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About the Conference

The conference *South East Europe's New Era - Regional Capacities and Business Opportunities*, was held in Brussels on November 7, 2002 in the Belgian Senate. The one-day conference was organised by Forum Europe in collaboration with the Stability Pact's Investment Compact for South East Europe (SEE), the Business Advisory Council of the Stability Pact, the Konrad Adenauer Foundation, Coca-Cola and *Humanitarian Affairs Review* and in partnership with the European Commission and the Business Humanitarian Forum. The US Government supported the event within the framework of the Investment Compact for South East Europe.

Introducing the conference, **Franz-Josef Reuter**, Director of the Brussels Office of the *Konrad Adenauer Stiftung*, put the focus on the policy measures needed to improve governance and the SEE region's economic and business environment.

Reuter reminded the audience that the Stability Pact for South East Europe had been set up to avoid future crises in the Balkans and to ensure a new approach to the SEE region and its position in Europe, thereby fostering democratic stability, enhancing economic development and stimulating regional collaboration.

Adding that much had been achieved since the Stability Pact's creation in 1999, Reuter called for a period of consolidation and a collaborative effort from all parties.

The conference brought together some 200 participants representing the private sector, financial and European institutions, governments, NGOs, banks and the media.

Reuter welcomed keynote speakers, **Erhard Busek,** Special Coordinator, Stability Pact for South Eastern Europe and **Zoran Djindjic,** Prime Minister of the Republic of Serbia, as well as **Mladen Ivanic**, Prime Minister of the Republic of Srpska (in Bosnia and Herzegovina) and a delegation from the Political Youth Organisation in Bulgaria, led by **Werner Münch** and assisted by **Sophia Kassisova** and **Milen Keremedchiev**.

The day's proceedings were split into three sessions, each one exploring a specific theme related to South East Europe, its current status and future opportunities.

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Conference Programme

First Session:

Building Civilian Capacities: Is Governance the Key to Transition?

Giles Merritt, Director of Forum Europe and Editor of *Humanitarian Affairs Review*, moderated the first session which addressed two questions:

Given that strengthening civilian resources for international operations is now an EU priority, the session asked:

- What are the major challenges being faced by SEE countries and in what direction should transition be headed?
- How can the work of the Investment Compact help underpin the political aspirations of SEE countries to EU association and eventually membership?

The speakers were: **Daniel Daianu**, Professor of Economics, Academy of Economic Studies, Bucharest and The Romanian Center for Economic Policies (CEROPE) and former Minister of Finance and Chief Economist of the National Bank of Romania; **Pierre Daurès**, Executive Vice President, Bouygues Group and Co-Chairman, Business Advisory Council to the Stability Pact; **Michael Holm Johansen**, Region Manager, Adriatic, Balkan and East Mediterranean Region, Coca-Cola; **Mladen Ivanic**, Prime Minister of the Republic of Srpska (in Bosnia and Herzegovina); **Doris Pack**, MEP; **Reinhard Priebe,** Director for Western Balkans, European Commission, Directorate General for External Relations; **Jadranko Prlic**, Deputy Minister for Foreign Trade and Economy of Bosnia and Herzegovina.

Second Session:

Business and Investment: The Opportunities and Barriers

Moderated by **John Maresca,** President, Business Humanitarian Forum, the session asked:

- What do private sector investors potentially interested in the SEE region see as the main business opportunities and prospects, and what do they consider as priority issues that still need to be dealt with?
- What has been the impact of investment on economic growth and social development so far?
- How has the transition process improved the business environment?
- What remaining obstacles to investment have been identified by the Business Advisory Council to the Stability Pact, by foreign investor councils and other private sector groups in the region?
- Are there specific problems encountered by the small and medium-sized enterprise (SME) sector?

The speakers were: **Serge Ameye**, Director Eastern Europe, Puratos; **Ronald Denom**, Senior Vice-President Eurasia, SNC-Lavalin International Inc., Member of the Business Advisory Council to the Stability Pact; **Benny Ginman**, Director of Government and Education Programmes for Europe, the Middle East and Africa, Intel Corporation; **Ronnie Goldberg**, Senior Vice President, Policy and

Program, U.S. Council for International Business; **Christoph Greussing**, Chairman and CEO of HVB Bank Yugoslavia, Secretary General of the Foreign Investors' Council in Yugoslavia; **Minco Jordanov,** Chairman of the Board of Directors, Makstil.

