



THE EASTERN HORIZON A REGIONAL PERSPECTIVE

Grzegorz Gorzelak

BIG IDEAS III

THE EASTERN HORIZON A REGIONAL PERSPECTIVE

Grzegorz Gorzelak



eib.org/bigideas

The eastern horizon – A regional perspective

© European Investment Bank, 2020.

All rights reserved.

All questions on rights and licensing should be addressed to **publications@eib.org**

Photos: © EIB, Shutterstock, Gettyimages.

Authorisation to reproduce or use these photos must be requested directly from the copyright holder.

The findings, interpretations and conclusions are those of the authors and do not necessarily reflect the views of the European Investment Bank.

This essay is available as eBook on Apple Books, Kindle, Kobo and at **eib.org/bigideas**

Printed on DigiGold® Silk FSC® Mix.

The EIB uses paper certified by the Forest Stewardship Council (FSC). Because it's made by people who like trees. FSC promotes environmentally sound, socially beneficial, and economically viable management of the world's forests. We all know reading is good for you. It's good for the planet, too — as long as you read on the right paper.

Printed by Imprimerie Centrale



BIG IDEAS

Countries and regions in Central and Eastern Europe (CEE) have gone through several challenges. They went through totalitarian and authoritarian communist regimes, gained independence at the end of the 19th century, faced new economic and political challenges and rejoined Europe in a perspective of mutual development.

As different as they may be, despite recent populist movements, the CEE countries have much in common and regional policies can help the “forgotten places” to explore their opportunities, supporting democracy, cohesion, and local economies in the European Union.

Grzegorz Gorzelak is a professor of economics, specialising in regional and local development policies and strategy building. He has collaborated with the World Bank, the OECD, DG Regio of the European Commission, several agencies of the Polish and Ukrainian governments, as well as regional and local authorities.

This is the fourteenth essay in the *Big Ideas* series created by the European Investment Bank.

The EIB has invited international thought leaders and experts to write about the most important issues of the day. These essays are a reminder that we need new thinking to protect the environment, promote equality and improve people’s lives around the globe.



THE EASTERN HORIZON

THE EASTERN HORIZON

The trajectories of the countries and regions of Central and Eastern Europe (CEE) during the last hundred years do prove that almost everything is possible. In this relatively short period these countries have regained independence, have suffered during World War Two, have gone through totalitarian and authoritarian communist regimes and lastly they have rejoined Europe, moving from the second to the “first periphery” of the developed world. Although at the start of their EU membership the “end of history” may have appeared as a plausible way to look to the future of CEE, recently unexpected phenomena have questioned these hopes and placed several new challenges before the new Member States.

Two of these challenges seem the most important: the political and the economic. After the initial period of institutional convergence, a few years ago a stream of right-wing populism movements emerged and spread in most of the CEE countries, and the European values of deliberative democracy and the rule of law have come to be replaced by growing centralisation, breaking constitutional orders and even introducing some manifestations of authoritarian rule. The migration crisis of 2015-2016 aggravated these processes, since all CEE countries disagreed with the EU’s stance on this issue. Thus, at this moment, the rationale of Eastern enlargement, although not yet questioned openly, has become a less obvious geopolitical decision than it appeared a decade ago.

“ After the initial period of institutional convergence, a few years ago a stream of right-wing populism movements emerged and spread in most of the CEE countries, and the European values of deliberative democracy and the rule of law have come to be replaced by growing centralisation.

MARCH 2020, THE 55TH KARLOVY VARY INTERNATIONAL FILM FESTIVAL, ONE OF THE OLDEST FILM FESTIVALS IN THE WORLD, WAS CANCELLED DUE TO THE CORONAVIRUS PANDEMIC.

Mezinárodní filmový festival
Karlovy Vary uvádí

TADY VARY

ve vašem kině

3.—11. 7. 2020


www.kviff.com



The most recent coronavirus pandemic has posed additional economic challenges. It has to be remembered that the economic success of CEE was, to a great extent, the result of the incorporation of these countries into global value chains and the relocation of many industries from the West to the East of Europe. Foreign direct investment (FDI) was the main channel for innovation and technology transfers to the CEE countries. Global recession caused by the pandemic has seriously jeopardised the supply networks on which the economies of the CEE countries strongly depend. The broad tourist sector has become another field in which the CEE economies have suffered because of the pandemic.

These two challenges have a clear regional manifestation. The political changes clearly negatively affect local and regional governments, which in some CEE countries have already acquired a strong position in the institutional order of public management. The economic crisis may affect the metropolitan cores of the CEE countries, which since the post-socialist transition have become the main engines of transformation, attracting FDI into the modern value and knowledge-intensive services. The switch to teleworking and telecommuting may negatively influence metropolitan employment in CEE and leave many new offices idle, as well as hotels, apartments and tourist services in the largest cities of CEE. By the same token, weakening of industrial networks may jeopardise the development of several industrial regions in CEE which have gone through successful industrial restructuring, to a large extent due to the involvement of Western European capital (now under protectionist pressure of several EU governments).

Should one be pessimistic? Probably not, since the CEE countries have proved – over the last century – that they are able to overcome even the most severe difficulties, and nowadays they may enjoy encouragement, shelter and assistance from the European Union, so widely appreciated by the societies of CEE, even if some political elites of these countries may sound Eurosceptic (but not when financial transfers are involved).



STATUE OF ROMAN EMPEROR
ANTONINUS PIUS (86-161 AD),
SAALBURG, FRANKFURT, GERMANY.

A BUMPY TRANSITION

A BUMPY TRANSITION

The post-socialist transformation of CEE can be considered to be one of the greatest developments in modern history. Unexpectedly, a group of countries emerged from an autocratic political system and centrally planned economy and within the space of a single generation was able to build pluralistic democracies and open market economies. Economic development proceeded quickly^[1].

“ The post-socialist transformation of CEE can be considered to be one of the greatest developments in modern history.

Of course, this process was not smooth. Several obstacles, upheavals and tensions occurred during all stages of the transition, and particularly during the global financial crisis that began in 2008-2009. However, already at the beginning of the 2000s most of the CEE countries were able to meet the fundamental standards set by the European Union and started achieving clear convergence with the Western European countries in both economic and institutional terms.

