

Dominese, Giorgio

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Economic And Regional Cooperation In Southeast Europe: The Seci Study Case - Obstacles, Disincentives And Perspectives Of Italian Foreign Direct Investment In The Danubian/Adriatic Area.

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**Giorgio Dominese\***  
**Csne-Centro Studi Nord Est**  
**Venice/Italy**  
**[nordest@alpeadriadonau.it](mailto:nordest@alpeadriadonau.it)**

**Paper on “Economic and regional cooperation in Southeast Europe: The SECI  
study case - Obstacles, disincentives and perspectives of Italian foreign direct  
investment in the Danubian/Adriatic Region.**

## **Introduction**

The role of the private sector and investors in the development process - to initiate, consolidate and raise countries levels compatible with integration into the European Union and global markets - is a strategic objective in regional cooperation in Southeast Europe and a true cultural and political guideline. A research has been developed by Csne-Centro Studi Nord Est (Venice) and Informest (Gorizia) for Banca Intesa, on the obstacles, delays and impediments to Foreign Direct Investments (FDI) in the area in general, in individual countries, and in other international regions of the world economy.

The USA and Italy brought up the problem of financial conditions, forms of covering the risks that private investors run, which vary from country to country, and thus the role that international financial institutions (in particular the World Bank and EBRD, but also EIB and other EU funds) can play. Such a strategy can be successful only if there is a close and dynamic cooperation with banking systems of industrialized countries to support an increasing flow of investments toward Southeast Europe, that has unexpectedly grown and intensified over the past three years.

This flow has nevertheless been jeopardized by the political instability of the individual countries, by a lack of legislative frameworks that have been truly reformed to provide for a market economy, a representative, liberal democracy, and by forms of privatization hardly accessible to foreign partners, by structural deficiencies in the public administration, in criminal and civil courts, in customs, in the fight against crime and international trafficking, and by the lack of certainty in the area of real property and land ownership. The research was completed during the war for Kosovo and could not take into account the consequences of the conflict on the economic external relations of the countries in the region.

The situation in the Southeast European countries is anything but uniform and recalls economic theories of differentiated development and dualism rather than regional integration. But SECI was created to contribute to the situation of convergence and compatibility rather than independent, isolated national roads to economic integration. The reasons of interdependence and international obligations are in fact so strong in Southeast Europe that all SECI countries, as well as strong

supporter countries like Italy, and even the United States - which has played a significant role and been deeply involved in this region - over the medium/long term, have been forced to increase their ability to be present through FDI. This happened whenever the host countries receiving the inflow of private capital were launching tangibles signs of their firm will to change the framework of obstacles and to tackle the problems of lack of reforms, rigidity of the former socialist system and impediments, that is, of the large range of exogenous variables that were invoked before as the greatest barrier to economic and social growth in transition countries in the SECI area.

The research focuses its attention on the alarming situation and the urgent need for intervention programs and projects. In particular, the conclusions of a survey conducted by the Federation of Industrialists of Northern Greece on “Deterrents to Greek Companies in their Relationships with SECI Countries” helped to identify obstacles and bottlenecks that create negative conditions and interfere with a normal level of commercial and business relations for Greek entrepreneurs. From the Italian point of view, nevertheless, there are profound differences and peculiarities in attitudes and expectations of entrepreneurs involved in true Foreign Direct Investments (FDI) compared with trade-oriented relations and operations. At the same time, single particularities and a wide spread “national” character of the overall judgement given by the entrepreneurs taking part in the preliminary research interviews had emerged. Some arguments and experiences forming the Italian industrial complex - specially in the South experience - gain ground or at least are tolerated, relativizing some aspects that are critically indicated as disincentive factors but not to the point to reach the level (in the methodological terms of the research, the index) of an insuperable impediment.

This argument should be better analyzed in the future, on the basis of a non random sample of entrepreneurs and of questions related to this specific area of survey, to the variables depending on the dimension of a company, and to the aspects of ties with the surrounding territory. Objective such a survey could be to show a potential relative Italian “surplus value” in the field of investments in Southeast Europe, that up to now has not been emerged, if not in sporadically way in some countries considering the still insufficient flow of Italian FDIs directed to the area.

Small and medium-sized companies are involved in these issues, as they are even more affected by risk factors, the incompatibility of the economic, customs or legislative environment, or, in some cases, by antagonistic political-government policies. The presence of small and medium-sized enterprises within the over three hundred entrepreneurs whose opinions were collected, can be estimated, using Italian size criteria, to be about 80%, while big industry has participated with a percentage of 20%. It is evident, that the volume of investments made by small and large-sized enterprises total up to three quarters of the whole data.

### **The Research**

Based on the above and the good progress made in the first large-scale project organized by SECI (which regards border transit points within Southeast Europe, trade facilitation, and thus the fight against crime, corruption and illicit international trafficking, and will soon be implemented with financing from the World Bank), the Italian Business Advisory Council of the Initiative, with the support of Banca Intesa, has entrusted the research institute CSNE-Centro Studi Nord Est (Northeast Study Center) of Venice/Trieste, and the agency for international economic cooperation Informest of Gorizia, to undertake the task to interview more than 600 entrepreneurs in North East Italy and all over the country.

