

# THE NEW EUROPEAN POLITICAL CYCLE 2019-2024:

Ideas Coming from  
Central Europe



## CREDITS

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# EXECUTIVE SUMMARY

## WHERE ARE WE TODAY AS THE EU?

- ▶ The last decade has been marked by the European Union shifting from economic difficulties to political turmoil, dominated by not just the potential Brexit, but also questions about the *finalité* of the European project.
- ▶ The EU has to get back urgently to its unfinished business: Eurozone, internal market, consensus on migration and strengthening its foreign policy.
- ▶ The migration crisis has emboldened populists, whose criticism has often turned to Euroscepticism. This is especially true in the face of the success of the non-traditional parties whose programmes are often nationalist and anti-establishment.
- ▶ These developments do not affect only few problematic Member States but penetrate to some extent almost all countries of the EU, requiring a new vision, a grand scheme for the EU for the years to come.

## WHERE IS CENTRAL EUROPE TODAY?

- ▶ It is an obvious fact that Central Europe's fortunes stand and fall with the European integration process.
- ▶ Data show that the V4 countries have grown more than the EU on average in terms of GDP, decline of unemployment and the stabilisation of the public finances.
- ▶ There is a risk that in the processes of economic convergence the Central European countries will get stuck in a middle-income trap, namely due to the lack of (mostly national-level) reforms, that could transform them from countries of cheap-labour to high-productivity workforces.
- ▶ At the same time, there is a feeling of divergence at the EU level, whereby the EU is perceived to represent better the needs of post-industrial, postmodern, developed societies rather than

those still in the convergence process. The voice of the region often seems misheard or unheard and there seems to be an institutional distance from the countries of the “new” Europe.

- ▶ Can Central Europe contribute to a big plan for EU reform? What are the foundations of the success of the European Union from the perspective of the V4 countries? Can such a vision gain support in Brussels? The answers are positive and some suggestions are provided in the sections below.

## COMPETITIVENESS. SINGLE MARKET. TRADE. EUROZONE

- ▶ The competitiveness of the European Union is a critical issue that will determine the success or failure of the European project. The Single Market is a pearl in the crown of the integration process.
- ▶ Convergence remains an important task for the European Union, by which the EU's actions should be measured. The cohesion policy is an important tool for bridging the disparities. We need a more holistic approach preventing any tensions arising from imbalances between the economic centre and the peripheries, such as the brain drain and overall outward migration and uneven development of research centres.
- ▶ An EU-wide deployment of digital technologies and digital standards could allow seamless transnational business solutions. Moreover, the next European Commission will have to deal with the regulation of tech giants: companies who – through innovation and economies of scale – were able to secure a prominent position in the rapidly growing digital market. Support for start-ups is important as well as improvement of the business environment that would help small and medium enterprises to thrive.

- ▶ The new budget of the European Union needs to represent a much wider set of goals and values compared with the past in order to address the specific blind spots that were ignored in the recent

crises, such as the impacts of migration. Countries facing a disproportionate burden due to external factors need to be assisted more through EU-level expenditures. At the same time, contrary to some more radical views calling for a drastic reform of the EU budget, the merits of “old” items remain strong. The cohesion policy is key in supporting the convergence process.

► There is a need for substantial progress towards a true financial, economic, fiscal and political union. The Eurozone needs macroeconomic mechanisms, a completed banking union, and a capital market union. Such steps should be supported and embraced by the Central European countries, since the health of the common currency is of crucial importance to the whole European Union.

► Non-eurozone countries should consider their membership in the single currency area. This would benefit their economies, make them more resilient, help strengthen the influence of the entire V4 region in eurozone governance, which also needs to become more transparent, rules based and open to future entrants.

► There is a risk that existing gaps in the EU will be further strengthened by the division between the Eurozone countries and the rest of EU. Further integration of the euro area countries may fuel Euroscepticism in non-euro countries.

#### Some quick ideas for the new political cycle:

- Complete the Single Market to enhance Europe’s global competitiveness (with a special focus on services); safeguard the level-playing field;
  - The European Commission should make better use of regulations to legislate and discipline in the area of four freedoms; transposition of directives to national laws should be better enforced.
  - Remaining barriers to free movement of people and workers should be removed.
  - Digital package implementation and services should be given more priority.

- We should aim to make the euro become a leading global currency.

- Keep the sizeable cohesion policy item as a main EU convergence mechanism and safeguard against “geography of discontent” (multi-speed development with some communities at local or regional levels lagging behind).

- Address the existing disparities in research by adding a geographical balance criterion (on top of excellence) to the Horizon 2020 Programme.

- Create a truly competitive and innovative European industrial base, with special guarantees for the inclusion of Central European companies. There should be support for the sharing of technologies with innovative companies from Central Europe to have them onboard in the process.

#### ENERGY

► The climate change agenda has become part of the EU mainstream. Questions about energy efficiency, CO2 emissions, and the circular economy are important to all Europeans. The EU has already made great strides towards this model, with the adoption of the climate change package and Paris Treaty. However, the challenge remains to increase the attractiveness of these approaches in the EU peripheries. As the costs of many technologies are going down (nuclear, solar panels, electric vehicles and e-bikes, wind turbines), there is a place for the EU to use – in a technologically neutral manner – reasonable research and development policies and regulation policies to create incentives for their deployment on a larger scale.

► Climate change and decarbonisation policies should not be perceived as a threat but opportunity. The potential benefits of the transition far outweigh the initial costs. National governments need to establish an informed and balanced national energy strategy for investment in the areas of clean technology.

#### Some quick ideas for the new political cycle:

- Explore fully the potential of a socially sustainable transition to a low carbon economy.
- Respect principles of technological neutrality when setting energy goals.

#### SOCIAL EUROPE AND CIVIC EUROPE

► The social *acquis communautaire* provides basic social rights while preserving a level-playing field for companies competing in the Single Market. Minimum standards adopted at EU level should not limit these Member States who want to pursue more ambitious goals.

► Any future modifications of the labour laws need to be preceded by a thorough impact assessment analysis of the needs of all the national labour markets. A balance must be struck between entitlements and social rights on one hand and free unhindered competition in the Single Market, reflecting the different levels of productivity and prosperity in various regions of the European Union.

► Technological transformation challenges job security and the nature of work demanded by the market. Finding a balanced solution to this transformation requires incorporating ways to capitalise on the opportunities provided by the Industry 4.0 revolution, yet at the same time protecting those who find it hard to adapt to the new environment. There will need to be proper guidelines for the Member States in terms of the changes to the education *curricula* for high schools and universities. In addition, there needs to be better training for digital skills of existing employees in order for them to enjoy the full benefits of a digitalised society. The EU should provide a platform for the dissemination of successful national projects at the wider EU level.

#### Some quick ideas for the new political cycle:

- There needs to be an easier and more transparent coordination of social security systems (and particularly pensions) in the era of migrating workforces to ensure no loss of social and employment benefits.

- We need more Pan-European media – hence the idea of Newsroom Europe: a body of reporters from local and regional outlets in the EU to independently report stories about Europe that their local outlets would cover.

- Participatory budget could be created – a small part of the EU budget could be allocated by peoples’ preference. One of the measures could be referred to public consultation, as in the case of daylight-savings time, from which it could claim the mandate.

- In the area of public health – the EU should adopt a community-wide plan to fight civilizational diseases (such as cancer or cardiovascular diseases), funded from the EU budget, creating platform for exchange of national-level practices.

- Reconnect with citizens of the EU:
  - Every EU citizen who turns 18 should be eligible for a one-time Pan-European 2-week rail pass.
  - Programmes Erasmus+ for young people should be expanded.
  - There should be a counterpart of Erasmus for elderly Europeans.

#### GLOBAL EUROPE

► The last decade has brought considerable deterioration to the foreign policy climate of the EU. The invasion of Ukraine and the general deceleration of reforms in Eastern Europe have made it clear that further eastward enlargement might be decades away. Since the challenges of the migration crisis as well as instability

in the countries of the Northern Africa, the focus of the EU has been on maritime security, human development and the geographical areas of the Black Sea Region, Middle East and the Balkans.

- ▶ Central Europe needs to successfully participate in foreign policy initiatives and become an active and respected leader in this area. Besides the common position of the EU towards Russia, there needs to be bigger solidarity and engagement in “non-traditionally Central European” areas of foreign policy.
- ▶ In the world of the new emerging global challenges, Central Europe should support a stronger EU presence and status in the international fora and organisations.

#### Some quick ideas for the new political cycle:

- Make the foreign policy of the EU more uniform, more coordinated and more muscular/resourceful.
- Develop and offer new platforms of cooperation, more realistic objectives for countries of the EU neighbourhood – new of forms status between association and membership.
- In the area of transatlantic relations, a partnership for culture and innovation should be established: a series of cultural festivals bringing young people from Europe and the U.S. together around music, innovation, and shared interests.

#### SECURE EUROPE

- ▶ The Schengen System is key to the success of the European project. This is especially true for the region of the Central Europe that has benefitted so much from the establishment and functioning of the Schengen area. Therefore, Central Europe needs to play its part in showing sufficient solidarity with Member States suffering from migratory pressure.
- ▶ The Common Security and Defence Policy has recently been given a boost through establishment

of permanent structured cooperation mechanism (PESCO), which Central European countries rightly decided to join.

- ▶ Europe should make a bigger push for enhanced strategic solidarity. The differences in threat perception between the Eastern and Western flanks of the EU are clear, but not necessarily fatal for a single European defence policy.

