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**BROWN FORUM**

U.S.&SOUTHEAST EUROPEAN  
TRADE AND INVESTMENT  
April 4-6 2011, Dubrovnik, Croatia

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## **Summary of Proceedings**



## Tuesday, April 5, 2011

### **08:40 - 09:20 Welcome**

Croatian President **Ivo Josipović**  
Croatian Prime Minister **Jadranka Kosor**  
U.S. Ambassador **James B. Foley**

**Ambassador James B. Foley** welcomed participants to the Brown Forum and thanked President Ivo Josipović and Prime Minister Jadranka Kosor for their participation and support for the impressive gathering of government and business leaders from Southeastern Europe and the United States. Ambassador Foley said the U.S. government is proud to be a part of this important discussion on the future economic prosperity of this region and the possibilities for enhanced partnerships with American businesses. He expressed confidence that the conference would identify policies and practices that will enable the region to be more competitive in the global economy.

In 1996, U.S. Secretary of Commerce Ronald H. Brown, along with a select group of U.S. business leaders and economic experts, led a mission to Croatia and Bosnia to promote peace and stability and revitalize trade in the region, Ambassador Foley remembered. That mission ended tragically when their aircraft crashed into a Dubrovnik hillside. Ambassador Foley said the Brown Forum would honor their legacy and continue their work. He noted that four of the participants in the original mission, Bechtel, Guardian International, Parsons and EBRD, were represented at the Brown Forum.

Ambassador Foley said he believed there are two basic truths that define why participants in the Forum had gathered and what all aimed to accomplish: first, that this region has enormous economic potential and ought to be a prime destination for foreign investment; and two, that this potential is not being met. Each country knows the challenges it faces. From easing bureaucratic obstacles to doing business in the region to developing sustainable models for regional growth and development, there are many areas where communication between policymakers and private business leaders can lead to progress, he noted.

He called on participants to use the two days of the Forum to identify steps to support business as a driver of economic growth and foster a trade environment that creates opportunities for domestic and international firms alike. To that end, he asked participants to review the draft Forum Action Plan and share feedback. He expressed confidence that the businesses represented would do what they do best – do business with each other and explore opportunities for longer-term projects as the investment climate in the region steadily improves.



Finally, Ambassador Foley thanked the people of Dubrovnik for their annual memorial tributes to those lost in the 1996 crash and for their support for the Brown Forum and the sponsoring businesses and organizations for their backing of the Forum.

**Prime Minister Jadranka Kosor** welcomed all Croatian and foreign participants to the Brown Forum and expressed pleasure at being able to co-organize the event in honor of Ron Brown and his colleagues. She remembered Ron Brown, the builder of bridges between people, and said Croatia had decided to remember Secretary Brown with an annual Ron Brown Award to those who contribute to US/Croatia economic relations, noting she would bestow this award later in the day to Pliva, a Croatian-based pharmaceutical company, and Texas-headquartered Commercial Metals Company, operator of a steel mill in Sisak, Croatia (the largest U.S. investment in Croatia).

Croatia has taken steps to improve the country's economic recovery in recent years, the Prime Minister said. Croatia passed and implemented an economic recovery program, and positive results are being felt. The government also passed an Action Plan for removing obstacles to investment and announced 30 large investment opportunities. Prime Minister Kosor said the government is working to improve cooperation with local communities in Croatia to improve the economy and coordination.

Prime Minister Kosor said the fight against corruption is critical to economic development, as a state based on justice is the foundation for a prosperous economy. That U.S. investors want stability in the judicial system in order to further invest is clear and understood in Croatia, the Prime Minister said.

She noted strong economic ties between Croatia and the U.S. and encouraged participants in the Forum to use the opportunity to get to know each other better and find opportunities for cooperation. She enumerated signs of economic growth, including that exports from Croatia have grown 18%, including a 31% growth in exports from Croatia to the U.S., and growth in the tourism sector, including a 12% increase in American travelers to Croatia. She added that U.S. investments in Croatia currently equal \$156 million.

To make Croatia more receptive to investment, the government has made changes, including naming a new Deputy Prime Minister for Investment and a new office in the Ministry of Economy to work on investment projects that includes people from the Ministry of Finance and the Ministry of Construction and Environmental Protection. Noting the advantages of working in Croatia, Prime Minister Kosor said Croatia guarantees equal treatment for all investors, offers tax incentives and support for certain types of business, has created over 350 business zones, and offers an excellent geographic position. In addition, she said, Croatia will soon be an EU



member. Croatia is determined to finish negotiations and has met over 120 benchmarks to enter the EU. These have meant incredible change and reform, not just for the purpose of ending negotiations but also for the good of Croatian citizens, Prime Minister Kosor said.

The Brown Forum is an opportunity to help the region be more attractive to investors and Prime Minister Kosor thanked all involved in making it a reality.

**President Ivo Josipović** welcomed all participants to the Brown Forum. He commented that some say that the region is stuck on its way to success, but he argued this is not true. He noted political reforms as successes, but said the region needs to look forward in order to implement necessary economic reforms.

People in the region want prosperity, trade, education, a good life, President Josipović said, and political leaders must take the lead in making this a reality. Many positive changes have happened in the region and the participants at the Forum are the best indicators of those changes. Business does not go where people cannot do business, where there is no opportunity, the President noted.