At the end, the number of entrepreneurs from outside the North Eastern regions of Italy reached about 30% of the total level, representing adequately the pattern of presence of the regional Italian economies in the SECI transition countries and in the larger context of the other countries of the East and Eurasia taken into consideration.

Moreover, the same flow of FDI toward CEEC indicates that these regions represent percentages that in some cases are almost the overall total for Italy. Countries towards whom the flow is strongest are Hungary, Romania, Croatia, and Slovenia, followed by the others. Of the nine SECI countries in transition, Moldova, Bosnia Herzegovina and Albania receive modest amounts of FDI from Italian entrepreneurs, while trade is at more satisfactory levels.

The research on the obstacles, delays and opportunities that are currently perceived by entrepreneurs who have already made large investments or are in the

process of doing so had covered all the transition countries of the SECI area (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, FYROMacedonia, Moldova, Romania, Slovenia and Yugoslavia, which at this stage is considered only for statistical purposes), and other very important Eastern European countries such as Russia and the Ukraine, as well as Georgia, Armenia and Kazakhstan, countries that in some cases already are in relation to other forms of regional economic cooperation or in the function of “active observers” (which is the case of Russia) in SECI.

As before mentioned, the answers of over three hundred entrepreneurs were considered, primarily in small to medium-sized companies area, but answers were received from medium-sized and large industries as well, based on a broad questionnaire that also refers to focusing special attention on FDI and thus on the conditions and basic framework for a strong future development of the presence of foreign private capital in SECI transition countries.

The opinions thus selected were processed and rendered uniform through appropriate treatment of data, statistical proxy and main results effort for both the general questions and the specific individual comments. Adjustments were necessary for several countries where an insufficient number of questionnaires was completed, using standard stabilization procedures and standardized significance of statistical analysis.

As useful comparisons and for methodological contrasts, we used both the materials provided by the Entrepreneurial Federation of Northern Greece and the report of the IHS-Institute for Advanced Studies (Vienna), as well as statistical reports on individual countries by WIIW-The Vienna Institute for International Economic Studies, WIFO-Austrian Institute of Economic Research, three Viennese Institutes, and the experience of the IAI-Istituto Affari Internazionali di Roma, interlocutors whom I thank for their kind collaboration.

The method used to examine the data collected and complete the reports involved a search for stabilized and weighted index numbers indicating the interference that the individual issues presented in the questions had on investment decisions by investors in various parts of Italy (most interviewees were concentrated in Northeast Italy (Veneto and Friuli-Venezia Giulia), but there were a sufficient number of responses from Adriatic regions, Emilia-Romagna and Lombardy), and in

their overall opinion of the situation and the reliability of each national economic situation considered.

The values of the indices were allowed to vary in between a range of 1 to 10 intensity grades of the phenomenon in consideration, where the most negative or crucial or depending values tended against the index 10 and those less influential or more positive or normal tended against index 1. A sufficient range to specify and to go more into detail was left open. The results concentrated on the indices 3 to 7, also as a result of the effect of “follow me” of answers reflecting rather a judgement in relative than in absolute terms on the countries in consideration, as it is often the case in surveys of this kind. The data have been compared, considered and processed in graphics elaborated with the Microsoft Excel 1997 program and Microsoft Power Point 1997 for the layout.

### **Questions in the Preliminary Survey**

All entrepreneurs questioned were asked a first general question on the reasons that prompted them and still support their willingness to invest in countries of Eastern Europe and the SECI area in particular. The group of questions revealed responses and thus indices of relevance, that significantly converged on several well-known reasons, but there were also some less familiar aspects. Some of the better known reasons included “lower cost of labor” and “other reduced overhead costs”; some other understandable ones included “the creation of a distribution network”; some of the less familiar reasons, which imply confidence in the medium-term process of development, include “to enter the market before competitors.”

As we will also see for other new questions asked of entrepreneurs, generally speaking, the indices on SECI transition countries are consistently better than those for Russia, the Ukraine and the Eurasian Republics. This is influenced by the concomitance of the preliminary survey with the very negative evaluations that emerged for 1999 on the situation and economic and financial prospects for these countries. For Romania, the sudden worsening of the principal indices was no less influenced by the succession of rumors, worries and uncertainties on legislative and fiscal changes in the area of foreign investments.

1. The heart of the research regards obstacles, delays and barriers that negatively influence the flow of FDI toward Southeast Europe and transition countries of the SECI. As also emerged in reports by Greek entrepreneurs and in other similar studies recently published, there is a very high degree of investor dissatisfaction with the legislative framework, the political situation, the local banking system as well as the services offered by international banks, use of instruments of major international financial organizations, infrastructures of every type, and finally corruption and crime, and is on average between 5 and 6 points, despite the lower figures (and thus more favorable opinion) for, in particular, Hungary, Slovenia and to some extent Croatia, as shown in the summary table. The opinion that these entrepreneurs express for the other countries in Eastern Europe that were considered, is two points worse for the same questions.

2. It should nevertheless be noted that entrepreneurs who have been investing for some time are less worried about deficiencies in the institutional, political and administrative framework of the country in which they operate. Evidently, the learning curve for the environment and territory in which they operate is quite high, especially so for sectors where production is shifted abroad (footwear, clothing, and electromechanical subsupply), which have strengthened the presence of Italian investments.