#### Some quick ideas for the new political cycle:

- To counter the wave of disinformation and populism – enhance the EU’s ability to act as a “democratic watchdog”; the Disinformation Index<sup>1</sup> could be established.
- Reform Schengen so that free movement of EU citizens is not compromised through arbitrary decisions of governments to impose border checks or barriers to movement – a mechanism for assessment of the intentions of Member States to set up a temporary internal borders control should be established.
- Address the problem of immigration without heavy-handed approaches – Member States should be free to decide among the options proposed by the Commission: relocation of asylum-seekers, contribution to the special third countries development fund or committing resources like staff or equipment, in order to assist the Member States in need.
- Make the best use of transformative power of enlargement policy and “more for more” principle of neighbourhood policy through the deep integration of the relevant EEAS and EC instruments and resources.
- A European counterpart to the U.S.’s Defense Advanced Research Projects Agency (DARPA) could be established through an upgrade to the European Defence Agency (EDA). There should be a permanent incorporation of the research and strategic tools available for the purposes of the Agency. There should be a format for cooperation between the EDA and NATO on the permanent basis.

#### INSTITUTIONAL REFORM

- ▶ A strong European Union can only be built upon strong Member States acting hand in hand with the European institutions whose mandate is clear.
- ▶ The rule of law procedures, initiated by the European Commission, and arbitrated by the European Court of Justice, are a useful tool to make all Member States adhere to the common values and principles – provided they do not act arbitrarily, and are not politically motivated.
- ▶ Effective fight against corruption, efficient management of EU funds, accountable public administration, fair public procurement, independent and efficient judiciary – these are all elements constituting the legitimacy of the European project and there should be no compromising on these issues.

#### Some quick ideas for the new political cycle:

- The European Parliament should have one seat.
- Restore democratic balance among the three key EU institutions and make them closer to the Europeans
  - Keep the European Commission political ambition compatible with the principles of impartiality and objectivity as mandated by Treaties,
  - Strengthen the role of the Council in the process of legislative planning and implementation of Strategic Agenda approved by the European Council
  - Strengthen transparency of the European institutions’ decision making process,
- Improve crisis management of the European Union and strengthen capacity of the Member States to address crises and challenges together. ●

# INTRODUCTION

The European Union is at the threshold of a new era. The European elections of 2019 are more important than ever as they will settle the political trends for years to come. The new European Commission, along with the European Parliament and the Council, will have a lot of work: managing a new relationship of the EU with the UK, strengthening the eurozone, deepening the Single Market, addressing various threats ranging from cyber to immigration, increasingly focusing on trade deals, and the development of a social pillar – to name just a few.

The most interesting developments, however, are of more profound nature. The political climate in the capitals has been markedly different from the time when last elections were held in 2014. France and Germany are more in line than ever before in recent decades. The UK is drifting away, deprived of a clear plan about future relationship with Europe. The negotiations, which have preoccupied the energy and time of the EU and its key institutions could have been directed much more constructively, to address the issues hurting the different EU countries. The results of this lack of attention directed to other crucial social and political issues might not be too obvious at this moment, especially in the light of the (almost surprising) EU unity during the Brexit negotiations. Other developments within the EU, like the protests in France, may have received more attention to tackle the underlying issues. Similarly, at the same time there are developments in countries like Italy, Hungary, Poland or the Netherlands where Euroscepticism seems to be on the rise. Central Europe in general faces its own challenges and opportunities. The Visegrad Four (V4) grouping (Poland, Hungary, Czechia, and Slovakia) seems to have lost some of its luster, especially when observed from outside, and is looking for a new *raison d'être*.

The economic crisis uncovered structural weaknesses resulting in societal and political crises in many countries that used to be stable and reliable members of the EU and eurozone.

The proverbial last straw was Brexit, which has left many people unsure about the right reaction of the EU to the challenges. To make matters tougher, besides internal political struggles, the EU started feeling the pressure of external entrepreneurial giants, namely in the technological sector. This situation pushed many leaders in the EU to call for a “Europe that protects”, in more than one sense of the word. It is not hard to understand, and perhaps for a moment sympathise, with these sentiments. Partially, they need to be heard, in the form of the strengthening of Europe’s defence capacities and institutions to solve crises in its direct neighbourhood. This may even need to be extended into outright support for democratic values and a counteroffensive against the cybersecurity threats in form of disinformation and the spread of Russian propaganda.

Ever since the crisis of 2008, the European project might be ready for new initiatives. Why is the time right for reform now? First, the stirring amidst political systems shows clearly that societies are impatient for change. Some citizens are rejecting nationalist politics, some are embracing it more than ever. Traditional political parties and movements are undergoing changes while new civic initiatives spring up. It will soon be clear whether the nationalist movements begin to lose their popularity, or we are entering a new era of neo-nationalist politics.

Second, the fear that Brexit and the new policy vision in the United States would prompt the disintegration of the European project did not materialize. To the contrary, the Brexit process triggered calls for serious reforms to make the Union stronger. The Brexit agenda has shown clearly to the remaining Member States that the alternative to membership is not easy to find and fraught with its own uncertainties and dangers.

Third, the state of economy in the EU is improving and bouncing back from years of economic austerity. More people are employed, and the GDP growth of the EU has been continuous and stable.

Some people – by contrast – argue that it is not the time for grand visions, that now is the time for consolidation and patient work on, say, the mechanisms of the eurozone.

The debates on eurozone, social pillar, defence union, and multiannual financial framework post 2020, among others, will re-commence in the coming months. Inevitably, the changes will create some type of multispeed Europe. Membership (different overlapping circles of participation in Schengen, euro, the Common Security and Defence Policy (CSDP) and other areas) and non-membership cooperation (association, customs union, single market, free trade) will come in a growing number of variations.

The purpose of this report revolves around the idea that Central Europe<sup>2</sup> should be among the group of countries who decide the future of the EU. Globsec’s headquarters – Bratislava, Slovakia – is a good place to initiate the discussion on the future of Europe as seen from Central Europe. Some voices in Europe suggest that the EU is suffering from an East-West division. Regardless of the merit of this claim, the best way to avoid the narrow-mindedness and regional particularisms is to come forward with the intellectual input to the European debate.

Can there be a Central European vision, grand scheme, or big plan for the EU in the years to come? Would it be constructive and holistic enough to deserve attention and recognition in Brussels? What could be Central European priorities for the new Commission? What are the region’s red lines and flagship initiatives? The report tries to provide some food for thought. ●

# EUROPE TODAY AS SEEN FROM CENTRAL EUROPE – FROM BREXIT MALAISE TO EAST-WEST DIVIDE

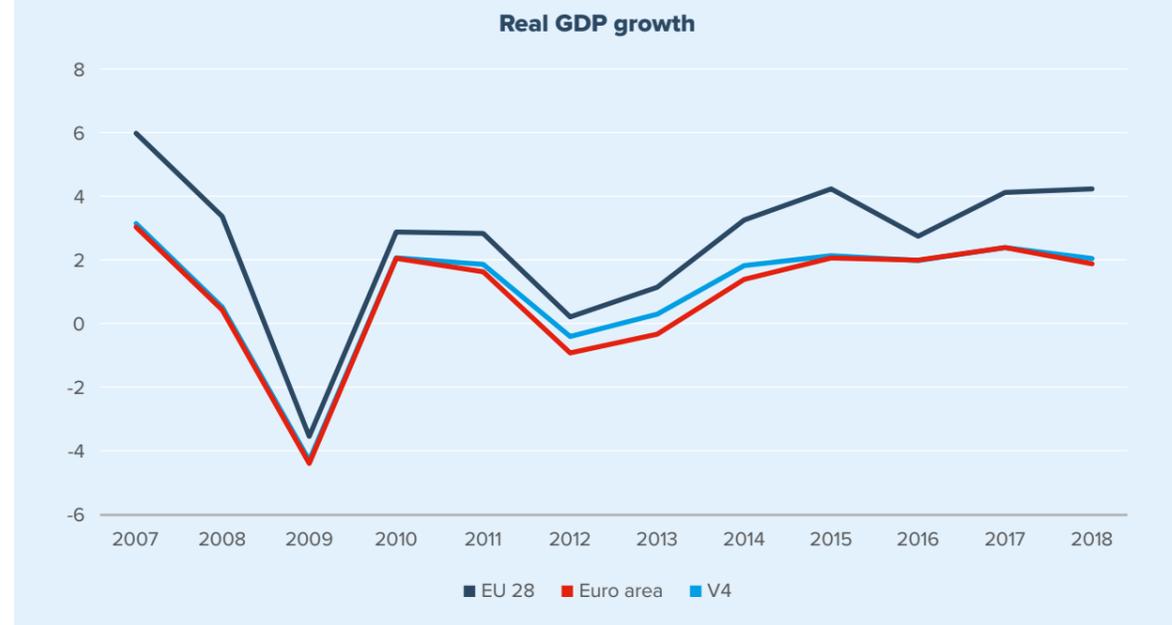
What is the state of the Union A.D. in 2019 compared to the beginning of the previous political cycle of 2014? How does the region of Central Europe compare to the EU28?

In 2019, the European Union finds itself in a political rather than the economic struggle that defined the early 2010s. The EU and eurozone have now grown for 23 consecutive quarters (from Q3 2013 till Q1 2019). Economic growth is set to continue in 2019 and 2020. The growth streak for the V4 region as a whole is even longer, dating all the way back to 2010. Even currently the V4 region's GDP growth outperforms the EU and eurozone countries by over 2 percentage points, as shown in Figure 1.

The number of people in employment has reached the highest level ever recorded (239.9 million). The unemployment rate in the EU28, at 6.5% in January 2019, was at its lowest since the start of the EU monthly unemployment series in January 2000. The youth unemployment rate decreased from a peak of 24% in January 2013 to 14.9% in January 2019 in the EU28.

