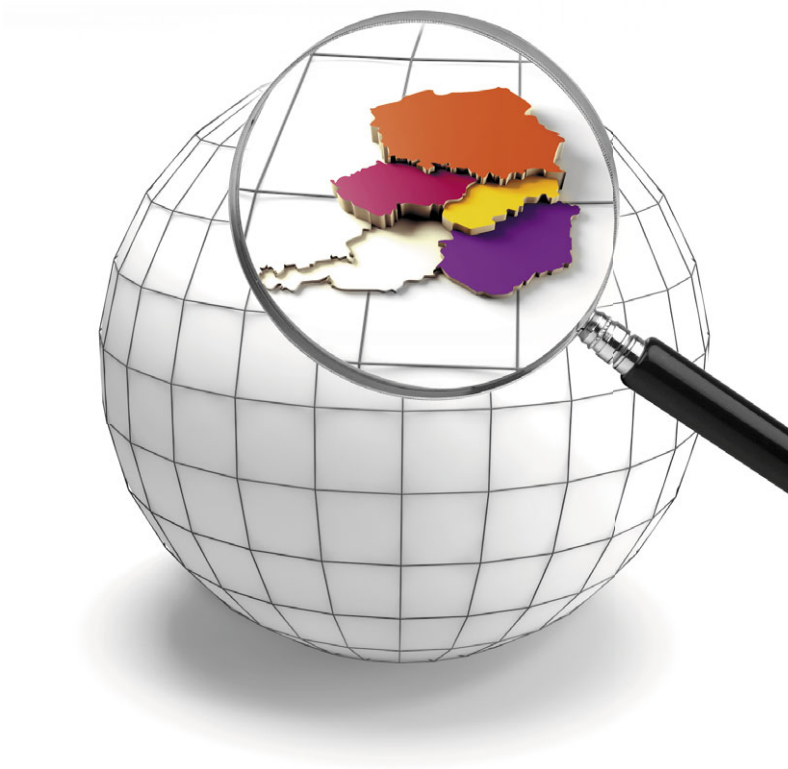
Report by the High Level Reflection Group

Central Europe fit for the future

Visegrad Group ten years after EU accession



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The High Level Reflection Group was created by the Central European Policy Institute (CEPI), Bratislava, and demosEUROPA (dE) – Centre for European Strategy, Warsaw, in February 2013. In the course of 2013, it held four meetings at which participating members of the Reflection Group explored the main political and economic challenges facing Central Europe, the existing potential for enhanced regional cooperation, and possible elements of a common EU agenda in the future. CEPI and dE served as rapporteurs in the process.

The Group consists of the following members:

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Members of the Reflection Group participated in the project on a personal basis. The Report was drafted by **Milan Nič** and **Paweł Świeboda** on the basis of the Group's findings.

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Table of Contents

4

Executive Summary

Central Europe is one of the European Union's most astounding success stories. Ten years after accession, the region speaks confidently for itself in Europe and in the wider world. Our countries[1] have built on their historical legacy of resilience and adaption to the jarring changes after 1989. **Central Europe is now a growth engine for the wider EU economy.** Thanks to the continued "catch-up" dynamic, consisting of lower wage costs, well trained labour force, healthier banking sector, and less public and private debt, our economies are expected to continue growing faster than Western Europe. The combined GDP of the four Visegrád Group countries already makes them the world's 15th-biggest economy.

Our second decade in the EU requires new plans and ambitions. Central Europe should aim high—not just to match its counterparts, but wherever possible come up with a better proposition. The EU is very different than it was in 2004. Now is the time to capitalise on the opportunities which this relative economic strength affords.

This report calls for the refashioning of the region's growth model with a focus on a dramatic enhancement of its global competitiveness and innovation capacity. Closer ties with Austria on the one hand and the Nordic-Baltic countries on the other would be especially important in that effort.

We argue that **Central Europe should develop and cultivate its vision of its own region**. It is not enough to rely on the slow convergence of living standards. The region also needs **home-grown aspirations**. Such an approach would also improve prospects for the EU at large.

Problems with connectivity and cross-border infrastructure are identified in this Report **as Central Europe's main 'mission unaccomplished'**. No less than 40 per cent of all EU cohesion funds for the budget period 2014 – 2020 are earmarked for this region, which provides unique public investment opportunities. Visegrád countries should synchronise their objectives, define regional performance benchmarks, and compose a list of strategic projects in transport infrastructure. EU energy policy and funding **for north-south interconnections will help to enhance the energy security** of our countries and create conditions for a resilient, transparent and competitive regional energy market. A crucial task is to **establish one** large, more liquid and **better integrated capital-market hub** in the region to help Central European companies to finance their needs. It is **time to apply a regional approach** also to other areas crucial for our sustainable growth, such as: **investment into R&D, innovation, and quality of education**, as well as to **demographic and social challenges.**

There are numerous "white and black swans" on the region's horizon. Among them, **aging and demographic decline stands out**. Its impending consequences on our economies, public finances and social structure are well-known and understood but insufficiently addressed so far. Our region is not yet prepared to manage an increase in immigration, and a much larger percentage of elderly citizens. Some countries face serious challenges to improve the education and employability of the largely socially excluded and rapidly growing **Roma population**. As pressures on public finances become more pronounced and regional disparities continue to increase, our countries must do their utmost to increase

labour force participation and to preserve the openness to talent, effort and ingenuity which has served them well since the times of transformation.

Security and defence is the principal area where Central Europe already speaks with a single voice. The Visegrád Group may well become an exemplar of the emerging trend in both NATO and EU to strengthen regional security.

Closer cooperation among our governments is good for the EU and good for us. Central Europeans can make the EU's future agenda more innovative and ambitious. Recent achievements and our promising future **allow us to become more active in EU policy-making and more ambitious in shaping the Union's future agenda** towards a path that is more innovative and open to change. To be one of the key poles of political and economic dynamism in future, **interaction with other like-minded EU partners is crucial**. Far from having to be at the mercy of developments in the euro zone, **Central Europe can develop an activist agenda** to demonstrate how the EU can change in parallel with efforts to reform the economic and monetary union.

We advocate:

- Adapting the relationship with Germany towards one which helps the region move towards an innovation-driven model of growth

- Engaging actively in efforts to reconstruct the macroeconomic governance system in the EU

- Championing an activist growth and competitiveness agenda

- Supporting reform of the community institutions towards greater effectiveness and accountability

- Showing by example how the EU can be a more relevant global voice, and sustain robust, attentive and effective influence in its neighbourhood.

This agenda is within reach. The region's policy-makers need to want to make it happen. ■

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[1] In this report, 'Central Europe' refers to four Visegrád Group countries (the Czech Republic, Hungary, Poland, Slovakia) plus Austria, which form one economic area and a backbone of a wider Central and Eastern Europe (CEE).

Preamble

Central Europe[2] has never in its history been more free, secure and prosperous. Czechs, Hungarians, Poles and Slovaks have benefited hugely from the events and transformation of the past 25 years, as have their direct neighbours including Austrians. The enlargement of the European Union in May 2004 has been an unqestionable success. Our region has embraced democracy, the rule of law and market economics. It has flourished thanks to the dramatic increase in trade with and investment from the rest of Europe. Now we are eager to use our dynamism, resilience and adaptive capacity to play a more active role in the continent's common future. ■

[2] Respectful of other definitions, under 'Central Europe' we refer to the core region consisting of four Visegrád Group countries (the Czech Republic, Hungary, Poland, Slovakia; EU members since 2004) and Austria (an EU member since 1995) reflecting their proximity, growing business ties and geographic location. Together, the CE region comprises 73 million people (some 15% of the total EU population); its combined GDP places it as the 15th economy of the world. CE is an economic backbone of a wider area of Central and Eastern Europe (CEE) which also includes Bosnia, Bulgaria, Croatia, Estonia, Kosovo, Latvia, Lithuania, Macedonia, Montenegro, Romania, Serbia, Slovenia, and Ukraine. The CEE area altogether has some 170 million people.

1

CE – Taking Better Care of Itself

1. 10 Years in the EU – What Next?

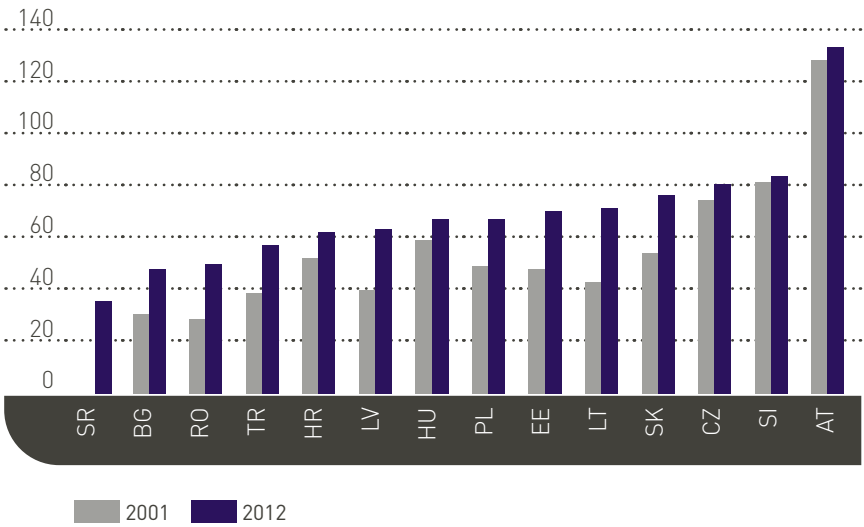
After our first decade in the EU, the initial distinction between the "old" and "new" member states has become out-dated. The great financial and economic crisis has recast Europe's political geography, with a North-South axis largely replacing the old one between "West" and "East". Perceptions have changed accordingly. In short, "New Europe" no longer means the new arrivals in the club of rich old democracies. It means the countries which, regardless of their history, show the capacity for social and political innovation, countries that have dealt with the crisis more successfully than Southern Europe or even some countries of Northern Europe.