Session Three:

Reinforcing the Dynamics of Transition

Arno Riedel, Ambassador, Federal Ministry for Foreign Affairs, Austrian National Co-ordinator of the Stability Pact, moderated this session, which posed the following questions:

- How can the dynamics of the SEE region's transition be further improved?
- International organisations and EU policymakers are committed to improving capacity-building through better civilian-military coordination and greater coordination of agencies working in the region, but are their efforts producing results?
- On the economic front, to what degree has business confidence in the region been boosted by the Regional Ministerial Declaration on Attracting Investment to South East Europe, and by the Regional Memorandum on Facilitating and Liberalising Trade?
- In what way will they reinforce the business dynamic in the region?

The speakers were: **Rainer Geiger**, Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD and Co-Chairman of the Investment Compact for South East Europe; **Eléonore Kopera**, Managing Director, Business Humanitarian Forum; **Margaret Kostic**, Director, Southeast Europe, Export-Import Bank of the U.S.; **Charles Kovacs**, Vice Chairman of the Supervisory Board, SPB Investment Limited and Vice-Chairman, Committee on Non-Member Economies, BIAC - Business and Industry Advisory Committee to the OECD; **Margret Thalwitz**, Special Representative of the World Bank Group for South East Europe; **Nicholas Whyte**, Balkans Program Director, International Crisis Group.

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Executive Summary

“A call for a clear strategy”

Zoran Djindjic, Prime Minister of the Republic of Serbia, proclaimed a “new beginning” for South East Europe (SEE) and insisted that the opportunity must be seized. Forum Europe’s one-day conference on the region’s “New Era” underlined the complexity of the area and the opportunities and problems that beset it.

As a keynote speaker, Djindjic described a “dynamic improvement” in a region close to Central Europe and in possession of a “skilled workforce”. Prime Minister Djindjic argued that a clear strategy was required between the region’s countries and bi-laterally with the European Union, while stressing the need for the SEE region to be “closer to the European Institutions.”

Fellow keynote speaker **Erhard Busek,** Special Coordinator, Stability Pact for South Eastern Europe, saw the benefits in the SEE region being out of the headlines and claimed that there was a new momentum due to the possibility of the SEE countries joining the EU. Busek was positive about progress and compared the situation favourably with that existing at the conclusion of hostilities after the Second World War.

The need for governance

For Djindjic, it was not sufficient for the region to be part of an economic Europe. The Prime Minister called for the SEE countries to become a “fundamental part of the EU.” Djindjic listed three areas, upon which the future prosperity could be built:

- democracy throughout the region,
- the introduction of a market economy
- co-operation in the fight against crime and corruption

On his side, Busek described the SEE Stability Pact as the first serious attempt to replace crisis intervention by a long-term conflict prevention strategy and called for deeper co-operation across the region.

Despite these positive comments, there was acceptance that there was much work to be done. **Daniel Daianu,** Professor of Economics, Academy of Economic Studies, Bucharest, acknowledged progress but stressed that huge levels of unemployment remained. Daianu warned about “enlargement fatigue” setting-in, as this could have a negative effect on the SEE region. A “big push from the EU” was needed, according to Daianu, and this call was echoed by **Jadranko Prlic**, Deputy Minister for Foreign Trade and Economy of Bosnia and Herzegovina, who described the EU contribution as “modest” and **Mladen Ivanic**, Prime Minister, Government of the Republic of Srpska, who asked for increased investment in ‘Bosnia and Herzegovina’ as it “needed to be part of a larger market”.

As for the future, **Doris Pack,** MEP, insisted that assistance from the CARDS program be linked to the speed of democratic reform. Calling for countries making such reforms to be rewarded with fast-track entry to the EU, Pack warned that corruption, crime and human trafficking were still rife in the region.

Pierre Daurès, Executive Vice President, Bouygues Group and Co-Chairman, Business Advisory Council to the Stability Pact, insisted that, in order to attract investment, clear "rules of the game" were required. These should ensure economic stability, a code of conduct for both east and west Europe and *immediate* actions that facilitated further integration of the SEE countries within the EU.

Investment – opportunities and barriers

Looking at the overall picture, **Ronnie Goldberg**, Senior Vice President, Policy and Program United States Council for International Business, acknowledged that the region was moving forward but warned that 80 percent of ingoing investment was currently going to Croatia, Bulgaria and Romania. Stating that the aim was bring investment to the whole of the SEE region, Goldberg described such funds as "scarce" and the current reform measures as being "insufficient" to attract investors.

Taking up this theme, **Ronald Denom**, Senior Vice-President Eurasia, SNC Lavalin International Inc., Member of the Business Advisory Council to the Stability Pact, listed the problems that were acting as barriers to investment. These included:

- too great an emphasis on centralised decision-making,
- the existence of the grey economy,
- the difficulty for SMEs to receive credit
- the size and immaturity of the local stock and bond markets

Despite this, Denom remained "bullish and optimistic" and was supported by **Serge Ameye**, Director Eastern Europe, Puratos, who called for action to combat the natural "prejudices" that exist against the SEE region. Ameye stressed the positive facts such as the GDP increase in Romania which translates into increased consumer sales such as mineral water (27%) and cars (30%) and many others.

