

The Eastern Periphery of Europe Versus the EU Core: Healthy Vibration or Clash of Cultures?

Somorja/Samorin April 11, 2019

Péter Ákos BOD
Phd, DSc, Corvinus University of Budapest

petera.bod@uni-corvinus.hu

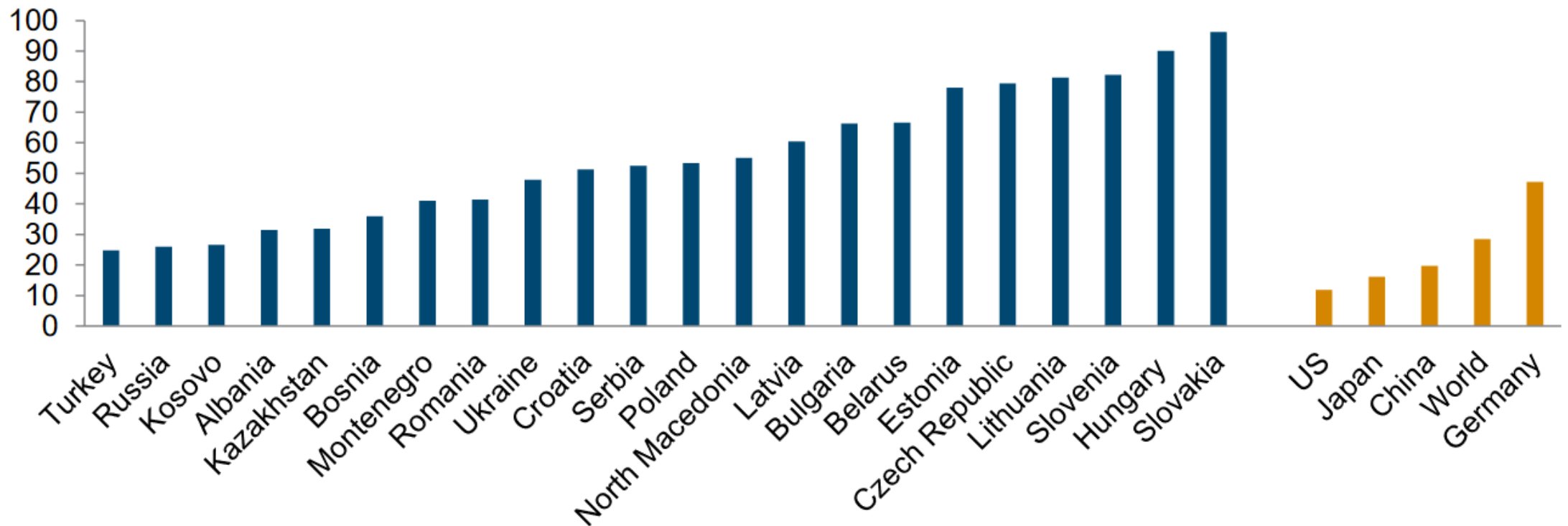
Embarrassing political turns, new friendships, and deeper division among allies

Hungarian PM Mr. Orbán with Putin, Erdogan; European Parliament voted to condemn Hungary on democracy, EP biggest party block EPP suspended Orbán's party; The Economist on Poland and Hungary



First: some facts. In trade openness, CEE much above global (and EU) average: high exposure to trade war threats

Exports of goods and services, % of GDP, 2017



Free trade and stable currency regime should not be taken for granted – the spectre of protectionism is alive

Trade wars are good



Donald J. Trump ✓
@realDonaldTrump

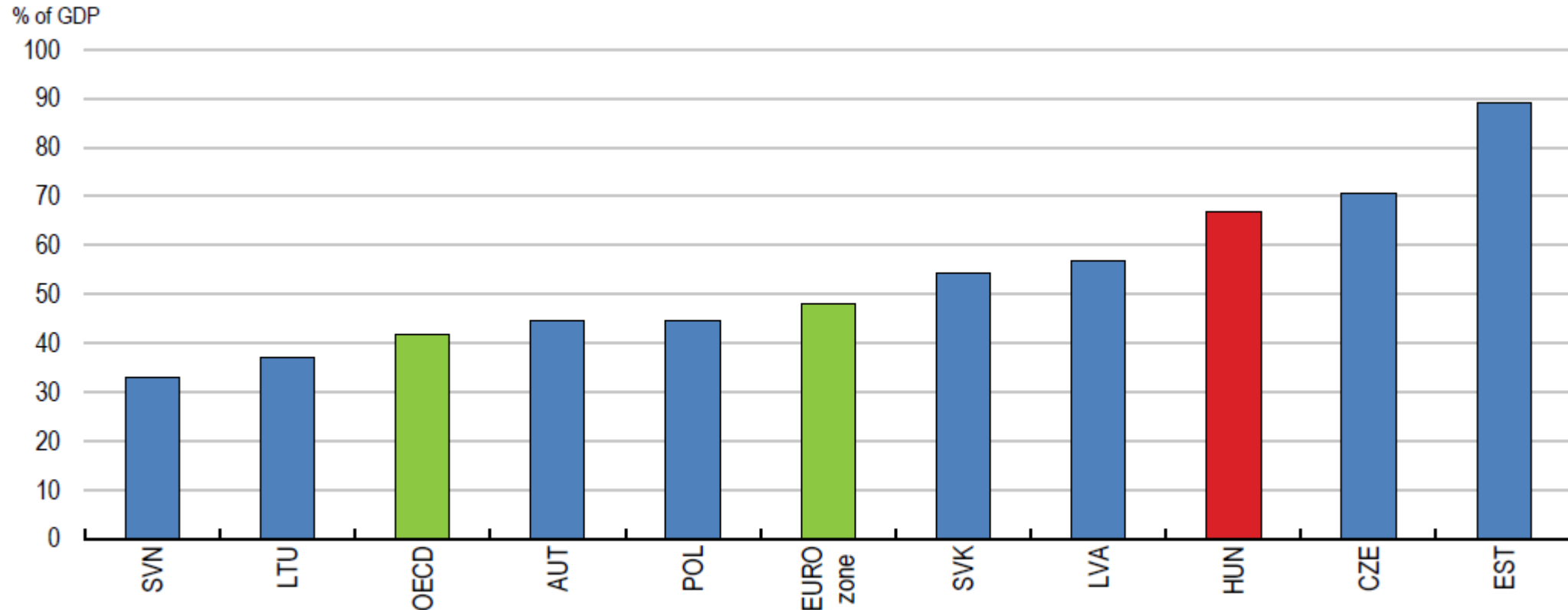
Követve



When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down \$100 billion with a certain country and they get cute, don't trade anymore-we win big. It's easy!

