

TATRA SUMMIT 2018 SETS FORTH SOLUTIONS FOR CEE'S FUTURE IN THE INNOVATION ECONOMY

From Central Europe's highest peaks, finance ministers, commissioners, business leaders and top thinkers shared common visions and launched collaborative actions to sharpen Europe's competitive edge in a rapidly evolving global economy. Gathering at GLOBSEC Tatra Summit 2018 in Štrbské Pleso, Slovakia, from October 5-6, top business and policy makers took up today's toughest issues and brainstormed new approaches to the continent's most serious challenges, including increasing regional investment, the future of Europe's labour force, strengthening EU's entrepreneurial environment, and embodying European values in policy and practice. Forthcoming over the next few weeks, GLOBSEC will release a series of detailed policy recommendations for increasing economic competitiveness, but briefly below are TS18's Top Takeaways.



ON THE SIDELINES:

V4 Finance Ministers' declarations

- ▶ The Finance Ministers of the Czech Republic, Hungary, Poland and Slovakia signed a declaration supporting the speedy adoption of a European digital tax directive
- ▶ The V4 ministers also signed a declaration concerning regional contributions to the European budget
- ▶ The Finance Ministers of the Czech and Slovak Republics signed a bilateral agreement on the automatic exchange of information on value added tax (VAT)

Slovak Battery Alliance

- ▶ The Slovak Battery Alliance was launched in the presence of policymakers as well as experts and senior figures from the automotive industry and other business sectors
- ▶ The goal is to create an innovative, sustainable and competitive ecosystem for Slovakia's battery industry
- ▶ The Alliance is also a first key step towards Slovakia assuming a leading role in promoting clean mobility across Europe
- ▶ The initiative is supported by the European Commission, the Office of the Prime Minister of the Slovak Republic and the European Investment Bank

Slovakia's Priorities for OECD Chairmanship

- ▶ Slovakia will put heavy emphasis on the transformational impact of digitalisation
- ▶ On the national level, Slovakia is preparing to update its Digital Strategy and define particular activities for this cross-cutting sector
- ▶ The aim is to transform Slovakia into a knowledge-driven economy that can adapt to the needs of the fast-changing world

Venture to Future Fund

- ▶ Slovak Investment Holding is establishing Venture to Future Fund (VFF), a venture capital fund designed to enhance the innovative potential of Slovakia's economy and provide a boost to the country's underdeveloped equity market
- ▶ The fund will invest into premium SMEs in the growth stage of their business cycle with a special focus on future oriented, innovative technological companies
- ▶ The expected fund size is up to 40 million EUR and duration of the fund is 10 years

GLOBSEC Vision for Europe Taskforce

- ▶ The work of the GLOBSEC Vision for Europe Taskforce officially began at Tatra Summit 2018, with Minister of Foreign and European Affairs of the Slovak Republic Miroslav Lajčák delivering opening remarks at the inauguration session
- ▶ Current and former leaders from Central and Eastern Europe, and high-level experts assessed the current division lines in Europe and their potential consequences for the political, economic and social stability, and began the initial conceptualization of a constructive Central and Eastern European perspective
- ▶ Next year, the Taskforce will use its expertise and experience to build a vision that will bridge European divides, through working on issues where common understanding can be reached

DIFF GOV - European Governance

- ▶ DIFF GOV is an international project which explores the potential for flexible modes of cooperation between European Union member states in four areas: economic cooperation; Schengen zone; Common Security and Defence Policy; and Foreign and Neighbourhood Policy
- ▶ The project aims to foster dialogue between researchers, experts and public administrations in order to enhance the governance of EU, contribute to a timely discussion on differentiated integration in Europe - with special attention paid to CEE - and to encourage more interest and understanding among the general public in the EU's decision-making processes

EUROPEAN UNION: WHAT LIES AHEAD?

“I want Europe to be an independent political and economic actor as China and US because we decide ourselves and because we can be so.”

