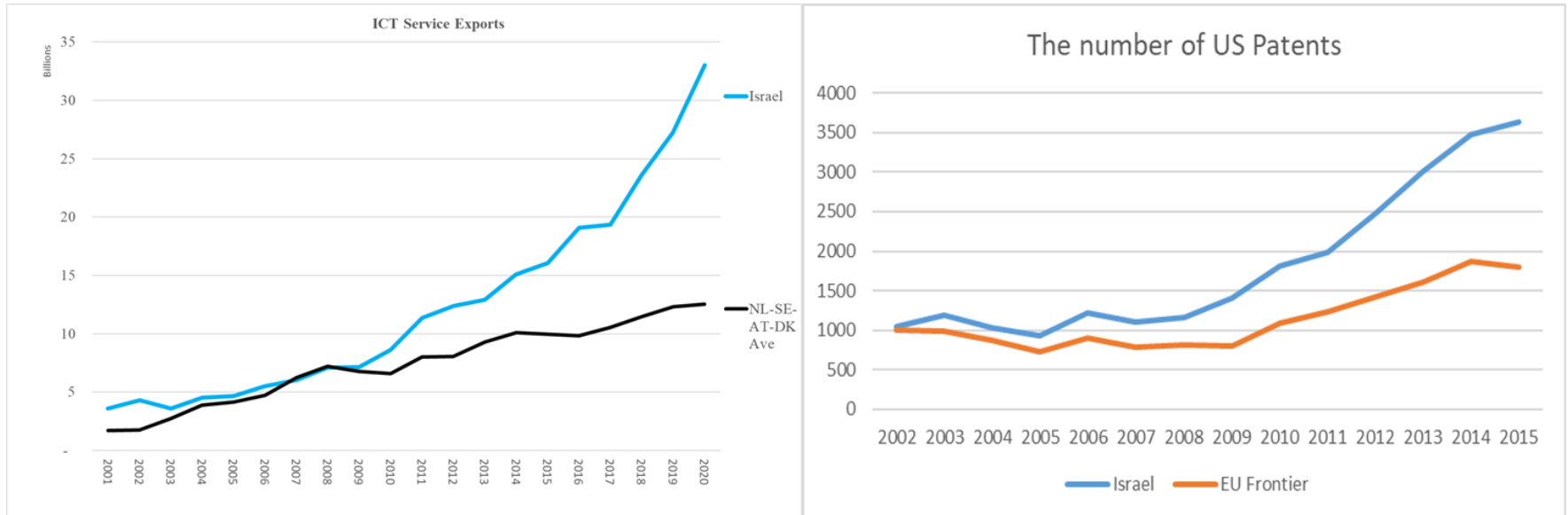
Global curves are based on Clemens 2014, approximate curves to indicate global trends.

Source: Eurostat for migration, UNCTAD for FDI

Note: Change in the stock of EU11 citizens living in another EU country ( $\Delta$ MIGR) on the vertical axis, change in the inward stock of FDI, three-year moving average delayed by one year ( $\Delta$ FDI) for the stock. Observations are for individual EU11 countries and years. The two points in red are for Bulgaria and Romania for 2008, the year after accession into the EU.

# The knowledge channel

ICT Service Exports (2000-20, current, USD) and the number of US Patents, 2002-15



Source: Székely (2020c), based on Word Bank, WDI, and US Patent Office.

Notes: EU Frontier countries include Austria, Denmark, Netherlands, and Sweden. Simple averages.

