

European Economic Integration in a Global Economic Setting China Russia and CESEE

Conference on European Economic Integration (CEEI) 2011

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November 2001

Overview

- Future of the CESEE in a Global World
 - Theory vs. Assumptions and “fortune telling”.
 - The one and only assumption: Globalization is here to stay.
- Taking stock of current developments
 - CESEE vs. Russia, vs. China
 - Model of growth
 - Trade links
 - FDI
 - Vs. EU

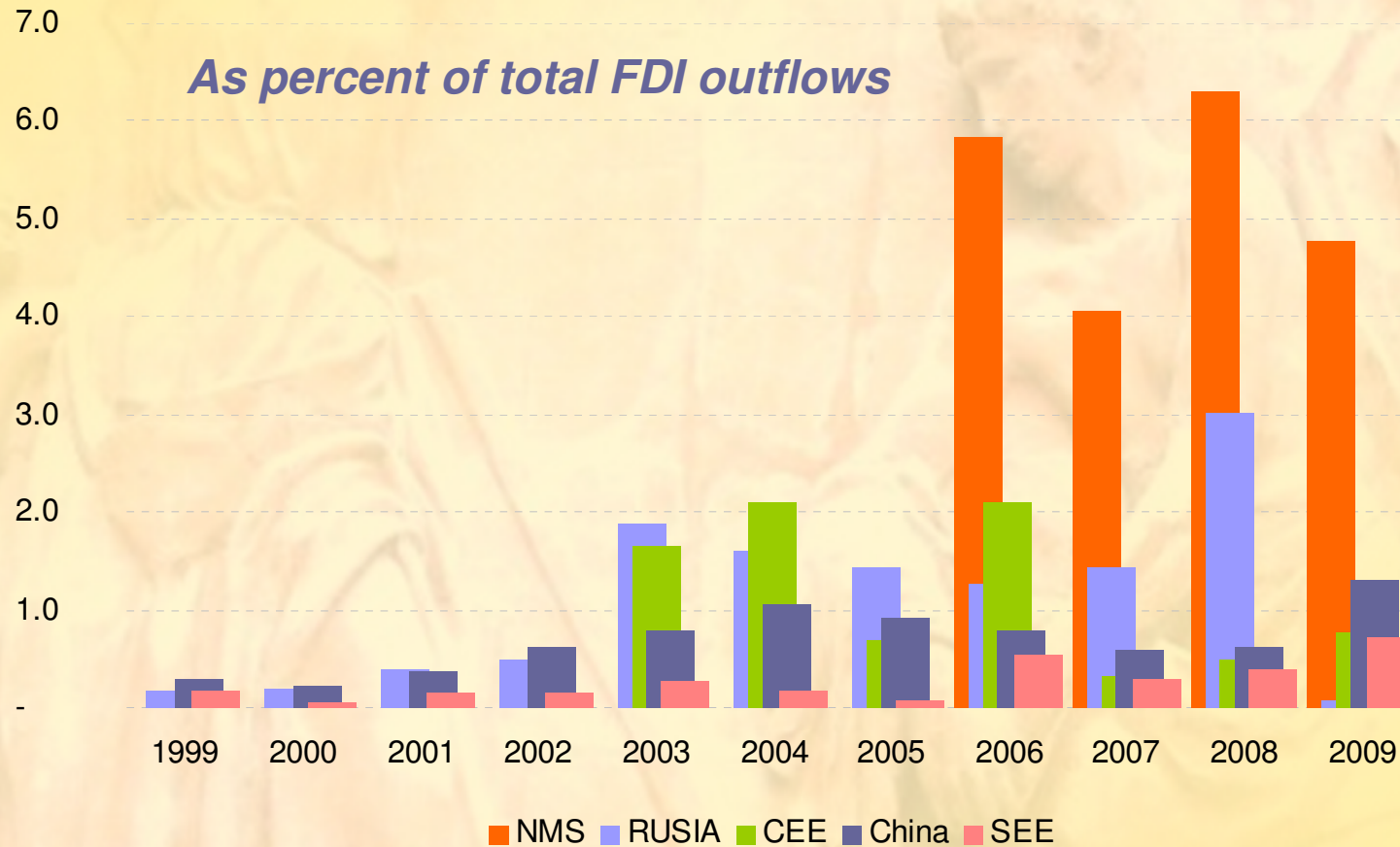
CESEE-Russia-China: Friend or Foe

- There is no limit to growth
 - If one strikes all the right cords.
- There is potential for “growth cooperation”
as there is potential for “destructive competition”
 - Theory of economic growth
$$Y = AK^\alpha L^{1-\alpha}$$
 - » Export lead strategies
 - Theory of international trade
 - Factor price equalization theorem

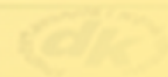
CESEE-EU

- CESEE model of growth
 - Internal Market Factors
 - Factor redistribution
 - » early transition period
 - Absorption lead model
 - » period leading to the crisis
 - Export lead strategies
 - Cheap labor
 - New relatively large markets
 - Lots of FDI exclusively from EU
 - “Close” partners in geography and other dimensions
 - Moving up the value chain

