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Central European Economies:  
The Future of CENTROPE*

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## Panel Discussion



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Following the second session the workshop ended with a panel discussion that was chaired by *Bernhard Felderer* (Institute for Advanced Studies – IHS). After introducing the discussants he asked them to give their opinions on what measures were and which will be important for the CENTROPE region. Furthermore, the economic and political implications of one of the main findings, namely CENTROPE being an inhomogeneous region, were discussed. How should this be confronted and what opportunities could arise from this conclusion?

*Elena Kohútiková* (Vice Governor of Národná banka Slovenska) found that the most important thing that has changed, speaking for Slovakia, was the way of thinking. Giving the example of a young Slovakian boy that did not know Lenin, she showed how especially the young generation has oriented towards the West and how barriers in minds have been lifted. Such a large mental shift probably has not occurred for the Austrians. The entry to the European Union (EU) in 2004 is the event that has most affected the lives of the people in these regions. And still political decisions like transition periods for free movement of labor and the delay of the liberalization process for services make the accession countries feel that they have not fully arrived in Europe yet. The fears of parts of the Austrian population in this matter are difficult to comprehend for the people in the other CENTROPE regions. One thing that should strengthen the integration process, not only in an economic but especially in a psychological way, is the introduction of the euro in Slovakia.

Furthermore three reforms were proposed to boost integration in the CENTROPE region. First of all, regional integration should be supported by improving the infrastructure and correcting deficiencies of the past in this regard. Second, investment in education and research and development has to increase as

the advantage of low wages will diminish in the future. And last but not least, reforms in the national social and health care systems are inevitable. These measures should confront the most serious problems in order to prevent a deceleration in the integration process in this region within the next ten years.

*Madeleine Mahovsky* (European Commission) emphasized the need to distinguish analytically between Austria and the other CENTROPE regions. For Austria, the crucial issue is to finally eliminate the Iron Curtain persisting in people's minds. While Austrian firms were pretty successful in doing so, as the high foreign direct investments (FDI) into the EU-10 suggest, Austrian employees remain rather anxious, although their fears often seem unjustified. For the other CENTROPE regions the main challenge in the years to come is to aim at macroeconomic stability with a view to adopting the euro. A key priority for these regions is to strengthen further their ability to attract FDI, notwithstanding the fact that the peak in terms of inbound investment is likely to be over and privatizations have largely been realized. Another challenge is the completion of the automotive cluster in Slovakia with a view to fully exploit its economic potential. Such growth poles play a key role regarding the diffusion of technology, which in combination with the related increase in productivity represents an important driving force for income growth. It is crucial to rapidly eliminate the severe shortcomings concerning physical infrastructure, notably transport infrastructure. The matter is truly urgent, in particular for Austria, to prevent firms from settling in or moving to other regions. Yet, it is important to be aware of a potential trade-off between spatial efficiency and equity. More specifically, improvements in the inter-regional transport infrastructure may cause regional inequalities to widen, at least during a transition period.

The European Commission recognizes the special difficulties of border regions, in particular at the former external EU borders. For that reason, it not only welcomes efforts such as the CENTROPE project, which aims at overcoming the cultural, social and economic divide, but also supports them financially via the Structural Funds. To this end, a specific "European Territorial Cooperation" objective has been created for the next Structural Fund programming period 2007–2013 and its financial envelope increased compared to the current "Interreg" community initiative.

*Eugen Antalovsky* (Europaforum Wien) stated that talking about CENTROPE means to look at different levels and fields of activities and decision processes. The Central European Region which is a core part of whole Central Europe needs alertness not only because of the economic framework and dynamic. One must therefore distinguish three levels of action: 1) the level of economy, e.g. the world of business, finance, enterprises, regional and global markets; 2) the level of politics, e.g. the world of European as well as national and regional decision making and steering, of strategies and measures of public authorities and

institutions; 3) the level of civil society, e.g. the world of people, public opinion, multiple life styles, diversity, culture, identity and participation.