Figure 2 shows the development of overall unemployment where the V4 countries have had, on average, a much better recovery from the worst effects of the recession, which were visible by 2010. Since 2013, the rate of decline of unemployment was much steeper than in the eurozone countries

Figure 1: Real GDP growth rate (percentage of change from previous year)



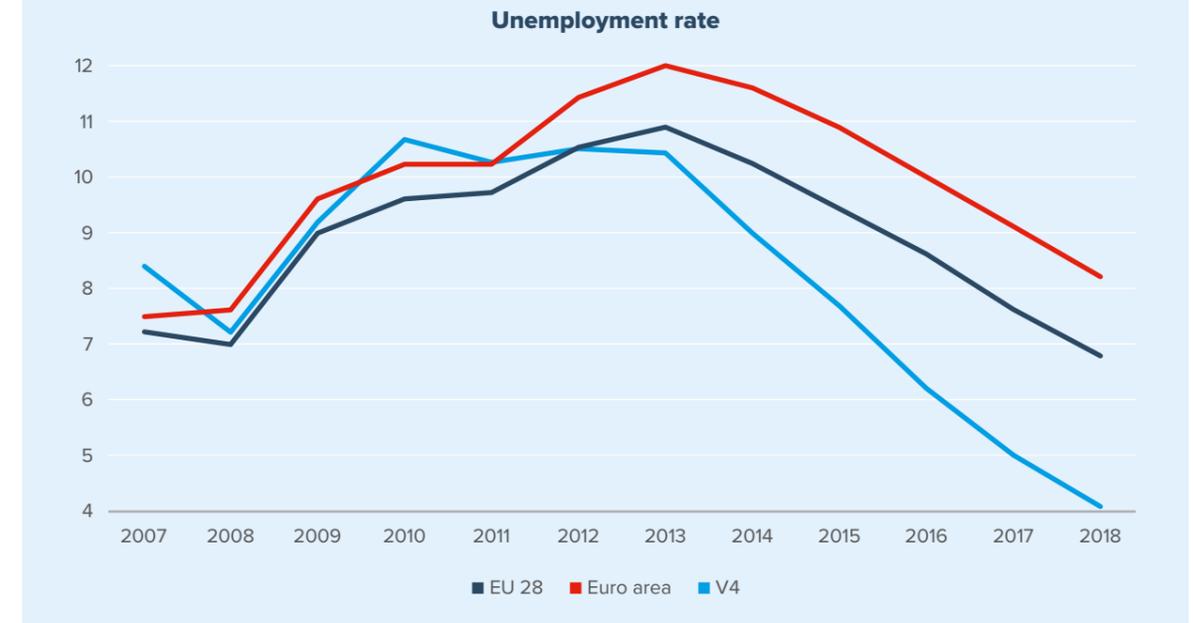
Source: Eurostat

or the EU as a whole. In fact, in the countries of the V4 region, the level of unemployment has reached a situation where no further decline can be expected and there is an active lack of both qualified and unqualified workers, which then needs to be substituted by automation or importing migrant workers from both inside and outside of the European Union. This situation presents the V4 region with two key challenges, both of which have been continually, and one may say intentionally, avoided by the authorities in the region: education reform and migration.

The biggest adjustments have been achieved in Slovakia and Hungary, which had experienced severe increases of the debt to GDP ratio due to the result of the economic recession after 2008.

If one looks at the current levels of GDP growth, the previous era of wild disparities in GDP growth between countries have narrowed and there is, since 2015, a clear convergence of GDP growth across the EU. For example, the difference between the country with the second highest GDP growth (Poland) and the lowest (Italy)

Figure 2: Unemployment rate (percentage of active population)



Source: Eurostat

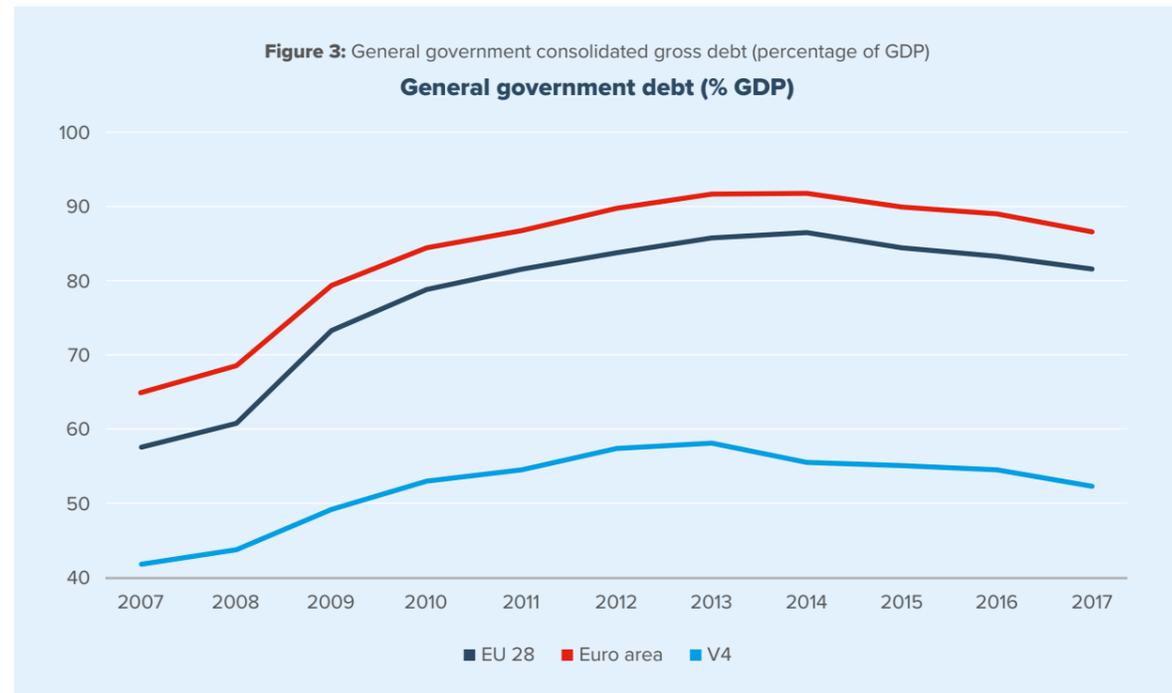
Investment is picking up, filling the gap left by the crisis years. For the first time since 2007, investment is set to rise in all EU countries in 2019. Europe's public finances are increasingly sound, the public deficit in the euro area decreased from 6.2% in 2009 to an expected 0.6% in 2018. Only Spain remains under the corrective arm of the Stability and Growth Pact, down from 24 Member States in 2011 after the financial crisis. The use of flexibility within the rules of the Stability and Growth Pact helped. Government debt still decreased by 7 percentage points over 2015-2018. In this aspect the V4 also performs above the levels of the overall EU 28 or the eurozone countries' average.

is only 4.2 percentage points, where just in 2013, the excesses of individual countries made these margins considerably wider<sup>3</sup>.

All these statistics put into perspective on one hand the economic health of the V4 region, but also the potential for vulnerability, should the underlying causes for the economic growth and competitiveness disappear or significantly weaken. It is quite clear, especially from the unemployment statistics, but also from Figure 3 below, that the potential for growth based on the model of cheap assembly will end for two main reasons: growing labour costs and actual lack of workers to fill

the positions. Future development needs to be based on upskilling the workforce and providing employers qualified infrastructure suitable for the needs of Industry 4.0.

There is a thin line between diversity (a positive, enriching aspect of Europe) and divergence (negative phenomenon whereby societies grow apart). The East-West divide is a concept that



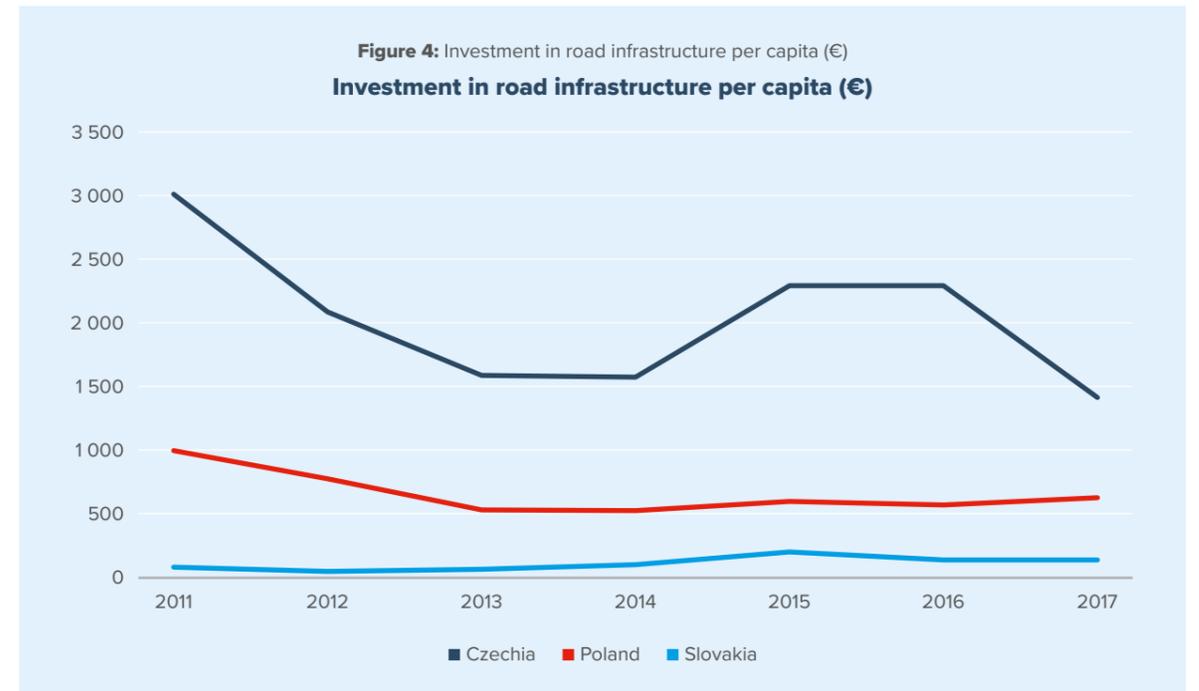
Source: Eurostat

The British referendum conducted in the middle of the European Parliamentary cycle, in summer 2016, came as a shock to many Europeans. It proved, if any proof was needed, that the “ever closer union” is not the default scenario for the European continent anymore. European integration can easily turn into disintegration, for some or even all members. Many people, not only eurocrats or commentators, but also citizens, realized how vulnerable and fragile the European project is. Even if the UK was always an outlier, wayward half-hearted member of the club, the popular sentiments of weariness with Brussels, considered to be distant and aloof, were not limited to one country. It was a wake-up call for many pro-Europeans. At the same time the competent, cool-headed, rational way the negotiations with the UK were conducted on the EU side made it plain to see that the benefits of multilateralism and shared sovereignty are not a theoretical concept but give the EU formidable clout and a degree of moral authority.

emerged only recently adding to the existing worries about persisting divisions on the North-South axis. Economic and social indicators of Central and Western European countries have been converging over the last two decades. The catch-up process was buoyed by regional funds financing investments in infrastructure. The amounts of the investment in road infrastructure per capita for Poland, Czech Republic and Slovakia are shown in the next table.