EU-15 FDI to ROW



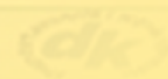
Source EUROSTAT



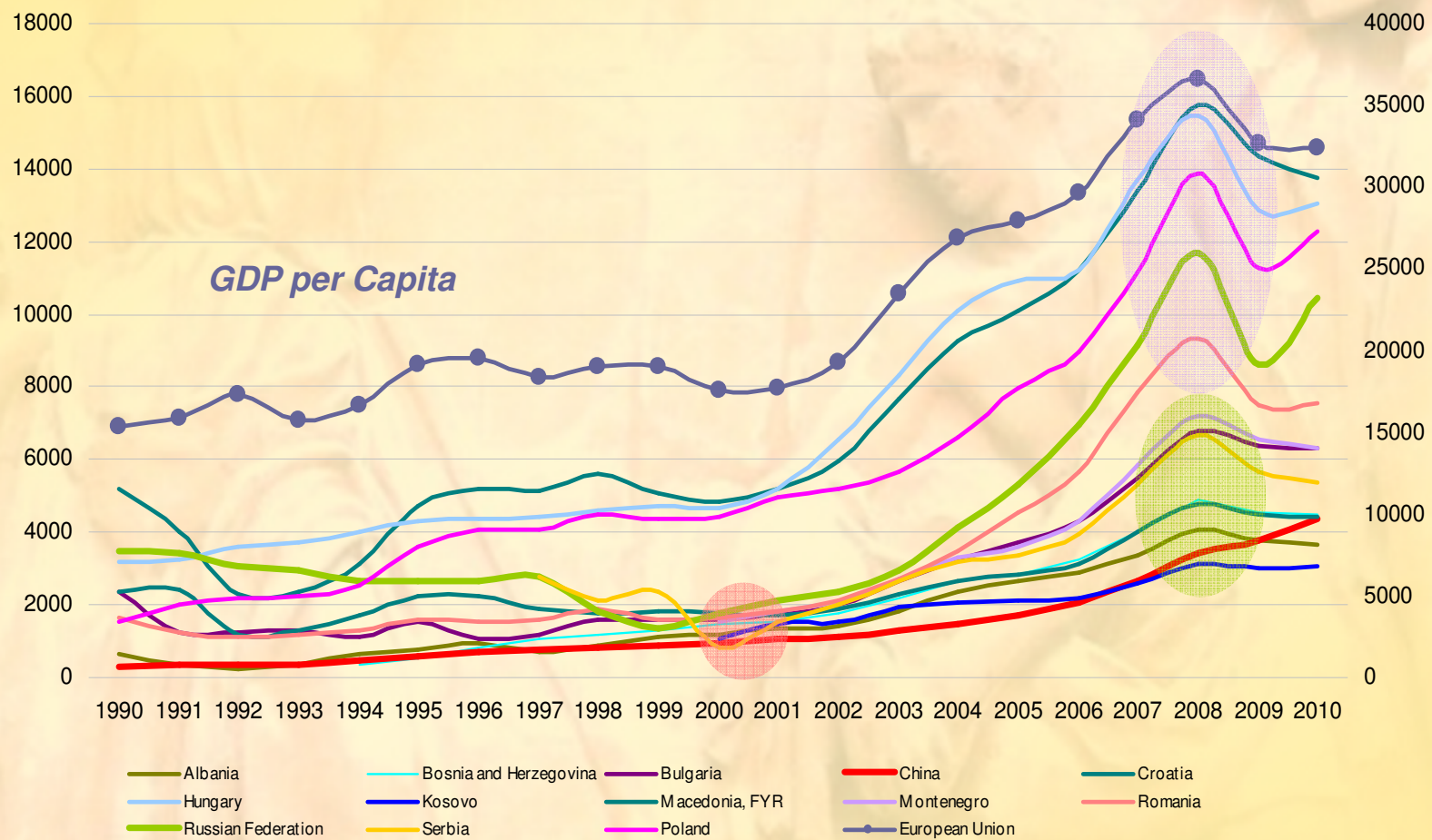
EU Share of total FDI Inflows



Source EUROSTAT & UNCTAD



Catching up at any speed

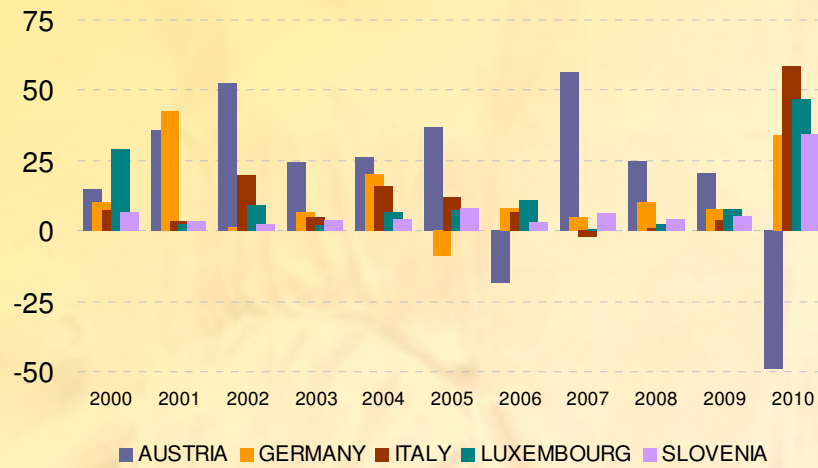


Source World Bank & UNCTAD

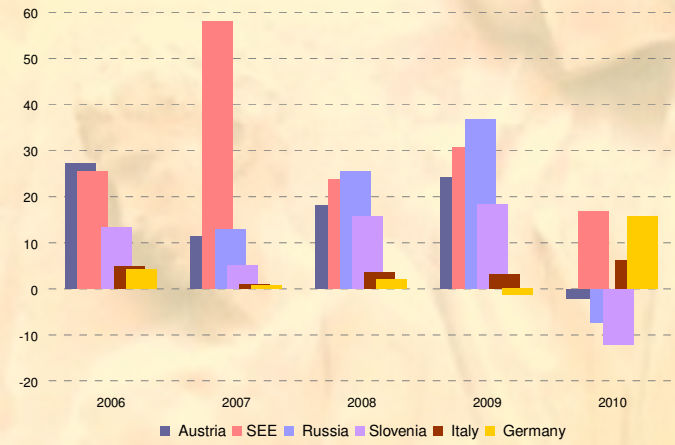
CE vs. SEE: similar yet different

- CE vs. SEE model of growth
- Similarities
 - Transition economies with cheap labor