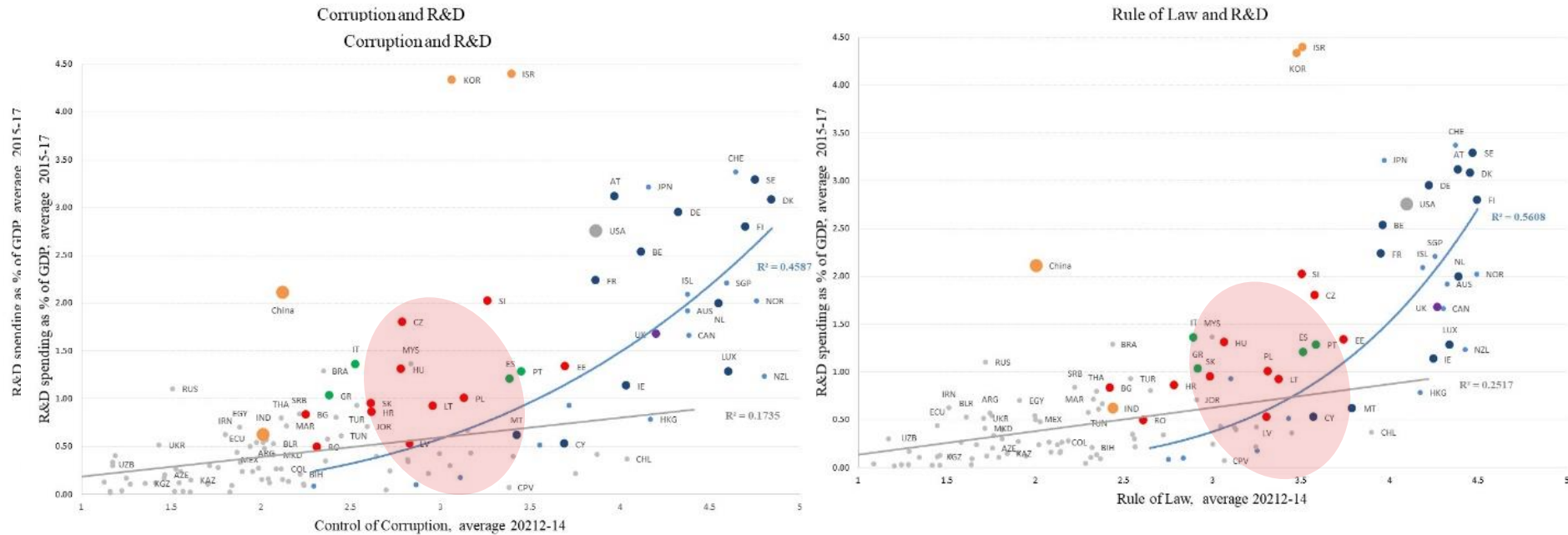
## Channels of interaction

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# Institutions and Innovation

Impact of corruption control and rule of law on R&D at different development levels



Source: Buti, M. and Székely, I. P., 2021. The European Union post Covid-19: Preserving innovation's cutting edge and fostering social cohesion. *Acta Oeconomica*, 71 (2021) S1, 141–163. The author's own calculations based on data from the World Bank.

Notes: Based on the corresponding WGI sub-indices, both calculated as averages for 2012-14 and increased by 2.5 to make observations non-negative. Trend lines in gray are for the bottom four quintiles of countries by per capita GDP in PPP, averaged for 2015-17, observations in grey. Trend lines in dark blue are for the upper quintile countries, observations in light blue. Observations in dark blue are EU countries. Southern European EU countries are in green, EU11 are in red.

## Channels of interaction

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# Institutions and convergence



Source: World Bank, WDI

Note: Institutional quality (right axis) is the distance to the EU Frontier, based on an average of the WGI indices, and it is the average for the three preceding years. Per capita GDP in PPP relative to EU Frontier (left axis).

EU Frontier includes Austria, Denmark, Netherlands and Sweden; EU11 includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. EU S4 (Southern) includes Greece, Italy, Portugal and Spain.

## Dimensions

- Economic ("means")
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- Environmental

