International Conference on the 10-Year Review of Transitional Economies and Challenges in the next Decade

Discussion Record

Vienna, 30.11. - 01.12. 2000

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International Conference on the 10-Year Review of Transitional Economies and Challenges in the next Decade Discussion Record

International Conference

on the 10-Year Review of Transitional Economies and Challenges in the next Decade
Vienna, 30.11.-1.12.2000

Discussion Recording

organized by:

Japan International Cooperation Agency

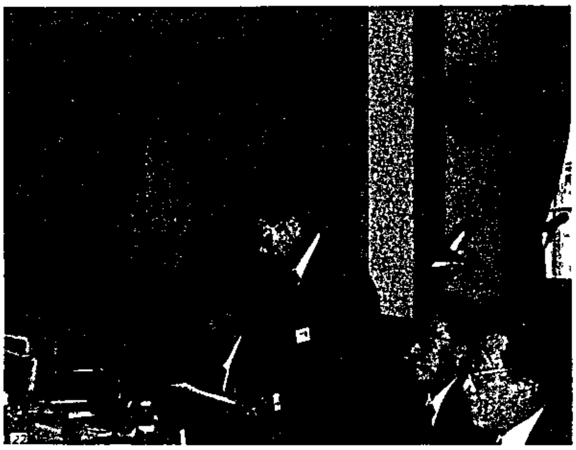
Japan External Trade Organization

The Vienna Institute
for International Economic Studies

Bank Austria

1162345[1]

The organizers extend their heartfelt thanks to all of the participants
and concerned parties who made this conference successful

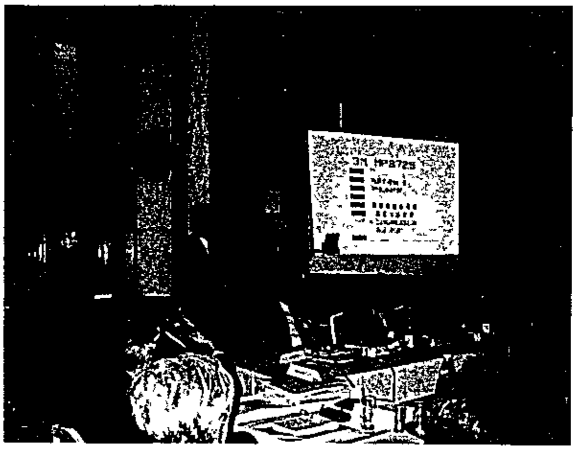


Welcome Address by Japanese Ambassador, Akio Ijuin

Opening Remarks by Shinji Fukukawa

Session

Session



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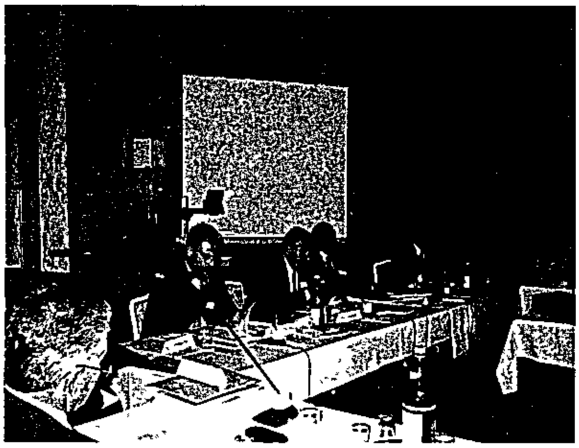
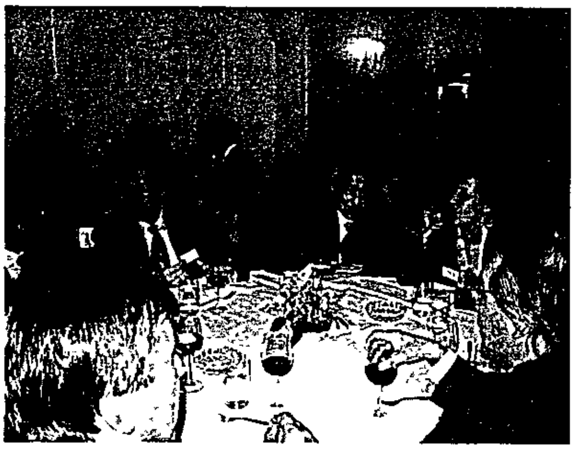
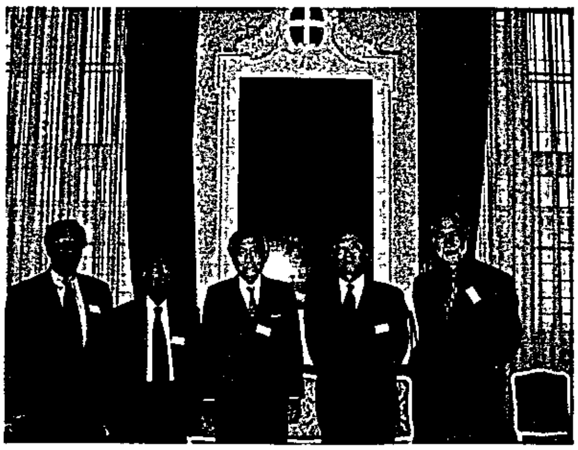




Reception at Japanese Ambassy

Organizing Committee



INTERNATIONAL CONFERENCE ON THE 10-YEAR REVIEW OF TRANSITIONAL ECONOMIES AND CHALLENGES IN THE NEXT DECADE

1. Background

Nearly ten years have passed since former communist countries embarked on their shift to a market economy. These countries have implemented various measures, such as liberalization, administrative reform, acceleration of privatization, promotion of domestic industries, and corporate management reform, on the advice of developed countries. During this limited period of ten years, the direction of their shift to market economies has been set and the change has achieved various results.

Notably, the shift to market economies has produced differences among the countries involved, and not all of them have gained significant benefits. In terms of per capita gross domestic product, their GDP levels are still far below the European average.

It was felt to be now an opportune time to evaluate the economic performance of former communist countries since the start of their shift to market economies, and analyze the factors that made their measures a success or failure, as well as explore the tasks these countries will face in the next decade.

2. Objective

(1) The conference was to focus on international competitiveness, which is an essential element of the economic development in transitional economies. Because, given that similar conferences are executed by many organizations, we have made our conference particular in choosing a subject that had not been covered by other organizations. Second, we wanted to make the best use of the results in terms of formulating our cooperation toward the CEEC in the next decade.

(2) Subjects have covered not only a 10-year review but also future tasks. We have weighted the future prospects, given the objectives above mentioned.

3. Subjects

Session 1	Review of privatization from the viewpoint of corporate competitiveness, management, and development of technology and human resources
Session 2	Business infrastructure from the viewpoint of the private sector
Session 3	FDI policy, advantages and points at issue
Session 4	Promotion of SME
Session 5	Role of government, private sector and private organizations
Session 6	Evaluation of bilateral and multinational cooperation

4. Participants

(1) CEECs
Hungary, Poland, Czech Republic, Slovakia, Romania, and Bulgaria
Observers: Ukraine, Moldova, Bosnia and Herzegovina

(2) International organizations
EBRD, OECD, UNIDO, World Bank

(3) Businesses investing in CEECs
Austrian, German, and Japanese companies

(4) Members from organizing and supporting institutions

5. Organizing and supporting institutions

Japan International Cooperation Agency (JICA)
Japan External Trade Organization (JETRO)
The Vienna Institute for International Economic Studies (WIIW)
Bank Austria
Intellectual Collaboration Group to Promote Market-Oriented Economies (Japan)

6. Organizing Committee

The Organizing Committee was set to discuss the agenda, speakers, and members to be invited. The Committee works closely with WIIW and Bank Austria

Tsuneaki Sato	Prof. Emeritus of Economic Yokohama City University
Yoshiaki Nishimura	Prof. of Economics Institute of Economic Research Hitotsubashi University
Tetsuma Fujikawa	Senior Advisor The Sumitomo Trust & Banking Co, Ltd.
Noriyuki Yonemura	Senior Vice President Fuji Xerox
Masatake Wada	Prof. of Economics Teikyo University
Noboru Toyota	Director Overseas Investment Division Japan External Trade Organization (JETRO)
Masami Fuwa	Director Middle East and Europe Division Japan International Cooperation Agency (JICA)
Ivo Stanek	Director Senior Advisor to the Board
Peter Havlik	Deputy Director The Vienna Institute for International Economic Studies (WIIW)
Ikufumi Tomimoto	Resident Representative JICA Austria Office

AGENDA

DAY 1 Thursday, November 30

Co-Chairpersons: Noriyuki YONEMURA, and Ivo STANEK

13:30-15:00 Opening Address by Co-Chairpersons
Welcome Address by Japanese Ambassador, Akio IJUIN
Opening Remark by Shinji FUKUKAWA
Keynote Speeches
Tsuneaki SATO "A 10-year review of Transitional Economies"
Peter HAVLIK "Enterprise Competition in CEECs"

15:00-15:15 Coffee Break

15:15-17:00 Session 1
Review and Future of Privatization from the Viewpoint of Corporate Competitiveness, Management, Development of Technology, and Human Resources

Session Chairperson: Gabor HUNYA (WIIW)

Presentation 1. Janusz LEWANDOWSKI (POL)
Presentation 2. Ádám TÖRÖK (HUN)
Presentation 3. Kamil JANÁČEK (CZE)

Commentator Yukihiro NIKAIDO (Japan)

Free Discussion

17:00-17:15 Coffee Break

17:15-18:45 Session 2
Business Infrastructure from the Viewpoint of the Private Sector

Session Chairperson: Marianne KAGER (Bank Austria)

Presentation 1. Fumio INOUE
(Matsushita Television Central Europe, Czech)
Presentation 2. Mohammed KADDOURA
(VAE Aktiengesellschaft, Austria)
Presentation 3. Christian DÖRNER (Siemens, Germany)

Free Discussion

19:00 Leave for Japanese Ambassador's Residence (by bus from Altes Rathaus)

19:30-21:00 Reception hosted by Japanese Ambassador Akio IJUIN

21:30 Return to Hotel

DAY 2 Friday, December 1

Co-Chairpersons: Noriyuki YONEMURA and Ivo STANEK

8:30-10:30 Session 3
FDI Policy, Advantages, and Points at Issue

Session Chairperson: Peter HAVLIK (WIIW)

Presentation 1. Miklós SZANYI (HUN)
Presentation 2. Adam PAWALOWICZ (POL)
Presentation 3. Vladimír BENÁČEK (CZE)
Presentation 4. Krassen STANCHEV (BUL)
Presentation 5. Florin BONCIU (ROM)
Presentation 6. Alan SITAR (SVK)

Commentator Gábor HUNYA (WIIW)

	Free Discussion
10:30-10:45	Coffee Break (Press interviews participants)
10:45-12:45	Session 4 Promotion of SMEs Session Chairperson: Noriyuki YONEMURA Presentation 1. Iren PETROUNOVA (BUL) Presentation 2. Ovidiu NICOLESCU (ROM) Presentation 3. Eva HEGEDUS (HUN) Presentation 4. Józef CHMIEL (POL) Commentator: Masayuki KONDO (Japan) Free Discussion
12:45-14:00	Lunch (Courtesy of Bank Austria)
14:00-15:00	Session 5 Roles of Government and Private Sector Session Chairperson: Shinji FUKUKAWA (Intellectual Collaboration Group) Presentation 1. Masatake WADA (Japan) Presentation 2. Valentin PAVEL (ROM) Free Discussion
15:00-15:15	Coffee Break

15 15-17:15	Session 6 Evaluation of Bilateral and Multilateral Cooperation Session Chairperson: Jan MLÁDEK (CZE) Presentation 1. Rika ISHII (EBRD) Presentation 2. André BARSONY (OECD) Presentation 3. Yo MARUNO (UNIDO) Presentation 4. Yasuo IZUMI (IBRD) Presentation 5. Yoshiaki NISHIMURA (Japan) Commentator: Kamil JANÁČEK (CZE) Osamu HAYAKAWA (Japan) Free Discussion
17:15-18:15	Wrap-Up Meeting
18:15	End of Workshop
18:30-19:30	Cocktail Party

LIST OF PARTICIPANTS

CEEC Countries	Name	Title/Organization
HUNGARY	Ádám TÖRÖK	Dean and CEO, Professor of Economics IMC International School of Business Budapest
HUNGARY	Miklós SZANYI	Senior Research Fellow Institute of Economics, Hungarian Academy of Sciences
HUNGARY	Eva HEGEDUS	Assistant State Secretary Ministry of Economic Attairs (was not present, but submitted paper)
HUNGARY	Attila Torok	Head of Department Ministry of Economic Affairs
POLAND	Janusz Autoni LEWANDOWSKI	Vice President Gdansk Institute of Market Economics Member of Parliament, Former Minister of Privatization
POLAND	Adam PAWALOWICZ	President Polish Agency for Foreign Investment
POLAND	Jozef CHMIEL	Deputy Director Research Center for Statistical & Economic Analysis Central Stastical Office
CZECH REPUBLIC	Kamil JANÁČEK	Chief Economist Komercni Banka
CZECH REPUBLIC	Vladmír BENÁČEK	Associate Professor at the Faculty of Social Sciences Charles University; Head of the PhD (Economics) Programme
CZECH REPUBLIC	Jan MLÁDEK	Deputy Minister of Finance
BULGARIA	Krussen STANCHEV	Executive Director Institute for Market Economics
BULGARIA	Iren PETROUNOVA	Chief Person SME Agency
ROMANIA	Florin BONCIU	Director National Agency for Regional Development
ROMANIA	Ovidiu NICOLESCU	President National Council of Romanian SME
ROMANIA	Valentin PAVEL	Director of Asia and Oceania Division Ministry of Industry and Commerce
SLOVAK REPUBLIC	Alan SITAR	Advisor to the Prime Minster Office of the Government of Slovakia
SLOVAK REPUBLIC	Marek JAKOBY	Senior Economist Independent Center for Economic and Social Analysis
MOLDOVA	Iurii PINZARU	Economic Advisor to the President
UKRAINE	Igor SHUMYLO	Deputy Minister, Ministry of Economy
BOSNIA AND HERZEGOVINA	Dragoljub STOJANOV	Professor of Economic, University of Sarajevo

INTERNATIONAL ORGANIZATIONS

EBRD	Rika ISHII	Economist, Office of the Chief Economist
OECD	André BARSONY	Deputy Director, Centre for Co-operation with non-member Countries
UNIDO	Yo MARUNO	Duputy Director General and Managing Director, Investment Promotion and Institutional Capacity-Building Division

World Bank	Yasuo IZUMI	Sector Manager, Private & Financial Sector Development, Europe and Central Asia, The World Bank