Minco Jordanov, Chairman of the Board of Directors, Makstil, demonstrated that progress could be made, giving details of a success story in Macedonia where the European Bank of Reconstruction and Development has assisted Makstil, the sole steel producer, to decrease costs and improve quality.

Is aid working?

Rainer Geiger, Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD and Co-Chairman of the Investment Compact for South East Europe, announced new monitoring tools within the umbrella of the Stability Pact's Investment Compact, to ensure that the recipients of the funds met their commitments.

Geiger acknowledged that more political support was needed for the Investment Compact' and called for *change* (to improve confidence), *sustained growth* (to create competition and entrepreneurship) and *vision* (to encourage a public/private dialogue via an extended 'Compact').

Eléonore Kopera, Managing Director, Business Humanitarian Forum, outlined a new methodology that had been introduced in Afghanistan. This involved foreign companies building infrastructure on a non-profit basis in order to give local people a sense of ownership. Kopera suggested that this methodology could be adopted to suit the specific conditions within South East Europe and could contribute to the creation of sustainable growth.

Charles Kovacs, Vice Chairman of the Supervisory Board, SPB Investment Ltd noted that removing the impediments to investment, greater transparency in regulation and extensive structural reforms in general are essential for attracting foreign direct investment. He also reminded his audience that much foreign aid already appropriated remains undisbursed and that more should be done for the people of the region, as they faced enormous problems and hardship on a daily basis. He also suggested that a widespread, uncensored introduction of Internet would be "revolutionary" in cultural terms and could be speeded up by the use of foreign aid to the region. This point had been made earlier by **Benny Ginman**, Director of Government and Education Programmes for Europe, the Middle East and Africa, Intel Corporation, who called for a “competitive, democratic and efficient roll-out of the Internet”, describing it as a basic human right.

Nicholas Whyte, Balkans Program Director, International Crisis Group, insisted that much work remained to be done. This included convincing Balkans politicians that reform is necessary, resolving the Kosovo issue where the internal community had an “obligation to start talking” and installing a meaningful EU initiative in the SEE region, as it currently had only “half a policy”.

Whyte suggested several actions (facilitating exports to the EU from the Balkans, promoting the euro as the region’s currency and opening up the borders) that would send a message to the region that its citizens are as genuinely regarded as Europeans.

Describing the annual investment of 6 billion euros in the region since 1999 as “remarkable”, **Margret Thalwitz** claimed that this had given South East Europe a quick start. Noting that unemployment levels remained “disturbingly high”, Thalwitz insisted that action was necessary to attract the required levels of investment, and listed the need to:

- ensure that a *stable macro-economic climate* is retained
- reform *the public sector*, which is having to change its role to facilitator from actor
- develop markets in services that the private sector needs, and much has been done by the countries themselves in banking, but infrastructure remains a bottleneck.

Thalwitz described poverty as being "more widespread than in the past" but could not foresee a substantial reduction in levels until there are new employment opportunities.

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Erhard Busek, Special Coordinator, Stability Pact for South Eastern Europe

A momentum for change

Welcoming the fact that the South East Europe region was out of the headlines, **Erhard Busek** called this as a “sign of stability”. Busek argued that there was a wish to “turn the page on the past” within the region, in order to change its image. Describing the Stability Pact as the first serious attempt to replace crisis intervention by a long-term conflict prevention strategy, Busek listed the Pact’s aims as being to foster peace, democracy, human rights and economic prosperity.

Acknowledging that co-operation with neighbouring countries was a vital part of achieving such national and regional stability, Busek stressed that this was a pre-requisite for EU membership. “The real momentum for change within the region”, insisted Busek, “is due to the perspective of full membership within the EU.” Underlining the importance of this, Busek called for a strategy to be implemented in order for full membership to be realised.

The importance of investment

Listing items where progress is being made, Busek described the infrastructure enhancements in the telecommunications sector and the ‘Regional Electricity Market’ initiative. Busek added that Stabilisation and Association Agreements (SAAs) have been signed with Macedonia and Croatia in 2001, and that Albania, Bosnia and Herzegovina, and the Federal Republic of Yugoslavia will follow.

In regard to trade relations, Busek agreed that small economies need international trade in order to stimulate competition, introduce new technologies and increase productivity. Here, Busek argued that “capital flows have been modest relative to other emerging markets” such as Central and Eastern Europe. Busek stated that while foreign direct investment (FDI) had reached approximately 3 billion euros in 2001[1], much more investment was required and that “countries of the region must act decisively to improve the investment climate in order to help themselves.”

