

Summary description of project context and objectives

The main objectives of the **GRINCOH project** is to deal with two major challenges facing the CEECs that are central to the goals of cohesion: they need to embark on a more innovation-driven process of development to secure long-term competitive and sustainable growth; and, at the same time, they need to create conditions for their citizens that allow them to enjoy more equal opportunities and to mobilise their full potential for economic and social development. The specific objectives of the project are: (a) to establish development scenarios for the CEECs for the period up to 2020 under different assumptions of political frameworks, institutional conditions and development strategies; (b) to identify the implications for sustainable growth – based on innovation and the development of technological capabilities – and greater economic, social and territorial cohesion in the CEECs; and (c) to advise on future policy options for the CEECs, and in particular for EU Cohesion policy.

The first phase of the project (March 2012 – August 2013) was devoted to:

- making progress in empirical research in the fields covered by the project framework,
- laying the foundation for scientific cooperation between particular streams of research primarily based on the outcome of WP1: Economic development patterns and structural change in the process of transition and EU membership,
- establishing a platform for deeper generalization focused on institutional and policy dimensions of socio-economic development based on the outcome of elaborated papers, reports as well as regional case studies (WP6 and WP8),
- setting up frames for consolidation of policy suggestions for Cohesion Policy derived from different WPs that provide the input for WP9 Scenarios, policy options and policy suggestions

The first 18 months of GRINCOH served as a preparation stage focused on empirical works in all analysed fields: structural change, international trade and FDI, innovation and entrepreneurship, labour market and skills, social cohesion and policies, regional development, institutions, cohesion policy and development scenarios. All planned output (including databases, models, academic papers and reports) foreseen at this stage have been elaborated with minor delays only. The elaborated materials provide solid foundation for the consolidation of results envisaged to be done in the second stage.

Description of work performed and main results

The work performed within **WP1: Economic development patterns and structural change in the process of transition and EU membership** covers various aspects of the three broader thematic subjects analyzed: economic growth and convergence at both country and regional level, structural changes in CEEC economies and the role of FDI, as well as a critical evaluation of economic policies employed in the process of EU accession and EU membership. Various aspects of growth, convergence and structural change in the new EU member states, as well as the role of FDI and firms' performance in economic restructuring, catching-up and resilience to the crisis are addressed as well. The time span covered by individual papers differs, largely owing to data availability, including both periods before and after EU accession. A special focus is devoted to the impacts of the recent (2008-

2011) crisis. Perhaps not surprisingly, the papers do not provide an unequivocal assessment of convergence patterns, driving forces of growth and economic policies pursued by the Central and East European countries during the process of transition and EU membership. The diversity of approaches and conclusions reflects both the heterogeneity of countries analysed and the complexity of cohesion processes.

Within the **WP2: International context of cohesion: the role of trade and FDI** focus has been made on the role of external relations of the CEECs. The research reveals – among other issues – that according to econometric estimations, the contribution of supply capacity to the CEECs' export performance has been decreasing steadily since the high of the year 2000 and in 2011 contributed less than five percent to CEECs' export growth, with the remaining share being accounted for by improving foreign market access. The horizontal (i. e. intra-industry) spillovers have become increasingly important over the last decade and might become even more important than vertical spillovers (defined in as spillover effects on upstream sectors). The findings suggest that the basic purpose of foreign investments into various research units in the host countries is the exploitation of the local knowledge base for the general R&D tasks of the mother companies. The local impact is limited. It was also found that since local sources in the CEE countries are not supportive enough for innovation in CEE regions, they tend to rely more on external knowledge transferred from research networks in innovation. The findings are important as they suggest that strengthening research excellence and international scientific networking in relatively lagging regions (such as regions in CEE countries) could be a viable option to increase regional innovativeness, which in combination with other policies could further form a base for a systematic support of regional development. Several preparatory undertakings have also been conducted aiming at collection of data and consolidation of available databases.

