



WHAT DIFFERENCE HAS THE EU MADE TO THE CONVERGENCE PROCESS? FACETS OF THE FACES OF CONVERGENCE



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Countries in the eastern half of Europe decided to join the Western alliance system soon after transition, which started in the late 1980s. The desire to belong to the West was a major factor, which politically anchored these countries and made reforms palatable. Later in the process, the desire to join the EU became the main force fostering reforms and development. People wanted to join the EU because they wanted to have the same quality of life as those in the West. Hopes were high, perhaps some of them too high, but not all of these hopes have become a reality.

Countries that are now EU members, or candidates for future membership, are those that have implemented the necessary reforms. These reforms might have contributed to faster convergence even if the countries had remained outside the EU, but it is not clear that the forward reform momentum would have been maintained for so long without the strong desire for and pursuit of future EU membership.

While EU membership was an important factor that promoted development through a number of different channels, it was not the only one. Convergence has also taken place at the global level and the speed of convergence has never been as fast globally, as it is today. A relevant question is therefore whether the EU



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Member States from this region are converging faster than their fundamentals and global trends would suggest, and whether it is taking place because of their EU membership.

The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Political Strategy Centre (EPSC) of the European Commission, and the Vienna Institute for International Economic Studies (WIIW) have teamed up to better understand this issue. Our focus is on the impact of the EU on the convergence process and how EU membership has shaped the nature of the convergence process. While the project has involved traditional academic research as well as a policy conference, we thought a unique way to learn about our subject would be to also ask those people who had made a major contribution to the convergence process. People both from the region and from outside, working in business, banking, government, international and European organizations, academia, research and higher education, and civil society. Many of our contributors have moved from one of these areas to another during their careers. They are the Faces of Convergence. They have made an enormous contribution to, and have deep understanding of, the convergence process in the region.

To understand better the relationship between convergence and EU membership, we have asked our contributing authors

the same basic question: In your view, and based on your own experience, what difference has the EU made to the convergence process in this part of the world? They have answered this question in many different ways. Some have taken a broad view on the entire process, some have zoomed in on an area in which they worked. Some have focused on a country where they have lived, others have offered their views on the entire region. A few contributions have considered what would have happened in the case that these countries had not joined the EU. This might seem a somewhat academic question, but in fact it could have easily happened. Some have compared two rather similar countries, one inside the EU and another outside. Approaches are different, and so are the personal experiences and views on many details, reflecting the diversity of the region and the people involved. Nevertheless, there are several important messages that emerge clearly from these contributions.

EU membership stands ready to benefit its Member States and to speed up convergence to the global frontier through several channels. These channels, amongst others, notably include the trade, investment, financial integration and institutional channels. Each one entails both private and public initiatives and influences. The impact EU membership has had through these channels could in turn be manifested via specialization patterns and more broadly in the change of economic structures, higher capital



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stock, faster innovation, better corporate governance, better government quality and faster human capital accumulation. Put differently, EU Membership contributes to the strengthening of 'deep growth fundamentals', relative to other converging countries and relative to countries already at the growth frontier. It does so by allowing economic agents to optimize their business decisions across a large economic area, in fact the biggest in the world. Companies can set up production, and people can move and work wherever they want. It creates an institutional framework and a set of laws that make economic environments in the different member states sufficiently similar, and what is perhaps even more important, stable. In short, it offers an external anchor to the member states.

The opinions of our contributors differ with regard to which of these channels have worked and to what extent, but they all agree that the EU has made a tangible difference. Many contributions also emphasize that whatever advantages EU membership may have, such advantages are not automatic, nor guaranteed. It is always up to the country concerned to take full advantage of the opportunities the EU may offer. Like in many other areas, national policies matter a lot. A lack of sufficient reform efforts, or worse, reform reversals, may take away most of the advantages of EU membership and may expose the EU countries more to some of the vulnerabilities that

deeper economic integration may bring about. This, combined with the biggest economic crisis in Europe since the creation of the EU and an uneven distribution of benefits and burdens, has created outcomes that for many people fell far short of the high hopes they had had at the time of EU accession. In some countries, this disillusionment turned into social and political developments that some of the contributors find disappointing, and that created conflicts between the EU and the governments of some of the member states in the region. The uncomfortable point some contributors make is that political divergence will eventually endanger economic convergence, which in turn may undermine European integration.

Nevertheless, the external anchoring role is a particularly important aspect of EU membership that many contributors identified, even those who think that most of the convergence process is determined by domestic reform efforts and global trends, which could have taken place without EU membership. I would add that in the first place it is precisely the lack of strong domestic anchors that explains why most of these countries, despite their favorable geographical location, and close economic and cultural links to the West, are still less developed than the western half of the continent. Hence, external anchors seem essential for this part of the world. But contributors emphasize that the rationale for the individual elements of this anchoring (such as



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EU regulations), that is to say precisely why they are needed and how they help improve EU citizens' quality of life, needs to be explained to the people. Without good communication and a careful consideration of national and local circumstances in the design of policies and regulations at the EU level, people may become ambivalent towards, or even turn against the idea of EU integration.

Many contributors explain the way in which the accession process promoted reforms of the institutional and legal framework, and thus promoted trade integration and FDI, well before actual entry into the EU. For economists, this is yet another example of how expectations, in this case the expectation of future EU membership of a country, can influence business decisions, but again only together with reforms. A strong reform drive may make a country a more desirable future EU member for existing member countries, as it makes their economies stronger and more resilient and because it builds trust. The resulting positive attitude, the plausibility of future membership, in turn further strengthens the reform drive, thus creating a virtuous circle.

As several contributions from the candidate countries point out, there can be a vicious circle as well. If interest in the enlargement process falters, partly because of problems with a lack of reform or reform reversals, the anchoring role may weaken. This in turn

may weaken the reform effort, justifying the original skepticism about enlargement. This can create a vicious circle which, once in motion, makes both sides feel justified. The important point here is that this is a negative outcome for both sides. An important part of Europe that can give much needed dynamism to the continent starts to underperform. Moreover, whether there is EU accession or not, people and capital will move, even if at higher cost, and create spillover effects for the EU as well. As contributors emphasize, we need to find a way to reverse this vicious circle.

The Faces of Convergence offer a new way of learning about the nature and future of the convergence process in the region. They offer a different view from what rigorous but sometimes narrowly focused academic research provides, and different from what fast-moving news media offers with its focus on current events. I believe that the Faces of Convergence can also help to shape European integration, in a way that makes people more willing to support it.