

**Remarks by Michael Mozur
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Stability Pact for South East Europe
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Ladies and gentlemen, friends,

Good morning and welcome to this important conference, an important venue for addressing the key economic development challenges facing South East Europe today.

Let me thank at the outset our hosts, CSIS, for providing an important forum for bringing us together here this week.

Let me also say that Dr. Busek sends his personal regards to all and regrets very much that an unfortunate illness has prevented his travel this week. He was very much looking forward to this event.

I can attest, and I know that all of you join me in this assessment, that there are few people as dedicated to South East Europe's progress and future, as Dr. Busek, who devotes so much time and energy to the many

aspects of the critical challenge of the region's integration into EU and Euro-Atlantic institutions.

Our discussions here come in the autumn of an important political year for the region. We all know that political developments – and stability – underpin economic development and affect prospects for growth and increased prosperity. Both are critical to the longer-term welfare of the region.

We have seen independence in Montenegro, with the peaceful process representing an important signal of political maturity in Montenegro and in Serbia, as the Union of the two dissolved smoothly and without undue tension or strife. Elections in Macedonia in July led to a change of government that is now getting down to work.

This past Sunday, elections in Bosnia-Herzegovina will lead to a new government over the coming weeks and remind us of the need for that country to undertake renewed efforts to achieve further and serious political and economic reforms as well as national consensus. The time has come for Bosnians to build their country and to strengthen national institutions and to put aside more narrow political and ethnic interests.

The status process in Kosovo is proceeding step by step, with tough issues -- standards, minority rights, local government, recognition of cultural differences and the need to protect the cultural heritage of all citizens -- being addressed by the interested parties with the support of the international community.

The prospects of a referendum on a new Constitution for Serbia and of national elections to follow ensures that this will be very much a political year till the end.

In all of these cases, much depends on the region's political leaders, their perspective and vision, and their commitment to improving the quality and circumstances of life of their countries' citizens. And I would argue that continued reform, supportive of EU and Euro-Atlantic integration, offers the most benefit – and most promising future – to all in the region.

Political uncertainties in South Eastern Europe are exacerbated by enlargement fatigue in EU and the current debate on what the EU should do next. But the countries can do their part to temper this internal EU debate by demonstrating a clear and convincing EU vision and vocation on their parts. To do otherwise at this critical juncture is unwise and clearly unhelpful.

Still, the region is drawing nearer to European and Euro-Atlantic structures and institutions. Bulgaria and Romania's forthcoming entry into the EU, the on-going EU accession negotiations with Croatia, Macedonia's status as a candidate country, the signing of a Stabilization and Association Agreement by Albania in June with the EU are all important signs of progress and commitment to EU integration.

Talks continue with the remaining countries of the region – Bosnia-Herzegovina, Montenegro, Serbia – and there are signs of progress in these three countries, although the imperatives of justice and The Hague remain an obstacle for Serbia, one recognized by an increasing number in that country. For its part, Moldova continues to work on its EU Action Plan.

The region is making similar progress on the Euro-Atlantic integration front, undertaking defense reforms and working within or striving for participation in the Partnership for Peace. And several countries of the region are now full members of the NATO alliance.

Focusing again on economic development, the EBRD Transition Report says year after year – the prospect of EU accession drives the reform process in the region. If this objective is not crystal clear, the reform

process and therefore economic development suffers. Countries are trying to determine how they should proceed in view of the cautious approach that is evident in the European Union.

However, against this backdrop of elections, changes of government, and some uncertainty, there is an encouraging economic story for much of the region to accompany the increasing political maturity.

But the story of progress and success is not uniform and there are great challenges facing those countries where investment and growth have lagged the region's average, and where high unemployment is a very pressing political, economic and social issue.

A few key statistics. Economic growth is generally over five percent, well above that of the Euro zone and higher than in Central and Eastern Europe and the United States. Overall investment levels are up, centered in those countries most advanced in the EU and Euro-Atlantic accession process. Foreign direct investment is most impressive in Bulgaria, Romania and Croatia, with annual FDI reaching _____, _____, and _____ billion dollars, respectively in 2005. Early data indicates that the upswing continues in 2006.

With this in mind, I would like to outline a vision of regional cooperation in South East Europe, recognizing that this vision is important to the region in terms of both EU and Euro-Atlantic integration.