COMPANIES OPERATING IN CEECs

Japan	Fumio INOUE	Managing Director, Matsushita Television Central Europe, s.r.o.
Austria	Mohammed KADDOURA	Director, VAE Aktiengesellshaft
Germany	Christian DÖRNER	International Relations, Siemens

COOPERATING COMPANIES

WIIW	Peter HAVLIK	Deputy Director
WIIW	Gábor HUNYA	Senior Economist
WIIW	Magdalena HÖLLHUBER	Managing Assistant
WIIW	Veronika JANYROVA	Assistant
Bank Austria	Ivo STANEK	Director, Senior Advisor to the Board
Bank Austria	Marianne KAGER	Chief Economist
IBD-BA	Friedrich Edlinger	Deputy Managing Director, IBD-BA Consulting

JAPAN

	Akio IJUIN	Ambassador to Austria
	Shinji FUKUKAWA	Chairman, Inellecturl Collaboration Group to Promote Market-Oriented Economies
	Noriyuki YONEMURA	Senior Vice President, Fuji Xerox Co. Ltd.
	Tsuneaki SATO	Professor Emeritus of Economics, Yokohama City University
	Yoshiaki NISHIMURA	Professor, Institute of Economic Research, Hitotsubashi University
	Masatake WADA	Professor, Teikyo University School of Economics
	Masayuki KONDO	Professor, Kochi University of Technology
	Yukihiro NIKAIDO	Director, Technical Cooperation Division, Economic Cooperation Bureau, Ministry of Foreign Affairs
	Osamu HAYAKAWA	Deputy Director, Central and Eastern Europe Division, Ministry of Foreign Affairs
	Ikufumi TOMIMOTO	Resident Representative, JICA Austria Office
	Izumi TANAKA	Deputy Director, Middle East and Europe Division, JICA
	Shinichi OZEKI	General Director, JETRO Vienna
	Hiroshi KAZUI	Deputy Director General, JETRO Vienna
	Masakazu TACHIKAWA	Director, JETRO Vienna
	Dai UEDA	Director, JETRO Vienna
	Toshimasa TAKASHIMA	Resident Representative, JICA/JOCV Hungary Office
	Yoshio KOYAMA	JICA Expert in SME Promotion Policy, Hungary
	Masahiro NAKAI	Assistant Resident Representative, JICA Austria Office
	Akiko NANAMI	Assistant Resident Representative, JICA Austria Office
	Fumiko INOUE	Officer, JICA Austria Office
	Yasuaki AIHARA	Project Formulation Advisor, JICA Austria Office

OBSERVERS

UKRAINE	Sophia MATEICHUK	Assistant to Deputy Minister, Ministry of Economy
UKRAINE	Paul BRUNING (USA)	Treasury Advisor, Ministry of Economy
JAPAN	Hirohiko SEKIYA	Senior Consultant, Daiwa Institute of Research Ltd.
JAPAN	Hajimu WATANABE	Managing Director, Research Institute of Central Eastern Culture
JAPAN	Junichi HASEGAWA	Deputy Director General, Development Assistance Strategy Department, Japan Bank for International Cooperation
JAPAN	Hiroshi TOGO	Director, Development Assistant Department III, Japan Bank for International Cooperation
JAPAN	Isamu MOMOZUMI	Fellow, the German Institute for Economic Research in Berlin, Professor, Komzawa University

Discussion Recording

Discussion Recording

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REMARKS:

This transcription was made based on the Conference recordings. Words and names in bold were difficult to understand and may be incorrect. Dots were used when an entire phrase was unclear. When a speaker missed a word during the lecture, the word was added in parentheses. Participants, who did not introduce themselves, or their name could not be made out have been designated "Unknown".

Transcribed by
Valentin Marinov, BUL
Veronika Petrova, BUL

Opening Remarks

Mr. H.E.Akio Ijuin

Embassy of Japan
Japan

Mr. Shinji Fukukawa

Chairman
Intellectual Collaboration Group
Japan

Mr. Noriyuki Yonemura: Ambassador Ijuin, ladies and gentlemen, it is my great pleasure to be able to hold this conference entitled 'A 10-Year Review of Transitional Economy and the Challenges in the Next Decade". I am Yonemura, I communicated with some of (you) already. I am a member of the Japanese Intellectual Collaboration Group, (which) promotes the transitional economies to (market economy). I should have said more (about the) group, but time is limited. Please refer to our paper, which will be distributed, over there. Anyway, our group is (an) Interaction Voluntary Group, all of us are quite

On behalf of the organisers, first of all, I would like to express my deepest thanks (to) all of you who (are) participating in this conference and, particularly, (to those) who have prepared their papers beforehand. I am very pleased. Secondly, also, I am pleasured to have so many observers among us. Please feel free to intervene in the discussion. We welcome your comments and questions. Thirdly, I want to express my thanks to our co-organisers – JICA, JETRO, WIIW, (the) Vienna Institute for International Economic Studies, and Bank Austria – for your tremendous efforts to make this conference possible.

With regard to the procedure, I would like to ask you some, a couple of things. First of all, fortunately, we have some 25 papers for this afternoon and tomorrow, so please keep your time for your presentation (to) 15 minutes or 20 minutes. That depends on the number of the speakers in the session. We want to have at least half an hour (of) free discussion time in each session. So, please keep (your) time strictly. And also the/our timetable may slightly change, because the number of speakers has changed. So we have to/need another half an hour (of) time, particularly that session on the FDI policy and also the last two sessions on Multilateral Cooperation where, fortunately, we have so many good speakers. So we need another half hour with that. But (the) Session Chairman will guide it. And (the) second thing is that we have no particular interaction time, so please refer to the personal history, which will be distributed also. The time is limited.

Thirdly, I have to ask (for) your permission. The conference is itself a closed one, but I hear that some press people are interested in our conference. So, with your permission, we will allow them to come in during the coffee time, and they may ask something about the conference itself. So please accept this.

And, another thing is that if they are interested in the papers you have prepared. Is there an inconvenience to deliver it to the press? If so, please let me know. But if not, distribute the papers to the press when asked, if asked.

These are all the things that I wanted to say in the opening. Now, I would like to thank Mr. Stanek, the Bank Austria Co-Chairman of the conference. Bank Austria kindly provided us with this wonderful conference room and other services also.

I would like Mr. Stanek to say something.

Mr. Ivo Stanek: Your Excellency, Mr. Fukukawa, a welcome to you. And, ladies and gentlemen, I also welcome you as your host for the two-day workshop. Bank Austria is very glad and honoured that you have chosen Vienna and our bank as a partner for this very important event. And we are extremely happy that it is an event on Central and Eastern Europe. I believe (that) at this moment the enlargement of the European Union is one of the most important facts and events for the next century. I believe that anything that can be done to advocate this enlargement, to assist it, and to create an understanding for the problems and the challenges and the opportunities, anything that can be done in this respect, has to be assisted and done as soon as possible.

I think such a workshop is such an event where the understanding between experts and the discussion of important topics will lead to a better development of the economic situation of the whole region and will affect, naturally, also the economy of the world.

Again, thank you very much for coming. I hope and I wish that this event will be a successful one and, hopefully, not the last one (to) take place here in Vienna. Thank you very much.

/applause/

Mr. Noriyuki Yonemura: Thank you Mr. Stanek. Now, I would ask the Japanese Ambassador to Austria, Mr. Ijuin, to say (some) welcoming remarks. Ambassador Ijuin joined the Ministry of Foreign Affairs in 1964. Just before coming to Austria, Ambassador Ijuin served as Vice-President of JICA, so he is quite familiar with the technical cooperation, including this region. (The) Ambassador has also kindly invited us tonight (to) his residence. Ambassador Ijuin, please.

Mr. Akio Ijuin, Japan
Welcome Address

Japanese Ambassador Mr. Akio Ijuin: Excellencies, distinguished participants from the business and academic communities, representatives of international organisations, ladies and gentlemen, it is a great honour for me to have the opportunity to welcome you to this conference today.

Since the fall of the Berlin wall in 1989, the Central and Eastern European Countries have been making strenuous efforts to consolidate market-oriented economies within a democratic framework. For this purpose, various measures had been implemented such as market liberalisation, administrative reform, acceleration of privatisation, promotion of domestic industries, and corporate management reform.

Japan has played a role in supporting the transition efforts in the region. Japanese direct investment in Central and Eastern Europe already amounted to about 1.7 billion U.S. dollars at the end of 1999, and it is expected to increase with (the) improvement of business conditions there. The Japan International Cooperation Agency, JICA, has invited more than 3,000 trainees from Central and Eastern European Countries and sent more than 600 experts there in the framework of Official Technical Cooperation since 1988. In addition, The Japan External Trade Organization, JETRO, has organised a number of business seminars to promote investment in this region and trade fairs to increase Central and Eastern European exports to Japan JICA and JETRO are the co-organisers of today's conference With the efforts in the Central and Eastern European Countries supported by the international community, much has been done to promote the economies in transition.

Most of the countries in this region now enjoy good rates of economic growth with inflation more or less under control. The consistently rapid economic growth seen in some countries is steadily closing the gap between Eastern and Western living standards. However, the processes and methods of transition differ from country to country. So too do the objectives of the measures of success achieved so far. Every country suffers, to some extent, from (the) growing disparity between rich and poor, including the unemployed, the low-skilled, and the elderly. I believe that it is very important and useful to review the transition process of the past decade in order to utilize this experience for the next decade. For this reason, I am pleased that this conference is taking place in Vienna, the city most closely linked to Central and Eastern European Countries. The participants here today represent both the public and private sectors, academic fora from the Central and Eastern European countries, and various international organisations and companies that have played a significant role in this region.

Ladies and gentlemen, I am very grateful to the Vienna Institute for International Economic Studies, which is one of the leading research institutions in this region, Bank Austria, which is very active in Central and Eastern Europe, and the Intellectual Collaboration Group to Promote Market Oriented Economies, all of which host today's conference together with The Japan International Cooperation Agency, JICA, and the Japan External Trade Organization, JETRO. I hope that the fruitful discussions at this conference, which will surely draw intellectual and international attention, will facilitate the process of transition in the next decade. Thank you very much for your attention.

/applause/

Mr. Noriyuki Yonemura: Thank you very much Ambassador Ijuin. Now, I turn to ask Mr. Fukukawa to say the opening remarks. Mr. Fukukawa is former deputy minister of International Trade and Industry, and now he is Chief Executive Officer of (the) Denzu Institute for Human Studies and head of the Managing Committee of our Intellectual Collaboration Group. Mr. Fukukawa, please.

Mr. Shinji Fukukawa, Japan
Opening Remarks

Mr. Shinji Fukukawa: Your Excellencies, Doctor Peter Havlik and ladies and gentlemen, I am very pleased that I am able to hold this international conference on the 'Review of Transitional Performance of Central and Eastern European Countries and the Challenge in the Next Decade' in this very traditional and historical building. And, first of all, together with other co-sponsoring institutions - the Bank Austria, the Vienna (Institute for) International Economic Studies, JICA, and JETRO - (to thank you) that you (have) kindly (come to) attend this conference and, well, share your expertise with other participants in this conference.

Well, ladies and gentlemen, 10 years have passed since former communist countries embarked on their shift to the market economy. They implemented various measures necessary for establishing market economy in view of achieving better economic performance. However, the shift to market economy has created differences among (the) countries involved. Some of them have reaped considerable benefits, but others are still suffering from the(ir) weak inactive economic performance.

Well, I believe that it is an appropriate time to evaluate the economic performance of the former communist countries (on their road) towards market economy, to analyse various factors that have made their policies a success or a failure, and to evaluate the assistance and advice provided by experienced countries and the international organisations. These studies, I believe, will certainly provide valuable tools for other former communist countries to set up strategies (and meet the) challenge(s) of the next decade.

I personally visited East and Central European countries in September 1989 when changes in political and economic terms started to emerge. I was strongly impressed by the increasing dynamism and enthusiasm of the people to challenge the change and the exchange with the West. I noticed that, since the collapse of the Berlin wall, the tide of globalisation has been emerging in the world including Central and Eastern European countries and it may develop to the main concept of the new world order.

I would define globalisation as a trend in which goods, capital, technologies, and information can move freely in the world and the world order is maintained by the joint responsibility of the major countries. Globalisation, in economic terms, appears in the interdependence of the economic activity triggered by (the) common acknowledgement of free trade and the market mechanism. The information technologies revolution, the IT revolution, which is currently advancing worldwide, will also certainly encourage the networking of business operations, because IT can make businesses transcend the barriers of time, distance, and place. And foreign direct investment as well as mergers and acquisitions and business alliances have expanded remarkably across borders. (The) world trade system supported by WTO and the international monetary and financial system, including IMF, World Bank, and EBRD depend on (the) joint responsibility and joint management of major countries. Environmental protection has become (a) common concern for all the countries in the world. Necessarily, assistance to developing countries is widely recognized

Globalisation in political terms can be observed in (the) comprehensive and integrated security system and common values of democracy. The United Nations is theoretically the central organ of (a) comprehensive and integrated security system. And practically, regional and bilateral security arrangements such as (the) NATO and US/Japan Security Treaty may play a significant role in maintaining the stability in the relevant regions. Democracy is rooted in almost all countries of the world. Sharing the common values of democracy may, will create mutual trust, which is the basis for peace and stability in the world.

Globalisation, in social terms, can be recognized in the sense of respect for humanity and culture. I believe that as economic and political globalisation advances, people will realise the importance of human rights and cultural identity. Poverty is a common concern of the world. New communication tools may possibly facilitate an intensive exchange among the different cultures. This we may advance (the ability of) cross-cultural management to higher dimensions.

Considering the trend of globalisation in those terms, I would conclude that (the) driving force of globalisation is (the) common value of respect for economy and culture rather than for military power and politics, and the IT revolution, which may link the various players and places in the world.

Well, I believe that the most important factor for sustainable economic growth in former communist countries is the dynamism of private enterprise. And, therefore, I strongly believe that, I think it is quite important to make clear whether private enterprises have grown to be sufficiently competitive internationally and whether (a) socio-economic environment has been created (to) stimulate the dynamism of private enterprise.

Considering this trend (and) since simultaneous review conferences are being held by many organisations and academics, I think it is better to focus on the subject 'Creating a Competitive Industry'. From this viewpoint, in close cooperation with Doctor Havlik, the Vienna Institute for International Economic Studies, we chose six items, six agendas for the conference. The first one is the 'Review of Privatisation from (the) Viewpoint of Corporate Competitiveness, Management, Development of Technology, and Human Resources'. The second is 'Business Infrastructure from the Viewpoint of the Private Sector'. Thirdly, 'The Implications of Foreign Direct Investment and Evaluation of Foreign Direct Investment and Other Related Issues'. And, fourthly, 'The Promotion of Small- and Medium-Scale Enterprises', which may provide many good job opportunities and sometimes act as **bad job** businesses. And, fifth, 'The Role of the Government', including management of (the) macro economy, competition policy and promotion of domestic industries, and the relation between the government and private sector. And, sixthly, 'The Evaluation of Bilateral and Multilateral Cooperation in Central and Eastern European Countries'.