- Differences
 - Geographical distance
 - Market size
 - Trade partners and Industries
 - CE important EU partner,
 - north west to north east vs. south west to south east trade
 - EU could live without SEE can it?

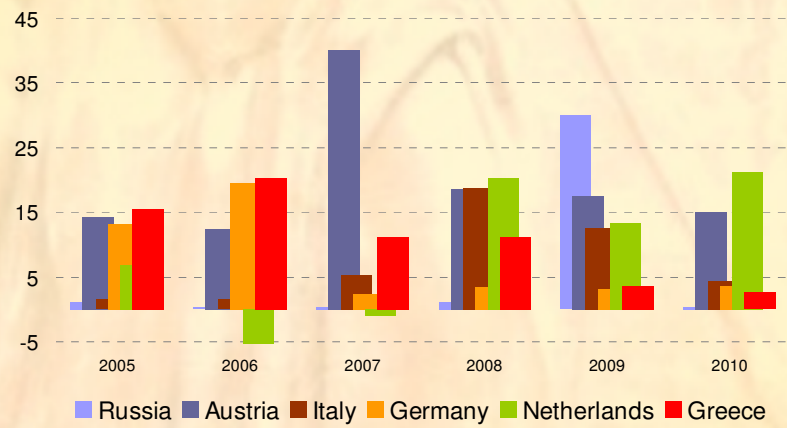
Croatia



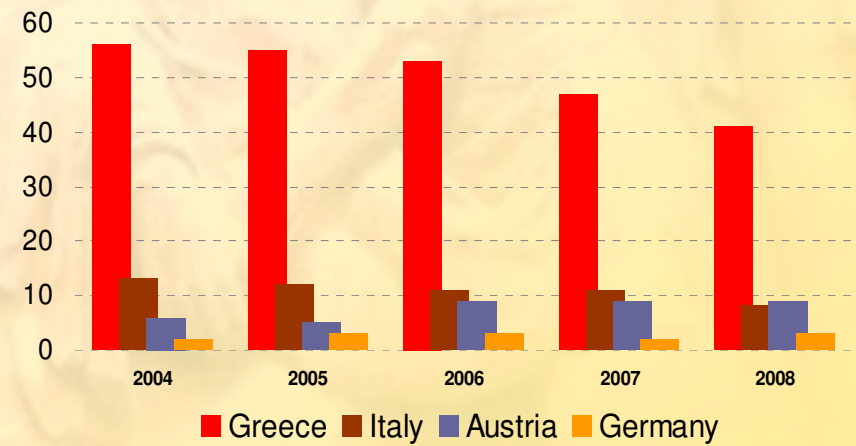
Bosnia Herzegovina



Serbia

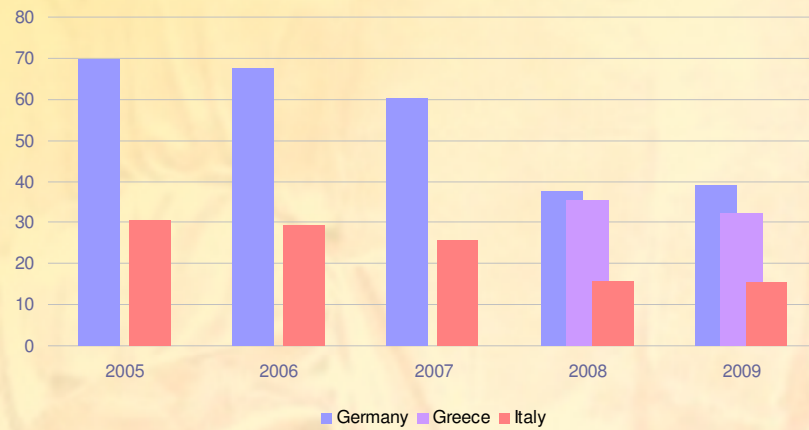


Albania

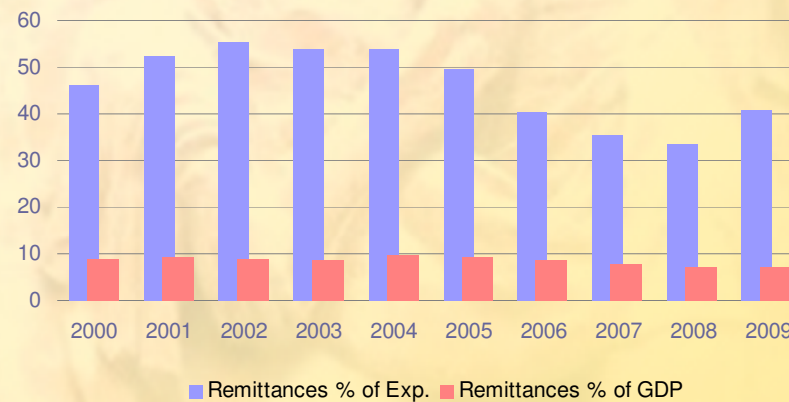


The other “Export”