Croatia has fulfilled benchmarks for the EU and expects EU accession soon, the President said. This is important because it mirrors Croatia's growth and can open new economic opportunities. Croatian policies are clear, the President stated. It desires a friendly region without regard to the burden of its history. Croatia sees its neighbors in the EU as well, he added.

Ron Brown supported regional policies and the strengthening of the economy in the region, President Josipović said, adding that Secretary Brown would probably be very pleased to see all those attending the Forum and that his project is alive. There are problems in all countries of the region, but everybody is ready to exit the crisis, the President said. Croatia is ready and could be a leader here.

The President encouraged U.S. investors to consider opportunities in Croatia not just because of the country's beauty, great people, sea, etc., but because Croatia offers success and business wants success. Croatia offers success to domestic, regional and foreign investors, to American investors, he said. Croatia will offer success by implementing reforms that will help employers achieve their goals. Croatia is not currently a champion of business success stories, but that is why there are reforms underway and action plans, in order to start driving investment and development, he added.

The countries of the region know our responsibilities, know that there are those against the policy of peace making, President Josipović said. The region is burdened by its history, but needs to understand it and rise above it, and bring all of people to prosperity. The Forum



participants will help turn the page economically speaking for the region. President Josipović said the conference is an important step, a place to recognize positive trends in the Croatia and the region, both economically and politically. He thanked participants for being at the Forum and for remembering Ron Brown and his noble ideas of joining peoples and economies, for all to be prosperous.

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### **09:20 - 09:50 Session 1 International Trade as a Driver of Economic Growth**

**Ms. Michelle O’Neill**, U.S. Department of Commerce

Deputy Under Secretary for International Trade, Ms. **Michelle O’Neill** began by noting that the goals of the U.S. government in the Southeastern European region have not changed much since Secretary Ron Brown launched his mission 15 years ago. The U.S. remains committed to seeing the region reach its full economic and business potential. There are enormous opportunities in this region, Ms. O’Neill noted. Commenting that there are challenges, she added that there have been significant improvements.

Ms. O’Neill suggested that as much as the countries of the region can come together and create a common market and a common set of standards, the more attractive the region will be to international businesses. She recognized there are political challenges, but encouraged governments to continue the work they are doing, as nothing increases political stability more than commercial ties.

Some of the critical actions for attracting global business partnerships are ensuring intellectual property rights protection, particularly the enforcement of laws, and the institution of a fair and open government procurement process. Transparency is attractive to businesses, Ms. O’Neill added.

Businesses do evaluate potential markets using the ease of doing business indicators, Ms. O’Neill noted. Scoring high in these areas is universally viewed as a positive indicator and countries that rank higher on the list attract more investments, she said. When evaluating investment in a country or a region, U.S. companies do look at the opportunities and challenges, but they also look for institutionalization of reforms and efforts to promote investment. Companies want to know that no matter what party may be in power that business will be encouraged and investments protected.

Ms. O’Neill encouraged joint ventures between regional and U.S. companies in the energy section, noting that there are very competitive technologies being developed in European



countries in the area of energy. While there is healthy competition between Europe and the U.S. in this area, U.S. companies also partner with European companies. Ms. O’Neill commented that such joint development of innovative energy technologies is important for citizens of both regions and for the global environment and that it also encourages cutting edge innovation and growth.

In the area of trade, Ms. O’Neill commented that trade with the region is growing and that there is a strong correlation between U.S. investment in a region and an increase in trade between the U.S. and that region. President Obama’s National Export Initiative has helped the U.S. increase its global exports by 17% in last year, and Ms. O’Neill noted how important it is to have the most senior levels of a government backing trade initiatives. She encouraged the same focus in governments of the region. Ms. O’Neill encouraged regional businesses to participate in U.S. trade shows in the region and in the U.S. She added that U.S. trade with countries who have recently acceded to the EU have increased by 40 percent and that the U.S. whole heartedly supports integration into the EU and does not see that as an obstacle to trade with the U.S.

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### **10:15 - 11:30 Session 2 Southeast Europe as Region of Opportunity for Trade and Investment**

**Mr. Varel Freeman**, EBRD

**Mr. Živko Mukaetov**, Alkaloid AD – Skopje

**Mr. Tomislav Šlat**, 3M

**Mr. Emil Tedeschi**, Atlantic Grupa

**Mr. Miroslav Tešić**, Turbina IPD

**Mr. Varel Freeman** said the European Bank for Reconstruction and Development is committed to investment in the Southeast European region and has invested 7 billion Euros in the region because EBRD sees an opportunity for profitable investment and growth of its capital. Mr. Freeman enumerated some of the advantages: 22 million people, a strong banking system, and rising consumer affluence and spending. EBRD believes regional integration is an important driver of growth and opportunity and sees future EU accession for the region’s countries as a driver of opportunity, opening markets and lowering capital costs, Mr. Freeman added. The region’s location is also a benefit and offers increased opportunities for region integration. Mr. Freeman said the region has shown great resiliency and is well placed to rebound from the global economic crisis and grow. EBRD is very pleased with the results of some of its regional investments, Mr. Freeman said, pointing to the Ron Brown award winner Pliva as an example. EBRD would not be reinvesting in the region if its investments had not been successful. He said.