In **WP 3** devoted to **Innovation, entrepreneurship and industrial dynamics** research has been conducted to assess R&D excellence of CEE in a comparative perspective measuring patent activity in the CEECs and indicating the role of these countries, the changing structure of the global scientific production. Interregional R&D collaboration linkages have been identified, and innovation capacities of the CEECs are being assessed. Additionally, the territorial dimensions, networks of research and innovation and their effects on regional performance in CEE are to be embraced by research, to correspond with studies conducted in WP6. These topics are being researched with reference to social and institutional determinants of innovative entrepreneurship in CEE, as well as the entrepreneurial propensity of newly emerging technology sectors in CEE. A comparative analysis of policy-mixes of research and innovation policies in CEE will lead to formulation of policy conclusions.

Within the **WP4** devoted to **Labour markets, skills and social dynamics** a study was completed revealing that employment and activity rates in the new EU Member States (NMS) declined significantly up to the early 2000s and started to increase along with strong GDP growth thereafter. Job losses following the outbreak of the economic and financial crisis varied substantially across countries and have not been offset yet. Overall, the low educated and the young people are very disadvantaged on the NMS labour markets. With the exception of Poland and Slovenia non-standard types of employment are uncommon in the NMS. Employment protection legislation has been adjusted to 'European standards' in the entire region. Union density and consequently the impact of trade unions on wage setting and employment in the NMS fell dramatically. In all NMS

unemployment insurance schemes as well as minimum wage regulations were introduced at the beginning of the 1990s, but are less generous than in the EU-15.

Several other investigations are on the way, some of the even partially completed - devoted to such issues as transitions between labour market states (employment/unemployment; temporary/permanent contracts; part time/full time, etc.), labour markets and regional and intra-EU mobility, potential role of activation tools, which may contribute to labour market adjustment, the impact of tracking in secondary education on long term outcomes, the analyses of effectiveness of training and educational institutions from different aspects, also analyses of the various characteristics of the educational systems and their reforms in the CEECs and their impacts on the situation on the labour markets. Already several policy suggestions have been formulated basing on the research results.

In the **WP5** devoted to **Social Cohesion and Social Policies** research activities are progressing in close co-operation with WP4 given that employment levels and forms have strong impact on social cohesion while at the same time social policy measures influence labour market processes as well. The results of WP4 concerning employment situations, activation and training policies in the different countries represent those background factors that shape social inequalities and stimulate different social interventions in CEECs. Such issues as the drivers of inequality and poverty in the CEE EU Member States, effects of income inequality on population health and social outcomes, disparities in health status within the new Member States, and several aspects of exclusion from the labour market in post-socialist EU member states have been analysed, and the research is in various stages of completion. Family policies and female labour force participation and provision of employment rehabilitation services have become one of the axes for formulating policy suggestions. Several analyses have been conducted for selected CEE countries complemented by few West European ones for reasons of comparability.

The territorial dimension of EU integration as challenges for Cohesion policy, studied mostly within **WP 6** (but referred to also in other streams of research), is one of central issues in the GRINCOH project. The harmonized socio-economic regional database for the NUTS2/NUTS3 regions has been prepared and currently is serving for statistical analyses of dynamics of regional development and changes in its structures and typologies. Initial results reveal that regional divergence at country level is caused by simultaneous metropolisation and marginalisation processes (studying metropolises and metropolisation processes constitute a separate task within the project – the following cases will be analysed in depth: Warsaw, Prague, Budapest, Tallinn and Bucharest). However, at the macroregional scale regional convergence has been observed as a result of differences in growth rates between individual countries. At the national scale petrification of existing regional structures has been prevailing in majority of countries which creates the most important challenge for regional policies conducted on national and EU levels. In-depth comparative analysis of specific territorial cases is in its finals stage – several case studies have already been conducted, few are planned in the near future (altogether 10 regional cases will be analysed in a comparative manner). A statistical assessment of infrastructure construction and its role in regional development is under way, as well as a study aiming to assess the changing state of the natural environment and of environmental policies for sustainable development.