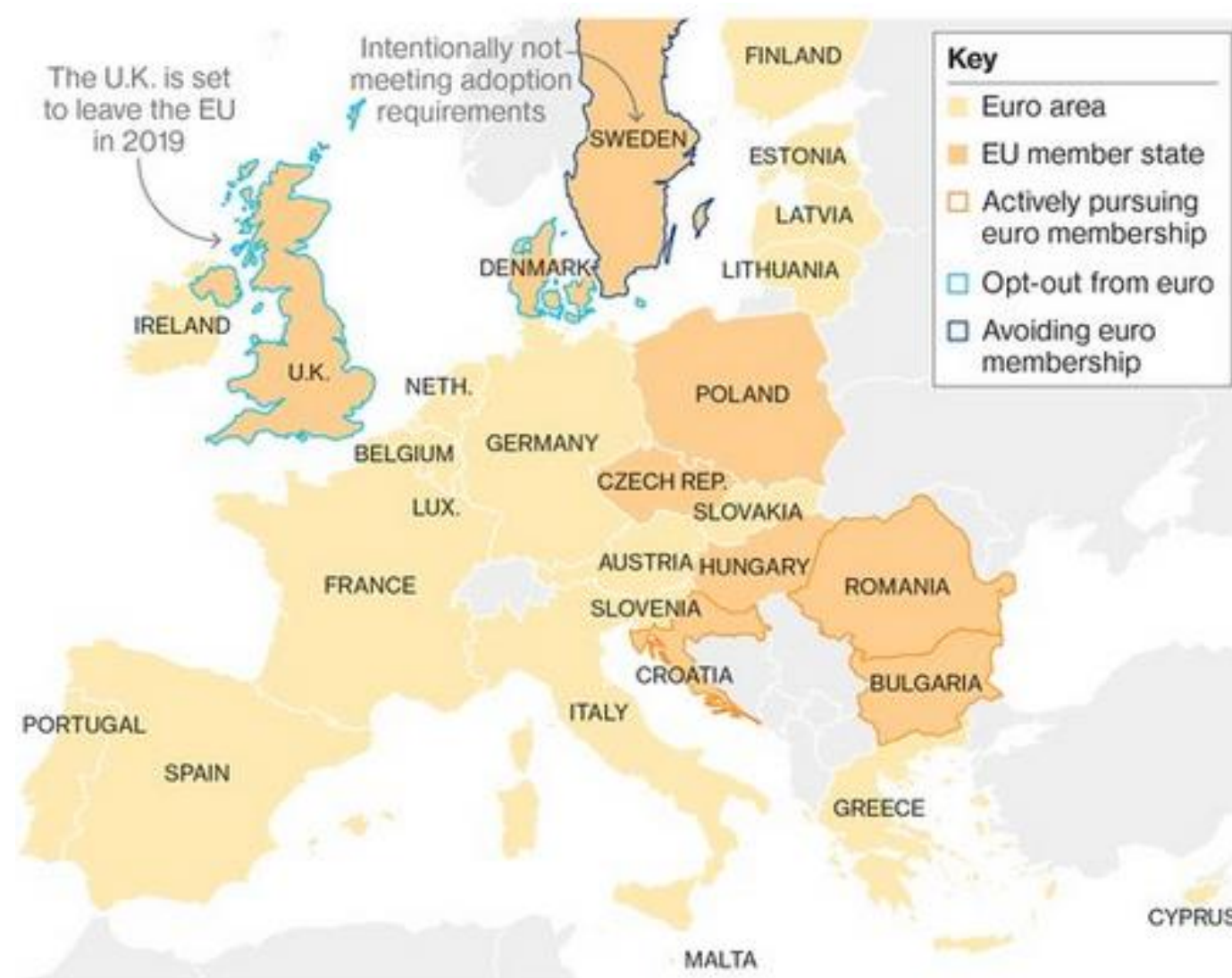
CEE economies have absorbed sizeable FDI – good for growth but high foreign presence is a challenge to politics

Stock of incoming foreign direct investment as % of GDP



Source: UNCTAD (2018), OECD Economic Outlook: Statistics and Projections (database).