In next few years, EBRD will be very active. In last 4 years, EBRD has almost doubled its investment activity and it expects to operate at a sustained 9 billion Euro rate going forward.

Present in the region since 1969, 3M early on recognized the potential of the region and continues to see opportunities today, **Mr. Tomislav Šlat** said. He urged the region's countries to reestablish its industrial basis, noting that the region should not rely on simply being a distribution hub. He pointed to companies such as Pliva as an example of successful manufacturers. Likewise, the region should cooperate and produce for the broader market, he said, noting that a country of 2-3 million will not compete by itself for manufacturing industries. There are advantages in the regional synergies and the region should capitalize on those, Mr. Šlat concluded.

Starting from a base in Croatia, the Atlantic Group now has 16 factories throughout the region and in Germany, Atlantic Group CEO **Mr. Emil Tedeschi** said. Atlantic is both a producer and distributor. Mr. Tedeschi applauded recommendations to view the region as a whole, because each country alone is too small. The region as a whole can leverage its collective size of 22 million people. Since 2001, Atlantic stopped looking at Croatia as its single market and began marketing to the region as a whole. Success stories in the region show external investors that it is possible to succeed in the region, Mr. Tedeschi said. Last year, the Atlantic Group succeeded in offering the largest IPO in the region. Not only did Croatian funds participate, but funds from the region and U.S. capital funds took advantage of the IPO, Mr. Tedeschi said. Business ventures such as this will get the region on the pages of the Financial Times and other international business papers, showing potential investors the region is alive, Mr. Tedeschi noted.

**Mr. Miroslav Tešić** of Turbina IPD noted that the countries of Southeast Europe are rich in renewable energy sources – hydro, wind, solar, biomass energy, but that the countries also have similar problems – complicated legislation, poor feed-in tariffs for investors, and weak infrastructure. Mr. Tešić said it is not enough to give incentives to an investor if the country does not have the network to take advantage of any power produced. In the energy sector, there are great opportunities for regional and U.S. investors, and the region should entice U.S. investment in this field to take advantage of developing U.S. renewable technologies, Mr. Tešić recommended. The region has the work force and the engineers to contribute to such a regional-U.S. partnership in energy and is working to develop its own technologies. The region should seek out more opportunities to work together in developing technology and its application, Mr. Tešić said.

Likewise, there are opportunities regionally in the pharmaceutical field, said **Mr. Živko Mukaetov** of Alkaloid AD – Skopje. The pharmaceutical field needs continuous investment and know-how, and Alkaloid met that challenge by building its base and identifying areas in which it could specialize and compete and by investing in brand building in the region. It also found



opportunities to partner with regional companies and with multinational companies, such as Pfizer. Such partnerships benefit local companies through knowledge sharing. Mr. Mukaetov said the region offers other advantages, such as the free trade agreement between Serbia and Russia. Alkaloid built a production facility in Serbia and uses that to export products to the bigger Russian market. Mr. Mukaetov recommended that companies interested in expanding within the region or building partnerships with U.S. companies be flexible and take advantage of opportunities. He said the region needs to find partnerships that can overall improve access to markets.

The region still faces questions about political and economic stability, Mr. Tedeschi said. Some political issues have been overcome, but in some places, such as Bosnia-Herzegovina, it is still a big question. He recommended the entire region should be looking towards a future in the EU, which would decrease potential tensions between the nations of the region and ensure more stable economies. The region has come far in the past 20 years, but more progress needs to be made, Mr. Tedeschi said.

Mr. Tešić said it is important for potential investors to not let assumptions block their investigations. He noted that when people take the time to talk to him about the situation in Bosnia-Herzegovina, they are more willing to consider investing and to look around.

Mr. Freeman added that it is important for the region to get on the radar of potential investors and that events such as the Brown Forum help in that respect.

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### **11:50 - 13:00 Session 3 Regional Market: Cross-border synergies, success stories and untapped opportunities**

**Mr. Damir Kuštrak**, Agrokor

**Mr. Matjaž Rakovec**, Triglav

**Mr. Faruk Širbegović**, Faruk Širbegović Group

Mr. **Damir Kuštrak** of Agrokor opened the session by noting the importance of membership in the EU to the long-term success of the region. He encouraged all countries in the region to work towards EU accession. Other structures designed to facilitate trade, such as CEFTA, are important, he added, but need to be simplified as much as possible to reach their true potential. On the financial side, the various currencies in the region present a challenge to easy business partnerships across borders, as does the lack of venture capital. On the plus side, Mr. Kuštrak noted the financial industries are similarly structured throughout the region, even if economic conditions are very different. Mr. Kuštrak said, though, there does remain an underlying fear of





free trade in many corners. Twenty years ago, the region shared a single market and there is a legacy of cooperation. To enhance this cooperation, Mr. Kuštrak advocated that governments continue initiatives to support and improve the climate for business growth, such as one-stop-shop initiatives and the regulatory guillotine. He expressed concern that some governments have lost momentum and need to be pushed to reengage.