Bruno Le Maire, Minister of Economy and Finance of the French Republic

Many challenges Europe needs to face are coming from the outside. However, the motivation to become more sovereign in its political and technological positioning needs to come from within. Even though the current US administration is paradoxically one of the best incentives to further the European project, we should strive to be more competitive and successful because we can and want to be so, not because the US is retreating from the world. Both businesses and politicians bear the responsibility for creating a strong and competitive Europe that can stand on its own and not be pushed around on the global stage.

@erika_widgren: Thank you @BrunoLeMaire for underlining that without Europe we would have been destroyed in negotiations with US recently. #TatraSummit2018 @GLOBSEC Europe is the only way forward to guarantee prosperous future of peace, freedom and social justice for all Europeans!

GLOBSEC's Vision for Europe Taskforce was launched in the presence of influential political and business leaders. Its purpose is to build a vision through constructive Central and Eastern European lenses. Divides in Europe do of course exist, and we need to be more responsible for our actions, participate at a greater rate in European processes and start bridging gaps through working on issues where common understanding can be reached.

Eurozone dynamics especially emerged in the weekend's discussions, since Europe is fragmented by different perspectives on the euro. Although often misused to explain political and social challenges that Member States face, some speakers emphasised that Europe's common currency is what keeps the group together. In general, Europeans support the euro, but they do not trust European institutions and don't want "more Europe". According to the expert discussions taking place at Tatra Summit, it is unlikely that a eurozone budget will emerge within the upcoming process for the Multiannual Financial Framework. They say the eurozone will likely not be larger in either the short or medium term, and that the EU should not push countries that are reluctant to join. Economic imbalances in the EU persist and it's hard to correct them.



Brexit also remains a perplexing challenge for the European Union. The clock is ticking and there is still no agreement reached yet. Although it is still possible to have a deal, it is very unlikely it will happen within the coming short 6 months. Regardless of what happens until March 29th, the real work begins after the official withdrawal. There is no precedent here, the UK and the EU are writing history by working out every single detail on how to withdraw the UK from the block.

“If the middle class is shaken, the democracy will be shaken too.”

Gordon Bajnai, Chairman of the Global Advisory Board, Campbell Lutyens

Despite increasing prosperity in Europe, there is a tangible dissatisfaction on the part of European citizens with their political representatives. The middle class especially feels like it is not reaping the benefits of Europe's slow but steady economic growth. People are not happy because they feel their children and grandchildren can no longer be sure their future is bright.

“While numbers show us that growth is there, people are still dissatisfied. There is a convergence on GDP level, but not in terms of wages.”

Vladimír Dlouhý, President, Czech Chamber of Commerce

GDP convergence between the CEE and Western European countries has been progressing relatively well, but since wages continue to lag behind, the perception of the process as a whole remains largely negative. Beyond bigger pay raises in the region, increasing investment in human capital to attract employers with more added-value jobs is one crucial way CEE can transform from a manufacturing hub to an innovation-driven economy.

“We have been through many crises but we have survived rather than solved them.”

Miroslav Lajčák, Minister of Foreign and European Affairs of the Slovak Republic

French Finance Minister Bruno Le Maire argued that political leaders have failed to offer any credible vision or express enough political will to address the true concerns of their citizens. Slovak Finance Minister Peter Kažimír echoed this insight by saying that policymakers, business leaders, and the media all know what needs to be done, but there is not enough resolve to put the tools to use nor to deliver on the promises made to Europeans. Minister Kažimír also sees the tendency to export our domestic problems to the European level as a major obstacle in taking decisions.

@karel_lannoo: We are lightyears away from a capital markets union, Erste's Andreas Treichl #TatraSummit2018

For the next six months, German Vice-Chancellor Scholz, Ministers Kažimír and Minister Le Maire identified the following as their priorities:

- ▶ Forging a constructive resolution of Brexit
- ▶ Preventing tensions in Italy from escalating to avoid another crisis, like we have seen with Greece
- ▶ Achieving Europe's banking union and moving decisively towards creating capital markets union, which is crucial for providing access to the capital needed to drive EU entrepreneurship
- ▶ Reaching an agreement on digital taxes by 2019
- ▶ Encouraging participation in European elections to ensure the appropriate legitimacy of any subsequent political projects

