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## CENTRAL EUROPE TEN YEARS AFTER: Punching above weight in the EU?

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When Central European countries joined the EU in 2004, it created a lot of unease around Europe. Never before had there been such an extensive enlargement of the European Union. Nor had the previous entrants been less affluent at the time of accession. This was bound to produce tension, especially as the labour markets were gradually opened up. Many fears have not dissipated until today. Even in Germany, which has benefited enormously from enlargement, 56 percent of the population remains skeptical about its virtues. And yet, enlargement is today the EU's single most important success story in the past decade. From the political and moral point of view, the EU would have been in a much weaker position today, were it not stitching the two halves of Europe together.

So what has been achieved; why has it been achieved and is it bound to last? The most tangible deliverable is economic convergence. Poland and Slovakia have seen their output rise by 49 percent since joining the EU in 2004. Not everyone has performed as well. In fact, Central Europe has become a multi-speed region with some countries, notably Hungary, clearly underperforming in spite of their strong potential.

Another clear achievement is the sense of self-fulfillment and being at ease with itself. This is clear in the continuous improvement of public services and governance standards. All this has happened because many countries of the region have seen EU accession as a transformational process. Those who have succeeded most were the ones which used EU membership as a lever to improve their systems of government and market regulation.

Economics was allowed to exert its impact with capital inflows helping investment and technological change. What also mattered was the bond with Germany, which developed in spite of many preconceptions and deep prejudice. Central European firms got well integrated into the German-led global supply chains and this created a natural basis on which a political relationship flourished. In a helpful turn of events, the Russian challenge only came in 2013-2014, allowing Central Europe to benefit from the peace dividend and avoiding internal divisions over the issue, which have recently become more exposed.

The current golden decade has a good chance of being upheld but should a number of conditions be met. The most important one is the up-grade of the economic model, from the one being based on efficiency gains to the one based on innovation. Equally crucial is the building of the new bargain in the EU, which would allow the convergence machine to be restarted. The bargain would need to span across both demand and supply sides of the equation. On the demand side, stronger economies will need to play a more pronounced role, given their surplus savings, while on the supply side, more will be expected of the vulnerable countries. There will also need to be a powerful EU dimension to enable the scaling up of opportunities through advancement of the single market.

Central Europe is well-positioned to punch above weight in the EU in the next few years. To start with, it is much less indebted and does not need to leverage as much as the Southern European countries. It has a number of assets, including one of the strongest hubs for IT and digital economy in Europe. Industry continues to play an important role in the region, contributing more than 30 percent to the GDP in each of the four Visegrad countries (Poland, Czech Republic, Slovakia and Hungary). Having said that, Central Europe has also been affected by the Eurozone crisis. Its growth rates have come down and they are nowhere near what would be needed to catch up with the most advanced European economies, such as Germany. Therefore, it needs to reinvent its growth model and build public consensus for shifting resources towards innovation and skills. Revamping research and development potential will be important, as will improving the ecosystem for innovation, facilitating development of clusters and ensuring that business and academia work together more effectively. Central Europe is likely to be a vocal advocate of the Transatlantic Trade and Investment Partnership, in which it sees both a strategic project and an opportunity to import some of the US entrepreneurial spirit.

Finally, just as Central Europe has benefited from the peace dividend in the past ten years, it is now deeply concerned about the conflict between Russia and Ukraine. The latter has challenged some fundamental assumptions about the post-Cold War order. The EU now needs to be much more forceful in defending its own set of rules, including in the energy market, and more reactive to Russia's growing attempts to influence European public opinion through disinformation and propaganda. Helping Ukraine succeed in its transformation will be a formative issue for the EU's foreign policy in the next five years.

The economic and financial crisis has been a great equalizer in the European Union. Central European countries have been beneficiaries of this process, as shown by the election of Donald Tusk to the post of the European Council President and a strong presence of Central Europeans in the top jobs at the European Commission. It now remains for this opportunity to be met with activism, engagement and forward-looking vision.