Politically however a new trend could be detected with the V4 countries (with a notable exception of Slovakia) taking a Eurosceptic turn. Opposition to the flawed plan of the European Commission to relocate asylum seekers was a favorite *casus belli* for some political leaders at the time of national elections.

Reasons for such developments are multiple. The systemic turbulence of transition from communism to democracy has been greater than



Source: Eurostat

anybody predicted. Societies took a serious knock on several levels: economic, political, social and even cultural. While big cities westernized quickly, provinces were often forgotten in the neoliberal push of the 1990s to simply deregulate economies and adopt EU standards wherever possible. In the Schengen free-movement reality, people travel and thus can see prosperity and wealth in other EU countries, and consequently turn sour towards their own political establishments – how many more years will they be catching up and working longer hours than Western European peers? The inconvenient truth is that decades of communist misrule will take at least two generations to overcome – in order to reach Western European levels (these of Germany or Sweden, say) of prosperity, Central Europeans will need to work 30-40 more years. People get impatient and look for leaders who offer shortcuts – a quick way to mend broken public policies, secure rapid economic growth and ‘restore dignity’. This last psychological factor plays an important role – people understand dignity as the freedom to choose other role models and standards which came with the process of Europeanisation.

Moreover, for Easterners to be an eternal pupil or junior sibling in relation to Westerners (adopting

policies, laws or good practices while driving a second-hand car imported from Germany) is a psychologically demanding position – especially if your attitude towards, say, the death penalty did not evolve through decades of prosperous existence in the democratic environment but is rather an imposition through *acquis communautaire*, acceptance of which was a precondition for EU membership.

Putting perceptions aside, there are genuine concerns about double standards in the EU with regards to old and new Member States. Companies really do sell lower-quality products in the eastern parts of the EU. This has been condemned by the President of the European Commission Jean-Claude Juncker who criticized double-standards of food quality.<sup>4</sup> There should be further examination as to what barriers exist to access more “peripheral” national markets mainly located in the Central Europe. There are some famous exceptions, like in the banking system, where in the V4 countries the small (not Poland) markets serve as good testing laboratories. However, in terms of the development of benefits of more digitalized services penetrating commerce as well as production services in the West have often infrastructural or possibly other

barriers to easily enter the markets in the V4 countries. The European Union has already taken some active steps, such as rules to eliminate geo-blocking in e-commerce or enabling the transborder transfer of digital services<sup>5</sup>.

Some decisions at the EU level reflect the needs of post-industrial, postmodern, developed societies in the West and fail to fully consider divergent starting points of Member States and socio-economic convergence. At the same time, Central Europe is far from unified on many policies, so it is difficult to make sweeping generalizations (think of climate change packages, social legislation or migration policies where Slovakia and the Czech Republic have often different approaches than Hungary and Poland). Central Europe's voice (as V4 or single countries) is often misheard or goes unheard. The region is underrepresented (partly through its own neglect) in institutions like the European External Action Service while the headquarters of EU institutions are mostly located in Western Europe.

Objectively speaking there is no doubt that Central European countries often must address many dilemmas. Economies are running the risk of getting stuck in the middle-income trap. Public policies (health, education, vocational training) are still lagging behind the standards of the OECD member countries. The structure of the region's economy is still based on low productivity, cheap labour, and catch-up development. Convergence with the EU is not as fast as many – naively – thought it would be.

It is an obvious fact that Central Europe's fortunes stand and fall with the European integration process. Broadly speaking, the region has the following priorities:

- ▶ In the area of geopolitics – to secure its position in the broadly defined West.
- ▶ In the area of economic growth – to secure prosperity via vital economic interests (through ties with the center of Europe, esp. Germany).
- ▶ In the area of political cooperation – strengthen political ties within the region and beyond.

If current trends continue, the implementation of all the three priorities mentioned above can become problematic as the region itself is growing more diverse and less uniform in relation to such policies as a social pillar of the EU.

In short, Central Europe, in several contexts has found itself on the periphery of the European Union, its voice becoming less audible, usually associated with a negative agenda. This trend might continue, given the wider developments in the EU. Having taken note of the Central European specificities it is now time to turn towards proposals of EU reform in a few key areas: competitiveness, Global Europe, social policy, security and defense and institutional matters. In the following chapters we turn to specific areas of EU policy, in order to shed some light on the challenges ahead and ways to address the current shortcomings. ●

## COMPETITIVENESS AGENDA



The key questions for the new political cycle are: What kind of budget does the EU need? What is needed to stimulate economic growth, stabilize the eurozone and make it resistant to possible crises in the future? What are the consequences for the entire EU of eurozone reform? How can EU policies, EU expenditures and EU regulations create momentum for national-level economic reform?

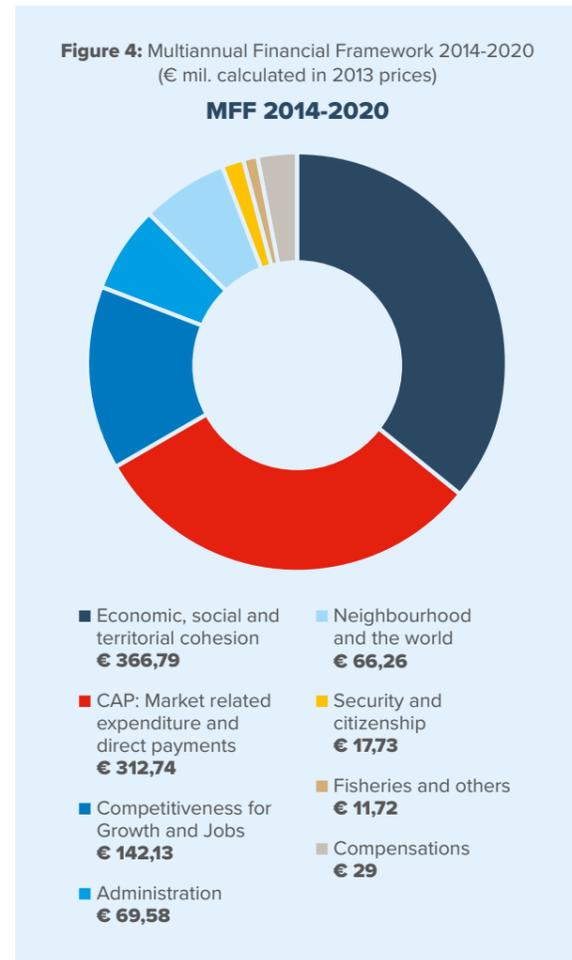
All economies of Central Europe are seeking a new path of development that is not based on cheap labour. Innovation and new technologies offer a more sustainable model whose creation, however, takes several decades to develop and begins with extensive investments in research and development, education and training as well as social protection policies.

**BUDGET**

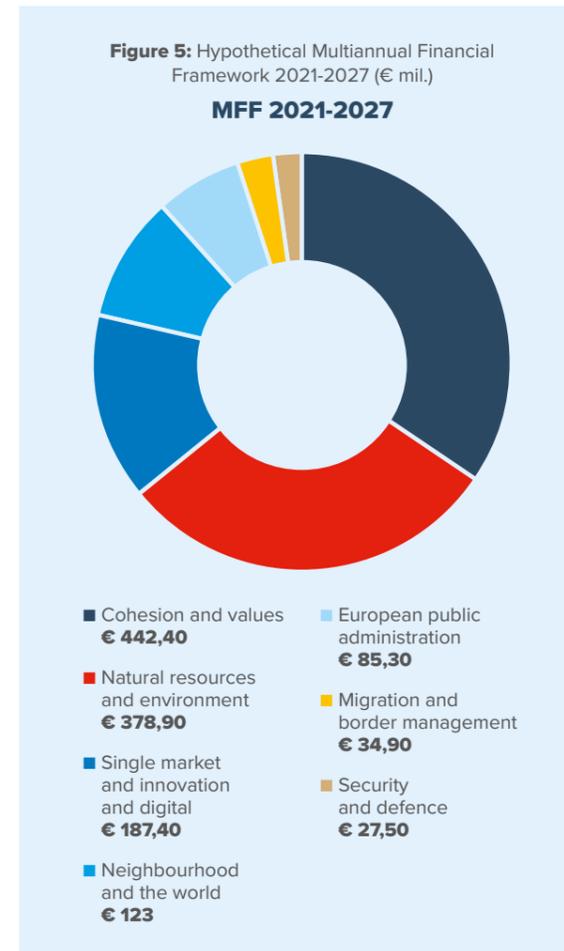
Budgets of the European Union are formed by a process of bargaining between different countries representing different perspectives. The process begins by a draft proposal coming from the European Commission. In the past, when previous financial frameworks were negotiated, one of the division lines was net payers versus net beneficiaries of the budget. There was a narrow logic of *juste retour* making Member States focus on “their” balance of payments. With the looming Brexit that will leave a hole in the finances available for the new EU budgetary framework, there will be a bigger battle for the prioritisation of the available funds although the EU has worked in measures to cover parts of the missing resources from the CO2 emissions-allowance trading system and through gradual elimination of rebates.