Our countries fall clearly into this broader 'new' category. They are now better positioned not only to benefit from EU membership, but also to shape Europe's future – and make their region stronger within it – than at any time in our recent history.

Since the mid-1990s, Central and Eastern Europe (CEE) has shown considerable economic dynamism. The scale of change

in this wider region has been unprecedented[3]. As a result, today, GDP per capita[4] in the Czech Republic, Slovakia and Slovenia stands at 75-80% of the EU average while Croatia, Hungary and Poland are at 60%. And there is further potential for growth (see Chart 1). For 2014, as the euro zone and the rest of the EU continues its fragile recovery, forecasts suggest a growth difference of about 1 percent between the CEE and Western Europe[5] (see Chart 3). At the same time public debt levels are well below European average (see Chart 2).

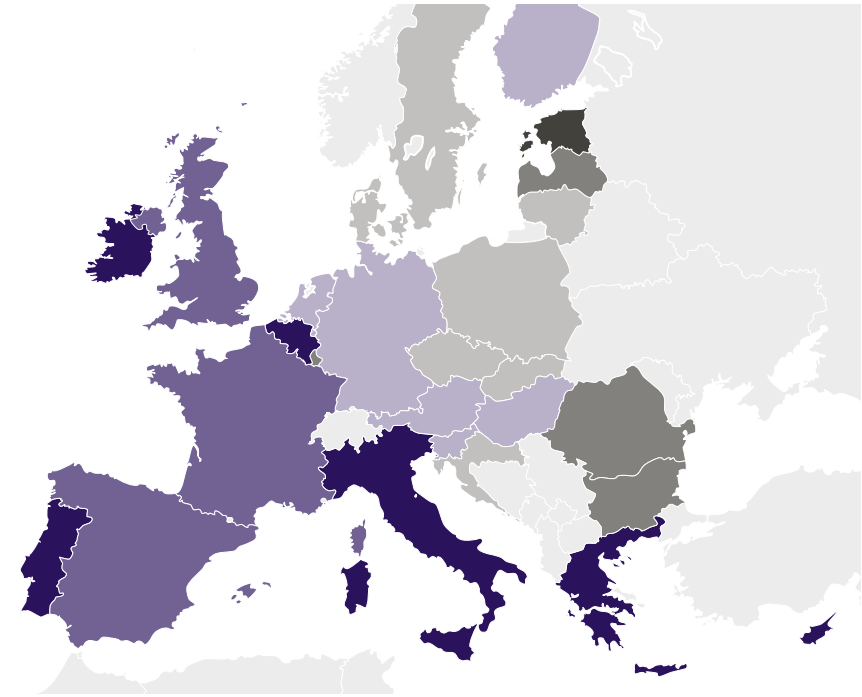
Chart 1. GDP per capita in Purchasing Power Parities in CEE; EaU average = 100%



Central Europe is now a growth engine for the wider EU economy. The region is expected to grow faster than Western Europe over the next five to ten years, thanks to its "catch-up" dynamic, its lower wage costs, well-trained labour force, and less public and private debt. Now is the time to capitalise on the opportunities which this relative economic strength affords. The challenges, both internal and external, which this presents, are described in this report.

We argue that **Central Europe should develop and cultivate its vision of its own region**. It is not enough to rely on the slow convergence of living standards. The region also needs **home-grown aspirations**. We aspire to be decision-makers in our own right.

Chart 2. Public debt 2014 forecasts for EU countries



Source: "The Economist", based on European Commission data.

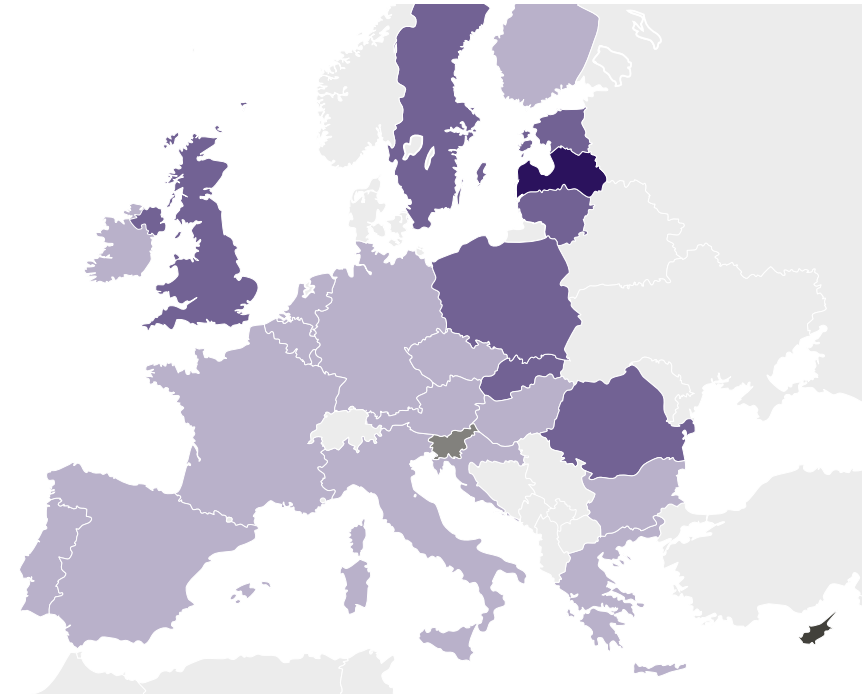
0-19 | 20-39 | 40-59 | 60-79 | 80-99 | over 100

In turbulent times in wider Europe and in the immediate neighbourhood, the consolidation of the region is as important as ever. Central Europe should do its own homework. Improvements in fields such as education are critically important, especially as the starting point is relatively strong and much better results

can be achieved through organisational overhauls. This will bring new trade and investment opportunities to the region and also improve our position in Europe.

Our past achievements and promising future allows us to project our success story internally and externally. Our countries can enhance regional interconnections, and make the European Union's future agenda more innovative and ambitious. After our successful first decade in the EU, it is high time for Central European leaders and representatives to bring this dynamism into the top EU positions that will be open during 2014.

Chart 3. Annual GDP growth 2014 forecasts for EU countries.



Source: "The Economist", based on European Commission data.

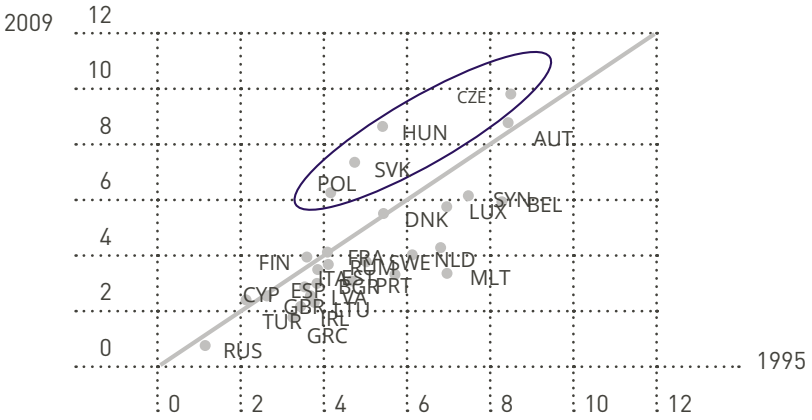
4.0 and above | 2.0 to 3.9 | 0.0 to 1.9 | -0.1 to -1.9 | below -2.0

2. Smartening up

Central Europe's second decade in the EU requires new plans and ambitions. In the years to 2014, we can take for granted that the environment will become more competitive (with the rise of emerging powers) while the EU is likely to evolve towards a stronger core centred around the euro zone and two or more echelons of countries around it. At the same time, internal structural challenges will increasingly constrain the region's long-term growth potential.

For now, our well-being is closely tied to the fortunes of Germany as a champion of the global economy. The best illustration of this are the linkages between Central Europe and the German supply chain (see Chart 4). As a recent IMF study has shown[6], Central Europe is less linked to German domestic demand than to the international factors that determine Germany's exports. The spill-over of German domestic demand to the V4 remains relatively small while much of the bilateral trade between Germany and the V4 is in intermediate goods. This joint exposure to demand outside of Europe is not captured by bilateral trade statistics. This means the region is vulnerable

Chart 4. Share of German value added in total exports of European countries in 1995 and 2009



Source: "German-Central European Supply Chain-Cluster Report", IMF Country Report 13/263, August 20th, 2013, p. 4.

to external shocks. But it is also an incentive. Economic integration with Germany should be seen as a springboard, not a trap.

Our task now is to work out how to bridge the gap to our Western European peers in the next 15-20 years. This will mean **systemic change**. Our combined GDP already makes the Visegrád Group the world's 15th-biggest economy. That reflects our strenuous efforts since 1989. But the next objective is to catch up with Germany in GDP per capita in purchasing-power parity terms. The distance between the Czech Republic (€20,270) and Germany (€28,400) is already smaller than between Germany and Norway (€40,100).

