

Caught in the middle? Central Europe's strategy for growth 10 years after EU accession

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Paweł Świeboda, President, demosEUROPA – Centre for European Strategy

- In order to fully exploit their potential and achieve sustained growth, Central Europe should look beyond the “business as usual” and pursue ambitious changes in their economies. The region needs a refashioned growth model, focused on enhancing competitiveness and innovation.
- The region presents some weaknesses that constitute the starting points for improvement:
 - Weak financial markets
 - Lowest saving rates in the world
 - Need for high level of investments (into infrastructures, R&D, innovation, and quality of education)
 - Energy market not fully developed and competitive
 - Labour participation lags behind
 - The size of the population is expected to drop in the region and this will have negative consequences on the region’s economies, public finances and social structure
- The objective of Central Europe is to close the gap with western European countries in 15/20 years.

Milan Nič, Senior Fellow, Central European Policy Institute

- One of the most urgent prerequisites for the economic growth of the region is the development of cross-border infrastructures to connect the region.
- Growth in the area can be favoured also by a close collaboration with neighbour developed countries, especially Austria, but also the Nordic countries. Overall, Central Europe should present itself as an “open region” with deep interconnections with the other European countries.
- Despite a substantial heterogeneity among individual countries, considerable improvements have been achieved with respect to transparency and democracy in the region.

Rainer Münz, Non-resident fellow, Bruegel; Head of Research, Erste Bank

- Central Europe is a potential growth engine for the wider EU economy.
- One of the main competitive advantages of the region is cheap labour cost. However, labour cost is bound to rise as the economies of the region grow.
- Increasingly the region will need more qualified workers. Countries in this region should start to invest in education in order to achieve this target in the future.
- The region still needs investments. One of the key strategies to attract foreign investments is to show to investors that Central Europe is an integrated region and not an agglomeration of fragmented markets.

Katarína Matheriová, Senior Advisor, World Bank

- There is a great potential for synergistic interaction across borders. However, in order to materialise, these synergies require the development of physical structures to connect the region.
- The development of these connections is also a prerequisite for boosting innovation in the region.

Edward Lucas, Senior Editor, The Economist

- Austria and the Nordic countries are very important connections for Central Europe. A close cooperation with these countries is a strategic objective for the development of the region.
- The population is shrinking in the region and this poses important challenges to the public finances and social structure of these countries.
- Another serious social challenge for some countries in the region is to improve the social integration, education and employability of the rapidly growing Roma population.

Some messages from the Q&A session:

- A close cooperation among central European countries would result in:
 - Savings in public expenditures by exploiting synergies and economies of scale (for example, in sectors such as education);
 - An increase in foreign investments. Indeed, the idea of an integrated market is much more attractive for investors.
- Q: When the cost of labour will rise, German companies will continue to invest in countries in the region?
A: Germany did not invest in the region just because of the lower wages. There is a deep integration of Germany and central European countries along the whole supply chain and there is no reason to expect that this integration will come to an end.
- Q: How could the region continue to grow after the catch-up with the western economies?
A: The growth strategy after the catch-up will need to focus on innovation as a source of growth. In order to pursue this strategy, central European countries should start now to invest in improving the quality of their education systems.