## Super dimensions

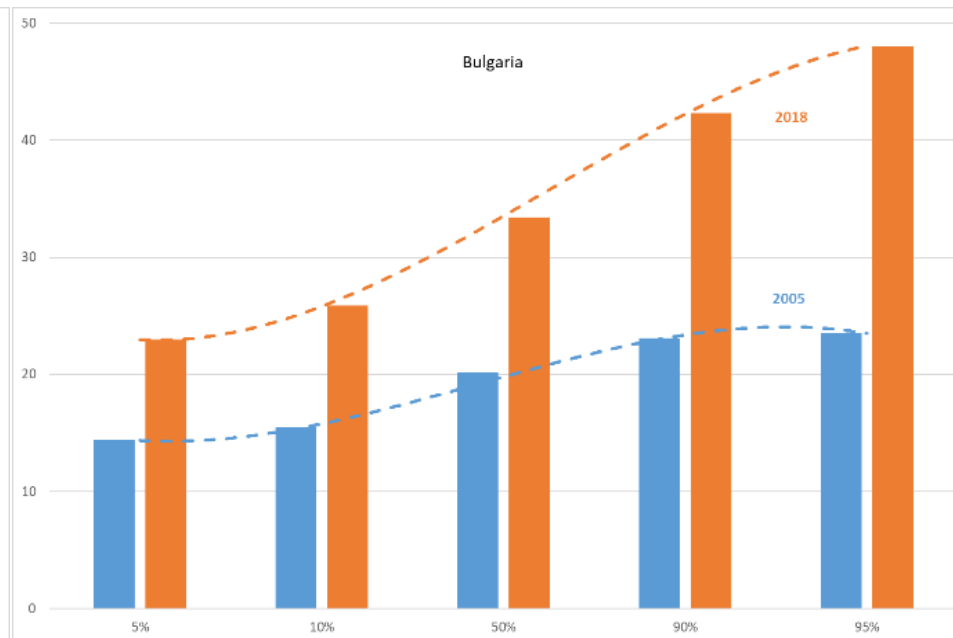
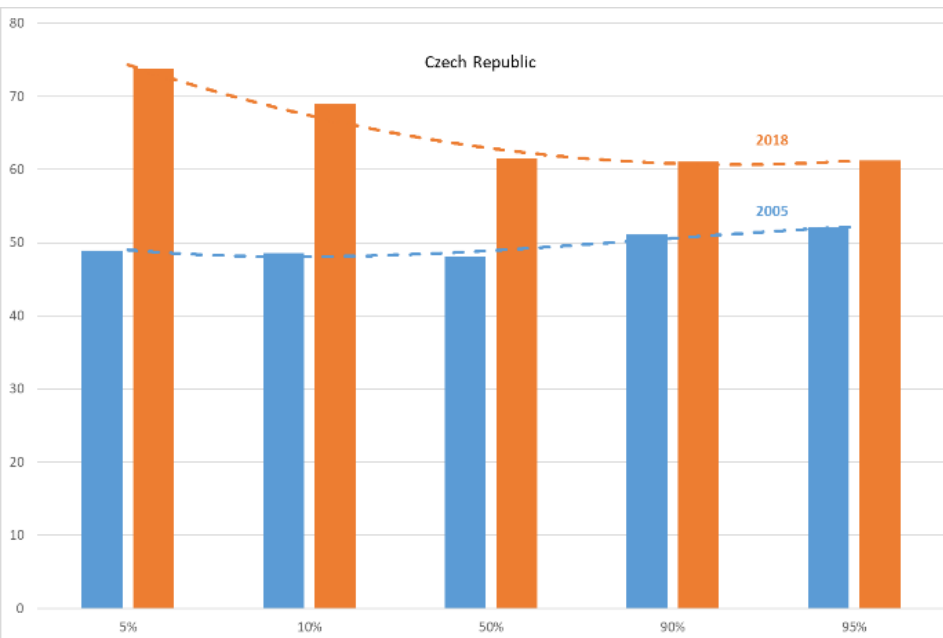
- Fairness
- Sustainability

## Channels of interaction

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# Different journeys



Source: Eurostat, EU-SILC and ECHP surveys.

Note: Columns show the ratios between equivalised per capita total disposable income of households (in PPS) in a given segment of the income distribution in EU11 and in the most developed EU countries (the group used in Chapter 2, including Austria, Denmark, Netherlands and Sweden). Values are the averages for the groups as a whole of cut off values for the income distribution segments shown (lowest 5% and 10%, the fifth decile and the top 10% and 5%).

## Dimensions

- Economic ("means")
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- Environmental