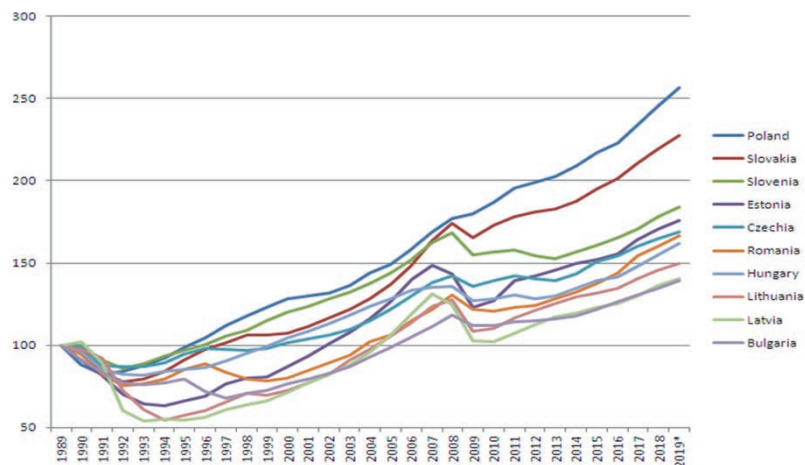
The issue of convergence^[2] is especially important since the CEE countries have for centuries been less developed than their western counterparts. This was due to long historical processes (what F. Braudel called the *longue durée*^[3]) whose foundations were laid by the Roman Empire (many of the present CEE countries were located beyond its boundaries, i.e. beyond the *limes*). This situation was further reinforced by the division of Europe into its more developed western part which, from the 16th century onwards, moved from agriculture to industry and from feudalism to capitalism, and its eastern part, which remained feudal for a long time (until the 19th century), and whose economy was based on agriculture. More recently, the East-West division of Europe by the Iron Curtain after the Second World War aggravated the backwardness of Central and Eastern Europe^[4].

HARVEST, VLADIMIR DONATOVIC
ORLOVSKIJ (1842 - 1914).



The last 30 years have not closed this structural gap, but have reduced it to a large extent. To use Wallerstein's^[5] terminology, Central and Eastern Europe has begun its journey from the second to the first periphery of Europe, bringing most of its regions closer to the centres of capital, technology and democracy.

Figure 1. Dynamic of GDP growth, 1989=100, constant prices



*Estimate.

Various sources, prepared jointly with M. Smętkowski.

The Central and Eastern European countries are internally differentiated, and the national processes assumed varied forms and shapes in their particular territorial entities. Also, a number of the challenges the CEE countries faced have a clear regional dimension.

The CEE countries have benefited from the EU Cohesion Policy and Common Agricultural Policy, two major priorities of the European Union. The current political climates in certain CEE countries may pose some of the most difficult challenges for the future of European integration and continued cohesion with the West.

IN 1989 TWO MILLION PEOPLE JOINED
HANDS TO FORM A HUMAN CHAIN
ACROSS THE THREE BALTIC STATES.



BALTI KETT BAL TIC WAY
TALLINN RIGA VILNIUS



THE CENTRAL AND EASTERN EUROPEAN REGIONS AFTER SOCIALISM

The CEE countries entered the challenging phase of transformation (the majority in 1990, although the Baltic Republics reached this point slightly later with the collapse of the Soviet Union) with strongly polarised regional structures and deep spatial inequalities, a number of over-industrialised cities, underdeveloped infrastructure, a polluted environment and limited private ownership of agricultural land. All of them had to struggle with a deep recession that consumed as much as 20% of their GDP (see Figure 1). The collapse of several industrial plants – mostly caused by their lack of competitiveness in a new, open economy – radical changes in the agricultural ownership structure, and unprecedented unemployment with growing niches of poverty, shaped the socioeconomic reality of these countries at the beginning of the post-socialist transition.

“ The CEE countries entered the challenging phase of transformation with strongly polarised regional structures and deep spatial inequalities, some over-industrialised cities, underdeveloped infrastructure, polluted environment, limited private ownership of agricultural land.

During the first phase of the post-socialist transformation, the regional patterns showed a strong differentiation. Few types of regional reactions to transformation can be identified.

PRAGUE IS AN EXAMPLE OF A REGIONAL LEADER.



Table 1. Regional reactions to the post-socialist transformation

		Regional reaction to transformation	
		positive	negative
Position of the regions in the socialist economy	strong	<p>LEADERS</p> <p>positive continuity</p> <p>Capital and large cities</p> <p><i>Diversified economy, skilled labour, good infrastructure and rich institutions</i></p>	<p>LOSERS</p> <p>negative discontinuity</p> <p>Industrial regions</p> <p><i>Specialised industry, derelict land, biased qualifications</i></p>
	weak	<p>WINNERS</p> <p>positive discontinuity</p> <p>Tourist & re-industrialised regions</p> <p><i>External demand for their potentials</i></p>	<p>LAGGARDS</p> <p>negative continuity</p> <p>Rural, peripheral</p> <p><i>Poorly accessible, obsolete structures, low qualifications, outmigration</i></p>

Source: Gorzelak G., "Regional development in Central and Eastern Europe", in: Blokker P., Dalago B. (eds.): *Regional Diversity and Local Development in New Member States*, New York, Palgrave Macmillan, 2009.

The leaders – the metropolitan regions. In the socialist economy heavily industrialised, large cities were the strongest nodes of the territorial systems of Central and Eastern Europe. After the fall of the Soviet Union, those regions went through the process of restructuring, the main phenomenon of which was deindustrialisation. However, due to their diversified socioeconomic structures and good connectivity, they were able to offer the best location conditions for the most dynamic sectors – internationally connected knowledge-intensive services (financial, managerial, tourist, scientific, etc.), high-quality commerce – the so-called metropolitan functions^[6]. Moreover, their suburban rings have been growing even faster due to the rapid and, in most cases, uncontrolled suburbanisation of the residential areas of the middle and upper classes. All capital cities of the CEE countries and large (over half a million inhabitants) cities in Poland are examples of regional leaders.

OLD COAL POWER PLANT IN CHORZOW, IN UPPER SILESIA. THE HISTORICAL REGION OF UPPER SILESIA IS LOCATED MOSTLY IN POLAND, WITH SMALL PARTS IN THE CZECH REPUBLIC.




The losers were the old industrial regions, which had played an important role in the socialist economy, attracting migrants from the countryside and offering relatively highly paid jobs. However, their economies were not diversified, living conditions were relatively poor due to delayed urbanisation (or under-urbanisation, as I. Szelenyi labelled it^[7]), the qualifications of the labour force were relatively low and narrowly specialised, and the natural environment deteriorated over time. As a result, their restructuring was long and painful, and some of these industrial cities and regions have only recently been able to re-enter the growth path and develop modern industrial sectors and certain metropolitan functions. The coal and steel region of Upper Silesia, the cities with shipyards along the Baltic Sea, the textile industry regions like Łódź and its surroundings in Poland, and the region of Maribor in Slovenia are some examples of industrial regions that had to go through difficult restructuring, in several cases with high social costs.

