

## **The Position of Chamber Investment Forum on Regional Economic Area Framework for Recommendations**

**2017 Western Balkans Summit in Trieste, 12 July 2017**

### **About WB6**

The Western Balkan 6 stands for six economies in the South East Europe: Albania, Bosnia and Herzegovina, Kosovo\*, Macedonia, Montenegro and Serbia. Four out of six economies hold the status of official candidates for the EU membership, out of which 2 have started accession negotiations. As potential candidates, the other two economies are yet to pick upon their EU integration course.

With population of somewhat less than 18 million people (size of the Netherlands or Romania), the WB6 economies generate cca 88 billion US dollars (current prices) of GDP (size of Slovakia). In terms of level of development, simple average of GDP per capita (PPP, international dollars) is around 13.5 thousand, or 1/3 of the EU28 average and around half of the EU11<sup>1</sup> GDP. However, the Western Balkans is one of the fastest growing regions in Europe, with rates forecasted between 3% and 4%. In addition, the region is marked by overall macroeconomic stability featured by low inflation (1% - 2%), low budget deficit (from -3% to -2%) and stable public debt (cca 50%).

The structure of the WB6 economies shows diverse economic activities. In average, the services account for much of the regional value added (%GDP), nearly 2/3 or 63%, whereas industry contributes with 25% and agriculture with 12%. Significant differences in the structure among the six economies are observed. Montenegro, powered by its tourism, is marked by above-average significance of service sector (nearly 70%). On the other side, with GVA (gross value added) around 30%, Serbia and Bosnia and Herzegovina are the industrial powerhouses of the region, whereas, value added of Albania's agriculture is almost the double the average in the region.

Around half a million businesses operate in the Western Balkan 6 economies. Most of them (over 93%) are micro companies with less than 10 employees. Over 99% of small and medium companies annually generate circa 74% of net job creation and 63% of value added.

In spite of significant growth of exports from the region, in recent years, the Western Balkan economies are still insufficiently integrated in global trade. Average exports of goods and services is around 37%, significantly lower than 80% of Visegrad 4 economies (Hungary, Slovakia, the Czech Republic and Poland) or 52% of other Balkan EU economies (HR, BG, RO). In the same time, the region has mostly specialized in intermediary goods of medium low technology industries and end products of low technology industries.

### **Why WB6 needs Regional Economic Area**

The Western Balkans is a part of the free-trade network of agreements on the European continent. With CEFTA regulating intra-regional trade and network of agreements with EU, EFTA, Switzerland and Turkey, trade within the region and between the region and the continent is mostly tariff free.

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<sup>1</sup> EU11: HR, SI, HU, SK, CZ, PO, LI, LT, EE, BG, RO

This has played significant role in the economic recovery of the region, following financial and economic crisis. However, the trade flows show that export growth in the region is not driven by the boost in intra-regional trade, but mainly by increased demand in the key EU markets (e.g. Italy and Germany). Although the total amount of exports of the CEFTA region has augmented from 20 billion euro in 2011 to 25 billion in 2015, the intra-regional trade volume has barely increased. Most of the countries depend heavily on the EU market (60-70 percent of their exports) with CEFTA being placed on the second place with share of around 10%. Notable exceptions are Montenegro and Kosovo\*, exporting about 30 percent to CEFTA countries and 40 percent to the EU.

At the micro level, the picture is no different. Only in 2 out of 6 economies, there are more companies selling to the region than the ones selling to the EU.

Companies in the region face significant regulatory barriers to trade across borders. In average Balkan companies face higher costs related to border and documentary compliance compared to the companies in the EU. In case of export this means 20% more expensive border compliance and almost 3 times higher costs related to documentary compliance.

In spite of regional synergies (most of the WB6 economies derives from once single country) paired with geographical, language and cultural proximity, the level of intra-WB6 supply chain integration is not high. Significant potential of efficiency gains lies in better networking of the local industries to produce more competitive products for local and European markets. In order to unlock this potential, the economies of the Western Balkan need to minimize the time and costs of functioning along supply chains that go across borders. If this achieved, the companies of Western Balkans will have more opportunity to mutually connect and create competitive supply chains that will be able to generate products with reach going beyond local and European markets. These networks and supply chains will be building blocks to tomorrow's integration of the Balkan economies into the European Single Market.

With clear perspective of the EU membership, good track record of stability and progress and number of trade promoting factors, the Western Balkans region as an economic integrated area has great potential to catch up with the rest of Europe, in particular its EU neighbors. The prospects for the EU integration are greater if the WB6 economies facilitate economic cooperation as much as possible, in the areas of interest for its economies, providing more opportunities for its citizens to benefit from such cooperation. The assets it holds, including good geo-economic position, abundance of natural and mineral resources and good talent pool, can be put in service of its economic development and growth should the proper environment is created for nourishing competitive advantages that can bring merit on European and global scale.