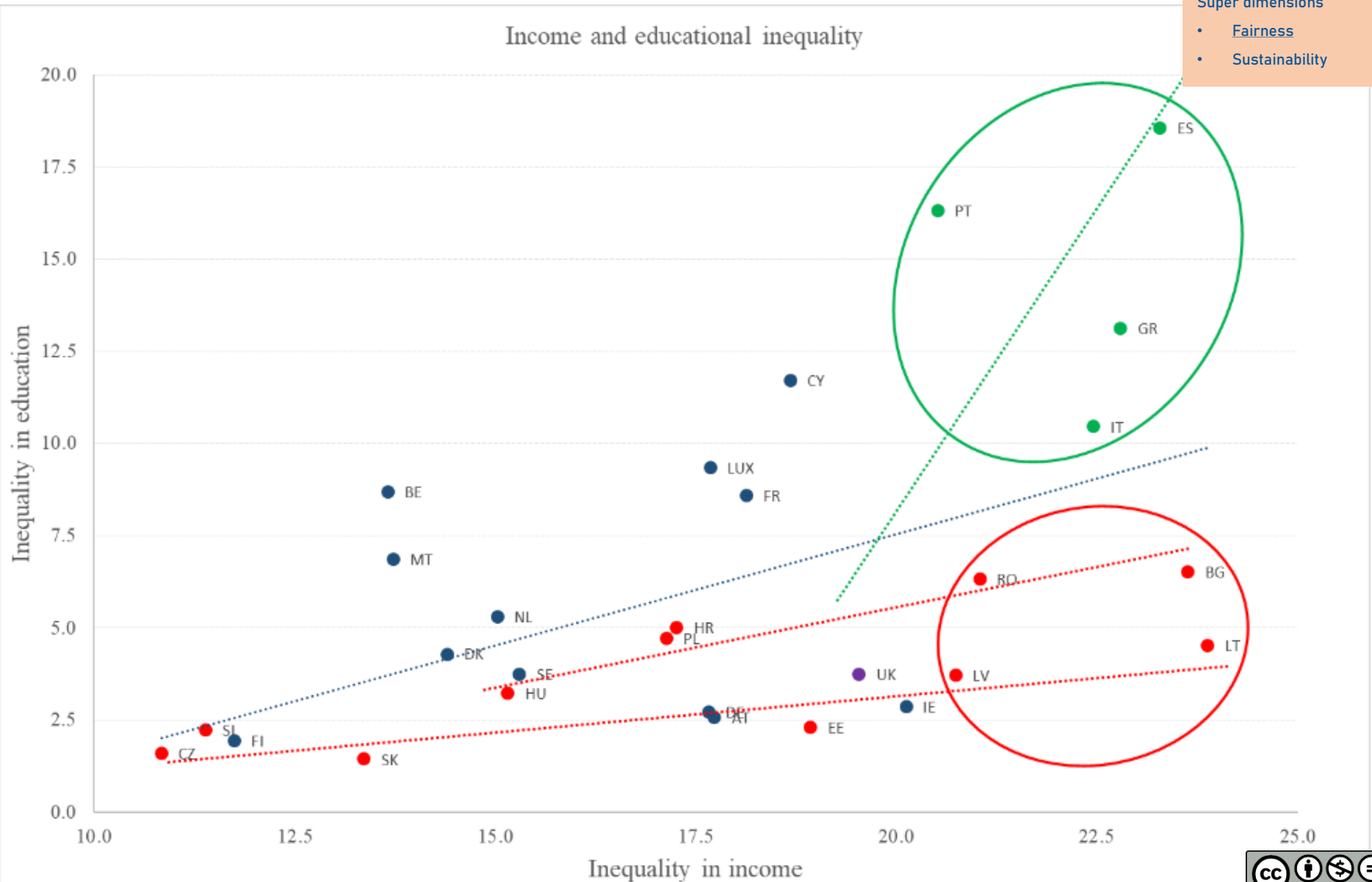
## Super dimensions

- Fairness
- Sustainability



# (Un)Fairness in the EU

- Dimensions
- Economic (“means”)
  - Social (“ends”)
  - Institutional (“ways”)
  - Environmental
- Super dimensions
- Fairness
  - Sustainability