EU Remittances Outflow



Remittances in perspective



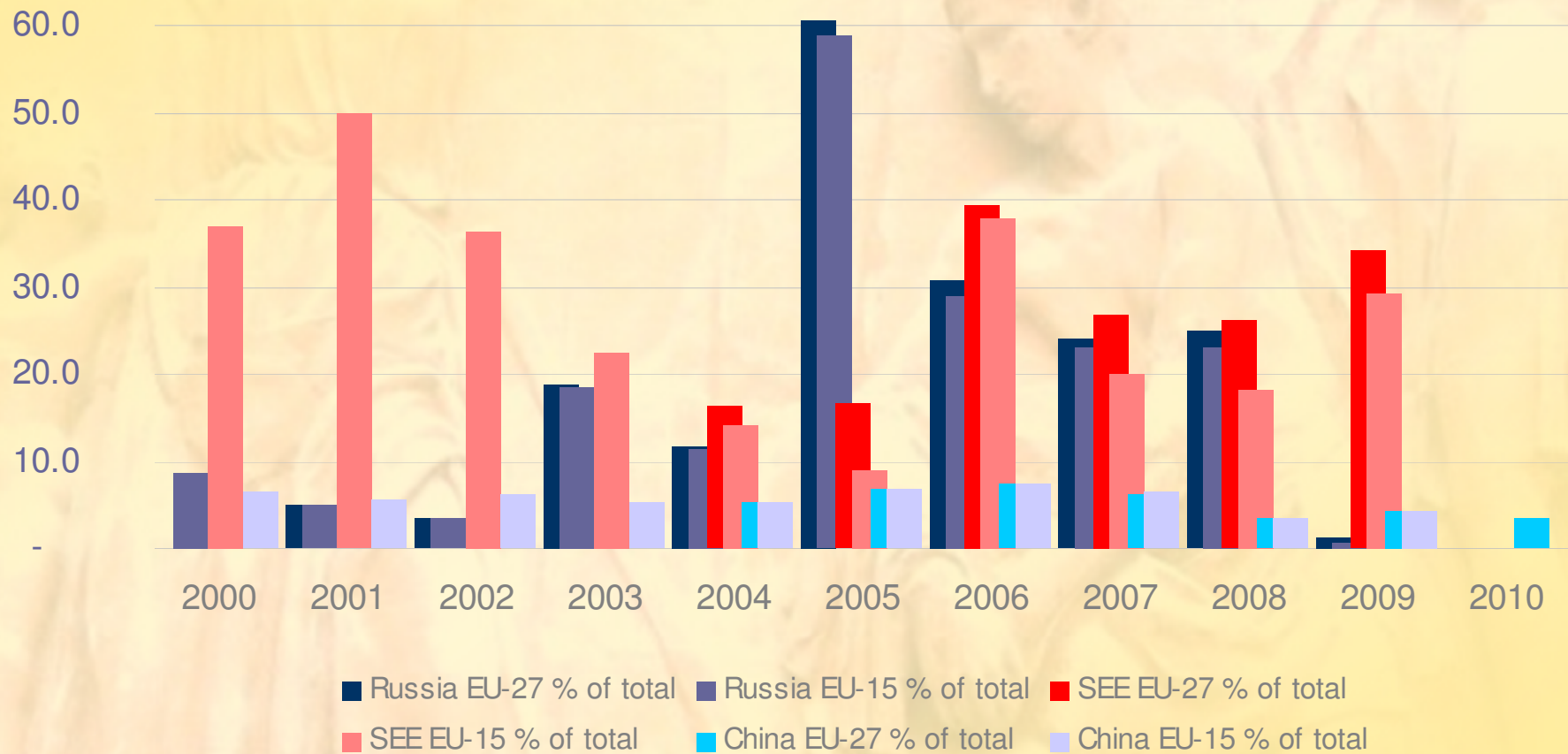
CESEE-Russia: *“Friend or Foe”*

- Russia model of growth
 - Natural resources
 - Export of natural resources
 - Important partner of EU
 - Potential developments
 - Technology and investment

CESEE-China: *“Friend or Foe”*

- China’s model of growth
 - Export lead strategies
 - Cheap labor
 - Lots of FDI
 - low EU interest
 - Large market
 - Moving up the value chain
 - Repeat it several times
 - Important EU partner

