

### Chairman's Summary

In accordance with the original mandate, the Second Meeting of the Economic Forum, like the first, gave political stimulus to the dialogue on the economic transition, suggested practical efforts for the development of free market systems and economic co-operation and encouraged activities within relevant international organizations, bearing in mind the ideas and goals formulated in the Final Act, in the Document of the Bonn Conference and at other CSCE meetings regarding economic co-operation in Europe as well as the principles approved in these documents.

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At the Second Meeting of the Economic Forum a free and stimulating dialogue was held on key issues of the transition process to democratic market economies. Pursuant to the Helsinki Document 1992, representatives of a large number of international organizations were invited to participate. Representatives of the United Nations Economic Commission for Europe, the Organization for Economic Co-operation and Development, the European Bank for Reconstruction and Development, the European Investment Bank, the World Bank, the International Monetary Fund, the Council of Europe, the International Labour Organization and, for the first time, the United Nations Educational, Scientific and Cultural Organization attended the Meeting and made oral and/or written contributions. The participation of these bodies was not only of considerable, indeed cardinal, importance on account of their specialized competence in the economic sphere or because they are engaged or could be engaged in practical endeavours in this sector, but was also in conformity with the decisions of the Ministers at the Fourth Meeting of the CSCE Council held in Rome. On that occasion the Ministers agreed that the CSCE, with its broad participation, should play an active role in promoting co-operation in the economic dimension, which should be developed, inter alia, by working closely with relevant economic, financial and developmental organizations. In this context, it was suggested by the delegation of the United States of America during our work here that the international organizations represented at the Second Meeting of the Economic Forum keep the CSCE Secretariat informed about their schedule of events of interest to economies in transition in the future.

On the basis of recent decisions taken by the relevant CSCE bodies, non-participating Mediterranean States, namely Algeria, Egypt, Israel, Morocco and Tunisia, were for the first time invited to participate and to make statements. Representatives of the Commonwealth of Independent States were also invited to attend and make contributions to the Meeting.

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Representatives of national NGOs and the business community took an active part in the discussions. There was agreement that greater participation by representatives of the private sector and NGOs, in keeping with the 1992 Helsinki Document, would contribute to the work of the Economic Forum in the future. The specific issues addressed by the agenda of the Second Economic Forum could not fail to engage the interest of economic actors in the public and private sectors; their meeting with members of national delegations and representatives of international bodies resulted in many fruitful informal contacts. One of the CSCE's chief functions, that of serving as a forum for dialogue and meetings, was thus confirmed. On a more general level, moreover, questions pertaining to the economy and the transition process were set in the context of other central

objectives of the CSCE: promotion of human rights, individual freedoms and democratic values on the one hand, and the strengthening of security and stability in the CSCE area on the other.

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The statements and interventions reflected CSCE principles and commitments, which, moreover, were explicitly recalled on repeated occasions. Reference was made, in particular, to the Charter of Paris and its provisions, to the Bonn Document of 1990, to the Helsinki Document 1992 and also to the Document "Our Security is Indivisible" adopted by the Fourth Meeting of the CSCE Council of Ministers which took place from 30 November to 1 December 1993 in Rome.

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The delegations present at the Forum exchanged their recent experiences in the field of economic policy and examined the progress made and the difficulties encountered in the transition process.

Many delegations also gave a brief account of the economic policies recently applied by their countries. Comparisons were made between the economic situation in 1993 and the current situation in 1994; encouraging results appeared in that connection.

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Nevertheless, the transition process is far from being completed; it will take a long time and will be technically and politically difficult.

The delegations stressed that economic reforms, privatization and macroeconomic stabilization policies involve, in most countries, an effort that is hard to sustain. External assistance plays an important supportive part in improving the chances of success of the transition process and lowering the pain involved.

Many participants raised the matter of trade liberalization, some of them drawing attention to an increase in their exports and a wider spectrum of recipient countries, others calling for the promotion of integrated economic areas and a legal framework for easier import and export exchanges. In fact, the income generated by exports could, at the same time, facilitate the transition process and confirm the success of its prior implementation.

Other necessary supports for the transition process are financial assistance, transfer of know-how, vocational and professional training and long-term spontaneous private-sector investment, which is likely to be the most rewarding stimulus for appropriate co-operation in favour of transition and development, but which is, in the meantime, highly sensitive to the legal framework, business climate and expected returns.

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The Economic Forum has to be a tangible demonstration of the comprehensive approach of the CSCE to the economic problems of the CSCE area, also in the context of security; security in the

CSCE area depends on the economic development of the CSCE States as on the fulfillment of human rights commitments.

In order to be effective, the Economic forum must encourage the involvement of all of the major players in economic development and reform, and particularly the full participation of the private sector, in Forum discussions.

There was general agreement that business representatives should have ample opportunity in the Forum to describe their experience, both in the market economies as well as those in transition, and that the experiment of informal working groups that has been tried out at the Second Meeting of the Economic Forum, deserves to be pursued in the future.

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In full compliance with existing CSCE commitments the participating States and the relevant international organizations are to continue and, where possible, increase their efforts in the field of economic co-operation.

