

Ost-Ausschuss der Deutschen Wirtschaft



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South Eastern Europe

Driving further economic growth!



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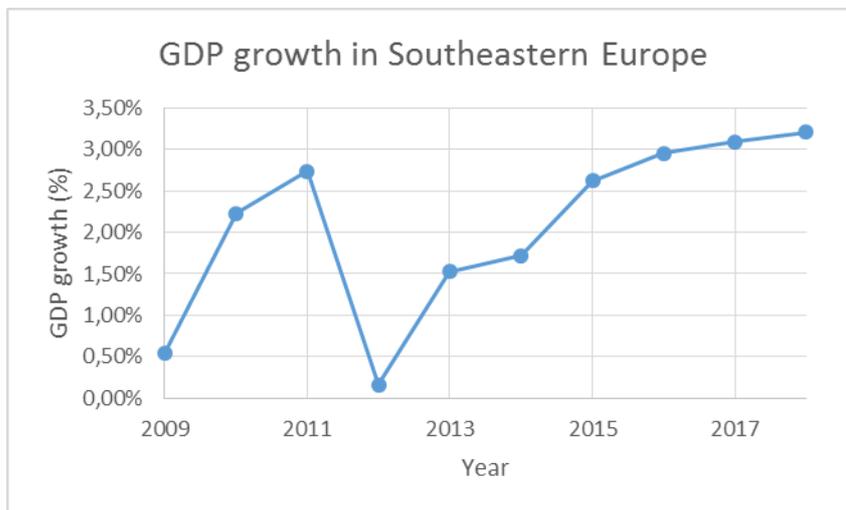
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Key determinants of economic growth in South Eastern Europe

Over the last years, South Eastern Europe's economy has undergone dynamical (albeit rather non-uniform) development. Currently, the European Bank for Reconstruction and Development (EBRD) prognosticates an average three percent growth for all economies within the region, Romania taking the leading position with an expected growth of nearly five percent. This positive development is mirrored by the figures on bilateral exchange of commodities with countries in the region recently collected by the Committee on Eastern European Economic Relations (Ost-Ausschuss). The volume of goods traded with the region in 2016, for instance, was found to have reached an amount of more than 46 billion euro, having undergone an increase of over eleven percent compared with the same period of the previous year.



While the entire region 'South Eastern Europe,' in the diction of the Ost-Ausschuss comprises the countries of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Moldova, Montenegro, Romania, and Serbia, it is clear that the conditions existing within the EU member states of Romania, Bulgaria, and Croatia must differ from those prevailing in the case of the so-called 'Western Balkan 6,' (i.e. of Serbia, Bosnia and Herzegovina, Montenegro, Macedonia, Albania, and Kosovo), or in the case of Moldavia.

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

The region's specific potential rests with the wide range of entrepreneurial forms of engagement conceivably realisable there. To date, German companies on site are already active in the fields of sustainable energies, energy efficiency, software and IT services development, digitalisation, metalworking, tourism, agribusiness, food industry, as well as in the business of developing the local infrastructure (traffic and telecommunication systems, specifically). And that is precisely where further market potentials still may be tapped in the future. In order to do so, it is of utmost importance to join in an effort to improve overall circumstances such as legal and economic conditions, but also to further both the competitiveness of local companies (especially with an eye to the European Single Market) and general security of investment.

Regional cooperation and readiness to engage in dialogue are prerequisites for prosperity

On that note, the economies, economic policies, and economic systems of South Eastern Europe are facing another challenge. Further impulses to increase the economic welfare of that region presuppose intensified inter-regional cooperation amongst the so-called Western Balkan 6, making it urgent to initiate harmonising strategies not only on the regulatory level, but also in the legal sphere.