The Figures 4 and 5 show a comparison between the current and a hypothetical future Multiannual Financial Framework (MFF, based on the current proposal of the Commission). In terms of the percentage growth of different parts of the EU budget, we can see that the Cohesion part dropped very slightly (from 36.1% to 35.34%), and the Common Agricultural Policy (CAP) budget remained virtually the same (30.78% to 30.27%), while the Single Market chapter saw an increase of 1 percentage point (from 13.99 to 14.97). The biggest increase was recorded by the chapter of Neighbourhood

policy (from 6.52% to 9.83%). Lastly, the budget for migration and border management currently occupies 2.79% (from previous 1.74%) and the European administration kept the same proportion as previously (from 6.85% to 6.81%).



It is promising that the EU proposes a 50% increase in the resources for innovation and research. Overall, the next EU budget should focus increasingly on the transition of the European economy toward the Industry 4.0 policies. This includes the digital infrastructure, internet of things and cross border standards. Massive regional disparities in the EU can be prevented through EU-level expenditure enabling representatives of regions (be them research institutions – e.g. using the funds of Horizon 2020, local governments or non-governmental organizations) lagging behind to bridge the gap between EU peripheries and the centre.



EU investments are needed in the areas of digital and physical infrastructure networks to support the transformation in the areas of energy, transportation and environment. Similarly, another new spending priority seems to be the protection of external borders and migration and asylum policy, with a proposed budget of about €33 billion, with an addition of the 40% increase in the budget for the security policy to create a defence fund for a research in the military technologies and defence capabilities.<sup>6</sup>

The challenge to replace imported fossil fuels and decrease dependency from geopolitically instable regions and bring growth and jobs to the European economy is a long-standing one, but nowhere it is more important than in Central Europe. It is a welcome development that EU funding to this end will be available (25% earmarking for climate change in the new EU budget).

All the mentioned proposed incremental reforms should be welcomed. At the same time, contrary to some more radical views calling for a drastic reform of the EU budget, the merits of “old” items remain strong. The cohesion policy is key in supporting the convergence process (when it is not misappropriated through corruption or incompetence – a pathology that demands attention of EU officials as well concerned governments). While often criticised, the Common Agricultural Policy also provides considerable financial support to the countries in the new as well as the old EU.

The new EU budget should represent the wider goals and values of the EU, as defined in the EU Treaty. This would help the EU institutions to exert authority and achieve greater transparency and defence for the rule of law, which is currently questioned in numerous countries. The EU budget should be able to assist the countries in need for example by addressing the main blind spots that the recent crises, such as the migration crisis have brought to the front. Countries that find themselves facing the disproportionate burden as a result of an external crisis, need to be compensated to help them overcome the crisis. This includes the institution building, by supporting Frontex and building the capacities of the European External Action Service.

To sum up, the EU should have a budget that reflects the ambition of its citizens. There is no clash between EU28 perspective and the one which is more regional, represented by Central European countries. Overall, the priorities of the EU can be summed up as competitiveness, cohesion and security. Translated into policy terms this means: completion of the single market, migration and border management and cohesion funds to ensure competitiveness, promote stability and ensure that no region of Europe is left behind, fuelling possible resentment.

**EUROZONE**

As regards the eurozone, there are four key challenges the bloc is facing: the lack of economic convergence; persistent financial instability; high private and public debt levels; institutional dysfunction. Everybody knows what is needed: substantial progress on the path to a genuine

financial union, economic and fiscal union and political union. What does it mean exactly?

First, there is the financial union – banking union and capital market union, including a common deposit insurance and a fiscal backstop for bank resolutions. To make sure that banking crises are less likely in the future. To ensure that the link between banking crises and sovereign debt crises is broken. And to help single Member States' economies to recover more quickly after a banking crisis, when one still happens.

Second, there is an economic and fiscal union, which is needed as the economic disparities, low growth and investment levels as well insufficient risk-sharing mechanisms endanger the stability of the common currency area. Some ideas include:

- ▶ further tightening of the macroeconomic imbalance procedure/further tools for coordinating national economic policy making.
- ▶ improving budgetary surveillance (European Semester) by the European Commission.
- ▶ providing the national budgets more breathing space in times of crisis and helping to emerge from crisis faster and stronger: e.g. European Unemployment Insurance Scheme, Investment Protection Scheme or – the most ambitious one – a separate eurozone budget (its function would go beyond mitigation of economic shocks).
- ▶ If policy makers opt for a separate euro-area budget, a question would be which function this budget really should aim at: Is it supposed to help

adjustment in the case of asymmetric shocks (stabilization function)? It is supposed to prevent macroeconomic imbalances? Is it supposed to help sustain a certain level of investment and income convergence in times when national budgets are constrained by austerity?

Third and last, a political union could emerge from the reforms of the eurozone governance structure. Euro Area Treasury, European Monetary Fund, permanent chair of the Eurogroup, separate parliamentary body for the Eurozone – these are potential elements of such a new governance structure.

Substantial progress towards a genuine financial, economic and fiscal, and political union is necessary. The eurozone reforms to be introduced should include macroeconomic mechanisms, stronger banking union, capital market union and a well-conceptualised and realised stability fund. All these above-mentioned reforms should be supported by Central European countries, regardless of their status regarding the eurozone itself. General health of the euro currency and the resilience to crises is of critical importance to all of the EU.

After Brexit, the EU will be divided into 84 percent of the EU economy (eurozone) and the rest. Enhanced cooperation on these issues within the Eurozone risks deepening the real or perceived rift between the EU's West and East, possibly fueling the Eurosceptic backlash at the EU periphery. The EU budget will shrink anyway due to Brexit, leaving the current net-beneficiaries in a comparatively unfavorable position. Non-euro countries of the V4 might further slide towards the EU periphery.

Some experts in the region worry that any future Eurozone set-up will more strongly reflect the positions of continental Western Europe rather than the interests of the countries like Slovakia, which is not only less developed but also has a different structure of economy. Germany and France have been more aligned – in opposition to the more 'liberal' UK or CEE countries – when it comes to social policy, taxation, services, liberalization, capital markets union, tax harmonization, energy market liberalization (although recent tensions in the Western European countries like the yellow vests movement in France attest that the aforementioned view might be a simplification).

Central European non-euro countries should reconsider their membership in the eurozone. For this to happen national-level reforms need to be adopted ranging from labour market through pensions, early education, vocational training to research and development. Central Europe's interest is that the eurozone governance model is transparent, rules-based and open to future entrants. Central Europe would suffer if arbitrary rules applied instead of an accountable and objective oversight system of the eurozone. As members of the eurozone, Slovakia, Estonia, Latvia, Lithuania and Slovenia should share their experiences and help Hungary, the Czech Republic, Poland, Romania, Bulgaria and Croatia when they are ready and willing to join. One idea worth considering would be to create an observer status in the eurozone, in order to build trust and transparency.

### SINGLE MARKET

The Single Market is the pearl in the crown of European integration. It should never be taken for granted as the balance of a sufficient level of regulation, administrative practices and national interests is very delicate and difficult to sustain. The perennial challenge is to preserve the light touch approach, based on the principle of subsidiarity, whereby EU-wide standards are introduced when they are necessary. Administrative barriers at the national level need to be systematically tracked down, identified and eliminated.

It is important that the European Commission (with help from the European Court of Justice) remains

the objective guardian of the treaties and law-enforcing entity so that the Single Market is a level-playing field.

Fragmentation of the Single Market continues to be a challenge. Barriers to e-commerce are widespread and calls for harmonisation of laws on sales, consumer protection and intellectual property rights. The progress in these areas has been inconsistent in recent years. The same applies to the services market which remains incomplete as regards construction and transport, telecoms and business services. Barriers to the free movement of people (and workers in particular) also need to be removed.

One *cliché* phrase that has been repeated very often was the completion of the Single Market. While the challenges to complete this task remain for a longer time, the issue of a digital union has come to the fore in the last years mainly due to the impact that lagging action in this area could have on the EU's competitiveness in the near future. This is why the European Union published a Roadmap for completing the Digital Single Market. This initiative needs to continue to the point of completion along the lines of other initiatives, including the Energy Union and the completed Union in services.

All of these goals of the EU will require a more efficient approach from the Commission, whereby transposition of directives is improved and speeded up.<sup>7</sup>

One of the challenges that the next European Commission will have to deal with is the regulation of tech giants – companies who – through innovation and economies of scale – were able to secure a prominent position in the rapidly growing digital market.

The crucial economic debates in the new political cycle would be a discussion concerning industrial policy in relation to the Single Market. Should the EU support creation of EU global champions that would compete globally with Chinese and US companies? If yes, what consequences would such a policy have for internal competition in the Single Market?

It is very tempting to extend the protective drive to European business facing global competition



from technological giants from US and China. The businesses in Europe have no means to compete with the capacities at disposal of these giants and as a response there is a temptation for an industrial policy that would enable a creation of such giants in Europe. This could trample upon the core principles of free competition that have made Europe prosperous in the first place and create protected businesses leading to potential inefficiencies and corrupt practices associated with the government sponsored actors. It is the competition and constant improvement it forces that will make the EU's companies succeed.

