THE POSITION OF THE V4 IN THE EUROPEAN UNION[1]

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The world economy is heading towards a new economic system based on information and telecommunication technologies. As a result, it has grown much faster over the last ten years than before. This is demonstrated by the fact that growth rates of labour productivity have doubled in comparison with the previous period. Productivity in the world economy grew by 2% per year between 1995 and 2003, compared to 1% per year between 1990 and 1995. The biggest increases in labour productivity were recorded in countries of East Asia (3.2%), Eastern Europe (1.8%) and North America (1.7%). Only in Western Europe and Latin America there was a slowdown in productivity growth. In other economic indicators, too, Europe found itself lagging in the second half of the 1990s, especially compared with the United States: it had a lower pace of economic growth, higher unemployment, and worse results in technological development, all of which reflected its underperformance in the new economy. The reaction of the European Union to this unfavourable development was the adoption of the so-called Lisbon Strategy.

The Lisbon Strategy

At the Lisbon European Council meeting of March 2000, EU leaders set out a strategic objective for the next ten years – to build a competitive and dynamic knowledge-based economy with improved employment and social cohesion. The assumptions on which this goal was to be met included an annual economic growth rate of approximately 3% and a 2010 employment rate of 70%. Behind the Lisbon Strategy lay a political drive to match the USA and become its equal partner. EU leaders realised that Europe urgently needed to develop and exploit the potential of the new economy – the information society.

This ambitious objective of the European Union should have been achieved by implementing the eEurope Action Plan, launched in June 2000. The aim of this initiative was to remove those shortcomings that had hindered fast uptake of information technologies. Its priorities were divided into three main goals:

1. To provide cheaper and faster access to the internet, especially for researchers and students, and to provide secure networks and smart cards.

2. To increase investment in people and skills in order to prepare the European workforce for employment in the knowledge-based economy and enable everyone to play an active part in it.

3. To stimulate use of the internet by accelerating eBusiness, by ensuring online access to public services, healthcare information, and environmental information, and by creating global networks and intelligent transport systems [4].

It was in May 2000 that the then EU Candidate Countries, realizing the significance of information and communication technologies to the modernization of their economies, took up the challenge set by the EU and launched the action plan eEurope+. Based on the eEurope Action Plan adopted by the EU Member States, eEurope+ represented an economic concept for developing the information society in the Candidate Countries. Its aim was to accelerate reform and modernization of their economies, encourage capacity and institution building, improve overall competitiveness, and provide for actions which address the specific situation of the Candidate Countries.

The Slovak Republic, in seeking to meet its commitments towards building the information society, launched the initiative eSlovakia on 30 April 2002. The intention was to coordinate all activities related to the building of the information society and to seek the allocation of resources for its development in Slovakia. The main objectives of the project are as follows:

– to accelerate building of the information society in Slovakia;
– to raise public interest in the information society;
– to create a strategic partnership between key players;
– to support quality projects [7].

However, the European Union and new Member States have still not managed to achieve the Lisbon Strategy objectives. In saying this, it should also be noted that

Table 1 Rate of real GDP growth in the EU, USA, and Japan (in %)

Country / Year	2002	2003	2004[1)]	2005[1)]
USA	1.9	3.0	4.4	3.5
Japan	-0.3	1.3	3.9	1.5
EU-15	1.1	0.9	2.2	2.0
EU-25	1.2	1.1	2.4	2.2

Source: OECD [3] p. 2.
[1)] expected

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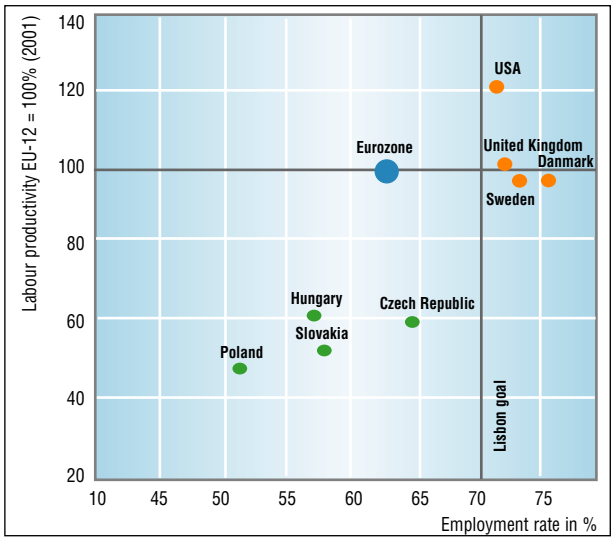
Graph 1 Employment and labour productivity in the USA, EU, and V4 countries