It was not possible to analyze the relationship between length of investment and indices of perception and worry about so-called institutional and political obstacles. The reports examined nevertheless show a tendency of the indices to decrease (and thus an improvement in the opinion of the host country) the longer the period of industrial experience on site. Another significant variable is the concentration of relatively more responses from the category of investors that have medium-sized companies in Italy (more than 100 employees, with sales revenues of 150-200 billion lire a year) and a significant international presence (from 20 to 40 percent of further sales revenues, in some cases as high as 60-70 percent).

The attitude toward corruption, organized crime and illegal trafficking is different, and we see that in responses to question group 9, there is an absolutely decreased tolerance of these phenomena, considered not only to be disincentive, but which are also



refused, while in the past investors in many countries of Eastern Europe quite commonly tolerated them, almost as if they were systemic factors that could not be changed,

3. The questions of the second group are to some extent related to the first one, but contain a closer examination of administrative, bureaucratic, customs, quality control, and worker and technician training problems.

Aside from the great preoccupation due to legislative uncertainty related to continued changes in current laws (and thus excessive legislative variability and changeableness are feared more than lack of legislation in itself) and the still-precarious situations of several countries (Bosnia-Herzegovina, Albania, Moldova, and in numerous areas of the survey, Fyromacedonia as well), the distortions due to these exogenous and systemic variables are not the main reason for worry or negativity on the part of Italian investors. If we look at the “half-full glass” of SECI transition countries with the highest rate of growth and economic development (Hungary, Slovenia and Croatia), we see an attitude that is not significantly correlated. The indices of dissatisfaction with the institutional, political, bureaucratic, and administrative situation reported by investors are relative in nature and thus weighted: greater expectations of efficiency and functionality in more developed countries, greater willingness to understand the transition in more depressed countries. The cases of Slovenia and Hungary leap to the foreground. The indices for the questions now cited drop by two or three points compared with other countries, but are nevertheless above levels 3 and 4.

4. The local economic environment in which FDI are made and the legacy of the previous system of a controlled, planned economy - with an implicit lack of a social and managerial class capable of assuming strong roles in transformation and reform - foster a high index of doubt, worry and discomfort among Italian entrepreneurs, so much so that the degree of obstacle indicated is between 5 and 7 points, while for Russia, the Ukraine and Eurasian countries, the level is between 6 and 8 degrees on the general decimal scale.

**5.** Italian international investors are especially demanding toward banks. A familiar criticism is often leveled against the national banking system due to the lack of a presence abroad, and inadequate assistance on international markets of countries in transition. This has almost become a commonplace and thus is not generally reliable. The preliminary survey shows signs of this discomfort in relations with banks, but what is surprising is that it is not an intolerance of the Italian banking system in particular, but more in general of all international banks that operate in these countries, not to mention local banks. Even international financial institutions do not escape. The index is over 6 for all banks of any type and nationality and for international finance, close to the average for the greatest obstacles to development of FDI. We should not underestimate the fact that the large number of entrepreneurs operating in this area who come from regions in Italy where, often for psychological reasons, there is a vaguely reductive and critical view toward bank activities operating on an international level, also plays a clear role in these attitudes. In truth, what is lacking are adequate guarantee instruments, which are created in countries from which FDI originate and internationally. The obstacle index rises on average to 7.2 in the SECI and to 8.8 in the larger area of the countries considered.

**6.** Inadequate government policies toward FDI incur criticism from foreign entrepreneurs not so much generally speaking, but more due to the mutability of legislative and fiscal positions and above all, due to the lack of norms governing land and real property ownership, which is a factor that causes great tension between investors and the local authorities. Ownership of the land where the company is located and of office buildings, or the desire to purchase land for agricultural and industrial activities, is practically a fixed index of whether a market economy is operating or not. In many SECI countries, the system of real estate and land ownership by foreigners must still be legislatively updated, and the time frame seems too long for many of the entrepreneurs questioned.

The actions of public administrations are not as discriminatory. They may be characterized by inefficiency and bureaucratic delays, but not discriminatory treatment toward foreign companies.

7. Communication infrastructures are a weak point creating many problems that afflict economies in transition. In the socialist economic system, it was not even imagined that roads, railways, ports and airports might be inserted within an open market system, with integration with the West, and with strong flows of traffic like those that have literally overwhelmed SECI transition countries over the past ten years. The repercussions of the still unresolved conflict in the former Yugoslavia have also forced some important flows of traffic to find alternatives to traditional routes through Belgrade and Vukovar, further increasing the pressure on existing infrastructures. We should also consider the geometrical increase of volumes of traffic in the area that leads from the Adriatic to inland countries. Albania, Fyromacedonia, Bulgaria, Bosnia-Herzegovina and Croatia are subject to a strong increase in transit and commercial traffic, while their infrastructures are inadequate. Corridor 5, Corridor 7, and Corridor 10, which respectively lead from Trieste to Budapest and Kiev, from Durres to Skopje, Sofia and the Black Sea, and finally the Adriatic coast, are, from the perspective of the countries involved, especially Italian entrepreneurs, very convincing reasons to invest and place trust in these markets/countries.

