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**Fulfilling the promise of South Eastern Europe**

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Ladies and gentlemen,

It's a pleasure for me to join you at this year's OECD Forum.

I am particularly pleased to speak about "Fulfilling the Promise of South Eastern Europe", to lay out what the countries of the region are doing together to become more competitive and to prepare for integration into European and Euro Atlantic structures, and further into the global economy and body politic.

Let me say at the outset that I am an optimist within the bounds of realism, or, alternatively, I am a realist who knows that optimism promotes action and thus achievement. I hope that you will understand this frame of reference in my remarks.

Regional economic and political cooperation in South East Europe is substantive and broadly based, in my judgment. I stress regional cooperation because it is the Stability Pact's focus and because it is an important but under-appreciated aspect of the region's political and economic development.

In recent years, regional cooperation has produced a number of key building blocks – representing a strategic approach, I would argue – for a vibrant regional economy and for expediting integration of the SEE economies into the European and global market place. This cooperation encompasses the entire region, including the participation of UNMIK/Kosovo in most if not all undertakings.

And this cooperation will be anchored by Accession or Stabilization and Association Agreements between the EU and all countries except Moldova, which is working on its EU action plan; NATO and Partnership for Peace are also part of the foundation.

Regional building block number one: the October 2005 Athens treaty, which will create a regional energy market to assure a reliable supply of fairly priced electricity, a major concern of domestic and international investors. The treaty provides a solid starting point for the estimated 25 billion dollars in investment – in generation, transmission, and distribution – needed for the region to meet surging demand over the coming two decades. The region may tackle the challenge of the gas sector as well.

Another key element is free trade.

Regional Prime Ministers met April 6 in Bucharest with Chancellor Schussel of Austria, the current holder of the EU Presidency, EU Commissioners Rehn and Mandelson, and Stability Pact Special Coordinator Busek to launch negotiations on a regional free trade

agreement on the basis of an expanded and modernized CEFTA with the ambitious goal of agreement by year's end.

By consolidating the current network of 31 bilateral free trade agreements and providing a common trade regime, the region will spur greater trade and investment. This new CEFTA will meet modern trade policy standards, add such issues as competition, government procurement and intellectual property and capture 90 percent of all trade, with no sectoral exclusions.

The investment climate is another building block.

The governments of the region, working together with the Stability Pact's Investment Compact and the OECD, have taken numerous steps to improve investment conditions. National investment promotion agencies are in place as are local foreign investor's councils. FDI statistics are encouraging, buoyed by Romanian, Bulgarian and Croatian progress toward EU accession.

Signs point to further improvement in other countries as well, as democratic institutions mature, as economic conditions improve and as policies focus on what it takes to be truly competitive in the regional and global economy.

Looking to build on the success in energy and trade, the region will commit to a Regional Investment Framework at a Ministerial meeting in Vienna in June. The objective: commitment at the highest political level to pursue policy reforms and implementation through country priorities and measuring comparative reform performance.

Next, what most politicians focus on first – infrastructure.

Some five billion euros in regional projects -- transport, environmental and others -- are completed or underway in the region. This regional program complements national infrastructure projects and implementation of the 2004 MoU on the Core Transport Network for South East Europe and will improve the ability of the countries to prioritize those projects that will link the region with Trans-European Corridors. This ability to prioritize projects is vital given the very limited borrowing capacity -- or fiscal space -- of the various countries.

The region's joining of the European Common Aviation Area this month is another element of a cooperation structure inexorably drawing the region into the European and global mainstream.

Governments also seek to add the energy of a progressive ICT sector to the strategy, a promising development. The telecoms sector is particularly dynamic, offering real potential if well-targeted policies and implemented regulations generate true competition in the market.

Connecting the region to the Information Revolution will promote IT-related job creation and ensure that the younger generation sees a future in the region; this will help stem the brain drain of technical and intellectual skills from the region.

At the same time, governments are working together to modernize employment legislation in order to achieve greater labor market flexibility and spur job creation, given the concern over high unemployment, particularly among youth.

Government transparency is another critical issue.

To combat corruption, regional governments are working at home and together to achieve greater transparency in their operations and to strengthen the rule of law. Evolving eGovernment programs in the region (including eProcurement and eCustoms), now at an early stage, can do much to reduce corruption and strengthen democratic processes.

Still, sustained pressure from the citizens of the region, by the European Union, NATO and other countries for real progress against corruption and organized crime in the region is necessary if there is to be real change on the ground.

I recall my own discussions over recent years with senior government officials from the region on this issue and their strong resistance to acknowledging the problem and to accepting the need to deal with it seriously and credibly.

This perception is now changing. The region's leaders now increasingly realize that action can bolster public confidence and improve the basic business and investment climate.

A word about the private sector. I, for one, believe that the private sector will respond to this regional strategy and cooperation structure. Macroeconomic indicators, I believe, are beginning to show this response. But the private sector is cautious and often skeptical, and looks hard for confirmation of credible implementation and good policy on all fronts, and this is a constant challenge to the region's governments.

Let me close with a personal remark about the hard work of so many in the governments and the private sector in the region.

Supporting the 25 initiatives and task forces from, the three Working Tables under the Stability Pact's overall umbrella has given me the opportunity to work closely with people from all ministries and economic sectors in the region, literally hundreds of people.

Their commitment to balance the interests of the region with their national interests is impressive; their professionalism and focus is similarly strong. The results of this joint work – some of which I've laid out above -- will underpin qualitative change in the region.

In some ways, South East Europe has followed the example of the new EU members, where progress has meant that elections, while important, have become less critical to that progress given the evolution of a constructive consensus on sound economic policy.

But elections in the region still mean personnel changes with politics reaching down into the civil service and expert ranks to an unfortunate and often counterproductive extent in some cases as valuable momentum is lost.

Still, this positive evolution, supported by the strong web of regional cooperation activities and underpinned by the EU integration process and work toward NATO membership stands in welcome counterpoint to the difficulties of years past. Fulfilling the region's

promise is the challenge, and the region is responding with diligence and great effort, while facing real resource and capacity constraints.

With continued good policies, patience, energy, increasing imagination and continued support, particularly for capacity building and infrastructure, I am confident the region will succeed and achieve the goal set out by the theme of the Ministerial Conference tomorrow, that is to “deliver prosperity” to the people of this very complex region.

Thank you