Some challenges are especially acute in the EU peripheries – brain drain and general high levels of outward migration, suppression of research centres who are not able to compete with the most established, well-financed entities. There is a need for smart specialisation as small or peripheral countries cannot compete and be successful in all areas. That is why the EU should promote a fair distribution of resources and initiatives to reflect better diversity and improve the representation of research centres from Eastern or Southern Member States.

An issue of growing importance is so called “fair taxation”. Some entities use loopholes in the Single Market tax rules to avoid contributing to the tax system where their activity is reduced by artificially moving their domicile. Taxation of economic activities without physical presence (all major technological platforms are located outside the EU but generate profits in the EU and are hardly taxed). The EU and its national regulatory environment will need to respond to a shift from taxing labour (Central Europe is heavily dependent on this kind of income) to other types of taxes – this might provide a solution both to climate change by taxing environmental damage more and population ageing by taxing labour less.

Great importance should be attached to developing infrastructure in the EU especially on the North-South axis. Building transportation routes along the EU's Eastern border and making connections between the Baltic, Adriatic and Black Seas regions is a great chance for our countries. Energy security is another priority – North-South gas corridor,

nuclear energy, oil deliveries, EU climate policy – these are the issues we want to work on together.

Climate change and decarbonisation policies should not be perceived as a threat but opportunity – a successful economic model that could be exported to the world. The EU has made great strides towards this model, with the adoption of the climate change package and Paris Treaty agreements. The challenge however is to make this model of growth more prevalent in the EU peripheries, who are lagging behind. It is mostly the task of national policy makers, but also potential for EU budget expenditure. There are many any technological options at our disposal (e.g. nuclear, wind, hydro and solar in power generation, LNG in heavy duty vehicles, e-mobility in cities, passive or even active houses. Costs of many technologies are going down (solar panels, electric vehicles and e-bikes, wind turbines) and with reasonable research and development policies and regulation policies can be further decreased.

So far regional energy security is limited to gas diversification, but it should focus more on the price of low carbon energy as an input and the cost of energy security. With heterogenous national policies favouring domestic forms of production and neglecting regional developments, there are growing financial risks of over capacity and stranded assets that should be factored into energy security.

## TRADE

External trade relations have been defined by three specific challenges arising in other parts of the world. The closest and currently most conflicting crisis concerns Russia. While the European Union has managed to achieve a unified position in support of economic sanctions, there is a continued concern to form a common stance towards Russia on issues such as economic projects in the energy sector. The proposed Nord Stream 2 project has divided the economic and security interests of the countries in the V4 region from the old EU countries, like Germany or the Nordic countries. Central Europe needs to voice its economic interest as well as support for future stability in Ukraine as a partner country of the European Union.

Further challenges to external trade relations arose in the wake of U.S. President Donald Trump's trade war against China and the EU. His course of action prompted tension between the biggest world trading blocs, where different retaliatory measures were introduced. This weakened not only the potential for trade relations, but also led to political mistrust and tensions, which the EU had with the crucial global trading powers. The lack of trust and political manoeuvres by the US administration helped to halt the proposed Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP) trade agreements. Nonetheless, the EU still managed to sign new trade deals which could form bases for future geopolitical cooperation.

To sum up, the competitiveness agenda for the next political cycle encompasses several key areas such as euro currency reform, the Single Market, and overhaul of the EU budget. The eurozone remains half-baked and not ready to withstand future shocks. The four freedoms are incomplete. And external trade conditions are becoming less favourable. Europe's competitiveness versus the outside world will depend upon internal policies (state aid, competition rules, energy, climate policy, research and innovation, industrial policy) as well as external policies (customs, trade policy). ●

# SOCIAL AND CIVIC EUROPE



In the wake of the economic and financial crisis of the late 2000s there has been a changed focus from the simplistic view of economic growth to a new approach combining the flexibility of the markets with the security needed for people in times of economic hardships. Due to the real or perceived increases in inequality, many have started calling for increased social support by the European Union to tackle the inequalities. This was seen as an important step to alleviate the economic austerity that has hit many countries due to the budgetary problems.

The President of the European Commission, Jean-Claude Juncker came forward with a need for a European Pillar of Social Rights. A preliminary outline of this Pillar was published by the Commission in March 2016. This aim has been reiterated by further documents, such as the Future of Europe White Paper and the Rome Declaration. These documents have clearly articulated a need for social Europe. However, there seems to be disagreement across the EU regarding what such a Social Rights Pillar should cover, and how it should seek to achieve the goals of social justice and equality in the EU. While there is undoubtedly an argument to be made regarding the need for certain social standards, in some V4 capitals (not all) there is a perceived risk that too strong a push in the direction of social rights might weaken the competitiveness of the economically weaker regions and countries.

The social *acquis communautaire* functions currently as a system providing basic social rights that constitutes a level-playing field for companies present in the Single Market. Nonetheless, such a minimum standard adopted at EU level should not limit the Member States who want to pursue more ambitious goals.

Social Europe is also part of the discussion pertaining to the reform of the eurozone. How to make countries more resilient and capable of weathering future financial and budgetary crises? Austerity policies adopted in response to the crisis of 2008 caused many national governments to lose voters' trust and have since been replaced by populists of varying colours promising to stimulate the economy by public investments that could again

destabilise the economy, despite all of the hard work that has been achieved previously. This made the "social" dimension of the European Union much more politically desirable or even necessary. It is for this reason that the Five Presidents' Report on Completing Europe's Economic and Monetary Union stresses Europe's ambition to earn a 'social triple A'.<sup>8</sup> For example, in the area of public health, the EU should adopt a community-wide plan to fight cancer, funded from EU budget, creating platforms for exchanging national-level practices.

One of the more practically applicable solutions is the combination of flexible and secure labour contracts, in which the focus is specifically directed towards the non-standard and self-employed workers who want the same rights as standard employees. A more easily acceptable application of social rights, even in the region of the new EU members, is in increasing gender equality, particularly in terms of the rights of mothers and fathers, where both should be entitled to the same adequate period of paternal and maternal leave. There is a greater push towards equal pay for people of all backgrounds. This goes in the same line as further attempts to address discrimination in the workplace and addressing the benefits of diverse labour markets.

The next step in terms of protecting social rights has to be the challenge of technology to job security and the nature of work demanded by the market. There needs to be a move to capitalise on the new opportunities provided by technological changes, while still protecting those who find it hard to adapt to the new environment. There will be a need to provide more guidelines to the Member States in terms of changes to *curricula* at universities, as well as in high schools and primary schools. This should be accompanied with training of digital skills for existing employees to be able to reap the full benefits of the digital transformation. Finally, there is a plan for more transparency and simplified coordination of the social security and pension systems to ensure that there would be no loss of social and employment benefits. This would eventually result in the establishment of a European social security card to facilitate the EU's social security system.<sup>9</sup>

As regards the free movement of people itself, there is still a lot of unfinished business, like improving portability and transferability of rights and benefits. Populist surges in national-level politics often lead to unjustified measures taken by governments to limit the free movement – for example arbitrary and troublesome border checks, stringent and discriminatory application of social entitlement rights of migrant workers or fostering prejudices against nationals of other Member States.

Any modification of labour laws (for example working time directive) should be preceded by a thorough impact assessment so that the needs of all national labour markets are addressed. A balance needs to be struck between social rights/entitlements and free unhindered competition in the Single Market reflecting different levels of productivity and prosperity in the various regions of the EU.

Social reform begins at the local and national levels. Raising productivity will only happen if the whole socio-economic model is shifted from reliance on a cheap labour force as a source of competitiveness to a high-tech, high-innovation society. This in turn will require social investments that build human and social capital and raise productivity. It is important for the whole EU to avoid entrenchment of the current model where the East is a cheap subsidiary to the innovative, post-modern West.

The new social policy agenda may prove to be an opportunity for poorer Member States to address the burning issue of lower wages and lower standards of living and social protection in some EU periphery countries. At the same time, it might eliminate the competitive advantage of those countries, which now offer services at lower prices than in Western Europe. In the short to medium term the existing disparities in the level of productivity between centre and periphery will necessitate however a more liberal approach towards the tendency to raise the social standards at the EU level – through legislation, administrative practices or social dialogue.

The oft-forgotten problems of Central Europe are the unsustainable levels of emigration experienced after 2004. Although the right of free movement of workers has been a positive phenomenon and is still valued by many Central Europeans as one of

fundamental benefits of the integration process, the effects of depopulation need to be monitored both at the EU and national levels. According to a paper by the International Monetary Fund, roughly 6 million people emigrated from the V4 countries plus Slovenia over the time period of 1990-2012, with a significant increase in the pace of outward migration patterns since EU accession in 2004. This accounts for 8 percent of the population of these countries (when looking at their 1990 population levels). According to the same study, the population leaving these countries had significantly higher percentage of the attaining tertiary education compared with the general population of the countries they left (based on the 2010 statistical observation). This trend, combined with the lack of education reforms, led to significant problems within the labour markets and have strong effects on the stability of the pension system in the future<sup>10</sup>.

To summarize, necessary reforms of the eurozone, Schengen, and social acquis need to be carried out so that – whatever the level of ambition – the balance between West and East, competitiveness vs social protection, central coordination vs subsidiarity and respect for national welfare state models is preserved. In terms of the social aspects of eurozone reform, it is of the utmost importance that a convergence fund for countries that need to catch up would be created. Some initiatives, such a European unemployment insurance scheme, will require a proper impact assessment of proposed legislation. In a very fundamental sense, trust needs to be built so that the core eurozone partners tying their fortunes together in closer union will ensure that the wellbeing of any Member State is a priority for everyone. The equal rights of migrant workers with the local labour force needs to be protected so that there is no differentiation of access to social benefits and services – it is a worrying trend that some Member States are decreasing entitlements for migrant workers to their social protection systems so that they fall between the safety nets of sending and receiving countries.

