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South Eastern Europe

Driving economic growth!

oa

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A) Keys for economic growth

The economic development of the countries of South Eastern Europe (SEE) was characterised by continuous growth in recent years. For example, German trade turnover with the countries of the region reached a new record high of 71.4 billion euros in 2019. The signals for further growth were all set at green until the outbreak of the COVID-19 pandemic in spring 2020. The pandemic then also led to slumps in economic growth and trade in the SEE region. A rebound process has been underway since the beginning of 2021.

The German Eastern Business Association (OA) includes the countries of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, North Macedonia, Moldova, Montenegro, Romania, Slovenia and Serbia in its definition of defines the South Eastern Europe. It needs to be pointed out that the starting conditions in the EU member states Bulgaria, Croatia Romania and Slovenia are undoubtedly different from those in the so-called Western Balkans 6 (WB-6) countries Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia or in Moldova, which is a member of the EU's Eastern Partnership.

Hardly any other region has such close ties with the economies of Germany and Europe

The region's special potential lies in the diversity of possible entrepreneurial engagement. Energy efficiency and renewable energies, software development and IT services, development, digitization, metal processing, tourism, agri-food sector, infrastructure development (especially transport and telecommunications). German companies are already active in all these sectors. And there are still untapped market opportunities here. For example, the region is developing more and more into an interesting location for research and development, moving beyond the role of an "extended workbench".

The COVID-19 pandemic has also led to a rethinking on the issue of supply chains, for example. There is talk of "near-shoring", "re-shoring" or diversification of these chains. This would offer further opportunities for the region to promote itself as a business location and partner. In order to utilise these opportunities, it is essential to improve the legal and economic framework conditions, to promote the competitiveness of medium-sized local companies, especially with regard to the European single market but also to ensure the security of investments for all economic stakeholders.

Prosperity requires willingness to engage in dialogue and regional cooperation

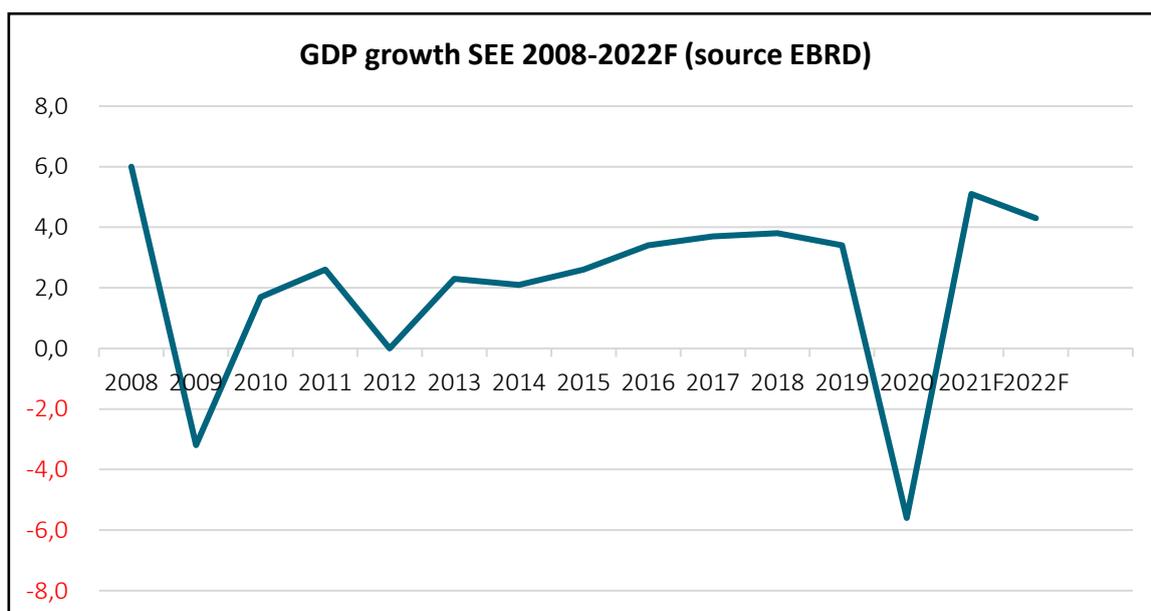
It is in this sense that a variety of opportunities but also major challenges, are opening up for the economy, economic policy and the economic systems of the countries of South Eastern Europe. Further impulses for economic prosperity in the region require, on the one hand, intensified intraregional cooperation among the countries of the WB-6. On the other hand, harmonisation must be further advanced at the legal and regulatory level. This would also strengthen the deepening of cooperation with those neighbours that are already members of the European Union and further promote the development of cross-border clusters, such as we see between Serbia, Bulgaria and Romania.