Dynamics of institutional convergence, studied within **WP7**, is one of the main pillars of the project, since creation of institutions of market economy and democratic political systems have become of the main foundations of the entire transformation process. Several topics are under study: a unified approach to institutional convergence towards EU norms (related to the *acquis communautaire*) and its relations to growth; comparative corporate governance in Central Eastern Europe – a comparative political economy approach, the impact of EU-wide coordinated policies and structural reforms on cohesion, and the analyses of political stability and institutional change and their impacts on economic performance of the CEECs.

The results of **WP8 on Cohesion policy and its components: past, present and future** is a gateway to policy suggestions for regional, national and EU levels of policy formulation and implementation. The research and analysis on how different aspects of Cohesion policy influence processes of economic, social and territorial cohesion in CEECs has been conducted, including assessing the conceptual evolution of Cohesion policy, analysing Cohesion policy lessons from earlier EU/EC enlargements and assessing Cohesion policy impact in specific territories. It was found that the Cohesion policy funding was spent on urgent problems, not always best for long-term strategic development. The initial focus was on areas where authorities had experience (infrastructure and business support). There had been a move to more sophisticated interventions related to the Lisbon and Europe 2020 agendas (RTDI, entrepreneurship) but implementation had been challenging and it had been difficult to quantify achievements in these latter areas. Overall data on achievements was uneven, expenditure data was time-consuming to collect. Variables identified as potentially significant in explaining CP achievements were identified for more detailed research in the context of CEECs: strategic quality and Institutional capacity. In order to improve understanding of the impact of those Cohesion policy interventions emphasised by the EU2020 agenda and dealt with in other WPs (business development, R&D and innovation linked to research in WP3; labour, social cohesion and welfare covered in WP4) several case studies are drawn from territorial typologies based on the results of WP8 Tasks 1 and 2 and the database developed in WP6 (examining them is ongoing). Analysing Cohesion policy and institutional change in CEEC is still in progress. Assessing Cohesion policy's prospects as a function of the EU budget's future is also in progress, and research involved conducting interviews and literature reviews.

The future-oriented WP9: **Scenarios, policy options and policy suggestions** has been until now devoted to work needed to prepare a third generation of the MASST model. Previous versions of the MASST model will be used for scenario building. The new generation of the MASST model, expressly designed for the GRINCOH project, aims at encompassing several improvements needed for better modeling regional growth and cohesion policies in a more thorough structure. The stage of data set collection has been fully accomplished in this first reporting period. The MASST3 model now benefits from the availability of a complete panel data set covering the years 1990-2010 for the national sub-model, and an unbalanced panel for the regional sub-model, covering the years 1995-2009 (with gaps due to data availability constraints).

Expected final results and potential impacts (1800 znaków)

The GRINCOH team expect to achieve results with clear socio-economic, scientific and policy oriented impacts:

- 1) GRINCOH will contribute to the debate on Cohesion Policy and the role it will play in socio-economic development of the CEECs and their regions and cities
- 2) Scientific contributions are expected by linking several issues of social, economic, political, technological and institutional process within the CEECs, investigated in a wider global environment. This will create a unique possibility of a comprehensive, synthetic and at the same time holistic approach to socio-economic studies that will have a sound impact on theories and research methods in the field.
- 4) Policy-relevant results are expected in terms of scenarios for national and regional development through CEECs and their changing place within the EU family. These will include scenarios for socio-economic development that will encompass a set of mutually related aspects, like social change, social stratification, economic growth, technological change, innovation creation and absorption, scientific activity and cooperation, transport system, natural environment change etc
- 5) A further policy-related result of GRINCOH will be to develop possible synergistic links between Cohesion and national policies and to suggest ways to more effectively integrate the CEECs countries and their regions into the process of EU development and strengthening its role in the wider global context.
- 6) GRINCOH will also have an educational impact. The project's theoretical insights, empirical results and methodology will continue to be incorporated in university curricula for undergraduate/post-graduate studies in economics, geography, regional planning, sociology, anthropology, cultural studies, political science, etc.