In the Ost-Ausschuss's view, it is vital that in connexion with their felling of political decisions, the governments of South Eastern Europe should intensify their dialogue with the forces of economy and society. Only in this way it is possible to develop and implement common approaches to existing problems. On a par with efforts to reduce bureaucracy, to embrace more efficient procedures of licensing and authorisation, and to introduce e-government solutions, this 'multi-stakeholder approach' constitutes one of the central pillars upon which the modernisation of public administration rests.

Levers to improve business environment and trading conditions

In the view of the German economy, an urgent demand for action is to be observed particularly in the following subject areas

- (1) modernisation of industrial production and improvement of digital infrastructure;
- (2) implementation of an in-depth system of compliance;
- (3) resistance against the temptations of protectionist policy and broadening the fields of application of the Central European Free Trade Agreement (CEFTA), as regards the Western Balkan countries and Moldavia;
- (4) measures to design and implement schemes for training and development that are practically relevant and geared towards the demands of the labour market;

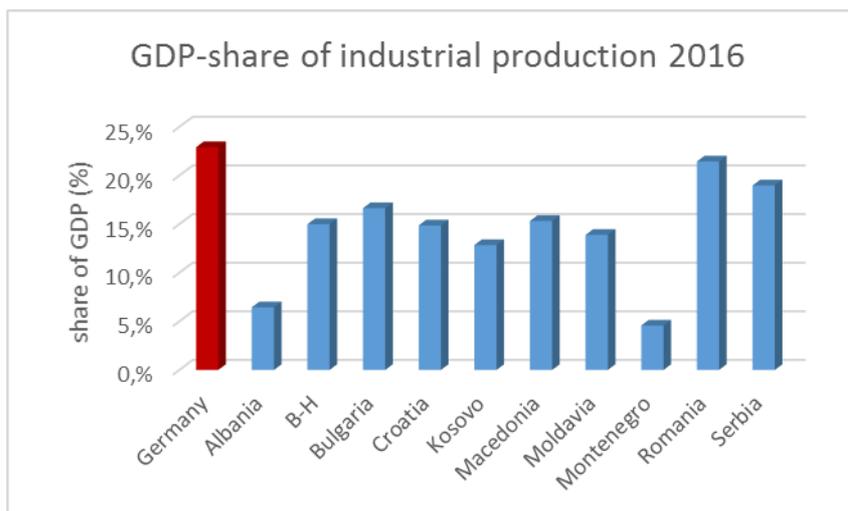
In the following paragraphs, the fields of action listed above will be briefly sketched and supplemented with proposals for political action.

(1) Modernisation of industrial production and improvement of digital infrastructure

The manufacturing industries – together with food industry and agribusiness – constitute key pillars of the national economies of South Eastern Europe and substantially contribute to the value added regionally created. From the Ost-Ausschuss's perspective, as far as global locational competition is concerned, there appertain major competitive advantages to the countries of South Eastern Europe that go far beyond the much-cited matter of mere wage cost advantage. It is especially their spatial proximity to the core and target markets of Western Europe that endows them with a unique selling point. In order to bring the latter to bear more efficiently, however, it is of particular importance that – ideally regionally orchestrated – economic measures be taken in the followings fields of action.

Modernising their industrial basis is vital for South Eastern Europe's economies, wherefore their governments ought to encourage corresponding projects with particular emphasis. Innovation-based economies grant a competitive edge, employment, economic growth, competitive energy and commodity

prices, they improve local purchasing power, and safeguard fair and free trade, by all these factors furthering sustainable and future-orientated development. Even today, Croatia, Serbia and Romania, according to the 2017 Bloomberg Innovation Index, rank among the 50 most innovative countries in the world. The basis has been laid to lend an innovative structure to the region – other countries may, and will have to, follow their example.



Source: Ost-Ausschuss, World Bank

No business enterprise, whatever its size and specific branch of industry, can dispense with innovation, yet not all companies are able to pursue an innovative approach by their own efforts alone. In such cases it is paramount that policy and public administration not only follow and monitor public debates on the issue in a supporting kind of manner, providing positive impetus, but also strive to facilitate innovation by means of creating the flexible framework conditions necessary to that effect.

