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# Macro-Regional Strategies

## *Experiment for the Renewal of Economic Policy of the European Union*

**SUMMARY:** The EU's economic policy is based on political experiment and innovation. We are placing the macro-regional strategies into this learning procedure and positioning them compared to the economic policy toolkit of the EU. After analysing and comparing these new concepts (Baltic Sea, Danube and other potential macro-regional strategies) we classify the EU's economic policy in terms of implementation and coordination. Accordingly, macro-regional strategies are cooperative, have soft coordination and their territorial-functional focuses reflect increasing differentiation and integration. In our view, potentially feasible, more tightened fiscal and sectoral coordination through macro-regions can give a new impulse to the cooperation on EU level and improve EU's competitiveness. Still, limited EU resources, insufficiently deep integration and softer coordination can all enhance the fragmentation further and can notably limit the room for manoeuvring of the EU in tackling external, internal challenges.

**KEYWORDS:** European Union, cooperation, Member States, economic planning

**JEL-CODES:** F55, O52, P11

**I**n the spirit of the renewal and restructuring of Community regional policy – 20 years after the collapse of Central-East European planned economic systems, and five years after the greatest enlargement of the European Union – the European Commission released the *first EU macro-regional development strategy* in June 2009 (European Commission, 2009a), covering the Baltic Sea region. Slightly more than a week later, the European Council invited the Commission to present a second development strategy before the end of 2010. This new strategy embraces the Danube macro-region, with the first Baltic Sea region strategy serving as blueprint (Council of the European Union, 2009).

The Commission defines macro-region as: „an area covering a number of administrative regions but with sufficient issues in common to justify a single strategic approach” (European Commission, 2009a). The physical boundaries of macro-regions may vary according to the

content of the targeted policy area, strategies based on them should provide an integrated and facilitating framework that makes problem solving easier. (European Commission, 2009c).

Macro-regions basically consist of geographically associated states: partly Member States of the Union, partly third neighbouring countries from the region. Macro-regions actually establish a new mezzanine level between the national (member state) and the supranational (community) level. Compared with traditional regional policies, the new governance structure and processes signify the primary innovation in this case. (Schymik, C. – Krumrey, P., 2009).

Macro-regional cooperation is driven by the goal to implement cross-border projects alongside common challenges and interests in a coordinated way (Euractiv, 2010b; European Parliament, 2010). This results in policies with in geographically alternating borders (so-called „variable geometry”) based on functional regions (European Economic and Social

Committee, 2009). Macro-regional strategies can serve as an important instrument to deepen integration and strengthen territorial cohesion, for the size and economic development of the countries participating in the Baltic Sea, and Danube strategies are highly heterogeneous.

*Bundling policies targeting different sectors and cooperation enhance efficiency and the chances for success, they allow for new division of work and specialization. At the same time it is only possible to raise added value and uncover untapped potential if the solutions are custom tailored to the specifics of a given macro-region.* States, local and regional governments, regional development institutions and different civil organizations are also important partners of this strategy, since they play a distinctive role in the success of regional development and cross-border cooperation (DunaLog, 2010).

## MACRO-REGIONS IN THE EUROPEAN UNION: FROM CONCEPTS TO IMPLEMENTATION

Thus, for the time being, only one macro-regional strategy (Baltic Sea Strategy) is in the phase of implementation and another (Danube Strategy) is under development. At the same time, one can also regard the Baltic Sea Strategy as an experiment, which in the case of successful implementation can give an incentive for the establishment of further macro-regions and can serve as a model for elaborating the strategies and action plans. If the Baltic Sea and Danube Strategies fulfil the expectations or perhaps separate resources are allocated to them within the Community's budget for 2014–2020, then further macro-regions are very likely to be established.

On the Spanish part there has already been an initiative in the Committee of the Regions (CoR) to establish macro-regional cooperation among Western Europe's maritime countries through the so-called *Atlantic Strategy*.

According to initial plans, the new macro-region would focus on environmental protection and preserving the biodiversity of Atlantic coastlines, as well as the common development of key maritime sectors (tourism, sailing, fishing, off-shore mining and energy production, marine research and development, maritime transport, naval construction, development of ports) (Euractiv, 2010a). However, while the Baltic Sea Strategy gained significant momentum under the Swedish EU Presidency, in the first half of 2010 during the Spanish Presidency there was not much progress made in elaborating the Atlantic Strategy. If this third strategy is carried out then "left out" Mediterranean Member States are also expected to establish their own macro-region, which – following the example of previous ones – could be the *Adriatic–Ionian Strategy* (Mantica, 2010). Nevertheless, if the Baltic Sea and Danube Strategies do not result a breakthrough in the renewal of the regional policy then the development of further macro-regional strategies can also grind to a halt.