The insurance industry is a good indicator of the varying levels of development in the region, noted Mr. **Matjaž Rakovec** of Triglav. In the EU, the average insurance density is 2,000 Euro per capita. In Slovenia it is 1,000. In Croatia it is less than 300 and in the rest of the region it is less than 100. Mr. Rakovec said this indicates a profoundly different level of economic development across the region. One challenge to doing business easily throughout the region is the varying regulation platforms and requirements as a company moves from country to country. The insurance industry is one of the most heavily regulated industries in the world, Mr. Rakovec said. He looks forward to some regulation harmonization in the next 3 or 4 years.

Mr. **Faruk Širbegović** of the Faruk Širbegović Group commented that business relations throughout the region are better than political relations and that more needs to be done to help promote the region as a whole. Mr. Širbegović pointed to the Regional Cooperation Council as an important tool for the region. Speaking from his own experience, he said his business would not be viable if it operated only within Bosnia-Herzegovina and that support for businesses seeking to expand regionally should be increased. This could include joint ventures and public private partnerships, Mr. Širbegović added. To brand the region is a huge challenge, he said, and efforts should be focused on improving the level and quality of cooperation on smaller issues.

Mr. Kustrak agreed that “branding” of the region would be a challenge on the political side, but said he believes the economic space can already be branded. Mr. Širbegović agreed and recommended promoting examples of successful cross-border business partnerships and investments. This might overcome any lingering reservations about investing within the region. He added that the most promising sectors for business partnerships are in the areas of agriculture, energy (particularly renewable) and the high tech industry. Mr. Širbegović agreed with Mr. Kustrak’s argument that speeding up the EU accession process will benefit the region and encourage investments that might be under consideration.

All panel members agreed the region has potential, but that improvements to infrastructure, regulations, and enhanced education and experience for the younger work force are essential components of improving the investment potential in the region.

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### **14:30 – 15:30 Session 4 Challenges to a Successful Business Climate and Economic Competitiveness**

**Dr. Margareta Drzeniek Hanouz**, World Economic Forum

Dr. **Margareta Drzeniek Hanouz** spoke about the competitiveness of the Southeast European region, specifically the countries of the former Yugoslavia, using the Global Competitiveness Report from the World Economic Forum's Centre for Global Competitiveness and Performance. Dr. Drzeniek Hanouz explained the central principle of the report is to enable comparisons and benchmarking across countries by examining the potential of countries to grow. Dr. Drzeniek Hanouz noted that the key driver of growth, according to economic theory and research in general, is productivity, which means the more a country can produce with the given resources, the more return on investment it can attract generally, and the more it can grow over the medium to long term. And growth, she stated, in the end is what determines the prosperity of a country.

Dr. Drzeniek Hanouz shared a series of slides that presented the statistics from the most recent Global Competitiveness Report, showing that Switzerland was ranked number 1 for the second year in a row. This ranking is based on Switzerland's highly innovative and sophisticated economy, as well as its excellent institutions, public administration, and public governance framework, Dr. Drzeniek Hanouz said. In second and third place were Sweden and Singapore, both countries characterized by very strong institutional frameworks and a high level of transparency that contributes greatly to a country's efficiency. Dr. Drzeniek Hanouz noted that the United States fell last year and again this year from its number one ranking. The U.S. now ranks at number 4. Dr. Drzeniek Hanouz said this was due in part to deterioration in the institutional framework.

In the Southeast European region, Slovenia ranks 41<sup>st</sup> out of 139, followed by Montenegro at 49<sup>th</sup>, Croatia at 77<sup>th</sup>, Macedonia at 79<sup>th</sup>, and Serbia at 96<sup>th</sup> and Bosnia Herzegovina at 102<sup>nd</sup>. In three specific categories, the region comes relatively close to the EU average -- macro environment, health and primary education, and labor market efficiency. However, Dr. Drzeniek Hanouz noted, there are still significant differences, particularly in the overall institutional framework (i.e. public administration, transparency, corporate governance and the like), infrastructure, and market size. She added that there is also a difference with respect to innovation and business sophistication, but that the countries of the region are not yet developed enough for innovation and business sophistication to be of key importance. Dr. Drzeniek Hanouz cautioned though that countries in the region should keep this in mind and prepare.

To improve the region's competitiveness, the countries of the region need to address these three challenges: infrastructure shortcomings, market size, and weaknesses in the institutions. Improving the infrastructure in areas such as telecommunication, information technology and



transportation will be important. Since most of the economies are relatively small, the opportunity in the region is to realize economies of scale and to expand exports. Dr. Drzeniek Hanouz recommended taking particular advantage of the excellent geographical situation the region and expanding exports.

The last area, institutions, is critical. There is a close correlation between GDP and institutions, she stated. Wealthier countries generally have very good institutions in place. In this region, the institutional environment is not up to the levels one would expect based on per capita GDP. Therefore, Dr. Drzeniek Hanouz noted there is a huge call for action to improve the institutional environment. This would include improving the court system, which would enable the region to better implement intellectual property rights. Improving government regulations or administrative capacity would enable better implementation of reforms across many of the other areas as well.