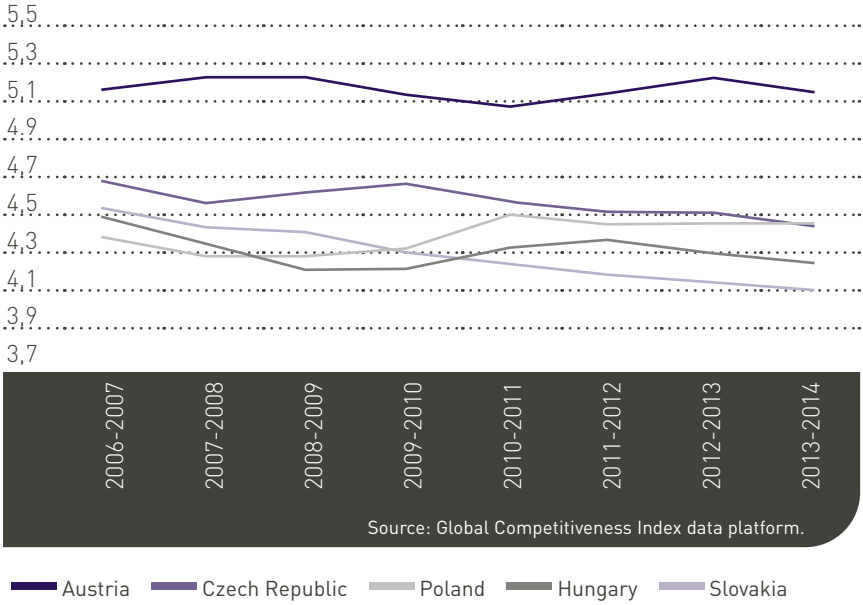
Our privileged position is primarily thanks to the efficiency gains which followed the inflow of foreign direct investment both before and after accession to the European Union. The transformation of our industrial structure helped to fuel improvements in productivity[7]. But these advances have stalled.

Now we risk **"half-wayism"** - the "middle-income trap", in which our traditional sources of growth deplete but we fail to find new ones. The World Economic Forum's Global Competitive Index (GCI) 2013-2014 describes Hungary, Poland and Slovakia as being in transition from an efficiency-driven stage of economic development to one which is innovation-driven; Austria and the Czech Republic are already in that category.

In global competitiveness rankings, the best performer in the region is Austria at 16th place, while the V4 countries are firmly in the middle ground – and some are sliding. The Czech Republic leads at 39th place, having slipped one place from two years earlier. Poland is second in the region with 41st place. Hungary underperforms at 60th and has slipped 12 places since 2011-2012, and Slovakia even more so in 71st place[8]. In terms of the global competitiveness score, Poland's "journey" is noteworthy, as it managed to surpass Hungary, Slovakia and the Czech Republic over the span of the last seven years (see Chart 5).

All Visegrád countries suffer from their relative weakness in the area of innovation, which in some respect explains the scar-

Chart 5. The "journey" of Central European countries in the Global Competitiveness Index 2006-2013 (scores from 1 to 7, with 7 corresponding to the best performance)



city of R&D exchanges between them. Could they expect **more engagement from Austria as well as the Nordic countries?** In the last GCI Report, Austria is particularly well-ranked in business sophistication (8th place) and innovation (15th place). The Nordics are traditional leaders in most of such rankings. Thus they could both become a catalyst behind the common research and innovation drive for the region. For the partners, including Austria, it is also a matter of choice as to what extent they will want to be active in co-shaping the region´s agenda.

The EU's macro-regional Danube strategy as well as the strategy for the Baltic Sea could also be used to create **platforms for joint projects** in the areas of R&D and innovation with Austrian, Nordic and relevant German states.

To ensure sustainable growth for the next decade, some basic challenges in the region have to be addressed:

- Our **immature and fragmented capital markets** hamper our companies. Western markets provide more liquidity and are more attractive to investors, while venture capital is still lacking in Central Europe. Our largest regional stock exchange, in Warsaw, is still far behind even bourses in Moscow and Istanbul, and its trading volume fell 26% in 2011-2012. It has opened talks with its counterpart in Vienna[9], though the two bourses use different trading systems, which would make merger or takeover difficult. Nonethless, such an alliance could be a major step forward towards establishing a capital-market hub for the region.

- Central Europe still has a well trained workforce but, given the underinvestment in public services, it risks losing that potential in a matter of half-a-generation. Educational systems everywhere in the region need an overhaul. In particular, university education is one of the most static elements of the region's landscape. Academic credentials are unsatisfactory and lack international profile: of the top 150 universities, none in Central Europe[10]. Largely successful in granting tens of thousands of young people university degrees, they have not been as good in ensuring the **quality of education**. We need more engagement of private industry and financial sector with governments to modernise the education system in our region to better match the demands of the workplace.

- If higher value-added products and services are to make inroads in the region, **investment in R&D and innovation** will require better public policies and promotion at the regional level. In practical terms, Austria could contribute to the International Visegrád Fund[11] initiating new programs focused on best practices in R&D and innovation. Cross-border collaboration between research centres has started to emerge slowly, as the example of the V4G4 Centre of Excellence, created in 2013 by four nuclear energy institutes from the region, clearly demonstrates. On the other hand, the region's academia mostly continues to function in a world apart; commercialisation of inventions is for the sturdiest and most persistent. Unsurprisingly,

knowledge-economy hubs are hard to find between the Baltic Sea and the Balaton.

No policy-makers in Central Europe have any grounds for complacency. As they try to avoid "half-wayism", they need to be aware that **competitiveness is a complex phenomenon** for which there is no quick fix. It is not only labour costs which count but efficiency of the institutions, predictability of the political system, quality and extent of infrastructure, good macroeconomic environment, and many other factors. Only comprehensive action across this range of factors can deliver results.

We need to **refashion our growth model**, with a **dramatic enhancement of our global competitiveness and innovation capacity**. Whether such **systemic change** is better achieved through radical or more incremental moves is a matter of political choice. But these challenges are manageable. Many countries have sharply increased their income levels[12]. In either case, we need a shared sense of purpose among policy-makers, and support from business leaders, opinion-makers and other key stakeholders.

3. Better Connectivity – Mission Unaccomplished

Regional economic integration requires connections. These come from infrastructural links as well as from regulatory convergence and cooperation. Since our accession to the EU, and after years of neglect, much effort has been devoted to knitting Central Europe together. Between 2007 and 2013, €36 billion of the €355 billion total of EU cohesion and regional funds was earmarked for the development of roads, railways, ports and airports across the region. Much has been achieved in **transport infrastructure** although it has been predominantly **focused on roads, with rail badly lagging behind**.

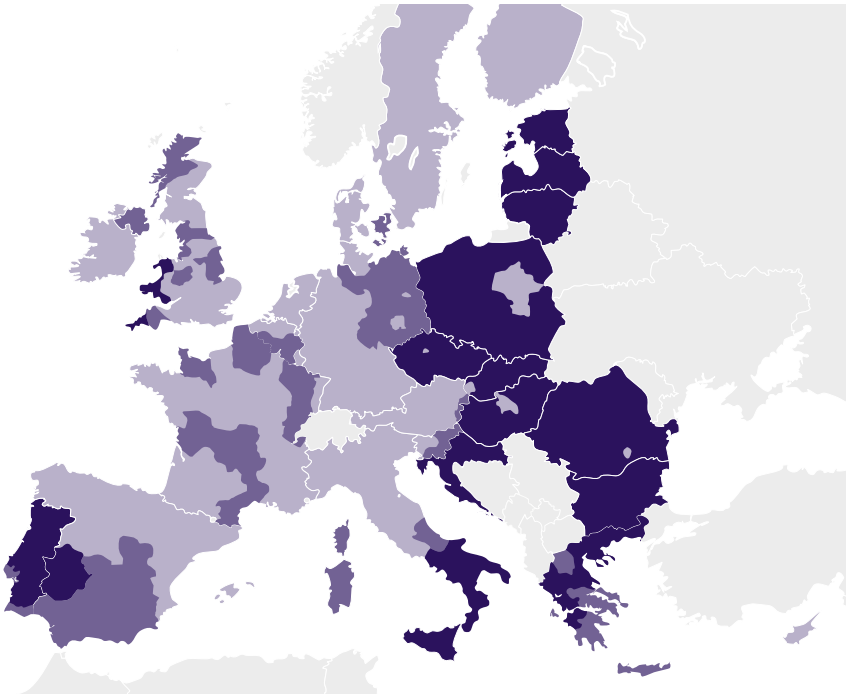
It is now almost possible to drive from Warsaw to Vienna on a highway but there is no direct highway from Warsaw to Buda-

pest, while the 65km-long train ride between Vienna and Bratislava, the two geographically closest capitals in Europe, still takes one hour.

A recent study[13] by the V4 Think Tank Platform underlined that while many borderlands in the region are of supra-local importance, transport interconnections are not developed enough to link the key economic centres such as Silesia and upper Moravia or Budapest and Bratislava. The most convenient way to travel from Prague to Wrocław by train is through Dresden, and the only viable rail link between Košice and Cracow is through the Czech Republic.