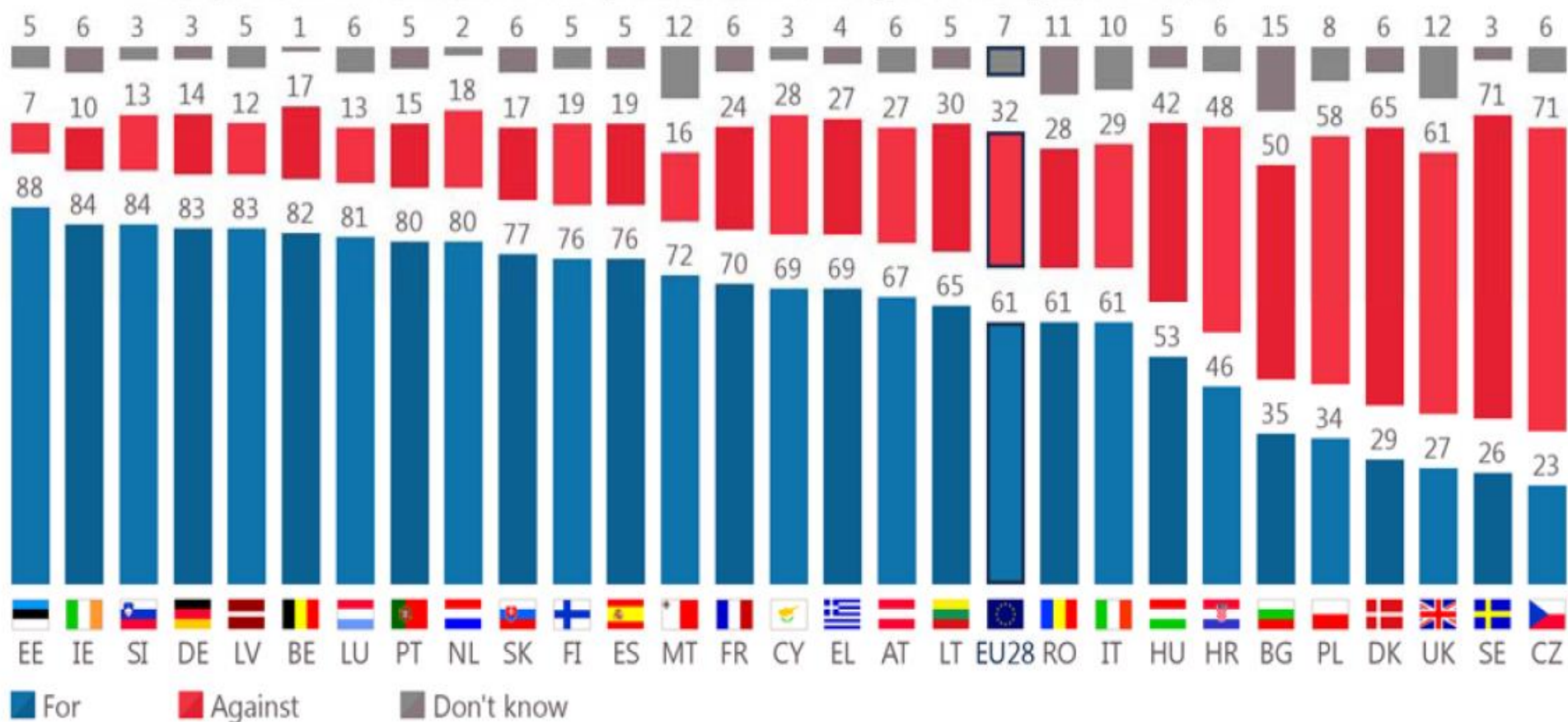
Some are CEE countries are members of the eurozone, others vacillate



Certain governments in CEE do not support accession to eurozone;
societies divided (POL and CZ against)
2018 survey, Eurobarometer

QA16.1 What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it.

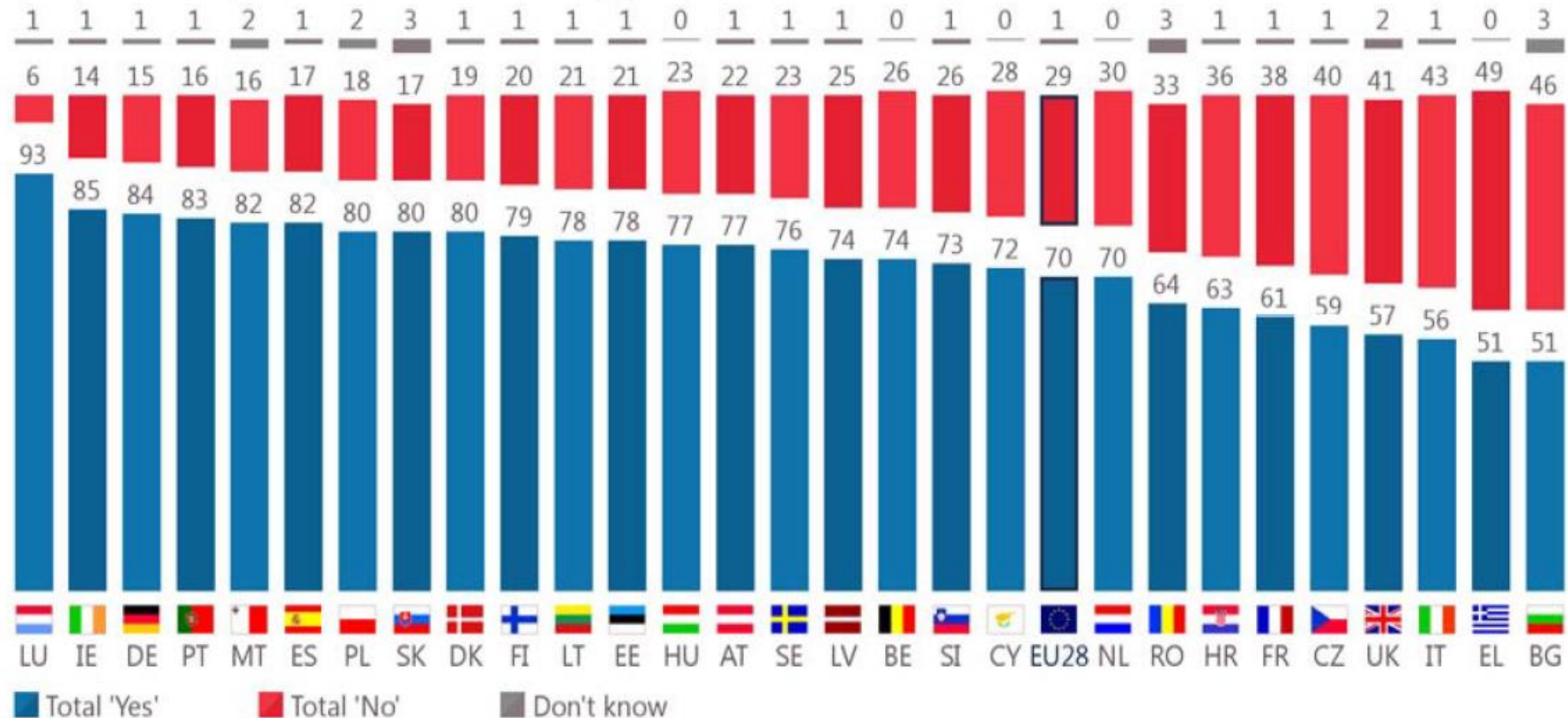
A European economic and monetary union with one single currency, the euro (%)