In *Table 1*, we have taken the former, optimistic scenario as a starting point and envisioned four European macro-regions. In case of potential macro-regions, to determine the circle of participant countries we have taken geographical aspects on the one hand and the experience of the Baltic Sea and Danube Strategies on the other hand as basis. Nonetheless, other different constellations can be also realized, as for example those countries that would be accidentally driven out from Danube Strategy, can join the Adriatic–Ionian Strategy or the easement of the EU–Belarus relationship can also lead Belarus joining the Baltic Sea Strategy.

### European Baltic Sea Strategy

It is the characteristic of Nordic Member States that they serve as a model in the conception shaping of the elements of the European

Table 1

**EXISTING, EVOLVING AND POTENTIAL MACRO-REGIONS OF THE EUROPEAN UNION**

Participant countries	Functioning and evolving macro-regions		Further potential macro-regions	
	Baltic Sea Strategy	Danube Strategy	"Atlantic Strategy"	"Adriatic-Ionian Strategy"
EU Member States	Germany, Poland, Denmark, Sweden, Finland, Estonia, Latvia, Lithuania (8)	Germany, Austria, Slovenia, Czech Republic, Slovakia, Hungary, Bulgaria, Romania (8)	United Kingdom, Ireland, Belgium, Netherlands, Luxemburg, France, Spain, Portugal (8)	Italy, Greece, Malta, Cyprus (4) <b>Potentially:</b> France, Spain, Portugal (+3)
Third countries	Russia (1) <b>In the long run:</b> Belarus (+1)	Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Ukraine, Moldova (6)	Norway, Iceland (2)	Albania, Macedonia, Turkey (3)
<b>Total</b>	<b>9 (+1)</b>	<b>14</b>	<b>10</b>	<b>7-10</b>

Source: the authors themselves

Union's economic policy beyond the Lisbon Strategy aimed at raising competitiveness by now also for macro-regional conceptions. Cooperation in this region has a long and successful history (for example Nordic Council, Nordic Council of Ministers, Council of the Baltic Sea States, Baltic Sea States Subregional Cooperation), although the economic and financial crisis hit this area particularly hard. The renewal of the model for cooperation of Nordic States through the initiation of the macro-regional strategy formulated for the Baltic Sea was timely under the Swedish presidency, although the Member States concerned had already requested this before the German presidency. Besides cohesion objectives relating to new Member States, it also played an important role that due to the fragmentation of the region into smaller states, there is still little internal competition even with the past strategic cooperation and task sharing, and adequate

economies of scale have not yet been realized against the background of globalization.

The Commission submitted the Baltic Sea strategy and the corresponding action plan on 10 June 2009 (European Commission, 2009a; European Commission, 2009b). This strategy rests on four pillars, where European intervention is needed: environmental protection, economic development, enhancement of the geographical accessibility and attractiveness, and strengthening the security of the region (Euractiv, 2010b). We have previously hinted at the fact that the Baltic Sea strategy is also an experimental strategic project of the EU, for the continuation of designing new macro-regions greatly depends on the success of this strategy. The revision of the Baltic Sea Strategy, the presentation of implemented projects and their evaluation will be on the agenda – under the Polish EU presidency – in 2011 (Pop, V., 2009).

*Looking at the action plan of the strategy, unfortunately it is very clear that new Member States participate the least in the implementation of the strategy, although they presumably have the strongest interest in its results. Table 2 summarizes the elements of the Baltic Sea Strategy.*

## European Danube Strategy

At the summit of 18–19 June 2009 held in Brussels, the Heads of State or Governments called on the European Commission to work out the Danube strategy by the end of 2010 at the latest (Council of the European Union, 2009). The formal discussions, stakeholder conferences and public consultations took place between November 2009 and May 2010. The Commission has come forward with the proposal for the Danube Strategy and the related Action Plan on 8 December 2010 (European Commission, 2010b; 2010c). The Heads of State will be able to adopt the Danube Strategy – hopefully still under the Hungarian EU Presidency – in the summer of 2011.

Whereas each country taking part in the Baltic Sea Strategy is geographically located on the Baltic Sea coastline, countries not located *along the Danube* have also indicated their intention to participate in the Danube Strategy. In this context, *the macro-region covers the broader catchment basin of the river* (see Chart 1), giving the strategy a chance to focus on others besides only Danube-related projects. The number of countries – especially third countries outside of the EU – that intend to participate in the Danube Strategy is much higher than in the Baltic Sea Strategy. The cooperation also has antecedents (Danube Commission, Danube Regions Working Group, International Commission for the Protection of the Danube River, The Visegrad Group), the experiences of which one can build on during the implementation of Danube Strategy.