Ties between Central European countries, bottlenecks and missing connections still remain a problem in almost all direc-

Chart 6: Regions and member states eligible for Cohesion Policy 2014-2020



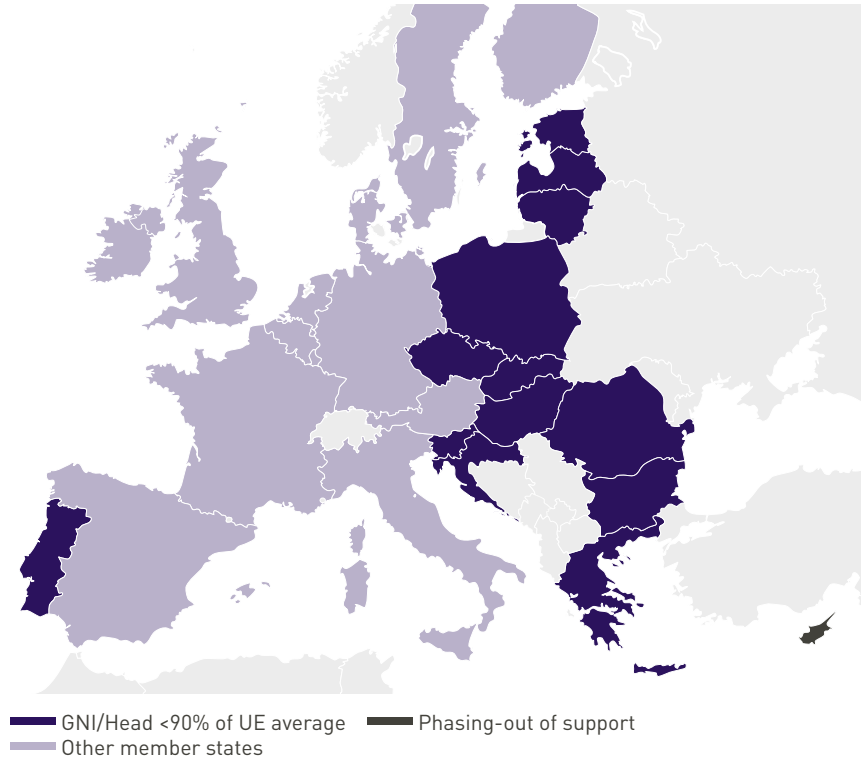
Less developed regions Transition regions More developed regions

tions with the exception of the Czech-Slovak links (due to their common state before 1993). An integrated transport system will intensify our inter-regional trade and investment.

Visegrad countries could make better use of EU funds, since they will remain a net receiver of EU payments in the upcoming years. The new Multiannual Financial Framework for Cohesion Policy 2014-2020, which earmarks about EUR 127bn[14] or 40% of total allocations to this region (see Chart 6). That corresponds to an average annual inflow worth 2.6% of their current GDP in programmed period.

EU requirements for trans-border projects have so far been the single most powerful driver of our transport interconnection.

Chart 6: Regions and member states eligible for Cohesion Policy 2014-2020



Efforts to coordinate investment into common transport corridors include the Central European Transport Corridor, Transport Corridor 6 and the Via Carpatia. In addition, the V4 countries have collaborated on tweaking the EU's Trans-European Transport Network in their favour. Logistics companies have also actively supported improvements of intermodal transport. It is important to look for alliances between national Cargo companies – Poland's PKP Cargo is the second largest railway cargo company in Europe, while Czech ČD Cargo is the fourth.

The failure to give trans-regional projects a high priority highlights the need for **a list of strategic infrastructure projects,** to synchronise national and regional targets with EU cohesion-policy objectives, **combining national and regional interests**. In addition, every country should introduce streamlined procedures for issuing permissions, featuring the integration of spatial planning and land-lease permissions. Some projects might not be justified on purely commercial grounds, in which case they should be allowed higher regulated returns to compensate for the additional risk. Finally, innovative financing solutions should be examined, including equity participation in infrastructure funds, loan guarantees or targeted facilities for project bonds.

4. Enhanced Energy Security – Work in Progress

Much has been made at the political level of efforts to **integrate the region's energy markets.** The most urgent energy security challenge is natural gas. Our gas markets are still poorly interconnected and highly dependent on a single supplier – Russia's Gazprom. As long as Visegrád as well as neighbouring countries' gas markets remain separate, Gazprom will find it easy to engage in political price-setting. Its space for manoeuvre was recently curtailed by an impressive action by the European Commission to ensure the Russian giant respects EU competition rules. Antitrust investigation against Gazprom will most

likely result in legal action restricting the scale of its activities in the EU countries, thus presenting a fresh opportunity for integration of Central European gas markets.

Despite common concerns, Central Europeans have so far been perceived as divided on energy issues and looking only after their own national interests. On the EU level, however, diplomats of Visegrad countries have been effective shapers of joint EU responses to energy security risks to the region as demonstrated during the gas supply disruption from Russia in 2009. And lately V4 governments have agreed on a common "security of supply" strategy, including regional emergency planning and increased gas storage capacities. Austria could do more to be involved in these talks.

As for creating a functional regional gas market, the key ally so far has been the European Commission. The North-South Interconnections in Central and South Eastern Europe have been identified as priority corridors of its Energy Infrastructure Package, adopted in 2010. Effective interconnection of all V4 countries within the North-South Gas Corridor (NSGC) are expected by 2017-18: the interconnection between Slovakia and Hungary, constructed with the EU's financial support of €30m, should be operational by 2015, whereas the interconnection between Slovakia and Poland, with EU's support of €210,000 for business-case and feasibility studies, should be completed by 2017. On the southern end, Slovenia and Croatia are also planning to contribute critical infrastructure to the NSGC. Once finalized, it has the potential to cause a geopolitical breakthrough for the region[15].

However, as a study prepared for the European Commission on the future development of the gas market and infrastructure in the region has concluded, the four Visegrád countries - in spite of having limited pipeline interconnections - do not face immediate risks of supply shortages. In the absence of such pressures, governments have tended to be unwilling to allow operators from the outside to enter their national markets, even if they originate from other V4 countries. Preventing new actors from entering national gas markets in Central

Europe would leave regional integration in this area looking theoretical.

Electricity interconnections are much more 'meshed' in Western Europe although even there markets remain predominantly national. The ENTSOE's Ten-Year Network Development Plan 2011-2020[16] (which lists all the current and planned national investments in network development) shows too few initiatives in the CEE region aimed at reversing this intra-continental divide. More disquietingly, we do not take full advantage of the networks that already exist. We lag behind the Central West European (CWE) electricity market in the implementation of the target model for electricity markets in Europe. It is there that political will is most in demand.

In all of these areas, we must **deal jointly with barriers which hamper investment** in infrastructure. These involve the complexity of consultation and procedures for issuing permissions, with the lack of prioritisation and with the weakness of the regulatory framework. **Harmonising tariff-setting methodology** to ensure sufficient incentives would bring big benefits. Cooperation among the Transmission System Operators, bringing the regulators more closely together could **aim at regulatory convergence which would aid investment** as well.

Completing this agenda is not simply a question of money (which, thanks to the EU funding, is now more available than ever), but of a strong **political conviction that regional interconnections are mutually beneficial**, bringing about the effects of scale, of improved innovation capacity as well as of greater energy security.

5. Security and Defence Policy – the unlikely Showcase of Trust

During 2013, Visegrád leaders gained a new level of mutual trust in an area usually seen as the traditional prerogative of national sovereignty – security and defence policy. An impor-

tant impulse was provided by think tanks: in 2012, a group of leading experts and senior officials of V4 countries co-authored the *DAV4 Report* with guidelines for enhanced defence collaboration and ideas for practical projects[17]. An intensive dialogue among Visegrad Group defence and foreign ministers recently reached a prime ministerial level. A joint statement of V4 Prime Ministers, meeting in Budapest in October 2013, tasked their Ministers of Defence to prepare a long-term vision of defence cooperation among their countries, improve possibilities for joint training and exercises, and enhance mutual defence planning. Austria as the only non-NATO country in the region has not been part of these efforts.

Visegrád countries' motivations differ: Czech, Hungarian and Slovak defence budgets have shrunk to levels which endanger maintaining, let alone developing, their military capabilities (though joint procurement projects may help these countries modernise despite financial constraints). Poland, traditionally more concerned with territorial defence than the rest of the group, wants to use co-operation to motivate countries in the region to halt the depletion of their militaries and to align national threat perceptions. Poland also aspires to play a more important role in the European security and defence policy.

Table 1

	Total size of the army (2012)	2012 – Milit. expenditure (bn EUR)	Military expend. as GDP %
Poland	96 000	6,7	1,95
Czech Republic	22 000	1,8	1,10
Hungary	18 000	1,0	0,99
Slovakia	13 700	0,8	1,01

Sources: SIPRI military expenditure database; CEPI updates for 2012.

Burden-sharing plays an important role too. As the US scales down its military presence in Europe, we must assume more responsibil-

ity for our own security as well as for our immediate neighbourhood. Located on the frontiers of both NATO and the EU, Central Europe's vital interest is to keep both frameworks politically and militarily strong. Visegrád countries have accumulated substantial experience in co-ordinating their positions and activities within NATO and the EU regarding political-security issues. Their leaders **have supported the idea of regional initiatives** to help mitigate identified shortfalls and overlaps. All V4 countries have been strong advocates of both NATO and EU engagement in expeditionary formats (NATO Response Forces and EU Battlegroups) which the four countries see as mutually complementary.