First, it is important to emphasise the role that regional co-operation plays in stimulating economic development as well as encouraging political stability. For example:

- International experience shows that market size is the top determinant of attractiveness for FDI. Global or regional trade initiatives exert a key influence on FDI decisions.
- Better infrastructure (transport, energy, environment) is vital to promoting and sustaining growth. But the financial demands in SEE are enormous – the European Commission has estimated a potential investment requirement of 16 billion Euros between now and 2015 for road and rail alone.
- In its Generation Investment Study, the GIS, the World Bank has estimated that 15 billion dollars will be required in the next 15 years to rehabilitate existing power plants and construct new ones and another 10 billion dollars will be required for investments in transmission and distribution.

- All of these demands must be placed in the context of the limited borrowing capacity of the SEE countries and the fact that donor engagement is decreasing.

Therefore regional co-operation to reduce costs and improve efficiency must be a key element of governments' development strategies.

Let me be clear. In response to this imperative, the countries of the region have increasingly recognised the value of regional co-operation and in several key areas regional cooperation in South Eastern Europe has been a success. It is particularly significant, again a sign of political maturity, that UNMIK/Kosovo has been integrated into the range of these regional cooperation activities in order to ensure its full integration into the fabric of the region.

There is great promise for continuing this valued cooperation agenda into the years, indeed decades, ahead on the basis of regional ownership and leadership and with continued international support.

The region has already produced a number of key building blocks – representing a coherent strategic approach – for a vibrant regional economy and for integrating of the region into EU and Euro-Atlantic structures.

This regional cooperation approach -- under the auspices of the Stability Pact and with sustained donor support – has moved forward.

For example, the Energy Community Treaty signed in October 2005, came into effect on 1 July 2006. Through this unique treaty the countries of the region, UNMIK representing Kosovo, and the EU, have created a regional energy market, which will greatly facilitate the success of future projects, including those major energy projects in Serbia and Kosovo as well as Bulgaria and other countries over the years immediately ahead.

Implementation of this treaty will integrate all the SEE parties into the EU's internal energy market – in advance of EU membership.

Under the auspices of the Stability Pact's Working Group on Trade, there has been substantial progress in developing regional trade relations. A total of 32 bilateral free trade agreements are now in place and trade, which has been abnormally low among these neighboring countries, is beginning to increase after the disruptions of the 1990s.

The successful experience to-date in this field has encouraged the region to become even more ambitious. All parties are now engaged in intensive negotiations on a single free trade agreement via the simultaneous enlargement and amendment of the Central European Free Trade Agreement (CEFTA). We anticipate that the round of negotiations set for October 19-20 in Brussels will be the concluding one. While we still

have a few significant obstacles to overcome, we are confident that an ambitious, inclusive and modern regional FTA will be signed by the end of 2006.

Thinking more broadly, a single free trade agreement will give a further important boost to the overall investment climate in the region. This would complement the work being undertaken in the context of the Stability Pact's Investment Compact which is managed by the OECD.

Anthony O'Sullivan of the OECD will brief this conference later on the specific activities that are being undertaken and on the promise this effort holds for the region. Indeed, Anthony and his team will be launching a new program with the support of the EU and you can expect an impact on the ground in the region through improved policies, regulations, and implementation.

Let me just highlight the fact that in June this year, regional ministers of economy formally committed their governments to developing a Regional Investment Framework that will oversee better co-ordination across a range of investment-related policies that should improve the attractiveness of the region as a whole to foreign and domestic investors.

But, as I mentioned, while the region secured a record 10 billion in foreign direct investment in 2005, over 70% of funds secured went to the larger economies of Bulgaria, Croatia and Romania. While Serbia did

well, it was mainly due to the fact that its privatisation process came later than in other countries.

One challenge facing all the countries of the region is to increase the role of greenfield investment as a conduit for acquiring necessary capital, management and technological investments. Global competition for investment is intense and therefore all activities that push the countries of the region to co-operate and thereby strengthen the region's attractiveness should be encouraged.

In addition to national infrastructure projects, five billion euros in regional infrastructure projects -- transport, environmental and others -- are completed or underway in the region, based on agreed priorities. This spring, the region joined the European Common Aviation Area and is discussing a common approach to regional air traffic control.

Governments are promoting a progressive Information and Communication technologies sector and related job creation and consequently are working toward a regional broadband market.

Telecommunications is a particularly promising area – witness the recent billion plus dollar Telenor deal in Serbia – but one that needs stronger regulation and greater competition to promote wider and cheaper service, greater internet penetration and needed innovation.

Government transparency and concerns over crime and corruption are also critical issues.

The region's strategy includes combating organized crime and corruption, with regional governments working at home and together to achieve greater transparency in operations and to strengthen rule of law. Progress on this front can only spur and underpin progress on the economic front as well.

Let me say that the private sector is responding to this broad regional strategy and cooperation structure. But the private sector is cautious and sceptical, and looks hard for confirmation of credible implementation of good policy on all fronts.