*On behalf of Hungary*, the Ministry of National Economy (formerly the Ministry of National Development and Economy) is responsible for the Danube Strategy. The Ministry has set up the so-called *Inter-Departmental Expert Committee for European Danube Strategy*, which takes part in strategy building and in which the ministries concerned as well as professional and local organisations participate. *Table 3* presents the Hungarian proposal regarding the focus points of the Danube Strategy.

According to the Communication and Action Plan of the European Commission of 8th December 2010 (European Commission, 2010b; 2010c), the Danube Strategy is built on *four pillars with eleven priority areas* (see *Table 4*) that currently covers 129 actions. However, compared to the Baltic Sea Strategy the Commission’s proposal concerning the Danube Strategy did not mention the coordinators of the priority areas, and did not contain separate horizontal actions. In its press release issued on the 3rd of February 2011 in Budapest (Commission, 2011), the Commissioner for Regional Policy, Johannes Hahn, revealed which countries and provinces would be the coordinators of the various priority areas. We can see that two countries or provinces will lead the implementation of the strategy on every priority area in contrast to the Baltic Sea Strategy, where there are EU Member States that coordinate certain areas on their own. Another difference between the Baltic Sea and the Danube Strategy is that the latter has not yet made a distinction between strategic or cooperative actions.

## The EU Concept of Macro-Regional Strategies

Member States within a macro-region participating in macro-regional development strate-

Table 2

**CONSTRUCTION OF THE BALTIC SEA STRATEGY**

Structure of the Action Plan: pillars corresponding to the challenges of the macro-region, their priority areas, horizontal section		Coordinator*	Measures and their types**
<b>Pillar I: Making the Baltic Sea environmentally sustainable</b>			
1)	Reduction of nutrient inputs to the sea to acceptable level	FI/PL	5 (2 strat + 3 coop)
2)	Preservation of natural zones and biodiversity, including fisheries	DE	2 (strat)
3)	Reduction of the use and impact of hazardous substances	SE	3 (1 strat + 2 coop)
4)	Becoming a model region for clean shipping	DK	2 (1 strat + 1 coop)
5)	Mitigation of climate change and adaption to it	DK	3 (1 strat + 2 coop)
<b>Pillar II: Making the Baltic Sea region prosperous</b>			
6)	Removing barriers to the internal market in the Baltic Sea Region	EE	6 (2 strat + 4 coop)
7)	Exploitation of the full research and innovation potential of the region	SE/PL	2 (1 strat + 1 coop)
8)	Implementation of the Small Business Act: promotion of entrepreneurship, strengthening of SMEs and increase of the efficient use of human resources	DK	9 (6 strat + 3 coop)
9)	Reinforcement of sustainable agriculture, forestry and fisheries	FI	7 (4 strat + 3 coop)
<b>Pillar III: Making the Baltic Sea region accessible and attractive</b>			
10)	Improvement of accessibility, efficiency and security of energy markets	LV/DK	3 (1 strat + 2 coop)
11)	Improvement of internal and external transport links	LT/SE	5 (1 strat + 4 coop)
12)	Maintenance and reinforcement of the attraction of the Baltic Sea Region, in particular through education, tourism and health care	Tourism: Mecklenburg-Vorpommern Health care: Northern Dimension Partnership in Public Health Education: DE	10 (coop)
<b>Pillar IV: Making the Baltic Sea region safe and secure</b>			
13)	Becoming a leading region in maritime safety and security	FI/DK	4 (3 strat + 1 coop)
14)	Reinforcement of protection from major emergencies at sea and on land	DK	2 (1 strat + 1 coop)
15)	Decreasing the volume of and harm caused by cross border crime	FI	3 (1 strat + 2 coop)
Horizontal actions		COM	10 (strat)
<b>Total: 4 pillars, 15 priority areas and 10 horizontal actions</b>		<b>8 EU Member States, 1 German province, 1 regional cooperation</b>	<b>76 (37 strat + 39 coop)</b>

\* COM = European Commission, DE = Germany, DK = Denmark, EE = Estonia, FI = Finland, LT = Lithuania, LV = Latvia, PL = Poland, SE = Sweden

\*\*strat = strategical, coop = cooperative

Source: European Commission (2009 a/b); Baltic Sea Strategy and Action Plan; Bengtsson (2009); edited by the authors themselves

**MACRO-REGION OF THE DANUBE STRATEGY**



Source: European Commission

gies establish – as a new element – *equal partnerships* with each other as well as with regional and local governmental players. Furthermore, if possible, non-EU countries of the region shall also be included in the programmes (external dimension). Cooperation between the Member States generates *bottom-up processes* that are shaped into a strategy under the leadership and coordination of the EU and the Commission (*top-down*). The Commission continues to cooperate with the Member States concerned, and monitors the execution of the projects and controls the use of Community funds.