@CappelloEU: Top three concerns of EU finance ministers voiced at #TatraSummit2018 1. Get ready to face next financial crisis - need to complete #EMU 2. Lack of trust & confidence in good future in our countries - serious political instability 3. Lack of convergence within EU #FutureOfEurope

“Europe should use digital as a tool supporting the model and vision of where it wants to go.”
Ángel Gurría, Secretary-General, OECD

The future of liberal democracy in Europe is increasingly being questioned across the continent. Apart from economic dissatisfaction fuelling the rise of populist forces, technological progress is also often blamed for dismantling democracy. Brunswick Group’s Director Dex Torricke-Barton argued we should not perceive technology as the ultimate threat, but rather a tool which can help us improve the elements of our society. Even the most ordinary of technological tools could have a surprisingly positive impact, although technology in and of itself is by no means a silver bullet for all our problems. Technology does not have to be the straw that breaks democracy’s back. Various technological tools can be deployed, for example in the public sector, to improve the experience of interacting with our governments, thus increasing transparency and trust in our public institutions. Liberal democracy, therefore, may continue to strive even in the digital age.



COMPETITIVE ENTREPRENEURIAL ENVIRONMENT IN THE AGE OF INNOVATION

EU Competition Commissioner Vestager argued that Europe can fend for itself in matters of competition in a way which should not have to be perceived as anti-American. She sees the good relationship between competition and regulation as a prime example of a uniquely European way of doing business.

@MichalDunin: Europe needs to stay at the high end of the production chain, to do that we need to innovate and to innovate we need competition. @vestager, Commissioner for Competition, European Commission at @GLOBSEC. #tatrasummit18

Slovakia, for example, is expected to achieve over 80% of the average EU GDP next year, which shows that regulation does not necessarily hinder innovation and competitiveness. A number of guests shared Commissioner Vestager’s view that regulation is crucial to protect the role of SMEs which are the backbone of the European economy and provide stable and flexible support for large multinational companies.

Preventing abuse by dominant players in the market will also foster greater trust by consumers as well as among companies. Slovak Prime Minister Pellegrini also expressed the conviction that big players should pay their fair share in order to ensure that the transformation of the economy benefits all parts of society.



“Abuse of the dominance on the market creates distrust of the customers and hinders cooperation within the industry to advance the innovation.”

Margrethe Vestager, EU Commissioner for Competition

General consensus among all participants was that we definitely do need regulation. However, what matters most is what the process of defining what the regulatory framework looks like. Secretary-General of the OECD Ángel Gurría advocated for an inclusive process where all stakeholders need to be involved – especially all groups of consumers.

“It remains a challenge to make the voice of various consumers heard by the regulator.”

John Lepore, General Counsel, Policy and Advocacy, Mastercard

Daniel Křetínský, Chairman of the Board of Directors of EP Holding, cautioned that emerging European giants need to be part of the discussion too, as including their inputs is the only way to ensure that they will endorse the rules and abide by them. He maintained that current anti-trust rules are obsolete and no longer relevant for the fast-paced digital age.

“Emerging tech giants of today require an updated set of anti-trust rules.”

Daniel Křetínský, Chairman of the Board of Directors, EP Holding

What is also of crucial importance is the speed by which regulations can be set up or updated. Europe is especially at risk of losing its competitive edge due to lengthy decision-making processes on regulatory proposals. That said, the EU was also largely praised for the quality of its regulatory policies so far.

@VasakovaLivia: We can do both #digitaltaxation and having #digital giants in the #EU. Single #digital market with the same rules will create scope for innovative digital companies. @BrunoLeMaire at #TatraSummit2018

“We have to rethink value creation and taxable presence. Some digital companies never set a foot in a country but have a very good business there.”

Margrethe Vestager, EU Commissioner for Competition

One of the biggest challenges of regulating the digital economy is the issue of corporate digital taxes. What makes digital taxation complicated is the nature of value-creation in the digital world that often takes place across multiple countries due to consumers' use of any given service. Nonetheless, we need to agree in principle on what should be taxed, even if the exact level of taxation should remain in the hands of national governments. To this end, the finance ministers of the V4 countries signed a declaration supporting a speedy adoption of a European directive that would put digital tax into practice.