Digitalisation

Catchphrases such as ‘industry 4.0’ or ‘industrial internet’ indicate the revolutionary changes industrial production is about to undergo. Digitalising and interconnecting the diverse links of an over-all value chain has become the indispensable core of any company’s digital transformation. Any such effort, however, is predicated upon the creation of modern digital infrastructures. Analogous to energy and traffic infrastructures, broadband internet access and comprehensive networks (mobile phone as well as broadband internet) constitute key prerequisites for any company’s positive performance, regardless of their individual size and branch of industry. Modernising such infrastructures presupposes cooperation between commercial providers of pertinent services in the field and the public sector. Only thus it can be assured that any further investments – based on pre-existing

infrastructures – are made in such a manner as best benefits the national economy. Conversely, an encompassing regulatory and legal framework has to be created that encourages the use of modern infrastructure and provides incentives for investment. (*On this issue see also: position paper “Digitalization in South Eastern Europe – the network future is happening now!”*)

The Ost-Ausschuss puts itself forward as a partner for a regional cross-sector ICT summit, in the context of which perspectives on, and challenges of, digital transformation may be discussed and common regional strategies developed.

(2) Implementation of an in-depth system of compliance

Procedures compliant to rules have a decisive impact on an economy’s sustainable economic success, as well as on the readiness to invest on the part of German industrial enterprises. Transparency in the processes both of political decision-making and matters of public administration constitutes one important element, together with the inclusion of relevant representatives from both the spheres of politics and society at large into said processes. Further factors are resolute action to combat corruption and similar irregularities, as well as the adoption and enforcement of clear legal rules on the duties, functions, and area of responsibility of politics and public administration.

Also in this respect, the Ost-Ausschuss puts itself forward as a partner. We suggest to found a common initiative together with the region’s respective governments, to the purpose of launching a common voluntary code of economic conduct.

(3) Reduction of protectionist trade barriers

In contrast to protectionism, free market access and fair competition in trade lead to innovation, competitive edge, and thus to investments, economic growth and sustainable economic development.

Advantages of free-market competition are:

- faith in market participants and controlling authorities
- open access to all markets provides companies with the means to gain and to maintain global competitiveness under equal conditions
- simplification of regulatory standards, in order to save money, time, and resources

- improved service for consumers through an increased variety of products at competitive prices
- competition allows companies to organise their structure more efficiently
- access to energy and raw materials at competitive prices

The quality of regulatory measures has to be improved and excessive administrative requirements tempered. The key to positive economic development lies in the creation of a unitary and predictable regulatory environment that serves to realise political aims effectively, without proving too disproportionate a burden for the private companies involved. In this context, some thought ought to be given to the question how the proportion of state-owned and public enterprises might be reduced, especially where they prove to be no longer competitive, or in cases where administrative bodies use public monies to distort competition. Whereas expeditious privatisation of infrastructures is not unlikely to yield synergies on the level of national economy, any special treatment received by public and state-owned companies in terms of regulatory standards (as, for instance, exemptions from taxes and duties, or pre-fixed fees and charges levelled for providing telecommunication services in and through local networks) has to be abandoned.

Creating a regional single market ('CEFTA')

The transformation process undergone by the Southern European partner countries over a period of now more than 25 years has resulted in a fundamental change in the over-all economic fabric. Diverging legal and regulatory requirements, together with an elaborate system of tariffs and additional trade barriers, have had a decisive influence on both international and regional trade relations and have led to the region's economic disintegration. Over the past years, repeated efforts have been made to remedy the structural disadvantages encountered by today's economies within the region by means of pursuing a number of approaches to regional cooperation. An important step in this direction was taken in the form of the Central European Free Trade Agreement (CEFTA), which by now has been signed by all Southern European countries that are not member states of the EU.