We believe that we can all profit if we use the fact that the entire region is in the same train, heading the same destination. We can use the process of European integration to create additional space for cooperation in the region and unlocking potential dwelling in the unnecessary impediments to trade and investments in the region. As small economies facing similar challenges generated by the both past and future, we believe we are stronger together.

To support this, recent IMF and World Bank study has shown that growth in the region should measures of regional integration were put in place would be above 4% per year in the period 2018 - 2022 which would result in EUR 15-17 billion more in nominal GDP regionally with a further growth tendency even after 2022.

We recognize and salute the EU commitment through Berlin Process to the WB6 overall integration, especially to the creation of Regional Economic Area. We see CEFTA Secretariat and Regional Cooperation Council as valuable instruments for enabling creation of Regional Economic Area. The business community of the six economies in the Western Balkans strongly supports initiative to create Regional Economic Area and wants to contribute to this process by offering recommendations to the governments in the region reflecting our joint needs and interests.

### **Chamber Investment Forum's Vision of the Regional Economic Area**

The business community of the Western Balkans sees Regional Economy Area, not as a new entity or organisation, but as an instrument:

- Instrument to creating new opportunity for development, jobs and growth.
- Instrument to becoming stronger and more competitive
- Instrument to maximizing benefits from our joint path to the EU membership

This is why, although not a tangible entity itself, Regional Economic Area should be seen as a generator of tangible outputs which we, the businesses across the region, should feel in our daily operations. We should measure REA in currencies when our trucks leave our storehouses towards other regional markets, we can measure REA in hours when they are on the roads or crossing the borders. We can measure REA with number of small and medium enterprises that became part of supply chains of big multinational companies that decided to build production facilities; or small companies that became medium or big, because they had room for development in the regional markets; by number of cars and trucks on our roads or trains on our railways; by number of tourists that cross borders; by number of business people that fly around the region and create new business deal,... Ultimately, we can measure REA in jobs we created and economic growth we produced.

This is why the business community of the Western Balkans offers its full commitment to working together with decision makers in the form of continuous, structured and interactive private-public dialogue. Our role will be to engage the businesses in identification of problems, challenges and opportunities and putting our capacities in service of creating tools and solutions that can be applied both by the decision makers and business community. This why we created Western Balkan Chamber Investment Forum, and this is even more so why we endow it with the capacity to meaningfully partake in such dialogue.

The Permanent Secretariat is the first tool we have created to articulate the voice of our business community and deliver it to decision makers. We want to be there to guide the implementation of REA the way that it will maximize the benefits of our business communities. We want to be there to feed the process with input of what really troubles companies when doing business in the region. In addition, we want to create support services that will help enterprises in reaping the benefits of regional integration. This is critical to the ones who naturally lack capacities, namely small and medium companies.

Based on this vision, we have set out our mission to lead and guide primarily the activities of Permanent Secretariat.

### **Chamber Investment Forum Mission to Enable Regional Economic Area**

The Chamber Investment Forum through its Permanent Secretariat commits to:

**1. Advocating for creation of effective institutional and political structures on the highest political level by WB6 governments to support and enable implementation of Regional Economic Area.**

Institutional cooperation is the key to success of Regional Economic Area and more needs to be done in order to improve capacities in the institutions to tackle issues and challenges. The institutional and political structures should establish a framework for cooperation (meetings to be organized quarterly) with the business community to enhance public private dialogue as the tool for successful implementation of any measures aimed at better regional cooperation. Chambers Investment Forum as regional association of chambers of commerce and industry as the only regional body representing entire business community in the region is the right platform to facilitate such a dialogue.

**2. Advocating free movement of goods/ services throughout the region** to cut costs and make goods and services more competitive on the global market.

- First, make all the customs procedures publicly available on Customs Offices websites throughout the region and thus make them transparent, accessible and predictable.
- Unification of all customs declarations, procedures (also allowing full cumulation of origin and duty drawback) and standardization of all inspections including sanitary, phytosanitary, veterinary, etc., on the regional level in alignment to EU standards so that each country recognizes the same border declarations, documentation for certain type of products from certified labs, agencies, etc.
- Design and implementation of regional IT system to connect all the customs within the region to support harmonized and EU aligned regional customs documentation and inspection procedures to result in zero-time waste at the borders (estimate is that optimal time a truck spends on the border should be 7.5 minutes). The check of documentation and goods should be on the first border of the Regional Economic Area of WB like it works in the EU.
  - i. All documentation should be applied electronically, distributed immediately through IT system to all the customs within the region, all the customs duties paid accordingly, and when approved, the goods allowed to travel throughout the region without border checks of goods.
  - ii. Border checks of goods to be applied only based on risk analysis. Risk management should be coordinated on the regional level.
- Removal of all non-tariff barriers throughout the region (customs origin guarantees, additional ad hoc analysis, special labels, etc.). Putting a system – Governmental working group - in place in every country to monitor, detect and eliminate non-tariff barriers with the obligation to react within 15 days from the claim from the business community.
- Improved infrastructure on border crossing to allow more gates for trucks to differentiate between trucks with T license and others, etc.
- Eliminate market access barriers throughout the region to allow better production costs.
- Liberalization of trade in services especially in finance, insurance, transport (for example licenses for road transport), tourism; liberalization of electronic commerce, liberalization in cross-border data transfer, etc.