*The Union has not yet set a limit for the number of macro-regions, and there might even be overlaps between them.* A Member State can thus belong to more than one, for example Germany is a member of the Baltic Sea, as well as the Danube macro-region. This overlap has geographical, as well as economic reasons.

While within the Baltic Sea Strategy it is the role of North-German federal provinces that can become a decisive factor, in the Danube Strategy the same is primarily true for Baden Württemberg and Bavaria as the economic power and political influence of these states are traditionally great in the given areas. However, as the largest EU Member State and net contributor to the Community budget, the double participation of Germany serves as an excellent basis for being the engine for strengthening the cooperation in the entire Eastern-European region (German Foreign Policy, 2010). Overlaps can also play a role later during the distribution of EU subsidies, depending on the regulation of the new 7-year Community budget cycle.

The time allotted for the development of a strategy, between the invitation of the Council and the communication of the Commission, has in both cases been almost exactly a year and

Table 3

**PRIORITIES OF THE DANUBE STRATEGY ON THE HUNGARIAN SIDE**

I. Strengthening the safety and security of Danube area	II. Sustainable economic development	III. Strengthening regional identity and cooperation in the Danube area
1. Protection of natural heritage	1. Transport development in the Danube area	1. Value and heritage protection
<ul style="list-style-type: none"> <li>• Organizing biosphere protection</li> <li>• Management of common water stock and river basin</li> <li>• Improvement of the conditions for the protection of drinking water supply</li> <li>• Prevention of the spreading of cross-border pollution</li> <li>• Development of waste management</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring shipping waterways and instruments that meet the requirements of sustainability</li> <li>• Improvement of interregional transport linkages and free passing across the borders</li> </ul>	<ul style="list-style-type: none"> <li>• Dissemination of common European values</li> <li>• Protecting and making aware of common (architectural) heritage</li> <li>• Promotion</li> </ul>
2. Energy supply security	2. Tourism development in a manner protective of the landscape	2. Cultural
<ul style="list-style-type: none"> <li>• Development of energy networks and production capacities</li> <li>• Creation of local renewable energy systems</li> <li>• Improvement of nuclear safety</li> <li>• Development of energy saving</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of environmental conditions of waterside-related tourism</li> <li>• Building of a common tourism image based on landscape and cultural features</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening lingual-cultural coherence</li> <li>• Stimulating civil relations</li> <li>• Strengthening religious relation</li> </ul>
3. Improvement of social and economic security	3. Development of industrial conditions	3. Cooperation in education and training
<ul style="list-style-type: none"> <li>• Migration management</li> <li>• Prevention of crime</li> <li>• Pandemic prevention and E-healthcare</li> <li>• Disaster recovery</li> <li>• Development of local financial networks</li> </ul>	<ul style="list-style-type: none"> <li>• Development of knowledge-based and environmentally-friendly industries</li> <li>• Economy based on local resources and traditions (SMEs)</li> </ul>	<ul style="list-style-type: none"> <li>• Promoting the exchange of experiences and knowledge transfer</li> <li>• Broadening education and training networks</li> <li>• Improvement of environmental consciousness</li> </ul>
4. Food supply safety and security		4. Cooperation and partnership
<ul style="list-style-type: none"> <li>• Promotion of ecological and traditional agricultural development</li> <li>• Development of local markets</li> </ul>		<ul style="list-style-type: none"> <li>• Institutional and self-government cooperation at a local, regional, euroregional and international level</li> <li>• Extending common regional planning</li> </ul>
<b>Horizontal measures:</b> <ol style="list-style-type: none"> <li>1. Promotion of the EU single market</li> <li>2. Facilitating research and development, and innovation</li> <li>3. Moderation of the socio-economic and environmental consequences of climate change</li> </ol>		