(4) Expansion of practically relevant schemes for training and development; creation of economic opportunities

Creation of dual education and training systems

Alongside imparting competences in the STEM-fields, the introduction of dual training and third-level-education systems constitutes one of the key levers by force of which citizens may be

prepared to meet the challenges they are likely to encounter on an ever-developing labour market, and to create new opportunities for themselves. On a social level, such measures contribute substantially to job creation, help to minimise 'brain drain,' and serve to counteract the rise in juvenile unemployment. The German industry stands ready to actively support any effort to implement and adapt dual education and training systems in South Eastern European countries; already several German companies are actively engaged in training and development schemes within the region, constantly available for dialogue with the respective local governments.

For over more than a decade, for instance, the Ost-Ausschuss have been successfully involved in practically relevant schemes for training and development by means of their Zoran Djindjic Internship Programme of German Business for the Western Balkans. In the course of the programme, students and young graduates complete an internship with German companies in the Federal Republic of Germany. Furthermore, companies are given an opportunity to recruit and retain young professionals long-term for their subsidiaries and partners within the region at an early stage of their professional life. Since 2003, ca. 600 interns have absolved the programme, many of which currently are employed by subsidiaries of international business enterprises (German or otherwise), or else have occupied leading positions within the framework of economy and politics in South Eastern European countries. While contributing to the improvement of education and training within the region, the programme also promotes cross-border cooperation and communication, and thus is conducive to the establishment and maintenance of enduring international business relations.

Decisive measures have to be taken to counteract the demographic changes witnessed by the region, which are effected primarily by the emigration of young members of the labour force. What is needed is an acute change in awareness, since currently the region is faced with the loss not only of a vast amount of skilled labour, but of an entire generation. Local governments must give priority to the establishment of specialised modernisation partnerships designed to further and monitor the training of skilled personnel according to the latest standards. To that end, also, the Ost-Ausschuss puts itself forward as a partner.

Integration into the EU Single Market remains the over-all objective

Efforts to liberalise economic and trade relations have to be pursued with special emphasis. This implies particularly the reduction of trade barriers concerning industrial and agrarian products, consumer commodities, as well as to the provision of services in the field of cross-border infrastructure-operation. Manufacturing industry, service contractors and consumers alike will profit from the economies of scale achieved by means of an expanded market. Apart from the discontinuation of (sectoral) tariffs, an additional value rests with the effects of increased harmonisation and the abolition of general barriers to entry into the market. The CEFTA should be no more than a first milestone on the way to the region's integration into the EU Single Market. Steps taken to intensify inter-regional economic cooperation among the so-called 'Western Balkan 6,' as they are already being discussed at this moment, could affect the situation positively, since such forms of cooperation contribute largely to positive economic development, and, furthermore ought to help to remedy (by and large) the structural disadvantages encountered by the region.

The Committee on Eastern European Economic Relations (Ost-Ausschuss) supports the governments of South Eastern European states in their efforts to effect and monitor processes of modernisation. In that, it wishes to help pave their way to EU membership and to contribute to an over-all development towards general economic prosperity. The German industries stand fast by their investments in the region and are furthermore willing to expand them to the best of their ability, given that the regulatory and legal environment in which they are supposed to operate provides incentives to further investment in the areas sketched above.

The Ost-Ausschuss is a part of the Digital Transformation Initiative WB6+



About the Publisher

Founded in 1952, the Committee on Eastern European Economic Relations (Ost-Ausschuss) functions as an umbrella organisation for five German economic head associations. It acts as a key contact for German companies active on (or contemplating engagement in) the markets of Russia, Belarus, Ukraine, Central Asia, the South Caucasus, and South Eastern Europe. The Committee provides support in key matters of economic policy development associated with bilateral relations entered into with said countries and promotes trade, investments, and the transfer of services into the corresponding markets.

For current statistics, position papers, and further information on German business relations with the 21 countries the Committee is concerned with, please consult the Committee's web page **www.ost-ausschuss.de**

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