Review of implementation of OSCE commitments in the EED focusing on “Integration, Trade and Transport”

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I have been invited today to comment on the report of the UNECE from the business perspective. Let me start with a short introduction of the organisation I represent, the Committee on Eastern European Economic Relations. The Committee on Eastern European Economic Relations was formed in 1952 on the initiative of Ludwig Erhard, who was Germany’s economics minister at the time, and like the UNECE is a child of the post-war European order. In the Cold War years, the Committee on Eastern European Economic Relations served to coordinate and even to handle economic cooperation with the Eastern bloc countries through German companies. This was done in close agreement with Federal Government policy. In the context of the Cold War, the work of our organisation always bore a highly political character. In the 1990s, the Committee on Eastern European Economic Relations completely restructured itself and is now a modern business association with approximately 2,000 members companies and about 60 sponsoring companies. We are now a joint body of the umbrella associations and the oldest regional initiative of German business:

- An intermediary between business and policy-makers in Germany and Central and Eastern Europe
- A partner for German companies as regards the markets in Russia, Belarus, Ukraine, Central Asia, Caucasus and South-Eastern Europe

What are our objectives?

- To strengthen and develop economic ties to the countries in the regions
- To promote German companies’ involvement in trade, industry, investment and the services sector in the target countries
- To support market economy developments in the target countries

What do we offer?

- A network of contacts to the governments and business representatives both in Germany and the target countries

- Coordination of the institutionalised dialogue between the governments (cooperation councils, official working groups etc.)
- Up-to-date information on economic developments in the target countries
- Business missions, conferences and seminars with senior government officials and entrepreneurs from the target countries

When we speak of German business ties to the countries of Central and Eastern Europe we can no longer imagine them without the European dimension. On May 1st 2004, the neighbouring economies of Central and Eastern Europe moved even closer for German business. Trade and business contacts have further intensified as a result. With the increasing alignment of standards within the EU-25 the involvement of German companies beyond the new eastern borders will get stronger. We in the Committee on Eastern European Economic Relations are actively involved in steering and shaping this process.

Of course there are still numerous challenges ahead on the path to the market economy for many regions. But they are already outweighed by the opportunities for investors. And if there were no challenges, then we would not be talking about future markets.

Despite the halting economic trend in Germany, business links with the countries of Central and Eastern Europe (including the CIS countries) achieved a new record trade volume of almost 175 billion euro. This is an above-average figure for the overall trend of German foreign trade. The growth in trade with Central and Eastern Europe was 9.6%, while growth in Germany's overall foreign trade was only 8.8%. This means that Germany would have already been in recession for two years without the positive contribution to growth of its foreign trade. Trade with Central and Eastern Europe is one of the areas that is flourishing and is therefore providing Germany with a minimum level of growth.

Our country is one of the big investors in the region. 25% of all the foreign direct investment comes from Germany. But it is also a fact that the investment figures are still relatively low. German foreign investment flowed mainly to the new EU Member States. It is therefore no surprise that the overall amount of foreign direct investment in Poland and in the Czech Republic was three times as high as in the Russian Federation, for example.

In spite of this, we are able to see a positive overall trend in the regions covered by the Committee on Eastern European Economic Relations. Overall, the international competitiveness of German companies depends greatly on open markets for buying and selling. Thus, the DAX 30 listed companies earn only 26% of their revenue in Germany; German SMEs, too, are also increasingly active on the world market. In 2004 over 730 billion euro worth of goods were exported, meaning that Germany again defended its title of “export world champion”. At the same time, however, production in Germany is increasingly reliant on foreign inputs, particularly in those sectors that are strong on exports. The share of imported inputs in exported goods today averages 40%. In some sectors it is considerably higher, for example in electronics, where it is over 60%. Exports are an important provider of jobs. Almost 9 million, or nearly a quarter of our jobs, depend on foreign trade.