... but most people feel being EU citizen

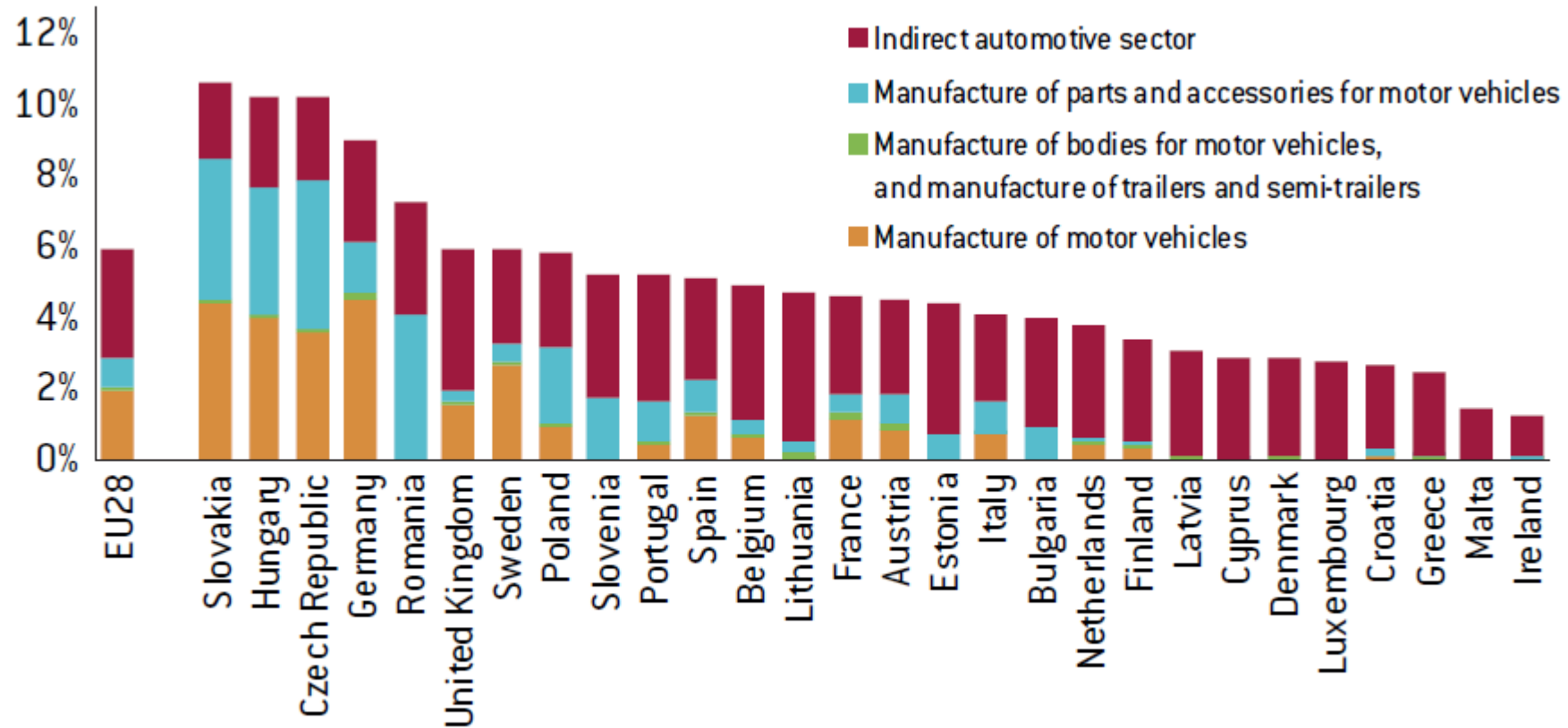
QD2.1 For each of the following statements, please tell me to what extent it corresponds or not to your own opinion.

You feel you are a citizen of the EU (%)