In their joint letter to Herman Van Rompuy, President of the European Council, ahead of the EU summit in December 2013 which addressed further development of the Common security and defence policy (CSDP), the V4 prime ministers called for a new impetus for practical co-operation between the EU and NATO, especially in the area of defence planning and development of capabilities. This could be appealing also to Austria, which is not a NATO member but plays a leading role in the EU's CSDP operations in the Western Balkans, and contributes personnel to the NATO-led KFOR mission in Kosovo.

As a first step, the **four Visegrád countries have decided to build a joint EU Battlegroup**, available for rapid deployment in the first semester of 2016. Details of this flagship project still need to be worked out. Besides bringing short-term modernisation benefits, it can also spur deeper collaboration among ministries of defence. They are already discussing how to make some of the unit's elements permanent and available for future NATO Response Force (NRF) and EU Battlegroup (BG) rotations.

In addition, all Visegrád armed forces face a challenge of maintaining the pace of modernisation and transformation when NATO's International Security Assisance Force mission, to which they heavily contribute, ends in 2014. Common training and exercises could give the V4 forces practical opportunities to maintain the inter-operability that they are currently practicing in Afghanistan.

Visegrád experts have identified a number of other potential co-operation areas, including aviation training, cyber-defence, military-education or medical treatment facilities. To make security and defence co-operation in the region viable in the long-term, they also need to work on further convergence of their national strategic cultures.

6. Governance Issues

In the last decade, each country of Central Europe has faced problems with the consolidation of democracy. One previous Polish government was accused of using institutions of the state against political opponents. The Slovak judiciary is not trusted by 70 per cent of people and even the country's Minister of Justice acknowledges that confidence in the system could hardly be worse. The Czech Republic has been embarrassed by a series of high-level political and corruption scandals that triggered new elections in October 2013. Hungary faces strong criticism for, among other things, its approach to independent institutions, the Central Bank, the judiciary and the media.

What we are witnessing is part of an effort to overcome Central Europe's historical legacy. Frequent political and institutional upheavals, in particular during the 20th century, prevented gradual change and consolidation of democratic norms and institutions. As a result, this region has weak institutions that are being exploited by vested interests and established groups. Institution building is still an unfinished business, and good governance in Visegrád countries often depends on the personal engagement of well-intentioned individuals.

Slower growth and government austerity measures after the global financial crisis in 2008 – 2009 have contributed to general *reform fatigue* in the region. In some cases, there have also been reform reversals with populist measures involving increased state control in areas such as energy, transport, banking and pensions[18]. At the same time, these are features of a larger European crisis that of democratic governance itself.

Populist politics is on the rise across the continent. Economic instability, high unemployment, political scandals and erosion of trust in the entire political class are fuelling a crisis of confidence in democratic institutions at both the national and the EU levels. Central Europeans are not different. If more established European democracies find it extremely difficult to cope with the damaging implications of the current crisis, can Central Europeans be expected to do any better?

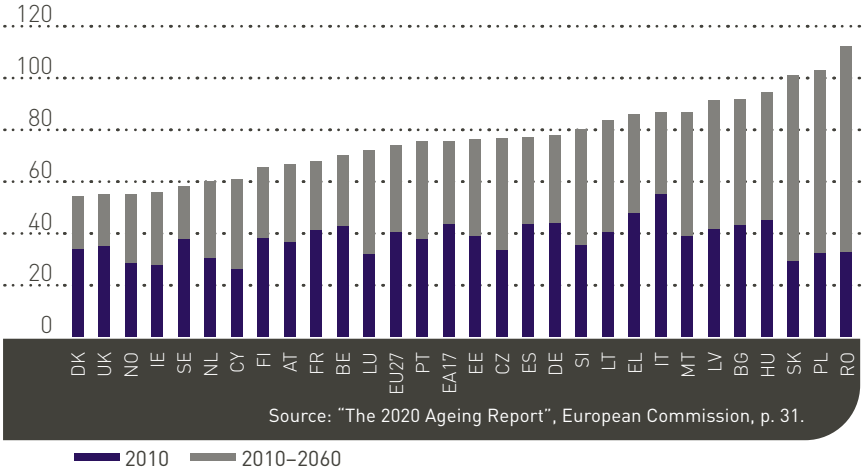
The picture is not uniform across the region. Examples abound of democratic resilience amidst all the troubling economic and political developments of the past few years. So far, Central European voters have shown more patience, endurance and flexibility in coping with the crisis than electorates in many other European democracies. It may be due to the region's historical experience in coping with crises and upheavals but should, nevertheless, be acknowledged. The same goes for the region's **capacity for democracy innovation** and responsiveness of governing institutions. Recent **improvements in transparency** include legislation making all public contracts automatically available on the internet (in Slovakia) or the increased independence of Czech police investigating high-profile corruption cases. Ombudsmen and Supreme Audit Offices (SAO) are also success stories and small practical lessons that can be offered to Southern Europe as well as in the Western Balkans and Eastern European countries undergoing reforms in their own public sphere.

7. A White and a Black Swan

Among our greatest structural challenges, **demography stands out**. The countries of Central Europe are expected to be among the half of the EU member states whose total population is projected to decrease over the next decades.

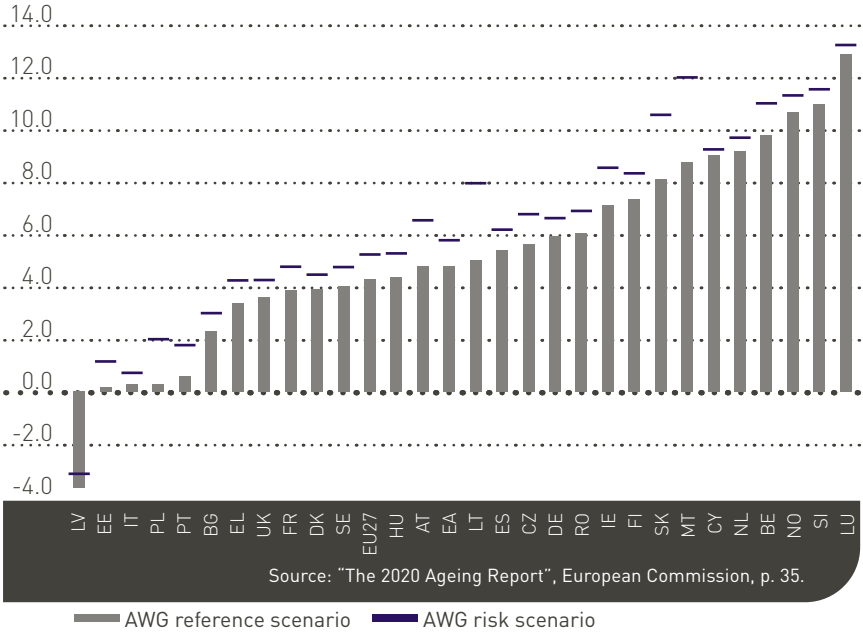
Barring sharp and unlikely turnarounds in birth rates, as opposed to 38.4m people living in of Poland today, there will be only 32.6m in 2060. The Hungarian population will shrink from 10m to 8.8m in the same time-frame, people living in the Czech

Chart 7. Effective economic old-age dependency ratio (inactive population aged 65 and above as a percentage of the employed population aged 15 to 64)



Source: "The 2020 Ageing Report", European Commission, p. 31.

Chart 8. Overall change in age-related expenditure (p.p. Of GDP) in 2010-2060, under two scenarios



Source: "The 2020 Ageing Report", European Commission, p. 35.

Republic from 10.7m to 10.5m and in Slovakia from 5.5m to 5.1mn[19]. Social structure will change too. In Poland today 15.4 percent of the population are over 65-years, this will rise to 34.6 per cent in 2060. In Slovakia the same age-group will rise from 13.8 per cent to 33.5 per cent of the population, in the Czech Republic the rise will be from 17.7 per cent to 30.6 per cent and in Hungary from 17.9 per cent to 32.2 per cent. No plausible increase in fertility rates will reverse the ageing of these societies. Greater longevity and low fertility are civilizational processes in most advanced economies. Immigration may partially smooth the effects of this phenomenon. But it is quite likely that CE countries will have to increase the retirement age even further and raise labor force participation in general.

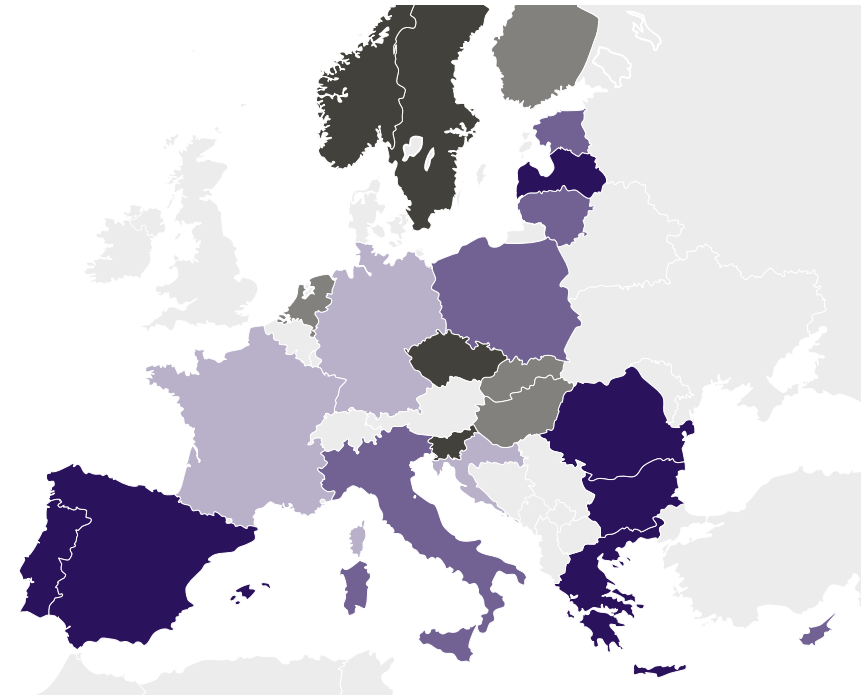
High effective economic old-age dependency ratio may become a serious problem in the region, especially in Slovakia and Poland (see Chart 7).