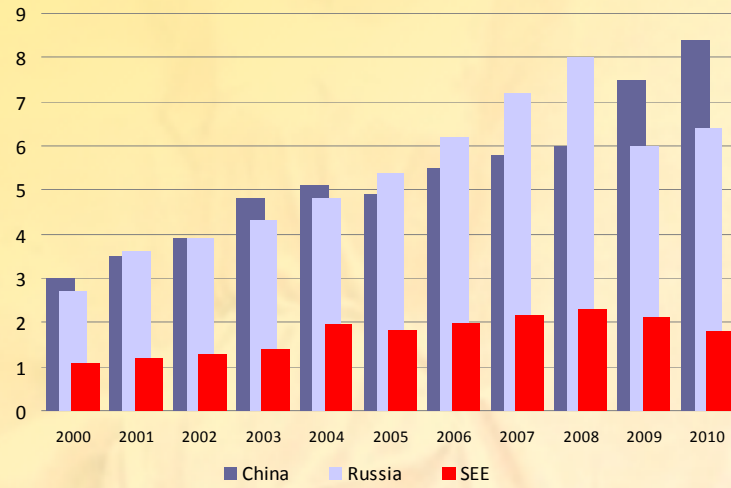
Host's EU Share of total FDI Inflows



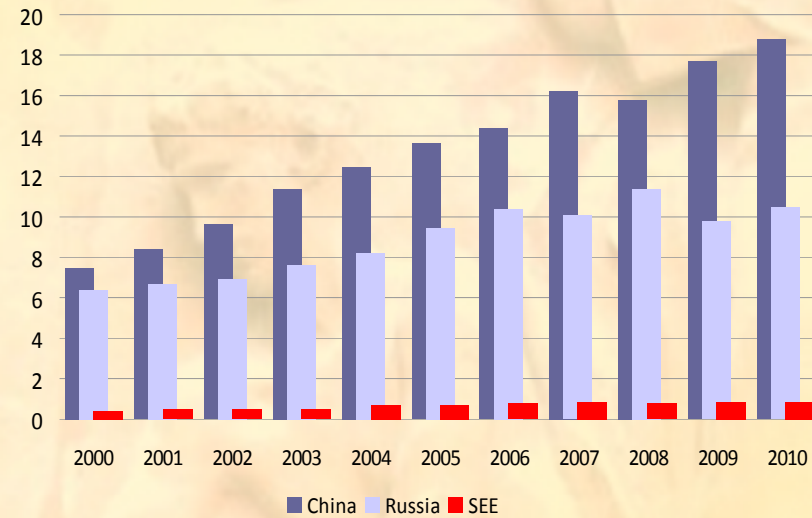
Source EUROSTAT

Trade partners

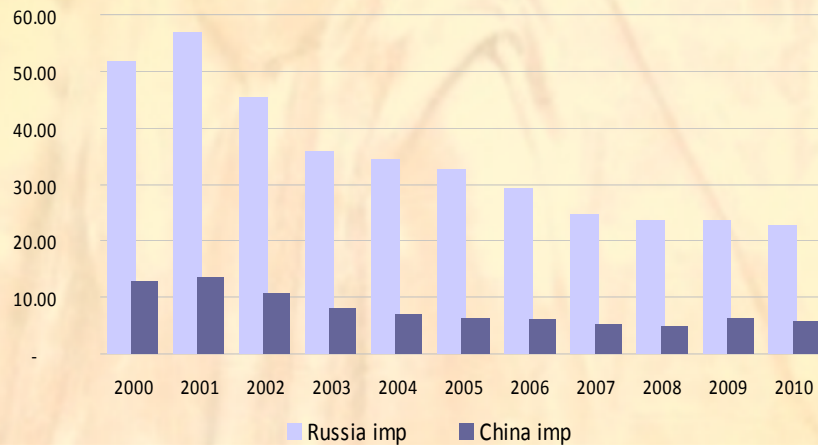
EU Exports



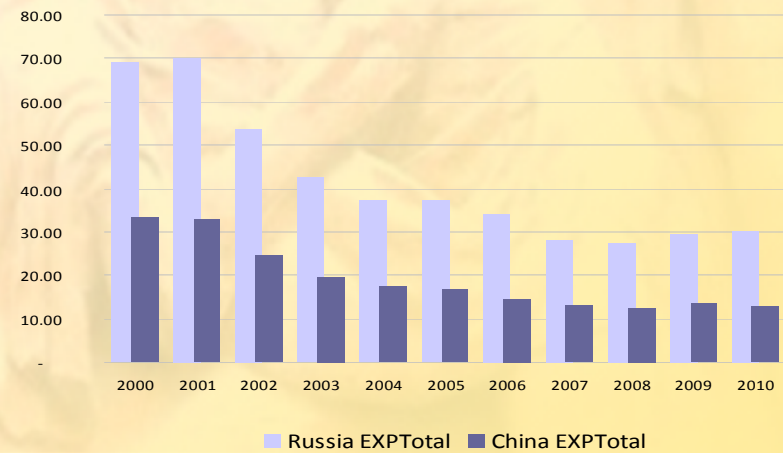
EU Imports



EU share of China & Russia imports

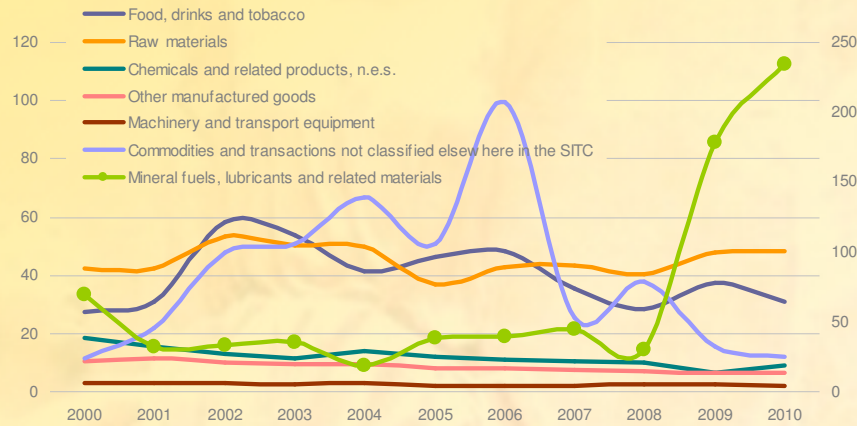


EU share of China & Russia Exports

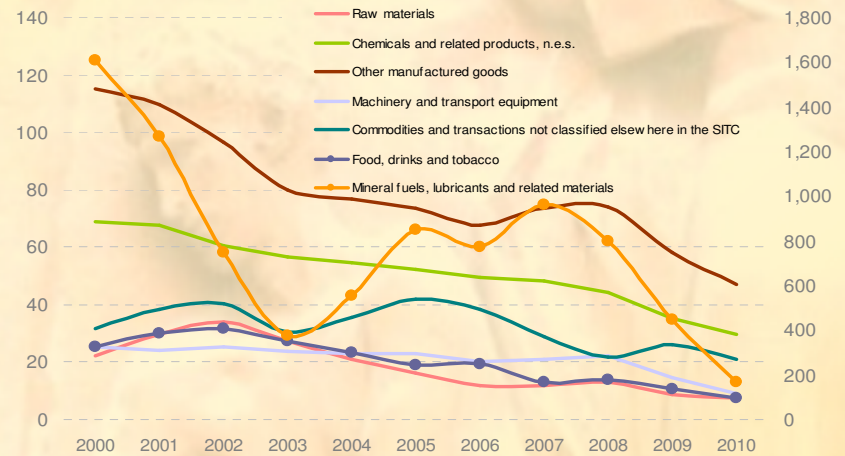


EU-17

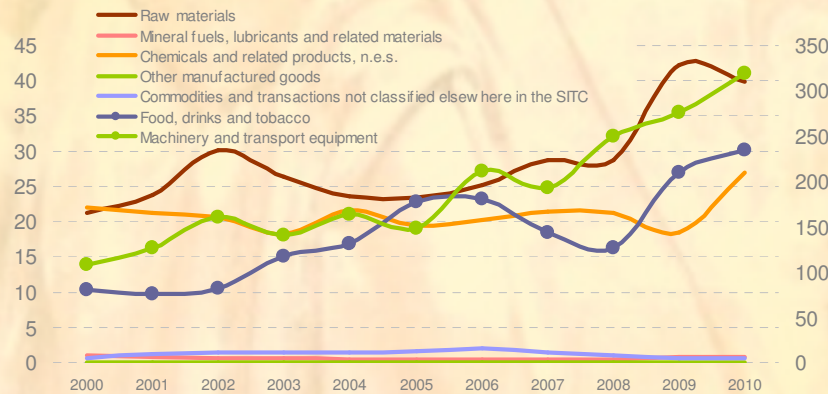
EU Imp. SEE vs.China



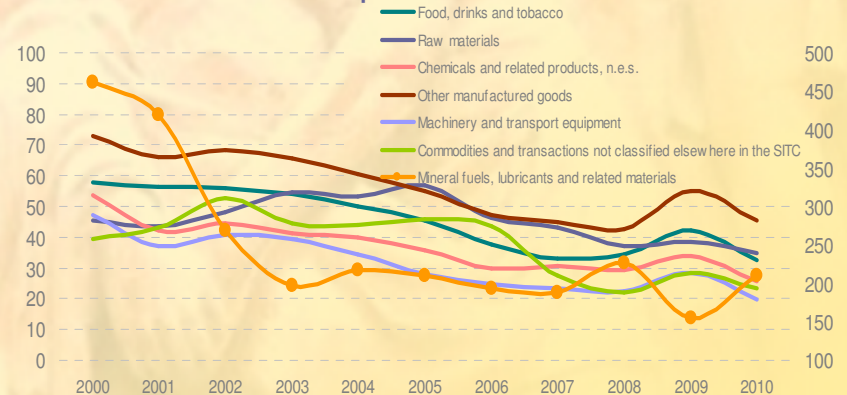
EU Exp SEE vs China



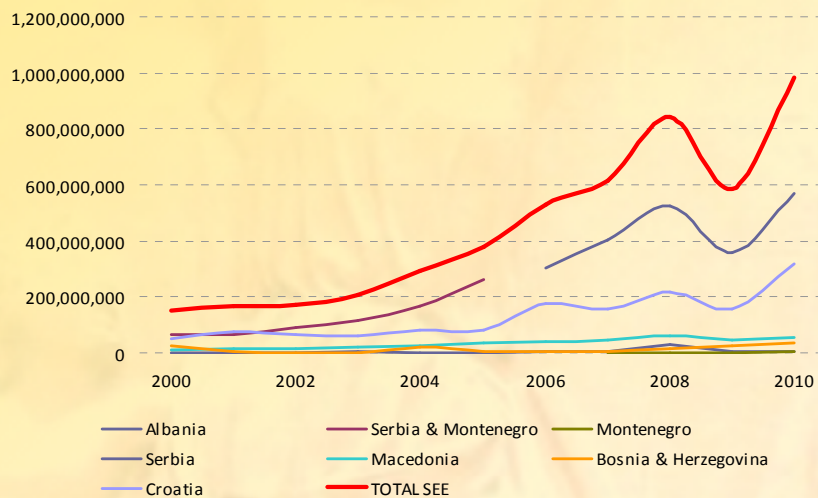
EU Imp. SEE vs Russia



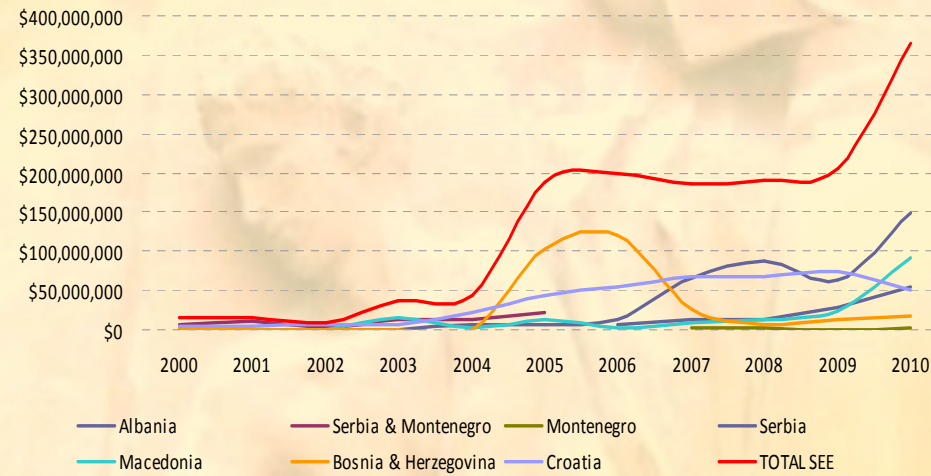
EU Exp SEE vs Russia



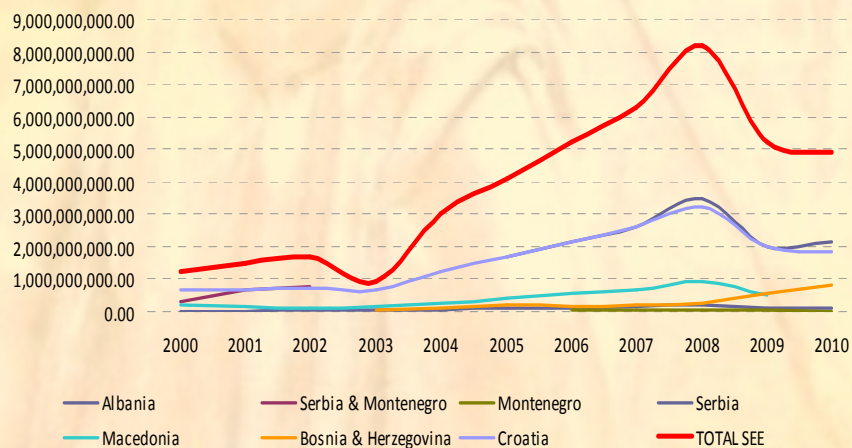
SEE Exports to Russia



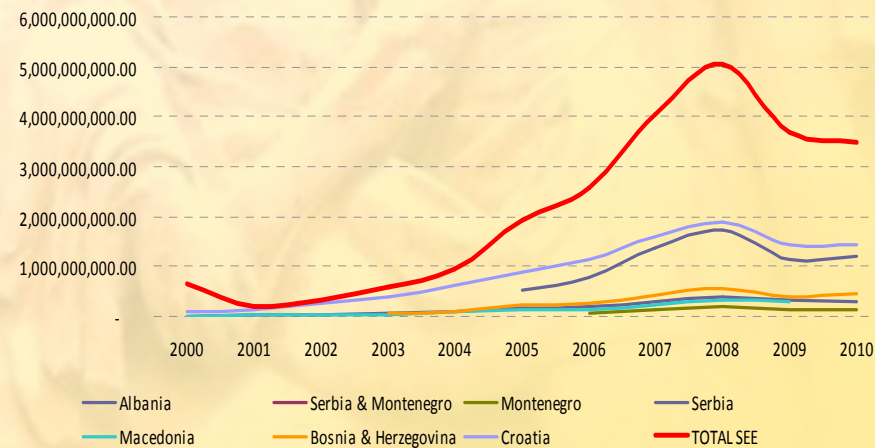
SEE Exports to China



SEE Imports from Russia



SEE Imports from China

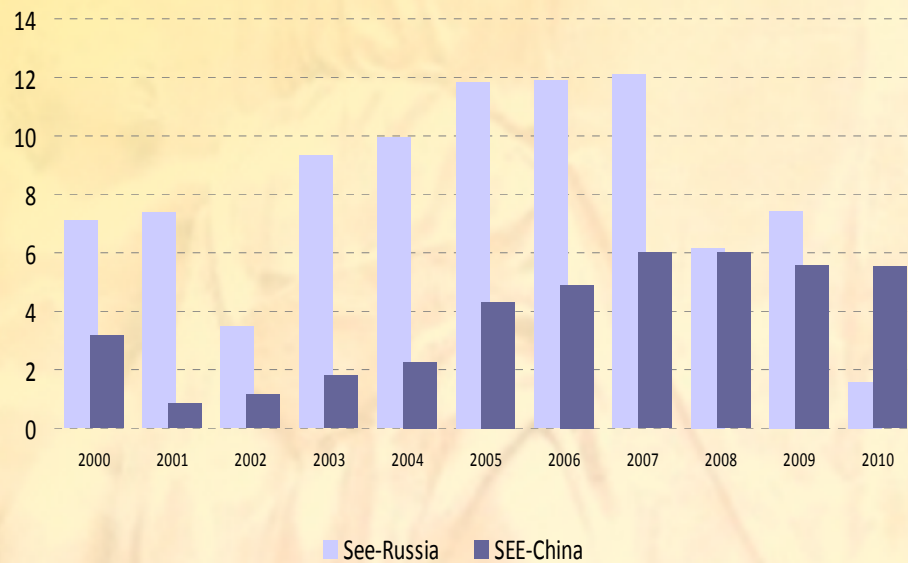


CESEE-Russia-China & EU

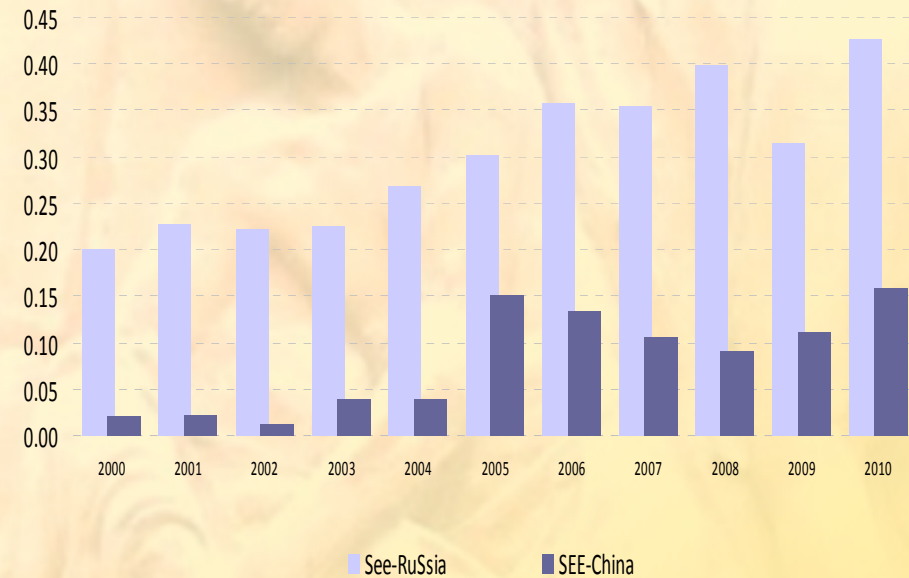
- Conclusions
 - **Russia friend**
 - No competition for resources
 - Energy supplier
 - Potential threat
 - **China friend**
 - No competition for resources but for how long?
 - Supplier of cheap products
 - Potential customer for minerals, and infrastructure to support its EU expansion.
 - Real Potential threat
 - Resources and markets
