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Conference Report



We grow together, together we grow

Economic integration, improved governance, the human dimension: challenges and opportunities for the EU Strategy for the Danube Region were at the centre of debate at its 3rd Annual Forum in Vienna.

Economic integration – where if not in the Danube region

For economists, the Danube region with its pronounced diversity is a clear case for deeper integration. Heterogeneity and different levels of development may prove tricky to deal with in terms of policies, but they are also an invitation to make use of different location factors, and to exploit them for new products and value chains – thus, to create prosperity and growth. And it works. Seen in a longer perspective, the Danube region is a region of convergence, where the gaps between parts that represent some of the richest and most advanced regions in Europe and parts that are some of its poorest, are narrowing down. As Michael Landesmann from Vienna's Institute for International Economic Studies pointed out when presenting findings of an ongoing "State of the Region" research effort (involving a transnational scientific consortium), convergence is even more pronounced, the further away from the richest parts a less developed region is.



A closer look, however, reveals some structural problems that inhibit the full unleashing of the region's potential for growth. The repercussions of the financial crisis that hit most of the Danube region hard only underscored these factors. Take the extraordinary fragmentation of markets, for example. Different languages and legal systems as well as low labour mobility all work as barriers to doing business and tapping market potentials across the border; the EU internal market notwithstanding. Add to this the weaknesses that still exist in the transport and energy infrastructures of the region and its often poor logistics. Institutions and regulatory frameworks also matter, from the cost of starting a business to protection of property rights and the prevalence of corruption – all aspects where many Danube states could do better, as Bernhard Boockmann from the Institute for Applied Economic Research in Tübingen explained. Finally, fixed exchange rates, for all their benefits, can lead to a painful loss of competitiveness in the absence of possible devaluation. In particular countries which have seen strong capital inflow from tourism and remittances struggle with high price levels.

Be smart, go local

Under all these circumstances, competitiveness can be difficult to achieve. The best bet is to go beyond the reach of purely macro-economic policies and to take the specific advantages of regions as a starting point for economic development. “Smart specialisation” is the buzzword of strategies which ultimately concentrate on cluster policies and the sustained growth of local small and medium-sized enterprises into larger companies, able to compete in foreign markets. Part of this should be a new approach to foreign direct investment: While at the core of the growth model of most Danube countries over the last two decades, FDI rates are surprisingly below average when compared to the rest of Europe and concentrated on often big, but rather few, transnational companies. More evenly spread and increased foreign investment should go hand in hand with much deeper integration of foreign firms into the fabric of the local economy and increased linkages with SMEs, providing them with an avenue for growth and innovation.

However, small enterprises should not only become better, more inventive and preferred suppliers of foreign firms; they also need better access to capital. Even now, four years after a dramatic slump in the availability of money for young and small firms in the context of the financial crisis, the possibilities for financing are further decreasing. As Georg Licht from the Centre for European Economic Research in Mannheim suggested, tax incentives, easier access to public funding and an emphasis on equity markets may help to ease the dependency on the banking system. Only if the problems of access to financing are resolved, SMEs and start-ups will be able to fully play the role they could for growth and the creation of new jobs.



A strategy as relevant as ever

What a macro-regional EU strategy has to do with all this? Simply, it can act as a powerful facilitator for coordinated policies that become effective in all participating countries and which take into account shared problems and cross-border implications. The EU Strategy for the Danube Region is to provide better harmonised and timely co-development which anticipates and reinforces steps taken by the neighbours, while making the best use of EU policy instruments like the Structural Funds. It can be a lever to activate the regional and local levels,

businesses and civil society to push for all sorts of agendas, from lowering barriers for market entry to cross-border transport improvements.

Not the least, the EUSDR can act as a catalyst for improving the capacity to actually spend the EU funding available for the region. As Bernhard Boockmann illustrated with regard to the 2007-2014 EU spending period, huge differences exist in the so-called absorption rate, from more than 60% in e.g. Slovenia to less than 40% in Romania. Not alone the availability of national co-funding is an issue here, but also the institutional capacities to devise and develop projects, as well as the necessary skills to successfully implement them.

These challenges are not to be underestimated, as the means earmarked for the region will be even higher in the years to come. As pointed out by Charlina Vitcheva, Commission director in the area of regional policy, a whole third of the overall 350 billion euro to be spent on cohesion until 2020 is to flow into the Danube region, up from a quarter in the last period. If done right and in line with overall EU strategies (be it the Europe 2020 objectives or the EUSDR), they will provide a tremendous boost for cohesion, connectivity, competitiveness and knowledge-based economies. These 350 billion represent nothing less than the political will of all Europe, cast in figures, to focus on the centre and southeast of the EU as the foremost region for development and economic catching-up. Or, in the words of Romania's foreign minister Titus Corlatean: to make the common vision of increased convergence a reality.



