# Lisbon Process and Hungary

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Lisbon Agenda is a combination of very important objectives:

- Creation of knowledge based society
- Dynamic economy
- Globally competitive market economy
- Sustainable development
- Social inclusion

This is a model, which often felt irrelevant or inconsistent. I believe that the apparently conflicting objectives can be compromised. In fact, Scandinavian countries, and particularly Finland are producing something, which is near to that. Finland is better performing than US, and in reality (according to World Economic Forum's Lisbon Score-table) US is about 20% behind the Lisbon program.

Europe is behind, therefore, in averages. For those averages, among others, the "less developed" new members are "responsible". I find CCC a great and important proposal. In the light of large and increased differences resulted, from enlargement I would add another C and that is "Convergence". In fact, this problem is missing from Lisbon Agenda, and I feel, that it should be more clearly included. And the convergence means that in fact, "Europe" should catch up to "Europe".

Due to Eastern enlargement the differences in levels of development grow much greater (the mean divergence of 20-30% from the EU average increases to about 60-70%), and the difference between the two extremes (Bulgaria on the one hand, and Denmark on the other) is of a magnitude of nearly 500%. At the same time, the levels of development of the most developed new candidates and the less developed members are very close, in fact, identical. This means that the Eastern candidates represent a highly diverse group, not only in terms of economic and social development but also concerning their historical and cultural traditions.

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With Eastern enlargement, the population of the less developed members (with incomes below the present average) will increase by 77%

**Per Capita GDP in Accession Countries**

**MEMBER COUNTRIES** **ACCESSION COUNTRIES** (on ppp.)
EU averages in % in 2002

| | | | |
|---|---|---|---|
| Greece | 71 | Cyprus | 76 |
| Portugal | 71 | Slovenia | 69 |
| Spain | 86 | Malta | 69 |
| Italy | 98 | Czech Republic | 62 |
| Germany | 100 | Hungary | 53 |
| Finland | 102 | Slovakia | 47 |
| France | 105 | Poland | 41 |
| Sweden | 105 | Estonia | 40 |
| United Kingdom | 107 | Lithuania | 39 |
| Belgium | 107 | Latvia | 35 |
| Austria | 111 | Romania | 27 |
| Netherlands | 111 | Bulgaria | 26 |
| Denmark | 113 | Turkey | 25 |
| Ireland | 125 | | |
| Luxemburg | 189 | | |
| | | | |
| EU 15 average | 100 | CEE average* | 32 |
| EU 25 average** | 100 | Czech Republic | 69 |
| Euro-zone | 107 | Hungary | 61 |
| EU 15 | 109 | Poland | 51 |

* 2000 ** 2003
Eurostat.

Convergence is often conceived as closing the gap in terms of per capita incomes (GDP). This is great simplification. Many other factors should be taken into account, and what we can add, that rather more indicators should have been used.

In recent years, several institutes, particularly banks (EBRD, Deutsche Bank Research, World Economic Forum etc.) started to publish their *"convergence indices"*, which based on aggregation of a bunch of indicators, tried to identify the progress and the ranking of the candidate countries in the process of their meeting the accession criteria and complex catching up to the level of the Union. Although, these attempts may be subject of theoretical or methodological criticisms, they may well indicate the real distance, which these countries have to "fare", and the differences among the groups of countries in the region, which in this respect separate them from each other.

These scoring model calculations demonstrate that there are three groups of the candidates, which can be fairly well distinguished. The four countries Czech Republic, Hungary, Estonia and Slovenia, which are the most advanced in their convergence, and the closest to catch up, have no real differences, and their points between 76-78 mean (EU average as 100), that their ranking is totally artificial. These countries are in the same group with such old members as Greece or Portugal. The next four countries (Slovakia, Latvia, Lithuania and Poland) range between 66-72, and they probably can close up very rapidly. Bulgaria and Romania (57-58), however, are more sensibly lagging behind, and it will take some time till they may converge. All countries, in fact, with exception of Romania, made a remarkable progress in the last ten years, which may indicate that about in 15-20 years, these countries can successfully converge to average of the developed West of the Continent. The coming years will prove, what is better from the point of view of this convergence, adjust from inside, or rather prepare from outside, and wait till the country is fit enough to meet the "competitive pressures" of the single market.

In the past few years most of the candidate countries have achieved 3,5-4% economic growth. This represents a growth surplus of about 1.5-2% compared with the growth of the EU countries' economies. This roughly 1.5-2% growth surplus is the minimum needed to enable the 'periphery' to close up to the 'centre' in the foreseeable future (10-30 years). This does not mean attaining the level of the most highly developed countries, but at least approaching the average (the level of entitlement to structural funds is between 75% and 90% compared with the Union average). So far only a few countries can be said to have begun to catch up. According to calculations of Világgazdaság (World Economy - daily Hungarian newspaper), if the Hungary could produce a 2% growth "surplus", then 20-25 years would be needed to catch up to the EU level. With 3% surplus, this could be achieved by 2020, with 1.5% only after 2030. (Világgazdaság, October 31 2001)

We feel, therefore, extremely important to follow *the trends and the dynamism of convergence*, which will be one of the strategic questions of the future of the integration in the EU, and which should be in the focus of orientation of policy actions both on national and on Union levels. As it is noted, "the international experiences show, that there is no permanent tendency for catching up, in the less developed countries, in the past thirty years the periods of showing convergence and divergence kept changing each other", and it is not indifferent how quickly and strongly the policies respond and intervene. (Világgazdaság, December 13, 2002.) The examples of Greece or Ireland are worth for studying for the new entrants.