The road network seems to be the most deficient. The railway system is somewhat less so, although its obstacle indices are close to 6, as are those for the airport system and air connections. Maritime transport is an exception and inspires relatively greater confidence in a situation marked by strong infrastructural deficiency. Once again, Hungary and Slovenia can vaunt their comparative advantage, through the infrastructures created over the last decade.

The Danube and its capacity to attract increasing volumes of traffic have to be discussed apart from this. There are without doubts encouraging perspectives, specially if the pure and simple infrastructural logic is combined with intermodal logic and the investments made along the most promising bordering countries that regard nearly all the countries of Southeast Europe up to the Black Sea.

8. And the courts in SECI transition countries? If the problem is acute even in Italy, in many countries in Southeast Europe, the situation is truly unbearable, with negative indices that hover at about 7 points. There are no marked delays regarding the

discriminatory behavior of courts in the individual countries, with the exception of Albania and Bosnia-Herzegovina.

It was interesting to be able to record the strong interest in expanding arbitration as a tool for out-of-court settlement of controversies and contractual and business disputes. The SECI area could in fact become a laboratory for widespread, systematic experimentation with arbitration procedures, in collaboration with the courts of several supporting countries like Italy, Austria and the USA, where the system has accumulated significant experience.

9. The reader should not be deceived by average indices on crime, corruption and lack of transparency in economic life. In truth, the average is around 5 only because countries like Hungary, Slovenia, Croatia and even Bosnia-Herzegovina significantly lower the high index of discomfort and delays that these phenomena create in foreign entrepreneurs. Furthermore, if we expand the opinion to other Eastern European countries considered, the attitude is even more negative.

Evidently, the expectation of a more rapid improvement in the situation is gradually replacing the passive acceptance that characterized foreign entrepreneurs in these countries in the past, giving way to expectations of strong conflict and struggle against these phenomena. Nevertheless, the statistics cannot describe this position with absolute reliability due to the extreme prudence, caution and fear that characterized the responses to questions on this subject, and especially the gradual divergence between the data for countries undergoing very rapid, positive transition who are engaged in negotiations for membership in the European Union, and those for more undeveloped countries of the SECI.

### **The proposals of the entrepreneurs**

The sample of entrepreneurs, chosen with this preliminary investigation, shows a substantially rational and relatively unemotional opinion when compared to transitional countries of SECI where the FDI are going. On the other hand, their opinion about other countries of Eastern Europe and Eurasia considered in the analysis is more worried and more psychologically conditioned.

It is to be underlined that the questionnaire did not contain items regarding activities, programs or actions carried out by Italy or other industrialized countries, nor did it require opinions or criticisms of the governmental management of the international economic relationships in the area considered. In the space reserved for comments, however, evaluations, proposals and suggestions were found which refer both to individual countries or situations and to the survey. Numerous opinions, comments and proposals were expressed verbally to the interviewer and to the person collecting the questionnaire.

Thus it has been possible to record a general interest for the SECI approach to the economic relationships with the area of Southeast Europe, above all where the strategic role of firms and banks has been highlighted through the expressly declared importance and the expectations attributed to the Business Advisory Council – in the setting of future development and integration of this area of Europe.

This seemed to the analysts a reply, indirect and positive, to the so-often lamented short-comings of the Italian-system and to the insufficient involvement of the participants in the international economic relationships, a subject which until not long ago was the *leit-motiv* of the criticism of the “new” entrepreneurs of the small and medium-sized enterprises. The increased protagonism of the Italian entrepreneurs seems to have freed them, if it can be put that way, from the excessive need of protection, previously considered indispensable, also for operations and activities of a marginal, procedural or administrative character or of little interest compared to the investment and the real problems which it involved.

The expectations regarding the following issues remain high:

- financial instruments and specialized funds adequate for the guarantee requirements against political risks and, partly, against the risks of structural shortcomings and environmental obstacles also of a non-political nature;
- an increased line of credit for commercial exchanges and financing for FDI;
- a re-evaluation of the Italian undertaking on projects of infrastructure and road, rail and maritime transport which are directed on the Adriatic area and all Southeastern Europe;
- a much-underlined request for a greater presence and participation of Italian

enterprises in the vast programs of the European Union and national and international projects concerning the territory and the socio-economic life of transitional SECI countries (the most quoted were: protection of the environment, qualitative standards, professional formation, business institutional building, energy saving, trade facilitation, border crossing, arbitration, housing construction, services to firms, consortiums for small firms, industrial districts)

- an increased presence of Italian banks dedicated both to consultancy and client assistance;
- a professional, competitive activity from the bodies responsible for internationalisation (national, regional and local);
- an efficient diplomatic assistance;
- a better airline service, both frequency and trust-worthiness

If these proposals can be defined “internal”, that is, quite apart from the questionnaire, the proposals are very precise and concentrated directed towards the transitional SECI countries which are the subject of the preliminary survey.