From the OA's point of view, it is indispensable that the governments of the states of South Eastern Europe engage more strongly than before in dialogue with business and society within the framework of political decision-making processes. This is the only way to develop and implement joint approaches to solutions. In addition to a reduction in bureaucracy, more

efficient approval procedures and the use of eGovernment solutions, this dialogue-oriented "multi-stakeholder approach" represents an essential building block in the modernisation of public administration and is an important instrument for shaping favourable economic framework conditions. Especially against the backdrop of the challenges but also opportunities, offered by the European Union's Green Deal (for the implementation of which significant funds have been earmarked in the Recovery & Resilience Fund), this dialogue is of pivotal importance in order to promote the necessary innovations in the industry.

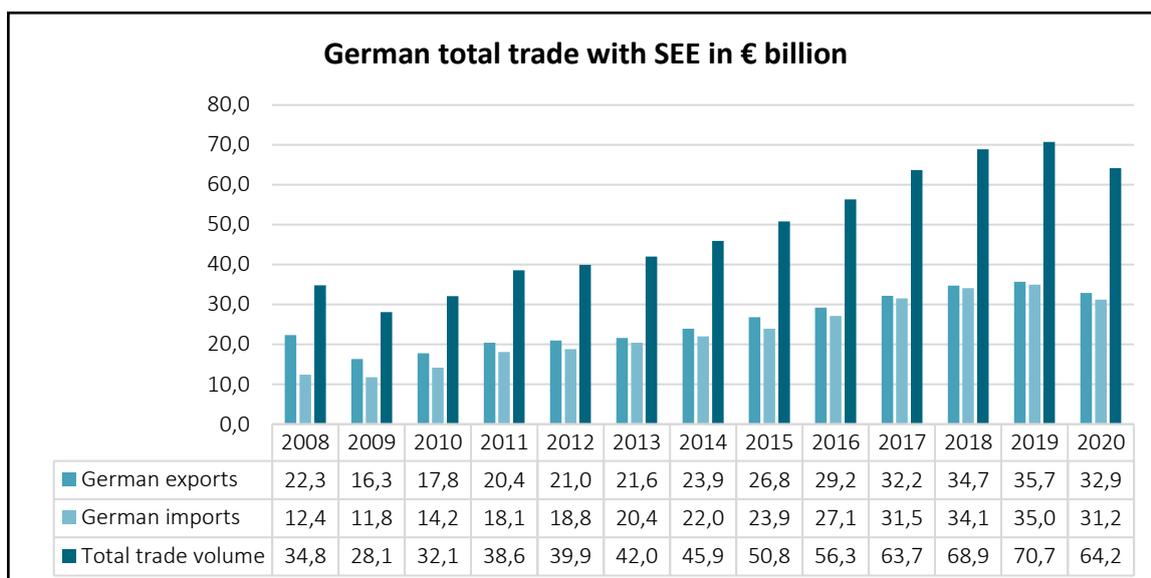
General economic situation and the impact of the COVID-19 pandemic

At the end of 2019, the EBRD, IMF or the Vienna Institute for International Economic Studies (wiiw) expected between 3.2 and 3.4 per cent growth in the region. However, with the outbreak of the COVID-19 pandemic, these figures had to be discarded. In mid-April 2021, wiiw published a COVID-19 balance sheet for the region and a new spring forecast. According to these new calculations, the decline of the gross domestic product (GDP) in SEE in 2020 amounted to six per cent, on average. For 2021, the average growth forecast is 4.2 per cent for the eleven OA partner countries in South Eastern Europe. In 2022, all countries in the region are expected to return to the pre-pandemic levels of 2019, and some are even predicted to exceed them. We need to build on this positive outlook.



Source: EBRD, 2021

Germany is and remains an important economic partner for the region. Due to the pandemic-related lockdown, the exchange of goods with the region fell by around one tenth in 2020. However, the developments in the individual countries differed greatly. While German trade with Albania (-0.8 per cent), Serbia (-2.2 per cent) and Bulgaria (-4.3 per cent) remained comparatively stable, trade with Romania and Slovenia, the two most important markets in the region, declined by about one tenth.



Source: Calculations by the German Eastern Business Association (OA), Federal Statistical Office (Destatis), 2020

The current trade figures for the first half of 2021 with the region of South Eastern Europe give rise to optimism. According to these, goods were traded to the tune of 37.7 billion euros. Compared to the same period last year, imports rose by 23.5 per cent and exports by 24.5 per cent. After the sharp slump in the COVID-19 year 2020, there has now been a strong recovery. If one compares the total exchange of goods with that of the first half of 2019, there is also a slight increase in this area. At that time, goods worth just under 36 billion euros were traded over the same period.

