

Business and Management



Giorgi Baramidze

Georgia's Minister for European and Atlantic Integration

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Foreign investment and its influence on economic development in Central and Eastern European countries

All countries that are transforming their economies, are expecting foreign investors. They have a great deal to offer them, i.a. absorptive markets and a well-qualified, cheap labour force. The panel *Foreign investment and its influence on economic development in Central and Eastern European countries*, moderated by **Danuta Walewska**, Deputy Head of the Economic Department of the 'Rzeczpospolita' daily, discussed, among other things, the development prospects for Georgia and Moldova.



Hans Holzacker
Senior Economist at Bank Austria Creditanstalt

Valeriu Lazar, Minister of Trade and Economy of Moldova, said that *after the break-up of the Soviet Union, Moldova experienced a social crisis. Over a period of ten years, a massive decapitalisation of enterprises took place, hyperinflation occurred, and we lost markets and sources of raw materials for our companies. Therefore, the problem of investment and capital investors has been very important to us. The policy of our country was aimed at creating an environment that is welcoming for foreign investors. We have succeeded in creating such a friendly climate. Foreign partners brought know-how and came with their own markets, in which they helped us to establish a presence.*

In the majority of countries of Central and Eastern Europe, economic reforms are a consequence of social-political changes. In Georgia, similarly to other countries in the region, these changes did not occur without systemic changes, in this case the so-called *Rose Revolution*. However, Georgians decided that there is no need to prise open doors that are already open. *The economy should be as liberal as possible, deregulated where this is possible. Taxes should be relatively low. Today, Georgia is a democratic state, building a market economy, one of the fastest reforming economies in the world* – emphasised **Giorgi Baramidze**, Georgia's Minister for European and Atlantic Integration.

There are many signs that, thanks to the investment climate provided by the countries of Central and Eastern Europe, in the near future a significant inflow of investment to reforming economies can be expected. This will be helped by EU processes, among others in Bulgaria, Romania, Turkey, Ukraine, as well as in Georgia.

Economic growth is not an end in itself. This is a goal that we need to reach, in order to resolve other issues. The motto of our development is modernisation of the country. Because a 'divergence', or disparities, need to be overcome by 'convergence'. We are not talking about the rate of economic growth. Right now we are talking about the quality of growth – asserted Valeriu Lazar.



Aleksander Oliynyk
Director, Institute for Reforms, Kiev

Reasons to invest in Ukraine

The Orange Revolution, along with five years of double-digit economic growth, has caused Ukraine to be in the centre of interest of world business. Investors from Western Europe are looking for places to establish factories and enter a 50-million strong market, while CIS countries are paving their way onto the European market. Ukraine, which borders these two economic zones, is an attractive place to do business, as well as an ideal starting point to expand to both Eastern and Western markets.

The means of attracting foreign investors, the freedom of functioning of the economy and the prospects of European Union membership, were the main issues discussed by experts during the panel *Reasons to invest in Ukraine*, moderated by **Alexander Oliynyk**, Director of the Institute for Reforms in Kiev.

Independence, economic stability, highly qualified staff, low costs of labour force, integration with the European Union, as well as the fact that Ukraine has brave and

talented journalists, are the main reasons why it is a good market for investment, in the opinion of Hans Holzacker, Senior Economist at Bank Austria Creditanstalt. Ukraine fills a certain void, which has existed between her and other European countries.

Jacek Kędzior, Partner in the Tax Advisory Department at Ernst&Young, argued that there should only be one answer to the question of investing in Ukraine: *definitely yes and if someone is not there yet, then they are already late. It will be very hard for them to make up for this time, From the perspective of many businesses, Ukraine is such a big market, with such potential, that problems, for example with the transparency of the tax system, are not significant enough to discourage them.*

In the opinion of **Dieter Reining**, Director of the Kiev Office of DaimlerChrysler, the changes taking place in Ukraine will be conducive to an increasing inflow of foreign direct investment. *I would say to businessmen who want to invest in Ukraine: go to Ukraine, you will not regret it.*



Jacek Chwedoruk
Director, Member of the Board, Rothschild Poland

Today, Ukraine is an ideal platform to do business and expand to Eastern European markets. However, in his talk, **Jacek Chwedoruk**, Director and Member of the Board of Rothschild Poland, pointed to issues related to the distinct features of the Ukrainian market and the unique model of business partnership observed there – the only one of its kind in the world system of clans and oligarchic groups, which is characterised by an absolute lack of transparency in investment. *This is not a problem for the Ukrainian economy, because quite a lot has been achieved there with this way of capital accumulation. Nevertheless, for investors from the outside, this may be a mechanism that is difficult and sometimes dangerous.* According to Jacek Chwedoruk, in spite of this Ukraine is an interesting country, even a fascinating one for long-term investment.