Well, reflecting (on) our experience in the last 10 years, Japan was rather less positive in providing assistance to Central and Eastern European Countries. But, gradually, the Japanese government is now changing to provide assistance to those countries as support to medium- and the small-scale enterprises, implementation of industrial policies and export promotion, and environmental protection.

And, also recently, the Japanese companies have been paying much interest to the Central and East European Countries, recognizing the potentiality of this area. And, recently, I heard that the embassies of Central and Eastern European Countries are now very busy answering business inquiries from medium- and the small-scale enterprises in Japan. And, so, also in this respect, I think the time is good to analyse the evaluation of the assistance of advanced countries and Japan as well.

This time we intend to (concentrate on) six agendas, mainly on six countries, namely Hungary, Poland, Czech Republic, Romania, Bulgaria, and Slovakia. Very fortunately, we were able to invite top-class experts from government, academia, think tanks, and industrial organisations in those countries as well as related officials of EBRD, OECD, (the) World Bank, and UNIDO and industrialists from Austria, Germany, and Japan. I strongly expect that (a) wide range of analyses will be provided at this conference and (that an) interactive exchange of viewpoints, exchange of views, and ideas will be undertaken at this conference.

With the strong support of all of you who are participating in the conference, we are planning to publish a book comprising the papers presented as well as the discussions held here today and tomorrow, with the hope that the conference, that achievements of the conference may contribute to creating a future strategy for (the) economic development of Central and Eastern European Countries. This is the very first attempt for us to discuss the most relevant issues for the further development of the transitional economies, where the participants from government, academia, and industry can exchange views openly and frankly in a very informal manner. If all of you consider this conference informative and meaningful for the creation of an economic strategy in the future, we would like to consider continuing this type of dialogue in one way or another.

I strongly expect together with (the) other co-organisers Bank Austria, the Vienna (Institute for) International Economic Studies, JICA, and JETRO that the two-day conference will produce forward-looking results allowing Central and Eastern European Countries (to) catch up (with) the trend of globalisation. Thank you very much, for your attention.

/applause/

Mr. Noriyuki Yonemura: Thank you very much Mr. Fukukawa. Now, I would like to add one thing. This time we also invited the three country representatives from Ukraine and Moldavia and Bosnia Herzegovina. Professor? Oh, you are over there. Please feel free to join the discussion. Thank you very much.

Now, I would like to proceed with (the) keynote speeches. We have two keynote speeches in the opening session. The first speaker is Professor Sato. Professor Sato is Professor Emeritus of Economics at Yokohama City University in Japan. He is quite active in this field throughout the world. He is quite well known in your countries, I think. Please sit down.

Keynote Speeches

Mr. Tsuneaki Sato

Em. Professor of Economics,
Aokohama City University
Japan

Mr. Peter Havlik

Deputy Director
The Vienna Institute for International Economic Studies
Austria

Mr. Tsuneaki Sato, Japan

A 10-Year Review of Transitional Economies: Some Lessons

Mr. Tsuneaki Sato: Thank very much Your Honour, Chairman. Your Excellency, distinguished guests, participants from both (the) academic and business world, as a member of the Interaction Group, which Mr. Yonemura mentioned at the outset of his opening speech, I am very much honoured to give my presentation at the very outset of this very interesting conference. Now, we are standing at the threshold of two centuries. And, looking back at the past 10 years, the first impression, which comes to my mind, is that although the .... days were over - (they) are now seemingly (over) - people in this region are now trying to enjoy some fruits of the achievement of the transition. But, still it is a very difficult problem to assess, evaluate the past ten years. For so many people have written with a title or a subtitle 'Ten years after'. This assessment, evaluation depends greatly on the perspective from which you see the past and look forward to the future. In this sense, some participants might consider my presentation too much influenced by (the) Japanese perspective, but I would be happy to do it in order to stimulate a fruitful discussion.

First, so, the assessment, evaluation of the last 10 years is a very controversial one. During the course of the ten-year-old transition, we can see at least three groups that can be differentiated from each other. First, (the) former Soviet Union countries within the so-called CIS, and then the front-runner countries where the transition has proven to be rather successful, at least in relative terms it has been rather successful. But still, most people, many on-the-street people are far from enjoying the fruits of the transition, which sometimes finds expression in the alternation of governments. With every election, almost all governments have changed, and, quite recently, we saw the developments in Romania, and also perhaps in the next election in Poland and Hungary the government will be changed again. In Poland, the Alliance of the Democratic Left will return to the government and in Hungary the socialists will again get the upper hand. Developments in Czech Republic have another direction, but this development is (a) kind of expression of the fact that many people do not find the present situation so satisfactory. This is my first impression. And also, there are South Eastern European Countries where the transition situation is much more complicated, and I will touch upon the problem in my presentation. But a recipe for (the) economic liberalisation of these countries would require other alternatives.

First, in my paper, I enumerated several messages with the title 'Missing Links'. Oh, only ten minutes, almost all fifteen minutes are gone.

Mr. Noriyuki Yonemura: Twenty minutes in total.

Mr. Tsuneaki Sato: Twenty minutes in total, yes. So I will read no more than 10 minutes. First, in missing link number one, I mentioned the dilemma or contradiction between systemic transformation versus economic growth. I defined the transformation process, which developed in the last decade, as a kind of 'resumption' of capitalist development in this region. As latecomers in the capitalist development, these countries have been trying to modernize and industrialize themselves already before the war **as well as** (during) the second half of (the) 1960s or 70s. But, they were not so successful with this path of development, and then, they tried to modernize their economy in the framework of state socialism, which failed completely. But the political framework itself was destroyed just ten years ago in the course of the so-called Eastern European revolution. Now the 'resumption' of the capitalist development has begun under the slogan of transition to a market economy. Still the transformation itself is very much welcomed. But still, this systemic transformation itself cannot solve the problem of modernization, the historic task of catching up with the developed West.

As the very famous economic historian of Eastern Europe, Professor Ivan Berend, said in his latest paper, 'In order to catch up with the developed West, under the current differentials of economic growth of Central and Eastern European Countries and the low income group of the EU countries, catching up will require on average 30 years.

So, I see the most important problem facing these countries as (a) kind of dual task - systemic transformation plus catching up with economic growth. How to solve the catching-up problem, is (a) most serious (issue), together with the systemic transformation.

And, secondly, we have learned from our experience and also from the experience of East Asian countries. And now, we have learned the importance of the (following) problem: optimal sequencing of liberalisation, which is a very complicated problem. But still, that some kind of sequencing of liberalisation is badly needed was proven by the experience of (the) East Asian financial crisis and (by the) financial crisis in Czech Republic in 1997, which drastically changed (the) Western views of the performance of Czech Republic. I am not saying this since I can look back at the developments, but this is the second message.

And thirdly, I am very much in favour of a notion of gradual and organic development as far as ownership transfer is concerned. Janos Kornai called it organic development, organic strategy. Organic development in my paper shows that privatisation carried out in (the) 1980s in some advanced capitalist countries is quite different from the privatisation in East European countries. In the case of advanced countries, the economies dominated by (a) dynamic private sector as well as the stage setting, namely infrastructure of market economy, was already existent. So the problem was that only a small portion of (the) inefficient public sector was to be introduced into this framework – it was not too difficult. But it was quite different in (the) East European countries. But in spite of these differences in the privatisation of the enormous state-owned sector, a certain degree of 'ownership obsession' took the upper hand in these countries. It was only a formal change of ownership without ownership reforms, while leaving aside the most crucial problem of corporate governance and management problems. We, from (the) Japanese perspective, (think that) (the) most important aspect of management aspect is privatisation. It is my third message.

And forth, closely connected with this, is (the) role of (the) state. As I said just earlier, the very factors East European countries face are the dual task – the problems of systemic transformation and catching up - it means that the role of government, the role of state is much more active than in the mature market economies. This is my message (number) four.

And also, (my) fifth message - I do not have enough time to touch upon this problem – 'EU accession'. We could say that the East European countries are prepared for this factor. Quite recently, negative messages were heard from (the) EU side, Bundesbank President, and so on and so on.

Sixth, is the problem of those South Eastern European countries, which have been rather left (in the cold), those that do not take part in the success stories and might need a rather different recipe I mean the so-called 'Holy Trinity' – liberalisation, macroeconomic stabilisation plus privatisation. Such a 'Holy Trinity' recipe cannot work in this region So, I am not sure I have any recipe, but I hope we will (now) come to a point where we shall pay more attention to this region.

Seventh, the last message is quite evident – 'Transition is not over'. And, I think that we (have) finally arrived at a more realistic and comprehensible understanding, that the transition process is much more complicated and (that) transformation is very difficult. In the days ahead, we hope to realise that the process of institutional and, most importantly, evolutionary development will be more important than before, during the last decade. Thank you so much.

/applause/

Mr. Noriyuki Yonemura: Thank you very much Professor Sato. Professor Sato raised quite stimulating points. Probably, you may have a lot of question. I would like to ask Doctor Havlik to make a keynote speech. Please no interruption.

Mr. Peter Havlik, Austria
Competitiveness of CEEC's Industry

Mr. Peter Havlik: Excellencies, ladies and gentlemen, let me first thank you on behalf of the Vienna Institute for International Economic Studies that we were asked to help in organising this very interesting conference. I am personally very happy to have the opportunity to present here parts of the research that is currently being done at the Vienna Institute for International Economic Studies. I will be more specific than Professor Sato. That means that I will try to show you some facts (to illustrate) what really happened, as far as we were able to observe. I would like to illustrate what has happened in (the) industry of Central and Eastern Europe over the last decade, how the structures have changed, and where the emerging competitiveness of these countries may lie as they increasingly integrate into European Union.

Before, let us say in more detail, I would like to show you some data about the recent development of industrial production. So, you have here the numbers for the last three years, including the current year and for some countries the forecast for next year. What you can see (in) these numbers is that at the moment, in the year 2000, all Central and Eastern European countries, candidates for membership in the European Union, are enjoying growth in industrial output. For the first time, all transition countries have been growing over the last decade. This was never the case (before). There were always some countries that grew while others fell behind. So this is a very encouraging development. We would get (the same picture) for countries of the former Soviet Union and the countries of the Commonwealth of Independent States. Here also, nearly all of them have been enjoying growth of industrial output (this year). So this is something, a very encouraging sign. However, one has to take (that) into account after a decade of change.

And if you look at the last column of the table, here you have the estimated index of the industrial output this year, this year compared to ten years ago – 1990. And you can see there are only two countries, namely Hungary and Poland that now produce more industrial goods than they used to ten years ago. And in all the remaining Central and Eastern European Countries, including the Baltic States - we do not only have the precise data for (the) Baltic for the first period of (the) 1990s - but one can safely say that industrial production in the Baltic is now about 40 percent lower than it used to be ten years ago. So, these are the numbers. Of course, one has to add that the structure of industrial production is completely different now. The conditions under which the industries in these economies operate are completely different. We now have market economy, more or less. These economies are open. To a large degree they produce for exports. Exports to the European Union play a very important role. Between 40 to 70 percent of manufacturing industry trade is being conducted with (the) European Union. This shows that these countries have to be competitive somehow, because otherwise they would not be able to sell these products on the Western market. But, nevertheless, this is something, which has to be kept in mind, if we talk about (the) economic situation of the region and the situation of industry in particular.

I will now focus on a part of industry, the most significant part, namely on the manufacturing industry. And we will show you some dimension of structural change, which has occurred during the last decade. Here the data apply only to seven Central and Eastern European Countries, but the picture is similar for other (countries) as well. There are several messages from this. First of all, you can see that nearly everywhere, at the beginning of the transition period until about 1993, there was a huge decline in industrial output, both in absolute and relative terms. One has to take into account that (the) GDP in these countries declined during the first period as well. That means that if the relative share of manufacturing declined, industry declined even more than the GDP. So this was the general situation in the first period of transition.

In the second period - after 1993 - and we call this more recent period a period of active restructuring, when (the) privatisation process was under way, when investments had recovered, and when there was already some positive response to all these changes. So afterwards, in the second period, several Central and Eastern European Countries managed to recover at least part of the loss in manufacturing industry output and the share of manufacturing increased again. So you can see this in Czech Republic, in Hungary and in the Slovak Republic as well. In all other transition countries, there was a continuous decline in the significance of manufacturing.

Well, these production numbers were affected by different factors, most importantly by changes in relative prices. So, perhaps (we get) a more correct or additional picture if we look at the importance of manufacturing industry employment in total employment. And we can see a very similar picture, namely a declining manufacturing share as a provider of jobs. The sole exception is Hungary, which managed to keep the relative significance of manufacturing jobs approximately constant during the whole decade. And indeed, in recent years we have observed even a growth of jobs created by the manufacturing industry in Hungary. I will come to this phenomenon later. But in all other transition countries, we can still observe a declining manufacturing share as a provider of jobs. But, nevertheless, (the) manufacturing industry is still a very important sector for these countries. It provides between 20 to 30 percent of (the) jobs in the whole economy, in each of these countries.

So, this was an overall picture of manufacturing. If we now look at, or if we compare the changes in production and changes in employment, then these different changes have translated of course into different improvements or losses in labour productivity. So, on this graph, you see first this red spider, (which) shows the 1999 index of manufacturing output compared to 1993. And you can see that in most countries there was an increase in manufacturing production, the most significant in Hungary, followed by Poland. In Hungary, manufacturing production nearly doubled between 1999 and 1993, in Poland it grew by 70 percent.

If you look at what happened with employment, this is the blue part of the spider, we can see that employment continued to decline everywhere. The only exception is perhaps Poland where it remained nearly constant. So, you can see that an expanding production in most cases continued (hand in hand with) decreasing employment and this, of course, means that productivity increased, labour productivity. So, if we compare these two parts of the spider, the difference between the red and blue part is a rough estimate of the productivity increase. And in Hungary, labour productivity in manufacturing nearly doubled during this period, in Poland it grew by about 70 percent. There were less impressive improvements in Czech Republic, in Slovakia and Slovenia, and, in Romania and Bulgaria, there were very slow productivity improvements.

So, I will now proceed a little bit faster, and I will look into different branches of (the) manufacturing industry because, of course, behind these overall changes you have enormous restructuring going on. Some branches were losing, others were gaining. And I will be using these abbreviations in the later presentation only, which are international codes for the manufacturing industry and you have the explanations in Table 1 in my paper. And I would like to focus mainly on two groups of industries: the first one – food, textiles, leather – mostly labour-intensive, traditional, low-skill, less sophisticated branches and the second part of manufacturing – machinery and equipment, electrical and optical equipment, transport equipment are more sophisticated, less labour-intensive branches. And there are very interesting differences in the development of different groups of industries, and I will illustrate part of this briefly.