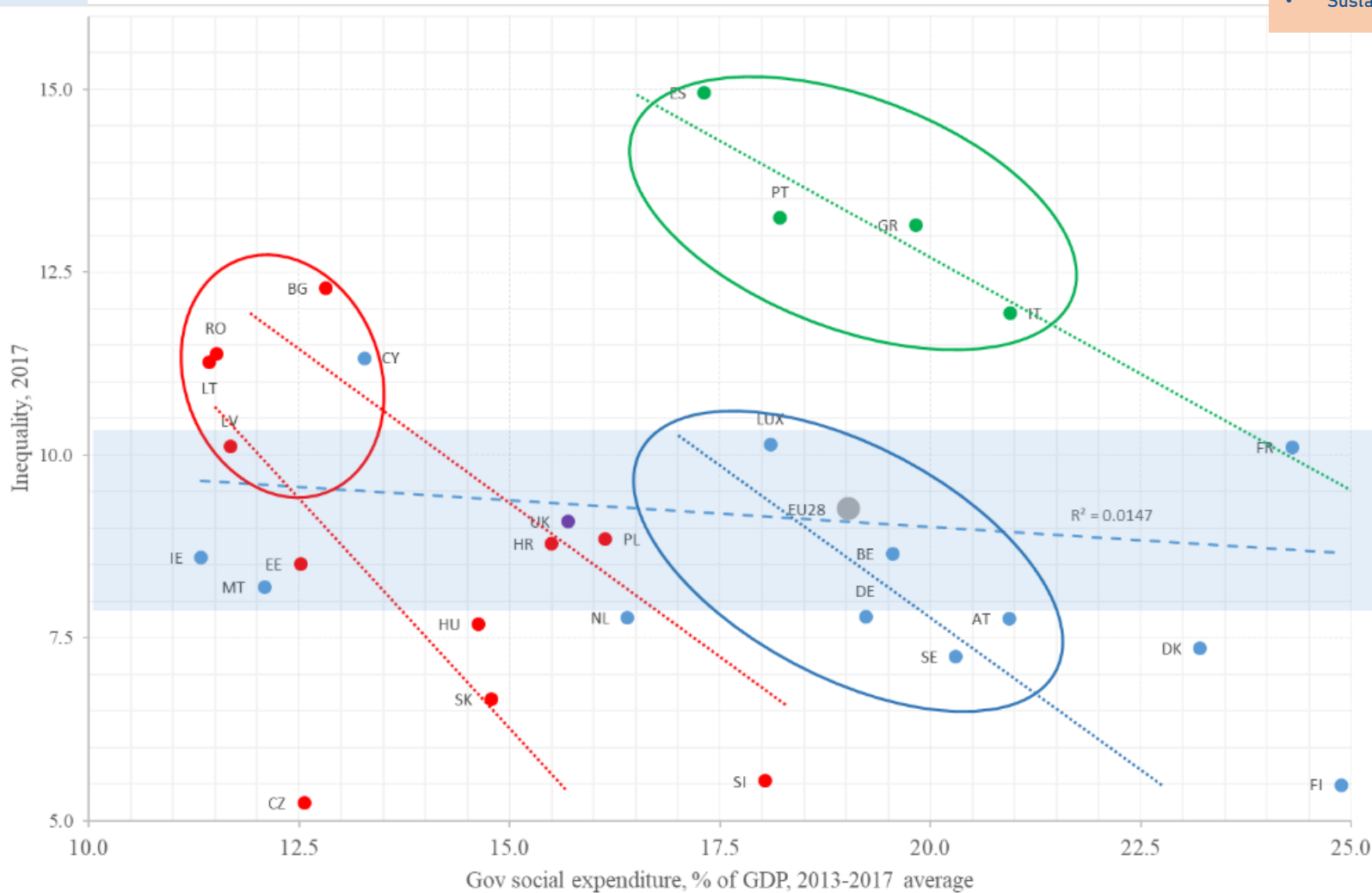


- Trade
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- Migration
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- Institutions

# Inequality and social spending in the EU

- Economic (“means”)
- Social (“ends”)
- Institutional (“ways”)
- Environmental

- Fairness
- Sustainability



Sources: Eurostat for social expenditure, UNDP for social inequality.



# Lessons from the Eastern Enlargement of the EU

EU membership is a unique historical opportunity for accelerating economic, social, institutional, and environmental convergence. But it is up to the EU members to **turn this opportunity into reality**.