- Coordination and cooperation of Statistical offices within the region to measure the trade indexes on regional level and to ensure better regional statistics.
- 2. Advocating free movement of people** – allowing people from the region to travel, study and work within the region without extra paperwork (travel without passport, only with ID card) and too much administration. This would potentially allow common labor market, solve to a certain extent regional unemployment issues (high unemployment rates in WB from lowest being 15% in Serbia and Albania to highest being 32.5% in Kosovo\* in 2016) and make a move towards prevention of brain drain from the area (all countries in the region have very low ranking on ability to retain talent) as it would open more opportunities within the region.
- Removing obstacles, bureaucratic and administrative (no work permits, no discrimination for nationals of any regional country) to allow mobility of professionals throughout the region by allowing regional mutual recognition agreements of professional qualifications in jointly identified sectors of key importance for regional economies. This should be under the consideration that cooperation between the countries should be conducted in such a way as to support the measures taken by each individual country to guarantee the harmonious development of employment, and to ensure that migratory movements between the countries do not create any imbalance in the labor market and that, it is beneficial for the economic and social development of those countries.
  - Allow automatic recognition of quality assured academic qualifications for all professions within the region.
  - Allow multilateral agreements on social security and pension funds recognition for certain sectors to allow more flexibility and mobility of working people within the region.
  - Remove obstacles to mobility of students, scientists and academics throughout the region to allow knowledge transfer, cooperation within academic community in the region to allow more innovation, R&D, etc.
  - Remove visa requirements for tourists visiting the region to allow more mobility of tourists within the region.
  - Work on regional strategy on harmonizing education system with anticipated future labor market needs.
- 3. Calling for joint digital transformation strategy** that would lead to transformation of companies, business models and entire industries. If utilized timely, Digital Transformation will contribute to the economic growth, job creation and improve competitiveness and business prosperity of the region. Digital Transformation will relate to the ICT industries and it will lead the comprehensive changes within the traditional industries (e.g. automotive, electricity, consumer goods). The number of the connected devices to the Internet will rise up to 1 trillion by 2030 which creates room for growth of connectivity, data economy and fast forward to stronger utilization of the advanced technology (connected devices (IoT), robotics and artificial intelligence).
- In order to encompass the value of this industry revolution, the WB6 region should create harmonized regulatory baseline that will support data economy (eCommerce, e/mID, e/mGovernment solutions, etc.) and stimulate value creation through digitization of the operations of the traditional industries. This transformation process should also encompass

the societal benefits of the digitization process like environmental impact through reduced CO2 emissions and improved healthcare systems.

- Allow cross border data transfer within the region in accordance to security policies of the countries.
- Install a role of Chief Information Officer in each of the Governments in the region to ease the coordination and implementation of digital transformation and cooperation in digital matters to facilitate the integration process into EU's Digital Single Market.

**4. Calling for joint regional energy strategy** especially in the domain of electricity production/ trade could result in making the region more sustainable and thus energy secure as it would rely on its own resources. Further focus on renewable energy to make the region greener and energy sustainable.

- Strategy on optimization of resources and production facilities but also investment into production facilities on the regional level.
- Liberalization of regional electricity market.
- One of the priorities can be policy standardization on regional level for investments in renewable energy sources (in line with EU practices) that would result in attracting more investments in this segment in the region and making the region greener and energy sustainable.
- Incentives for electric vehicles and chargers to ensure faster development into green region.

**5. Jointly promoting the region as a unique investment destination by** joining the funds and efforts in presenting the region's investment potential, creativity, food and cuisine, tourist attractions, with the emphasis of the needs of the businesses.

- Web platform to present the region's potentials to investors.
- Joint boots at the international fairs presenting the regional offer if and when possible.
- Joint promotion of an integrated tourist offers for the region.
- Perhaps even Prime Ministers, Presidents going jointly to visits to third markets with a delegation of regional business representatives, etc.