#### CIVIC ENGAGEMENT

One of the longstanding criticisms of the European Union is the topic of the democratic deficit of the EU institutions. The answer to this problem is to

shorten the perceived gap between the institutions and the national electorates, but also to attempt to create discussions across borders so that the people can shift their thinking from a purely national focus to a transnational mindset and, over time, to European approaches to international issues. This way we will not only strengthen the perceived link between the individual voters in the member countries and the EU institutions best suited to solve EU-wide problems but also create solutions to bridge the gaps between the will of the EU demos and the institutions. This is the underlying thinking behind the initiatives to spur discussion and civic engagement among the different layers of society.

Once the dust from election campaign of May 2019 settled, the long-standing question of how to fix the democratic deficit of the European Union returned. One thing is certain: the status quo of Brussels elites claiming to know “better” than the societies they represent is no longer an option. People care about Europe, but they have a growing distrust to the issues or agenda they do not immediately follow or understand. They are often at the mercy of local or national-level politicians who score brownie points by blaming “Brussels” for any unpopular decision. In short, the EU in its new upcoming political cycle needs to face a fundamental challenge: how to create a direct line of communication between the EU institutions and EU citizens, to better inform them and in a more accessible manner, without

falling into the trap of populism that detractors of the European project are keen to advance.

There are also other, less obvious, ways to engage EU citizens in the European project. A participatory budget could be created – small part of the EU budget could be allocated by peoples’ preference.

Every university student’s curriculum should include at least one semester in another Member State, paid from the EU budget. Every EU citizen who turns 18 should be eligible for a one-time Pan-European 2-week rail pass. Programmes for young people (such as Socrates) should be expanded significantly. We also need more Pan-European media – hence the idea of Newsroom Europe: a body of reporters from local and regional outlets in the EU, paid and equipped by the Commission to independently report stories about Europe that their local outlets would broadcast. This creates, however, certain issues regarding the languages in which such outlets would be available and how it would be financed. It would need to be done carefully, in order to avoid drawing criticism from the populist opposition. Ideally, a version of such outlets would eventually be available in all EU Member State languages. In the first stages, there may need to be a focus based on the population potentially reached by a certain set of languages. The financing will be trickier, as the result will need to be a mixture of resources. ●





the EU Global Strategy that addresses the Eastern and Southern neighbourhood as a key area of the EU's focus. Other priorities include a stronger focus on capacity-building in the areas of security and defence, where EU has an ambition to build on the EU military missions as well as the activation of Permanent Structured Cooperation (PESCO).

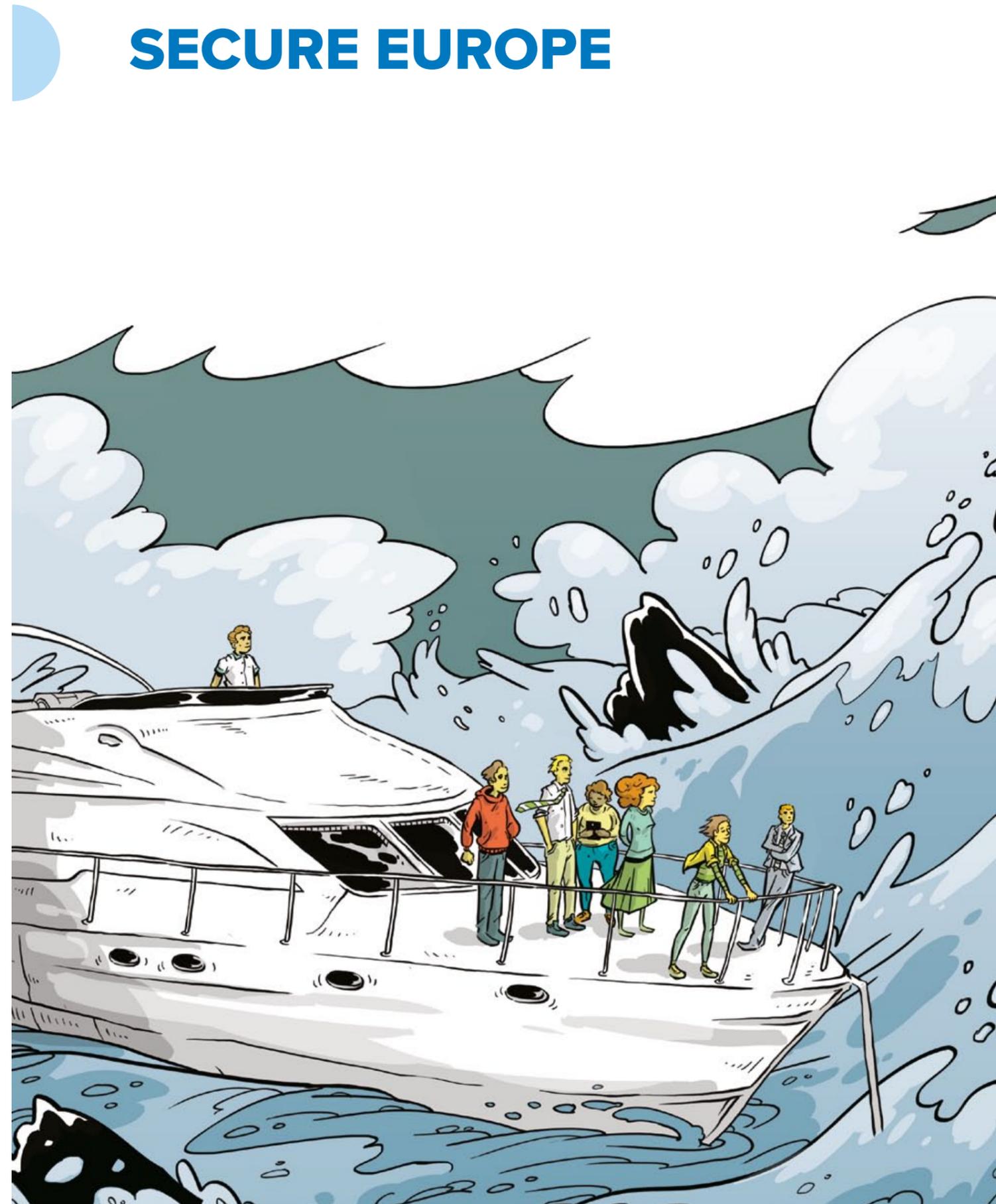
One other institution that deserves mention is the European External Action Service (EEAS), which is the European Union's diplomatic service. Currently the EEAS is in the process of the capacity-building. In this first phase, the key aspect for the EEAS is to work closely with individual Member States' administrations as well as other EU institutions such as the European Commission, Council and Parliament. There is also good potential based on the strong relationship building with the UN as well as other international organisations. As of now, the EEAS works in terms of both geographic and thematic focuses. Geographically, it focuses on Asia Pacific, Africa, Europe and Central Asia, the Greater Middle East and the Americas. In terms of the topics covered, currently a crucial capacity is being developed in terms of the Common Security and Defence Policy (CSDP), namely in terms of planning and crisis response management. EEAS is also responsible for the set up and operation of 139 delegations that represent the EU and its citizens all around the globe. The delegations aim to defend the interests of the EU in terms of all policy areas and build the relationship with the host countries.

What should be the new foreign policy of the EU? What is certain is that any change in the upcoming years will be incremental rather than drastic, political rather than bureaucratic. It should be more unified (with the UK out of the EU, some opportunities arise in this regard), more coordinated (further alignment of external policies of the EU, including migration, trade, development aid etc.), more muscular (resources). Cooperation with third countries needs to be developed with greater emphasis on the conditionality principle: aid or technical assistance should not be given to countries that abuse human rights. Human rights records should be an important factor for evaluating the quality of partnership.

Central Europe should show a more ambitious, constructive and supportive approach to shaping EU foreign policy. If it wants the EU to speak with one voice on the implementation or renewal of sanctions against Russia, it would need to show more solidarity in "non-traditional" foreign policy areas such as commitment or financial support for the Southern Neighbourhood. In the wake of new challenges – economic, political and social – Central Europe cannot be a passive or unconstructive force in the EU-wide discussion.

In a world of global challenges, Central Europe should support the EU in strengthening its presence and status in international fora and organisations. Central Europe can be heard on the global issues only if it stands together with the Union. ●

## SECURE EUROPE



There are few people who would assume that the security environment of the European Union has improved since the last parliamentary cycle. “Europe that protects” is a recurring theme of agendas for politicians who rightly detect the anxieties of Europeans pertaining to such issues as immigration, terrorism, precarious economic conditions leading to the rise in crime, foreign hostile powers meddling into elections, or public life in general. The key challenge clearly comes not just from Russia or China, but also from regional threats, where the EU needs to face the issues and provide real solutions. It is with these goals in mind that “the European Union adopts a transformational approach to resilience, aimed at protecting rights, building political participation, fostering sustainable development and security”.<sup>11</sup>

One overarching prevalent mood of Europeans is that of vulnerability (to external actors growing in might, both state and non-state) and estrangement from the world which is becoming less multilateral or rules-based, founded on the “might is right” principle where competition often turns hostile and brutal. With the current Trump administration, even the affinity with the United States is becoming difficult to nurture and sustain.

Of course, perception of risks varies from one Member State to another. For inhabitants of Lampedusa, the geopolitical challenge of Russia and the annexation of Crimea are less of a threat than immediate risks connected to a perceived uncontrollable inflow of asylum-seekers disrupting the capacity of public services to cope with humanitarian, financial and administrative aspects of the crisis. The example of Italy in the wake of the migrant crisis presents a good example of the paradox of a country from which others demand the budgetary discipline, to become more financially stable, yet ignore the grave demands that the migration crisis placed on the public budget. Italy has faced over 140,000 migrants for three years and while there needs to be a stable solution to stop the flow of migrants, we cannot ignore the unexpected emergency arising for the Schengen Area, whose benefits all Europeans enjoy and cherish.<sup>12</sup> Hence the noble idea of pooling and sharing of risks and responses to migrants into one coherent all-encompassing foreign and security policy of the EU.