So, let us first look at the international comparison of labour productivity with Western Europe. We have Germany and Austria as a basis here. Labour productivity in Germany and Austria in manufacturing is nearly the same. And data in this detail are available only for three transition countries. The methodology of these estimates is rather complicated - it compares individual branches. But, briefly, (here are) two messages – labour productivity makes for between 35 and 45 percent of Germany's labour productivity in manufacturing totals, even less in the individual branches. But, there are some branches where you can see much better productivity performances in some countries. So, DH is (the) rubber and plastic industries in Poland, and then we have (the) electrical and optical equipment industry in Hungary, and, of course, (the) transport equipment industry, car production in Hungary. Labour productivity according to these estimates is nearly equal to what German or Austrian enterprises achieve. One could say 'no wonder!' - (the) transport equipment industry in Hungary is fully foreign-owned, more or less.

Ok. There is a very interesting and differentiated performance in labour productivity gains in the individual branches, gains or losses. So here, what you see here in these red numbers are annual average changes in labour productivity over the period (between) 1993 and 1999 in total manufacturing. And individual bars in the graph show relative changes in the individual branches. If this number is negative, it means that this branch lost in productivity in relative terms and if these numbers are positive then there were gains. And again, broadly speaking, one can identify two groups of industries – the first group, which lost in productivity in relative terms, and then the second group of industries, which gained a lot. So this is a pattern we can observe not only in terms of productivity changes, but we can observe a similar pattern, if we analyse foreign trade performance, trade specialization, and so on. So I just wanted to show you how the different industrial branches perform.

Of course, the different performance of industry in different countries and different branches is related to the activity of foreign investors. There will be a specific section on this issue, but I will just summarize the most recent developments and mention just a few general points.

First of all, from the total stock of cumulative FDI inflows to Central and Eastern Europe, including Russia and Ukraine, amounting to more than 100 billion USD until the end of 1999, 27 percent went to Poland, another 16 percent to Czech Republic, Russia, about 19 percent, about the same as to Hungary. If you compare the size of both countries, you already have an idea of the difference in the importance of foreign direct investments in Hungary compared to (that in) Russia, for instance. And all remaining Central and Eastern European Countries got less than 20 of the total. That means that inflowing foreign direct investments are highly concentrated in several countries, and we shall have the opportunity to talk about this later. If we look at the most recent inflow figures for the year 1999, again more than 20 billion USD into this region. Of this sum, more than 13 billion went to Poland, 24 percent to Czech Republic, 16 percent to Russia, and so on. The concentration remains. Some countries have been catching up by attracting foreign direct investments, especially Poland and Czech Republic recently. And again, we shall talk more about the reasons for these developments later.

Coming back to the manufacturing industry and looking at the significance of FDI in manufacturing, one can use FDI stocks per employee as one of the indicators. The latest year for which data was available is 1998. And again, briefly, we have data only for these five countries at the moment. Two messages – first the cumulative FDI stocks in manufacturing total in Czech Republic, Hungary, (and) Poland amount to more than 5000 dollar per employee in manufacturing. Then, there is a big difference across individual branches as far as the penetration by foreign direct investment is concerned. So we have some branches, which are much less penetrated and others much more, and apparently this relates to factors like attractiveness of different branches, market prospects, privatisation policies, and so on.

But, this varied penetration of foreign investment according to branch (of industry), of course, somehow affects the performance of individual industries and we are doing quite extensive research into the reasons behind FDIs and the impacts of FDIs. So, most of our findings show that there are positive impacts - I wouldn't say that foreign direct investments are (a) panacea for saving an industry or a country, but definitely we find that the impacts are positive.

And I would just like to illustrate this very briefly using two simple regressions. The first regression shows a relationship between productivity improvement over the period (between) 1998 and 1993 and the FDI stock per employee in different branches of manufacturing. And there is a statistically significant positive relationship between these two indicators, showing that the more FDI there is in a branch, the higher the productivity improvement. These two outliers are electrical and optical equipment in Hungary and transport equipment in Hungary. You can see that productivity has grown more than four times in both these industries during this period with high above-average foreign penetration.

The second indicator, which can be used as an illustration, is some change in costs. This is (the) unit labour cost change, again in the period 1999 – 1993 and the relationship between this and the FDI stock per employee. And here you can again see a statistically significant, clearly negative influence or relationship. Namely, the more FDIs in a branch, the less the increase of unit labour cost. This means, basically, that cost efficiency has improved in enterprises with more FDI than, let us say, the average.

Although this is a brief introduction, perhaps also for the second part of our seminar when we shall talk about the impacts of FDIs, these are part of our research results. And indeed, one can see that there are substantial changes in the performance of individual branches. Restructuring has been progressing at different speeds in individual countries. But, we shall have more time to discuss these issues during this seminar. Thank you for your attention.

/applause/

Mr. Noriyuki Yonemura: Well, thank you very much Doctor Havlik for your very precise explanations. Now we have around twenty minutes before our coffee break. Now it is question time. Please, any questions or comments.

Questions, comments

Mr. Dragoljub Stojanov: May I raise one.

Mr. Noriyuki Yonemura: Yes please.

Mr. Dragoljub Stojanov: Thank you very much for (the) possibility.

Mr. Noriyuki Yonemura: **(The)** microphone is always on, so you do not have to push a button.

Mr. Peter Havlik: But, if you could please introduce yourself.

Mr. Dragoljub Stojanov: I will. So, what I would like to say in the beginning is just to thank you for the possibility to be here with you, to join you, and discuss with you. And now, let me present myself. I am Mr. Stojanov **Metichke** from (the) Faculty of Economics in Sarajevo. Having some international experience, like last year, teaching at Boston College and so on and so on. But just because I would like to ask two questions - one to the distinguished Professor Sato and one to the distinguished colleague Havlik. May I start (by) just saying some very few interesting remarks about Bosnia as the country I am coming from and my city Sarajevo. In the city of Sarajevo, at the moment, there are five extremely huge supermarkets and department stores. (The) next one is coming, Benton is coming next month. We have highly stable prices, (the) inflation rate is almost zero – 1 percent, less than 1 percent. We have a convertible currency. We have a balanced budget. But at the same time we have an unemployment rate approaching 50 percent, not 15, 50 percent.

Mr. Noriyuki Yonemura: Five zero.

Mr. Dragoljub Stojanov: Yes, five zero. At the same time, we have an ever-increasing balance of payments deficit and foreign debt. So, the question is – are we a stable economy? Are we successful in our macroeconomic management or are we (an) unstable economy? I would say that we are (an) extremely unstable economy with completely and extremely unsustainable development possibilities. So, I agree completely with Professor Sato. What I was saying from the very beginning, having been **a minister in government** two times so far, is that we need different alternative development strategies for Bosnia and Herzegovina, I would like to say for Croatia, and now for Serbia and for Macedonia too.

For South Eastern European Countries, we need a strategy that is much more oriented toward economic growth than toward macroeconomic stability, toward, may I say so, so-called real convergence than nominal convergence, (which is what) we have experienced so far.

So, (the) problem is that in those countries, including Bosnia first of all, we still apply the Washington Consensus rules of the game. We rely completely or we believe that we are going to rely on two determinants of growth – free market and FDI, which I consider completely insufficient for our future. So, the question is, if there are many economists, starting from Professor **Murakami,** whom I like very much and his very famous book, and Nolan from Cambridge and Pitelis from Cambridge and Stiglitz and Ellman you know, and Horvat from Croatia and **Mencinger** from Slovenia, yourselves professors, even Jeffrey Sachs – all of them criticizing (the) Washington Consensus very heavily. The question is, why do we adhere so stubbornly to (the) Washington consensus and to the two determinants or, may I put it differently, to the same type or model of economic something - **analysing** development for me is not development, it is something like macroeconomic stability or (it) means something else. Why do we use the prescription all the time and why don't we change it? I would add to that, trying to fight with members of (the) international community, the IMF, and the World Bank in Bosnia, even I am not allowed to speak my mind sometimes. They press us very hard, but they are, I am sure, they are more than wrong.

(The) question is - what to say to those economists from IMF and (the) World Bank and the others (who) so strictly follow the rules of the Washington Consensus, having in mind that many famous economists are very much against the idea? So, what is behind it? Is there anything behind it? What do you think of it?

And, (as) for you Professor Havlik. After your perfect presentation there is only one open question for me that needs to be answered. Just for me, I mean. Maybe it is (also) interesting for the others. What is balance of payments and foreign debt for countries like Poland, Hungary, and Czech Republic? Is the growth of these countries mainly debt-ridden growth or is it completely ridden by domestic performance in addition to foreign direct investments? So, do you have capital flowing out of these countries, rising foreign debt, or something like that? Thank you very much for your patience.

Mr. Peter Havlik: Ok. So, I can answer your brief questions regarding the current account balances of transition countries. Indeed, this is one of the important issues, this is (a) more or less inherent feature of transition economies - that they suffer from current account deficits If we talk about Central and Eastern European Countries - of course, in Russia and even in Ukraine there is (an) enormous Current Account surplus now - but if we talk about Central and Eastern European countries, there are current account deficits, which result partly from the fact that these economies are catching-up economies. That means that they have to import technology, capital, and so on. For the time being, these current account deficits are counterbalanced, so to say, by inflows of capital. But, (so as) not to make my answer too long, the fact is that, for instance in Poland, we observe a very rapid increase of the current account deficit during the recent four or five years, which is a very serious problem. It might lead at any time to some international crisis or domestic crisis in Poland, to disequilibria, to (a) change of the exchange rate regime, I mean devaluation and so on. So, this is really a serious reason for concern. A similar situation, although perhaps not as serious as in Poland, (is the situation) we have in Croatia, we have it in most Baltic countries. So this is a topic, which we also look into very intensively. Current accounts in these countries are mostly in a deficit that is true.

Mr. Tsuneaki Sato: Excuse me, I did not get the point.

Mr. Dragoljub Stojanov: May I repeat. My point is - how do you comment, how do you see the reasons why (the) international community, (the) International Monetary Fund for instance, this is the case in point, presses so hard for the resumption of the same style, the same type of economic policy to be applied in the transition countries, at least in South Eastern Europe? Which is obviously, I would say, but not only myself, but also lots of economists, wrong. So how do you explain that?

Mr. Tsuneaki Sato: I am not perhaps the proper person to reply to such questions, because I have always (had) quite a different view from that of the Consensus. I may call it transition orthodoxy. I can only guess, but this is not the place for guessing. So perhaps you better ask the economists from (the) international financial organisations.

/laughter/

Mr. Junichi Hasegawa: Thank you very much Mr. Chairman. I am Hasegawa from Japan Bank for International Cooperation. I understand, Doctor Sato indicated that behind the transition there are two factors – one is transition itself and the other is economic growth itself. For the transition factors, I understand that (the) political situation, (the) historical situation may have (an) influence, but as regards the economic growth factors, the resource mobilization, the resource allocation in each country or the structure of each country would have more (of an) impact on that. And also, I understand, Doctor Havlik showed the difference in (the) change of the labour productivity of the manufacturing sector. The differences are huge in the transition economies. My question is – what is the impact of the privatisation method? In my understanding there is a great difference between Poland, Hungary, Czechoslovakia, in the way they are privatising their state enterprises. And my question is – are there any differences in the resulting labour productivity growth in the manufacturing sector because of the differences in the privatisation process? This question may be for both professors.

Mr. Noriyuki Yonemura: A very interesting and good question. Doctor Havlik – just a comment?

Mr. Peter Havlik: Well I do not think that we should discuss this question now, because this will be the topic immediately after the coffee break. So, I think we shall have the opportunity to learn much more about it then.

Mr. Tsuneaki Sato: May I make only a brief comment? You may recall that in the first half of the 1990s there was (the) conventional argument that Hungarian quasi-privatisation was a kind of a gradualism, while that in Poland and Czechoslovakia was rather radical and quite speedy. And, against this gradualism, Hungary was treated as a kind of second-ranking student. But gradually, you see, that by taking a standard method of privatisation, Hungary succeeded in solving three problems, not at once, but nearly at one stroke. The problem of capital management, know-how, and also technological innovation. So beginning from the second half of 1994, Hungary succeeded in maintaining a kind of highly sustained growth. Against this background, I think that the method of privatisation affects economic performance, not directly but still quite significantly.

***Mr. Noriyuki Yonemura*:** Please, introduce yourself very briefly.

***Mr. Krassen Stanchev*:** My name is Krassen Stanchev, Institute for Market Economics in Sofia, Bulgaria. I am not sure (whether) I have a question. It's more of a comment. I accept fully the points made by Kornai and more recently by many people, especially by those who participated in last year's European Commission or the United Nations Conference, Ivan Berend and others, on the lack of organic transition and missing links you have been pointing at. At the same time, I think there is an explanation to these missing points and gaps. And, I guess, part of the explanation is the point in time the transition actually started. So you have the different countries' and part of Hungary's success story, to the extent (that) it is a success, (which) is due to the early start of the reforms in the late 60s. The actual organic advantages of Poland are due to the very difficult years of Marshal law, meaning the reforms (that) started in the 80s. So that you have countries like Bulgaria, my country, which in the 80s had a diverse history – more business structures pushing towards rent-seeking behaviour and other things, which is in fact the price that is being paid now. That is, we have missing organic links in some countries. That is my comment. Thanks.

***Mr. Noriyuki Yonemura*:** Any comments from the speakers? Any other questions or comments? From the speakers' side, are there any other additional comments? Well, thank you very much. We will continue our discussion on privatisation after the coffee (break). So, we will have (a) 15-minute coffee break. Please join me in thanking the speakers. Thank you very much.

/applause/

Session 1
Review and Future of Privatization from the Viewpoint of Corporate Competitiveness, Management, Development of Technology and Human Resources

Chairperson: Mr. Gábor Hunya, Senior Economist, WIIW

Mr. Janusz Lewandowski

Vice President
Gdansk Institute of Market Economics
Poland

Mr. Ádám Török

Professor of Economics
Budapest University of Technology and Economics
University of Veszprém
IMC Graduate School of Business, Budapest
Hungary

Mr. Kamil Janáček

Chief Economist
Komercni Banka a.s., Prague
Czech Republic

Mr. Janusz Lewandowski, Poland
Review of Privatization from the Viewpoint of Corporate Governance and Macroeconomic Impact – Poland´s Experience

Mr. Gábor Hunya: As was already discovered in the first session this afternoon, privatisation has really been one of the key issues in transformation. And, I have the pleasure here to have three distinguished people from three Central and East European Countries – from Hungary, Czech Republic, and Poland -those who, at some point in time, were considered very successful privatisers. However, we are going to see that their methods and results of privatisation have been quite different. Now, I would like to pass the floor to Mr. Janusz Lewandowski from Poland, who is Vice-President of the Gdansk Institute of Market Economics. I think every speaker can be provided with about 15 minutes. So (do) not (be) in a big hurry, take your time.