The winners – tourist and re-industrialised regions. These were several regions that had possessed potentials which were overlooked in the socialist, industrial pattern of development, but which were given an opportunity to respond to emerging demand in the open, competitive economy, e.g. the tourist regions. A number of other regions in which re-industrialisation occurred (often due to foreign investment that brought new technologies, new products and opened new markets) have also been doing rather well. Special Economic Zones, located in previously problematic areas, spurred economic revival. The Rzeszów region in south-east Poland is an excellent example of a region whose industry was reborn after receiving foreign investment, mostly in the high-tech sector; the Budapest-Gyor road corridor, extending to Vienna, became a business cluster after the borders were opened; north-west Romanian regions also accelerated their growth due to their location (shorter distance to the core of Europe) and tourist potential.

CLOISTER OF THE FRANCISCAN
MONASTERY IN DUBROVNIK,
UNESCO WORLD HERITAGE SITE,
CROATIA.



In most countries, the *laggards* were the eastern regions. This structural underdevelopment has to be attributed to the processes of Braudelian *longue durée*, since the late medieval modernisation divided the CEE countries along the line Gdańsk – Vistula river – Pest – Pécs – Ragusa (nowadays Dubrovnik) line: technological (mostly agricultural) and institutional innovations (from towns under Magdeburg and Lübeck laws, cloisters and universities) spreading from Western Europe to the East lost their momentum at that point, thus causing most of the eastern regions to lag behind their western counterparts. Also, several border regions, located on the eastern edge of EU-15, such as the Sudeten region of Czechia, near the German border, or the northern regions of Bulgaria along the border with Romania, as well as the southern Bulgarian regions bordering Greece, have stagnated. In the Baltic States the regions bordering Belarus and Russia have also suffered most (the capital city region of Vilnius is an exception). These areas are less developed and lack major urban centres, as well as major modern transport infrastructure. The majority of these regions are losing population due to outmigration to larger cities and abroad. Most of them are not attractive for foreign capital, and domestic capital is scarce.

A large crowd of people is gathered in a city square, likely in Poland, for a political event. The crowd is dense and diverse in age and appearance. In the foreground, a white banner is held up, featuring the word "SOLIDARNOSC" in red, stylized letters. Above it, the words "RODZIMY" and "INDYWIDUALNYCH" are visible in blue. In the background, there are historic buildings with arched windows and a banner that reads "WYMIENIAMY LATA W GŁOZDZIE KRAJ". A person is seen operating a camera on a tripod in the middle ground. The scene is set in a city square with historic architecture.

THOUSAND OF POLES GATHERED
TO HEAR LECH WALESZA'S SPEECH
IN THE RUN-UP TO THE POLISH
PRESIDENTIAL ELECTIONS IN 1990.

EARLY 1990s: FIRST DEMOCRATIC ELECTIONS

EARLY 1990s: FIRST DEMOCRATIC ELECTIONS

The institutional reforms, aiming at building the democratic system, also embraced territorial public management and politics. The restoration of *local and regional government*^[8] was an important part of building democratic institutions. This was an intellectual and political revolution, as well as a change in the mechanisms of economic development.

The very first fully democratic election in CEE took place in Poland on 27 May 1990 – and this was the local election. A few months later, democratic elections for the restored local governments were also held in Czechia, Hungary and Slovakia, soon to be followed by other CEE countries. Several reforms followed in these countries, and supra-local tiers were established in several countries. At present, the territorial structures of the CEE countries are composed of three tiers of territorial public administration (Poland), two tiers (Croatia, Czechia, Hungary, Romania and Slovakia) or just one tier in the case of the smaller Baltic States of Lithuania, Latvia and Estonia.

“ In all countries at the beginning of democratisation the regional authorities were weak, and full reforms of regional governments were not undertaken at that time. The regions were not sufficiently strong partners for national governments.

However, in all countries at the beginning of democratisation the regional authorities were weak, and the full reform of regional (supra-local) governments was not undertaken at that time. The regions were not strong enough partners for national governments.

KOPER HARBOUR, SLOVENIA.



After the collapse of the centralised system, a comprehensive regional policy was not formulated in any of the CEE countries and the regional aspects of social or economic policies were almost non-existent^[9]. In fact, the governments of all these countries left “regional problems” to so-called market forces, allowing the new economic patterns in their countries to be reshaped by sectoral processes. Employment/unemployment policies became the main field of government interventions, which have had some spatial/regional dimensions in terms of the application of certain economic instruments (investment incentives, extended unemployment benefits, etc.) in regions affected by exceptionally high unemployment^[10]. Regional policies slowly developed, and accession to the European Union forced the preparation of national development strategies and their spatial/regional components. Also, the regions of the CEE countries were obliged to draw up their own strategic documents.

“ Slovenia and Czechia are currently the most developed countries and at the same time the least regionally differentiated. Bulgaria and Romania are the least developed ones, and their internal differentiation is greater.

In general, the regional typology described above (leaders, losers, winners, laggards) has persisted for the entire post-1990 period. The regional values of GDP per capita (PPP) reflect these processes (Figures 2 and 3).

BULGARIA'S PRODUCTION OF
ROSE OIL AMOUNTS TO 45%
OF THE WORLD'S PRODUCTION.



Figure 2. GDP/inhabitant, PPP, 2015, EUR

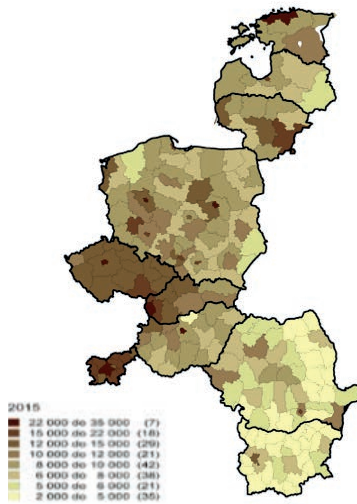
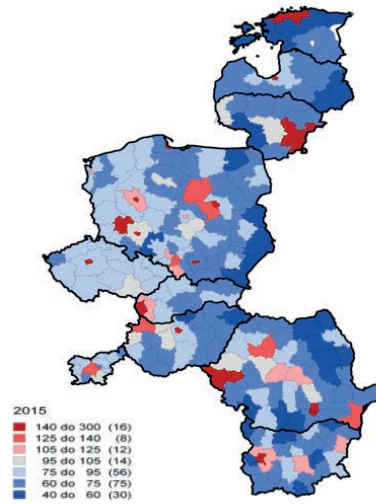


Figure 3. GDP/inhabitant, PPP, 2015, country=100



Source: Gorzelak G., Smełkowski M., "Regional dynamics and structural changes in Central and Eastern European countries", in: Gorzelak G. (ed.), *Social and Economic...*, op.cit., pp. 207-224.