Source: Ministry for National Economy of Hungary

Table 4

**STRUCTURE OF THE DANUBE STRATEGY**

Structure of the Action Plan: pillars and their priority areas corresponding to the challenges of the macro-region	Coordinator*	Measures
<b>Pillar I: Connecting the Danube Region with other regions</b>		
1) Improvement of mobility and intermodality by internal waterways, rail, road and air transport connections**	Internal waterways: AT, RO Rail, road and air transport: SI, SRB (interested: UA)	17
2) Promoting the use of sustainable energy	HU/CZ	17
3) Promotion of culture and tourism as well as people to people contacts	BG/RO	14
<b>Pillar II: Protecting the environment in the Danube Region</b>		
4) Restoration and maintenance of water quality	HU/SK	14
5) Management of environmental risks	HU/RO	8
6) Preservation of biodiversity, landscapes, and the quality of air and soil	DE (Bavaria)/HR	16
<b>Pillar III: Building prosperity in the Danube Region</b>		
7) Development of a knowledge-based society with the help of research, education and information technologies	SK/SRB	8
8) Support of the competitiveness of enterprises including the supporting of the development of regional cooperation (clusters) between enterprises	DE (Baden-Württemberg)/HR	7
9) Investment into human resources and skills	AT/MD	8
<b>Pillar IV: Strengthening of the Danube Region</b>		
10) Extension of institutional capacity and strengthening inter-institutional cooperation	AT (Vienna)/SI	9
11) Working together to tackle challenges of security improvement, serious and organised crime	DE/BG	11
<b>Total: 4 pillars and 11 priority areas</b>	<b>8 EU Member States, 3+1 third countries, 2 provinces of Germany, 1 province of Austria</b>	<b>129</b>

\* AT = Austria, BG = Bulgaria, CZ = Czech Republic, DE = Germany, HR = Croatia, HU = Hungary, MD = Moldova, RO = Rumania, SI = Slovenia, SK = Slovakia, SRB = Serbia, UA = Ukraine In appropriate cases, Bosnia and Herzegovina and Montenegro can also be involved into the coordination.

\*\*An overall coordination for this priority area needs also to be ensured.

Source: European Commission (2010 b/c; 2011); edited by the authors themselves

a half. *Chart 2* shows the detailed milestones of the process.

A macro-regional development strategy *structurally* consists of pillars, within that of priority areas, and of horizontal intervention areas. These latter two comprise the aforementioned specific projects, among them the so-called flagship projects. The *selection criteria for the projects* according to the evaluation table of the Community are:

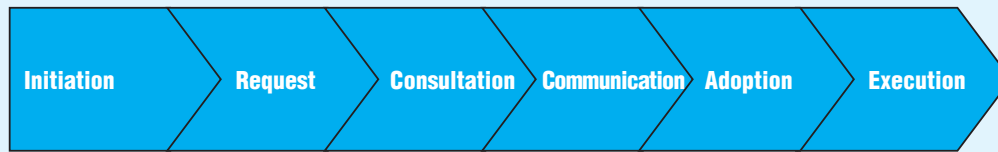
- transnational relevance (European benefits),
- market and political (state) failure tests,
- relevance for the macro-region,

- adequate interest and participation from the public as well as the concerned parties,
- maturity of the project.

One of the main limiting requirements of current macro-regional strategies is the *principle of the three No's*, according to which joint development projects have to be implemented without new funds, new institutions, and new (community) legislation (Joenniemi, 2009). The strategies need to create added value for the EU in such a way that they utilize the opportunities offered by current financial and legal frameworks through a more efficient



**IMPLEMENTATION OF MACRO-REGIONAL STRATEGIES**



- 1 In order to reinforce cross-border cooperation along their shared interests and manage development the **Member States** initiate the establishment of the macro-region.
- 2 Within the framework of the Council of the European Union the Heads of **State and Government** request that the **Commission** elaborate the details of the macro-regional strategy.
- 3 The **Commission** engages in external consultations within its concerned Directorates General with the involvement of the countries concerned, regional bodies and non-governmental organisations. They also hold conferences for the stakeholders.
- 4 The **Commission** issues a statement in which it presents the macro-regional development strategy and the related action plan.
- 5 The **Heads of State and Government** approve the macro-regional development strategy in the Council of the European Union.
- 6 The **Member States** start implementing the common projects, which is then controlled by the **Commission**.

Source: the authors themselves

actions, closer cooperation and coordination (Dubois – Hedin – Schmitt – Sterling, 2009; European Commission, 2008). Dispensing with new community institutions is a consequence of the fact that under the new Lisbon Treaty it is only possible to create such institutions through an amendment of the Treaty. Projects can be implemented through a more targeted and coordinated utilization of existing instruments and funds, and through a more efficient exploitation of opportunities contained in synergies.