Dr. Drzeniek Hanouz noted that although there have been regional improvements in the area of burden of government regulation over the past five years, particularly in Slovenia, Montenegro, Serbia, and Bosnia and Herzegovina, in Croatia this ranking goes up and then goes down and is now slightly below the level it was five years ago. In Croatia, therefore, something needs to be done to address the burden of government regulations.

The other area in which the region is particularly challenged is the protection of property rights, including land rights. Protection of intellectual property rights is key for business activity and for investment. All countries in the region do relatively poorly in this area. Likewise, Dr. Drzeniek Hanouz noted, the efficiency of the court system also stands out as relatively weak and calls out as another area in urgent need of action. The open and swift resolution of business disputes, specifically related to settling business disputes, has a very important impact on investment and economic activity on a day to day basis. Related to this is the transparency of government policy making, on which the region scores low. Bosnia-Herzegovina is the weakest in the entire sample on this factor.

There are many reasons why this region has a huge potential for attracting foreign direct investment (FDI), the most important its proximity to the European Union, but also its relatively well-educated labor force and flexible labor markets. There is also a huge potential for developing specific sectors, such as the tourism sectors in some countries. Yet this potential does not seem to be fully exploited, Dr. Drzeniek Hanouz noted. One of the reasons for low FDI is the impact of the rules in a country for attracting FDI.

With regards to the European Union, Dr. Drzeniek Hanouz pointed out that the region as a whole is within the range of the EU 27 and is very well prepared to join the European Union and that it would not lead to major shocks for the countries of the region.



Dr. Drzeniek Hanouz summarized by noting that the key advantages of the region according to the Global Competitiveness Index are macroeconomic stability, health and education, and efficient labor markets, adding geographic location as a factor not captured in the Index. The key disadvantages that need to be tackled on a priority basis are improvement in infrastructure, upgrading of institutional framework and expanding the market size in terms of promoting exports and taking more advantage of the advantages within the region. The most important ingredient in reforming institutions is very strong political will, Dr. Drzeniek Hanouz added. And the advantage of institutional reforms, she said, is that the results show relatively quickly in terms of economic growth and prosperity and foreign direct investment.

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### **15:50 – 17:20 Session 5 Overcoming Barriers to Regional and International Trade and Investment**

Croatian Deputy PM for Investments **Domagoj Milošević**

Macedonian Minister of Economy **Fatmir Besimi**

Serbian Minister of Economy and Regional Development **Nebojša Ćirić**

Montenegrin Minister of Economy **Vladimir Kavarić**

Noting that the most successful international investor ever, Warren Buffet, said only when the tide goes out does one discover who has been swimming naked, Croatian Deputy Prime Minister **Domagoj Milošević** believed the global economic crisis showed the strengths and weaknesses of the region. While he believed the region showed well, he noted that the region can do more to be flexible, export oriented and to attract more foreign direct investment (FDI). Mr. Milošević said as Croatia has been finalizing its European Union (EU) accession and implementing its economic recovery program, it has emphasized improved transparency and accountability, which are reforms critical for the whole region. Croatia is focusing on three specific issues: bureaucracy, public-private dialogue, and enhancing resources.

In the area of bureaucratic reform, Croatia is working to remove obstacles and improve the general attitude at all levels to be more positive and transparent. No is an acceptable answer, Mr. Milošević said, but it needs to be given in a speedy fashion. In transitional countries such as those in the region, Mr. Milošević said a firm connection and open dialogue between business and government is critical. To that end, Croatia established an economic/social council and the Croatia Investment Board, made up of top government officials and prominent business leaders. Mr. Milošević said this has been a valuable platform to discuss the business climate, but noted that politics and business still need to come closer. Croatia and the region need to improve their



openness in the corporate sector. Mr. Milošević advocated bringing in fresh capital and fresh know-how, including enhancing education and training opportunities for the work force.

Noting that peace is not sustainable unless the region invests in the economy, Macedonian Minister of Economy **Fatmir Besimi** said that regional governments need to improve trade and investment to guarantee the long term welfare of the region's people. Mr. Besimi said change is happening in politics and in the understanding of how the economy works. People are committed to a market economy, but, in Macedonia that market is only 2 million people. Mr. Besimi said Macedonia is aware it cannot attract serious investment without cooperating with its neighbors and building partnerships with bigger markets. To enhance the prospects for region projects, Mr. Besimi said Macedonia is working to improve its infrastructures, including in the areas of energy, telecomm and transport. Most importantly, Macedonia is striving to be a competitive, knowledge based economy by investing in Macedonia's human capital and enhancing educational opportunities.

The region can build and capitalize on existing advantages, Mr. Besimi noted, such as the Central European Free Trade Agreement (CEFTA). Trade is a way to enhance growth and under CEFTA trade within the region has grown. Speaking of the region's EU future, Mr. Besimi noted that countries that have joined the EU enjoyed roughly \$4,500 per capita FDI over the last twenty years, whereas the countries of Southeast Europe only realized \$3,000 per capita FDI. Mr. Besimi said EU integration will enhance investment in the region, but that the region needs to do more to develop to meet that goal.

