

Visions for Prosperity towards 2030: Integration and the Institutional Dimension

Christopher A. Hartwell

President, Center for Social and Economic Research

Minsk, Belarus

26 October 2016



Challenges for the Future of Integration (The Good News and the Bad News)

- The good news: vibrant growth can be found in Europe
 - More in the CEE region than in the Western Europe or FSU
 - Obvious differences and risks across the continent
- The bad news: integration appears to be breaking down, especially in Western Europe...
 - Political uncertainty and the triumph of populism in Western AND Eastern Europe
 - Forgetting the lessons of the past two hundred years and the need for openness
- ...and where integration is speeding up, the end results are not clear
 - Eurasian Union has made strides but not proven reason for its existence yet
- The (very) bad news: the breakdown of integration is coinciding with (and causing?) institutional regression
 - Such a development will dissipate growth quickly and leave stagnation in its wake
 - Productivity and innovation require an appropriate institutional structure
 - Forgetting the lessons of 1989 – 1991 and the need for policy dynamism



Integration: Breaking Down, Speeding Up, Stagnating?

- In Western/Central Europe, the decades-long process of integration is reversing itself
 - Brexit, first and foremost
 - Resistance to further enlargement/Association Agreements
 - Euroskepticism on the rise
 - EU's single-minded focus on the euro to the exclusion of the single market
- Eastern Europe/FSU, increased integration in a short span of time
 - Great strides in EaEU in terms of open borders, trade, capital flows
 - As I've noted before, what does the EaEU want? Depth, breadth? What is the end goal?
 - Coinciding with economic disasters and increased transmission of shocks
- And where is the integration between the two? Barriers or Bridges?

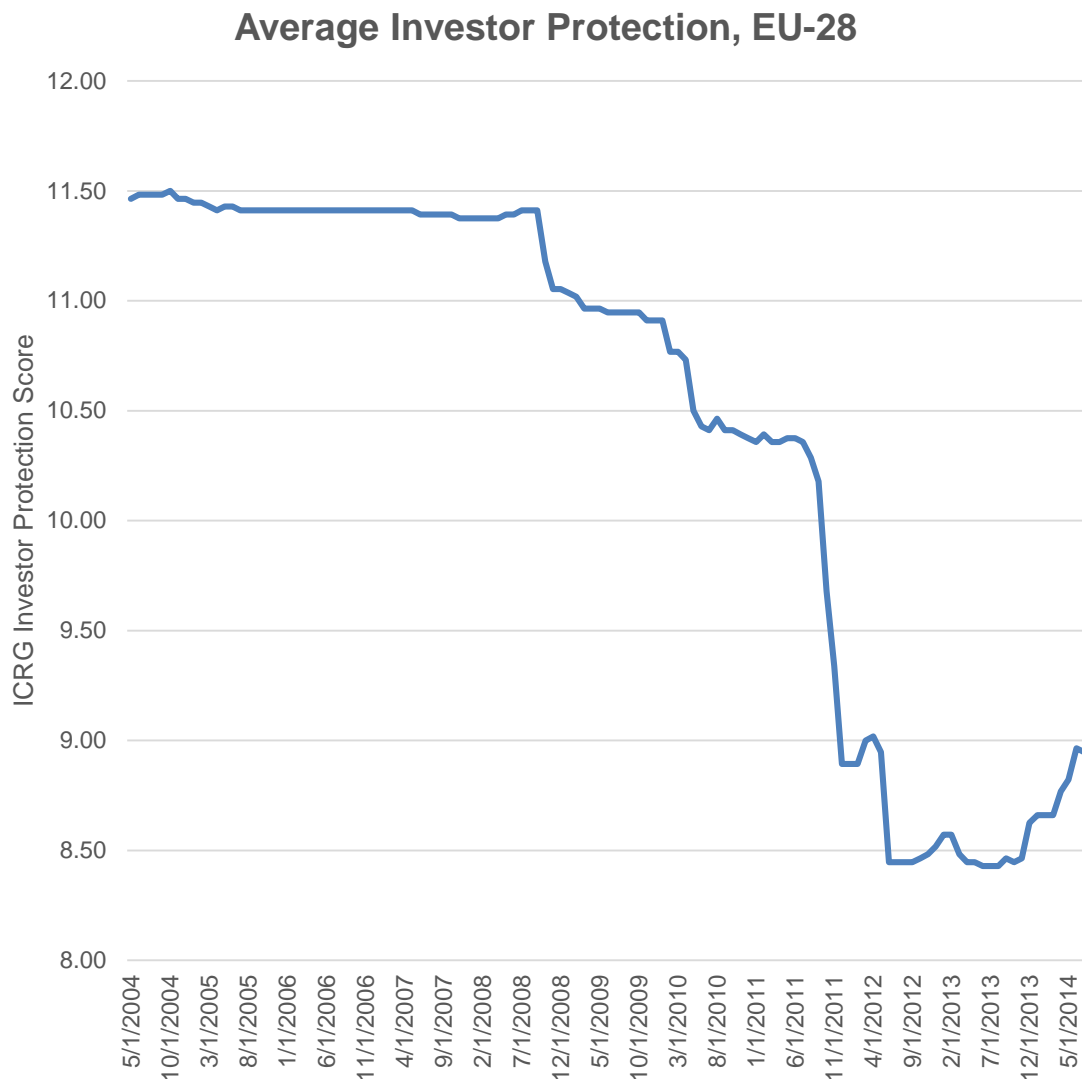




The Institutional Dimension

Accompanying the breakdown of integration has been widespread institutional regression

- As countries turn inward, they close doors behind them
 - Trade protectionism and the decline in global trade since 2008
 - Restrictions on investment and assault on property rights
 - Hardened attitudes towards free movement of labor





How Could Regional Integration Help Reverse the Trend?

- Greater integration can help overall institutional development, if such integration is dedicated to pushing the institutional reforms that have stalled domestically
 - Example of the EU in the 1960s and 1970s: creating a safe space for liberalization
 - Insights from public choice literature – regional integration can create opportunities where unilateral action is politically unfeasible
- Unfortunately, broader regional integration is also faltering or aimless



A Possible Role for Regional Integration

- Perhaps a need to think smaller in terms of “regions”
 - Focus less on the big idea of grand, “ever-closer union” and more on the local/cross-border facets of integration
 - Recognizes the localization of politics that has accelerated across Europe in the past 8 years
 - Allows for cross-bloc regional integration (i.e. Poland-Belarus, Kazakhstan-China)
 - Focus on key institutions: property rights, trade
 - Theory of the “second-best”: making it harder to oppose institutional reform once it’s been demonstrated to be successful



Conclusion

- Institutions are the key for creating the conditions necessary for productivity and innovation
- Renewed regional integration could help to push institutional progress, but...
 - ...we need to substantially re-think our ideas of integration to include what can be done at the sub-national/cross-border level
 - ...we need to reinvigorate integration at the national and supra-national level, but only a liberal/pro-growth integration
 - ...we need to build bridges, not barriers.



Dziękuję bardzo!

Thank you!



@CASE_research



CASE-Network



CASE – Center for Social and Economic Research