

## JÁNOS KÓKA

Minister of Economy and Transport,  
Republic of Hungary

Ladies and gentlemen,

In his keynote address, Wim Kok made a very convincing statement. The Lisbon Agenda needs much greater commitment by the Member States and needs to be co-ordinated and enforced by the European Commission. These are the essential shortcomings that led to a halt of this demanding Agenda. In practice, Europe is no longer acting.

I would like to take this opportunity to ask how the accession countries and Hungary in particular can contribute to the success of the Lisbon Process. From my point of view, the current European situation is rather interesting. Traditional Western European democracies tend to be rather anxious about the fact that there are so many changes in their countries and that these changes tend to happen very fast. In Hungary the situation is quite the opposite. In Hungary, many people feel that change is too modest and comes too slowly. In Hungary, a generation is growing up that says: "We don't have time to wait for twenty, thirty years to close the gap between the Western and Eastern states. We want to gain momentum." At least in some areas our people not only want to be integrated, but want to surpass the rest of the European Union.

Responding to these ideas I would like to stress that we were already able to build a new economy and to create a new culture of entrepreneurship in Hungary within a period of approximately ten years. We were able to achieve such a high level of a market economy that other, more established European countries, were unable to reach in such a short period of time. Actually, we have never before seen a success story of this magnitude in Hungary, and, I would like to proudly add, this in a very short time span without bloodshed but in peace. However, Hungarians are still not satisfied. 70 of 100 citizens and companies believe that we are moving too slowly. They are not happy with the 3.5 percent growth rate, with the 6 to

7 percent unemployment rate, with the strongly flourishing stock market. They want to speed things up. Last year a total of 3.5 billion euros were invested in the country and the amount of FDI is expected to increase further this year. What is more important, these investments seem to be flowing increasingly into so-called intelligence sectors. But still some Hungarian companies are eager to move faster. Hungarians and all accession countries' citizens are hungry for success. They want to achieve something. For this they are willing to learn and acquire new skills, to work hard, to start new businesses and to be courageous when it comes to taking risks.

However, the question is, what do we Hungarians want to achieve and how shall we contribute to the EU Lisbon Process? I believe that we know exactly what we want. We want to increase our competitiveness. From 2007 onwards, accession countries will receive a lot of funds from the EU. We need to use them better than we have used them to date. Moreover, there is also an obligation towards the EU to use these funds appropriately.

I would like to draw your attention to the three most important projects with which we are planning to improve our competitiveness. Firstly, we would like to transform the Hungarian economy to a freer and more transparent economy. Secondly, we are trying to redefine the role of the state by attempting to leave at least some parts of state services to the market. In addition we would also like to make the remaining state services cheaper and more efficient. And thirdly, we will continue to dedicate massive investment efforts to infrastructure development. Surveys clearly show that there is a significant correlation between economic freedom and growth. In 2004, a total of 123 countries were ranked according to the level of economic freedom, and we jumped thirteen places on that ranking. Although we are very proud of this position, many people in Hungary consider the level of economic freedom as still too low.

Personally, I totally agree with the need for more economic freedom in order to increase competitive-



ness. However, besides these three main points, there are a number of other conditions that need to be established, if greater economic and entrepreneurial freedom is to be achieved. For instance, we need to conduct an intelligent tax reform, we need affordable loans and, in addition, a predictable, organized and transparent economic environment. Whether we like it or not, tax competition is one of the more obvious instruments to broaden economic freedom and to improve the country's competitive advantage over other countries. Naturally, there are other aspects that might prove to be vital in attracting foreign investors. These include improving productivity, modernising the sphere of public administration, demolishing barriers, erasing red tape and so on. But currently tax reduction is fashionable. It has recently become very popular in Eastern Europe. By the way, it is not us but Ireland that is responsible for bringing this type of tax reduction into motion in 2001. The country opted to reduce general tax levels from 35 percent to 25 percent as well as its corporate tax rates from 40 percent to 24 percent. Estonia was the first European country to introduce a flat tax system, and Lithuania, Russia and Ukraine, the Czech Republic and Slovakia followed in Estonia's footsteps. And even against considerable political fire from the left, the German Chancellor Schröder still managed to reduce tax levels as well. Last but not least, talks about reducing tax rates have currently also begun in France. Tax reform and deregulation is a must for all of us and the Hungarian government is keen to introduce these reforms. We have also other challenges such as meeting the Maastricht Criteria in the light of the need to close the infrastructural gap between Hungary and the developed Western European nations.

Another thing I want to mention is that the future will bring a new large free trade zone called Europe. I believe, this process is unstoppable. Perhaps the process can be delayed to a certain extent, but I do not think it is possible to bring it to a complete halt. Goods and capital are already moving freely in this zone. The free flow of labour and services are yet to be achieved. There are strong forces, especially in the old Member States, to prevent this from happening, but I believe these walls are going to tumble sooner than many would expect. But still, I have the impression that something went wrong. The current situation, after the rejection of the constitution in France and the Netherlands, is in my view very similar to a large multinational company that bought a small and smart company with higher growth potential and

greater flexibility. But rather than using the newly acquired company as a source of growth, it moves the new company to its own low level of performance. Are these countries really afraid of the newcomers? Fear seems to be the basic reason for the rejection of the constitution. Of course, we politicians have to blame ourselves as well. We Europeans were not smart enough to explain that the real challenges come from the United States and from Southern Asia and not from Eastern Europe. We can be a contributor to success and we can be a chance for all of the old EU states. Intensive business activity in Central and Eastern Europe, this is proven, can generate jobs in the western part of Europe. This was the case with several German and other investments in Hungary.

In this light, in order to increase competitiveness we need to redefine the role of the state. We need to make significant changes to reduce bureaucracy that is by far too large and too expensive. Here I am referring to the tendency of the states to squander funds and to exist in total disarray. This is not a Hungarian specialty, however. Most state bureaucracies tend to be just as excessive in their spending.

As we see, there is not a single problem for Hungarian society, there is not a single big secret. There is not a single key that can open the door to success, there is not a single reform that is missing, but there are rather many, many steps to take. 'There are a hundred steps' like an Hungarian proverb states. That is the reason why the Hungarian government is adopting a programme called the "Hundred Steps Programme", which tends to solve smaller and larger problems step by step from the health care and welfare systems to the labour market and education. Why doesn't the EU itself work out its own "One Hundred Steps Programme"?

Ladies and Gentlemen, for decades states have been occupied with the following question: How can we interfere with people's lives skilfully and effectively? Now, I think the right question today is, how can we remove ourselves, that is politicians and the state, from people's lives in a wise and fair manner? This is one of the most difficult questions politicians are facing today. All of Europe is looking for answers to this question. It seems, whenever we are making our new development plans, we need to listen more carefully to industry. We need to listen to the business people. We need to create appropriate macro-economic and micro-economic environments and then let the firms

do their jobs, because only they are generally able to address the relevant questions about competitiveness. How did Ireland become a superpower or how was a company, specialising in paper and rubber boot production, able to end-up as today's Nokia? These questions need to be answered. In Hungary we now know that intelligent questions merit intelligent answers and both are needed. I would like to stop with an African proverb, to express my gratitude for your attention here today: "Every morning in Africa, a gazelle wakes up. It knows it must run faster than the fastest lion or it will be killed. Every morning, a lion wakes up. It knows it must outrun the slowest gazelle or it will starve to death. What does that mean? It doesn't matter whether you are a lion or a gazelle, when the sun comes up you better start running."

Thank you!