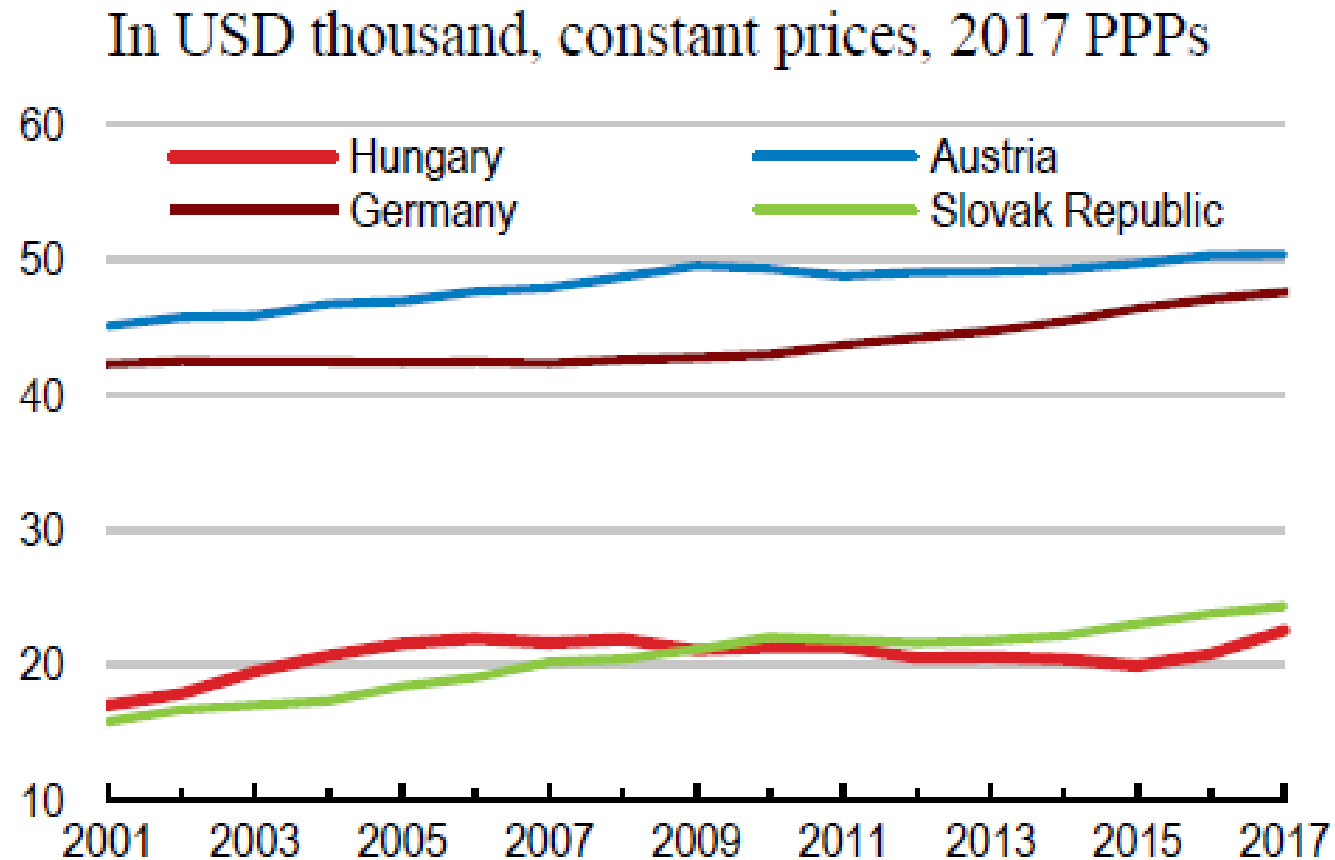


Not long ago it was a sign of modernity, now a risk factor

share of the automotive industry in producing GDP



People look at there wages – and will notice the gap



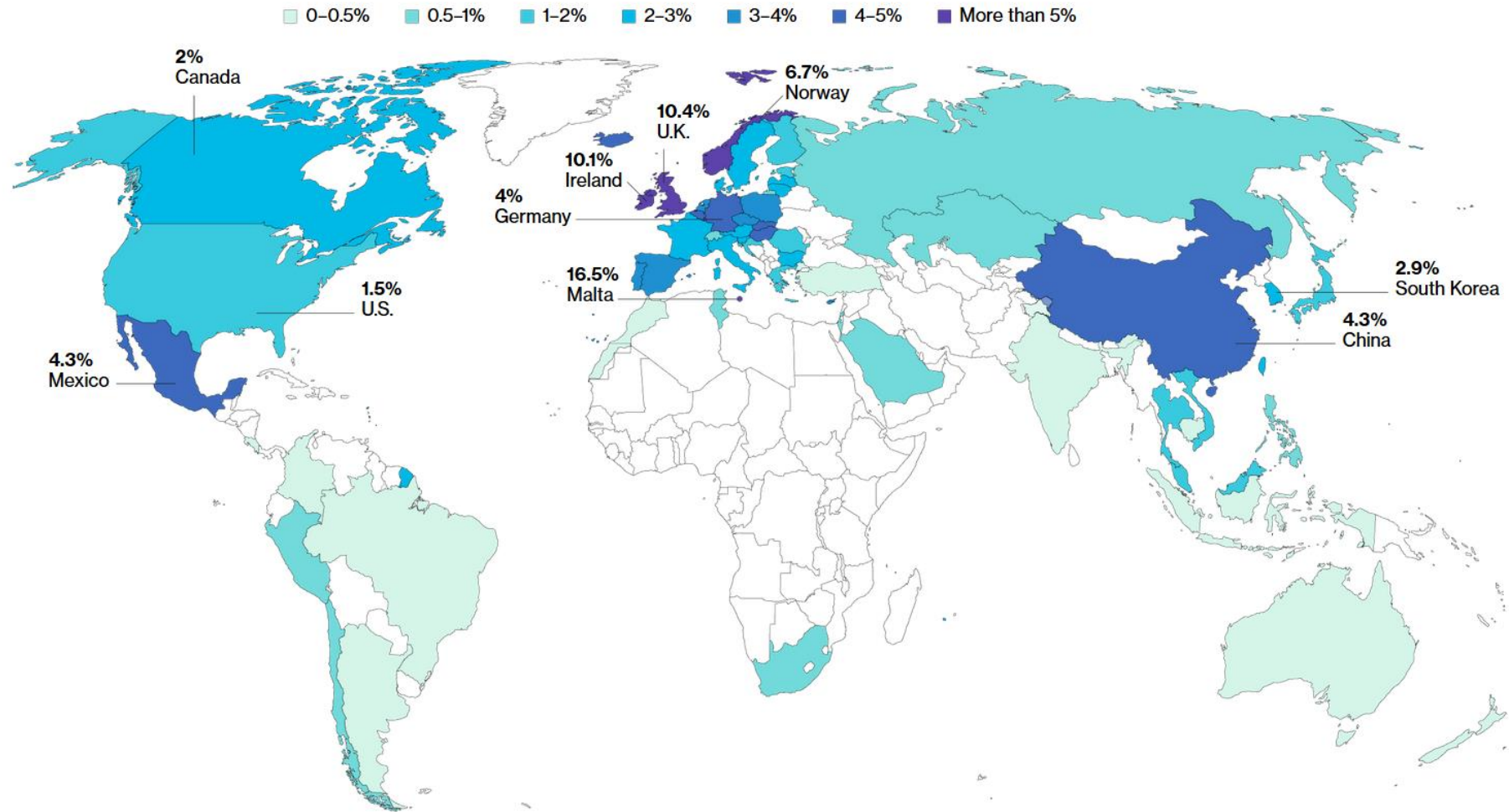
Macroeconomics: strong cycle (2014-2018) followed by slowdown