The reform of the *Community budget* as well as the development of the new 7-year financial perspective (2014–2020) can – already during the Hungarian, Polish and Danish EU Presidency – in principle provide an opportunity to reallocate Community resources (e.g. cohesion and structural funds) to macro-regions. Nevertheless, heated debates are expected on both the magnitude and the allocation of the Community budget. In order to adopt the Community

budget, the unanimous decision of the Member States as well as the agreement of the European Parliament is required. For the time being, however, neither the projects of the Baltic Sea, nor the Danube Strategy can expect direct support from regional funds.

**THE CONNECTION OF MACRO-REGIONAL STRATEGIES WITH EXISTING EU STRATEGIES**

The economic policy of the EU enforces the principle of *unity in diversity* with regard to macro-regional strategies as well, which is the EU’s motto and its programme at the same time. Diversity also appears with regard to *competing national economic systems*. Their *synergic harmonisation* within the EU can result in the Community – as a unit – becoming more than the sum of its parts, the Member States. This is the logic followed by the EU’s growth strategy, *Europe 2020*, which is in fact a renewal of the

Lisbon process. (March-June 2010, IP/10/225). The Europe 2020 strategy builds upon the partnership of the EU and the Member States, it intends to embody the spirit of social market economy and initiate a modernization of national economic models. Though stakeholders, leadership, goals and instruments might be different in Europe 2020 and the macro-regional strategies, the two processes are still compatible in terms of intention.

**CONTROL INSTRUMENTS OF THE EUROPE 2020 STRATEGY**

The first thematic instruments assigned to steering the Europe 2020 strategy are

- three priorities: smart, sustainable and inclusive growth,
- five measurable EU headline targets: employment, research and innovation, climate change and energy, education, combating poverty,
- seven flagship initiatives:

Innovation Union, Youth on the Move, the Digital Agenda for Europe, Resource-Efficient Europe, An Industrial Policy for the Globalisation Era, An Agenda for New Skills and Jobs, and the European Platform Against Poverty. The second steering instruments beside this approach are

- country reports, system of integrated guidelines and country specific recommendations known from the open method of coordination.

Member States attempt to reach the goals of the strategy through instruments in compliance with their national specifics. The report on Europe 2020 and the Stability and the evaluation of the Stability and Growth Pact shall be published simultaneously. The Commission makes country specific recommendations that in the case of inappropriate reaction can be followed by a newly introduced policy warning in accordance with Article 121 (4) of the Lisbon Treaty.

*Source:* European Commission, 2010a

The *Stability and Growth Pact* serves as a fiscal and monetary basis of the EU's economic policy. The pact is basically destined to coordinate the financial policies of members of the

Economic and Monetary Union (so-called euro area) and of Member States aspiring to introduce the common currency. The appropriate operation of the Economic and Monetary Union requires close monitoring of the budget deficit of each Member State and making the necessary corrections in line with the interests of the Community. The tools of this hard coordination are not based on the cooperation between Member States, but Commission's and Council's warnings, recommendations for the Member States concerned or in the last case scenario on financial sanctions (Resolution of the European Council of Amsterdam on the Stability and Growth Pact, 1997).

**STABILITY AND GROWTH PACT**

With help of two mechanism, the pact basically ensures that the budget deficits of Member States fall short of the rate (3 percent of GDP) defined by the Maastricht Treaty.

**1 Preventive mechanism**

- Member State: annual submission of medium term stability or convergence programmes
- Commission: assessment of Member States' programmes and issuing of direct policy recommendations
- Council: giving opinions on the programmes of the Member States, submission of early warnings based on Commission proposals

**2 Dissuasive mechanism**

- Member State: gets into an excessive deficit procedure if, despite the preventive mechanism, the budget deficit exceeds 3 percent of GDP
- Council: issues recommendations, calls upon correcting the excessive deficit within a deadline