Let us examine them in detail:

- Without mincing words, the absolute guarantee of the ownership of the ground where the firms, the offices and the buildings connected with FDI are situated is necessary; in any case, the problem of the certainty of right to ownership extending from the juridical company rules to jurisprudence in the subject, is placed as a topic also in the political, institutional, bilateral and multilateral relationships.
- Insurance funds and every other financial and specialized fund instrument suitable to the guarantee against political risks and, partly, against risks involved in the structural shortcomings and environmental obstacles, also of a non-political nature; possible solutions can be seen through opportune initiatives and common actions between Italian banks, agencies and financial bodies, public, national and regional-
- The fight against crime and trafficking is now a transnational policy to be supported with adequate resources, methodologies, intelligence and persuasive capacities. The market is always less tolerant towards these distortions, very often tied to political life and parties. the proposals of the investing entrepreneurs is to internationalize the chapter dedicated to the fight against crime, corruption and illegal traffic, without

fear of devolution of national sovereignty which that might imply. If the strategy is guaranteed in the ambit of the political, strategic, military and economic alliances of NATO and the European Union. A high level of expectation is implicitly understood for the enlargement of the Atlantic Alliance, even before the enlargement of the European Union towards the East.

- Greater certainty of right is invoked, also for justice in general and for the credibility of institutions. The proposal to extend arbitration (strongly underlined) on the one hand and to find international forms of enforcement of the laws, according to that tendency to positive interference and interaction among different subjects which protect legitimacy are agreed upon by Italian investors both culturally and with political consensus. The most frequently cited case is of Albania, but also Rumania, Bulgaria, Fyromacedonia, Yugoslavia (Montenegro highlighted) and Moldavia.
- The long Italian experience of reforms always loudly announced and rarely put into actin does not auger well from a legislative and normative point of view as might be wished for. The proposals of the entrepreneurs reflect, therefore, the national culture, more inclined to modifications, revisions and adjustments. The proposals which are underlined with greatest force regard above all the pruning of the tree, generally with too many branches, of the bureaucratic and political apparatuses in the transitional SECI countries, of deregulation and normative liberalisation, of progressive subtraction of the role of the oligarchies and powerful figures of the preceding regimes, still deeply rooted in the single realities.
- To give force to the private sector, no other route is seen than the creation and strengthening of real associations and confederations of small, medium and large businesses, including craftsmen and other autonomous categories.
- The proposal is that Italy offers an operative consultancy in the direction of the conditions of development of the FDI in the region– also with other European national and multilateral partners and the USA, but with an Italian prominent action towards interested countries and towards the EU– through an appropriate Contact Group, restricted but representative and authoritative, so that the single countries in the overall area could get indications, suggestions, proposals and concrete projects in order to grow the role and the central position of the private sector in the transitional economies of Southeastern Europe.

- Among the infrastructural preconditions, the entrepreneurs indicate roads, railways and ports which are bottlenecks to be overcome with new works in whose financing national and international institutions can take part on the basis of a return of investment and not only as sunk capital.

Concerning trade facilitation and border crossing, the first place was assigned to normative and qualify standards, and border-crossing, standardization of documentation for goods, in transit and transport methods. The special project of the World Bank and SECI in this field is very welcome.

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**\* Dr. Giorgio Dominese , Curriculum Vitae**

**Giorgio Dominese** graduated in Economics from Trieste University and in political sciences from Padova University. After attending courses on International Affairs at Johns Hopkins University, he followed further studies at the Universities of Bologna and Jerusalem and took part in other up-date seminars in the USA and under the auspices of the EEC and NATO. He is member of the “Kuratorium” of the Austrian Institute for Economic Research (WIFO).

He has a long experience of university teaching and research in the fields of economics, politics and international relations. In the current academic year, he has been called as Program Director of Transition Studies-ICETS, an Institute of research of the universities LUISS-Guido Carli of Rome and the State University of Trieste.

He has worked in the field of International Relations and Cooperation for years and he is a consultant to major Italian international companies and Banca Intesa (Milan). He is the Director of CSNE-Centro Studi Nord Est, an institution dedicated to studies on international regional and economic cooperation in Central and Southeast Europe and Managing Director and Editor of the Mittelforum-Rivista Nord Est, a three-monthly publication of the CSNE, dealing with international and interregional relations in this area, published in an Italian, English and German edition.

Since 1997 he has been cooperating within SECI-Southeast European Cooperative Initiative, an organism supported by the USA, Italy, Austria and Switzerland and joined by all the eleven countries of the region. In 1998 he was nominated Chairman of Isdee-Institute for the Study and Documentation on the European Community and Eastern Europe in Trieste.

## **Annex**

### **SECI-Southeast European Cooperative Initiative: a profile**

#### **1. Goals and Objectives**

The main purpose of the SECI-Southeast European Cooperative Initiative is encouraging cooperation among its participating states and facilitating their integration into European structures. SECI is not an assistance program. It does not interfere with, but rather complements with existing initiatives. It endeavors to promote close cooperation among the governments of the region and to create new channels of communication among them. Furthermore, SECI attempts to emphasize and coordinate regionwide planning, identify needed follow-up and missing links, provide for better involvement of the private sector in regional economic and environmental efforts, help to create a regional climate that encourages the transfer of know-how and greater investment in the private sector, and assist in harmonizing trade laws and policies.