Annual GDP growth. Source: WiiW

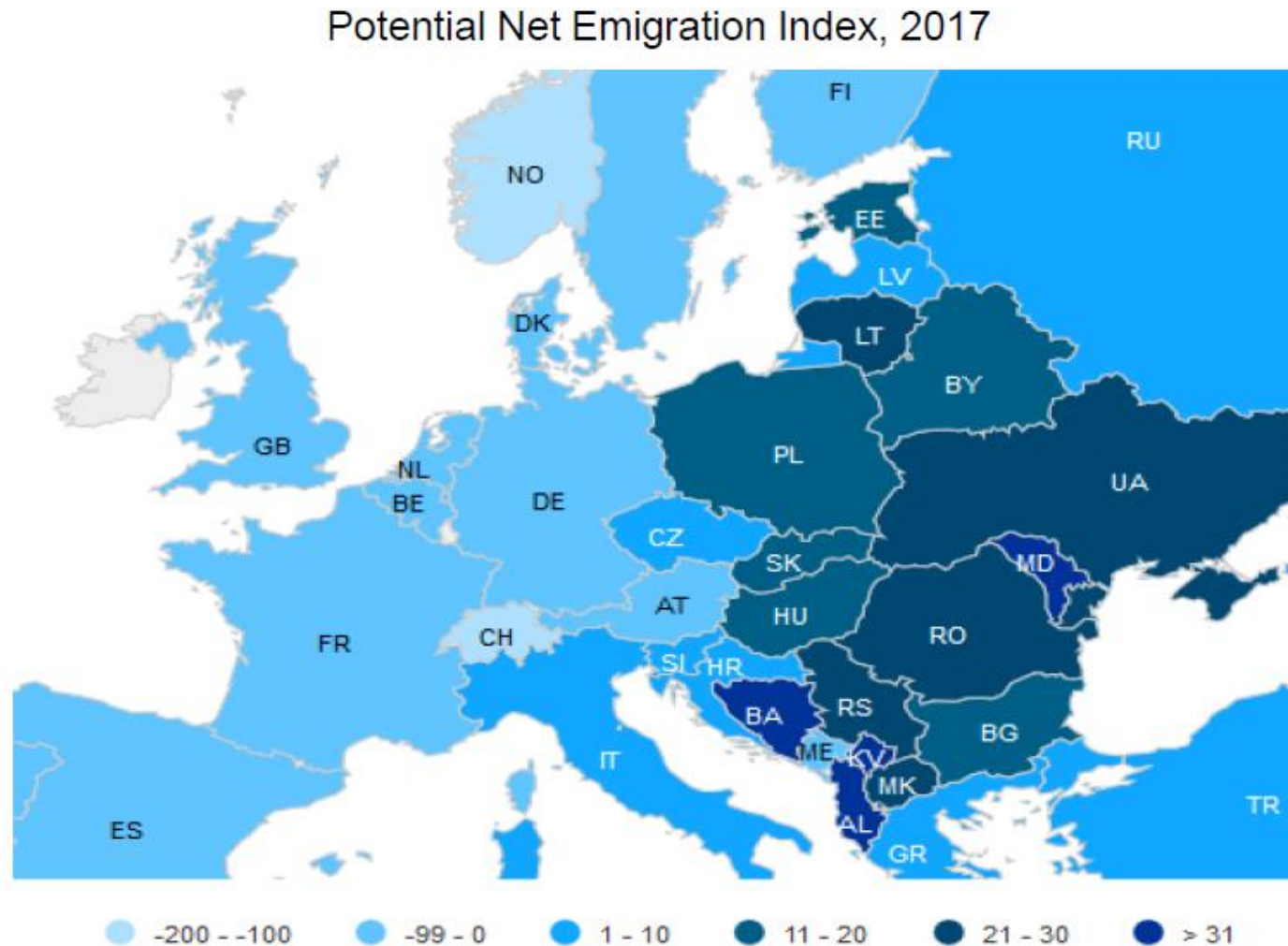
		Forecast, %			
		2018	2019	2020	2021
EU-CEE11	BG	3.0	2.8	2.5	2.5
	CZ	3.0	2.6	2.7	2.8
	EE	3.9	2.9	2.5	2.2
	HR	2.7	2.6	2.5	2.5
	HU	4.9	3.3	2.3	1.9
	LT	3.5	3.0	2.6	2.3
	LV	4.8	3.5	3.0	2.5
	PL	5.1	3.7	3.3	3.3
	RO	4.2	2.8	3.0	3.2
	SI	4.5	3.2	3.0	2.9
	SK	4.1	3.6	3.0	2.5