The **sustainability of public finances** and social security systems is therefore a huge challenge. In Slovakia the age-related increase in public spending may rise 7 percentage points or more (as a share of GDP) in the period until 2060. The Czech Republic and Hungary are in the second group of countries where the foreseen increase is more limited, ranging from 4 to 7 percentage points of GDP. The increase in Poland is likely to be 4 percentage points of GDP (see Chart 9)[20].

The world offers few examples of countries which have handled the problem of ageing well. Providing high quality education, health-care and transport and other services across the whole region might become very costly. The state will therefore **need to concentrate some public services in larger communities**, especially in urban and more densely populated areas. As with climate change, mitigation will have to be coupled with adaptation.

Among the black swans, the **failure to build an open, inclusive and fair society stands out**. We have enjoyed relative social peace in the two decades of transformation, and our countries

Chart 9. Gini coefficient in European countries 2012



Source: Eurostat

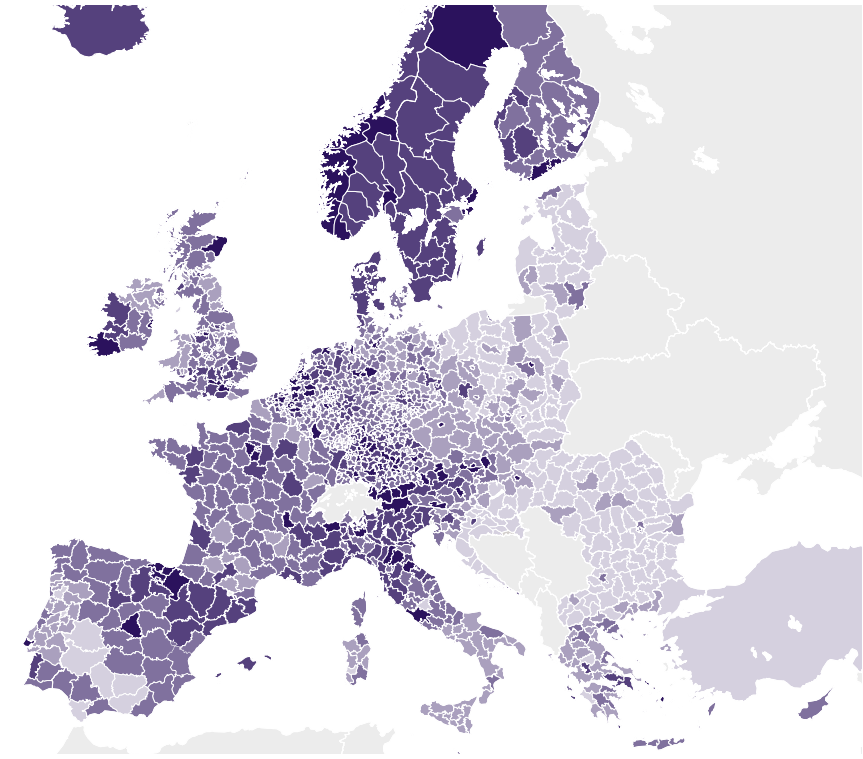
22.6-24.9 | 24.9-27.2 | 27.2-30.5 | 30.5-35.9 | 32.5-35.9

have stood out among the emerging countries for our relatively high level of equality. The Czech Republic and Slovakia's Gini coefficients are lower than that for Germany (see Chart 9.) while, Hungary and Poland are not far behind[21]. The question remains, however, over the sustainability of this situation in times of scarcity and growing pressures on public expenditure.

The greatest challenge to equality of opportunity in Central Europe are **regional disparities**. The transition of the 1990s created relatively wealthy city chains. In places like Bratislava, Budapest, Prague and Warsaw the convergence process has led to "urban islands of wealth" with a GDP per capita well above

EU average. At the same time rapid economic transformation has left entire regions behind. Many peripheral areas show too few signs of economic life to reach the threshold required for strong cumulative growth. What is more, FDI flows have tended to concentrate in capital cities and stronger regions. Some Central European cities are humming with creativity, celebrating the local talent and providing an ecosystem conducive for innovation. Such **islands of openness** have to be cherished and nurtured in the future.

Chart 10. Regional GDP per capita in pps
(% of EU27 average) at NUTS 3 level in European countries 2010



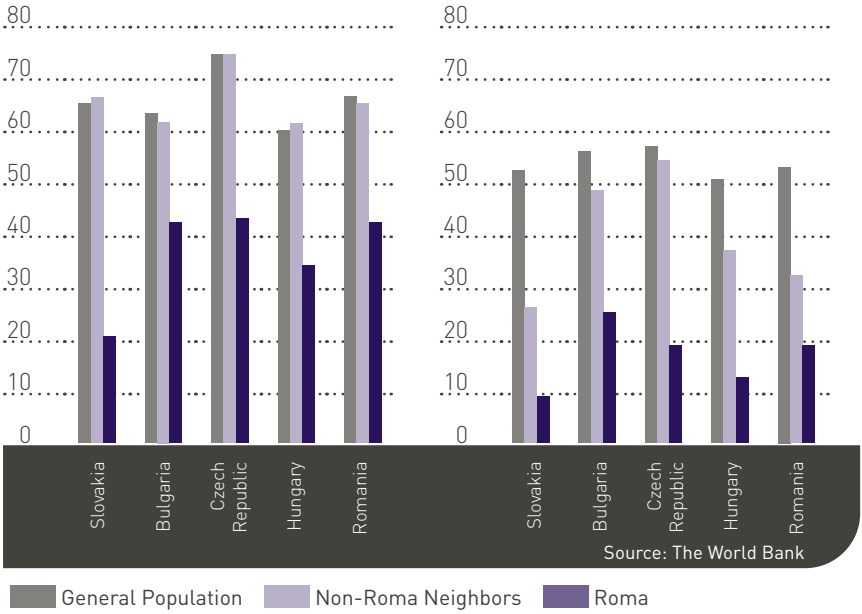
Source: Eurostat

<50 | 50-75 | 75-100 | 100-125 | >125

Urban policy has not been a big strength of Central Europe either, with local governments' preference for targeting peripheral, green-field areas rather than modernisation of the existing ones. This has led to the phenomenon of "uncontrolled suburbanisation". **Revitalisation of cities** has been a **grossly neglected** challenge. In place of the more visible racial or religious segregation in the French cities, we have a much subtler social segregation and exclusion. The task of improving housing is largely absent from the agenda for city renewal.

On top of that, Central Europe has another **major demographic and social challenge**. Three of its countries have **large Roma minorities** - the Czech Republic (up to 1.9% of total population), Hungary (up to 7.5%) and Slovakia (up to 9%)[22]. The vast majority of Roma continue to live in poverty, and represent a significant, yet underutilised potential in the region's economy. While the non-Roma population is ageing and shrinking, the Roma

Chart 11. Employment gap among Roma and non-Roma neighbours for men (left) and women (right) %



minority on average is youthful and growing. About a third of them are under the age of 15, but nearly 4 out of 5 Roma pupils do not complete secondary education. Moreover, Roma adults continue to be excluded from the labour market (see Chart 11).

This trend is particularly worrying as the Roma try to enter the labour market at higher rates than the majority population – with 1 in 6 entrants in Hungary and Slovakia being a young Roma. While many want to work and have (mostly low and uncertified) skills, their job search is limited by geographical separation from job opportunities, long-term unemployment in their communities, and discrimination in the labour market. Much of the future competitiveness of Hungary and Slovakia, in particular, will depend on how fast these countries can improve the employability of excluded Roma and their integration into the mainstream education systems.

The European Commission recently incorporated Roma inclusion into its Europe 2020 economic strategy, asking member states to present individual National Roma Integration Strategies. The emphasis is put on the collection of reliable data necessary for measuring each country's results and planning follow-up actions. For five EU members (including the Czech Republic, Hungary, and Slovakia), the Commission already proposed country-specific recommendations. Nevertheless, experience from the previous EU budget period (2007 –2013) has shown insufficient government capacity and lack of political appetite to make such changes – making regional collaboration and exchange of best practices related to Roma inclusion among Central European countries even more essential.