#### **2. Background**

The United States, determined to advance support mechanisms for the Dayton Peace Agreement and to develop a viable exist strategy from the region, advocated the idea to promote regional economic and environmental cooperation among the countries of Southeast Europe. SECI was launched on the basis of “Points of Common US-EU Understanding.” The participating states of the Southeast European Cooperative Initiative held an inaugural meeting in Geneva on December 5-6, 1996 and formally adopted the SECI Statement of Purpose on December 6, 1996. On December 19, 1996, as authorized by the participating states, the OSCE Chairman-in-Office (Swiss Federal Councilor Flavio Cotti), named Dr. Erhard Busek, former vice-chancellor of Austria, as SECI Coordinator.

The SECI participating states include: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Hungary, Moldova, Romania, Slovenia, The former Yugoslav Republic of Macedonia, and Turkey. Austria, Italy, Switzerland, USA (and

also Russia, to some extent) are representing the supporting countries, till now. An invitation to the initial meeting of SECI was extended at the beginning to the Federal Republic of Yugoslavia and then withdrawn in light of events in the country and the war for Kosovo.

### **3. Structure**

#### **3.1 Agenda Committee**

The SECI Agenda Committee is the decisive body and motivating force behind the initiative and is comprised of high-ranking government officials from each participating state. It is responsible for identifying common areas of concern relating to the economy and environment of the region, as well as proposing short lists of priorities on the basis of which projects will be planned and implemented.

#### **3.2 The Business Advisory Council to SECI**

One of the paramount goals of SECI, as established in its Statement of Purpose, is to encourage greater involvement of the private sector in the regional economic and environmental effort by creating a regional climate that is conducive to private investment in the economic, financial and social growth of these countries. The Business Advisory Council to SECI (hereinafter BAC) is the primary instrument of implementing this aim. The BAC acts as an outreach to the business community at large. Its members include key business leaders from both within the region and from outside the region who strive to encourage private investment by promulgating the results of the SECI project groups.

In pursuing the above mentioned goals and objectives, the BAC advises SECI and the project groups, primarily in matters relating to identifying and mobilizing financial resources. The BAC also looks towards non-SECI countries to coordinate out-of-region support. The BAC also acts as a lobby for SECI in the business community by promulgating regional investment opportunities in the framework of SECI projects. Coordinating support involves gathering vital information relevant to the SECI projects and conveying it to ECE technical experts. Along these lines it promotes SECI interests at meetings, conferences, symposia and congresses, and actively involves regional business interests in its endeavors.

The BAC is co-chaired by two prominent business leaders, Mr. Costa Carras of Greece and Mr. Rahmi M. Koç of Turkey. The BAC met for the first time on June 26,

1997 in Thessaloniki and focused on the developments of the SECI project on trade facilitation/border crossings. The group decided to hold meetings four times a year in different capitals throughout the region. Meetings have been held in: Thessaloniki, Bucharest, Istanbul, Tirana, Sofia, Skopje, Rome and Vienna. In the framework of its regular meetings, the BAC also organizes thematically relevant forums, which bring together technical experts, political leaders and decision-makers, potential investors and the general public. Together with the mentioned co-chairmen, the following members belong to the BAC: Costa Carras (Co-Chair), Greece; Rahmi M. Koç (Co-Chair) - Koç Holding AS, Turkey; Celik Arsel - Koc Holding AS, Turkey; Ferenc Bartha - Trigranit, Hungary; Giorgio Dominese - Centro Studio Nord Est, Italy; Nikos Efthymiadis - Federation of Industries of Northern Greece; Samo Ivanchich - Sava d.d., Slovenia; Svetozar Janevski - Pivara Skopje, The Former Yugoslav Republic of Macedonia; Muhtar Kent - Ankara Asfalti, Turkey; Boski Kostic - City Trade and Finance Limited, United Kingdom; Anto Krvavac - Castrol Slovenija; Günther Mittl - Beiten, Burkhardt, Mittl & Wegener, Germany; Michael Mix - Bechtel International, Poland; Misu Negretiou - ING Barings, Romania; Florin Pogonaru - IB Austria Securities, Romania; John R. Scherer - Raytheon Systems Company, Belgium; Ivan Stancioff - Cresta Marketing S.A, Bulgaria; Bernd Stucke - Siemens A.E., Greece; Vassili Takas - Federation of Industries Northern Greece; Matthew Trilling - Amylum Group, Belgium; Vebi Velija - Veve Group, Albania; Gianfranco Zoppas - Zoppas Industries Group, Italy.

In order to support the SECI's objectives and to provide a mechanism to effectively leverage the BAC's presence in Southeast Europe, three Business Support Offices (BSOs) have been established in Thessaloniki, Istanbul and Venice to support and sustain this valuable network. The BSOs will enhance cooperation and encompass the valuable resources available in the variety of institutions having interest in the region. They will serve as a "one stop shop" for businesses and institutions alike amassing the plethora of information available and providing a better coordinating framework for the PRO committees in the states involved.

### **Simplification and Standardization of Procedures**

To deal with the problems of laws, regulations and documents for the shipment

of goods, SECI has organized a working group on trade facilitation. As a result of its first meeting on March 19, 1998, the working group drafted a declaration of common principles, to which the participating states agreed to implement. A second meeting was held on Corfu in May, which resulted with the drafting of a Memorandum of Understanding (MoU) that would institutionalize regional cooperation. The text was completed at a meeting in Athens on November 24-25, 1998. The representatives of the region's ministries of transport signed the Memorandum of Understanding on the Facilitation of International Road Transport of Goods in the SECI Region on April 28, 1999. The implementation of the Agreement is being dealt with by the Regional Road Transport Committee, in which the responsible authorities in each SECI country are represented.