Slovenia and Czechia are currently the most developed countries and at the same time the least regionally differentiated^[11]. Bulgaria and Romania are the least developed countries, and their internal differentiation is greater (Figures 4 and 5).

All NUTS3 regions in Eastern Europe^[12] with big cities present higher GDP values per inhabitant. According to the ranking based on business connections^[13], Warsaw is included among the *Alpha* cities, Prague and Budapest are in the group *Alpha minus*, Bucharest in *Beta plus*, Sofia and Zagreb in *Beta*, Bratislava in *Beta minus*, Riga in *Gamma +*, Ljubljana, Tallinn and Vilnius in *Gamma*. These cities are visible on the maps of global business, which allows them to develop their modern economies based on knowledge-intensive services. Conversely, several eastern, peripheral regions – such as the south-eastern region of Latvia, and eastern regions of Poland, Hungary, Slovakia, Czechia, Hungary and Romania – still have the lowest GDP values per person.

THE SKYTOWER IS THE TALLEST
OFFICE BUILDING IN BUCHAREST
AND IN ALL OF ROMANIA.



This is largely because the industry there is mostly agricultural. But it is also caused by poor accessibility, the relatively low level of skills and qualifications, and outmigration. These areas are of little interest to foreign investors. All these factors have led to their economic stagnation.

Generally speaking, since the 1990s regional divergence has clearly been the predominant trend in the CEE macroregion, caused both by metropolisation and by stagnation in the weakest, peripheral regions – the factors most responsible for this process. However, in the aftermath of the financial crisis of 2008-2010, some signs of reversal of this pattern could be observed (Figure 4). In most of the CEE countries – excluding Romania and Bulgaria – the regional differentiation of GDP per inhabitant unexpectedly came to a halt, and in some CEE countries even reversed.

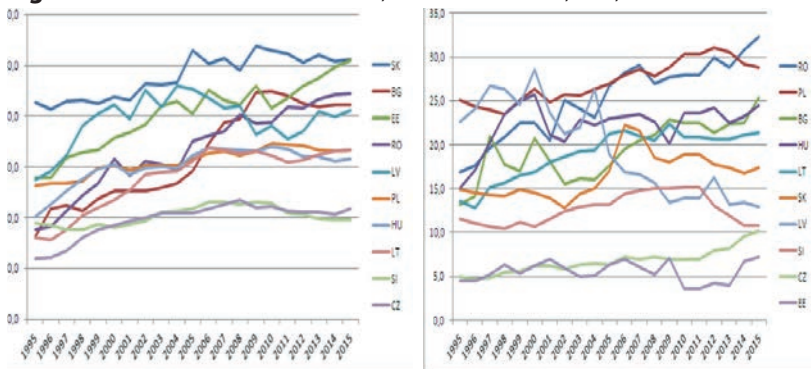
There are a few hypotheses explaining this fact. In between the extremes of “leaders” and “laggards”, which remain in the highest and the lowest positions on the GDP per person rankings, considerable changes took place among the group of regions whose rates of development depended on the progress of restructuring processes and diversification of local economic structures. Firstly, several industrial regions (but rarely those dominated by traditional industries) have undergone successful restructuring, thus moving up in the regional GDP per person rankings (e.g. the above-mentioned Rzeszów region, but also the Debrecen and Miskolc regions, and a number of Slovak regions). Secondly, most of the “winners” that used to be relatively less developed, developed fast, and advanced in these rankings. Thirdly, the initially spatially limited diffusion of growth from the metropolitan cores has begun to reach greater distances. Additionally, outmigration from the less developed, peripheral eastern regions has led to the simple statistical effect of increased GDP values per person there.



COMMON AGRICULTURAL POLICY

Finally, the impact of EU policies (Cohesion Policy and Common Agricultural Policy) can perhaps be observed, since *per capita* outlays of Cohesion Policy are greater in the less developed regions of the CEE countries, and Common Agricultural Policy spending in absolute terms obviously favours less developed territories in which agriculture plays a relatively more important role than in urbanised areas, thus assisting these regions in their economic development.

Figure 4. Coefficients of variation, GDP/inhabitant, PPP, NUTS3



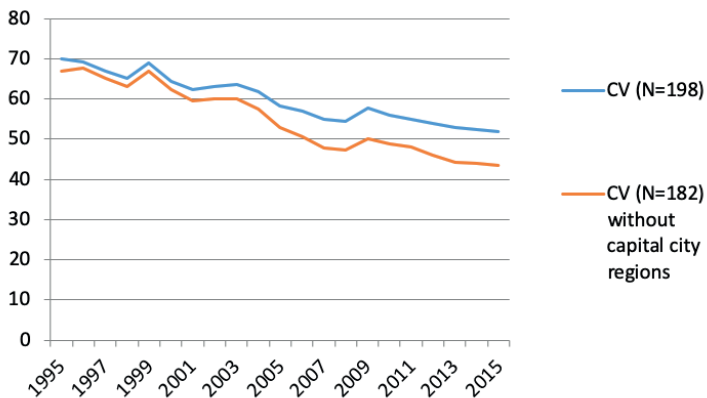
Source: Gorzelak G., Smełkowski M., 2020, op. cit.

A clear convergence of GDP per inhabitant between the set of NUTS3^[14] regions of Central and Eastern Europe can be observed (Figure 5). This is the combined result of convergence between the Central and Eastern European countries, and regional convergence within them.



Until 2010-2012, the convergence effect observed for all regions of CEE was mainly due to convergence between countries that have been regionally diverging, and since the between-country convergence was stronger than within-country regional divergence, the overall result has led to general regional convergence. However, later convergence happened on both these scales (this has also been proved by the ex-post evaluation of the Cohesion Policy 2007-2013)^[15]. This process may confirm the so-called Williamson’s hypothesis^[16], according to which the relationship between the level of development of a given country and its internal territorial differentiation assumes the shape of an inverted U-letter: in the first stages of development the differences grow, but after reaching some level they begin to decline^[17]. This may mean that the CEE countries have reached “maturity” in terms of level and regional structure of development.