Countries of origin and destination	Goods trade in k€			German imports in k€			German exports in k€		
	Jan – Jun 2021	Jan – Jun 2020	Jan – Jun 2019	Jan – Jun 2021	Jan – Jun 2020	Jan – Jun 2019	Jan – Jun 2021	Jan – Jun 2020	Jan – Jun 2019
Romania	16,476,885	13,624,086	16,519,602	7,433,821	6,335,921	8,112,952	9,043,064	7,288,165	8,406,650
Slovenia	6,312,625	5,075,860	6,035,451	3,341,571	2,692,500	3,241,662	2,971,054	2,383,360	2,793,789
Bulgaria	4,833,652	3,916,350	4,169,887	2,660,455	2,173,990	2,163,542	2,173,197	1,742,360	2,006,345
Serbia	3,014,808	2,365,135	2,533,114	1,284,615	1,036,867	1,094,800	1,730,193	1,328,268	1,438,314
Croatia	2,779,675	2,474,368	2,850,716	903,356	808,416	924,287	1,876,319	1,665,952	1,926,429
North Macedonia	2,561,335	1,558,467	2,253,937	1,910,944	1,115,514	1,620,992	650,391	442,953	632,945
Bosnia and Herzegovina	903,599	755,822	842,840	443,772	371,308	397,763	459,827	384,514	445,077
Moldova	357,781	287,648	338,630	139,481	114,146	130,261	218,300	173,502	201,832
Albania	220,329	186,131	195,860	63,350	73,566	69,483	156,979	112,565	126,377
Kosovo	197,719	128,173	136,995	26,718	21,728	14,919	171,001	106,445	122,076
Montenegro	66,151	58,155	64,591	11,319	13,716	8,732	54,832	44,439	55,859
Total SEE trade	37,724,559	30,430,195	35,941,623	18,219,402	14,757,672	17,779,393	19,505,157	15,672,523	18,162,230
Total German trade	1,249,500,000	1,076,400,000	1,222,547,251	576,400,000	499,700,000	5,556,174,284	673,100,000	576,700,000	666,372,967

Source: Calculations by the German Eastern Business Association (OA), Federal Statistical Office (Destatis), 2020

In order to mitigate the economic consequences of the pandemic, the member states of the European Union have agreed on various measures. The NextGenerationEU (NGEU) economic recovery plan is to provide 750 billion euros in grants and loans in addition to the funds from the Multiannual Financial Framework 2021-2027 (MFF, 1.1 billion euros). The four EU member states (Bulgaria, Croatia, Slovenia and Romania) in SEE will benefit. The European Union also increased funding for the non-EU countries of the Western Balkans. With the Economic and Investment Plan, which the European Commission presented at the beginning of October 2020, the WB-6 are to be able to leverage, among other things, about nine billion euros in support through another Instrument of Pre-accession Aid (IPA III). In addition, guarantees are

to be made available, for instance, through the European Investment Bank, which are to facilitate investments totalling 20 billion euros.

Employing its Instrument for Pre-Accession Assistance (IPA), the European Union supports necessary reforms of EU candidate countries Albania, Montenegro, North Macedonia and Serbia as well as potential candidate countries Bosnia and Herzegovina and Kosovo in preparation for EU accession. The IPA II instrument supports beneficiaries in adopting and implementing political, institutional, legal, administrative, social and economic reforms with a view to future EU membership. The new IPA III instrument aims to promote the economic convergence of the WB-6 and to use the funds for investments in sustainable infrastructure, among other things. The aim is to use pre-accession assistance to promote stability, security and prosperity in the beneficiary countries and to support the pre-accession process to the European Union.

Using their own funds, all countries in the region have adopted packages of measures to support the domestic economy. In Romania, for example, the instrument of short-time work was introduced based on the German model (Kurzarbeit), which numerous companies have since used. The dialogue between business and government that accompanied the introduction of this instrument was exemplary.

Health

The COVID-19 pandemic not only exposed the shortcomings of South Eastern Europe's healthcare systems but also highlighted the importance of resilient healthcare services that are accessible to all. These are crucial for an efficient and sustainable post-pandemic response and an elementary prerequisite for economic recovery and development. It is therefore even more important that the funds that the European Union makes available to its members through the various instruments are also used to invest in strong public healthcare systems. As early as April 2020, the EU made funds worth €150 million available to the countries of the Western Balkans for emergency support of the health sector as part of a total package of €3.3 billion to address the socio-economic consequences of the pandemic.

Functioning healthcare systems that are accessible to all are – just as much as a well-equipped education system – an essential competitive advantage that must be expanded. This is all the more important in view of the challenges facing the countries of the region with regard to demographic change and the heavy brain drain. Although the COVID-19 pandemic has in the meantime led to a significant decrease in emigration from the countries of the region and in some cases even to remigration, this will only remain a momentary snapshot.