[State enterprise privatization versus the responsibility towards the state. Competitiveness, investments](#)

Does Poland need capital to develop new

investments? What is conducive to the development of the capital market? Can the stock exchange be a source of cheap capital? How can private and public businesses come together? Is it a good idea to privatise companies through public offerings? These were the main issues discussed by Forum participants in the panel *State enterprises privatization versus the responsibility towards the state. Competitiveness, investments*, moderated by **Małgorzata Ostrowska**, Deputy Economy and Labour Minister of the Republic of Poland.

Jacek Socha, Treasury Minister of the Republic of Poland, believes that it is precisely by privatising companies through the stock exchange that they are offered the opportunity to fully utilise their potential, while the value of the State Treasury's holdings rises. However, in none of the companies that have been floated on the Warsaw Stock Exchange and in which the State Treasury has a majority stake, should this ownership structure be preserved for many years or at all. *It is natural to return to an economy in which the ownership structure is consistent with a certain logic of function-*



Małgorzata Ostrowska, Deputy Economy and Labour Minister of the Republic of Poland
Jacek Socha, Treasury Minister of the Republic of Poland

ing of the state and the economy. Therefore, I believe that the privatisation process is not one which is only supposed to yield budget proceeds. Meanwhile, the stock exchange is a permanent element of a market economy. Without a stock exchange there is no market economy in the world.

According to **Paweł Olechnowicz**, President of the Management Board of Grupa LOTOS, the stock exchange is a really good direction for the initial stage of privatisation and the realisation to a certain extent of the development process, offering as it does an opportunity to obtain funds for an investment programme approved by the owner.

The head of the Warsaw Stock Exchange, **Wiesław Rozłucki**, noted that investors are not investing in companies' stocks for altruistic reasons. They want to make a profit. They are interested in the return on capital.

Manfred Reichl, Partner at Roland Berger Strategy Consultants in Austria, insisted that the success of a stock exchange debut actually depends on how stern is the hand

managing the company. From this point of view, a stock exchange debut is not the optimal solution and not always the best starting mechanism.

In view of the competition between contemporary stock markets, they need to behave and function as businesses. They need to be effective. Manfred Reichl pointed out that an increasing number of countries are privatising their stock exchanges. The London Stock Exchange will be privatised. If so, then why should the Polish market not be privatised? *A state-owned company will never be as effective as a private or public one, therefore the target status of the Warsaw market is clear and this is only a matter of time. This process has begun* – said Wiesław Rozłucki.



Wiesław Rozłucki
President of the Warsaw Stock Exchange

Foreign investment and its influence on economic development in Central and Eastern European countries

Central Europe is one of the more interesting and fastest-growing regions in the European Union. Foreign direct investment is a key factor driving growth in every country, and obviously it also forces local companies to compete on the open market with foreign firms. The governments of all Central and Eastern European countries strongly support foreign direct investment, because it always represents an injection of capital for the economy – as argued by successive participants in the panel discussion moderated by **Ivan Stefanec**, President of the Business Alliance of Slovakia.

*At present we have only two regions in the world that permanently exhibit a tendency of growth in foreign direct investment; these are China and Central and Eastern Europe – emphasised **Jan Amos Havelka**, Director of Corporate and Government Relations at White&Case in the Czech Republic.*

According to **Andrzej Zdebski**, President of the Polish Information and Foreign Investment Agency, 48% of all investors still believe that the countries of Central and Eastern Europe are the best potential location for their investment, particularly in view of the low labour costs and high productivity, as well as the degree of flexibility with regard to employment possibilities, the level of education, the social climate, as well as languages and other values. *We can expect that in the future our region can become one of the more important places in the world, precisely because of its ability to attract foreign investment. Since the beginning of the economic reforms, Poland has managed to attract some \$85 billion. Manufacturing still accounts for the most important element of these types of investments, but we are beginning increasingly to see investment in services. A clear change in the form of investment can be observed, however. At the beginning of the process of the introduction of economic changes, the majority of foreign investment in Poland was associated with the privatisation process, while right now – for three years – the number of so-called Greenfield investments has been increasing – noted Andrzej Zdebski.*



Viliam Patoprsty

Chief Analyst at UniBanka, Unicredito Group from Slovakia

Increasingly often, local investments are receiving support, thanks to some sort of subcontractor relationship. Large foreign corporations have begun to subcontract local companies. This is one of the positive effects of foreign investment. A structure whereby large investors are supporting smaller suppliers leads to an improvement in the quality and competitiveness of industry.