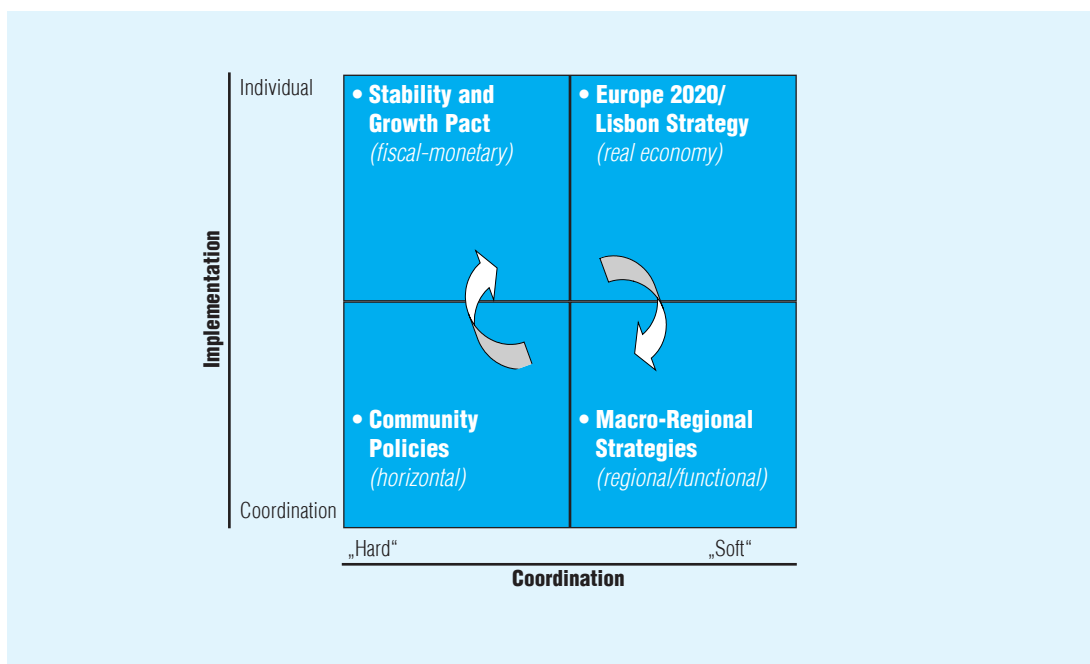
If a Member State does not comply with the above, there is also room for further measures and sanctions (e.g. penalty can be imposed to euro area Member States, part of the subsidies can be withheld etc.).

*Source:* Resolution of the European Council of Amsterdam on the Stability and Growth Pact, 1997

The new macro-regional development strategies within EU's economic policy also follow

Chart 3

**STRATEGIC ELEMENTS OF THE ECONOMIC POLICY OF THE EUROPEAN UNION**



Source: the authors themselves

the method of *political experimentation and innovation*. With Chart 3 we would like to demonstrate the characteristics of the determining strategies within the economic policy of the European Union regarding coordination and execution. While Europe 2020 and the Stability and Growth Pact are based on partnership between the supranational and the national levels, macro-regional strategies endorse cooperation between nations or their respective regions, also along common challenges and interests.

From a governance perspective we can state that *the political innovations of the European Union mentioned so far intend to differentiate and integrate the economic policy of the Community in a sectoral and spatial manner. Firstly they attempt to reveal and pursue common interests in a uniform manner within the framework of Community policies, later on functionally differentiated and bundled (first with fiscal-monetary then with real economic focus) and lastly with a spatial-functional focus. During the implementa-*

*tion of policies, common and individual approaches, during coordination hard and then softening methods alternate.* „Strong” methods for coordination are for example, in the case of Community policy, Council regulations and directives. In the case of the Stability and Growth Pact, the excess deficit procedure (EDP) of its dissuasive mechanism symbolizes “strong” coordination. „Weaker” coordination instruments by comparison are for example guidelines and country specific recommendations put to use in the Europe 2020 strategy (see box for coordination instruments of the Europe 2020 strategy). In the case of macro-regional strategies, the EU simply entrusts participating Member States or their cooperation with the project coordination. *The EU makes its increasingly focused economic policy innovations with loosening coordination, while it also integrates them sectorally and spatially “step by step” according to a learning process.* The EU’s economic policy is mostly inwardly focused, it doesn’t

attempt to globally position the EU in the international competition, for example with a strategic vision. In the case of the Europe 2020 strategy, a policy warning can be issued according to Article 121 (4) of the Lisbon Treaty, while in the case of the Stability and Growth Pact even a financial sanction is possible. In contrast, regarding macro-regional strategies one cannot clearly see how governance functions.

## OUTLOOK

Compared to the US and emerging regions, the European Union can apparently recover from the economic crisis at a much slower rate, as beyond the outstanding disadvantages in competitiveness that have been around for years, the Community is also hit by the stranded deepening of integration (e.g. internal crisis of the euro area, divergent fiscal policies of the Member States). In the global field of force, the USA-China axis seems to be gaining increasing strength. So far the implementation of innovations in the economic policies of the EU could not keep up with the trends (for instance demographical changes, migration) appearing in form of changes and challenges, and without having competitive advantages the EU, like Japan, seems to be falling behind in global competition. Furthermore, the development of a more uniform economic policy urged by several Member States has also failed spectacularly lately, the global cooperation between G-20 countries is likewise crawling. A contributing factor to this is the fact that on an international level, the EU enters into bilateral strategic partnership agreements promising short-term success, and the largest Member States are primarily engaged in strengthening their own hegemony. One obvious example is that large EU Member States also insist on separate memberships in various global organisations (except for the WTO), significantly hindering the

establishment of a uniform EU representation (Solbes, P. – Youngs, R., 2010).