Risks on the horizon: disruptions in value chain

Share of GDP exposed to Brexit, the U.S.-China trade dispute and autos tariffs

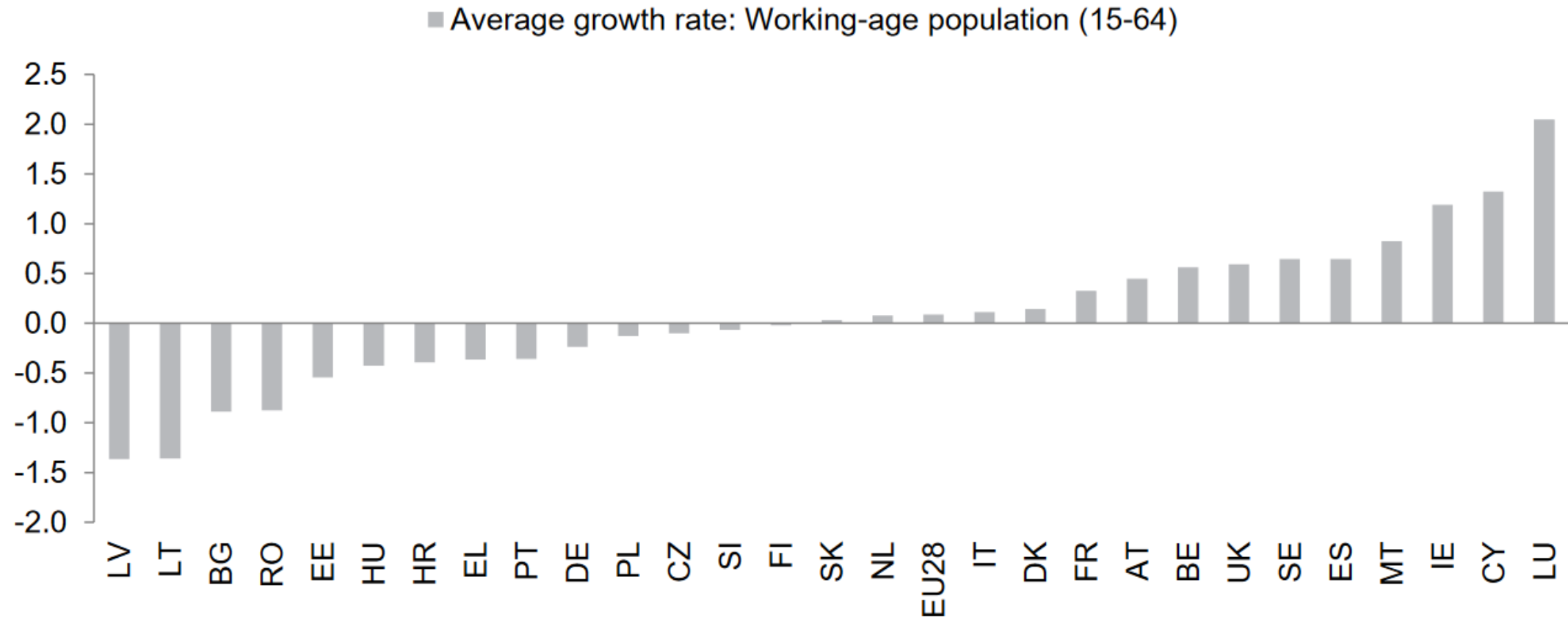


A more direct and imminent risk factor: emigration and brain drain



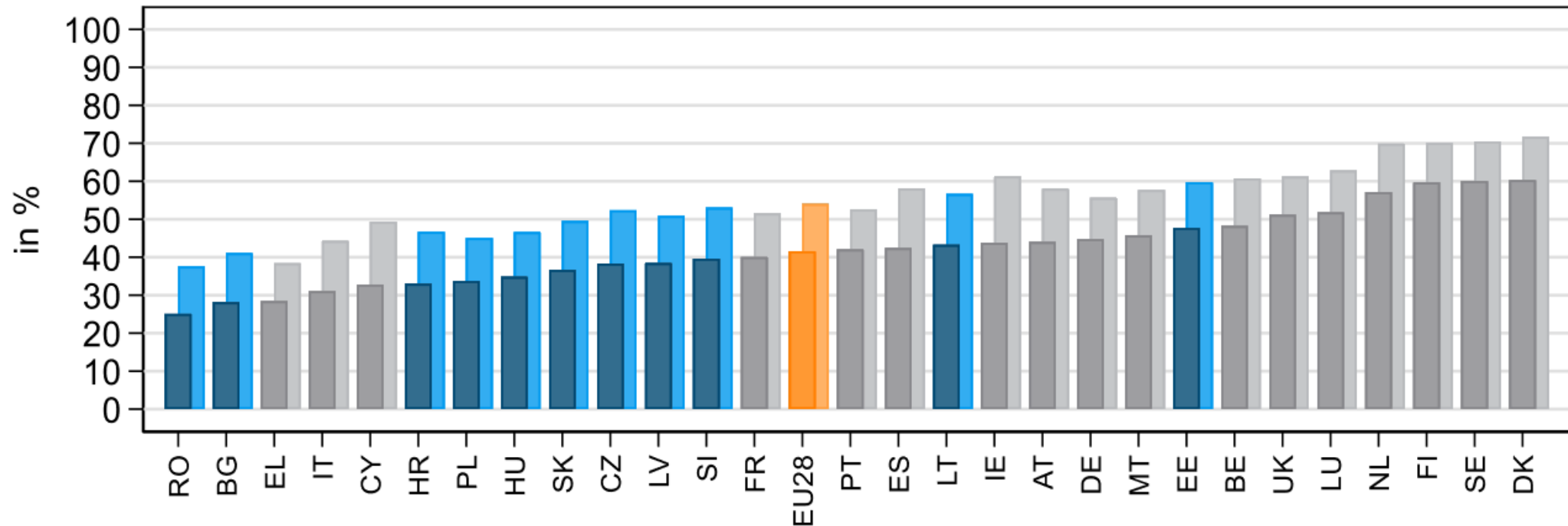
Source: World Gallup (2018), Potential Net Migration Index. 'Ideally, if you had the opportunity, would you like to move permanently to another country, or would you prefer to continue living in this country?'

What is a fact already: shrinking population in CEE (2002-2017)



What about digital skills? There is some convergence – should be faster

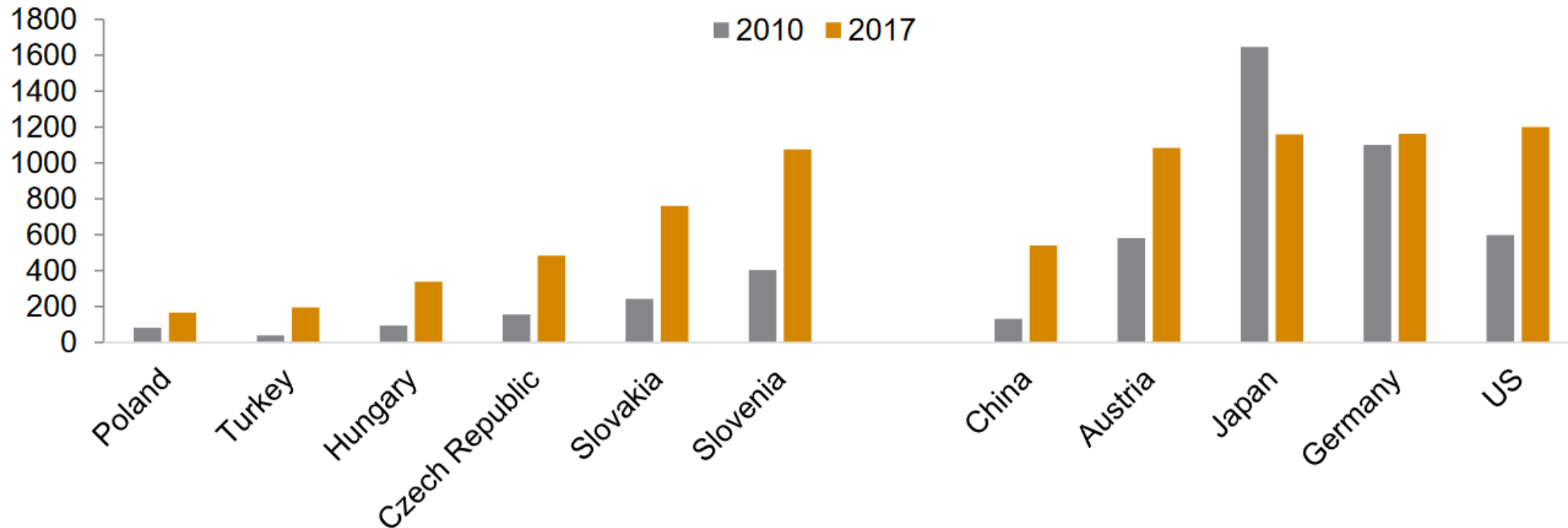
Digital Economy and Society Index: 2014 and 2018