Mr. Janusz Lewandowski: Thank you for your invitation to Vienna. I am going to place Poland within a wider context of transition in our part of Europe. Of course, there are common characteristics throughout our area as regards privatisation. For example, enormous scales of property transfer, I would say, historical scales of property transfers. All sorts of initial shortages, ranging from skills shortages to capital shortages. Of course, this picture is different now, after a decade of transition, strong politisation of ownership changes and the huge time pressure and the people's expectations. Therefore, there was not really (any) room for organic development in our part of Europe. Not just for missing links. This is not the question for missing links. This was a matter of time pressure, to do a lot and, therefore, not a place for organic development and the construction of market economy.

And, I am afraid also, not a place for that sort of a strategy, vision, and planning as was represented by and is represented by MITI in Japan.

What was specific about Poland, I think, was (the) larger margin of private business tolerated in our country. This was not just in Poland. For example, private farming was tolerated by Khrushchev since 1956. Therefore, it was easier to establish a link between privatisation and (the) growth of small businesses already existing in our country.

But, on the other hand, what was specific was also the strong labour movement. Solidarity - of historical importance in dismantling communism - but not quite hand in hand with promoting market economy afterwards. So, the generally strong influence of labour was also due to experiments in self-sufficient autonomous state enterprise and agents, (which was) mentioned by our Bulgarian friend. Really, these were experiments in perfecting socialism done in vain. But there was a lot of operational decision-making, a sort of training field for managers. At the same time, also a time of influential labour gaining in importance. Therefore, what was characteristic for Poland was the strong role of insiders, that is, managers and workers. And partly, privatisation afterwards was really the legitimisation of their control over enterprises. This was extremely difficult for me. I was minister of privatisation in Poland at the beginning, in two cabinets, when the process started. It was extremely difficult to reassert nominal property rights of state over (the) state sector because of this pressure from inside, because of the strong role of insiders.

Well, nowadays, (the) picture is quite different than at the beginning, in (the) early 90s. Of the 8,500 state companies, which were in (a) public register at the beginning, we (still) have 2,000. But, so far, there is still (a) job to be done. However, the major task of transformation has been done and we are approaching, I would say, this is World Bank terminology, the second generation transition issues, that is, (the) dismantling (of) the so-called natural monopolies, the privatisation of the energy system, railway system, (and) telecommunication. These were considered a natural monopoly not only in our part of Europe but also in Western Europe a decade ago. So, nowadays, we are not so far from the problems confronted by Western Europe. And the calendar of liberalisation in the European Union is very important for the strategy and future steps of Polish and, I think not only Polish, transition and ownership changes.

What was clearly underestimated in (the) early 90s was the question of corporate governance, (the) quality of (the) rules of the game, that is, enforcement of property rights and (the) restructuring capacity immediately after privatisation. The prevailing mood in (the) early 90s was that what is needed in our countries is (an) external framework, that is, (a) good policy regime, (the) liberalisation, and stabilisation of the country, fighting down inflation, imposing hard budgetary constraints. And these are the rules of, this is the macroeconomic framework. And the other part of the task was to privatise quickly. Speed, speed and the other tasks of restructuring should be delegated to the future owners. So, restructuring not as an aim of privatisation or a task of the state before privatisation, but delegated to the future owner. This was a fashion, this was a sort of paradigm of that time.

And, of course, (the) mass privatisation concept, that is, the free non-equivalent distribution of property rights, was very much fitted into this mould of thinking. I must say that this was a concept born in Gdansk in 1988 and I was together with my friend **Shonburg**, an author of this concept. We had presented it at the official seminar in Warsaw. This was in autumn when communism was still a fact of life. This was in Warsaw and in late 1988 **Dushan Trishka** was a participant of this official seminar in Warsaw. And then, in various moulds and various models, that sort of thinking about privatisation became widespread and even fashionable in Eastern Europe. Vaclav Klaus in Czech Republic was the first to impose it very bravely, politically. However, I am afraid not quite with (the) long-term vision, with the consequences of the concept (in mind).

Myself becoming a minister in (the) early 90s, I had to verify the concept and our mass privatisation program was rather limited in scale - 500 companies, no more. This was less than 5 percent of the industrial stock. Regulated investment funds, however, were also a disappointment. But this was the fashion, this was the mood of thinking in the early 90s - to privatise and to delegate the other tasks to the future owners.

Nowadays, of course, we have verified the strategies, because we have been taught all sorts of lessons in Eastern Europe. In Poland, I must say, the state sector was adjusting better than expected. This was due to these experiments in the late days of communism and due to the very brave exercises in Hungary – experiments with autonomous decision-making on the company floor. This was operational decision-making, but I think a good training field for managers, much better than, for example, in Russia or in Eastern Germany, as the skill could be applied afterwards within the rules of market economy. So, the state sector adjusted above expectations. Trade was completely dislocated from East to West. Complete dislocation of trade, labour reduction, (the) development of new distribution networks was better than expected, generally.

However, the link between privatisation and efficiency and macroeconomic progress was weaker than expected in early 90s and, I think, until the mid-90s. The link between privatisation and efficiency in Poland and our rate of growth was rather good, that is, on average 5 percent of GDP in the 90s. Much more conducive to this growth was the grass roots development of private business.

We paid the price for moving in compliance with the pressures of insiders. This was politically very easy, because when you are inviting foreign investors, it might be politically conflicting, it might be politically difficult. Privatisation on such a scale was something about politics, not just (about) developing technocratic schemes. However, if you are giving way to the pressure of insiders, that is, managers and workers, in medium- and small-scale enterprises, this is politically much easier. However, the economic results are delayed. All sorts of leveraged buyouts – these were practiced throughout Eastern Europe - were good politically and satisfactory from that point of view, but they brought delayed economic effects, because this diffused ownership has to consolidate with time, whereas, (because of the) low credibility of such leveraged companies, it has to seek credibility with time. That is another dimension of (the) principal agent problem in our countries, that is, the managers are given such a free-hand, are there, out for rent-seeking. There is diversity between their expectation and shareholder expectations. So all these costs had to be paid - for the insider pressure and insider role in Polish privatisation and not only (for) Polish privatisation, I have to say.

Nowadays, we are monitoring this trial-and-error road of Poland and the other countries and, of course, much more attention has been given to the quality of strategic investors, to the quality of (a) property regime, to (the) enforcement of legal codes. This is a problem in the so-called Soviet Empire – attitudes towards former legal codes. This is a question of time, of gaining much more confidence, and enforcing these legal property rights.

However, (in) reply to some remarks (made) in the earlier session. I have to say that choosing to privatise instead of depending upon (the) technocratic state was, historically, (the) right choice. And I fully disagree with the comments of Mr. Stiglitz and others who like to criticize after having participated in a fashion, because Jeffrey Sachs was a part of this fashion of mass privatisation. I was really frightened, because for me, (for) myself, this was like the invention of dynamite. You can apply it properly on a limited scale, but you can also ruin the beginnings of market economy and the structure of property rights, if you apply that dynamite solution improperly.

And, (while) travelling throughout Eastern Europe, travelling to Kiev, for example, and to the other countries, I have seen a lot of Western expertise, I must say, advocating uncritically the scheme of mass privatisation. But this is their only solution, and all those who are saying – 'Pay attention to quality, to restructuring, to the results of privatisation.' - they are simply stupid and without imagination.

So, this was the critical fashion of the early 90s. Nowadays, of course, the approach is much more balanced. However, it would be a historical mistake to replace privatisation with (the) technocratic hand of the state. And the reason is very simple. We have inherited a very weak state and this is (the) typical inheritance of the socialist times. This is a state prone to corruption. It has nothing to do with long-term vision and wisdom. This is weakened and demoralized bureaucracy.

And it would be a historical mistake to depend upon this conscious hand of this weakened bureaucracy in perfecting (a) legal regime before privatisation. Because this is what **various scientists**, Professor Stiglitz for example, had advocated – ' you should build (a) perfect legal regime, wait, and afterwards try your privatisation. Otherwise, you will be making too many mistakes.' This is a mistake. This is (the) utopia of (a) perfect state and perfect hand of the state. This is Mission Impossible in our part of Europe.

And I think the confirmation is of (a) double nature. First of all, there are models of mixed economy throughout Eastern Europe, that is, a lot of residual state shareholding - (the) state still holding stakes in many companies, half privatised, one quarter privatised. And this is really detrimental to positive selection. This is (an) area of rent seeking, of all sorts of attempts to politicise economy and even corruption. This is (the) wrong model, a sort of mixed model.

And now, I have three minutes – just enough to finish this presentation.

So, this is (the) empirical proof that we should not switch from one fashion to another fashion, to technocratic fashion under our circumstances. But another empirical (piece of) evidence is that privatised economy nowadays is really delayed, but so is (the) better part of (the) Polish economy. This is much more conducive to growth now after (a) decade. This is not loss making, because it has to survive somehow under the rules of market economy.

This is building our expert potential. And this is my last remark. Expert potential is what is increasingly needed in our time of adjustment to (the) European Union, because now we are the losers. We have been recording a trade deficit with (the) European Union since 1991. Quite contrary to expectations, quite contrary to the expectations of a European Union, including Austria, flooded with our cheap products. We are such a big market, Poland, for (the) European Union. The fourth largest world market. First comes the United States, second is Switzerland – but mainly these are transfers and transits - third is Japan, but Poland is very close to Japan, almost 30 billion Euro in imports. And this is job creation for (the) European Union. Therefore, by watching and observing privatised companies at the top list of our exporters, we see how important privatisation is, with some delays. But without waiting and perfecting the system to modernize the economy, building its competitive position and international market. Thank you.

/applause/

Mr. Gábor Hunya: Thank you very much Mr. Lewandowski. Especially, (for the fact) that you reflected on some of the points already raised in the earlier discussion. I (myself) noted a few points, like political environment, like the role of insiders, like the role of new corporate companies. Actually, when was mass privatisation launched – it was 1995?

Mr. Janusz Lewandowski: No. I was advisor to Walensa and Solidarity and this was late September 1988, presented at an official seminar in Warsaw.

Mr. Gábor Hunya: No. But the actual implementation?

Mr. Janusz Lewandowski: This was 1993 in Poland, with delay. The parliament had voted the law. However, the Czech model, the very brave Lithuanian and Russian attempts were much earlier.

Mr. Gábor Hunya: Ok. I only asked to point out this difference between conceptualisation and implementation. Now, our next speaker is Mr. Ádám Török from Hungary, who is dean and CEO of IMC – International School of Business in Budapest. Ádám, (the) floor is yours.

Mr. Ádám Török, Hungary

Privatization, FDI and Economic Performance in Hungary (1990-1999)

Mr. Ádám Török: Thank you very much. Mr. Chairman, ladies and gentlemen, let me start with a little correction. Our school's name has changed from International School of Business to IMC Graduate School of Business. Not an important change but anyway, we have to be very precise.

My presentation will not only be repeating the statements of the paper that you have in your folder, but I would like to stress a couple of other things too. My approach is, as you will see, a little bit different from that of the two colleagues from the Czech Republic and Poland. Because I have opted not only to give an overview of privatisation, but, the conference has in its title a second very important point, which is 10 years. So what has been achieved in (the) 10 years in Hungary due to privatisation or other factors? What kind of privatisation was it that created in Hungary a certain kind of private sector, a certain kind of corporate sector, and a certain kind of competitive sector of the economy?

So these are, basically, my questions and my number one question is, 'who were the players in the economy before privatisation and who are the players now? What kind of companies were on the market then and what kind of companies are on the market now? And with these, I would also like to imply (a) kind of provocative thesis. Namely, we have seen, and we are probably going to see in this conference, a number of time-series-based comparisons between what these economies did in the 90s or before and what these economies are performing like now or later. I also do such comparisons, but, at least for Hungary, my strong feeling is that the players themselves have changed very much.

So, we are basically comparing different situations, different economies. The set up of the economies, at least in Hungary, has changed very much. In my first graph, we see simply the **stratification** of (the) Hungarian corporate sector and it is quite normal for (a) Central European **country**, because we do not take sales or other factors (into account). What is taken into account here is the sheer number of firms. Here you find five categories of companies. Cooperations and enterprises are the two that existed before (the) 1990s. These were the so-called socialist companies. One of them was state-owned, the other was not. The three others also existed in Hungary legally before the 90s. These are the typical forms of private firms, although, of course, after that, we had a large number of such firms that were privatised.

We see a couple of interesting things. First, we do not see enterprises anymore. Even in (the) 90s already, in Hungary this category of company/ enterprise was very rare. It existed, but only a few thousands, maybe 3,000 or 4,000, so we do not see them in the picture. They still existed to some extent in 1999, because in the Hungarian privatisation scheme there have to be these two steps. You are probably familiar with them.

First of all, legal transformation, creating a corporate structure in the firm. The second was change of ownership. Now, still, in Hungary, there are a couple of thousand enterprises that have not undergone the legal transformation process. But their impact on the economy is completely inexistent. I would say they have only a couple of employees and basically no output. But, still, they are in my paper.

Now, what we see, however, is the impressive change or increasing numbers of private companies. Two kinds of companies - limited partnership and limited liability companies. You see that here. Joint stock companies have grown in number but even now, they are about 3,000 to 4,000 in the whole economy. And, the table becomes even more interesting, if you add the very large group of firms, which is not in the paper – individual entrepreneurship, family businesses, which have no real legal structures as these (do). Taken together with these, Hungary has almost 1 million companies.

That is not really amazing, because I would like to explain why we have such a flourishing or mushrooming of private firms. It has several reasons. The important thing is, however, that here you see very few offspring of (the) privatisation of former state firms. Most of these are new creations. In the limited partnership form, there are basically very few that originated from state-owned companies. In limited liabilities companies, you have quite many that were created with the split-up of state-owned firms, partly due to so-called spontaneous privatisation, which was a very special Hungarian thing. Probably, I also came here with this, I can explain this during the discussion.

However, before I talk of my next table, I have to explain this mushrooming of small private firms a little bit. It has several reasons – (one is) structural change of course, as always. There is also another reason, which is quite often mentioned in literature, but I am not convinced that it is really such a strong reason, although it is a reason. It is (the) very restrictive fiscal policy in Hungary regarding manpower – very heavy burdens on employment, social security plus personal income taxes, which, in many cases, resulted in the forced creation of private firms. So people became (the) subcontractors of their employees. Even in some government offices there have been cases in recent years where about 10 percent of employees were subcontractors – people sitting there, at their desks, their names hanging on the doors, but belonging to private firms, which were paid by the ministry or government office. So, it is really something, which the Hungarian government has to take care of, but so far, in these famous 10 years, nothing has happened in this respect.