Source: OECD [3] p. 4.

the individual Member States making up the EU have not been equally engaged in fulfilling the Lisbon goals. On this matter, the European Commission has evaluated most positively the Scandinavian countries, the United Kingdom, the Netherlands, Austria, and, from among the new Member States, Estonia. On the other hand, it has criticised Italy, Germany, and France for being slow to introduce economic reforms and for not doing enough to fulfil the Lisbon goals.

It is clear from the statistics in Table 1 that the EU as a whole continues to underperform in comparison with its competitors and that the gap with the USA has actually widened over the past five years.

In 2004, the EU-15 reported average economic growth of only 2.2%, whereas the USA had 4.4%, and Japan 3.9%. Growth in the EU-25 was slightly higher 2.4% thanks to the new Member States, eight of whom achieved annual average growth of 5%. Although the new Member States account for only five per cent of the EU economy, they have accelerated economic growth in the community with, above all, their lower wages and taxes. The EU also fares worse than the USA in a comparison of GDP per capita: the EU-15's GDP per capita for 2003 was only 70% of the USA's [3].

As Graph 1 shows, for 2003, a majority of EU Member States also lagged their main competitors in terms of employment and labour productivity. While it is true that the most developed EU Member States achieved the Lisbon goal for employment rate in 2003, even outdoing the USA's 70.9% (of the economically active population aged between 15 and 64), the EU-12's average employment rate was only 63% and fell further after the accession of the new Member States. As for labour productivity, the USA's was approximately 20% higher than the EU's average. The EU countries also trail their rivals in

Table 2 Rate of labour productivity growth in the EU, USA and Japan

Country / Year	2000	2001	2002	2003
USA	2.2	1.9	3.0	3.5
Japan	2.4	1.7	1.7	2.7
EU-13[1)]	2.4	1.0	1.4	1.0

Source: OECD [13].
[1)] EU-15 excluding Austria and Luxembourg.

rates of labour productivity growth (Table 2). Hourly labour productivity between 2000 and 2003 rose in the USA by a cumulative 8.4%, and in Japan by 6.1%, while in the EU countries the increase was a mere 3.4%.

Another reason why the Lisbon Strategy objectives have not been achieved is probably that there were too many of them. The strategy contained 28 main objectives and 120 sub-objectives and the efforts to meet them were too fragmented. But despite its lack of success so far, the European Union has not given up the goal of assuming a leading position in the world economy. At the beginning of 2005, the European Commission unveiled a new and simpler strategy focused on only the most important objectives – employment and support for sustainable economic growth. The motor of growth, according to the new vision, should be a knowledge-oriented economy based on innovation, science and research. Slovakia has set the same course in its national strategy.

What are the causes of Europe's failure to keep pace with the rest of the developed world? Even though Europe is striving to build a knowledge-based economy, its investment in education, science and research is a third less compared to that of the USA. In 2002, the countries that now make up the EU-25 invested on average only 1.9% of GDP into research and development, while the USA invested 2.7% and Japan 3.12% [12]. There is also a shortfall in the share of private investment in the tertiary sector, the basis of the new economy. The private investment in Europe's tertiary sector represents only one-eighth of that in the USA's and one third of that in Japan's. Meanwhile, Slovakia is slipping even further behind the EU level – its spending on research and development is a third of the EU average and the private investment in education is only one sixth of the European level. To be better able to compete with its rivals, the European Union will require the help of modern technologies, innovation, and investments into industries with high labour productivity and a high share of value added.

Economic performance of the V4 countries

Given that the resources to meet the European Union's goals are created in the economic sphere, it is necessary to devote greater attention to the performance of economies, especially the new Member State economies

that lag behind the EU average. Among them, we will focus on the V4 countries, including Slovakia, which have been addressing similar problems since EU accession.