Serbian Minister of Economic **Nebojša Ćirić** agreed that the name of the game is integration, stating that the countries of the region are small economies highly dependent on FDI for growth. In Serbia, he noted the country is moving to macro-economic stability, having seen growth in the last year and a half and a 36 percent increase in exports. Mr. Ćirić said that much work still needs to be done, though. The problems of Serbia are common problems – a lack of liquidity and the cry for the state to intervene, but delicately. The Serbian government has sought to address this by subsidizing interest rates of private banks. The government also wants to rein in unnecessary bureaucracy. Mr. Ćirić said the government applied a guillotine to regulations, but more must be done. Mr. Ćirić said that investment in production facilities is starting to produce results and that Serbia anticipates about four billion Euros in FDI this year. He acknowledged this is optimistic, but noted that one of the major drivers of this increase is regional integration.

Mr. Ćirić also praised the utility of CEFTA, stating that Serbia's biggest trading partner is the EU and the second is the CEFTA countries. He recommended improvements to CEFTA, particularly on non-tariff barriers, and to other forms of regional cooperation. Having the adequate structure is important, Mr. Ćirić said, and having opportunities such as the Brown Forum to talk together is critical.



Montenegro is also focused on macro-economic stability, Montenegrin Minister of Economy **Vladimir Kavaric** stated. To achieve this, Montenegro adopted the Euro as its currency and adjusted the tax structure to be business friendly, he said. The government also commissioned an analysis of the business environment and is working to respond to the obstacles outlined in the study. Mr. Kavaric noted that all countries in the region are starving and fighting for FDI, but recommended that the region remember this is a global competition and that with advantages such as CEFTA, the region's countries can be allies to compete against other regions around the world for the pool of investment funds.

The panelists all agreed with Mr. Milošević's statement that speed and simplicity are critical to attracting investments. Mr. Besimi agreed, noting that investors tell him that access to prime ministers and ministers is helpful, but that the obstacles are at the working level, where action gets bogged down impeding business growth. Macedonia's bureaucratic guillotine helped, he said, adding that Macedonia passed hundreds of laws to remove obstacles and improve efficiencies.

Mr. Ćirić said that a U.S. investor in Serbia told him that legal costs to do business in Serbia are three to four times higher because it requires more lawyers to respond to the complicated set of bureaucratic requirements. Mr. Ćirić said such feedback from investors is critical to steering the direction of reforms.

Mr. Kavaric said that once a country identifies needed reforms, it is equally important how such reforms are implemented. Montenegro strives to accord freedom to economic affairs policy in order to advance economic and business reforms efficiently and quickly. The result has made Montenegro a leader in attracting FDI.

Cautioning investors to choose their local advisors carefully, Mr. Milošević said that some advisors can actually complicate an investor's efforts in a given country.

Small to medium enterprises are critical components of any country's economic all panelists agreed, noting various support their governments offer to stimulate SME growth. Mr. Besimi said it is incorrect to believe a government is only working to attract foreign investment, adding that SME's account for roughly 80 percent of Macedonia's economy. In Macedonia, the government treats all potential investors, foreign and domestic, equally. Mr. Kavaric agreed, rejecting some calls to treat foreign investments differently. Such distinctions are not productive, he noted.



## **Summary of Proceedings**

**Wednesday, April 6, 2011**

### **09:00 - 09:30 Session 1: Opportunity through Free Enterprise**

**Mr. Robert Benmosche, AIG**

Mr. Benmosche spoke about his experiences buying property and launching a business in Croatia in the context of his work for American global corporations. He noted that he first came to the region in 1987, returning in 2000 with the idea of preparing for retirement to the coast. In the process of buying and renovating his home, he learned much about doing business in the region and some of the obstacles to business growth. It took Mr. Benmosche six years to complete renovations on his home and in that time he learned to work in Croatia under Croatian rules.

Among the lessons learned was the importance of understanding and respecting the regulations. Even if those regulations are burdensome, he noted, a business should never cheat. Anyone who suggests to a business there are alternatives to the legal routes is being a bad advisor, Mr. Benmosche said. The most important person to any operation is the person with the stamp, and one must follow the rules according to the person with the stamp in order to get work done. Likewise, investors must understand land regulations and the book of deeds. If an investor is not careful and tries to take shortcuts, an investment can be stymied because of land title issues, Mr. Benmosche warned.

Mr. Benmosche advised participants that it is critical to understand the world in which one operates. One must learn there are opportunities and seize them, but one must also assess risks.

He advocated fixing some of the existing risks in the region, including setting up a supervision system for judges. The existing laws are excellent, Mr. Benmosche said, but businesses find themselves at the vagaries of a judge who can file a complaint in his desk drawer with no penalty to him. This makes it very difficult for an entrepreneur to invest and accept risks. Land ownership and the book of deeds also need to be cleaned up, Mr. Benmosche said. Business and government in the region also need to understand the global nature of business competition and adjust to that and leverage regional advantages.

By breaking down barriers to doing business, the perception of corruption, improving the technology infrastructure and increasing the services to entice talented populations to stay in the region, much can be done to encourage more investment and business growth, Mr. Benmosche said.

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**09:40 - 10:55 Session 2: Innovation in a Competitive International Business Environment****Ms. Sasha Bezuhanova**, Hewlett-Packard**Ms. Jasna Matić**, Serbian Ministry of Culture, Information and Information Society**Ms. Deborah McCarthy**, U.S. Department of State**Mr. Jan Muehlfeit**, Microsoft

All panelists agreed businesses must innovate to stay competitive and that governments have a role in creating the technological and legislative environment to encourage business innovation and global competition.