### CSDP

If Europe seeks to become a credible global actor (fully enjoying the support of Central and Eastern European states), it must simultaneously be a more capable part of NATO, as well as a more autonomous security actor in areas where the wider Alliance is not best placed to act.

A strong common security and defence policy of the EU is in the interest of all Member States, including Central Europe. The challenge begins with national-level reforms. To successfully pursue such ambition, Central and Eastern European countries should address capability deficits and advocate policies that better deal with the generation-old challenge of granting both efficient and sufficient defence spending throughout the continent. European militaries have been made strategically impotent by outdated capabilities, neglected interoperability, disharmonised procurement and freeriding on American strategic commitments vis-à-vis Europe. Reversing these trends is a logical prerequisite for increasing Europe’s defence potential – whether an autonomous or an allied one – and for a more self-confident CE role in building that ambition.

Europe’s security depends on the greater security of Member States, whose perception of risk admittedly varies from one country to another. It is important that Central European countries develop a better understanding for the necessity of having a crisis management capacity oriented towards the security challenges emanating from Europe’s South on top of the existing Eastern neighbourhood risk awareness. At the same time, a more sizeable and visible “Southern European” presence in NATO’s assurance measures (i.e. forward presence) on the East of Europe would contribute considerably to strategic solidarity-building. Central and Eastern European states should pursue enhanced strategic solidarity in Europe, both militarily and politically.

The development of policies that will eventually lead to the establishment of a European defence-industrial complex should be of the utmost priority. Europe’s strategic autonomy can only be sustained (or even conceived) by a truly competitive and innovative European defence-industrial base that

makes full use of the know-how and expertise of companies and organisations coming from all regions of the EU (not just a handful of countries). The European Defence Agency (EDA) and the European Bank Investment (EIB) activities within the ambitious European Defence Fund constitute a credible starting point for pan-European research, innovation, procurement and modernisation ambitions. However, when it comes to Central Europe’s defence industry, it will also be crucial to guarantee the inclusion of regional SMEs and manufacturers in the new emerging defence framework.

### SCHENGEN

The Schengen system, as in the case of eurozone, remains as unfinished business. Common external border protection and abolition of internal borders are in constant clashes with the ambition of governments to be fully in control of flows of people, especially third-country nationals.

The real challenge to the Schengen zone is political and is connected to the European project as a whole. Member States need to be prepared to pool sovereignty and trust each other enough to delegate some competences to supranational bodies like the European Commission. Sufficient good will and resources to manage crises without reverting to national frameworks are required, also in the face of some dramatic situation like deadly terrorist attacks on the soil of this or that European country. The resources at disposal of the EU need to be sufficient to make the Schengen system work. Furthermore, European leaders have a limited influence on the external push factors putting European infrastructure under strain. Finally, there are societies, traditionally anxious about immigration, often influenced by extremist parties and politicians.

In order to prevent disruptive arbitrary border checks introduced by some Member States, a degree of trust and rules-based approach needs to be created. At present it is solely the unilateral decision of the respective Member State, which does not require any other approval procedure. A mechanism to assess the intentions of Member States to set up temporary internal border controls should be established.



The process of deeper integration of the Schengen will undoubtedly continue. The participating countries will be presented a package where rights are coupled with more responsibilities. More solidarity will be requested from countries who are not faced with immediate migratory pressure.

There is no other region like Central Europe to have benefitted so much from establishment and functioning of the Schengen Area. This is not only a potent symbol of overcoming the Iron Curtain divisions in the continent, it has been the key element of the convergence process. This process was based on mobility of people, be them consumers, entrepreneurs, workers or students. That is why – from Central European perspective – governments and EU institutions should do “whatever it takes”, to paraphrase the famous expression of Mario Draghi, to save and strengthen the Schengen system. ●

# INSTITUTIONAL MATTERS



The EU institutions have come a long way in terms of defining their competences and building their capacities to address specific issues that have arisen over the past few decades. The result has been a gradual shift from a more technocratic approach to the institutions towards ones that have direct links to the policy ideas and reflect the will of the European population. The EU enlargements have posed numerous challenges to the traditional ways the decision-making worked in the past and further shifts will be needed. The institutional reforms thus need to continue to accommodate challenges also in terms of foreign policy issues and the wider problems that arise in the management of the eurozone. It is for this reason that there needs to be an active and constructive approach to making the processes and institutions in the EU work.

Once the new Commission is formed, there should be a tripartite framework agreement of the Commission, the Parliament and the Council on the key priorities so that a new working programme for the Commission follows will reflect the priorities of all the key EU institutions. Impact assessment of proposed legislation needs to be enhanced and publicized so that wider society knows what the costs of legislation and non-legislation are.

## COMMISSION

When we talk about the EU in crisis, we are looking for culprits in the wrong places. It is not the Commission that failed us in times of sovereign default and lack of confidence in markets. It is not enlargement that made the consensus hard to come by.

The Community method is the most legitimate way to reach decisions at the European level. It may be slower than intergovernmental solutions but it is more democratic and – in the longer term – more sustainable. Of course, it is not perfect. If the Commission is to play the role of an economic supervisor, we need commissioners to be genuine leaders and true representatives of common European interests. The one commissioner per Member State rule can be maintained, provided that we establish a hierarchy within the College similar to that in national governments: vice-

presidents, deputy commissioners (or junior vs. senior commissioners). Downsizing the number of vice-presidents to two, including the High Representative would be a welcome development. One of the deputies could be responsible for economic affairs *sensu largo*. The European Commission must have teeth – whenever a Member State chooses to break the law, sanctions must be painful and come along automatically.

The EU needs a Commission that would be strong and non-partisan. For this to happen, senior and competent politicians need to be nominated by capitals, headed by the president who carries sufficient weight in the capitals. Although the candidates for president are identified and nominated by major political parties, it is of crucial importance that – once the president and the commissioners are in place – there is a differentiation between political hue of the party family behind them and the technical, expert work that European Commission does as part of its obligations described by treaties.

## COUNCIL

As regards the Council there are plenty things to be improved without changing the treaties. When speaking about proceedings of the Council, bundled statements and interventions of like-minded countries would constitute a time-serving measure. It would allow for more thought-provoking debates. As for the Foreign Affairs Council (FAC), a little innovation could be considered: why can't yearly planning of foreign ministers' agenda could be introduced? Furthermore, upgrading the standing of the General Affairs Council (GAC) is needed. GAC should go back to its original role – preparing the European Council, in political sense. Sectoral councils need to go hand in hand together and their purview should be updated. Moreover, they act as separate entities – they sometimes adopt different policies.

There is and there will inevitably be some tension between eurozone governance and the EU27 governance, that will intensify with departure of the United Kingdom. It is essential that non-euro countries have observer status in all the euro-only bodies.

## EUROPEAN PARLIAMENT

With respect to the last of the key institutions, there has been considerable talk about the reform of the European Parliament that is necessary to make it both closer to the national electorates and more representative of the interests of the general population. Overall, this institution becomes a centre of many criticisms due to the inability to gain popular interest in its election, combined with position very different to the role of the national legislative chambers. Such criticisms are easy to make but are also often quite unconstructive. There needs to be a widespread discussion about how to ensure the general interest of the people, especially in the V4 region in the EP election. This issue can be partially solved by providing direct links between national and European policy.

As will undoubtedly come into the forefront after the European Parliament election, the past levels of turnout in the election signalize that there needs to be greater space for communication between the countries in the V4 region and the EU institutions. The citizens of V4 countries either feel that they cannot affect anything by their vote, signal they do not care about the affairs at the EU level, or possibly even worse show that they do not give the EP mandate to have more active role. While in cases of Poland and Hungary, this is less surprising, in the Czech Republic and Slovakia, this contrasts with their responsible, reasonably stable pro-EU governments. Moreover, the EU should tackle the sources of criticism of the European Parliament, where they are appropriate. One example is the presence of two seats of the EP, in Brussels and Strasbourg. This practice could be changed.

While the institutional reforms are difficult to achieve and will require a new treaty change, there are calls to create stronger democratically elected institutions, possibly by creating a second chamber of the European Parliament. This could be formed by combining national level parliamentarians. This idea has as many proponents as opponents.

## OTHER KEY INSTITUTIONS

The rule of law procedures, initiated by the European Commission, and arbitrated by the European Court of Justice are a useful tool to make all member states adhere to the common values and principles – provided they do not act arbitrarily, and are not politically motivated. Equally, the remit of oversight bodies such as the European Court of Auditors or the European Anti-Fraud Office (OLAF) needs to be strengthened. Effective fights against corruption, efficient management of EU funds, effective public administration, fair public procurement, independent and efficient judiciary – these are all elements constituting the legitimacy of the European project and there should be no compromising on these issues.

The efficiency of public administration in Central European countries remains lacking in many respects. To take full advantage of the single market, Central Europe needs to strengthen its capacity to negotiate at the European level – which is especially crucial in the context of Brexit – so that its interests are reflected in decisions, laws and allocation of resources. Some examples include the Single Market legislation, climate change and energy, social policies, the digital economy and transportation.

Values and identity are important, if there is a will to change the EU Treaty, a “European bill of rights” could be established (both normative and practical); European citizenship should be enhanced; everyone should be entitled to European passport and/or identity card.

In the event of the treaty change, some other institutional reforms could be considered such as scrapping the European Committee of Regions and the Economic and Social Committee. These bodies did not meet the expectations and are currently adding to the bureaucratic burdens of the EU. ●

1 This recommendation follows a recent proposal of the European Policy Centre.

2 For the purposes of this paper the Central Europe refers to the Visegrad Four countries – Czech Republic, Slovakia, Hungary and Poland.

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