The EU entry of Central European countries in May 2004 has been followed by the need to consider whether, and how well, these countries were prepared for integration. It is a familiar tenet of economic theory that international economic integration is more effective if the participating countries have approximately equal economies. This means that the sooner the economies of the acceding countries approach the economic level of the European Union, the sooner they will enjoy the benefits of integration processes.

A closer analysis of the economic development in the V4 countries shows that they have achieved relatively high rates of economic growth in recent years. These have significantly surpassed the EU growth rate and therefore the gap in economic performance with the EU-15 average has been reduced (Table 3).

A corollary of the higher growth rate in the V4 countries is the rise in their GDP per capita, which, albeit slowly, is approaching the EU average. In terms of GDP per capita compared with the EU, the Czech Republic is in first place with an improvement from 59.4% in 1999 to 73% in 2004; next is Hungary, from 50.2% to 61%; then Slovakia, from 48.7% to 51%; and lastly Poland, from 38.5% to 46% [14].

GDP growth in V4 countries was largely based upon labour productivity growth, therefore the level of this indicator in the Central European countries is approaching that in the EU (Table 4). As for hourly labour productivity, Slovakia recorded the highest cumulative increase of 16.7% between 2000 and 2003, while Poland had

Table 3 Rate of real GDP growth in the EU and V4 countries

Country / Year	2002	2003	2004	2005[1)]
EU-15	1.1	0.9	2.2	2.0
Czech Rep.	1.5	3.7	4.0	3.9
Hungary	3.5	3.0	4.0	3.8
Poland	1.4	3.8	5.4	4.9
Slovakia	4.6	4.5	5.5	5.0

Source: OECD [3] p. 2.
[1)] expected

Table 4 Rate of labour productivity growth in the EU and V4 countries

Country / Year	2000	2001	2002	2003
EU-13[1)]	2.4	1.0	1.4	1.0
Czech Rep.	4.2	7	0.9	4.3
Hungary	4.5	5.7	2.4	1.1
Poland	-	3.6	4.4	5.2
Slovakia	3.8	3.9	9.5	3.3

Source: OECD [13].
[1)] EU-15 excluding Austria and Luxembourg.

Table 5 Spending on research and development in the EU and V4 countries

Country/Year	in % of GDP			in mil. EUR	annual growth
	1998	2000	2003	2003	1998 – 2003
EU-15	1.86	1.93	1.99[1)]	182 488[1)]	4.30
Czech Rep.	1.16	1.23	1.35	1 019	6.40
Hungary	0.68	0.80	0.97	708	11.00
Poland	0.68	0.66	0.59	1 091	-1.10
Slovakia	0.79	0.65	0.57	164	-2.70

Source: OECD [12].
[1)] 2002.

13.2%, the Czech Republic 12.2%, and Hungary 9.2%.

As Graph 1 shows, however, the V4 countries still lag far behind the European level in terms of employment and labour productivity. Labour productivity in the Czech Republic and in Hungary is only around 60% of that in the euro area, while in Slovakia and Poland the figure is even lower. An even greater problem is that these countries, especially Poland and Slovakia, have a low rate of employment, in other words a high rate of unemployment. For 2004, Poland had an unemployment rate of 19.1%, Slovakia 18.2%, the Czech Republic 8.4%, Hungary 5.9% and the European Union 8.8% [11].

The V4 countries are not spending enough on research and development (R&D), even compared with the underspending EU, and this is holding back improvement in their growth and competitiveness (Table 5).

It is a positive sign that the V4's spending on R&D for the period 1998 to 2003 grew at a faster pace than the EU's (4.3% per year), but it is also the case that only Hungary and the Czech Republic surpassed this figure (11% and 6.4% per year, respectively). R&D spending in the other two V4 countries actually fell between 1998 and 2003, which is anomalous within the EU-25 and possibly also within the whole developed world. In Poland and Slovakia, the average annual growth rates of R&D spending for the period under review were negative (-1.1% and -2.7% per year, respectively).

Economic structure of the V4 countries

Greater labour productivity growth in the V4 countries will require a change in their economic structures, a move towards progressive industries with modern technologies where there is higher labour productivity and higher value added. This will at the same time increase the competitiveness of these economies both in rivalry with developed European economies and on the world market.