Figure 5. Coefficients of variation, GDP/inhabitant, PPP, NUTS3



Source: Gorzelak G., Smętkowski M., 2020, op. cit.



**CHALLENGES:
INNOVATION,
DEMOGRAPHIC
GROWTH AND
CLIMATE CHANGE**

CHALLENGES: INNOVATION, DEMOGRAPHIC GROWTH AND CLIMATE CHANGE

There are several challenges facing the CEE countries and their regions, in particular the ability of their economies to compete on the global markets. As analyses show^[18], relatively poor technological advancement is their common deficiency. Progress in this field has mainly been achieved by importing technologies from the West, while the domestic potential for creating and diffusing innovation is still weak and is concentrated in the biggest cities of CEE. Peripheral regions suffer from very weak innovation potential and the efforts made so far cannot be considered satisfactory.

However, there are also challenges specific to particular regions of CEE. The *demographic* one seems to be most important. The CEE countries are losing their population, and this loss is greatest in the least-developed regions (the “laggards”) already mentioned several times.

These losses are mainly due to two factors: outmigration and a low fertility rate, the latter being to a large extent the outcome of the former. The fertility rate (number of children born per woman) should be not lower than 2.1 if the population – *caeteris paribus* – is to grow. The low fertility rate of 1.25 (the value for the whole CEE) would have been higher if there had not been a tendency to postpone the birth of the first child from the age of around 23 to around 28 over the last 30 years. In the peripheral regions the relatively higher birth rate is overshadowed by extensive outmigration, and these regions are in a relatively worse demographic situation than the urban ones enjoying the inflow of a relatively younger population, which further reduces the chances of development of the less developed regions.

“ The CEE countries are losing their population, and this loss is greatest in the least-developed regions.



Figure 6. The change in population size in NUTS2 regions between 1990 and 2017 (as a percentage of the 1990 value)

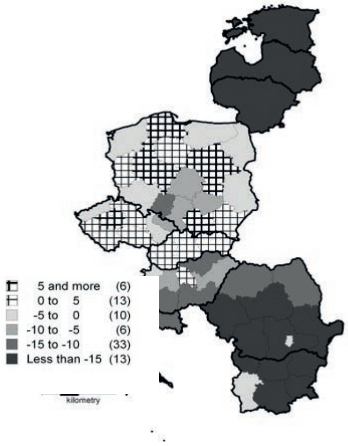
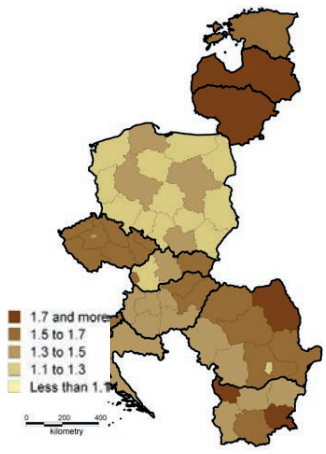


Figure 7. Total fertility rates, NUTS2 regions, 2015

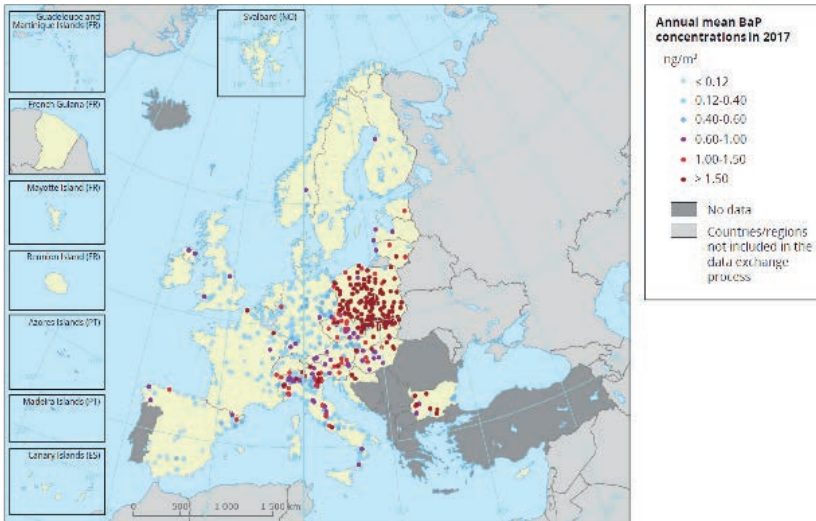


Source: Fihel A., Okólski M., "Demographic change and challenge", in Gorzelak G. (ed.), *Social and Economic...* op.cit., pp. 101-132.

The *environmental* situation in the CEE countries is also a concern. In spite of considerable progress in energy production and consumption, as well as in environmental protection, in several regions and localities of CEE the air quality is very poor (Figures 8 and 9). Dependence on individual heating systems running on poor quality coal is still a problem in several countries (mostly Poland, a country reluctant to switch to other sources of energy), resulting in heavily polluted air during the heating season.

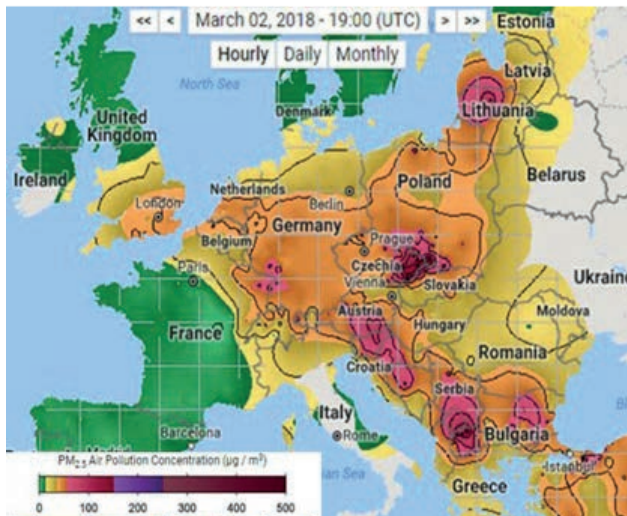


Figure 8. Annual benzo(a)pyrene concentration in EU in 2018



Source: *Air quality in Europe - 2019 report*, European Environment Agency, Luxembourg, 2019

Figure 9. Air pollution in Europe in early March 2018



Source: <https://www.careouearth.com/air-pollution-in-europe-in-early-spring/>

SOLAR FARM, KAUNAS, LITHUANIA.