All the more it is important to follow a coherent pattern of policies and spending which avoids duplications and 'silo thinking' among the different areas – regional development, social inclusion, mobility, research and innovation, entrepreneurship etc. – associated with EU policies or interventions by other international bodies like the World Bank or the EIB. Again, the EUSDR is the ideal roof under which cross-sectoral, synergetic policy-making and spending can be pioneered. The investment the Danube region will see in the next years can lay a foundation for generations – and require holistic and systemic thinking about its future consequences, according to Vladimír Šucha, head of the Commission's research service.

Decision time for the Danube Strategy

However, as clear and as obvious the case for the common macro-regional strategy is, as protracted and challenging is the political process of delivering its promises. In this regard, the EUSDR has reached a critical point. Depending on decisions taken in the forthcoming months, the strategy will either rise to its full potential, or disappoint. The task is momentous: politicians and decision-makers on senior level are required to give priority to the strategy's goals and projects over purely domestic concerns and to commit political capital. Leadership and ownership are key, as Commissioner Hahn pointed out in his address to the Forum. Drawing on the results of a recent inquiry into the progress and governance of the strategy, he stressed the need for top-level decision-making, an active role of the ministers with a coordinating role and sufficient administrative resources for the implementation process. As there is a link between the EU following up to its ambitions and the willingness of citizens to engage in the European democratic process: Dismal turnout rates in the recent elections to the European Parliament in most Danube states are a warning sign that the European process must not lose momentum.



The “Vienna Declaration”, adopted at an informal meeting of foreign ministers at the occasion of the Annual Forum, already goes a long way into this direction. In line with the proposals of the governance inquiry, it stipulates a considerable strengthening of the EUSDR steering structures, by confirming the annually rotating chairmanship of one of the partners in ministerial meetings and by enhancing the hitherto “National Contact Points” to “National Co-ordinators” with more clout and improved mutual cooperation. In addition, the Commission proposal to establish a secretariat-like Danube Strategy Point was taken up and will see serious deliberation on possible functions and financing, while the idea of nominating a Special Representative for the Strategy will be further explored. In other words, ministers have already debated the results of the governance inquiry and have drawn consequences from the recent implementation experience. For Peter Friedrich, Baden-Württemberg’s minister in charge of European affairs and who takes up the chairmanship function until the next Annual Forum in Ulm in 2015, the decisions taken in Vienna amount to more than just a switch of labels – they are key to active leadership as well as a dynamic strategy process, both horizontally and vertically. And the message is received: Among other politicians, Austria’s minister for education Gabriele Heinisch-Hosek in her address to the Forum strongly supported more leadership of

responsible ministers, in order to more forcefully pursue the substance of the cooperation process.



More ownership and increased stakeholder involvement has thus become the common sense among the EUSDR community. In particular businesses need to be more aware of the opportunities associated with the Danube strategy, as Austrian foreign minister Sebastian Kurz noted – not the least in the tourism area. Another case in point is the role of the European Parliament and its members representing the region. As German MEP

Michael Theurer testified, the Parliament takes up its responsibility in the guise of a 60-head strong Danube group that successfully pressed for a dedicated transnational (“Interreg B”) programme for the Danube area during the last legislature and worked to set up a network of national parliamentarians who support the strategy. Most importantly however, the citizens must be able to recognize the value of a strategy built around the notion of solidarity, as Michael Häupl, Vienna’s mayor and host of the Forum, urged: People in the Danube region should feel the improvements that came about by the EUSDR in their daily lives.

Weaving the European net across the region

The same reasoning holds true for the countries that are non-member states. For them, the EUSDR represents the unique opportunity to take part in an EU-led process on a par with the member states. Broadest possible participation is thus especially rewarding. For Tanja Miščević, who heads the Serbian accession negotiations, becoming familiar with the processes of cross-border cooperation is an excellent way to foster precisely the sort of

administrative capacity building that will be needed when adapting EU legislation on a large scale. Or take rural regions as an example, which gain from EUSDR-inspired tourism development. For them, the strategy means a fast track to the practicalities and everyday-reality of EU involvement. As Tanja Miščević aptly noted, for the first time in centuries the entire region has the same overarching goal, namely to be part of European integration. With whatever speed this objective is pursued and accomplished in the different states, it helps tremendously that everyone, finally, has the same aspiration.





The non-member states are valuable for the EUSDR process in another way, too: As convincingly argued by Goran Svilanović, Secretary-General of the Sarajevo-based Regional Cooperation Council (an outfit that emerged from the Southeast Europe Stability Pact launched after the wars of the nineties), the West Balkan states are in a bridging role between the Danube and the Aegean-Ionian macro-regions. RCC's own development strategy for the six states very much reflects the Europe 2020 objectives, but adds special emphasis on governance issues, in order to deal with the particularly weak institutions often found in RCC countries. Any synergy between regional strategies will help: with a combined economic strength lower than that of Portugal and average GDP per head only a third of the EU average, this group of states will even struggle to re-create the 800.000 jobs lost since the outbreak of the crisis in 2008. Anyhow, for defining a role in the EUSDR process the RCC may not have to look further than to ICPDR, the International Commission for the Protection of the Danube River. This multilateral organisation successfully uses the EUSDR as a strategic roof to amplify its impact, be it with regard to improved navigability of the Danube or to saving the Danube sturgeon from extinction, as argued by Ermina Salkičević-Dizdarević, recent ICPDR chair and deputy minister in Bosnia-Herzegovina.

