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Les défis de développement pour les villes et les régions dans une Europe en mutation

Eastern vs. southern EU periphery – productivity and competitiveness as basic determinants of differences in growth

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Résumé / Summary

Following the EU enlargements from the decade of 2000s onward, a gradual improvement of the eastern members' relative economic position was observed on the basis of a number of economic indicators. This development permitted an acceleration of convergence to the EU average transforming the region into a dynamic area of Europe and an attractive location for Foreign Direct Investment (FDI), accentuating the relocation of economic activity there (industrial production and services) from western-core countries, which had started some years before. Thus, the economic significance of many countries and regions in the new periphery was raised placing them in an advantageous position vis-à-vis countries and regions of the old, southern, periphery, which still enjoy higher levels of development and standards of living. The phenomenon was aggravated from the worsened economic performance of countries of the 'southern periphery' since the beginning of the crisis, resulting in a halt of their convergence process (Greece being the most striking example).

Which factors underlie differences in growth paths and resilience between the eastern and the southern periphery of Europe? Does the impressive growth performance of the CEECs (Central and Eastern European Countries) also implies an improvement in their degree of competitiveness, which could lead to a shift of the center of gravity of the EU to its eastern part? 'Competitiveness' is usually defined as "the capacity of firms and industries to drive and adapt to change through innovation, raising productivity and achieving a presence in key strategic sectors. To sustain high income levels, an economy needs to excel in high value-added activities within globalized systems of production. This capacity depends in turn upon certain enabling factors: long-term investments in human capital and strategic infrastructure, the capacity of the financial sector to

support innovation, and an appropriate framework of competitive markets and institutions.” (European Investment Bank, 2016). Do countries and regions of the eastern bloc possess these characteristics?

This paper attempts to provide answers to these important questions which underlie the current European setting by adopting a qualitative methodology with the use of graphical presentations and tables. After referring to the different historical paths of the two peripheral regions of the EU but also to their similarities and common structural weaknesses, in the introductory section, the paper shows, in the second section, the current (2015) level of convergence with the EU-28 average of the southern EU member-states and selected CEEAs. The process towards convergence to the EU average, the so-called ‘catching-up’, of individual countries within both groups of peripheral countries is presented in the third section, from 1990 to 2015, where the eastern group is paralleled to dynamic groups of countries in the global scale, e.g. the BRICS. Levels and trends in two important determinants of growth, labour productivity (per person and hour worked) and FDI (as a percentage of GDP) in the two groups of countries are shown in the fourth section. In the fifth section the trends in some determinants of competitiveness and long-term growth sustainability are shown for both groups and compared to the EU-average: unit labour costs (average cost of labour per unit of output), exports and knowledge or human capital variables (e.g. the degree of university graduates and R&D). These variables are assumed to attract Foreign Direct Investment (FDI) and raise productivity levels and are shown for the period preceding the crisis as well as for the crisis years. The state and trend in current account deficits and public and private debt as a percentage of GDP are also shown graphically, as these factors depict an economy’s vigour. The possible impact of qualitative variables (such as the quality of governance and the degree of bureaucracy) – which in many studies are found to determine the diverging growth trends - in attracting FDI and/or create a favourable economic climate are discussed in the sixth section, along with the possible role of the EU Cohesion Policy in encouraging growth in peripheral areas. Section 7 concludes by highlighting the shift of the economic dynamism within Europe to the eastern region and the possible emergence of a new growth zone there. Three facts are pointed out: (a) that although the eastern periphery has performed better than the southern periphery, wide variations in growth exist among countries in both regions, so that no clear-cut division can be made between the two groups; (b) the dynamism expressed by higher growth rates is found in most cases to prevail for as long as the catching up process takes place, while a lower steady state in growth is expected to prevail afterwards; (c) the possibility of the formation of a new center in the eastern part of Europe, which would take the place of the old core, is nowhere visible at the current stage, as knowledge through long-term investments in human capital and strategic infrastructure generally leading to higher long-term competitiveness, are still concentrated in the north-west of Europe.

Key words: eastern vs. southern EU periphery; productivity and competitiveness’ differences in the EU; eastward shift of economic dynamism and regional resilience; convergence/divergence in the EU; EU Cohesion Policy.

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