General dependence on coal, the most severe pollutant, is still high in some CEE countries: in Poland slightly less than 80%, in Bulgaria and Czechia around 40-50%. In the Baltic States, however, coal dependency is equal to zero in Lithuania and Latvia, and close to zero in Estonia. In most CEE countries coal dependency is decreasing.

In 2020, Poland was the only country that did not support the 2019 EU goal of making the European Union climate neutral by 2050. Moving to a green economy mostly depending on renewable energy will require time, effort and investment in the majority of the CEE countries. It can be expected, however, that efforts will be made to secure cleaner sources of energy, and technological progress in producing and using energy (for example by replacing old stoves in private houses by modern ones, and shifting to gas and renewable energy) will continue to support these positive changes.

In January 2020 the European Commission announced the establishment of a Just Transition Mechanism, part of the Green Deal and the Sustainable Europe Investment Plan. As declared by the Commission, the Just Transition Mechanism will provide tailored financial (at least €100 billion) and practical support for the necessary investments in regions most affected by the transition^[19].

The transition towards a more sustainable economic model is not impossible. Some regions and cities, like Katowice in Silesia, have already gone through a process of renewal and regeneration. The city centre of Katowice, once an industrial town, has been completely revamped in the last ten years and now hosts the Museum of Silesia, the Polish National Radio Symphony Orchestra and the Congress Centre. Investments in cultural upgrading and urban development have had a positive impact on the local economy and on the city itself, which is now considered to be an emerging metropolis^[20]. In the Czech Karlove Vary region, cooperation between the spa resort and industrial tourism has been established. The Hungarian *VisitFactories* initiative aims to develop post-industrial cities, and several initiatives in Romania demonstrate how industrial sites can take on a new role as assets promoting material culture^[21].

A low-angle, upward-looking photograph of a modern glass skyscraper. The building's facade is composed of a grid of windows, reflecting the sky. In the foreground, a large European Union flag, featuring twelve yellow stars on a blue field, is draped across the frame. The flag is attached to a metallic pole. The sky is a pale, overcast blue. The overall composition is dynamic and emphasizes the scale and modernity of the architecture.

COHESION POLICY IN CEE: ROLE AND ACHIEVEMENTS

COHESION POLICY IN CENTRAL AND EASTERN EUROPE: ROLE AND ACHIEVEMENTS

From the very beginning of modern regional policies, most of their patterns were subject to the principle of “equity”, and very few followed “efficiency” goals. Moreover, the regional policy of the European Union has tended to prioritise equalising the level of regional development rather than stimulating the growth of particular Member States or the European Union as a whole, although in recent periods new goals, such as promoting competitiveness and the efficiency of invested resources, have supplemented the “traditional” equalisation approach.

The accession of the CEE countries to the European Union (Estonia, Latvia, Lithuania, Czech Republic, Slovakia, Poland, Hungary, and Slovenia in 2004; Romania and Bulgaria in 2007; and Croatia in 2013) brought a new dimension to their regional development and regional policies. These policies became almost totally subordinated, in both financial and substantive terms, to the Cohesion Policy, of which the New Member States (NMS) became the largest beneficiaries. However, in spite of the dominant general principle of this policy, according to which the least-developed regions should receive the most funds, the proportions of allocations were, to a large extent, similar to the population proportions in these areas – the deviations were rare and small and tended to favour remote, less-developed regions^[22]. Thus, the aim of diminishing interregional disparities with the help of Structural and Cohesion Funds was not always achieved because the absorption capacity of relatively less-developed regions was smaller than that of urban centres.

“ The accession of the CEE countries to the European Union brought a new dimension to their regional development and regional policies.



During the first phase of membership, absorption was considered to be the main focus of the managing authorities in dealing with the inflow of funds from the European Union, but later the rationale of spending – i.e. the efficient use of resources according to their purpose – gained in importance.

The dependency of public investment on Cohesion support has been high – in some periods it reached as much as 90% (in Portugal and Greece) – and in several NMS it was maintained at a level of between 30% (Slovenia) and 60% (Croatia) of total public investment.

Accession to the European Union has brought obvious benefits to both the economic and institutional structures of the CEE countries^[23]. Their overall economic growth has, without doubt, accelerated and helped to achieve convergence with the Western European countries. However, this could have been primarily the effect of injecting additional resources into the economies of these countries (the so-called demand effect). The durable economic effects relying on a steady increase in the overall economic efficiency of their economies (i.e. the “supply effect”) are still to be proven. Nevertheless, the *civilisational effects* – i.e. improvements in infrastructure, quality of environment and other dimensions of quality of life – are evident, and this applies to the vast majority (if not all) of the towns and villages in the New Member States.

A dark blue background featuring a stylized map of Europe. The map is composed of a grid of small, light blue dots, with some dots missing to form the outline of the continent. The text 'COHESION POLICY' is centered over the map in a large, white, sans-serif font.

COHESION POLICY

Membership of the European Union has also had an impact on a few systemic features that shape the regional policies of the CEE countries. The clearly positive aspects are:

- increased importance of strategic thinking at all territorial levels: national, regional and local – a necessary development for implementing the “programming” principle of the Cohesion Policy;
- introduction of evaluation as a routine activity in programming, implementing and assessing the effects of the projects co-financed by the European Union, and constant progress in building an “evaluation culture” that is also spreading to other public policies, not necessarily connected to the EU programmes;
- widespread introduction of transparent tendering rules and compliance with competition principles has reduced (but not totally eradicated) the extent of corruption in the public sector;
- strengthening the capabilities of territorial administrations, which enabled decentralisation reforms to be undertaken in the New Member States;
- spreading knowledge of Cohesion Policy principles, regulations and requirements, with respect not only to procedures, but also to the goals and limitations of regional policies.

THE "STATUE OF LIBERTY" OUTSIDE
THE PARLIAMENT BUILDING IN
BRATISLAVA.



However, some negative effects have also occurred:

- subordination of national preferences to the requirements of the European institutions, in terms of both the priorities selected for intervention and the resources assigned in the form of national funds supplementing the EU funds in order to satisfy the “additionality” principle, i.e. securing (public and private) funding that is additional to the funds as-signed by the European Union;
- fixation on “absorption” and “regularity” as the main criteria for assessing the quality of implementation of the projects co-financed by the European Union: most progress in capacity-building has been made in terms of strengthening the ability to strictly obey formal procedural or operational compliance with EU regulations and requirements, especially regarding financial management and control, sometimes at the expense of the rationale and purpose of spending the EU funds^[24].