The demand for open markets worldwide is not just made by exporters and importers but also by companies producing abroad. The revenues of foreign branches of German companies are already more than double those of exports. To penetrate the foreign market, firms must have a presence not only with marketing subsidiaries but increasingly also with production bases. As a part of an international production network, the foreign bases of German companies are also dependent on open markets. The scale of intra-company trade is now estimated to account for 40% of total world trade. And the trend towards global production networks continues: German companies will continue to expand their involvement, especially in the transition economies of Eastern Europe and the Asian threshold countries.

Let me now comment on the theme of today’s conference from the perspective of German business, and make some comments also on the UNECE Report on Integration, Trade and Transport.

A dependable business environment and good governance are important positive factors for economic growth and foreign investment.
This is not only correct in theory. With the very practical involvement of German companies in Eastern Europe comes the clear proof that such legal order works. German business has become strongly involved particularly in the new EU states such as Poland, the Czech Republic and Hungary. This is not only because these countries are neighbours of Germany, but because right from the start they strove intensively and consistently to improve their business environments.

We can see a similar process – albeit with some considerable delay – in the EU accession candidates Bulgaria and Romania. Once these countries received a clear perspective for EU accession and as their laws and business environments move ever closer to the EU standard, there has been a clear increase in the activities of German companies and above all long-term investments in these two countries. Given the democratic changes in Ukraine and the anticipated improvement in the business environment there, we are certain that the interest and involvement of our companies in that country will grow as well. The reliability of the business environment is of particular importance. Business does not expect a perfect business environment. But it does expect and need planning security and dependability regarding its investments. The critical issue for countries wanting to bring in foreign investment is not the ongoing fine-tuning of legislation, but the consistent nationwide implementation of the laws that already exist.

Every country should also be able to exploit its competitive advantages. German business is clear in its backing of regional competition between economic locations within Europe. Ultimately, such competition will benefit of all the continent’s countries and promote economic growth in the global competition for investment locations. This includes, for example, the taxation competition within the EU. We oppose the harmonisation of taxes in Europe because we fear that this tax harmonisation will ultimately lead to a tax cartel of the highest tax rates.

Market size is a critical factor for the attractiveness of an investment market. In the region covered by the Committee on Eastern European Economic Relations, the Russian Federation, Ukraine or Romania are examples of countries that appear very attractive to investment for developing new markets merely on account of their respective market sizes. For the smaller countries, the integration of their markets (for example through free trade) as recommended in the UNECE report is especially important. Only in this way can these countries be successful in the regional competition for foreign investment. Free trade agreements should be used to maximise possible economic impact to achieve the most comprehensive integration with the countries concerned. Issues of investment and competition, the protection of intellectual property and the easing of trade restrictions should therefore be important elements of these agreements. Experience gained on a bilateral or regional basis can also help facilitate the tackling of these areas under the aegis of the WTO.

The development of a network of SMEs (small and medium-sized enterprises) is also very important. These days, since large firms concentrate mostly on their core business, more and more supply tasks are outsourced to SMEs. This provides flexibility, technical innovations and a reduction in real net output ratio. It is particularly important for the Eastern European countries to use outsourcing to create a strong, flexible network of innovative SMEs in industry and industrial services. For this, it is important to dismantle the administrative barriers for SMEs, to provide tax advantages for these companies and easier access to the required loans.

Alongside the dependability of the business environment, a good infrastructure is also an important prerequisite for foreign investment. This involves not only the transport infrastructure but also a dependable energy supply and good communications. The relevant EU pre-accession preparation programmes have an important role to play here. A clear strategy for the development of the infrastructure in the respective countries as well as a PPP strategy in this area are vital for the development of the infrastructure.

Ultimately though, investments are made by people. The qualification of human capital is of crucial importance, particularly in today's world. Vocational training and specialist exchange programmes are crucial factors for achieving the desired results.

However, investment decisions are made not only rationally, but also from the heart. A country's image plays an important role in this. We therefore recommend to all our partner countries that they pay continuous attention to their image abroad.