B) Levers for improving the economic framework conditions

From the perspective of German business, the following areas in particular offer starting points for increasing the countries' competitiveness.

- (1) Green Deal
- (2) Modernising industrial production, promoting sustainable and competitive agriculture and improving digital infrastructure
- (3) Strengthening the rule of law, fighting corruption and protecting investments
- (4) Dismantling protectionist trade barriers
- (5) Education, securing a skilled workforce, labour market
- (6) Corporate Social Responsibility

These fields of action are briefly outlined and political proposals for action are made in the following.

(1) Green Deal

Climate change and environmental destruction are existential threats to the entire world. It is for this reason that the European Union has agreed on the "European Green Deal", the goal of which is to reduce net emissions of greenhouse gases to zero by 2050. This goes hand in hand with an increase in energy efficiency and the share of renewable energies combined with the transition to a circular economy and sustainable transport. The measures concern the areas of financial market regulation, energy supply, transport, trade, industry, as well as agriculture and forestry.

The Green Deal holds out great opportunities for the countries of South Eastern Europe as well as challenges, especially with regard to the transition to climate-neutral energy production or the implementation of effective recycling processes.

The implementation of the vision of the European Green Deal requires an environment that creates the basis for innovation with the appropriate regulatory framework. It is precisely here that the countries of South Eastern Europe have a unique opportunity to leapfrog or at least catch up with Western Europe by means of innovative technologies.

In particular, it will be a great challenge to replace the partly obsolete coal-fired power plants with other, modern sources of energy generation. For a transitional period of time, modern, flexible gas-fired power plants will have to be employed here, which can later be operated CO₂-free on the basis of hydrogen. In addition, South Eastern Europe offers great potential for the expansion of renewable energies, especially for wind and solar parks. These could not only ensure a complete supply of the domestic markets but could also be used to export energy to Central Europe. In many places, it is safe to assume that wind and solar parks are already the cheapest renewable sources of energy generation today.

The global boom in renewable energies is largely driven by private investments. Thus, the focus of politics should be on further improving the framework conditions for these investments and on accompanying and shaping the transformation process – in connection with the Green Deal – as well as on supporting competitiveness. For example, at the moment there is still a lack of comprehensive liberalisation and interconnection of the markets in order to create a transparent and thus efficient regional electricity market that integrates with the European markets that have already been created. There is a lack of storage and

transport capacities for green technologies. These need to be built up either in private initiative or in the form of public-private partnerships. The EU's reconstruction programme and the significant funds made available by the EU could be used for targeted investments.

Furthermore, framework conditions on the part of the EU and the nation states are required that create long-term planning security and take into account the planning cycle of industrial manufacturing and energy production. They are each designed for significantly more than ten years.

The implementation of the Green Deal is a joint task that can only be accomplished in a goal-oriented dialogue between politics, business and civil society and that requires the involvement of the non-EU members in the neighbourhood from the very beginning. It is important to establish a regular exchange at an early stage in which possible effects of instruments, such as the planned Carbon Border Tax Mechanism on the WB-6 or the countries of the Eastern Partnership, can be discussed.

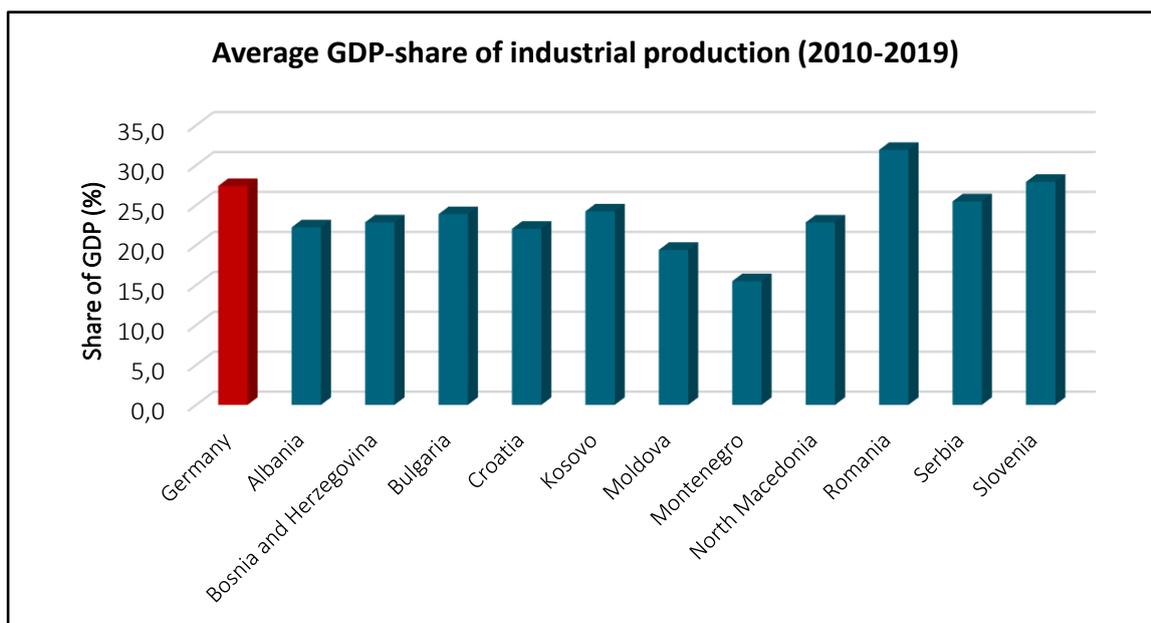
(2) Modernising industrial production, promoting sustainable and competitive agriculture and improving digital infrastructure