Note: Dark-shaded bars (front): 2014; light-shaded bars (back): 2018.

Robot density is still low

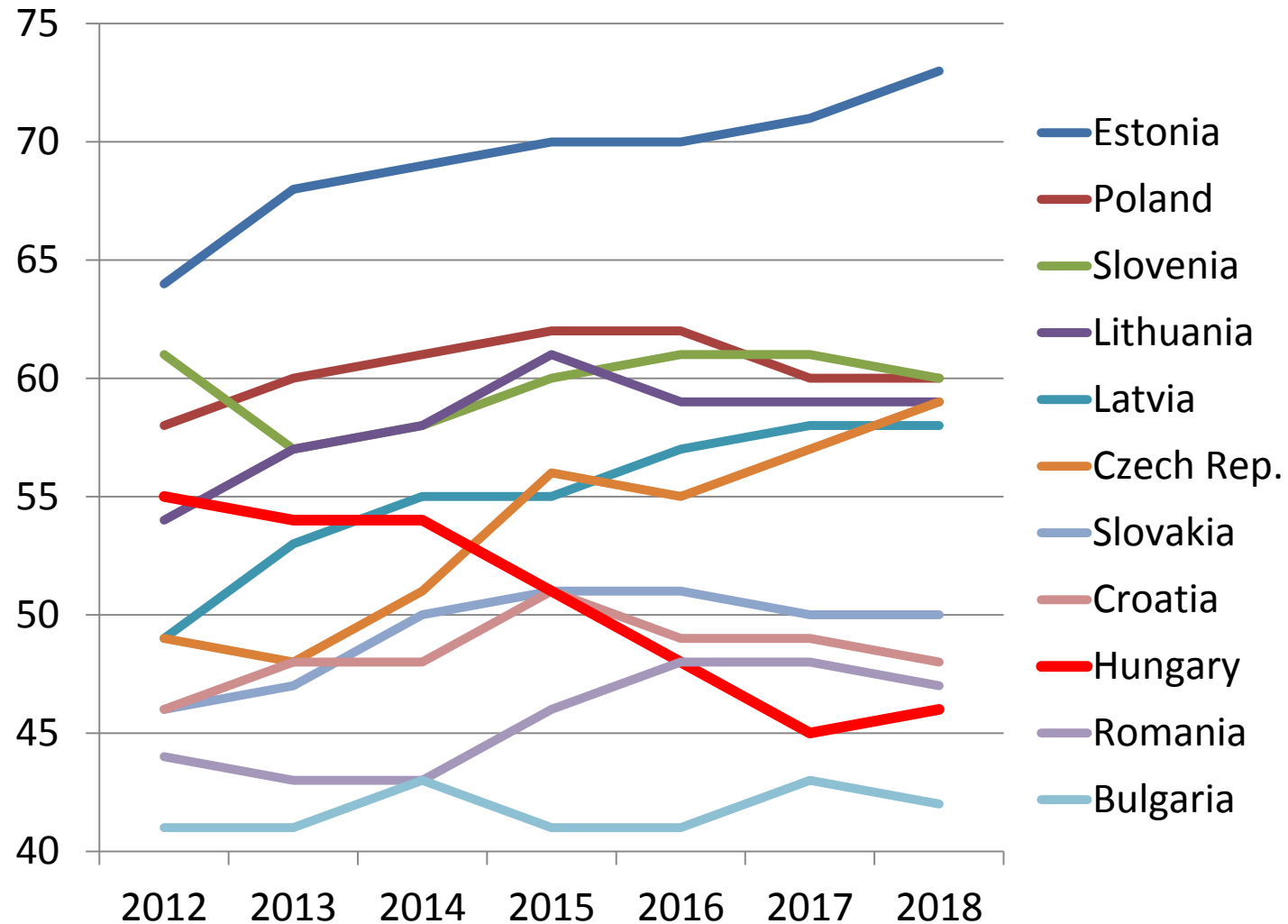
Estimated number of multipurpose industrial robots per 10,000 persons employed in automotive industry



Sources: International Federation of Robotics (2018), World Robotics 2018, Tables 2.6 and 2.7.

Corruption Perception Index: some improvements and certain decline in CEE region

higher figures indicate more transparent societies. Source: Transparency International



Risks and challenges

- *Westernization fatigue* – reversal of democratization trends (Hungary, Poland – and some others watching how the EU will react)
- *Geopolitical risks*: tensions within EU concerning migration, corruption, and attitude to *Russia, China, Turkey, other illiberal/corrupt regimes*
- *Dependence on automotive and electronics industries*
- *Low wages* have been an growth driver for two decades – but has social and political costs. Demography is a liability
- Overactive government, noisy anti-migration campaigns, *overpoliticized* society
- Growing rejection of *corrupt practices (we hope...)*