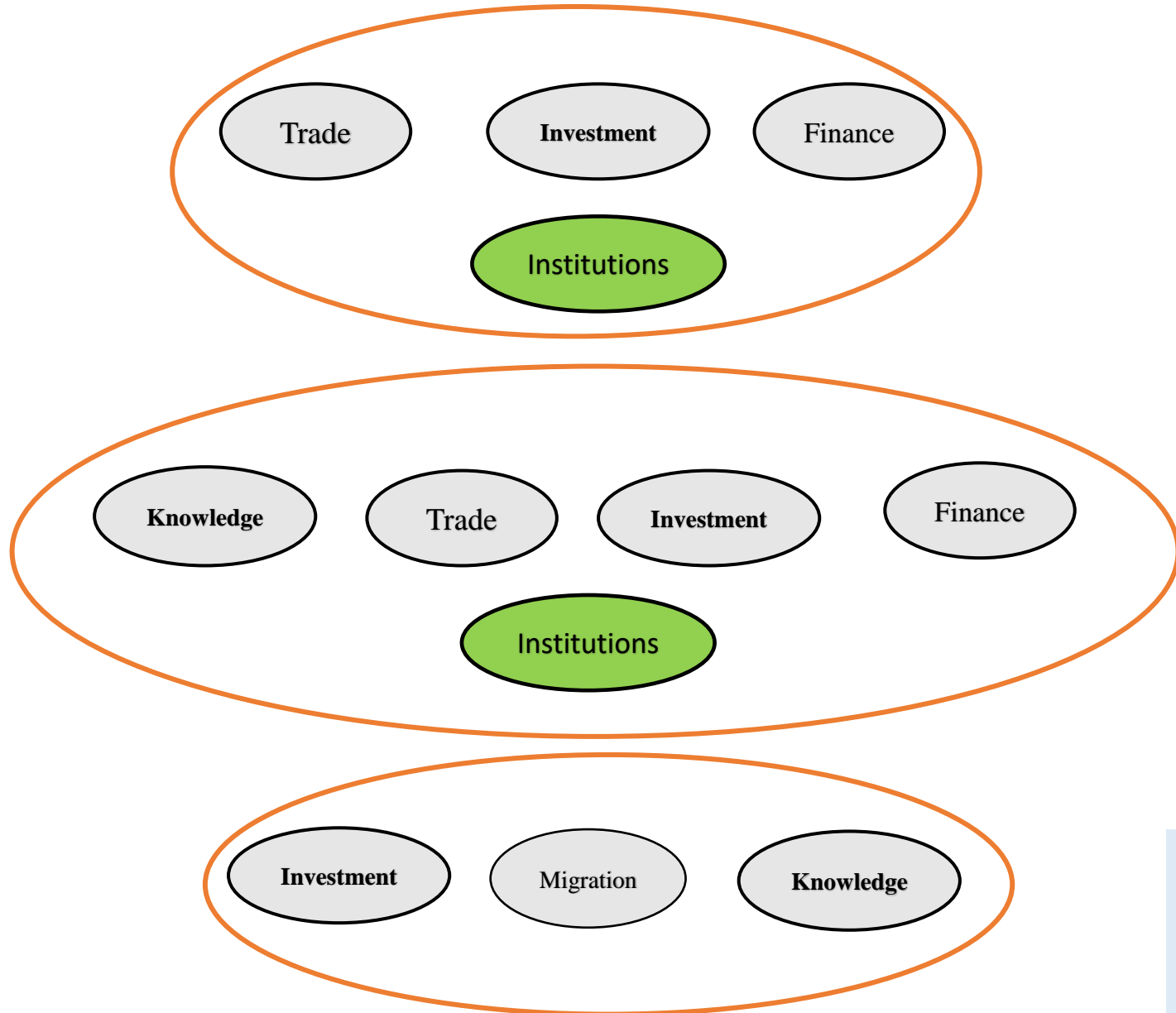
- Try to learn from those that managed their EU accession well.
- Promote FDI that can **limit outward migration**, make your country a more desirable location for **inward migration**, particularly for young talent.
- Promote the development of **local companies**, help them grow European and global.
- Watch out for the **soundness of your financial system**.
- Mind your **institutions**, and institutional fairness:
  - Good institutions can promote economic **convergence**, can strengthen the capacity to **transform economic development into social development** and to preserve/improve economic and social fairness.
  - EU membership offers a unique opportunity but not an automatic guarantee for improving a member state's institutions.
- Strengthen **fairness**, particularly social fairness, watch out for the most vulnerable groups.

# Challenges ahead

- How can “going green and digital” in the post-Covid environment accelerate convergence and support cohesion? How can we make the **green and digital transition fair**?
- How can the EU **preserve its cutting edge** while promote more fairness, and thus strengthen its cohesion and preserve the sustainability of the European project?
- How can **economic convergence** be better linked with **social convergence**, and through this preserve the **cohesion** of the EU? How can **fairness be transformed into a European value**? What is the role of institutional convergence in this regard?
- How can the EU with a heterogeneous membership strengthen its internal cohesion in a fast changing geo-political and geo-economic global setting?
- How can **enlargement** help the EU to strengthen its economic potential while also strengthen its cohesion?