However, we see another important change in the Hungarian corporate sector. It is industry now. You see here how much the economy, industry in the first place of course, exported output. And this increase, very fast increase in (the) export of industry has at least two major reasons, again pertaining to privatisation. The first one is the massive inflow of foreign direct investment My thesis here would be that in Hungary the most important factor – privatisation - was foreign-direct-investment-based, but the really large and really important players were not created by privatisation. They were created by foreign direct investment without privatisation, that is, greenfield investment. A new brand of Hungarian firms has appeared since (the) 90s and ... this is 1994, '95, which is, basically, only producing for exports. In Hungary, we will see a couple of company names too.

The second thing is, which does not pertain to privatisation, but rather is another component of the reform package that was already implemented in Hungary in (the) late 80s, is the liberalisation of imports. So, basically, (the) liberalisation of imports has one of its interesting results in (the) later build-up, consequent build-up of quite important export capacities. Now, these new export capacities really have to rely on the huge majority of newcomers, new players in the economy.

So, basically, this is why I said, at the beginning, that there is a big difference between the newcomers and the old players in the Hungarian economy. Here you find a couple of **sectoral data**. The data are not really new, not because the source is old, but because these five years were critical for the structural change in these sectors. You see here three quite important sectors, all of them traditional in the Hungarian industry – the light industry, iron and steel, and engineering. (You do) not only see a massive change of players here. So very many old players disappeared. We have basically one important exception here. And new ones arose or appeared, but what you see also, and it is interesting to compare who disappeared and who came as newcomer to the market.

In the light industry, which was a crisis industry - you see here that it was a crisis industry - very many former Hungarian players simply disappeared, were privatised, split up, disappeared from the market, closed down. The ones that emerged are new export-oriented subcontractor firms, some of them using the capacities, even the company names from here, but not really identical at all with them. Graboplast is an old player that re-emerged and resurfaced and who is quite strong and quite competitive in the light industry. But that is quite a special case.

In iron and steel, you have seen the wiping-out of a whole industrial complex. Here we had five companies, of which one survived. This is, basically, the only example, here, where you have a former player that is now a successful new player. However, Dunaferr is very interesting, because it is a story taking place in Hungary. It was not privatised, but it was leased by the managers, (by) a small company of the managers. And now this leasing is under attack by the government, because they consider it unfair. This was de-facto privatisation without a real ownership change. Alcoa is a newcomer, (a) very strong player in the market. It is not really (an) iron-and-steel, but a non-ferrous methods company. Anyway, it is there due to privatisation. You see the output growth in this old crisis industry, where some of the bad old players disappeared. It has produced not very impressive but quite massive growth.

And then, you have engineering. Engineering is probably the success story. We have seen this in Peter Havlik's graphs. It is one of the two where there has been a very massive productivity improvement, where there has been a very important competitiveness improvement, and so on. But, again, there was an almost complete change of players. IKARUS is there, but instead of producing 13,000 busses per year (as they did) 12 years ago, they now produce less than 1,000, if they are lucky. Raba is still there, but also not really a success story and its privatisation is still going on. Videoton disappeared as such – it is a holding. Ganz disappeared as such. MGM was privatised - went to Daewoo. Daewoo again is a different story as well. What we have here, in the engineering industry now, in Hungary, very important, major multinational players in the car industry – Opel, Suzuki, and Ford. IBM is the second largest exporter or third largest exporter of the Hungarian economy altogether. It alone delivers about one tenth of the Hungarian manufacturing exports – IBM Hungary Siemens is an important player and Daewoo.

You have seen that most of the important players in the car industry or in the electronics industry have emerged in Hungary or appeared in Hungary. However, we will see soon that in Hungary there has been a very important slowdown of incoming foreign direct investment. That has also been pointed out in several papers. The reasons are two-fold, and I am going to explain the regional reason a little bit later. Here we have also a structural reason. Basically, most of the important multinational firms - and Audi is not here, which is the most important, I omitted it from the paper - are in the market, in the car industry, and also in the electronics industry. You cannot find very many really big players who could still come to Hungary. Of course, they can increase their capital base in Hungary – those already present - and they do it. But it cannot replace the massive inflow of foreign direct investment. That was not the case only two or three years ago.

Ok, I am just showing (you) a couple of other graphs with very brief explanations. This was already shown by Peter Havlik – stock of foreign direct investment in selected Central European economies for the last two years. The important point is that Hungary is together with the Czech Republic, and after Poland. On the per-capita basis, Hungary is probably leading the pack, but we have to add another table to this, which I think, makes it more interesting. My feeling is that foreign direct investment has been a major component of macroeconomic development in Hungary and growth, but there has been quite (an) interesting reverse relationship. You see here the development of FDI stock, slowing down but still positive. You see here total FDI inflow per year and you see the cyclical change in economic growth. Now, what you can see at the end (is) that economic growth is taking speed, while privatisation or FDI inflow is slowing down. I think this is not at all unclear, since we have to see it as a reversed two-way relationship. GDP volume growth can make the country lucrative for foreign investment, whereas a certain amount of FDI stock can increase productivity levels – again, as Peter Havlik indicated it too - to such a high level that it already generates a certain amount of GDP growth almost automatically.

I do not want to be too optimistic and I do not think the Hungarian economy can maintain its current impressive GDP growth much longer. But this can explain why it can be maintained at a reasonable level.

Now, we have here something, which is my other point regarding the slowdown. The slowdown, in my opinion, in foreign direct investment inflow is linked to the following reasons. There is a huge amount of saturation of foreign direct investment in two regions – central Hungary and western Transdanubia. Basically, this is the industrial axis between Vienna and Budapest. Everywhere else, there is a low intensity of foreign direct investment. But those places are not able to take more foreign direct investment. We are simply not equipped. These places are equipped, but they already lack manpower and the population of foreign Investors is too dense. On the other hand, there is saturation on the national level. The people quote data from UNCTAD, which tell us that, as compared to the GDP stock and as compared to the gross fixed investment per-year flow, Hungary ranks among the countries that lead the world ranking list, which is not really a good thing. It means that, compared to the size of the country, there has been, maybe, quite a lot of foreign direct investment. 40 percent, 35 percent are the data for Hungary and in both cases only two or three countries are ahead of Hungary. And some of them are like Sweden that invests very much in the country due to foreign direct investment but also invests abroad – so (you have) outgoing foreign direct investment.

And finally, here is the list of the fifty largest Hungarian firms. It is the Hungarian Top 200 list, which is a counterpart of the 'Fortune 500', but for Hungary. There are three groups: old players or players unchanged from the period prior to the 90s, transformed players but with the same company name, and new players. What we see first is that there are two strong groups – the old ones and the new ones, which is two. But, if you take the 17 old players out - about two thirds are infrastructural or utility companies. So very few of them are in the competitive sector. If you take out the utilities and infrastructural firms from here, you (will) find that most of the large firms in the Hungarian corporate sector are here. These are the new players who were unheard of in 1990 or '91. All of them came to the country after 1990 and this is not really privatisation. If we would have time to go down the list, we would find one or two privatised firms. All of them are new. Here you find the private ones.

Well, thank you very much. I hope there will be some time for you to read the paper. Thank you Mr. Chairman.

/applause/

Mr. Gábor Hunya: Thank you very much Mr. Török. I think it was very interesting to see that transformation is not simply about state-owned companies that are the same now but private and that is how we create a private economy. But it is mostly new companies established there. Another link to our session is that of foreign direct investment. Whereas at the times when there was very much inflow in Hungary, it was more than 50 percent, through privatisation. Now there is no privatisation sale anymore as it is more or less a story (that has come to) an end. Now, I think everybody is very much waiting for the presentation of the Czech experience, which is, again, different from the other two countries and I would like to give the floor to Mr. Kamil Janáček who is chief economist of Komercni Banka, one of the major banks in Czech Republic. The floor is yours.

Mr. Kamil Janáček, Czech Republic
Privatization in the Czech Republic: Results, Problems and Open Issues

Mr. Kamil Janáček: Thank you Mr. President, ladies and gentlemen. 'And the last big bank facing finalisation of privatisation.' I would like to touch several points. I would like to start with the extent of the problem, (the) privatisation problem in Czechoslovakia at the end of the 80s. In none of the other smaller Central European countries was the elimination of private property so complete as it was in the case of Czechoslovakia. There was private farming in Poland, private farming, and some private businesses in Hungary, even some private businesses in (the) former GMR (GDR). This was almost nonexistent in Czechoslovakia. Only I would like to add some figures based on IMF data. The private sector share of GDP in 1989 was 1.5 in Czechoslovakia, the respective figure is 8.5, (that) is Germany, 14 percent in Hungary, and 16 percent in Poland. So that was the starting point for Czechoslovakia and, let us say, Czech Republic.

So, the rapid privatisation of state-owned enterprises was seen as one of the key elements. So, and Mr. Lewandowski pointed several historical aspects, the privatisation program went along three or, better said, four lines – restitution, small-scale privatisation, large-scale privatisation and, of course, the emergence of new private companies. Restitution to natural persons of property nationalised after February 25th, 1948 started in 1991 and was completed in 1995. And roughly 100,000 persons got back their property. Small-scale companies or the so-called small privatisation concerned small state-owned businesses mainly in retail and services, which were sold in auctions. Small privatisation started in 1991, finished in 1993. More than 22,000 small businesses were sold with a total book value of about 30 billion Czechoslovak or Czech crowns. The sources of financing were private savings and, of course, bank credits. Large privatisation was the key and most difficult part. The process actually began in 1991 in big strategic enterprises and banks. The most usual privatisation procedure was the transition from a state-owned company to (a) joint stock company and then – either the direct sale or the sale of vouchers and so on - the famous voucher privatisation, with which we privatised 48 percent of all industrial companies.

So you see that, in the Czech case, it was a combination of methods. But, unlike Poland, the voucher privatisation, the give-away privatisation was really massive. The first round was started in May 1992 in Czechoslovakia. In 1993, in independent Czech Republic, we organised the second round of voucher privatisation. This was not the case for Slovakia. They adopted another scheme.

But, I must stress one thing. At the very start of transformation, the rapid privatisation was seen as a very big problem and the motto was – 'privatise as much as possible, as quick as possible'. I think, I am quoting **Dushan Trishka** again.

Former Czechoslovakia had ample experience with reform attempts that failed to increase the efficiency of the economy based on state-owned property. Fast privatisation was seen as the only viable solution. But it faced the fundamental problem – there was no domestic capital capable of buying such a vast volume of property, exceeding 1000 billion Czechoslovak or Czech crowns, of course in book value.

Selling it all to foreign investors was politically unfeasible. We are talking about the beginning of the 90s. It was also practically impossible, as it would have required the attraction, within two or three years, I am talking about the period between 1991 and 1994 or the beginning of 1995, of 40 billion US dollars of foreign investment. I would like to tell you the cumulative figure of FDI inflow to the Czech Republic at the middle of this year is 17.5 billion US dollars. You see that the idea of mass privatisation through foreign capital was and is clearly unrealistic in all Central European countries.

The political feasibility was no less important at the time when decisions on the form and the speed of privatisation were taken. In the years 1991 to 1993, the lobby groups of entrepreneurs, the trade unions, most of the general public supported the slogan – 'Czech firms to Czech hands'. Even some very liberal economists backed the idea that the so-called family silver must remain in the hands of Czech capital. I am quoting (the) then Minister of Privatisation **Tomash Jegek** – (a) very liberal economist. In this prevailing social climate, the (fact that) government pushed through the principle of equal access to everybody was a success – that is, no discrimination, but no advantages to foreign capital And, I must reveal, as Mr. Lewandowski, I was a high government official and I must admit that Vaclav Klaus at that time was in (the) minority and (in) defence. As a politician, he was unable to persuade his political allies in the government, let us say, to allow more foreign capital to participate in privatisation.

Only practical experience gained during privatisation could change this prevailing attitude. Several years later the mood changed. It became clear that foreign owners (did) not only bring capital but know-how, access to marketing, and foreign markets. But, in spite of that, it would be a heroic and naïve abstraction to think that the bulk of privatisation could have been based on foreign capital. Of course, there are certain benefits, which we achieved with our, let us say, very rapid privatisation. As I have mentioned, 10 years ago, the private sector share of GDP was 1.5 percent, the respective figure at the end of the last year was 76 or 77 percent. So, you see the shift from state-owned property to private property.

I think the main problems are presently considered to be, first, the lack of effective corporate governance in my country, and second, the two-sided, schizophrenic position of banks as creditors and, via investment funds – originally investment privatisation funds - as owners. It was known from the very beginning that voucher(-based) privatisation was not best suited to bring effective owners immediately to the privatised firms. It was clear for everybody that it formed only a basis, on which effective corporate governance could gradually evolve. And I think, very unexpectedly, the major role for this corporate governance role emerged in the form of investment privatisation funds, originally, let us say, created to help guide the small voucher holders during privatisation and, of course, to limit the dispersion of ownership. It must be clear. And legally, this investment privatisation fund legislation was inspired by (the) United States and (the) European Union. It is a mix, I must say, in the Czech case. So, originally, they were inspired as a tool of collective investment, not as a tool of corporate governance. But despite this, and there are the stakes, you have (them) in my paper, they were limited to some stakes in the company

But, nevertheless, when their role increased, they were transferred to holding companies, where the legal stakes are not valid and so on. But (the) problem remained and to some degree remains. Only the funds governed by banks were capable of playing a bigger role, as the banks delegated experts to the supervisory boards of companies. But due to the legally limited stakes, the influence of these persons was limited or undercut, leaving the real control of many companies in the hands of managers. So, that is the problem. Now, step by step, the situation is improving with accelerating restructuring as a consequence of the recession of the Czech economy between 1997 and 1999. But nevertheless, the problem (of) what to do with investment privatisation funds as the agents of corporate governance remained, in the Czech republic, is unresolved.

'Double role of banks'

As I have mentioned, unlike Poland and Hungary, where double and triple digit inflation helped to write off old debts from the communist past in many companies, this was not the case in Czechoslovakia. We succeeded to keep, let us say, the inflation very low. But this success - when the purchasing power of the budget's savings, let us say, was kept at some reasonable level - had one perverse effect. We started to privatise the state-owned companies with all debts from the past, with all liabilities. This was the law. And, of course, when the banks are the biggest players in an undercapitalised country, as Czech Republic was, and to some degree, still is, at the moment. So, when not only the privatisation, but the normal life of many companies is heavily dependent on the bank credits and, at the same time, the banks are indirect owners of these companies via the privatisation funds, you know that, first, this situation is very risky and, second, during the recession, the problems of your clients are transferred to the banks in a twofold way. And, of course, in this respect, the problems now (is the) so-called cleaning of (the) portfolios of (the) biggest Czech banks, which were privatised recently or the last bank is facing a privatisation of 60 percent of its stakes just now. This is part of the problem. And, we are now, after 10 years, we are now paying some (of the) costs of transformation this way.