In a very similar vein, Erhard Busek, long-serving coordinator of the Southeast European Cooperation Initiative, stressed the need to better integrate the existing cooperation frameworks in the wider region, from the EUSDR and the RCC to the Visegrád Four and the 18-nations Central European Initiative. While there is no need to re-invent the wheel in terms of objectives and projects again and again, the EUSDR would clearly benefit from the establishment of a Danube Strategy Point. Also, there is still a lack of projects of a true cross-border nature, which would be beneficial for cities and regions in particular. Dedicated EU funds for cross-border territorial cooperation, designed for the needs on regional level, must be fully utilised. This leads to another crucial point on which the future success of the strategy hinges in the coming months: the extent, to which the so-called operational programmes for all sorts of EU spending on cohesion and regional cooperation will reflect the concrete priorities of the strategy. In the words of Johannes Hahn, the effectiveness of EUSDR governance will clearly become visible here, and if not so, tough questions must be raised by his successor in the role of EU Commissioner for Regional Policy.



Invest in people

Few policy areas in the Danube region can benefit as much from joined-up governance – i.e. better interaction of regional, national and supra-national levels as well as cross-sectoral coordination – than employment and qualification. A special focus of the 2014 Annual Forum, social cohesion and related governance challenges were debated against the backdrop of international experiences. Mike Campbell, specialist from the UK-based Institute for Employment Studies, warned of a one-sided emphasis on policies that focus on the up-skilling of people without regard for the actual needs of employers and the labour market. Instead, a balance is needed between efforts in the educational systems and incentives for businesses to expand into activities with higher value-added and corresponding demand for a more sophisticated workforce.

In a region that in quite a few countries sees a terrifyingly high unemployment rate and dramatic under-utilisation of human capital, this advice should be heeded even more, as was confirmed by Zoltán Kazatsay of the Commission directorate dealing with employment and inclusion issues. Also from an EU viewpoint, the skills mismatch between labour market needs and educational outcomes is a core problem. Consequently, EU policy aims for new partnerships in the member states to better anticipate future needs and adapt curricula. As difficult this may be – politicians simply owe that to 20 million unemployed and 120 million people at or beyond the poverty threshold in Europe. Austria’s minister for social affairs, Rudolf Hundstorfer, couldn’t agree more when pleading for continued emphasis on access to employment and social cohesion in the Danube strategy.

The European Training Foundation, an EU agency, can play a significant supportive role in this regard. Madlen Serban, its director, stressed the importance of a comprehensive approach which not only helps talented and highly-skilled persons to stay in the region and get sophisticated jobs according to their merits, but also which would give new perspectives and competences to the lesser-skilled. However, policies should emphasize qualifications in economic sectors with a high potential for growth. In addition, they should foster the employment potentials that result from innovative entrepreneurship, able to outlast the start-up phase and leading to sizable and competitive companies. Exploring the entrepreneurship theme further, Christian Weinberger, senior advisor in the European Commission, cautioned against a purely “mechanical” approach that only looks at the provision of trainings and financial means for enterprises. Much more than this, educational policies should encourage the



mindset and the attitudes which underlie successful entrepreneurship, in particular a willingness to take risks and responsibilities as well as a desire to achieve something positive.

The Danube strategy, with its multi-sectoral and transnational approach, is uniquely placed also from the vantage point of this whole range of education, qualification, employment and entrepreneurship issues. Pointing to the ongoing cooperation activities around 'green competences', Tudor Prisecaru, state secretary in Romania's ministry of education, highlighted the potential for linkages between employment/qualification and other core objectives of the EUSDR. Broadening the skills base in environmental technologies and occupations is a sure way to foster employability in an ever more relevant sector, while at the same time contributing to nature protection in the region. In a similar vein, Michael Ludwig, Vienna's executive city councillor responsible for EUSDR matters, related to the comprehensive character of the Strategy when he closed the Annual Forum by highlighting strategy objectives as diverse as social justice, shared prosperity, solidarity in case of natural disasters, improved connectivity or quality public services.

The Annual Forum, a concourse for the Danube community

The variety and breath of the cooperation taking place under the EUSDR roof was also brought home to the nearly 1.000 participants by the 'Danube Cosmos'. A half day of the Vienna Forum was dedicated to discussions in workshops, good practice exchange at speakers' corners, discovery of new partners and ideas in matchmaking areas as well as first-hand information in coaching zones. Covering the thematic pillars of the strategy, this new format offered 50 single events around the themes of improved connectivity, environmental protection, prosperity and regional cohesion.





Presentations given in the context of the Cosmos and the plenary programme are available as downloads from the Forum website at

www.danubeforumvienna.eu