A chance to break out

Calling the recently signed ‘Common Principles and Best Practices’ a first step, Busek insisted that it must be followed by concrete legal and administrative changes. Adding that it was equally important to fight criminality in the region, Busek stated that “one bad story can spoil ten good ones”, as investors see the region as a whole.

Concluding, Busek insisted that the Stability Pact offers a real chance for the region to break out of the circle of violence and poverty. It is vital, he argued, to move forward as quickly as possible so that the next time the international spotlight is shining, the improvements will be even more notable to potential investors.

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[1] EBRD report
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Zoran Djindjic, Prime Minister of the Republic of Serbia

A new beginning

In opening his remarks, **Zoran Djindjic** declared that the South East Europe (SEE) region was on the threshold of a "new beginning". Djindjic based this hope for the future on three fundamental principles:

- the existence of the SEE region as *an operational and political unit*, rather than a purely geographical one, able to take and implement decisions
- the *opportunities* in the region as for the first time, its citizens can look to the future
- *consensus* has been reached concerning *democracy* (illustrated by democratically-elected governments throughout the region), the need for a *market economy* and a joint *fight against corruption*

Djindjic declared that these rules and basic structures would allow full cooperation and collaboration throughout the SEE region.

The need for fundamental change

Arguing that the way of life in the SEE region had always been better than its image portrayed in the media, Djindjic acknowledged the region's structural problems but insisted that these had never been correctly analysed in the media. Looking ahead, Djindjic insisted that the real challenge was to "seize this historic opportunity to change the region."

Looking at the bigger picture in Europe, Djindjic insisted that it was not just a question of joining the European economic market, as the SEE region wanted to modernise its society, change its basic values and improve its educational systems, thereby becoming part of Europe "in a fundamental way".

Djindjic admitted that Serbia was involved in several unresolved problems in the region. These included the need to resolve the status of Serbia and Montenegro, and to define the final status of Kosovo so that no open questions remained. In addition, Djindjic added that "complicated and weak " states, such as Macedonia and Bosnia and Herzegovina, needed to be stabilised.

Djindjic stressed the importance of resolving these problems in a European way, without allowing violence and corruption to prevail. For Djindjic, this was a crucial test of the region's right to join the EU.

An optimistic view

Looking at the economic frailty of the region, Djindjic called for external help to improve the public services and infrastructure. In Serbia, the installation of a new government on 5 October 5, 2000, was only the "*beginning of transition"* said Djindjic, and that is "hard for the people to understand". Noting that the GDP of the SEE region (with 50 million people) was less than that of Greece (with nine million people), Djindjic confirmed that the citizens expected rapid change. Djindjic was optimistic in his outlook, however, forecasting that there would be market growth of between 300 and 400 percent in the next decade.

"If the political obstacles are removed", said Djindjic, "there will be a dynamic improvement in the region". To support his claim, Djindjic reminded his audience that it was an undeveloped market close to Central Europe with a skilled population.

Djindjic insisted that the region needed a common strategy towards the European Union, incorporating not only agreements between the countries of the region but also bi-lateral agreements with the EU.

In conclusion, Djindjic described the present situation as a "unique opportunity to develop a region" without the accompanying traditional risks and called for the Balkans to be "re-branded" in order to use the region's resources to their full capacity.

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Building Civilian Capacities: Is Governance the Key to Transition?

The first session, moderated by **Giles Merritt**, posed the question: "Building civilian capacities: Is governance the key to transition?"

In response, panellists agreed that substantial external investment was required in order to resolve problems such as the extremely high levels of unemployment. Speakers also warned of "enlargement fatigue" and the necessity to define the rules of the game so that economic stability could be ensured. There were also calls for investments to be linked to the speed of democratic reform and a drastic reduction in the levels of corruption.

A range of economic ills

During the first session, several speakers examined the region's prospects in light of the current economic situation, both locally and globally.

Daniel Daianu, Professor of Economics, Academy of Economic Studies, Bucharest and The Romanian Center for Economic Policies (CEROPE) and former Minister of Finance and Chief Economist of the National Bank of Romania, listed some of the problems facing the SEE region:

- huge rates of unemployment
- a significant black economy
- poor business practices across the region

In addition Daianu added that "times have changed" and that capital would not flow easily into the region. He also warned the audience that the SEE region's plans could suffer from "enlargement fatigue" and could get worse if the current expansion hit problems.

Calling for closer co-operation between Croatia and the Federal Republic of Yugoslavia, as this would improve the economic outlook, **Mladen Ivanic**, Prime Minister of the Republic of Srpska (in Bosnia and Herzegovina), described the overall situation as promising with low inflation, at 2 percent, in Bosnia and Herzegovina. Despite this, Ivanic warned that the "process of recovery was almost at an end".