Now, the problem – 'Was privatisation too hasty?'

I think that several speakers mentioned, let us say, the attacks against the so-called Washington Consensus and I must admit that Joseph Stiglitz spoke in Prague during the IMF annual meeting seminars two months ago and, of course, criticized his own attitude several years ago anew. But, I think these critics - with the benefit of hindsight, of course - (who are) now arguing for 'regulation and institutionalisation prior to privatisation', I think, are wrong in principle. Let us leave aside the problem whether it is possible at all, except in the virtual reality of a theoretical concept. I could hold several classes at my university. But nevertheless, it is not realistic to start building a market economy without the main constituting elements, meaning a privately owned firms. In the light of this problem, the only realistic view is to discuss the adequate speed of privatisation, perhaps. However, even here the critique is not supported by facts.

In my paper, I am quoting two, let us say, very representative studies, once carried out by the World Bank, International Finance Corporation, and IMF. And, let us say, these studies have two results. Privatisation in transition economies, in spite of all (the) problems, can be considered a success. Countries that did fast and massive privatisation have substantially better macroeconomic figures than the others. And, the second, let us say, result is, or summary is – any privatisation is better than none. That, I think, is the experience, despite all (the) problems, is the experience of Czech Republic (and) also my experience as a Czech economist.

Of course, there is a minor problem and the minor problem, in this respect, is corporate governance and how to increase it, how to increase the efficiency of law enforcement and so on. But, these are the problems all transition economies (face), at least in Central Europe.

My fifth point touches (on) the link between privatisation and economic efficiency.

Opinions on the effect of privatisation, on (the) efficiency of the Czech economy differ significantly among Czech economists and differ significantly among the Czech participants in this conference, surely. Tomorrow, you will hear Jan Mladek, my friend and colleague, and I wonder in advance – he did not share (his opinion).

So in fact – how were they privatised ...

Indirectly, one can prove that micro-efficiency has improved during the last decade by some macro data. At the end of the 80s, the Czechoslovak foreign trade was oriented predominantly toward soft COMECOM markets – COMECOM exceeded 70 percent on the Czechoslovak exports. We succeeded in 10 years (to shift) our exports towards, let us say, advanced market economies. Now, the European Union has a 71 percent share of Czech exports, but, what is more important, the share of higher value-added goods in Czech exports is increasing. When Czech Republic came into existence, the share of SITC groups 7 and 8, I mean machinery, technologies, and consumer durables or industrial consumer goods, represented 38 percent on Czech exports. The respective figure, at the end of the third quarter of this year, is 64. And, let us say, the normal reply to this problem is, of course, Skoda Volkswagen and other big companies. This is not the truth. Almost 50 percent of Czech machinery exports coming from these groups were provided by small and medium-sized Czech companies owned predominantly by Czech capital. So, this is an indirect proof that efficiency increased.

What to do next

I think the most unresolved problem is how to improve the legal and institutional infrastructure. It is a long-standing and perhaps never-ending problem, and we cannot jump over it We are not in the position of the former GDR or the new five Bundesländer, shifting the framework from one part of the country to another. I think the biggest problem here is the acceleration of this process. But how to overcome this is an unresolved issue not only for me. An open issue for my country. Thank you for the attention.

Mr. Gábor Hunya: Thank you very much Mr. Janáček.

/applause/

Mr. Gábor Hunya: I think, here we had an example of a country where there are still pending restructuring problems connected with the chosen way of privatisation. I would just like to call your attention to one point, that is, the trap of the socialist book value. If you calculated in 1990 that you needed 40 billion dollars to buy state assets, you are really struck by the problem and you have no choice but mass privatisation. But how much of this value has actually been confirmed by market forces? That is another question. Usually the income from privatisation and through privatisation is much smaller than the initial book value was. Now, we have had these three presentations. We have got about half an hour left for our discussion. So the floor is open. Please come up with questions, comments. Yes please.

Questions, comments

Mr. Ovidiu Nicolescu: My name is Ovidiu Nicolescu, I am professor of management at the Academy of Economic Science in Bucharest and president of the Romanian Association of Small Business. It (seems) that these three countries have been successful in privatisation. I would like to ask each of you to answer shortly the two following questions. First, what was the main cause of the success (of) privatisation in your country, the main cause? As the second question – what was the biggest mistake in your country, in the privatisation process? Thank you.

Mr. Gábor Hunya: I think (this was a) very straightforward pair of questions. Mr. Lewandowski?

Mr. Janusz Lewandowski: For (some) good answers – (the) Polish approach was (a) multi-track approach, fortunately. But the major cause in medium- and small-scale (enterprises) was leveraged managerial, workers buyout. They (came) together, because this was politically easier for managers to couple with workers due to a strong trade union tradition. Therefore, leveraged buyout - a sort of modified **ISOP** scheme for Eastern Europe - was dominant in medium- and small-scale (enterprises). With large-scale (enterprises) – this was the sale to the strategic investors.

The second (question) – well, I was responsible and, therefore, it is rather difficult to say what (the) major mistakes were now. I would say that the major mistake was – perhaps to be repeated in all the other countries – was public communication. We were so sure that we were historically right in privatising, that we very much neglected the issue of communicating with people about what it means, what the possible fruits of privatisation are, and the communication barrier appeared with time to be the major obstacle of privatisation. Because it is easier to develop any sort of schemes for privatisation, it is much more difficult to sustain them politically and persuade people that this is to their advantage. So, the biggest mistake was a lack of public communication coming from the technocrats responsible for privatisation and, generally, for reforms in (the) early days of transition. One more sentence – the paradox in many countries was that the reforms were really winning in Poland and Czech Republic and in Hungary, but reformers were generally losing in the elections. So, a paradox of winning reforms and losing politically reformers – with (the) exception of Klaus, who was brave enough to push forward with this crazy voucher scheme of (privatisation).

Mr. Gábor Hunya: Thank you. Czech Republic?

Mr. Kamil Janáček: I will be very short. Despite all (the) problems and mistakes, the success was (due to) speed. Speedy change from totally state-owned property to a, let us say, more and more standard market economy based on private property. What are the mistakes? The mistakes we made, of course, let us say, the delayed legislation. I think, poor regulation, starting with security trading, of course (were) the second mistake and the third mistake. I mentioned it in my comments. We, the politicians persuaded public opinion with much delay that foreign capital is really very important for the development of the market economy in my country.

Mr. Gábor Hunya: Thank you. Hungary?

Mr. Ádám Török: So my answer to the first question is very simple. I think, Hungary was more or less consistent in carrying our privatisation, basically market-based. So, it did not experiment with too many different techniques, although my second answer includes this element.

I think, the second question is more important for me - mistakes. I think, we have to distinguish between strategic and tactical mistakes and I would mention one of each. In my opinion, the most important strategic mistake was the technique of small privatisation, which were financially supported by the government and were meant to create a new entrepreneurial class, but which, in fact, led to some, very many or quite a number of, stories smelling of corruption or not really smelling of corruption but collusion.

(A) tactical mistake, I think, which was one element of the privatisation process. I think, it was the massive one-time sale of most energy firms in late 1995 without creating an appropriate regulatory background.

Mr. Gábor Hunya: Thank you. Before going on with the questions and answers, I must apologise, because I have forgotten to give the floor to our appointed discussant, who is Mister Yukihiro Nikaido - the Technical Cooperation Division, Economic Cooperation Bureau Head in the Ministry of Foreign Affairs of Japan. I apologize, I was expecting everybody here around.

Mr. Yukihiro Nikaido: In fact, I was enjoying listening to the participants, but as I am an economic expert, I will just simply give you some impressions I had just listening to the three participants.

I just simply have to say that, with all the problems accompanying privatisation, I still think that, the 10 years, looking back, with regard to the privatisation process, I think, it was a significant and major development both in terms of economic and social development. Listening to the person who actually was involved in this process, was fascinating and, especially despite the fact that (the) financial market did not develop well initially in those countries, I think, this is a major development in any case. Simply, I am just amazed by the fact that now more than 70 percent of GDP is in (the) hands of (the) private sector in countries like Czech (Republic) and Hungary and a small privatisation process has almost come to an end in most of your countries. Large privatisation is also well underway. More than 50 percent has been completed in countries like Czech (Republic) and Hungary. In fact, I was in Sofia, Bulgaria, between 1994 and 1996, and had a chance to visit some of the countries in the region, and at that time, I just could not imagine that progress would be this huge by this time. So, I just wanted to express my admiration for all the persons in these countries.

And, with regard to the point of our discussion, I think the point of discussion has already been raised by other people, so I will just let other experts speak on the issue.

I would just simply like to say that, back in Tokyo, I am in charge of coordinating our aid policy with all other government agencies concerned, particularly with JAICA. So what we have heard here today, I think, could be helpful for other countries in the region, and in fact for other countries in other regions, say countries like Mongolia. Well, we are still heavily helping the development of that country and the relationship between privatisation and aid is very much (a) subject (today), which is taking place, right now. So, I think, I will simply leave it at that and let the other interesting topics be taken care of by other people. I am quite sure that Doctor Sato will have some more extensive comment on his theory of ownership obsession and so from (this) side I would like (very) much to hear, after the presentations of the three persons, comments by Doctor Sato. I will simply stop there. Thank you.

Mr. Gábor Hunya: Thank you very much Mister Nikaido. So, the floor is open for further questions and comments. Miss Kager?

Ms. Marianne Kager: Thank you. My name is Marianne Kager, chief economist of Bank Austria.

Only one short comment. I can only speak about privatisation in the banking sector and we did an analysis of that for CEE countries. And, what we realised there, was that all the countries we looked at, in principle, undertook four measures. These were – introducing new accounting systems, isolation of bad loans, privatisation and recapitalisation of the banking sector. But, then, if all these countries undertook these four measures, why (was) the cost of reconstructing the banking system so different. For instance, the costs in Hungary were 10 percent of GDP, in Poland, it was only 2.5 percent and, at the end of the day, I guess that it will be between 15 and 20 percent in the Czech Republic and in Slovakia..

And, what we saw there, is that, what is so important, the measures, the order in which the measures were introduced was so different. And, taking the example of Poland, Poland really started by introducing new accounting systems and then with the isolation of bad loans, then (the) recapitalisation of the banks and, finally, (the) privatisation of the banks. And, in the Czech Republic, the way was quite different. You started more or less with privatisation and isolating bad loans at the very beginning – in the early 90s - the first wave of bank consolidations. And, the last step, you undertook, (was), more or less, the introduction of Western style accounting systems. Perhaps, that is one of the reasons why the costs were so different. Thanks.

Mr. Gábor Hunya: Thank you very much. Further – yes.

Mr. Vladimír Benáček: My name is Vladimír Benáček, Charles University, Prague. I have got two comments for our distinguished panel of speakers and these are something I call, 'Myths of Privatisation'.

The first myth, according to me, is the statement that privatisation should revitalize existing capital, that means, the capital that was allocated during the communist period of central planning. I am afraid that a large part of this capital, maybe the majority of it, should go to bankruptcy. So privatisation should be directed, in fact, to a graceful bankruptcy of that capital.

And, then, the second myth is that privatisation should bring money to the government. But, if the capital is destined for graceful bankruptcy, then the capital should be given away for nothing or you can even subsidize someone who would take the bankruptcy procedures seriously .

And the third thing, and here I would defend Joseph Stiglitz a bit. Once bankruptcies are so important - and here I see bankruptcy as creative destruction. So you destroy part of the capital but you try to recoup as much as possible from that existing capital, some fraction, half of it, 20 percent of it. But you should not destroy all the capital. So, once this bankruptcy becomes a major factor, I have got to think about (the) privatisation of banks first.

So, my question is – whether the privatisation of banks should not proceed at the first place and only then we should proceed with (the) privatisation of firms? Thank you.

Mr. Gábor Hunya: Is this question for a specific member of the panel or are you asking it collectively?

Mr. Vladimír Benáček: Well, to all of them. All of them have certain views on this, and the privatisation of banks is (a) very serious matter. Maybe, it is more important than the privatisation of the industrial sector.

Mr. Gábor Hunya: Ok. Can I ask the panel to speak very briefly on the bank privatisation problem in (the) light of Miss Kager's and Mister Benáček's intervention.

Mr. Janusz Lewandowski: Well, of course, it is not that easy, politically, to sell banks, because, when you are selling banks, that means foreign investment only. There is no alternative, because of the scale of available domestic capital. (The) privatisation of banks means, and especially (a) rapid privatisation of banks, that is, disposal of property rights abroad, that is clear. There is no alternative, I think, to that approach and this is politically sensitive. As we are approaching the barrier of 80 percent of foreign capital engagement in Poland, the question becomes a problem of parliament.

But, I do agree that without (the) privatisation of banks - banks instead of assisting in transition are creating problems of their own, because they tend to go into the sort of parasite, bad-debt relationship with (the) state sector and produce bad debts. Bad debt was a nightmare throughout Eastern Europe and this was because of those informal links between state banks and state companies. So, you should go with privatisation. However, privatisation is done under democratic procedure. You have to be re-elected afterwards and politically this is rather sensitive issue, the most sensitive, I think, apart from so-called natural monopolies.

Mr. Gábor Hunya: Thank you. Anyone else from the panel?

Mr. Kamil Janáček: I fully agree with Janusz Lewandowski. The same applied and applies to the Czech Republic. I have talked about it and I know it as an insider – inside of government and the bank as well – that till 1997 – 98, the opposition across all parties was represented in parliament to actually privatise the banks and (you had) the same (situation) in Poland.

Mr. Gábor Hunya: Thank you. Ádám, would you like to comment as well?

Mr. Ádám Török: Well, for Hungary, the situation is a little bit different because the Hungarian government decided in the early 90s to privatise the banks as soon as they could. Unfortunately, we are now witnessing the second, or the third or whatever wave of bank privatisation. Because, in the first wave, they gave out, or they sold banks sometimes to so-called Western banks, but it turned out later that Western and Western are different. So, some of these players were minor banks from small West European countries, not at all the most important and not at all the most developed countries, and these banks did not improved quality, did not improved service, did not increase (the) networks in Hungary. Nothing happened! Now, not the government, but these owners find out that they did not really gain market shares, so they leave the country and some others move in.