One of the recommendations of the Phase I Project Group was to create national trade facilitation committees, which would act as a focal point for actions to simplify international trade procedures. These committees are commonly known as "PRO" committees - focusing on simplifying *procedures* and *promoting* their efficient application. The idea to establish PRO committees in each of the SECI countries would offer private enterprise a united interface with the several government agencies concerned with international trade. PRO committees are now operational in all but one SECI country (Moldova). A SECI-wide liaison of these facilitation organizations will focus on issues specific to the region, such as a harmonized implementation of the EU Single Administrative Document (SAD) and a strong adherence to relevant transit conventions. SECI PRO was established in the framework of the September 1998 Business Advisory Council meeting in Sofia.

## **4. Cooperation**

### **4.1. United Nations Economic Commission for Europe (ECE)**

SECI is technically supported by the ECE. Especially ECE Executive Secretary Yves Berthelot and Willis Keenan, who coordinates SECI activities among the various ECE experts, have provided invaluable support. Through its network of contacts throughout the region and its convention, norms, standards and guidelines, the ECE has the means to facilitate and simplify cross-border operations and to provide mechanisms for solving problems. The ECE cooperation is based on rules and procedures governing

the United Nations operational activities and includes the preparation of the project outlines to the Agenda Committee; further elaboration of these outlines for the meetings of the working groups; securing cooperation of other UN bodies and agencies as requested by the Coordinator; provision of advisory services and organization of workshops within available resources and regular consultations with the Coordinator and direct reporting to the Agenda Committee.

#### **4.2 Organization for Security and Cooperation in Europe (OSCE) and European Commission**

The SECI office moved to the OSCE Hofburg in Vienna on May 26, 1997. The OSCE has provided vital technical support to the SECI secretariat in the form of providing office space and technical equipment such as computers, telephones and fax. Although SECI is not a part of the OSCE structure, it maintains close contacts with the missions and delegations of the participating states and supporting states. SECI has actively participated in many of the seminars, conferences and fora organized by the OSCE.

SECI has made a deliberate effort to inform and coordinate all its activities with the European Commission. EC experts participate in the Agenda Committee meetings and project group meetings and contribute expertise and advice. SECI holds ad hoc coordination meetings in Brussels with EC officials and experts where joint strategies in the region are discussed. Furthermore, the SECI Coordinator is in constant contact with all parts of the Commission, including briefing sessions with Commissioner Hans van den Broek. These meetings establish proper channels of communication, clarify the EC's role in SECI activities and, most importantly, lay the foundations for the groundwork for a consultative process on both policy and technical levels.

#### **4.3 Stability Pact for South Eastern Europe**

The events, which took place during the Kosovo crisis, have dramatically drawn the attention of the International Community towards the region. An increased sense of awareness and need for engagement resulted in the signing of the Stability Pact for Southeastern Europe, on July 30, 1999, in Sarajevo. As a result a Regional Table for Southeastern Europe has been established, consisting of three working tables. Working

Table I is related to democracy, human rights, civic society and good governance, while Working Table II is focused economic development, cooperation and reconstruction. Finally, Working Table III deals with security issues. It is concerned with cooperation in the field of Justice and Internal Affairs, in particular with regard to combating cross-border crime, but it is also focused on and Confidence Security Building Measures.

In cooperation with the UNECE, SECI organized on October 4, 1999 a high level conference on the Priorities of the SECI Participating States for Implementing the EU Stability Pact. The technical support of the OSCE was crucial for making the conference a success. It lead to a set of priority projects in the fields of transport and trade facilitation, energy and environment, jointly developed and presented by the Participating States. The priorities have been further elaborated in project group meetings, whereby in each field three short term and three long-term projects have been selected for each Participating State. In this context, as always, SECI is cultivating a close cooperation with the IFIs and other potential financial partners.

SECI has a proven track record in successfully addressing economic and development issues in Southeastern Europe. Considering that the goals and objectives of the Stability Pact are already encompassed in its Statement of Purpose, SECI is willing and prepared to make a contribution which is commensurate with the Initiative's practical experience on the ground, as well as with the core competencies and the valuable network of activities and connections throughout the region, which it can avail itself of, in order to make the pact a success.

#### **4.5 Supporting States**

*The United States.* From its inception, the United States has supported the SECI secretariat with voluntary financial contributions. Furthermore, the U.S. Government has provided additional financial support to fund the travel costs for ECE experts for a certain period. The U.S. Government has also contributed to the ECE for SECI-related technical assistance. In addition to financial contributions, the U.S. has provided SECI with technical expertise and assistance for all its project groups, most notably the border crossing facilitation efforts. Ambassador Richard Schifter, Special Advisor to U.S. Secretary of State Madeleine Albright and architect of the SECI initiative, heads the coordination efforts from the U.S. side at the U.S. Department of State. He plays a

indispensable role in securing needed U.S. Government support for the initiative as well as encouraging the necessary political will among key leaders and decision-makers in the region.