Research has indicated^[25] that the institutional reforms have not yet been fully completed and that the CEE countries still lag behind Western Europe with respect to the level of governance. Recent recentralisation processes, seen mostly in Hungary and Poland, but also visible in Czechia and Slovakia, may challenge the efficiency of preparing and implementing innovative strategies for regional development. In a centralised institutional setting it would be difficult (if not impossible) to (re)build regional and local government structures as credible, capable entities able to prepare and implement strategies tailored to the needs and potentials of the respective regions.

VANSU BRIDGE, RIGA. THE CAPITAL OF LATVIA CAN RELY ON MODERN TRANSPORT INFRASTRUCTURE AND GENERATES MORE THAN 50% OF THE COUNTRY'S GDP.

REGIONAL DEVELOPMENT: WHAT'S NEXT?

REGIONAL DEVELOPMENT: WHAT'S NEXT?

The future of regional development and regional policies in the CEE countries is still uncertain. The peak of funding through the EU Cohesion Policy has come to an end for most CEE Member States, and it appears that the European Union is determined to prioritise other spending goals (such as innovation development, tackling climate change, coping with migration pressures, strengthening integration within the euro area) through the EU budget, over those which used to be the most important for the New Member States (support for the less-developed regions, building basic infrastructure, improving the environment). This is due to the reforms of the Cohesion Policy, which have dominated the national regional policies of the New Member States, and to a large extent have shaped the processes of regional and local development.

The recent discussions seemed to indicate that the traditional support for less-developed regions may be curbed, and that the shares of the total Cohesion Policy budget dedicated to innovation, research and development, small and medium-sized enterprises, competitiveness, climate action, development of sustainable sources of energy and social inclusion and poverty relief measures may be significantly increased. Also cuts in the CAP may be harmful to the less-developed regions, in which agriculture plays a relatively important role. This may place the strongest urban centres of the CEE countries, which are best prepared for developing knowledge-intensive services, in an even more favourable position, and thus reverse the new trend of regional equalisation. Also, this evolution of EU priorities may pose a difficult task for some of the CEE countries that have not yet been able to develop a sound and solid R&D base and strong capabilities for creating their own innovations, and thus would not be able to attract a large share of funds towards these targets.

JULY 2020, VILNIUS BUSINESS CENTRE DURING THE PANDEMIC. THE CAPITAL OF LITHUANIA IS A TOP DESTINATION FOR FINANCIAL TECHNOLOGIES.



Dependence of the least-developed CEE regions on transfers from the European Union (in some less-developed regions as much as over 10% of their yearly GDP) for financing most of their infrastructure may jeopardise the resilience of these regions to the forthcoming reduction of these transfers, and to the demographic crisis which several of these regions are facing. If these regions are to continue their economic growth, the national governments will have to rethink the regional allocations of funds coming from the European Union.

The above remarks were made before the recent coronavirus epidemic. The shape of the global economy, and of the situation of the European Union as a whole as well as of its Member States cannot be foreseen yet: all scenarios are still possible. No matter which materialises, EU policies will have to be fundamentally reshaped and adapted to the new, perhaps even dramatic challenges and pressing needs of the societies and economies of the European Union. In any case, it cannot be expected that the needs and interests of the CEE countries will be prioritised in the same way as during the first period of their membership. Therefore, the reservations formulated concerning the future situation of the countries within the European Union should, perhaps, even be strengthened.



END OF HISTORY?

END OF HISTORY?

In 2004-2007, after the accession of CEE countries to the European Union, a conviction of “end of history” emerged. Many people in these countries believed that the path to a mature democracy and efficient market economy was straight and that the New Member States would proceed along this path without major upheavals. This attitude was first undermined by the financial crisis of 2008-2010, which reduced economic output in some CEE countries by as much as 20%. Then came the migration crisis of 2015-2016, which was used by populist politicians to challenge the principles of European solidarity, and in some countries (especially Hungary and Poland) subsequently served to support the trends of weakening the rule of law and the foundations of deliberative, liberal democracy.

There may be several explanations for these developments. Some relate to global trends and suggest that globalisation has led to feelings of uncertainty, and that simple explanations delivered by populist politicians are more plausible than sophisticated analyses. According to this line of reasoning, the CEE countries are following these global trends, and the weaknesses of their relatively new institutions of democracy mean that they are unable to defend themselves against the pressures of populism. Other explanations^[26] indicate that the CEE societies have become tired of imitating the West, or that they have begun to doubt that western values are appropriate for Central and Eastern European societies. Although this may not reach the extent of rejecting those values, the CEE societies may have come to the conclusion that they will never meet western standards and are starting to defend themselves by challenging these standards. Frustration and feelings of exploitation and humiliation may create the foundations for approval of authoritarian rule and for agreement to breaching the rules of democracy. Also, resentments could have been triggered by the partial abandonment by political elites of the notion of a “nation” and “nation state”, which would be replaced by regionalism and Europeanism^[27]. It should be observed that during the coronavirus crisis the role of the European Union is being challenged by some authoritarian regimes of CEE, and claims of reinforcing the nation states are being openly expressed.

GELLÉRT BATHS, BUDAPEST,
HUNGARY.



Finally, support for populist attitudes may stem from the feelings of rejection and being forgotten that affect the relatively less educated strata of the economically active population, which have become unneeded as a result of the relocation of factories to countries with lower labour costs and also the cutting of jobs due to automation and robotisation^[28].

To some extent this last explanation is – at least partially – proved by regional research. According to some analysts, the rise of populism is “the revenge of places that don’t matter”^[29] or a response to “regional resentment”^[30]. Support for right-wing populism is strongest in regions which have undergone deep economic restructuring and also in those which have been

left aside by positive trends of transformation. In Western Europe it is the urban centres that demonstrate these attitudes to the largest extent. However, in CEE most of the big cities appeared to be the beneficiaries of transformation, and these flourishing cities resist the trends of destroying democracy and introducing a kind of autocratic rule. However, there is another kind of “places that don’t matter” – the peripheral, least-developed regions (the “laggards”), where these tendencies do find the strongest support.