Both the manufacturing sector as well as the agri-food sector represent essential pillars of the national economies of South Eastern Europe and make a major contribution to regional value creation.

From the OA's point of view, the countries of South Eastern Europe have considerable advantages in the global competition for attracting business settlement that go far beyond the much-cited labour cost advantages. In particular, the geographical proximity to the core and target markets in Western Europe is an important benefit.

In order to be able to utilise this unique position more effectively, however, a concerted approach in terms of economic policy and, ideally, coordination at regional level is of particular relevance in the following fields of action:

- Modernisation of the industrial base is indispensable for South Eastern Europe and should be strongly supported by governments
- Promoting the deepening of value creation in the agricultural sector (processing of agricultural products, food production)
- Innovative technologies and specific solutions
- Strengthening / promoting innovation partners of the processing industry in the region
- Diversity instead of monotony – diversification of economic sectors
- Building a circular economy and innovative energy supply

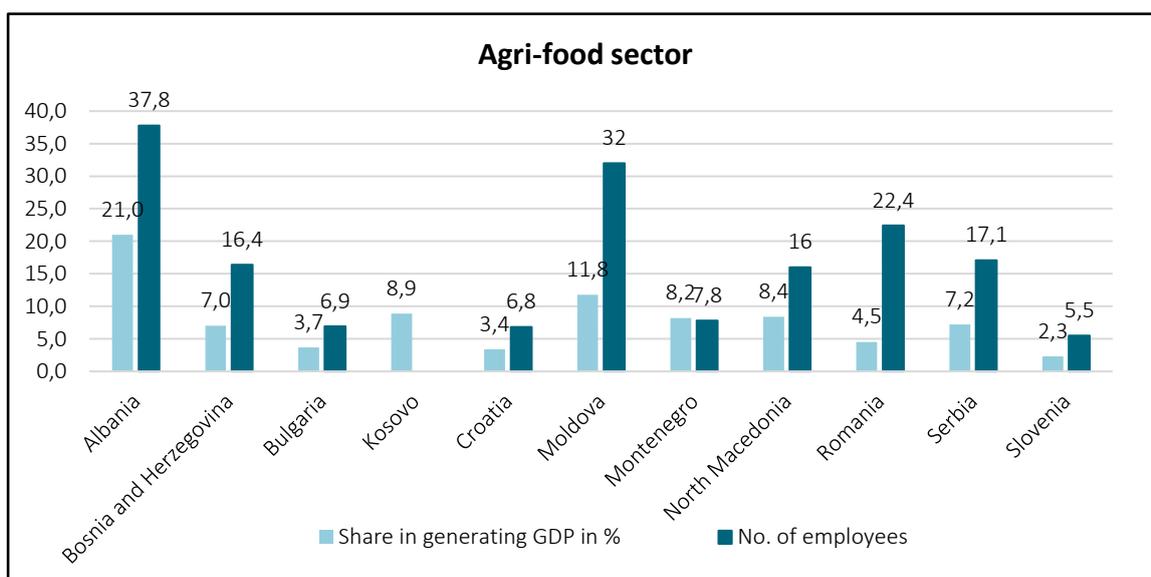


Source: World Bank, 2020

Building and promoting a sustainable and competitive agricultural economy

The agri-food sector contributes significantly to GDP generation in the countries of the region. On average, the share is just under eight per cent. In some countries, such as Albania (twenty-one per cent) or Moldova (twelve per cent), the share is significantly higher.

This sector holds great potential that may be tapped into if the right course is set, for example, by expanding food production and thus refining the products in the country or by promoting the consolidation of production areas. Last year's summer drought in Moldova led to a considerable drop in yields in agricultural production and thus had a considerable influence on the economic growth, which was already declining due to COVID-19. This example illustrates the relevance of promoting the construction of irrigation systems that support the development of sustainable agriculture, also in the sense of the Green Deal.