It was agreed that the Third Meeting of the Economic Forum would be held from 7 to 9 June 1995.

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During the discussions held at the Second Meeting of the Economic Forum the following points were highlighted:

Further consideration of key elements in a favourable business climate

Further consideration of the human factor, the legal framework and the role of public administration led delegations to consider that these are in fact the key elements not only of a favourable business climate but of a functioning market economy.

The challenge posed by the human factor during the transition process is twofold: a sense of initiative and responsiveness to changing situations must be developed, while the acquisition of knowledge and technical skills has to be adapted to the ever-changing environment characteristic of an open economy.

The legal and institutional framework is not of course a guarantee in itself of the expansion and success of business transactions, nevertheless it is a basic precondition for the development of business relations. An unclear and disorganized legal framework will of course discourage foreign investors, who may enter the market in such cases only if they can expect far higher than average returns to compensate for the risks and costs; it will place an even heavier burden on domestic investors, who usually have less choice with obvious negative consequences for economic activity and the internal creation of capital.

Public administration has some analogies with the legal framework, but possibly has a more essential or incisive role to play; in fact, it has a crucial role to play in putting the legal and institutional framework into practice. Apart from the obvious consideration that the unsatisfactory functioning of the public administration generates costs and reduces the efficiency of the economy as a whole, it must be said, with special regard to the transition economies but not excepting other economies, that public administration is likely to play an active and constructive part in creating a favourable business climate within an open and free market economy.

The administration should ensure reliable basic conditions for entrepreneurial activities in order to minimize the risks and uncertainties to which businesses are exposed while eliminating all unnecessary regulations. In this context, legal certainty is of particular importance. It creates the confidence essential to future-oriented investments.

### Favourable conditions for mutual trade and investments in the CSCE area

Trade and investment are the two means of generating growth in all national economies; both are especially vital to economic systems in transition because prior to the transition process trade was limited in the range of products and trading countries, while investment - as well as production - were the result of acts of government.

Central decisions taken by government authorities greatly reduced, or even prevented, any possibility of the price-system matching actual conditions of supply and demand, both within the country and outside it.

Economic reform has allowed Central and Eastern European economies to adapt to the world price structure and to introduce competition to domestic markets, thus exposing them to market mechanisms through a reorientation of their exports to competitive world markets. Recovery is supposed to follow a classic export-led pattern, with a boost in exports generating in a second phase an upsurge in investment, mainly driven by the new private sector and an improved market environment.

The importance of investment for the restructuring of the economy and as a precondition for growth needs to be emphasized. Against the background of performance over the past few years, the fundamental factors for a recovery in investment must be taken into account. Macroeconomic stability and sound economic policies are everywhere a necessary condition for the private sector to engage in major investment projects.

In this context, and taking into account environmental preoccupations, it was also pointed out that sound economic development must be based on a sound environment. Since European countries facing difficult economic problems might be tempted to downgrade environmental problems, it was suggested that international financial institutions should examine the possibility of co-operating with these countries for environmental investments.

Moreover, environmental protection could help to promote the tourist potential of many countries, justifying investments in areas which have been difficult to penetrate for almost 50 years. The benefits would of course be favourable: entrance of regular flows of hard currency and reduction of isolation.

### The role of infrastructures as key elements in the transition process

The need for further improvements in the infrastructures of countries in the CSCE area was also referred to. It is fairly obvious that the establishment or renovation of road, rail, sea and air transportation and telephone systems and of telecommunications not only creates significant employment opportunities for the workforce, but also makes national economies more efficient through the greater effectiveness of the services provided. Permanent structural deficiencies, on the other hand, can only have an adverse effect on the business climate and damage relations of all kinds as well as the tourist industry.

With particular regard to present connections between Central and Eastern Europe and the other countries of the European continent, there is no need to recall the history of recent decades to explain the fact that the road and rail networks etc. built during the last 50 years or previously were not intended to link two geopolitical areas but reflect a division between areas that were virtually impenetrable to the reciprocal mass transport of people and goods. Nor does it appear that alternatives to existing non-terrestrial routes have so far been exploited.

Efforts to resolve the transport question have played an essential part in the process of European integration; this fact could be taken as an example to be followed by the States wishing to emulate the community and build - or rebuild - a sort of regional solidarity or partnership around a transport network in the broadest sense.

Telecommunications and energy networks have also become essential elements of the infrastructure, in a real sense the vital arteries of national economies and the wider world economic system, forming a nexus of goods and services of a higher - and more costly - technological level than other communications systems. Consequently the extremely generous effort made by the European Union to assist various countries in their initiatives with regard to telecommunications and power networks come as no surprise.

With regard to transport and communications infrastructure, the positive results of the special ad hoc meeting of senior officials in Vienna (31 January to 1 February 1994) represent an example of CSCE potential.

Attention should also be paid to the social and health dimensions of infrastructure activities.

Furthermore, the importance of creating a sound environment in all of Europe should be a major consideration in the transition process.

Co-operation in the area of science and technology for the development of industry and for the strengthening of its international competitiveness

Co-operation among States in the field of science and technology for industrial development involves scientific co-operation activities but may also lead to industrial co-operation activities.