From the Serbian Ministry of Culture, Information and Information Society, Ms. **Jasna Matić** argued that innovation must pertain to all areas of a business: product, efficient process, and marketing. She noted that some businesses incorporate their buyers, suppliers, retailers in the innovation process, a model called “crowd sourcing.” For governments, the challenge is to react quickly to technological developments in order to assist businesses to develop. This is particularly the case in the IT sector, where the government must develop legislation and infrastructure to keep up with global innovations. Additionally, governments need to promote the human potential of its populations, Ms. Matić explained. If the government provides a framework to enable its citizens to learn and develop, it helps the economy. There is a need in the region, Ms. Matić argued, to switch to a knowledge-based economy and the new competition model. In Serbia, the government is promoting technology as an educational tool and moving towards an e-government system to cut costs, improve efficiency and transparency and reduce corruption.

Mr. **Jan Muehlfeit** from Microsoft argued that the future impact of technology will completely change the way businesses operate. Global connectivity means global competition and with the internet driving transactional costs close to zero, businesses will need to change. This technology heavy future argues for competition through human capacity, Mr. Muehlfeit noted. Human potential, education, and lifelong learning will be critical to a country’s ability to compete. Mr. Muehlfeit said he sees this region at a crossroads, as is much of Europe. European students are falling behind students in China in their education and capabilities, he noted. The quality of a population’s education translates into the quality of innovation and the quality of business products. And, Mr. Muehlfeit commented, the world is getting spikier in terms of innovation – some regions are innovative and others are not. What is the strategy to being an innovative region? He mentioned three elements: talent (countries need to keep their talent at home and even attract foreign talent), a good technology platform, and openness to diversity. Mr. Muehlfeit believed the region has the potential, but should identify its traditional strengths and apply a new model to those areas. Most importantly, though, he noted there must be a political consensus on the need for innovation and government support.





Global leaders, in the aftermath of the financial crisis, are clearly focused on the need for innovation in business and in society, noted Ms. **Sasha Bezuhanova** of Hewlett-Packard. In such an environment, government needs to support a predictable business and social environment. Ms. Bezuhanova advocated for government initiatives to properly serve its citizens and create an environment in which talented individuals can produce. The Southeastern European region, Ms. Bezuhanova believed, should want to be a host for technology producers. How can the Balkans become a new Silicon Valley? She answered: by fostering its talent through education and an environment that stimulates new technology literacy, by improving the legislative framework and infrastructure for business, and by stimulating entrepreneurship. The region should look for collaborative projects in research and development, as big companies look regionally, not at individual countries, Ms. Bezuhanova noted. She recommended the countries of the region understand how world trends are creating opportunities and look for ways to integrate into that global system.

Ms. **Deborah McCarthy** from the U.S. Department of State agreed, noting that countries need innovation based economies in order to compete in the world. She said the U.S., through a special office in the State Department, is supporting entrepreneurs around the world by building connections between U.S. and foreign entrepreneurs. These partnerships have been strong and productive, Ms. McCarthy noted. She also emphasized the importance of building global language skills in any region, noting that during a recent visit to China, the new generation of Chinese negotiators all speaks fluent English. She said that 18% of foreign students in the U.S. come from China. She urged regional businesses to take advantage of individuals from the region who went to the U.S. on Ron Brown scholarships, over 500 people so far, to learn about U.S. business. Such expertise should be tapped, she recommended.

On the subject of using social networks to support business growth and entrepreneurs, Ms. Matic noted that Serbia has been using social networks to learn how the government can encourage micro-enterprises. She explained that small businesses can reach a global market with a good product and niche by using the internet. As a government, she said, it is important to provide a suitable technological base and infrastructure to facilitate that type of business. If the transaction costs for such a business are too high, it will not succeed. Right now, the costs are too high, she said.

Mr. Muehlfeit said that because younger generations are using technology so much better than older generations, governments need to encourage the young generations to explore technology and to innovate.

On challenges to foreign investment in local technology innovation, Ms. Bezuhanova noted that gaps in intellectual property right (IPR) protections or failures in implementation of IPR



legislation discourage big companies from partnering on technology innovation. Instead, companies will only invest locally in distribution or service support sectors. Ms. McCarthy said the U.S. prepares annual reports on IPR protections in each country around the world and that U.S. businesses do read these and use them as guides to where it might be best to do business. All panelists agreed bureaucratic burdens are obstacles to business growth and to innovation. Ms. Matic said Serbia is working to streamline government operations and that European Union guidelines help in that respect. Mr. Muehlfeit suggested technology can rid a government of unnecessary bureaucratic layers, noting that 95% of all jobs in Europe will soon need technology skills.

Ms. Bezuhanova recommended that governments in the region take a holistic approach to promoting innovation and business --- infrastructure, political decision making, and support for human capital professionalization. Ms. Matic agreed a serious plan needs to be put in place for improvements in the technological infrastructure in the region, and recommended building on existing positive regional collaboration.