Italy. Both the public and private sector in Italy play a key role in supporting SECI's efforts. The Italian Government has pledged financial support to SECI and has provided SECI with technical experts to assist the work of the project groups. The Centro Studi Nord Est (CSNE) through its director and special advisor to SECI, Dr. Giorgio Dominese, is working actively to involve the economic and financial community both at national and regional level with special attention to Trieste, the major industrial and financial centers of north-eastern Italy such as Padua, Treviso, Udine, Vicenza, Pordenone, Verona, Bolzano and Venice, but also the regions of Lombardy, Emilia-Romagna and the Adriatic area, in projects which would benefit countries in the SECI region. With this in mind, Banco Ambrosiano Veneto/Banca Intesa has established a SECI desk at its headquarters, which serves as an outreach to the business and financial community in the region as well as engages in research work, provides information and expertise and promulgates SECI interests in Italy. Furthermore, SECI has been featured at many events in cooperation with the Italian Foreign Ministry and the entrepreneurial national organizations and has also participated in workshops that were promoted by the regional northeastern Italian agency for financial cooperation in Eastern European countries (FINEST), which in the future will operate as financial support for SECI projects too.

Switzerland. In addition to a voluntary financial contribution, the Swiss Government provides technical expertise to SECI project groups. Swiss customs is playing an important role in SECI's efforts to restructure border services in Southeast Europe and the Swiss Department of Economic Affairs is contributing towards SECI's trade facilitation efforts in the region.

Austria. The Austrian Government also provides SECI with voluntary financial contributions and technical experts for its projects, especially in the areas of trade facilitation (customs) and electricity grids. The Austrian Federal Ministry of Agriculture and Forestry plays an instrumental role in hosting and coordinating the SECI Recovery Program for Rivers, Lakes and Adjacent Seas. Former vice chancellor of Austria and SECI Coordinator Dr. Erhard Busek is actively working towards involving Austria in every aspect of SECI.



The European Union. The EU Presidency is represented at the SECI Agenda Committee meetings.

The Russian Federation. The Russian Federation is invited to attend SECI Agenda Committee meetings and has also observed at some project group meetings.

#### **4.6 International Financial Institutions**

SECI is not an economic assistance program but rather a self-help program. It will not rely on any public financial commitments to defray the cost of construction projects. International financial institutions can assist SECI by lending funds for such purposes. With technical assistance provided by the supporting states, SECI will help the participating states in effectively locating and using their own resources and will help them qualify for funds from international lending institutions. The World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) have expressed their willingness to cooperate with SECI by working together with SECI participating states in order to facilitate project implementation. Representatives from these IFIs have participated in some of the project group meeting as well as in the Agenda Committee meetings.

#### **4.7 Regional Initiatives and Institutions**

SECI actively encourages the involvement of other regional initiatives such as the Central European Initiative (CEI), the Royaumont Process and the Black Sea Economic Cooperation (BSEC). SECI has made a conscious effort to invite representatives from these initiatives to its Agenda Committee meetings and project group meetings. SECI holds ad hoc consultative meetings with the coordinators of CEI and BSEC. Institutions with a regional focus are also encouraged to contribute and participate actively. SECI works with the Institute for the Danube Region and Central Europe (Vienna), the Centro Studi Nord Est (Venice and Trieste), and the network of George Soros' Open Society Foundations in the region, just to name a few.

SECI also works closely with other international organizations in implementing its projects such as the United Nations Center for International Crime Prevention, the United Nations Development Program, the United Nations Environment Program, the

World Trade Organization, the World Customs Organization, the WCO's Regional Intelligence Liaison Office (RILO-Warsaw), and the Organization for Economic Cooperation and Development.

#### **4.7.1 EastWest Institute**

SECI has also concluded a Memorandum of Understanding on institutional cooperation the EastWest Institute (EWI), a prestigious transatlantic think and action tank. On the basis of this MoU, the EastWest Institute will help coordinate activities of the BAC and SECI PRO as well as promote and incorporate the results of SECI's work in seminars and workshops organized by EWI. The EastWest Institute is observing developments in the Federal Republic of Yugoslavia through the Action Network for South Eastern Europe (ANSEE).

#### **4.8 International Presence**

From its inception, SECI has participated in a wide variety of international meetings, conferences, symposia, workshops, etc. On September 30, 1997 US Secretary of State Madeleine Albright conferred with SECI foreign ministers at a special meeting on the margin of the United Nations General Assembly in New York.

SECI actively participates each year in the World Economic Forum Regional Summit in Salzburg with a panel presentation. In addition, it makes significant contributions to the OSCE Economic Forum, which is held each year in Prague and all other OSCE events.

In carrying out his duties as SECI Coordinator, Dr. Erhard Busek has personally met with almost every president, Prime Minister, and foreign minister in Southeast Europe in order to seek support for SECI's endeavors from the highest echelons.

These high level visits guarantee the right political will which is necessary for SECI to achieve concrete results. The SECI Coordinator is also in permanent contact with the Office of the Special Coordinator of the Stability Pact and has attended all working table meetings.

Recognizing the need for a close coordination and cooperation with other Regional Initiatives, SECI is cultivating an intense and positive working relationship

with the Royaumont Process, the Southeast European Cooperation Process (SEEC), the Central European Initiative (CEI) and the Black Sea Economic Cooperation (BSEC). SECI is always represented at the events taking place in the framework of these initiatives.