

Olli Rehn, EU Commissioner for Enlargement

Speech to EUROCHAMBRES

Brussels, 20 December 2005

## **Fostering trade, investment and economic integration in the Western Balkans**

I am pleased to join you here today to open your conference on “EU membership: a driving force for the Western Balkan economies?”. The role of Chambers of Commerce is undoubtedly a central one in fostering trade, investment and economic integration between the EU and the countries of the region.

I have just finished my first year in office as the Commissioner for Enlargement. It has been an eventful period. Bulgaria and Romania continued to make steady progress in their preparations for EU accession, which is still possible on 1 January 2007, provided they take the necessary steps to meet the criteria fully. The EU opened accession negotiations with Turkey and Croatia in October 2005. The countries of the Western Balkans have a clear European perspective. Each of them has made important progress towards reaching this goal over the last year.

The revitalisation and development of the economy is a key challenge for the countries of the Western Balkan. The current situation presents a mixed picture. While we can note promising progress in economic reform and recovery, huge efforts are still needed. By European standards, the countries are poor and living standards are low. Unemployment in most countries is above socially and politically sustainable levels. The high current deficits need to be watched carefully. The existence of large informal economies deprives governments of much needed tax revenues, and it also weakens the states and their institutions. The region needs to attract a higher level of investment – particularly foreign direct investment (FDI).

The key to attract FDI is a predictable and stable legal, political and economic environment. The European Union’s approach to the region is precisely intended to

ensure this favourable environment. Beside the political process, we are promoting regional cooperation and support to the reform process.

The EU's policy for the region, the Stabilisation and Association Process (SAP), was launched in 2000. Its aim is to promote security, democracy, human rights, social and economic development, institutional reform and regional co-operation, through assistance and other instruments. The first step is the conclusion of a Stabilisation and Association Agreement (SAA) with each country of the region. The SAA forms a contractual relationship between the Union and each country, entailing mutual rights and obligations. These agreements set the formal framework for the countries gradually to align their legislation with that of the EU, and to co-operate closely with the Union on a number of issues concerning the EU's internal market. Agreements are already in place with the Former Yugoslav Republic of Macedonia and Croatia. Negotiations on an SAA are close to completion with Albania; I expect conclusion early next year. Negotiations began this year with Serbia and Montenegro, and Bosnia and Herzegovina.

At present, mostly because of political and economic uncertainties still prevailing throughout the Western Balkan region, the attitude of economic players is generally hesitant. Investment requires integrated markets which are free from trade and foreign exchange restrictions, with reasonable regulatory frameworks and reliable legal systems. Rules must be applied in a transparent and equal manner to all. In sectors such as trade, energy and transport, the limited size of each Western Balkan country, and the fragmentation of the economic space in the region, leave no other option than to embark on intense regional co-operation as the only sustainable way forward.

The idea of a joint economic space in the region is taking root. Progress towards free trade and infrastructure development has been good. Beyond the development of intra-regional ties, the ultimate goal is to reconnect the Western Balkan countries with all their neighbours, including EU member-states and candidate countries.

The Stability Pact for South East Europe also created a network of bilateral Free Trade Agreements among the five Western Balkan countries, and with Romania, Bulgaria and Moldova. This sends an important signal to the investor community which will find a market of high absorption potential for industrial and consumer goods. These Agreements

now need to be fully and efficiently implemented. I hope that we can move towards transforming the network of bilateral trade agreements into a regional free trade area, and the Commission will present proposals to this end early next year during the Austrian Presidency.

Trade liberalisation and facilitation are a central part of the Stabilisation and Association Agreements. In this respect, the main instrument of our policy is the Autonomous Trade Measures that the Western Balkan countries enjoy with the EU, which is their main trading partner. However, the countries clearly have difficulties reaping the full benefits of this preferential treatment. A lack of productive capacity, lagging productivity and insufficient ability to comply with EU quality and health standards are major obstacles to increasing exports.

Significant progress is being made on forming a regional energy market. The EU supports the process initiated in Athens in 2002 with the signing of the Memorandum of Understanding on the Regional Electricity Market on South-East Europe and its integration into the EU Internal Electricity Market. A modern and liberalised gas and electricity system – based on European standards – will also substantially contribute to attract investment into this strategic sector. Moreover, a modern energy system providing stability and security of supply is a precondition for attracting investments in the manufacturing sector, and will also be important for the development of service industries such as tourism. We are confident that the success in the energy sector will pave the way to expanding the same approach into other infrastructure, such as transport and telecommunications. We are also drawing up an integrated regional transport strategy which is consistent with the Trans-European Networks and taking into account the Pan-European Corridors.

Through regional co-operation, a business environment can be created in the Western Balkans that will provide for foreign and national direct investments, that will create much needed jobs and that will encourage individual entrepreneurial initiatives. In the pursuit of these objectives the countries of the Western Balkans can count on the support and the financial assistance of the EU, working in close co-ordination with other players in the region, such as the Stability Pact and international financial institutions. We work alongside the European Investment Bank and the European Bank for Reconstruction and Development, which is one of the most active international lenders in the Balkans.

These important measures of trade liberalisation and infrastructure need to be accompanied by reforms to strengthen institutions and the public administration. Corruption, trans-national organised crime and illegal immigration are major obstacles to economic development and prosperity.

The fight against corruption is key for further increasing the attractiveness of the region as a place to do business, both for home-grown entrepreneurs and foreign investors. Respect for the rule of law and the enforcement of a transparent legal framework remain key conditions for the promotion of a business-friendly environment. Investors must be sure that competent, independent and adequately equipped judicial systems will guarantee their rights. The EU is helping the countries of the Western Balkans to make their region a place which investors can bank on.

There is also good news from some countries from the Western Balkans. The region is enjoying a 6.5% average annual growth rate. The reforms advancing entrepreneurship are biting. In September 2005, the World Bank in its report "Doing Business" around the globe, Serbia slashed more red tape than any of the other 154 countries in the study. In January 2005, a Serbian would-be entrepreneur needed only 15 days and a deposit of €500 to start a business, compared with 51 days and €5,000 a year earlier. Moreover, Serbia has simplified the payment of taxes, made it easier to collect debts and to hire temporary workers. As a consequence, start-ups have boomed as the number of registered firms are up by 42% over 2004.

I myself saw an encouraging signal of potential investments in the region when I visited Belgrade to open the SAA negotiations in October. The hotel where my delegation stayed was booked out with 700 Italian businessmen who had come to explore the business opportunities in Serbia. Although it caused some personal inconvenience, I took it as a very welcome sign of business interest in the Western Balkans.

Thank you for your attention, and I wish you a successful conference.

ENDS