This is an activity which, as we have seen in the past in many countries undertaking major infrastructure operations, which were mainly promoted and supported by the public authorities or government agencies, also includes a public component. This may also happen, of course, in the case of voluntary activities between private parties - and does in fact happen.

These two types of activity generally develop in synergy with one another.

In the present situation in Europe it seems highly likely that co-operation in the above sense, depending on the party involved, will include some public component of greater or lesser importance. This is the reason why States offering co-operation will probably go through public organizations where they exist; it is also why the countries receiving co-operation, by virtue of the nature and costs of the scientific and technological activity and past tradition, are likely to give these activities public dimension. It is to be expected, however, that with the success of scientific co-operation activities similar ventures will also extend into the private sector.

Not that scientific and technological knowledge in the CSCE area is not of a fairly uniformly high or even superlative quality. The point is simply that the history of the last 50 years has given grounds for a diffusion of scientific efforts into the military field; these efforts, however, proliferated in a way that was not designed to provide material to the industrial system for the purpose of the free exchange of goods and services. This was true of one part of Europe at least, and certainly of the ex-USSR.

In the light of these observations, the challenge to economies in transition would appear to be the following: the reorientation of the military sector to the civilian, which is already underway, and, most especially, an adaptation of basic research and military technology to meet the objectives of a free enterprise economic system.

There can be no doubt that this transition currently taking place will give rise to problems of its own - starting with financial ones - because any reorientation, any restructuring, has a cost, in this case a cost that will

further burden countries already weighed down by their foreign debt. At the same time, it is precisely on these grounds and for the purpose of solving this dilemma that co-operation in the science and technology sector needs to be supported. Such co-operation makes it possible, in the long run, to bring about industrial co-operation in the true sense of the term, since the latter's aims of furnishing the technological means necessary for improving productive activity within the broader context of the free market serve ultimately to promote trade and increase the GDP and standards of living not only in the beneficiary countries but in all countries.

In view of all these factors, it is hardly surprising that mention has been made during this Forum of a large number of initiatives in the sphere of science and technology. Forms of co-operation in this realm between States and also between private institutions already exist. Reference has also been made to the valuable work carried out by international organizations and to the numerous initiatives developed by the European Union with many countries in transition.

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#### Proposals for seminars

##### **Slovenia:**

The Slovenian delegation endorsed the usefulness of the Economic Forum but also stressed the importance of the seminars, especially when organized on a regional basis and with pre-established agendas. Slovenia was prepared to host such seminars.

**United States of America:**

The United States delegation underlined the successful results achieved by the Bishkek Seminar and highlighted the merits of the procedure adopted, namely that of dividing the Plenary meetings into different, specialized discussions, a procedure which it was planned to repeat at the Tallinn Seminar. Accordingly, the United States delegation associated itself with the views of the Slovenian delegation and indicated a number of topics of particular interest:

- Taxation; the fiscal policies of economies in transition  
(proposed period: February/March 1995);
- Marketing;
- Public support for the free market;
- Infrastructure (transportation);
- Tourism;
- Privatization/restitution;
- Banking services;
- Energy conservation/energy transfer;
- Service industries;
- Education.

The delegation also stressed the importance of organizing two or three seminars per year.

**Greece-European Union:**

The European Union stressed the need to ensure that seminars were held on specific topics; generally speaking, it supported the seminars proposed by other delegations.

**Romania:**

The Romanian delegation underlined the importance of holding two to three seminars per year, as proposed by the United States of America. It expressed a special interest in the seminars on tourism and on public support for economic reform. Romania was willing to host the seminar on tourism and to meet some of the costs (proposed period: October/November 1994).

A further topic of special interest was the science and technology sector of countries in transition, with particular emphasis on joint research.

**Poland:**

The Polish delegation supported the United States proposal in general terms.

Co-operation among small and medium-sized enterprises, in particular through collaboration with national bodies responsible for promoting that sector, could be a useful subject.

**Russian Federation:**

The Russian delegation expressed its satisfaction with the results of the Bishkek Seminar. Such seminars were a valuable means of meeting the wishes of the Forum. Two topics were proposed as being of special interest for future seminars:

- Privatization and foreign capital participation;
- Establishment of a modern banking system.

**Latvia:**

Concerning the proposal for a regional seminar on how to develop and sustain popular support for the predictably unpopular medicine of economic reform, Latvia would like to express its interest in acting as a venue for such a seminar contingent on the discovery of full funding from CSCE or other sources. Latvia's representative at the Permanent Committee will be charged with further consideration and pursuit of this possibility.

Indicative Agenda for the Third Meeting of the CSCE Economic Forum  
Prague, 7-9 June 1995

1. Opening

2. Discussion items

Exchange of views and experiences concerning key issues of the transition process, and in this respect an implementation review, with particular focus on creating favourable conditions for economic activity in the following areas:

(a) labour markets

(b) regional economic co-operation

(c) defence conversion

(d) infrastructure; transportation and communications

(e) banking

3. Reports from seminars and consideration of proposals for topics for 1995 and beyond

4. Dates and agenda for the next Meeting of the Economic Forum

5. Closure