Finally, there is **the question of openness**. With the exception of Austria, so far the rest of Central Europe has not been a huge **magnet for immigration**, for which it

also remains unprepared. Although migration tends to follow established patterns, the region's ability to open to other cultures and influences and absorb the diversity of skills and potential wealth of experience from others need to improve. The most tangible and overwhelmingly positive experience is that of opening up to Ukrainian seasonal workers who have filled many important gaps in Central Europe's labour market. Around the region, there are also pockets of substantial immigrant communities from Asia, often drawing on the Communist-era educational links with countries such as Vietnam. Nevertheless, fully-fledged immigration strategies are often in early stages of policy formulation, with the Czech Republic being more advanced in this area than the other Visegrád countries. The national asylum policies and their practical implementation also require reform. ■

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[3] Economic growth in CEE before the crisis averaged 4 per cent. See *Golden Growth. Restoring the lustre of the European economic model*. World Bank , 2012, p. 46.

[4] Measured in purchasing power parities, EU average is 100%.

[5] *European Economic Forecast Winter 2013*: European Commission http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee1_en.pdf

[6] *German-Central European Supply Chain-Cluster Report*: IMF; 20 August 2013.

[7] See Erik Berglof, Chief Economist of the EBRD, *"Transition in emerging Europe – what do we learn about the "Middle Income Trap?"*, ECB conference, 10 July 2013.

[8] *The Global Competitiveness Report 2012-2013*, World Economic Forum.

[9] Wiener Börse AG acquired majority stakes in the stock exchanges of Budapest, Ljubljana and Prague forming CEE Stock Exchange Group (CEESEG).

[10] The Times Higher Education World University Rankings 2013-2014

[11] The IVF was established in 2000 as source of funding for common cultural, scientific, research and educational projects, youth exchanges, promotion of tourism and cross-border cooperation, has by the end of 2012 supported more

than 3,700 projects and awarded over 1,700 scholarships and artist residencies, worth in total nearly 47 million euro. See www.visegradfund.org

[12] Zheng Bingwen, director at the Chinese Academy of Social Sciences and scholar of the middle income trap, claims that *„Japan spent 12 years to get out of the trap, Singapore spent 11 years, Hong Kong spent 11 years, and Korea spent only 7 years"*. Quoted in Chen Xiaoyi, „China to stride over middle income trap between 2021-2025", Morning Whistle, 9 November 2012.

[13] Strengthening the Territorial Dimension of the V4. Macro-regional Development and territorial cohesion: selected spatial aspects. September 2013.

[14] Cohesion Policy 2014-2020 (http://ec.europa.eu/regional_policy/what/future/eligibility/index_en.cfm)

[15] North-South Gas Corridor: Geopolitical Breakthrough in Central Europe. PISM Report, December 2013. Available at: http://www.pism.pl/publications/reports

[16] "Monitoring Update – Table of TYNDP 2012 Projects", ENTSOE, 1 July 2013

[17] The DAV4 (Defence Austerity in the Visegrad 4) project was facilitated by the Central European Policy Institute in Bratislava with the support of the International Visegrad Fund. The project partners included the Polish Institute of International Affairs, the In-ternational Centre for Democratic Transition in Budapest and Czech Jagello 2000. Full report is available here: http://www.cepolicy.org/publications/dav4-full-report-towards-deeper-visegrad-defence-partnership.

[18] EBRD Transition Report 2013: Stuck in Transition? Chapter 1, p. 16.

[19] The 2012 Ageing Report. Economic and Budgetary Projections for the 27 Member States (2010-2060), European Commission 2012

[20] The 2012 Ageing Report. Economic and Budgetary Projections for the 27 Member States (2010-2060), European Commission 2012, p. 35.

[21] The figure for the Czech Republic is 31 (2009), for Hungary 31.2 (2008) and 34.1 for Poland (2009).

[22] According to Council of Europe's estimates of Roma population in European countries, 2010. See: http://hub.coe.int/web/coe-portal/roma

2

CE in the EU

When Central European countries entered the European Union in 2004, they were sometimes seen as a potential source of problems rather than part of the solution. The scare factor was blown out of proportion in the old member states as it became a foretaste of the challenges associated with globalisation. The European Commission set the record straight when it calculated that there were no more than 142 Polish plumbers in France rather than the many thousands that were feared. The financial and economic crisis has since changed that logic profoundly with the South replacing the East as the object of anxiety and occasional scorn in the prosperous (mostly northern) states. Some of the sensitivities, most notably in the area of the free flow of persons, have not disappeared, as evidenced by the offensive on the part of David Cameron, the British Prime Minister, to limit EU migrants' rights to social protection.

The EU has been in crisis, first constitutional and then economic, for eight out of the ten years of Central Europe's membership. This has complicated the region's prospects of having a significant say over the European agenda. As a late entrant to the club, Central Europe has had to spend more time adjusting to the rules of the game which have taken shape over the previous five decades, than speaking its mind. However, as the most severe conditions of crisis subside, Central Europeans need to have a clear idea on what they want to achieve in the post-crisis Europe.

8. Central Europe and the New Political Geography of the EU

So far, Central Europe's increasing strength has to a large extent come from the region's close and beneficial relationship with Germany. Its drivers have been primarily socio-economic. Thousands of Central Europeans who have been present on the German labour market as (mostly) seasonal workers, for years; and numerous ties between the German Mittelstand and their opposite numbers in the region have meant that at the interpersonal level, the relations had often become impressively engaged and were followed by political proximity. The model works well creating enormous benefits for both sides but it **will need a qualitative depth in the future**.

The political reality was slow to catch up. For years, German dominance was feared in the region while conspiracy theories about Berlin's hidden agendas abounded. This has been laid to rest, and **Central Europe now enjoys a comfortably close, two-way relationship with Germany**. There are differences, for example in the field of energy with Germany phasing out nuclear power by 2022, but they are outweighed by the common economic and political interests.

An intimate relationship with Germany is a starting point, not a goal. We have slain the ghosts of the past, but we have not yet realised the promise of the future. Diversifying our trade and investment beyond single countries and single industries does not just improve our resilience—it also improves our attractiveness. The more we innovate, research, develop and add value, the more integrated and competitive we become. This goes beyond economics: we have our own perspective on security – and on the growing geopolitical competition which, like it or not, is being forced on Europe from the east. We are eager to cooperate with Germany—and, when we disagree with the authorities in Berlin (on nuclear energy, for instance), to contribute to the debate there about our common future. We do not see Germany as a hegemon, real, potential or imagined.

But we need to ensure that Germany's economic and political strength is matched by a confident and constructive voice from our region—especially if the United Kingdom, previously Central Europe's spiritual brother in the EU, departs to an unknown geopolitical destination, significantly weakening its influence within EU.

The euro zone's future depends largely on establishing new banking and financial rules, and on pursuing deep changes in Europe's troubled southern and western countries. Our role is to be a **factor of cohesion**. We can be **a go-between on issues of structural reform** which we have pursued much more effectively than the countries of Southern Europe.

9. The Euro Mirage

The euro zone will remain the EU's main centre of gravity, irrespective of whether its reconstruction process will continue "muddling through" or if it will leapfrog. Non-members are unlikely to have an ambitious agenda: they are a diverse group of countries with separate agendas. This cohesion will be further tested as the UK prepares to renegotiate the terms of its membership in the EU. Slovakia is the only euro zone country among the V4 countries and its experience is mostly positive, although sometimes politically charged. At the moment there is little prospect that the three largest regional economies – Poland, Czech Republic and Hungary – will join before the end of the decade. The issue is dormant in their domestic political debates. At the same time, reforms in the euro zone are far from neutral from the point of view of the wider unity and cohesion in Europe. And it should be noted that the euro zone continues to grow (with Estonia and Latvia as its newest members).

Central Europeans are thus **a microcosm of Europe's emerging divisions.** There are **three possible approaches** which this region can take with regard to the emerging new EU architecture. In the **first scenario**, efforts would concentrate on completing the region's accession to the euro zone. This would help region-

al ties and allow for pursuing regional market consolidation. In the run-up to that, the region would need to insist on the inclusiveness of the euro zone architecture which would make the subsequent accession process easier.

In the **second scenario**, the question of euro zone membership is placed on the back-burner as long as reconstruction of the common currency remains an ongoing process. The argument would prevail the incompleteness of the EMU makes it impossible for non-members to have a fully-fledged assessment of the project they would be joining and its implications. The risk is not negligible that as the euro zone fine-tunes its new procedures and mechanisms, the gap becomes wider, with non-members finding it difficult to relate to the reshaped economic governance system in the new EMU.

In the **third scenario** the Central European non-members decide to not join the common currency for the foreseeable future. Two options are then possible, depending on political decisions. The region can either allow itself to be guided by events in the euro zone, responding to them and hedging any possible risks which they might create. Alternatively, it can pursue an activist agenda, irrespective of not being at the centre of developments in the euro zone.

- **"The low road option"**: We become increasingly peripheral to the key political and economic processes taking place in the euro zone. Some countries spend more time identifying partnership opportunities outside the EU, including among emerging economies. We would shadow decisions in the euro zone but, as an outsider, have no say over them.

- **"The high road option"**: We move aggressively to formulate our own ambitious agenda in the EU which stretches from issues of the single market to foreign and security policy. This agenda becomes a point of reference in EU dossiers, especially the digital agenda. Our assertive efforts help to blunt political controversy over euro zone accession.