Source: Agriculture/Forestry/Fishing industry in Economic Data Compact - GTAI, 2019; World Bank, 2019

Science, research and innovation

Innovations are indispensable for every business enterprise – regardless of size and industry. However, companies are not always able to pursue innovative approaches under their own steam. It is of fundamental importance here that politics and public administration accompany the discussion in society in a positive way, provide impulses but also enable innovation through flexible framework conditions.

According to the Bloomberg Innovation Index 2021, Slovenia (22), Romania (32), Bulgaria (41), Croatia (45) and Serbia (48) are already among the top 50 most innovative countries worldwide today. The basis for building an innovative structure in these regions is given, other countries can and must follow suit. Innovation-based economies guarantee competitiveness, employment and economic growth, positive development of local purchasing power, competitive energy and raw material prices, fair and free trade and thus sustainable and future-oriented development.

Small and medium-sized enterprises in particular are exposed to special technological and global competitive pressure and at the same time have limited financial and human resources in order to develop the necessary R&D strategies.

It is especially these companies that should be supported by innovation funds when participating in competitions or research projects. Innovation requires a freedom of action that can also be created by simplifying administrative procedures or supporting smaller companies in particular with complex application procedures or assisting them with financing issues.

Cooperation leads to innovation: The cooperation between science and industry and the increased exchange among experts generates new knowledge and provides a basis for further value creation at the respective location in the future. This potential may be tapped if existing barriers to cooperation between industry and science can be broken down. For small and medium-sized enterprises in particular, it could have a great impact if research institutions succeeded in disseminating knowledge about existing companies, their R&D strategies and skills, and thus establish new collaborations.

This means that companies, universities, research institutes and other stakeholders involved in the context of technology transfer need both administrative and financial support of the process-oriented kind. A regular dialogue involving companies, universities, research institutes and policymakers alike is indispensable to build these important bridges, initiate cooperation and establish a platform for exchange on necessary reforms in the areas of intellectual property or education.

One example of successful cooperation between business and politics is the establishment of innovation clusters, as is currently happening in regions of Romania in the automotive or IT and chip technologies sectors. This promotion requires measures in which there is close cooperation across countries and regions. Also, and above all, so that the necessary labour and talent can be employed there.

Digitization

Buzzwords such as Industry 4.0 or "Industrial Internet" demonstrate that the industrial mode of production in particular is facing revolutionary change. The digitization and networking of all stages of value chains are the declared goal of the digital transformation of companies. However, the fundamental requirement is the creation of modern, public, digital infrastructures. Similar to energy and transport infrastructures, a broadband internet connection as well as nationwide mobile and broadband internet networks are now among the basic prerequisites for the settlement and development of business enterprises.

Regardless of size and industry, digital infrastructures are important to ensure future viability and competitiveness in the long term. Various studies confirm this correlation. For example, the study "The Impact of Digital Transformation on the Western Balkans – Tackling the Challenges towards Political Stability and Economic Prosperity" from 2018, based on an econometric analysis, states that ten per cent more investment in digital infrastructures would increase the gross domestic product by one percentage point. This effect is brought about by follow-up investments and jobs in all sectors as well as further stimulus for innovation and productivity.

The modernisation of such infrastructures can only be accomplished in cooperation between private-sector infrastructure providers and the public sector. It is only through a collaborative and open approach, which includes all relevant stakeholders, can it be ensured that further investments based on existing infrastructures are stimulated and used in a way that makes economic sense. To this end, it is necessary that the legal and regulatory framework conditions promote the use of modern infrastructures and provide incentives for investments. This also includes harmonising the framework conditions to enable cross-border investments and cooperation. This applies both to the countries of South Eastern Europe that are already part of the European Union as well as to the countries that are not yet part of the EU.

The OA has therefore strongly supported the Digital Summit series of the governments of the Western Balkan countries and will continue to engage in the dialogue on digital transformation in the region.

The COVID-19 pandemic has highlighted the importance of digitisation like in a magnifying glass: It was only through digital forms of commerce, education as well as healthcare that social and economic participation could be ensured. This is also underlined by a study published in December 2020, "The Digital Leap. How COVID19 Transformed the Digital Future for the Western Balkans"¹ by the University of Graz. It shows that there is still a great deal of impetus to be generated in the application of digital services in public administration and trade. Even though the focus is on the countries of the Western Balkans, the findings of this quantified empirical study can be applied to all countries in South Eastern Europe.

¹ This study was commissioned by five companies and the German Eastern Business Association and prepared by the Centre for Southeast Europe Studies at the University of Graz. *The study and policy paper may be found here: www.digital-wb.eu*

(3) Strengthening the rule of law, fighting corruption and protecting investments

Conduct in compliance with the rules is an important factor for the sustainable economic success of a national economy and the willingness of German companies to invest. The transparency of decision-making processes of politics and public administration and the involvement of stakeholders from politics and society are important elements. This also includes the resolute fight against corruption and similar breaches of rules as well as clear legal regulations and their enforcement as key tasks.