Can regional policy respond to such challenges? The recent trends of territorial convergence, observed in most of the CEE countries may indicate that the “forgotten places” had hoped to find their opportunities. However, as already mentioned earlier, the expected changes in EU policies (also strongly influenced in the future by the recent coronavirus epidemic) may work in the opposite direction. Additionally, connecting the magnitude of support directed to the New Member States with the latter’s fulfilment of the standards of the rule of law and liberal democracy may also lead to cuts in assistance to some countries in Central and Eastern Europe (in spite of the fact that these issues have been suspended for a while in the face of the epidemic), thus limiting the possibilities of accelerating the development of their least-developed, peripheral regions.

“ The recent trends of territorial convergence, observed in most of the CEE countries may indicate that the “forgotten places” had hoped to find their opportunities.

Notes

- [1] For a more detailed picture of macro-processes during the transformation, see Orłowski W. M., "Trajectories of the economic transition in Central and Eastern Europe", in Gorzelak G. (ed.), *Social and Economic Development in Central and Eastern Europe: Stability and Change after 1990*, London and New York, Routledge, 2020, pp. 11-34.
- [2] Convergence happens when the differences between countries or regions decrease, and divergence denotes the opposite process.
See [https://en.wikipedia.org/wiki/Convergence_\(economics\)](https://en.wikipedia.org/wiki/Convergence_(economics)).
- [3] Braudel F., *A History of Civilizations*, London, Penguin Books, 1993.
- [4] More on historical divisions of CEE in Gorzelak G. and Jałowiecki B., "European Boundaries: Unity or Division of the Continent?", *Regional Studies* Vol. 36.4, 2002, pp. 409-419.
- [5] Wallerstein I. M., *The Modern World-System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century*, New York, Academic Press, 1974.
- [6] <https://www.lboro.ac.uk/gawc/rb/rb248.html>.
- [7] Szelenyi I., "Urban Development and Regional Management in Eastern Europe", *Theory and Society* Vol. 10, No. 2 (March 1981), pp. 169-205.
- [8] Swianiewicz P., Local Government: Progress in Decentralisation, in: Gorzelak G. (ed.), *Social and Economic... op.cit.*, pp. 54-74.
- [9] Gorzelak G., Jałowiecki B., Kukliński A. and Zienkowski L., *Eastern and Central Europe 2000 - Final Report*. Luxembourg: European Commission, 1994.
- [10] Gorzelak G., "Regional Policies in East-Central Europe", in Fischer M. and Nijkamp P. (eds.) *Handbook of Regional Science*, 2nd edition, Springer-Verlag Berlin Heidelberg, 2020.
- [11] Statistical measures of differentiation depend strongly on delimitation of the territorial units and on measures of differentiation. In general, the more the units, the greater the statistical differences. Also, the existence of city-regions increases the values of differentiation statistics.
- [12] The NUTS classification (nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU.
Source: Eurostat: <https://ec.europa.eu/eurostat/web/nuts/background>.
- [13] <https://www.lboro.ac.uk/gawc/world2018t.html>.
- [14] NUTS is the acronym of Nomenclature of Territorial Units for Statistics (NUTS). For NUTS classification see Eurostat <https://ec.europa.eu/eurostat/web/nuts/background>.

- [15] Applica, Ismeri Europa, *Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). Synthesis report*, Brussels, DG Regio, 2016.
- [16] Williamson J.G., "Regional inequalities and the process of national development", *Economic Development and Cultural Change*, 13: 3-45, 1965.
- [17] Capello R., *Regional economics*, London and New York, Routledge, 2007.
- [18] Radosevic R., Yoruk D.E. and Yoruk E., "Technology upgrading and growth in Central and Eastern Europe", in: G. Gorzelak (ed.), *Social and Economic... op.cit.*, pp. 178-204.
- [19] https://ec.europa.eu/commission/presscorner/detail/en/fs_20_39.
- [20] Source: EIB, <https://www.eib.org/en/press/all/2011-094-poland-eib-supports-redevelopment-of-katowice-city-centre.htm>.
- [21] <https://doi.org/10.1016/j.sbspro.2014.01.1320>.
- [22] Applica, Ismeri Europa & WIIW, *Ex Post Evaluation of Cohesion Policy Programmes 2000–2006 Co-Financed by ERDF – Financial Implementation of Structural Funds*. Brussels, DG Regio, 2009.
- [23] Major infrastructure projects co-financed under the Cohesion Policy in the period 2007-2020 are displayed on a map under the address https://ec.europa.eu/regional_policy/mapapps/major_projects/mpall.html.
- [24] Bachtler J., Mendez C. and Wishlade F., *EU Cohesion Policy and European Integration: The Dynamics of EU Budget and Regional Policy Reform*, Ashgate, Aldershot, 2013.
- [25] Bachtler J. and Ferry M., "Cohesion Policy in Central and Eastern Europe. Is it fit for purpose?". In: Gorzelak G. (ed.), *Social and Economic Development... op.cit.*, pp. 313-344.
- [26] Krastev I. and Holmes S., "Explaining Eastern Europe: Imitation and Its Discontents", *Journal of Democracy*, July 2018.
- [27] Fukuyama F., *Identity: The Demand for Dignity and the Politics of Resentment*, Farrar, Straus and Giroux, New York, 2018.
- [28] Fukuyama F., *op.cit.*
- [29] Rodríguez-Pose A., "The revenge of the places that don't matter (and what to do about it)", *Cambridge Journal of Regions, Economy and Society*, 11(1), pp. 189-209, 2018.
- [30] Spicer J., "Electoral Systems, Regional Resentment and the Surprising Success of Anglo-American Populism", *Cambridge Journal of Regions, Economy and Society*, 11(1), pp. 15-41, 2018.

BIOGRAPHY

Grzegorz Gorzelak is a professor of economics, specialising in regional and local development policies and strategy building. Between 1996 and 2016 he was director of the Centre for European Regional and Local Studies (EUROREG) at the University of Warsaw. He has coordinated several national and international research projects, most recently the ESPON TERCO project on territorial cooperation, and the FP7 project “Growth – Innovation – Competitiveness: Fostering Cohesion in Central and Eastern Europe” (GRINCOH).

He has collaborated with the World Bank, the OECD, DG Regio of the European Commission, several agencies of the Polish and Ukrainian governments, as well as regional and local authorities.

Grzegorz Gorzelak has published (as author and editor) over 60 books (several of them in English) and over 260 articles.

He is Editor-in Chief of a quarterly scientific journal “Studia Regionalne i Lokalne” and was formerly president of the Polish Section of the Regional Studies Association.





**European
Investment
Bank**

The EIB bank 