Jadranko Prlic, Deputy Minister for Foreign Trade and Economy of Bosnia and Herzegovina, insisted that governance *was* the key to transition. Prlic argued that while there had been dramatic changes, it was necessary to acknowledge the huge balance of payments deficit, the high unemployment rates (between 20 percent and 40 percent) and the significant 'grey' economy in Bosnia and Herzegovina (360,000 employees or 40 percent of the official employment figures. Prlic warned that the situation that had existed in the past decade was leading to many young people expressing a desire to leave the country.

During a Q&A session, this point was reinforced by **Daniel Daianu**, who warned of the situation in 'Bosnia and Herzegovina', where between 50 percent and 60 percent of the population work in the public sector, and asked what would happen to the region if the majority of investment went elsewhere. "We can talk about Internet", said Daianu, "but let us keep our feet on the ground. It is not apparent that we can regard all the countries as being in the same pot."

Another element that weighs heavily on the economic prosperity of the region is organised crime. **Reinhard Priebe,** Director for Western Balkans, European Commission, Directorate, called for the problems of "corruption and people trafficking" to be solved. "The focus must be on law and justice", insisted Priebe.

"The rules of the game"

Pierre Daurès, Executive Vice President, Bouygues Group and Co-Chairman, Business Advisory Council to the Stability Pact, declared vociferously that governance was the answer to the region's problems. Daurès called for a clear definition of the rules of the game. He saw these as being vitally important in three areas:

- *economic stability;* to ensure that investors receive a high ROI
- *a stable legal framework*, similar to the western model
- *fresh attitudes;* a framework of good governance practices in the public and private sectors, in both the east and the west

In closing, Daurès emphasised that it was vital to have "good governance" now, adding that a move towards integration within the EU was needed as soon as possible, by both the region itself and by potential investors.

The need for further definition of the rules was taken up by **Michael Holm Johansen**, Region Manager, Adriatic, Balkan and East Mediterranean Region, Coca-Cola, who insisted that profitable businesses within each country could be created but that "a regional playing field has yet to be established".

Johansen described how his company had been "fairly successful" in the SEE region with investments of 750 million euros to-date. Stressing the importance of the region's infrastructure, Johansen called for the removal of duty barriers, as being an important way to increase regional opportunities. Recognising that this was a positive time for the region, Johansen also emphasised the need for increased privatisation and sustainable growth.

Welcoming the restoration of stability and the massive reconstruction in the area, Priebe had previously argued that the perspective of EU membership was acting as a "vision" for the Western Balkans. Priebe outlined the four elements of the Stabilisation and Association process, which is the instrument to achieve the goal of future membership. These were described as:

- *stabilisation and association agreements*, a series of rights and obligations that must be met prior to accession
- *financial assistance* in the form of the CARDS assistance program, this has amounted to approximately 6 billion euros making the EU the biggest donor in the region
- *trade arrangements*, where the actions to liberalise trade have been criticised as they have gone further than those taken for the candidate countries
- *regional cooperation,* an essential element due to a) the sensitive nature of the area geographically and b) the size of the countries which makes them too small to warrant their own customs tariffs

Daianu repeated the need for the EU to declare that the region would definitely become part of the Union and called for a vision to be developed by the governments of the region and the EU. Looking for further solutions, Daianu suggested that an elegant compromise could be gained by using the high unemployment rates in the SEE region in order to alleviate the problems caused by the ageing population in the west.

The need for investment

Expanding on potential solutions, Daianu insisted that the necessary sustained growth would not be easy to achieve. Warning that there was a danger of the region stagnating without actions being taken, Daianu called for a "big push" to be provided by the EU under the guise of structured funds which could add between 4 percent and 5 percent to the current levels of investment.

Making a similar point, Prlic insisted that although he was not at the conference to ask for more support, he did feel that the EU's contribution was "modest" and insufficient compared to amounts invested in other countries.

Describing the political situation as "relaxed", Ivanic called for "new investment", as 'Bosnia and Herzegovina' was too small to survive on its own and needed to attract further investment so that it could become "part of a larger market".

Doris Pack, MEP, emphasised a key operational element of the Stability Pact, the prospect of closer association with the EU, including the prospect of accession for all countries of the SEE region, as soon as countries meet certain criteria. Pack stressed the importance of another key tool, the CARDS program, which should be linked to individual country's progress in respecting democratic freedom and the rule of law.

Suggesting that regional co-operation could be the catalyst for integration into larger structures, Pack called for countries that made "fast progress" to be rewarded by earlier admission to the EU.