From a business perspective, it is very welcome that aspects of the rule of law are gaining increasing attention in the EU and in the EU's relations with the candidate countries. The path embarked upon with regular reports on the rule of law is to be endorsed.

Furthermore, effective investment protection provides an incentive and a good basis for every project and investment in the region – as a very significant element of planning security. The German Eastern Business Association (OA) welcomes the fact that the European Union is considering a successor mechanism to the previous bilateral investment protection agreements. The creation of a reliable EU jurisdiction (e.g. in the form of a special chamber at the European Court of Justice), which applies and enforces valid EU law, is to be preferred in this context. Investors would then have the opportunity to present their concerns directly. Claims would be settled in a binding manner.

(4) Dismantling protectionist trade barriers

In contrast to protectionism, free market access and fair-trade competition facilitate foreign investment and thus favour innovation, economic growth, competitiveness and sustainable development.

The quality of regulatory measures has to be improved and excessive administrative burdens have to be reduced. The aim must be to create a consistent and predictable regulatory environment that effectively implements policy objectives without imposing a disproportionate burden on the companies concerned. This is the key to positive economic development. In order to achieve this, it is important to think about how to reduce the share of state-owned and public enterprises, especially where companies are no longer competitive and state authorities use public funds in a way that distorts competition. Privatisation of infrastructures can leverage economic synergies. At the same time, this also means that special regulatory treatment of public and state-owned enterprises must be eliminated (e.g. different treatment in terms of fees or taxation, such as uniform right-of-way fees for telecommunications networks).

Creating a regional single market

For more than 25 years, the transformation process in the South Eastern European partner countries has changed the economic fabric fundamentally. Different legal and regulatory requirements and a pronounced system of customs duties and other trade barriers have influenced both international and regional trade relations significantly and led to the economic disintegration of the region. These structural disadvantages in today's economies in the region are to be countered with the help of regional cooperation approaches. The Central European Free Trade Agreement (CEFTA), to which all countries in South Eastern

Europe that are not members of the European Union have now acceded, is an important step in this direction.

Furthermore, the Countries of the WB-6 agreed to intensify regional integration in all areas of life and to create a common economic area. As part of the so-called Berlin Process, the heads of government adopted a joint road map to achieve this goal back in 2017. A corresponding follow-up document and an action plan were adopted in November 2020. Especially against the background of the COVID-19 pandemic, the goal is to accelerate the process of regional integration, which is to go hand in hand with further rapprochement and integration into the EU single market.

(5) Education – securing a skilled workforce – labour market

The basis for a long-term positive economic and thus also social development in the region is a sufficiently available and well-trained skilled workforce, especially against the background of the increasing digitization and automation of industrial processes. Beyond the availability of skilled workers, there is also a need for education and training that is geared towards the labour market. In addition to imparting continuously developing skills in information technology and the natural sciences (MINT), the introduction of vocational training and study systems is one of the central levers with the help of which citizens are able to prepare themselves for the future challenges on the labour market and open up new perspectives for themselves.

Creating employment opportunities, minimising the "brain drain" and counteracting rising youth unemployment take on important social significance. The German business community supports the implementation and adaptation of dual systems, practice-oriented study programmes and the concept of lifelong learning. The Chambers of Commerce Abroad (AHK) are already engaged with their member companies in the countries in the field of education and training and are available to the governments for a dialogue.

We must work together to counter the demographic shift in the region, which is also being driven by the ongoing migration of young, highly qualified people and families in particular. The region is currently losing not only skilled workers but an entire generation. The implementation of a targeted new education partnership must be a priority for the region's government. This has to focus on a fundamental change in thinking and a new culture of learning. Only the acquisition of practical skills, the promotion of innovative approaches as well as a culture of continuous learning and further development in companies will strengthen the retention of skilled workers and young professionals in the region. In this context, it would be desirable to open up on-the-job training and continuing education even more than before to private providers. German industry is available to the region with its expertise, best practices and modern technical equipment.

From the very outset, German business has supported the vocational training segments in the partner countries, which are indispensable for a consolidated economy, the expansion of value chains and for further development of the economy from an extended workbench to a location for innovation. The already existing and well-established partnerships between companies, educational institutions and governments should be strengthened in order to increase the interest and participation of young talents in dual training programmes and to enhance the social recognition of these programmes. Together, new incentives should be established to inspire students and young adults to engage in practice-oriented training.

In the area of academic training, the practice-oriented components should also be strengthened against the background of the needs of the local labour markets. The closer interlinking of academic training and professional practice would enable students to gain professional experience at an early stage and thus also to review their choice of training. Companies would also have the opportunity to get to know and promote their future junior staff at an early stage. The German Eastern Business Association (OA) recommends the mandatory inclusion of practice-oriented internships of several months in the academic curricula of all degree programmes.