**Thank you for your attention!**

# The Interactions of the Channels



## Channels of interaction

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# Income inequality within countries

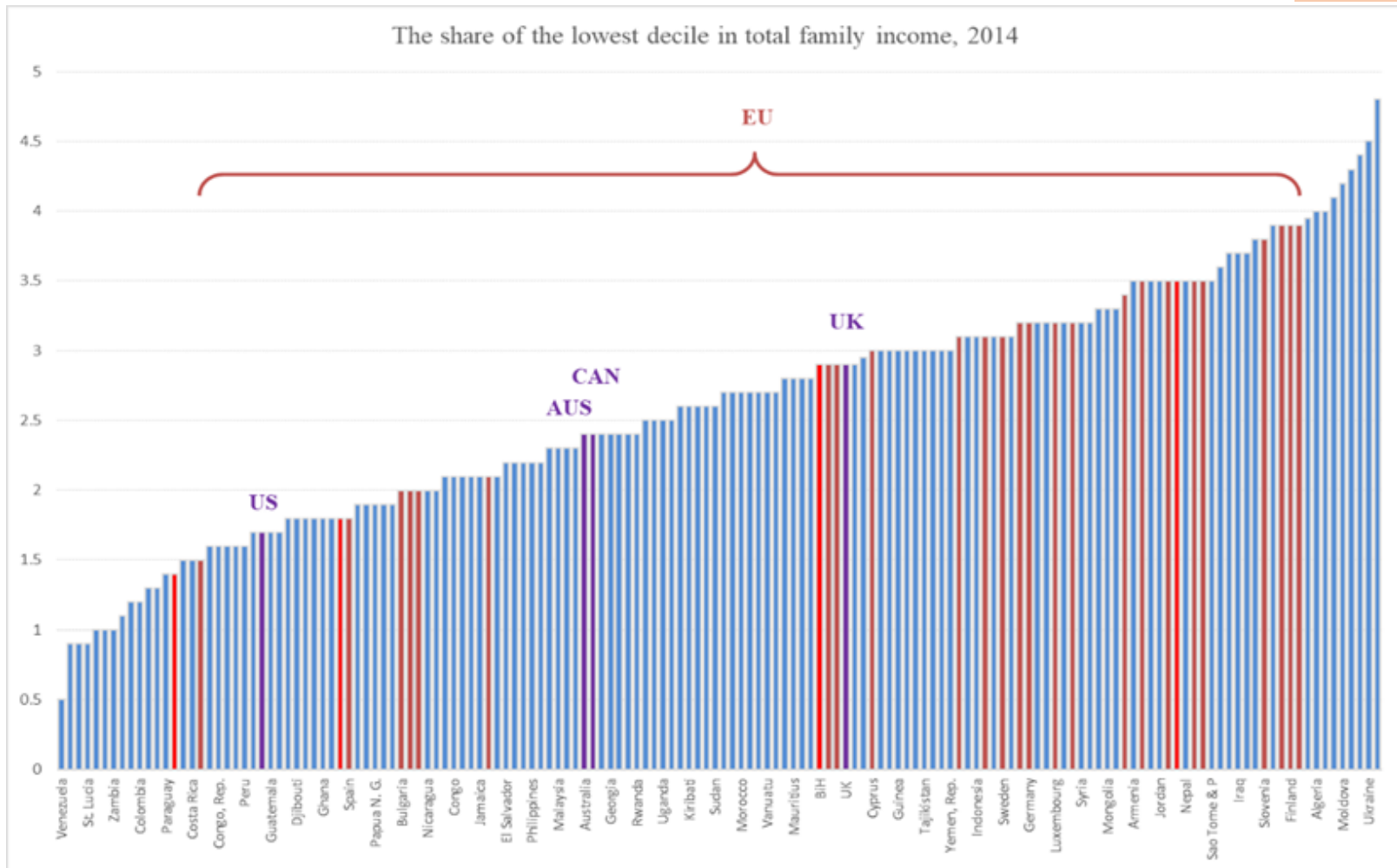
Share of lowest decile in total income

## Dimensions

- Economic (“means”)
- Social (“ends”)
- Institutional (“ways”)
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## Super dimensions

- Fairness
- Sustainability



Source: World Bank, WDI