Acknowledging that the free trade market is beginning to bite, Pack warned that corruption and human trafficking were still widespread and that the Kosovo problem remained. "Such issues cannot be solved alone", stressed Pack, who saw closer co-operation with the EU and regional collaboration as vital factors in the region's future growth.

In conclusion, Pack reported that the European Parliament had decided that the European Commission and the Council of Ministers should define actions to be taken once the Stability Pact ends. In this matter, Pack called for a focus on employment, cohesion and a further enlargement of the EU with the SEE region's countries, as foreseen in Zagreb.

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Business and Investment: The Opportunities and Barriers

The second session was moderated by **John Maresca**, President, Business Humanitarian Forum, and examined investment in the SEE region, in terms of both opportunities and barriers to growth. At the outset of the session, Maresca reminded the audience that the private sector was by far the largest provider of funds in the global market. "Businesses look for specific opportunities", said Maresca, "and an institutional framework is not enough to attract investors." The session therefore looked at the necessary actions to be taken.

During the debate, while several speakers warned of the potential pitfalls for investors, there were also many positive statements, with the presentations later being described by Maresca as "an outstanding job in putting forward concrete ideas".

Obstacles to success

While insisting that the Business Advisory Council (BAC) has confidence in the business potential of the region, **Ronald Denom**, Senior Vice-President Eurasia, SNC-Lavalin International Inc., Member of the Business Advisory Council to the Stability Pact, based his remarks on the region's potential deterrents to investors. These included:

- *a region in transition* towards a market economy and EU accession; there is over-reliance on centralised decision-making and massive administrative inefficiencies, such as insufficient reform of the legal system, tax avoidance, and a large grey economy
- *a lack of transparency* exemplified by problems in the budget process, a lack of "track records" of potential partners and no system of credit ratings
- *financial resources are scarce*, it is impossible to borrow money without excessive collateral, stock and bond markets are small and immature
- *uncertainty about liabilities,* land ownership is not clear and there is no body of case law

Ronnie Goldberg, Senior Vice President, Policy and Program, United States Council for International Business, noted that although investments increased by $600 million in the region, some 80 percent of these funds were targeted in Croatia, Bulgaria and Romania.

Given this situation, there was much work to be done, as "investment was scarce" and would only come to countries where "actions were undertaken in the form of policies implemented and laws actually enforced".

For Goldberg, the outcome of such actions would be an "enabling environment" characterised by:

- political stability
- a transparent system of laws
- a fair and efficient tax system
- effective corporate governance
- bi-lateral investment treaties

Talking about reform is not enough, insisted Goldberg, and governments must implement the promised actions in order to attract the necessary investment.

Opportunities are knocking

Serge Ameye, Director Eastern Europe, Puratos, decried the lack of good news about the SEE region in the media. The Puratos Group, a Belgian company active in the food sector, has undertaken several profitable ventures in Serbia, Bulgaria, Romania and Moldova. Despite this, Ameye expressed a view that there is widespread prejudice against the SEE region in the west.

Discussing the company's activities, Ameye argued that one of the main factors for Puratos' success was the high quality of staff in the SEE region. Calling for more positive stories about the region, Ameye claimed, "things are happening" and quoted car imports being up by 30 percent and the sales of mineral water up by 27 percent in Romania. These are indicators that times are changing, said Ameye, and we need to send this message to potential investors.

Goldman agreed with this point, in the Q&A session, and quoted the example of American Standard (makers of bathroom furniture) who has successfully invested $100 in Bulgaria since 1992.

Marijo Cicak, Manager EU-Enlargement Relations to Eastern Countries, Mobility, asked the panel if this was one region, or a number of neighbouring countries, as he had heard different views. In response, Ameye said that it was far from being a region, but it was a "region in transition" and just needed time.

Minco Jordanov, Chairman of the Board of Directors, Makstil, demonstrated that progress could be made, describing a success story in Macedonia where the European Bank of Reconstruction and Development helped Makstil, the sole steel producer in the country, to both decrease costs and improve quality. Together with companies from Bulgaria and Serbia, Makstil has created the 'European Steel Star 2001' as an example of regional cooperation for steel.

Jordanov acknowledged that privatisation of several companies in the steel sector had failed due to a lack of knowledge and a high level of corruption. This had meant that companies had failed to modernise or be restructured.

Despite this, Jordanov claimed that modernisation was a better path to follow than building on greenfield sites and that consultancy was needed in order to achieve sustainable growth.

Makstil's cooperation with the European Bank of Reconstruction and Development has led to: stable production, salaries at twice the national average and the employment of non-Macedonians (20 percent of the workforce) without ethnic problems.

Benny Ginman, Director of Government and Education Programmes for Europe, the Middle East and Africa, Intel Corporation, stressed the need for a modern communications infrastructure if the region was to become part of a knowledge-based society.