This is a constant challenge to the region's governments.

Speaking openly and frankly, it is clear that progress on some of elements of the common agenda is not coming easily and is not without controversy.

For example, as mentioned, the negotiations on the expanded and modernized CEFTA offer great promise to the region. By harmonizing the regional "rule book" on trade, in line with WTO obligations, trade and investment will increase.

But to succeed, the countries will have to overcome long-running bilateral trade disputes among several parties, particularly in the area of agricultural products. This area is always a sensitive one in trade negotiations, as we know from the recent postponement of the Doha round. But this is exacerbated in a region where so many still depend on the sector and where many of the products produced are similar from country to country. As we all know, agriculture is always a highly sensitive area in any trade negotiation, and in South Eastern Europe, this is the case as well.

We must also find constructive and pragmatic ways to deal with the fact that the various SEE parties are at different stages in the economic transition process and thus legislation and institutions are at different stages of development.

Negotiations must ensure that what is agreed upon can actually be implemented and not permit some to keep the process hostage to a slower pace of reform.

As I mentioned, the region's efforts against organized crime and corruption are a major priority. But there are difficulties, as South East European governments, the EU, and other key supporting countries search for optimal ways to cooperate and to address these twin problems.

Lastly, let me say, recognizing the successes achieved to date, there is a great need for a clearer commitment by the region's political leadership to the regional cooperation agenda. Regional leaders are finally beginning to understand that regional cooperation is a fundamental element of the EU and NATO accession processes and that it should not be viewed as a means of delaying progress toward those important twin goals. I was impressed by the public statements by foreign ministers and their deputies at a recent conference in Zagreb, where they demonstrated a clear understanding and acceptance of this point.

On a personal note, I must say that I have enjoyed working closely over the past two years with literally hundreds of people from all ministries and economic sectors in the region and the private sector who are participating in the some 25 initiatives and task forces under the Stability Pact's umbrella.

Their commitment to balancing the interests of the region with national interests is impressive; their professionalism and focus is similarly strong. But they need stronger political leadership and support if their countries are to reap the full benefits of the regional cooperation program.

The results of this joint work will underpin qualitative change in the region, just as has occurred elsewhere in Europe.

South East Europe would do well to emulate other regions of Europe, where regional cooperation has been a priority and a reality for many decades, as in the case of the Nordic region, for example.

To achieve this vision of sustained regional ownership and leadership of a focused, coherent cooperation agenda, countries of the region must make clear decisions. The Stability Pact Regional Table in Belgrade in May advanced this process of regional ownership and leadership, and important decisions lie ahead.

The current situation whereby the international community is in the driving seat concerning the development of policy reform must and will change - the South East European countries must increasingly take on this role. The decline in donor resources in the region makes this even more of a necessity. However, it is nonetheless very clear that the future of South East Europe lies in continued co-operation between the region, the EU and other international partners and organizations – we are talking about a shift of responsibility, not about abandoning the region to its own devices

Thus, the Stability Pact, the European Commission and donor governments have encouraged the region to endorse long-term regional cooperation by endorsing the establishment of the Regional Cooperation Council linked to the political South East Europe Cooperation Process,

the SEECP, which also includes Greece and Turkey, as a follow-on to the Stability Pact.

The proposed Council would continue the region's progress on the basis of the building blocks I have cited, and also embrace building human capital and parliamentary cooperation, and encourage the international donor community to stay engaged as the region takes on a larger share of responsibility;

The region will have to decide what role to give to the SEECP in this context. We hope that it will be a leading role, with a firm and early SEECP commitment to this strategic vision. The region will have to decide how best to channel needed funding and resources into the shared regional cooperation agenda. We believe that the cost will be manageable for countries and more than justified given the benefits.

We hope the region will rise to this strategic challenge in the weeks ahead, and support this broader, long-term vision as countries continue their work on specific sectors and issues.

We believe that the region will succeed and will achieve the goals of EU and Euro-Atlantic integration through a sustained regional approach, one that they own and that they lead themselves, one that will be a powerful underpinning of the economic progress to come.

As I close, let me encourage you in the discussions of the next two days. The panels are well focused and have outstanding presenters on the key issues, people who have accomplished important things on the regional development agenda, and here I mean people from the region as well as those from supporting institutions and donor governments and organizations, including the Stability Pact's Investment Compact.

Again, it was a pleasure for me to join you today, on behalf of Dr. Busek, who I know is deeply disappointed about his inability to make it to Washington this week.

By discussing the issues and challenges openly and frankly, we can generate renewed energy for good policy and practice, and can support the region in its future success.

Thank you.