@KazimirPeter: #V4 countries have signed joint declaration at #TatraSummit2018 today, underscoring the need for long-term and interim European solution on fair taxation of #digital #economy

Tax systems were also a topic of discussion as a very powerful tool to shape more equitable and sustainable societies. Specialists in the subject suggest the EU should strive for more, but not full harmonisation of its tax systems, since different systems can encourage innovation in specific sectors, which in turn can lead to significant behavioural changes in societies.

INVESTMENTS IN THE CEE

With the EU's Structural Funds and Cohesion Fund nearing the end of their terms, Central and Eastern Europe (CEE) will soon rely on newly designed tools for financing investments in the region. InvestEU can be one way to upgrade how European public investment works. At Tatra Summit, EIB's Investment Initiative also made significant progress towards its establishment by receiving an endorsement from the V4 finance ministers to launch feasibility studies on how to create, design and establish this investment platform.

“InvestEU has to continue supporting segment of the SMEs as the best way to grow domestic capital which supports economic growth.”

Przemysław Cieszyński, Member of the Management Board, Bank Gospodarstwa Krajowego

The primary responsibility for creating favourable conditions for economic growth nonetheless remains with national governments and their budgets. European funds should serve only as complementary resources. Otherwise, the region runs the risk of creating a vulnerability – once the funds run out, convergence will cease.

“If EU funding is substituting rather than complementing private investment, then we are not really catching up.”

Biswajit Banerjee, Chief Economist, Ministry of Finance of the Slovak Republic

Apart from utilising national budgets, economic policies have to allow private capital to participate in large investment projects. One effective way to achieve this is to connect public policies at the national and local level with major technology companies capable of providing solutions for the investments' realisation.

Cooperation and coordination among CEE countries in terms of fostering appropriate conditions for entrepreneurs is of essence, which is why the Danube Valley Initiative is so highly appreciated by the European Investment Bank as well as a number of entrepreneurs already taking part in it. Slovak Prime Minister Peter Pellegrini also highlighted Slovakia as one of the engines of this ambitious project.

Public and private sectors have an equally important role to play when it comes to transforming the CEE region into a Tech Valley. The public sector needs to create better educational systems, promote entrepreneurship and incite cooperation amongst the different stakeholders, whereas the private sector needs to invest in more high-risk, high-return projects. It is also of crucial importance for the public and private sector to cooperate to find the unique selling point of this region instead of just trying to imitate the Silicon Valley in Central and Eastern Europe.

@ditaprikrylova: “TOP 9 digital companies make 1/5 of European GDP in revenues.” @VazilHudak Vice President EU Investment Bank, panel on Digitalization #tatrsummit2018

Economic growth in the region can be greatly enhanced by placing a focus on the digitalisation of already existing elements of region's economy. However, European Investment Bank's Vice President Vazil Hudák pointed out that around 110 billion euros would need to be invested in research and development in order for Europe to really catch up with the US and China. The gap in such investment is very much visible in how far major European companies lag behind their American and Chinese competitors.

“Enhancing elements of current CEE economy with digital innovation can turn the region into massive driver of economic growth in Europe.”

Pablo Chavez, Vice President, Global Public Policy and Government Affairs, Google Cloud

The Central and Eastern European region has tremendous potential to create conditions for increased industrial research and development. Around 40% of jobs in CEE will cease to exist due to automation, thus freeing up a lot of human capital that will nevertheless require a lot of investment in reskilling. In addition, national governments can and need to create attractive frameworks for large companies outsourcing their research and development to this region.

Building on the strengths of the region, the investments should be directed to innovations in the automobile industry in order to make the economic transformation more gradual and organic. Although self-driving cars pose serious challenges to the future of this sector, there are ways how CEE can become a leader in new aspects of the manufacturing of cars and digitalisation of transport infrastructure. The launch of the Slovak Battery Alliance at GLOBSEC Tatra Summit 2018 is one of the first signals of a coordinated effort to deploy innovation in this well-established sector of the CEE economy.