 - **EU the most important economic and political driving force**
 - The engine of growth and trade that defines globalization for **CESEE**
 - CE-SEE two different speeds and two different outcomes

Trade partners II

SEE Imports from China & Russia



SEE Exp to China & Russia



Convergence and the Third Country Effects

Global trends & Theory of International Trade

- Factor price equalization
 - Labor compensation in EU will adjust declining
 - Capital compensation in EU will adjust UP
- EU is facing problems already
 - Could it be blamed on globalization?
 - How ...
 - Is there evidence?
 - » *IMF: North-South vs. West-East trade and FDI*
 - » *Dorn and Hanson (2011)*

Global trends & Theory of International Trade

- *“Over the past 25 years, the effective global labor supply has at least doubled and by some estimates has quadrupled. This has suppressed wage growth in the developed economies and reduced the share of national income accruing to labor. So far, people without a college degree have primarily borne the consequences. As a result, globalization has widened the inequality between workers at the 90th percentile of wages and those at the 50th percentile.”*
Ozak, P., 2011
- *How Has The Globalization of Labor Affected the Labor Share in Advanced Countries?*
Jaumotte & Tytell 2007
- *The effect of of-shoring on labor demand: Evidence from Sweden.*
Ekholm & Hakkala 2006

Global trends & Theory of International Trade

“Over the past three decades hundred of millions of workers have entered the global economy... and over time they have generally gained in terms of human capital and in terms of value added and income. ... but these new workers have brought more employment competition and significant shifts in relative wages and prices, which is having profound distributional effects.”

Spence, M., 2011

Third Country Effects

- Catching up vs. Convergence
 - Past history: CESEE moving closer to EU
 - Future: EU moving closer to CESEE?
- Potential effects for CESEE
 - Supply side
 - EU FDI moving to match low cost labor in other markets
 - Current financial situation in the EU members make their infrastructure attractive “low cost-high productivity” investments vis-à-vis CESEE investments.
 - Demand side
 - Shrinking global markets for EU
 - Shrinking EU markets for CESEE
- *Catching up moving out, convergence moving in!*

Once upon a time



Global Economy & CESEE

- One global market, one global factor, one global price.
 - Deal with it ...but how ...
- Challenge: remain part of the global market.
 - Reduce dependence on single traditional partners
 - Hope that the anchor is still there
 - Define relevance of the CESEE term
- Must know for the future
 - Understand the nature and value of wealth
 - It is all part of an endogenous system
 - There is potential for regime change

Global Economy & CESEE

- The wealthiest “nation” is the “leading anchor”
 - What will define wealth in the next 50 years
 - Potential for growth
 - » *minerals, trade related services and infrastructure*
- It is all part of an endogenous system
 - China’s, Russia’s developments can not go unnoticed in the global economy.
 - China’s, Russia’s developments can not be treated as exogenous and unrelated with developments of CESEE and/or its main partner.
- There is potential for regime change
 - Literature on the negative effects of globalization is growing in size and topics.
 - Globalization or technological change or both have constrained driving forces of the system opening gaps that might trigger error correcting mechanisms.
 - » Structural breaks vs. temporary drifting
 - » Where is the error correcting mechanism located in the system.

CESEE in Focus

Information, Analyses and Research

- *Central Banks of the CESEE Region*
- *Oesterreicher National Bank*
- *The Vienna Institute for International Economic Studies*
- *Bruegel Institute, SEESOX.*
- *European Commission*
 - *Directorate-General for Economic and Financial Affairs*
- *EUROSTAT, UNCTAD, WB, IMF, COMTRADE*