Central Europeans' **best bet is to defuse the issue of euro zone membership politically and start looking at it from the perspective of the region's own future agenda**, rather than exclusively as a past obligation. The discussion should transcend the transfer of sovereignty, which remains a highly sensitive one, and **focus on how membership in the euro zone would strengthen our prospects for stability and growth.**

While the first of the scenarios drawn above is most desirable, we should use pro-actively the next few years to prepare for it. We should insist on taking part in the decision-making on the future governance of the euro zone and ensure a fair treatment for non-euro members. Those from the region who are not yet euro zone members should **join all the mechanisms open to non-members** in order to retain influence and secure our interests. This includes the banking union, membership in which would allow the region to benefit from enhanced investor confidence. Our operating assumption should be that the euro zone reconstruction is about creating a zone of stability and macroeconomic security. While it is still disparaged as an emerging market, we cannot miss out on closer integration.

10. Central Europe in the EU: the Future Agenda

Apart from the euro zone issues, which remain crucial for the region's future position in the new European Union, there are at least **three other sets of questions** where the engagement of Central Europe is important:

- The future model of integration,
- Restoring conditions for growth in Europe,
- Europe's place in the world.

On the first question, the EU is a tilting towards **a new type of inter-governmentalism**, in which all key decisions are at the

mercy of the power-plays staged at the European Council. New intergovernmental agencies – such as the secretariat of the European Stability Mechanism - are tasked with running the extraordinary programmes launched as part of the euro zone rescue process. **The space for discretionary decision-making has grown enormously.** Community institutions have been empowered in some regards and crippled in others. They have new competences, including the area of macroeconomic surveillance, but remain in a subservient role whenever issues with fiscal or financial relevance come up for discussion.

Central Europe has watched this development with **growing unease**. As champions of the community method in the past, countries of the region have been well aware of the risks involved in the **weakening of the level-playing field in Europe** which has followed the gradual abandonment of the community method. As mostly small countries, we mistrust the intergovernmental method which favours big EU states.

The rise of intergovernmentalism poses **intricate challenges with respect to the democratic legitimacy** of European integration. Closer involvement of national parliaments will be one of the ways to address it. The region's legislatures should prepare to translate better what goes on at the European level to the public at home.

Central Europe, however, **should have its own agenda of a more balanced European Union**, in which the claim to leadership is not limited to the largest and most powerful countries. An important role has to be played by bilateral and inter-regional ties with both countries of the Baltic Sea basin as well as Southern Europe. Finally, Central Europe could define a new *modus operandi* with the United Kingdom.

Most Central European countries have positioned themselves as **the European Commission's best friends**. This strategy has many merits. It helps to stall the creeping introduction of the 'new inter-governmentalism' and induces Central European countries to think less about their immediate interests and

more about the interests of the Union at large. Noble as it is, this approach will not suffice if it is not coupled with a powerful **drive at the reform of community institutions**.

We will **lead calls to make the European Commission and the European Parliament more effective and accountable**. Apart from administering common policies, the Commission should focus on actions involving growth and "network" areas such as energy. It must maintain a robust competition policy and ensure a level-playing field among European enterprises. It should also strengthen its role as an enabler of common activities in fields such as innovation.

We should **lead EU efforts aimed at revitalisation of its economic model and restoring growth**. We want to complete the single market in services and to enhance co-operation in the digital agenda, setting an example for others to follow. We want a flagship competitiveness agenda for the EU's new institutional cycle 2014-2020, improving Europe's competitiveness and infrastructure.

Given Central Europe's growing engagement in the global trading system, the region is bound to benefit from new arrangements aimed at deepening the EU's trade and investment links with outside actors, including above all with the United States in the context of **TTIP**. A comprehensive trade and investment agreement with the US would help technology and know-how transfers, increase capital flows and offer better availability of products and services.

Finally, we want to **re-launch the EU's Common Foreign and Security Policy**. A weak decision-making centre in Brussels has been hamstrung by often confused decision-making in the national capitals. A revamped CFSP would have a lower but more solid common denominator, "filling the gaps" in the EU's security and defence posture. In a more hands-on approach towards the neighbourhood the EU can be a facilitator of conflict resolution and stabilisation in the South—and a transformative power in the East.

We cannot remain a hostage of the euro zone crisis and the new geometry it is creating. A self-confident Central Europe in a regalvanised EU of the future will be better aware of its interests as well as willing and able to pursue its own vision. We must be able to pool our voting power in the Council and present joint initiatives to other EU Partners. Central Europe's voice needs to be loud and clear. ■

3

List of Recommendations

We can be proud of our achievements in the first decade since joining the European Union. But the second decade has to be markedly different, both for internal and external reasons. The public, having tasted hard-won prosperity, however modest and fragile, now has higher aspirations. Structural constraints, such as demography, will bear heavily on our growth prospects. The EU is now very different than it was in 2004. Although the worst of the crisis may be over, Europe as a whole is likely to remain a low-growth area for some time to come. This will hardly be conducive for the dynamic catching-up process which we hoped for when we joined.

We need a shared sense of purpose among the region's policy-makers, and support from business leaders, opinion-makers and other key stakeholders. A self-confident Central Europe must be better aware of its common regional interests and know how to capitalise on its relative economic strength. This type of approach would not only benefit the region but improve prospects for the EU at large. Our recommendations for increasing the political and economic strength of our region in Europe are:

I. Consolidation and Strong Fundamentals

1. Central European governments and business leaders need to focus more on fostering regional interconnections, bringing about

the effect of scale and generate region-wide benefits. Greater integration of Central Europe's transport system and energy markets across borders will increase regional trade and ensure greater energy security.

2. Governments in the region should define strategies for better anchoring the innovation-driven model of growth and creating mutual synergies along the way, mainly through radically improved cooperation between universities and business and reducing risk-aversion.

3. The industrial and financial sector should become more engaged with governments to modernise higher education to better match the demands of the workplace and labour market needs. Otherwise Central Europe risks losing the potential of a well trained workforce in a matter of half-a-generation.

4. Improving the region's small and fragmented capital markets is crucial for Central European companies to be able to meet their needs. Establishing a larger, more liquid and better integrated capital-market hub in our region is more important than the issue of where it will be located.

5. The region would benefit from closer co-operation with Austria and better network connections with the Nordic and Baltic countries. Together, Visegrád countries, Austria and the Nordics can more effectively focus on the dramatic enhancement of the region's global competitiveness and innovation capacity. Intensive cooperation in the format of "V4+" should be applied to areas relevant for ensuring sustainable economic growth (regional infrastructure, investment into R&D, innovation performance, quality of education and job-training).

6. The large volume of EU cohesion funds allocated for Visegrád countries in the period 2014-2020 will provide unique public investment opportunities in the next decade. Closer co-operation in the process of implementation of EU funds, in particular in cross-border transport infrastructure, joint R&D programming and investment in Roma inclusion should be explored. Sharing

of best practices, defining regional performance benchmarks and use of economies of scale would increase the efficiency of allocated funds. Also, the region's governments should aim at initial regulatory convergence, introducing streamlined procedures for issuing permissions, integration of spatial planning and land-lease permission.

7. A fundamental interest of the Czech Republic, Hungary and Slovakia is to address the dire situation of the young and growing Roma population, which will constitute an ever growing share of the labour market entrants. The governments should dramatically increase the quality and access to education, starting with early childhood education, where it is not available. They should introduce active labor market measures to improve market integration of Roma adults through targeted employment services, such as second-chance education and short-cycle vocational training.

II. Confidence and Ambition at the EU Level

1. Central Europe's self-confidence inside the EU has gradually built up over the past 10 years. In particular, the Visegrád Group became a credible format and "trademark" within the EU institutions based on an improved capacity to exert influence on issues of common interest. The region must be better willing and able to pursue them in interaction with other EU partners. Its recent achievements and promising future allow it to move on to the next stage: more active EU policy-making and stronger shaping of the EU's future agenda.

2. Central Europe's trademark in the EU should be its vigorous pursuit of an active competitiveness agenda. Together with the Nordic-Baltic countries (and possibly with the UK), Central Europe could lead efforts in the field of the digital agenda with particular attention given to the support of start-up companies and digital skills.

3. Despite the different level of European integration of our countries, Central Europe is one economic area. This region must not remain a hostage of the euro zone crisis and the new asymmetric geometry it is creating in the EU. Non-members should start approaching the question of euro zone membership from the perspective of the region's own future agenda and the extent to which it would strengthen the region's prospects for stability and growth. The euro zone reconstruction is about creating a zone of stability and macroeconomic security. Austria and Slovakia should consistently consult the region's "pre-ins" on the future governance of the euro zone. Poland, the Czech Republic and Hungary should join all the mechanisms which are open to non-members in order to retain influence.

4. The EU's foreign and security policy must advocate continous robust engagement in the neighbourhood where the EU's influence is the strongest (keeping the EU enlargement to the Balkans on track, fostering the EU's transformative power in the East, and staying engaged with Ukraine, Moldova and Georgia). The Visegrád EU Battlegroup plan should be used as a catalyst for deeper collaboration on other security and defence issues (procurement, cyber-capabilities, training and education), thus leading towards gradual convergence of national strategic cultures and security threat perceptions in the region.

5. Central Europeans should lead calls to make the Commission and the European Parliament more effective and accountable. They should support a stronger role for the European Commission, as a guardian of the Treaties, so as to refrain from spreading intergovernmental methods. At the same time, more involvement of national parliaments into the EU affairs should be pursued. It is high time for Central European countries to present a joint candidate for at least one top EU position which will be open later in 2014. ■

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