@MarosSefcovic: *It's through the ongoing 4th industrial revolution that new technology and #innovation ecosystems are emerging. Delighted to launch the #SlovakBatteryAlliance w/@VazilHudak @peterkmec @KazimirPeter. Inevitable to jump on this train, as #Slovakia tops in per capita car production.*

Vice President of the EU Commission for the Energy Union Maroš Šefčovič and the President of the International Chamber of Commerce Czech Republic Vladimír Dlouhý also both agreed that regardless of the amount of EU funding available, a new approach is needed to applying and using these funds within CEE. The region lacks enough experience in applying for funds in a correct way. Consequently, there is low number of projects coming from the CEE, especially those of high quality, and many are not approved due to administrative shortcomings. Simplifying the burdensome administrative procedures and more assistance as to how to apply for EU funds could, among other things, have a positive impact on the volume of infrastructure investment in the region.

“The most opportunities for digital innovation are in agriculture, health and public sector. That is where most of the investment should be directed to.”

Tamás Bernáth, Chairman & CEO, Hungarian Development Bank

No investment will bring its desired impacts without investing in the human capital of the region. Education and capacity-building is crucial to avoid the brain drain that is all too common a characteristic of CEE's changing labour force. Education not only needs to be improved, but also better aligned with the employment needs of industry. To that end, Slovakia's dual education system is already starting to bear fruit in the main sectors of the economy. Overall, entrepreneurship in the region could still use a boost as well as a step change in society's attitude toward it.

THE FUTURE OF EUROPE'S LABOUR FORCE

As Prime Minister Pellegrini clearly acknowledged in his opening speech, the current economic model will not take us much further. There are new forms of business and markets emerging all around the world. The only way to safeguard prosperity is to seek a knowledge-driven economy.

“In order to increase efficiency and productivity in the CEE, we need to move from purely infrastructure-oriented funds to investing in human capital.”

Maroš Šefčovič, Vice President for the Energy Union, European Commission

At the same time, Secretary-General of the Organization for Economic Cooperation and Development, Ángel Gurría, cautioned that we have to be careful that large segments of society do not get trapped in a non-digital economy because of their lack of skills and understanding of technology. With so many aspects of society going digital, these people run the risk of losing access to even the most basic services.

@maitheyi_s: *Is digital changing democracy? Well There are lots of angry people around the world. They are either voting for complete change or not voting at all due to their anger, says @A_Gurria #OECD #TatraSummit2018*

We have to deliver on the promise of achieving equality, especially in education and healthcare to close the gaps widening under the digital transformation. We have already seen some achievements in levelling the playing field in other sectors. For example, digitalising financial services has immensely contributed to increasing the financial inclusion of vast swathes of the global population into the global economy.

Even though we will witness a large number of jobs disappearing, companies realise their responsibility towards their employees. Increasing numbers of companies invest in reskilling their staff and ultimately providing safer and more engaging jobs with higher added-value. Though the responsibility will increasingly come to lie with the companies themselves, national education systems must also catch up and be responsive to the needs of future industries. Rethinking the education system is crucial for boosting productivity and competitiveness in the region.

Given CEE's high job turnover, SMEs have little incentive and less capacity to train their employees and invest in future-oriented skills of the workforce. This situation can be improved through targeted tax incentives and joint programmes with educational institutions. Integrating entrepreneurial components into STEM education will help also the region integrate their well-trained science and IT graduates into the innovation economy.

Transformation of education will not happen through centralised state efforts alone. For the large part of the population still involved in today's industrial economy, transitioning to new types of jobs with flexible work contracts for different types of skills will not be stress-free. Continuous dialogue between state agencies, workers, and businesses will help design and adjust transition models that include life-long training, upskilling, and unemployment support.



“It makes a difference whether governments think about the next election or the next generation.”

Miroslav Lajčák, Minister of Foreign and European Affairs of the Slovak Republic