The economic policy of the European Union is characterised by *dynamic learning processes* that seek to respond to both internal and external challenges. *External challenges* include for example the adaptation to conjunctural changes (like the current economic crisis) or immigration. *Internal challenges* are associated with such goal conflicts of the Community like the extension of harmonization and the preservation of the Community's diversity, or the further enlargement of the EU versus deepening integration. EU achievements so far (for example the internal market, monetary union) and desirable future economic policy aims could indeed fall victim to fragmentation. This threat is offset in the Europe 2020 strategy with the supplementation of national economic policies with supranational forums and participants. Competition here is carried out through learning from each other and the benchmarking of national economic policies and their modules, leadership and coordination are assigned to the institutions of the EU. The Economic and Monetary Union also contains similar elements, but this narrower integration is based on a contractual foundation and has much stronger opportunities for control.

As an institution of the Union, the goal of the European Commission is for macro-regions to use existing EU resources in a more efficient, effective, and responsible manner. At the same time, the coordination of sectoral policies and the use of Community resources can also become stronger through the formation of macro-regions. Macro-regions can also be suitable for smothering differences of interests between net contributors to and beneficiaries of the EU budget, old and new Member States, as well as states within and outside the EU. Moreover, a tighter coordination of fiscal and partial policies can strengthen the role of the Commission, while the development of

agreements between states is transferred from the Community level to the transnational level. *Implementation of joint projects within the framework of the new strategy therefore simultaneously creates a community of interest and shared responsibility between participating countries.* The formation process of new macro-regions could even accelerate and continue in a parallel fashion instead of the current serial one (perhaps with a deadline from the EU) – as a result of the restructuring of the community budget – if macro-regions were to appear as a new grant title in the new financial perspectives for 2014–2020.

*The macro-regional strategies of the EU and their positioning within the Union's economic policy are nevertheless in the very early stages.* From a governance and timespan perspective, they take a mezzanine position between the supranational and the national levels and the long and short term. Theoretically they can have numerous advantages, if in concept they satisfy the requirements against a strategy and thus possibly they are implemented. All of this serves current EU economic policy interests and governability. The fundamentals of the emerging macro-regional strategies point in this direction. The treatment of neighbourly mutual dependencies – within the EU (economic policy) framework – takes place for example with an emphasis on common interests, challenges and opportunities, along the organizational principle of subsidiarity. Greater geographic demarcation can make functional policies, common initiatives reach economies of scale, while from the perspective of the EU it is possible to have more focus, transparency, and better coordination. A macro-regional approach transcending national borders can thus help to reach better results, higher efficiency, and stronger integration for the EU as a whole.

While developing strategies, a number of *goal conflicts* must be taken into account, and as a result *tensions* can arise, such as

- a thematic tension arising from the overlapping political agendas of the participants,
- institutional tension among participating institutions,
- tension arising from EU coordination,
- tension between the various different instruments applied in relation to policies and resources,
- tension relating to power, and
- tension with the overarching goals of the EU (Dubois – Hedin – Schmitt – Sterling, 2009).

Tensions can only increase with the complexity of the economic policy of the EU and of the known macro-regional strategies. Although the Commission is steering the strategies, annual reports are prepared and the European Council deals with them biennially, *their implementation can still come up against practical obstacles and needs further simplification.* Even though implementation is the responsibility of a given Member State, it has to be coordinated over the whole territory of the macro-region and among numerous directorate generals (European Economic and Social Committee, 2009; Schymik, C. – Krumrey, P., 2009). *The conceptual and implementational aspects of the macro-regions' external dimensions are particularly uncertain,* where the aforementioned arguments are even more valid.

*Taking all the above into account, the EU's economic policy is still in need of further integration, simplification and streamlining.* With regard to external competition, the Europe 2020 strategy does not mention a vision anymore, such as becoming the most competitive economic region as envisioned by the Lisbon conception, and instead concentrates on five partial goals. *It seems that internal controllability and as yet unsatisfactory integration are the main constraints of the EU's ambition. In case of adequate development, macro-regional strategies could provide a partial solution to these internal challenges, that could also improve territorial focus and efficiency.*

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