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### **11:15 – 12:30 Session 3: Financing International Partnerships**

**Mr. Trevor Atwell**, G2 Investment Group

**Mr. Matjaž Prinčič**, Emerging Markets Advisory Corporation Limited

**Mr. Marko Remenar**, Zagrebačka Banka

**Mr. Borislav Škegro**, Quaestus Private Equity

Participants in the panel discussed challenges to and opportunities for carrying out large-scale projects in Croatia and the region. The participants agreed that, above all, countries in the region should work toward providing transparency and predictability for all phases of an investment.

**Mr. Trevor Atwell**, of G2 Investment Group, whose firm has its sights set on developing a resort and cultural center for year-round use in Istria, stressed that receiving timely answers from government authorities on permit issues would go a long way toward shoring up investor confidence. He referenced a recent statement by Deputy Prime Minister for Investments Milosevic, who said that “no’ is an acceptable answer, as long as it’s timely.” It is not knowing when a permit application or other administrative function will be adjudicated or completed, Mr. Atwell said, that discourages investment and ultimately growth.

**Mr. Matjaz Princic**, from the Emerging Markets Advisory Corporation, agreed, and added that working with local authorities to secure zoning permits is an often-cited struggle by developers. He also pointed out that problems with companies receiving their VAT repayments are cause for



concern. Mr. **Marko Remenar**, of Zagrebacka Banka, and Mr. **Borislav Skegro**, from Quaestus Private Equity, both acknowledged these problems but said some progress has been made in Croatia and the broader region on the issues in recent years. Mr. Remenar said foreign investors can better navigate the terrain in Croatia and overcome investment barriers by involving local banks and other counsel from the outset. Mr. Skegro said he agrees that getting local advice is important for investors who are new to the region. Mr. Remenar also noted that financial institutions in Croatia weathered the financial crisis well, and said the financial market in the country remains attractive to foreign investors.

All participants in the discussion agreed that Croatia's slow, unpredictable judiciary is handicapping the country's economic growth as investors are loathe to risk their capital and time in a place where even the simplest of contract disputes can take years to make it through the courts. Mr. Skegro said there are simply too many laws on the books bearing on investment, commercial and labor disputes, making it difficult for companies, attorneys and judges to master and apply them. He also feels there is a problem with judges in smaller cities being biased against business interests – especially foreign ones. Mr. Princic said that Croatia's ineffective judiciary means extra costs for investors up front, because they feel they have to do even more due diligence than they otherwise would, so as to try and ensure that they do not have to go to court to enforce their rights. The participants also agreed that outdated and unmanageable land registry records present a real challenge for potential investors. The members of the panel also agreed, though, that conditions for investment in Croatia have improved some recently.

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### **12:30 – 12:45 Closing Remarks**

**Croatian Deputy Prime Minister for Investments Domagoj Milošević**  
**U.S. Ambassador James B. Foley**

Ambassador **James Foley** thanked the panelists and everyone who participated in The Brown Forum, saying that he appreciated the honesty and candor with which all the panelists and speakers approached the Forum topics. He said the “brutally frank... discussions” about the challenges to investment in the region represent a step in the right direction for making the area a more desirable place to do business. He noted that those in attendance gathered because all believe the region has potential for economic growth. Whereas the region offers great opportunities and has enormous potential, Ambassador Foley said, the region is punching below its weight in terms of global competition for business investment.

Overall, he characterized the message of the conference as not a gloomy one. It is clear that measures that are needed are doable, he said. The challenge now is to go from here to shake up



the public administration, streamline it and improve the business climate. Ambassador Foley said he hoped the region will reach a point at which such conferences as The Brown Forum are not needed because reform will have happened. As long as the goals that Secretary Brown and his team were pursuing remain unfulfilled, Ambassador Foley said the U.S. would support endeavors such as The Brown Forum. He said he is hopeful real progress can be made in making the region more business-friendly in the immediate future. Ambassador Foley thanked everyone in the audience and the virtual audience, noting that more than 200 participated via the web and more followed on Facebook and Twitter. He thanked the Croatian partners for the true exercise in bilateral cooperation.

Deputy Prime Minister for Investment **Domagoj Milošević** thanked Ambassador Foley for his leadership on the conference and thanked all those who attended and those who organized the conference. He believed The Brown Forum reaffirmed the excellent relations between the U.S. and Croatia and American support for the region.

Governments always search for ways to jump start their economies, Mr. Milošević said. Trade missions such as those led by Secretary Brown prove instrumental to promoting economic ties and progress as do important agreements such as the recently signed Open Skies Agreement between the U.S. and Croatia. Bringing together business and government leaders from the U.S., Croatia and the region affirms that the region is taking the right steps to realizing Ron Brown's vision, Mr. Milošević added.

Partnerships have the power to change lives, Mr. Milošević noted. Together the region can move forward and make this part of Europe more attractive to investment, creating jobs and improving the lives of people in the region, he said. Integration into the European Union will increase the region's appeal, he noted, applauding the U.S. for its support for Croatia's entry into the EU. Croatia is ready, willing and able to create an environment in which business and investment can flourish, Mr. Milošević said. The region must act together, as size does matter, he added. Together, the region must strengthen the legal framework, public sector efficiency, and infrastructure, Mr. Milošević concluded.

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