

Interreg Central Europe 2021-2027

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in Annex 2). Gaps not only exist across countries but also between urban and rural regions. Closing these gaps will require time and continuous political efforts that have become even more challenging through the COVID - 19 pandemic and its negative socioeconomic effects (see dedicated COVID - 19 section in this chapter). Central Europe is a functional economic area and a major industrial centre of the EU. Despite their economic disparities, central European countries are strongly linked to each other. They share value chains in many manufacturing industries such as the automotive industry. The ESPON CE - FLOWS targeted analysis (VVA et al., 2020) shows that the area is home to globally important manufacturing hubs in e.g. Lombardy, Upper Bavaria and Stuttgart. Beyond these hubs, manufacturing plays a key role in most regions in the programme area. However, the degree of specialisation and regional interlinkages varies. In particular, manufacturing hubs in northern Italy, southern Germany and central Poland are highly specialised. These hubs add substantial economic value, feature very high productivity levels and contribute to key value chains with their surrounding regions. Keeping or further expanding this strong global position in the manufacturing industry is a major challenge. The 4th industrial revolution and EU - wide momentum for a green and digitised economy require a transition towards advanced technologies and a digitally skilled workforce. Value chains need to be reviewed, revised and newly created. The combination of technological progress and global competition implies that governments, businesses and citizens have to adapt in order to harness the potential benefits and not fall behind. This affects key business areas that are highly relevant for central Europe such as manufacturing, but also other smart specialisation (S3) technology priority areas and policy sectors such as: a) energy and environment; b) public health, medicine and life sciences; c) agro - and bio - economy; d) advanced materials and nanotechnology; e) transport and mobility; f) advanced manufacturing systems; or g) ICT and electronics. Another sector affected is the services sector, especially knowledge intensive services (KIS) in: a) high - tech services (telecommunications, computer programming); b) market services (legal activities, architectural and engineering activities); c) financial services; and d) other services (e.g. health and education). This important sector remains less developed in central Europe compared to other EU countries and not only needs to be modernised but further expanded. Its share in total gross value added is for example around 29%, while the average in other EU regions is 32% (wiiw, 2020). The challenge is to make use of local strengths, to incorporate them into S3 policies and expand existing or developing new economic activities. The tourism industry and the creative and cultural industries are positive examples. They are catalysts for using local knowledge to develop new activities. Tourism is well developed in coastal and mountainous areas of central Europe and important for local economies by providing up to 14% of total employment (based on 2017 NUTS - 2 regional employment). In more remote rural regions, tourism and cultural industries offer an untapped economic potential, for example by combining sustainable tourism with local crafts. To develop such activities, policy needs to support local stakeholders to set up coordinated and sustainable tourism strategies. The European Green Deal and the Territorial Agenda 2030 highlight the ecological dimension of the economic transformation and emphasise the role of the circular economy. Even though circularity is increasing in central Europe, many territories are still lagging behind the EU average. Catching up will require major efforts especially in Croatia, Poland, Czech Republic, Slovakia and Hungary (Annex 2, Figure 2 - wiiw, 2020). Circular design and production and circular economy - related innovations and investments need to be supported. Change could also be achieved through fostering bio - economy, when supporting the economic development of rural areas. A central condition for the transformation to a digital and green economy is research and innovation. The ESPON CE - FLOWS targeted analysis (VVA et al., 2020) concludes that cooperation between areas with different levels of research and innovation capabilities is essential to overall improve R&I potentials. In central Europe, there are huge differences in this regard (wiiw, 2020). Only few regions primarily in Austria and Germany exceed the EU benchmark of 3% of GDP for R&I expenditure (Figure 3 in Annex 2). R&I activities and related human capital are mostly concentrated in highly urbanised western regions of the programme area. In countries like Croatia, Czech Republic, Hungary, Poland or Slovakia this spatial clustering of R&I activities increased over time to the disadvantage of rural regions. R&I activities are also dominated by large companies, which account on average for 50 - 60% of commercial R&D expenditures. To tackle R&I - related challenges, policy needs to support networks of different innovation actors in and across countries. Better transfer of technology, policy learning and the sharing of best practices is necessary to improve innovation governance. A focus should be on SMEs to enable them to take up innovative methods such as key enabling technologies and prototyping, or to get access to financing, e.g. via venture capital. Technology and innovation transfer are still too limited to urban areas, where universities and research institutions are main drivers (ESPON CE - FLOWS, VVA et al., 2020). It will be key to overcome the urban - rural divide and to establish functional urban areas, which physically connect urban cores with their (rural) hinterlands. Fields for cooperation are interregional partnerships along value chains, green economy and cross - sector cooperation. Skills are also essential for a successful transition to a sustainable and inclusive high - employment economy. The skill supply in central Europe is suited to support this transition, with more than 80% of people having received upper secondary, post - secondary non - tertiary and tertiary education, which is at least six percentage points higher than the EU average in 2019 (Eurostat). Nevertheless, highly skilled people are concentrated mainly in urban regions (Figure 4 in Annex 2). Intermediate and rural regions have a high share of people who completed secondary education and that are connect urban and rural regions and tap their combined potential. The ongoing transformation of labour markets and the cross - country division of labour has increased

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PUBLISHED
07 Oct 2022

EXTENT
Europeo

SECTORS

Agricoltura, Agroalimentare, Alimentare, Audiovisivo, Commercio, Costruzioni, Cultura, Energia, Farmaceutico, Ict, Industria, Pubblica amministrazione, Sanità, Servizi, Sociale, Trasporti, Turismo

BUDGET

€ 280 779 753

AIMS

Cooperazione, Digitalizzazione, Formazione, Innovazione, Ricerca, Sviluppo, Tutela ambientale

PLACES TO INVEST

Austria, Croatia, Poland, Czech Republic, Slovakia, Slovenia, Hungary, Germany, Emilia-Romagna, Friuli-Venezia Giulia, Liguria, Lombardia, Piemonte, Valle D'Aosta, Veneto, Lower Austria, Greater Poland, Trento, Bolzano