The German Eastern Business Association (OA) has been building on this for almost two decades with its Zoran Djindjic Internship Programme of German Business for the Countries of the Western Balkans. In the frame of this Programme, students and young graduates complete internships at German companies in Germany to strengthen their employability in the local labour markets. In addition, companies are given the opportunity to bind young professionals to their subsidiaries and partners in the region at an early stage and for the longer term. Since 2003, approximately 850 scholarship holders have completed this programme. Many of them are now employed at subsidiaries of German and other international companies as well as in leading positions in business and politics in the countries. The Internship Programme of German Business contributes to the improvement of education in the region and promotes cross-border understanding and the cultivation of continuing business relationships.

All European countries are united in their concern for securing a well-founded skilled labour force. Accordingly, they are all courting innovative and well-trained skilled workers. However, this must not lead to a shortage of skilled workers in the main economic sectors in the countries. This would entail undesirable developments in the medium and long term, inhibit companies' propensity to invest and, in the worst case, lead to a feeling of lack of prospects among the remaining population.

In the view of the German Eastern Business Association (OA), it is precisely the innovative and creative minds that are often the basis for investment decisions and at the same time the driving force behind important socio-political developments. Together, we should work to ensure that companies and employees alike see their prospects in the countries of the region. The societal and social environment, which is determined by factors such as a functioning school system, a well-equipped and high-quality healthcare system or an effective administration staffed with qualified professionals, plays an important role in this regard.

(6) Corporate Social Responsibility

Corporate social responsibility is becoming more and more important in the face of ever closer cross-border interrelationships in the international economy. This responsibility extends increasingly also to supply chains. The more sustainable and transparent they are, the more crisis-proof the companies operating in them prove to be. This has already been demonstrated impressively by the COVID-19 crisis. That is the reason why corporate social responsibility is the order of the day.

Germany and the EU have understood the signs of the times and are already working all out on corresponding supply chain laws. Germany has taken a big step with the adoption of the Due Diligence Supply Chain Act in June 2021. However, social responsibility and sustainability in economic competition are also an issue for the Countries of the Western Balkans. This is

because they offer enormous business opportunities for the companies based there – both for themselves and for their customers, as discussions have shown, for example, within the framework of the purchasing initiative for the Countries of the Western Balkans by the Federal Ministry of Economics and Technology, the Association Supply Chain Management, Procurement and Logistics (BME) and the German Chambers of Commerce and Industry (AHK) network.

In future, market participants from East and West, including political institutions, should point out this causal connection more emphatically that observing social responsibility and sustainability creates business opportunities, and does justice to the cause accordingly. This is all the more important because the new law in Germany imposes a direct responsibility on local companies for sustainable supplier management and threatens them with severe penalties for non-compliance.

C) Integration into the EU single market remains the goal

The liberalisation of trade and economic relations must be pursued with vigour. This includes in particular the dismantling of trade barriers for industrial and agricultural products, consumer goods, services and the improvement of cross-border infrastructures. Due to the economies of scale, a larger single market offers clear advantages for the manufacturing industry as well as for service providers and consumers. In addition to the elimination of (sectoral) customs duties, the added value lies in the elimination of market entry barriers in the form of differing standards, norms or certification rules.

The CEFTA agreement was intended only as a first milestone. The goal must be the integration of the WB-6 into the EU single market. An important intermediate step towards this aim is the further intensification of the interregional economic cooperation of the so-called Western Balkan 6 Countries. This union is also a key to overcoming structural disadvantages in the region.

The German Eastern Business Association (OA) continues to support the governments of the states of South Eastern Europe in their modernisation process. German business stands by its investments in the region and will do its utmost to step them up, provided that the regulatory and legal framework conditions in the areas outlined above provide incentives for further investment.

The German Eastern Business Association (Ost-Ausschuss der Deutschen Wirtschaft e.V.) is part of the Digital Transformation Initiative WB6+



D) About the publisher

The German Eastern Business Association (**Ost-Ausschuss der Deutschen Wirtschaft e.V.**), founded in 1952, is the oldest and largest regional initiative of German business. It supports the activities of German companies in 29 countries in Central, Eastern and South Eastern Europe, the South Caucasus and Central Asia. German trade with Eastern Europe accounts for around one-fifth of Germany's total foreign trade and is thus more important than trade with the USA and China combined. The German Eastern Business Association has more than 300 member companies and associations and is supported by six leading associations of the German economy – BDI, BGA, Bankenverband, DIHK, GDV and ZDH.

For the latest statistics, position papers and much more information on German economic relations with the 29 OA countries, please visit the website at

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