A common mistake that can appear in the actions of countries undergoing transformation is their desire to attract investors for already existing plants. In a situation of transition from a centrally planned to a market economy, this leads to a significant increase in unemployment. The new owner usually begins the restructuring process by laying off workers, sometimes as many as 50% or 60%.

Ivan Stefanec noted that foreign investment also brings indirect effects, especially with regard to progress in business ethics and enhanced investment in education.

In the view of **Viliam Patoprsty**, Chief Analyst at UniBanka, Unicredito Group from

Slovakia, the foreign direct investment boom in the region directly depends on the high productivity of the labour force and the logistics environment. Investment by sectors shows certain tendencies, and increasingly often these are the IT, automotive and telecommunications sectors. A strong presence by investment in the region is a positive factor, although it is also associated with negative aspects. As regards the influence on local companies, this is usually a positive influence, while it is obviously less favourable for the competitors.



Maciej Stańczuk, President of the Board of WestLB Polska SA
Franz Peter Lang, Professor of Economics at the Institute for Economic Research, Braunschweig Technical University

De-localisation: an asset or a problem for the EU?

Maciej Stańczuk, President of the Board of WestLB Polska SA, pointed out that pre-election debates in Western European countries feature fears concerning, for example, the alleged loss of jobs in companies from countries of the old Europe, in case the de-localisation process was to be continued. *However, for some time now, the discussion on de-localisation has tended to have a less populist nature and a more reasonable one.*

When entering the European Union, the new member countries brought in a market of low costs of production, which in the opinion of many politicians and opponents of EU enlargement is a threat to the economies of the old Europe. Increasingly often, voices are raised in France or Germany, saying that, after their accession to the EU, the countries of Central and Eastern Europe should change their tax systems and raise taxes, as well as reforming their social systems.

Franz Peter Lang, Professor of Economics at the Institute for Economic Research at Braunschweig Technical University, *believes that the accusation that countries of Central and Eastern Europe are destroying jobs in the former EU by maintaining a policy of low taxes, cannot be substantiated. On the contrary, such a policy creates a good basis for establishing new locations and creating new jobs, also in the old EU countries. Lower incomes imply lower costs, therefore the new EU countries are attractive as locations for production, provided that it is possible to quickly take over their production facilities, modernise them and produce there for third countries or import their production to former EU countries.*

One cannot speak of the countries of Central and Eastern Europe taking away jobs. The German economy is not growing very fast, while the situation in the United Kingdom is different. Why is there growth in the UK and not in Germany? – concluded professor Lang.

In the opinion of **Witold Orłowski**, Advisor to the President of the Republic of Poland, *the world media have artificially created the problem of de-localisation, associated with the Eastward enlargement of the EU. The problems of de-localisation and the search for optimal locations for production are a phenomenon that has been known for decades. The British economy is gaining strength because Britain is better than its partners in Continental Europe at doing business in the globalised world and raising the competitiveness of its enterprises: moving those types of production that cannot be competitively carried out at home, to other countries. That is simply outsourcing.*

In the view of **Maciej Stańczuk**, the phenomenon of de-localisation is completely unjustified. It is defensible neither on theoretical grounds, nor on empirical ones. De-localisation should be understood as a normal, common process of raising the competitiveness of enterprises, which are functioning in the conditions of a global economy and have no choice but to optimise their production costs. What is needed – as regards suggestions for economic politicians, who have in fact created this problem – is less shouting at businesses and calling on their patriotism and fewer references to moral values, and, instead, more building, creating an environment conducive to doing business.

*De-localisation is more of a political phenomenon. Even looking at the word itself, which rarely appears in the English language. It is more a French term. Even though it refers to a process that is described by the word "globalisation", the word itself is very political. This may be a way of explaining why economies, especially the French and the German ones, are having trouble dealing with the new world; they are trying to protect themselves and their political elite, and the society is trying to slow down these processes in a populist manner – noted **Jan Cienski**, Correspondent of 'The Financial Times'.*



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