Among the problems inherent in today's transforming economies are their high raw material and energy demands, and other issues, which the world's developed countries addressed in the 1970s by restructuring their economies. Most significantly, there was growth in scien-

ce and research and in the development of new technologies. The structural changes made so far have been characterised by expansion of the third sector at the expense of the primary and secondary sectors, in other words services have been growing at the expense of traditional industries. A key change has taken place within services with the gradual rise in importance of the fourth sector – services related to the development of science, research, development and education.

So how well prepared are the V4 countries for competition within the European Union and how do their economic structures compare with those of the original Member States? The economic structures of the V4 countries, according to GDP by sector, are approximately the same, and all the countries underwent positive changes in this regard between 1995 and 2004 (Table 6). In each of the V4 countries, the decline in the share of GDP for the period under review was greatest in agriculture, followed by industry and construction, while at the same time the share of services rose. Services as a share of GDP increased sharply in Poland (from 54.14% in 1995 to 64.8% in 2004) and in the Czech Republic (from 53.40% to 59.1%), and to a lesser extent in Slovakia (from 60.16% to 64%) and Hungary (from 62.35% to 66.1%).

A comparison of the sectoral structures of the V4 countries with the sectoral structure of the EU-15 makes clear that the four countries are progressing very slowly towards the European level. As Table 6 shows, the services sector as a share of 2004 GDP represented 71% in the EU, but was markedly lower in the V4 countries. Among them, Hungary's services sector had the highest share of GDP (66.1%), followed by Poland (64.8%), Slovakia (64%) and the Czech Republic (59.1%).

In seeking to reach the EU level, V4 countries face not only the problem of a low-share services sector but also the fact that its internal structure is unsatisfactory. By comparison with developed economies the V4 services sector includes a lower share of activities utilizing progressive knowledge and technologies, which are essential to the dynamic development of modern economies.

So how should the V4 countries, as new EU Member States, set about their future development with a view to approaching the EU level? They should aim to raise significantly their support for research and development, without which the development of new industries will not be possible. These new industries also require a workforce with different skills. The transforming countries should adapt their education systems accordingly and refocus on training specialists for prospective industries. The needs of the new economy should also be considered when making investment decisions, which should be aimed above all at the development of new and progressive industries. In modernizing their economies and increasing their competitiveness, the V4 countries should utilise not only foreign direct investment, but also the EU's Structural Funds and the Cohesion Fund, which is designed to support countries whose GDP per capita is below the EU average.

Table 6 Sectoral structure of the EU and V4 countries

Country / Industry		Share of GDP in %						
		1	2	3	4	5	6	7
EU-15	1996	2.77	23.34	5.85	20.59	25.67	21.77	68.03
	2000	2.57	23.42	5.39	21.45	26.64	20.52	68.61
	2004	2.00	21.30	5.70	21.60	27.60	21.80	71.00
Czech Rep.	1995	4.69	33.26	8.65	23.17	16.33	13.90	53.40
	2000	5.30	34.48	4.40	25.60	18.34	11.88	55.82
	2004	2.70	32.00	6.20	24.40	18.30	16.40	59.10
Hungary	1995	6.75	26.28	4.62	22.27	19.57	20.51	62.35
	2000	5.22	31.30	4.46	21.61	18.72	18.69	59.02
	2004	3.30	25.40	5.20	21.00	21.00	24.10	66.10
Poland	1995	6.92	31.67	7.27	27.42	9.17	17.55	54.14
	2000	5.63	33.99	7.54	29.39	8.31	15.14	52.84
	2004	2.90	26.60	5.60	28.30	16.40	20.10	64.80
Slovakia	1995	5.71	31.56	7.57	28.86	17.32	13.98	60.16
	2000	5.42	31.13	3.46	27.66	15.41	16.92	59.99
	2004	3.90	26.50	5.60	25.80	21.30	16.90	64.00

Source: OECD [10], ECB [2] and own calculations.
1 Agriculture, hunting, fishing, fish farming
2 Industry, including energy
3 Construction
4 Trade, repairs, hotels, restaurants, transport
5 Financial services, real property, rental, commercial services
6 Other services
7 Total services (4+5+6)

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