Unless economy has its own “rules” these three levels are interdependent. The speed and the quality of integration in Central Europe, and from our point of view especially in CENTROPE, can be accelerated or slowed by strategies and measures in the sphere of politics and society. We know a lot of barriers in CENTROPE which hinder a more dynamic integration process. For example the fear of some parts of the population and politicians of a fully liberalized labor market, or the very heterogeneous systems of spatial and infrastructure planning and financing, or the various approval procedures for international enterprises etc.

On one hand CENTROPE is a symbol for geographical location and an attempt to give a region consisting of parts of four Member States a brand which you can use easily in the public debate. On the other hand CENTROPE is a process to build an integrated Central European Region, this means to win people for an open minded, innovative and prosperous development of their living and working space.

Thus CENTROPE is mainly an instrument and facilitator for

- mobilization of people, experts, politicians and institutions for an effective and efficient way of European Integration in this cross-border region;
- multilateral coordination and cooperation for designing and planning common perspectives and programs in all those projects where cooperation boosts the benefit and diminishes transaction costs;
- strengthening the competitiveness and quality of the region as an Europe-wide and international attractive business location and sustainable living space.

So CENTROPE may help to change some of the persistent mental maps which hinder a modern and fruitful integration in the region.

*Peter Huber* (Austrian Institute of Economic Research – WIFO) pointed out that the understanding of processes in CENTROPE is still very limited due to the lack of data and appropriate models. So there is a lot of work to do in terms of data collection and model development. Next he discussed one of the main findings of this workshop, namely that CENTROPE is not a homogenous region, at least not in an economic sense. This result is disappointing as more progress was expected after fifteen years of integration. On the other hand this should not be surprising as migration and labor mobility are still very restricted and the liberalization of services has been deferred. In response to the allusion that the WIFO had supported transition periods for labor mobility, *Peter Huber* justified his point of view as the concept of transition periods as suggested by the WIFO differs from the one that was actually established.

Although one can be confident that companies will exploit potential cooperation opportunities, as the example of the airports of Vienna and Bratislava shows, there are still unsolved problems. As CENTROPE seems to be for the time being only a political concept it needs to be put on a higher level. That means that the main task for the near future is to operationalize this concept in order to address problems in

transport planning, urban development, etc. more efficiently. This includes the demand for better institutional solutions. In addition, communication should be improved as many delicate issues are not fully discussed. Networking ought to be carried out at every single level. Only if the concept is brought on a more operational basis so that the benefits are visible it will gain wider acceptance.

*Christian Helmenstein* (Federation of Austrian Industries) stressed that integration in the CENTROPE region has been disillusioning so far. The fact that the share of Austrian component suppliers in the Slovakian automotive cluster's value added amounts for only 2% was cited as an example. What could be the reasons for this integration deficit? Among other things, border effects were mentioned. These include language barriers and uncertainty concerning customs clearance that hampers just-in-time supply. Especially small and medium-sized businesses, representing Austria's growth engine, are affected by bureaucracy involved in cross-border trade. As bureaucracy can be considered as fixed costs that are spread over output, primarily small and medium-sized enterprises are handicapped.

Furthermore, one can notice that research and development spillovers have not occurred to the desirable extent. The chances of reciprocal learning that could lead to increased output have not been exploited adequately. Generally speaking, the mobilization of network capital is insufficient. So there is much room left for improvement but what are the strengths of CENTROPE compared to other regions like Basel, Luxembourg or Maastricht-Aachen-Liège. Unlike the mentioned regions, CENTROPE features a high degree of heterogeneity. But this is not necessarily a drawback; in fact this can be considered to be an opportunity. Dynamics arise from differences in factor prices and diversity in human capital that can be observed in the CENTROPE region. This is especially advantageous in times of fast structural changes as we are experiencing them now when a lot of creativity is needed. On the basis of variety and heterogeneity CENTROPE seems to be one of the best suited regions in Europe to face the challenges of globalization.

In conclusion, the panel discussion showed that the high degree of heterogeneity of CENTROPE could be an opportunity for the future development. The main tasks of the CENTROPE project, being coordinating and strengthening integration and competitiveness in this region can be supported by various measures. The improvement of the physical infrastructure, the ease of labor mobility and the introduction of the euro in the remaining CENTROPE regions were mentioned. In this regard major progress could be made within the next five to ten years. In this context CENTROPE can be considered to be a "future region".