Ginman argued that the SEE could avoid the problems met by some countries, which had introduced broadband technology, as it was practically a “greenfield” site. Ginman quoted South Korea as being in a similar position, in regard to its pre-broadband status, and where coverage had reached 66 percent, a figure much higher than that of many western countries.

Ginman outlined a five-point strategy for the efficient, competitive and democratic roll-out of Internet, which he described as a basic human right:

- connect all users and not just the larger cities
- use ‘future-proof’ fibre-optics
- reduce costs by encouraging competition
- encourage local communities to invest
- remove regulatory barriers

Christoph Greussing, Chairman and CEO of HVB Bank Yugoslavia, Secretary General of the Foreign Investors' Council in Yugoslavia, described healthy investment opportunities in Serbia. Greussing noted that inflation was decreasing (down to 16 percent), the budget deficit was reasonable after the tax reforms and that FDI was low as a percentage of GDP.[2]

Other positive factors mentioned included fiscal and budget reform, low corporate taxes, a restructuring of the banking system and government incentives for investment. Despite these actions, Greussing still saw the need for change in the legislative framework.

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[2] 350-400 million euros for Serbia in 2002 compared with 900-950 euros in Bulgaria
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Reinforcing the Dynamics of Transition.

The third session was moderated by **Arno Riedel,** Ambassador, Federal Ministry for Foreign Affairs, Austrian National Co-ordinator of the Stability Pact. Prior to the session, Riedel summarised the morning debates by describing the investment picture in the SEE region as “mixed”.

Although political stability and democracy had been achieved, together with the real possibility of accession to the EU, there was still a need to address structural reform and develop sustained growth. Riedel stressed that the Investment Compact was designed to focus on these problems in a results-oriented way.

The final session then asked to what extent are the various actions, being taken by international organisations and EU policymakers, actually working?

Actions being taken today

Rainer Geiger, Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD and Co-Chairman of the Investment Compact for South East Europe, stressed the importance of *monitoring instruments* (on-the-ground visits, workshops and a ministerial conference to be held in mid-2003) currently being launched to ensure that the SEE countries met their targets for reform within a short timeframe, thereby enhancing the reform process.

Geiger stated that it was vital to attract private investors and welcomed the impressive attendance at the conference. Calling for an increase in political support for the Investment Compact, Geiger stressed the importance of the Ministerial Declaration of Investment Facilitation that was signed on 18 July in Vienna. This declaration contains principles and best practices for removing obstacles in the region.

Another fresh initiative was introduced by **Eléonore Kopera,** Managing Director, Business Humanitarian Forum, who warned that if investors were fearful of instability, they would not provide the necessary investment funds.

Kopera described a *methodology* whereby foreign companies, either multi-national or regional firms, agreed to build infrastructure on a no-profit basis. At the conclusion of the projects, the infrastructure would be under local ownership. The end results of such initiatives would be:

- investors become known in the region
- local business people regain a sense of ownership

Kopera indicated that the methodology could be used elsewhere, but that it would need to be adapted to meet the specific requirements of the SEE region.

Margaret Kostic, Director, Southeast Europe, Export-Import Bank of the United States emphasised that the SEE region was seeing a “definite improvement over the past year” and that “opportunities are expanding”. With the bank’s programs now available in all the countries of the region in the private sector, Kostic stressed the importance of the local banking sector and listed areas where the Export-Import Bank could help (lower interest rates, lengthened maturities, reduced need for collateral) private sector companies.

Margret Thalwitz, Special Representative of the World Bank Group for South East Europe, described the international community's commitment of 6 billion euros per year since 1999, towards reconstruction of the SEE region, as "remarkable". Adding that the level of investment had fuelled economic growth, with the EU as the largest supplier of ground funds, Thalwitz called this a real achievement.

Turning to the disturbingly high levels of unemployment, primarily due as a result of change, Thalwitz looked at actions that could be taken by the World Bank. These included assistance in:

- the retention of a *stable macro-economic climate* (where much as been done in terms of tax reform)
- reforming *the public sector*, which had to change its role to facilitator from actor; possible actions included – changing budget processes, introducing policies on public procurement, assisting with audit programmes and introducing new skills
- developing markets in *the private sector*, where much had been done by the countries themselves

However, Thalwitz described poverty as being "more widespread than in the past". Although it is a priority for the World Bank, Thalwitz did not foresee a reduction in poverty until there are new employment opportunities, and there the situation was "only at the beginning".

