



# CONVERGENCE AND COMPETITIVENESS IN CENTRAL AND SOUTH EASTERN EUROPE



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Countries in Central and South-Eastern Europe (CESEE) embraced quite different approaches on their post-communist European path. Their initial attitude, in the first years after 1989, aimed to establish systems of democracy and market economy, following the model of Western Europe. As economic and democratic reform began, observers in the region, as well as Western governments, estimated that the development gap with the West would take two to three decades to be eliminated. Now, almost three decades on, we find that these estimates were not realistic, even if some countries (such as Slovenia and Poland) have taken large strides. Today, we see that the economic and social development of the CESEE countries has, on the whole, been more modest over the last three decades than the Asian emerging economies convergence, and similar to Latin America ([Poznanska, Poznanski, 2015](#)).

In this overview, I will argue that the countries of CESEE which joined the EU have, however, experienced a more accelerated convergence process ([Gros, 2018](#)). A major expectation of the New Member States, even in the pre-accession period, was to achieve substantial economic growth and prosperity for their citizens. The way to achieve this goal was to combine the benefits of belonging to the Internal Market with European Cohesion Policy and the efficient investment of structural funds. It was believed that this



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would also accelerate convergence - the catch-up process with the developed countries of the EU. The EU has embraced new real convergence indicators, adding to per capita income also consumption (per capita), the activity rate, employment and real wages. When also taking these indicators into account, the region's rate of convergence to the old Member States was even slower, especially after 2007, despite GDP continuing to accelerate. Let me also note that the trend in the EU is to introduce even more ambitious convergence indicators, as the Union seeks to ensure European competitiveness keeps pace with the rhythm of global competitiveness.

The analytical direction proposed by Paul Krugman (Bourdin, 2015) is useful for framing this reflection. If we refer to economic convergence, we can say that it is influenced by both economic conditions and characteristics of geographical proximity. Accordingly, the pace of the catch-up process (in some parts of the region the pace of divergence) can be explained by the fact that a region is surrounded by other less-developed regions. There is also the possibility of a spatial clustering of the regions on the basis of similar rates of convergence (Baltic Area, Visegrad and, more recently, the south-eastern quadrilateral). Moreover, there are signs of strong spatial concentration in the capitals of Romania and Bulgaria, combined with emerging large local or regional disparities that may affect both regional integration

and the European integration process.

Most economists would agree that the convergence of economies in CESEE increased due to the accession to the EU. Common factors explaining this development were accelerating structural reforms, improving institutional quality, a drive for innovation and external competitiveness, human capital accumulation and of course relatively high investment, mostly coming from Western Europe ([Zuk et al, 2018](#)). To this list, we can add the ability of the New Member States to internalize European policies and to invest structural funds and especially the funds of economic, social and territorial cohesion.

The progress of convergence in the region was however uneven. In addition to differences resulting from a diverse growth potential, specific endogenous (policy) factors have influenced the degree and pace of economic growth and convergence in the countries of the region. The impact of social, cultural and political dimensions on the convergence process cannot also be underestimated. These factors have determined some strategic options and political-state decisions on consumption, savings, investments, quality of the business environment, the citizens' expectations level, etc. ([Grela et al, 2017](#)). These decisions, in turn, have affected the economic performance of the countries in the region, their level of integration with the European Union



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and, ultimately, they have determined the pace of the catch-up process with Western Europe.

Especially after 2000, accession to the EU occurred almost simultaneously with the introduction of the Euro, emphasizing the importance of economic convergence in CESEE. The growth and development model adopted following transition was continued, but the EU was added as an anchor regarding the institutional evolution of these countries. Moreover, private capital from Western Europe and the European funds for public investment supported development. Meanwhile, however, significant technological change had increased the demand for highly skilled labor, enhanced the role of research, education and innovation. No less important was the policy of national income redistribution in each country in the region, influencing the social progress indicator ([Toth, Medgyesi, 2018](#)). Thus, the diverse experiences of these states in managing the development process, the resulting inequalities and their exacerbation in the crisis period created rather different situations for the CESEE countries by 2010, while they all wished to resume a faster convergence process. More recently, new problems have been encountered, such as emigration and other demographic issues, a decline in foreign investment interest and increased global competition.

Many voices agree with Margherison (2003) who argued that, across the EU, there are a number of factors that favour convergence, alongside other important factors underpinning divergence. Among such factors are language, religion, cultural traditions and historical experiences, different governance systems, competing ideological orientations and, last but not least, a diversity of economic and social situations. Adelle et al. (2014) argue that in order to achieve convergence in a certain area, it is necessary to have a convergence of ideas and principles which identify the main problems, a will to change and a common understanding and close collaboration between the Member States and the EU, which is based on coherent convergence rules, institutions and policies. Mainly, it is about identifying the common interests of actors, but also political and economic similarities and incongruities. In other words, convergence is the result of a mix of policies that seek to achieve similarities through a process of transferring or sharing values and objectives.

How are ideas, norms and principles best conveyed? A study by [Dobbius and Knill](#) (2009) shows that the European influence on higher education policies in the EU Member States was quite limited until the Bologna Declaration (1999). The „Bologna Process” was a supranational platform, a „European agenda for the convergence of higher education systems”, which was designed to cope with contemporary challenges by promoting



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internal reforms. Although the signatory states of the Bologna Declaration were not legally obliged to implement certain reforms, and there was no responsible central authority, this document created a European framework that favoured extensive transnational communication and provided a platform for potential political changes. The effect was the convergence of national policies in the field of higher education towards a common approach. [Dobbius and Knill](#) (2009) considered four states in Central Europe - the Czech Republic, Bulgaria, Romania, Poland - where evidence shows that the "Bologna Process" promoted integration and convergence. For the CESEE region, this development was the consequence of the combination of historical and sociological institutionalism. The analysis of the authors shows that the traditions of these countries and the transnational influence were not in conflict, and thus could satisfy national and regional needs, as long as there was an appropriate management of the convergence process.

This brief overview shows that the states of CESEE have achieved significant economic growth, especially in the context of EU membership, but that the pace of convergence with developed Western states slowed after the crisis. Most analysts believe that the development model applied so far in the region has reached its limits, and that there is a need for a new development model to achieve an accelerated pace of structural reform. The East-West

catch-up process not only concerns economic convergence, but it also applies to convergence in a broader sense. This is even more necessary, given that North-South convergence is likely to be resumed with greater intensity. The CESEE still needs Western capital and know-how, but it also needs to develop its own, internal innovation capacity. The principles and methods proposed by [Roco \(2016\)](#) to facilitate convergence are also applicable to CESEE countries, since only scientific and technological convergence can lead to a more rapid increase in added value. Such an approach would match the good practices of the "Bologna Process" well. The creation of an educational and research ecosystem in the region, resulting from a clear vision and a new culture of European convergence, could lead to deeper integration and provide an important opportunity to reduce the East-West gap. This would give a greater cohesion to the process of European integration and would enhance the global competitiveness of the entire EU.