*The analysis of the state of competitiveness of CEE economies* is equally important. The main sources of the competitiveness of CEE economies are *the level of productivity and its relative development* (comparative advantages), and *the relatively good quality and low cost of their human capital.* It can be added, the fact that *labour is under-priced* is a substantial source of comparative advantage. As the ITDH (International Trade and Development, Hungary) study entitled 'Competitiveness 2000' states, in Hungary, productivity calculated on the basis of output per worker employed in manufacturing industry rose by 2000 to 2.2 times its 1991 level. In contrast, real wages rose only moderately, and in the same period they increased only by 20%. The real wages fell during the transformation crisis, and they started to recover only after the mid-1990s. Between 1997 and 2000, in Hungary the real incomes grew annually by 3.1%, but the productivity growth by 4.7% was still far ahead. On this basis, the competitiveness and comparative wage-cost advantages of Hungarian industry grew considerably. (*Napi Világgazdaság*, July 27, 2001.) The Hungarian productivity is 58% of the EU average, while the wages are only 40% of it. (Czipin@Proudfoot Consulting. 2002. – Világgazdaság, February 15, 2002) These significant comparative wage-cost advantages characterize the whole region. While the average level of productivity of the candidate countries amounts to about 2/5 of that of the EU, on a basis of purchasing parity, average monthly wages in manufacturing industry in the EU are 7-12 times higher than the corresponding figures for the new CEE members.

Although, the quality of labour is good, the countries of CEE are still far away of the knowledge-based society. In most of the CEE countries, the R&D expenditures were the main losers of transformation crisis, as the share of these expenditures in GDP fell from about 2% to 0.5% in the years of early 1990s. Since, a recovery started, but with an about 1% level, they are still far behind to the EU average (1.80%), not to speak about that EU itself is substantially behind Japan (2.90%) and US (2.80%).

For the future, therefore, the rapid growth of productivity is of crucial importance, and lot depend how these countries can succeed in transition to knowledge based economy and society. It is encouraging that some of the trans-nationals operating in Central Europe started to invest in R&D, and its increase has become a priority of government policies. According to OECD, in Hungary one quarter of output of manufacturing industries and services comes from science based industries, and this share is already higher than in many leading member countries (Germany, France or Austria). (In fact, in this respect, Czech Republic and Poland are ahead of Portugal) (Financial Times, October 28, 2001)

Enlargement is extremely important for the EU as well. It must be particularly emphasized that *one main benefit of enlargement will be that the Union's competitiveness in global markets is likely to improve significantly*. "The fact is that the eastward enlargement of the EU has the potential to radically alter the basis of competitiveness in Europe, in the sense that it can make Europe a much more 'attractive place to do business'. Whether Western and Eastern firms are able to take advantage of trade liberalization to foster a dynamic process of regional integration in which differentials are made complementary will have far-reaching consequences for 'European Competitiveness' as defined above." (J. Pellegrin, 2001: 2., quoting also S. Strange, 1998) Enlargement may contribute to the implementation of the Lisbon objectives.

It must be stressed, however, that competitiveness needs complete analysis. Countries compete not only with their *techno-economic structures* (technologies, products, innovations, company managements etc.), but also with their *socio-economic and institutional systems*. While the former is rather related to micro-economic spheres, the later could be called as a certain sort of macro-competitiveness. We know that EU is not at substantial disadvantage in terms of its techno-structures, particularly as far as its manufacturing industries in the most developed members are concerned. Its *"structural problems"* are *related rather to socio-institutional factors* (flexibility of factor markets, over-regulation of the economies by the state, inefficiencies of the state sectors, crisis of European welfare state etc.) Restoration and strengthening of competitiveness of the EU, therefore, is rather question of structural reforms than simple technological and product development in its traditional sense. Of course, the creation of developed information (or knowledge based) society is its basis, but competitiveness could be achieved only with far reaching social and institutional reforms. This applies to the Lisbon process as well. It has become more and more clear that without the structural reforms both in the member states, and on EU levels, it cannot be successful.

Europe has competitive disadvantages in services, and particularly public service sectors. While in industrial goods (tradeables) the problem is different. The sector is dominated by global companies and it is hard to tell which companies are "European", "American" or "Japanese". And who is more "competitive", Airbus or Lockheed, particularly, when 40% of their component suppliers in the background are the same. Although, I reject that trade balances are indicators of competitiveness, but it is the fact, that Europe has an about USD40-50bn trade surplus with America. At the same time, there is an exploding European trade deficit with China (now about USD 50bn). I am curious, should not we "catch up" to China, instead of America?

There is a broad agreement, which are major deficiencies of Lisbon Program:

- Most of the governments have not considered a Program important and of its own, therefore, no definitive effort has been made to implement it. There was a lack of government's political determination.
- The program has not provoked any particular interest among the researchers, and therefore, the serious analysis of the objectives and necessary actions was missed.
- Insufficient action programs based on the otherwise generally good objectives.
- Missing interests of the private sector.
- Lack of proper financing, including the commercial sectors, and the budgets both on national and EU levels.
- The communication towards the society was insufficient.
- The democratic acceptance of the program is unsatisfactory, the society, particularly the civil society does not feel it as its own.

I agree that the "Lisbon Civic Forum" as something like "Lisbon in action" could be relevant project. The creation of a dynamic, modernised, sustainable, and globally competitive and attractive European model is interest of all of us. It could be successful only if it enjoys the broad support of the whole European society. It should be taken closer to the peoples, it is important that they are able to formulate their own interests and aspirations in relation to it, and consider it as their own. It is a key issue how to include such non-governmental actors as the intellectuals, the business, the media and the civil society.

The added value of sub-regional cooperation to the process could be substantial. The *Central European dimensions of the Lisbon Process* should be clearly formulated. It would be important to identify the common interests, to formulate relevant common action programs and the find those interested and motivated actors who are ready to participate and implement those programs.