Future actions

In support of a successful implementation of the Investment Compact, Geiger underlined the need for change, sustainability and growth:

- *change* because legal reform creates confidence and the implementation of new laws would encourage an "investment enterprise culture" where people felt able to take risks
- *sustainability* because, despite progress, there is much more work to be done, including the fight against crime and corruption, and the creation of a efficient and competitive work environment
- *a longer-term vision* is required, and an extension of the Investment Compact could aid this process by providing support for the monitoring process and by initiating a public / private dialogue

Nicholas Whyte, Balkans Program Director, International Crisis Group, opened his comments pessimistically by referring to recent elections in the SEE region as a "vote against reform". Given this, Whyte insisted that Balkan politicians still needed to be convinced that meaningful reform was necessary. Turning to other issues, Whyte called for a meaningful dialogue to be started in regard to the future status of Kosovo.

But Whyte's point concerned the EU's policy towards the Balkans, which he described as “half a policy”, as it consists of:

- *Stabilisation and association agreements* which, though extremely useful, can only be applied once, and are often applied at the wrong time
- *Financial aid* that is decreasing, as it was front-loaded, but is still essential
- *Regional cooperation* that will only happen if it is part of the EU accession road map
- *Trade measures*, which are “useless” as the cost of satisfying the rules of origin are largely ignored

In conclusion, Whyte called for actions that would send a message to the SEE region that its citizens were real Europeans. These included:

- *New forms of association agreement* to let the Balkans export to the EU
- The *promotion of the euro* as the currency of the SEE region
- A review of the visa policy in order *to open up the borders* and allow people to move freely, so that skills and money could be exported in both directions

The importance of structural reform in support of domestic business was stressed by **Charles Kovacs**, Vice Chairman of the Supervisory Board, SPB Investment Limited and Vice-Chairman, Committee on Non-Member Economies, BIAC (Business and Industry Advisory Committee to the OECD). Welcoming the high level of agreement, on both the shortcomings and opportunities, displayed at the conference, Kovacs highlighted two areas for expansion:

- widespread implementation of the Internet would be a “cultural revolution” provided that it was not censored and controlled by local governments
- the Stability Pact and the countries involved in the region should publicise frequently and professionally what is happening, preferably by using a PR operation that understands the information needs of potential investors, as “it is necessary to keep informing the decision makers ”

At the end of the day, the Q&A session started with **Declan Murphy,** Programme Director, OECD Investment Compact for South East Europe, arguing that the challenge was to create jobs on the ground in the immediate future, as accession to the EU would probably not happen until 2010.

Murphy reminded the audience that the SEE region was behind Central and Eastern Europe in terms of GDP and that the situation was getting worse. “We need more focus on *practical measures* that can be taken by individual countries to attract investment”, said Murphy, who also warned that *existing* investors are being ignored.

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Talking to the press

At the accompanying press conference, **Prime Minister Djindjic** insisted that the region did not have the domestic capacity to meet its goals and objectives. "The main task is to modernise society", said Djindjic, "and the people are already disappointed with the situation".

"We do not have a clear strategy", argued Djindjic, "and we need specific and practical ways in which we can improve public services and help our young people in terms of education and training. Saying we have a close association with Europe is not enough".

In response to a question from a **BBC Word Service** correspondent, asking for clarification on the timing for the region's integration within the EU, Djindjic insisted on a "fast track" approach in order to meet the entrance criteria by 2010.

Answering the same question, Priebe saw difficulties with the status of Serbia and Montenegro, where discussion on the constitution may cause the association agreements to be delayed.

Seeking further details, **Judy Dempsey** of the Financial Times asked for Djindjic's position on both the Kosovo and Montenegro issues. Djindjic responded that Serbia would use the creation of a constitutional framework (with Montenegro) as a way of moving closer to EU accession.

Djindjic insisted that Kosovo was a separate issue and here, the other party – Pristina – was not ready to talk. "More international help is needed here," said Djindjic, who listed problems with privatisation, pensions, and property ownership. Djindjic added that it was necessary to talk to representatives from both Kosovo and Albania.

Responding to further questions from the **Belgrade press** on the status of Kosovo, after UN Resolution 1244, Djindjic answered that negotiation was the answer so that Belgrade could be part of the process. "We must find a compromise," said Djindjic, "so that Kosovo and Serbia can co-exist."

On behalf of the EU, Priebe said that Kosovo's unresolved status would not act as a deterrent against the start of negotiations with Belgrade. He added that there must be a way of ensuring that Kosovo does not "fall out of the process".

Dempsey returned to the issue of Kosovo and asked Djindjic for a timetable on resolution. Djindjic could not answer this directly, but insisted that it was time to start talking in order to determine Pristina's priorities.

On the issue of investment, Djindjic admitted that risks existed in Serbia – in comparison to, say, Switzerland - but that there were many opportunities. Greussing confirmed that many blue-chip companies were actively investing in the country.

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