Interestingly, in Hungary, the most successful two banks now, I mean private banks, are two old ones, oldies. One of them is the Hungarian Foreign Trade Bank, which is an old creation by the communist government dating back to the late 40s or so, which was first privatised and went to a very good German bank. And that is a very good bank now. The second one is the Retail Bank, the population's banks, OTP, which was a disaster 10 years ago. It got good management, Hungarian management. It is a very competitive bank, very strong and, it was privatised on the stock exchange.

So, in Hungary, you cannot learn any kind of lesson, because what you have, is a very mixed picture, a kaleidoscopic picture of all kinds of developments. I would even venture the kind of statement, that in Hungary there was no strategy or policy behind these developments. There were good privatisations, because the partner picked up, was good, bad ones, because the partner selected, was bad. Basically, if you look at the banks in Hungary in terms of owner's country of origin – then (there are) the German, the American, and the Japanese – these are good. Basically, (there are) no British, no Swiss banks in the country. The Dutch picture is mixed and then we can go to whatever we have – Belgian, Irish, Portuguese, whatever else.

Ms. Marianne Kager: Is there an Austrian bank?

Mr. Ádám Török: Pardon me. Austrian? Yes. The Austrian bank presented in Hungary is also a strong player, not because we are in Austria.

Mr. Gábor Hunya: Thank you for not forgetting to say that.

Mr. Ádám Török: I would have said German-speaking countries plus Japan, plus US.

Mr. Gábor Hunya: Thank you very much. (Any) further questions? Yes please.

Mr. Junichi Hasegawa: I am Hasegawa from Japan Bank for International Cooperation. I would like to ask (about the) macroeconomic impact of the revenue increase as a result of privatisation. When you privatise state enterprises, government can increase its revenue. Maybe, the (revenue from) privatisation comes from two financial sources. One from external sources, the other from domestic savings. If the domestic savings are not adequate, the people may borrow by credits from the banking system. But, in either case, government has some revenue. But, looking at the records of economic policies of each transitional government, I did not see any change of (the) expenditure pattern to support the credit crunch on the private side or to try to increase the demand (of) purchasing power on the side of the private sector. So, my question is – what is the macro-impact as a result of increasing government revenue?

Mr. Gábor Hunya: Thank you. Maybe, we could collect one or two more questions now and then we have to finish. Yes.

Mr. Tsuneaki Sato: I have one small comment for Doctor Janáček and one small question for Doctor Lewandowski. What Doctor Janáček said is nearly tantamount to saying that there was no alternative. Of course, time is too short for discussing such a big problem, but, still, as far as I remember, as early as March, April 1990, there was another concept of (a) transition strategy, which was not implemented. So, I really doubt that there was no alternative or, in fact, (no) aim to create another strategy, only that it was not adopted. And, this is a small comment.

And, to Doctor Lewandowski. What was quite interesting for us, is that, because of, **mainly**, of Solidarity, the privatisation of big Polish corporations, big companies, was not so speedy. But, still, during the first half of (the) 1990s, the economic performance of the yet-to-be-privatised state-owned enterprises was rather more favourable than in other countries. Does it not show that (apart from) the ownership changes, there might be some reason that might have an influence on the performance of the companies?

Mr. Gábor Hunya: Thank you. And the last question.

Mr. Miklós Szanyi: Thank you. My name is Miklós Szanyi, Institute of Economics, Budapest, Hungary. I have two questions or comments. I would like to join my colleague here, Doctor Benáček. When you said that there must be creative destruction in the countries and (the) role of bankruptcy was emphasised, I recalled your statement, Ádám, on changes of players. So, this might be one major avenue of changing players. But, still, are there are any valuable assets that, say in the process of bankruptcy, that can be reallocated through bankruptcy? So, what I would like to call the attention to, is the fact that, for example, foreign, even greenfield investments, are located in the same hot-spot areas, those that used to be targets of socialist industrialization as well. So, at least (the) premises - trained and experienced labour force, local educational background, even R&D facilities and experience - might be valuable resources, assets that can still be reused, reutilised in these areas.

And, the second question is to Mister Janáček, or maybe, all of the three presentations – and this is, if there is a chance, or (were) you able to observe foreign penetration through the stock exchange? So, in my view, the type of privatisation that was used in the Czech Republic, gave, in the second tier, an opportunity for foreign investors, in the way of buying shares, ownership rights from the investment funds or simply from the stock exchange. Thank you.

Mr. Gábor Hunya: Thank you very much for all the questions. I think, each speaker will have, well, two minutes maximum to select what he thinks is the most important question and to answer that. Mister Lewandowski, please.

Mr. Janusz Lewandowski: Thank you. As to the macroeconomic impact of the privatisation revenue, these amounted to around 5 billion dollars last year and (were) therefore important. And this (is) our way of covering (the) budgetary deficit and, more precisely, this is for accumulating foreign reserves and compensating for real problem in (the) Polish economy, that is, (the) current account deficit. This is their impact.

As for the Solidarity impact, I do not quite understand the question. However, they were in favour of market economy, because this was (the) typical platonic love of market economy in (the) early stages of transition. Everybody was in favour and Solidarity was in favour. But, with time, the pressure for either leveraged buyouts to the benefit of employees was more and more imposing . It was extremely difficult to negotiate, (to) contact foreign investors or domestic investors because of social clauses. They were in favour of, for example, preserving labour and (did) not allow the reduction of labour. And, (the) typical landscape in socialist countries is over-employment in companies. So, with time, they were more and more detrimental to privatisation.

Well, there was also the third question in my selection.

Mr. Gábor Hunya: Thank you.

Mr. Kamil Janáček: Very briefly I would (like to) touch (on) the point of revenues from privatisation. In my country, they were greatly used, partly to reduce the government budget deficit and to (a) high degree, let us say, to pay for the debts from the past, including the rescue of banks and so on.

(There were) alternatives to the strategy.. At the beginning of the 90s, we discussed several alternatives. So, we did not use such, let us say, balances, but we used several methods of privatisation, let us say, (the) voucher thing, (taking) not the majority but, let us say, taking almost one half of (the) privatisation of property. But, nevertheless, we discussed several methods, but they proved to be non-viable solutions, other strategies.

As far as your question is concerned, yes, there have been several successful privatisations of very interesting Czech firms through foreign capital, where, let us say, my bank was the mediator and, let us say, bought the majority of shares either from the Prague Stock Exchange or from the funds. I think, the last example, the most visible example was the privatisation of a company called Vertex, the biggest producer of optic fibres in the Czech Republic. It was bought by **Saint Gaben,** and it was organised by buying 80 percent of the shares on the Prague Stock Exchange or directly from the funds. But, this is not the only case. They both are (such cases).

Of course, in the press, only the big examples of, let us say, direct sales by the government are discussed, not this type of, let us say, takeovers, normal takeovers.

Mr. Gábor Hunya: Thank you. Ádám Török.

Mr. Ádám Török: Well, regarding the macroeconomic impacts, I have to agree with my colleagues, first of all, from the Czech Republic. So, whatever macroeconomic impact can be shown, this money was, at a certain point in recent Hungarian economic history, used to pay off foreign debt. This in late 1995. Just the same privatisation I mentioned as a tactical mistake, because the way that privatisation was carried out, in my opinion, was not very subtle. But, the fact that the revenue was used to pay off foreign debt was very helpful and it quite significantly decreased Hungarian foreign debt stock at one coup. But, on the other hand, as far as the question is concerned, I think it would be (a) topic for at least two other conferences, because, I am afraid, we cannot see the macroeconomic impacts (as) clearly as you would like to.

My second answer goes to Miklós Szanyi, which is a very interesting point. Valuable assets in former state-owned firms that were either reallocated through bankruptcy procedures or not. In the first place, I would like to stress that bankruptcy and liquidation should be regarded together in this field. And, you mentioned that FDI was partly going to hot spots of former socialist industrial policy. This is true in a couple of cases, in other cases, some firms were not only bankrupted but also liquidated and disappeared and when they re-emerged, they were privatised chunk by chunk.

So, I do not think that we have to take a case-by-case approach here. You are right that, in the petrochemical industry for example, foreign direct investment went to hot spots, but foreign direct investment first took place on the stock exchange. And, I could name a number of hot spots of socialist industrialization policy, which were unable to receive foreign direct investment. I think, there is no real rule here, except that the regions preferred by that industrial policy and FDI now are the same, which might have infrastructural reasons, which might have training or human capital-related reasons. I do not know. I am afraid I cannot give just a simple answer. Thank you.

Mr. Gábor Hunya: Thank you very much. Well, thanking (you for) your participation (and) also the panel for this, in my view, very interesting afternoon session. I would like to allow Mister Lewandowski a last word, because he is (one of) those who have most of the experience with privatisation. So maybe, he will tell us what it is.

Mr. Janusz Lewandowski: Well, I have asked (for an opportunity) to present (to) you my shortest definition of privatisation from my own experience in our countries. Privatisation in post-communist Europe, according to my definition, is selling nobody's property of unknown value to people who have no money to buy it – therefore, quite a problem.

Mr. Gábor Hunya: And this is the final word before the coffee break. Thank you.

/applause/

Mr. Yoshiaki Nishimura: Well, thank you very much ladies and gentlemen. We shall have (a) very short break, 10 minutes or so. So, next speakers, please, come to the front table.

Session 2
Business Infrastructure from the Viewpoint of the Private Sector

Chairperson: Ms. Marianne Kager, Chief Economist, Bank Austria, Austria

Mr. Fumio Inoue

Managing Director
Matsushita Television Central Europe
Czech Republic

Mr. Mohammed Kaddoura

Director
VAE Aktiengesellschaft
Austria

Mr. Christian Dörner

International Relations
Siemens
Germany

Mr. Fumio Inoue, Japan
The Operation in the Czech Republic

Ms. Marianne Kager: The topic for the second session is 'Infrastructure from the Viewpoint of the Private Sector'. Infrastructure, I think, is a very broad topic. Infrastructure can be, in a technical sense, roads, railways, water supply, electricity, communications etc. We can speak about business infrastructure, then we mean, business behaviour, administration, corporate governance, suppliers, (all of) which we need in the country where we are. Or, we speak about public infrastructure, like the legal system, (the) enforcement of laws, education, political governance or political behaviour, democracy in a general sense, institution buildings, and so on. I think we have a lot to discuss and let us start with the first speaker, Mister Inoue. The floor is yours.

Mr. Fumio Inoue: Good Evening, ladies and gentlemen. First of all, allow me to introduce myself. I am Fumio Inoue, Managing Director of Matsushita Television Central Europe, which is one of Matsushita electronic industries – TV division, Oversees Managing Company. I would like to take this opportunity, at the beginning of my speech, to express my appreciation for being able to speak to you at this conference. Matsushita Television Central Europe, MTE, was established from greenfield in March 1996 as (the) second television brand in Europe, the first on the continent. And production started in April 1997.

I am very pleased to say (that) the operation started smoothly and our television sets are of high quality and available in greater quantities than we hoped to have. Our television sets are delivered to about 30 European countries, with an export ratio (of) 98 percent. This has been achieved, because of the great support from the Czech government, (the) City of Pilsen and, I want to say, the related companies and, also, because of the excellent ability of our Czech employees.

Today, I would like to talk about seven items. As you can see – Company Introduction; Reasons of Investment in the Czech Republic, Guidelines for Global Management, and Company Business Principles Four – Start Up Operation. Five – Problems and Actions of Setting Up, and this is where we have many problems. I will explain later. Number six (is) this and, seven, is my goal, my dream – challenge for the future and (the) goal of my company.

You know, this is our front-side building area. (The) factory seen from the backside.

Capital – about 77 million Euro. (The) place is Pilsen, in the Czech Republic. And, currently, our employees (amount to) approximately 1,500. The land measures about 17 hectare. (The) current building area (is) 47 000 square meters.

Number two – reasons of investment in the Czech Republic

In 1995, Matsushita, MEI television members organised a **feasibility** study in Europe. We visited 5 countries. Germany, especially (the) eastern parts, Poland, Hungary, Slovakia, and the Czech Republic, and a total of 26 places in all. After visiting 7 places in the Czech Republic, we decided to establish our company in Pilsen. You are probably interested in the reasons that influenced our decision. Let me explain to you the following list of items. You know, one to six – very clear.

Number one – abolition of (the) import duty to (the) EU. You know, it is a very important point. We will acquire European country origin. This is a very important point. Number (two) – political and economic stability was better than in Poland and Hungary – when – (in) 1995. (But that is) only our decision.

(Number four) - Politics of the government of the Czech Republic concerning the quest for foreign investors. Number five – forward-looking policies of the City of Pilsen, by the mayor. Number six – human resources, especially highly educated and skilled people. Human resources are (a) very important factor for our company. We, I already mentioned, we have about 1,500 employees and because of good ... people, TV managing is going very well.

Number three – guidelines for our company management

Number one – good corporate citizenship. Number two – mutual respect and understanding with the host company. Number three – product competitiveness in quality, cost, and performance. Number four – (the) transfer of technology under (the heading of) worldwide research and development. Number five - autonomous and responsible management. Number six – management localization and employee skills development. This is, of course, very important for (the) Matsushita globalisation aspect.

And (third), these are the established business principles of my company. That is very important point. Number one – contribute to (the) prestige and progress of the Czech republic through most competitive products . Number two – maximum customer satisfaction. You know, (the) customer comes first. That is very important to (bear in) mind. Number three – (the) development of individuals and groups with a strong belief in high productivity and positive involvement. Number four – business expansion and market share increase.

Number four – we have already achieved (a) cumulative quantity, last October, amounting to 1 million and, this October, the total will already (be) 2 million sets. The countries of destination (I have) already explained to you – about to 30 countries. Quality, now (after) about 4 years – very good quality or country approval. And, of course, our market quality and factory targets - all achieved. And, of course, (a) very important (point) - certifications. The BEAB standard - very quickly approved and ISO 9002 for quality and ISO 14001, you know, for (the) environment. We received these in a very short time.

And this is our first year, second, this year is our third. This year, there is only (a) business plan. Expanding very quickly, rapidly now.

This is our television product range, 1997 to 1998, 14 to 21 inches, small size models. 1999, last year, the addition of 25 and 28 inches and very high technology area – digital television and stereotypes. A total of 50 models. And, this year, 2000, we are now trying wider television, etc. (We) already (have) our models (for) this year, 160 models, everyday the number is changing. We already have three ...

And number five – this is of course very important. Therefore, today this area is the main point. Problems and actions of setting up. Especially, number one - (the) logistics area. And we established (a) logistic route and material localization processes for our televisions. And these are our company's activities, (for) example – (the) Panasonic quality management activity. I will explain these later.

Firstly, problems in logistics Mainly one, two, three. We have some problems. Number one, customs conditions. Customs clearance depends heavily on (the) human factor. (There are) outdated customs clearance controls and procedures. Second, transportation conditions. Transportation conditions (are) also not comparable with those in the EU countries. Hand in hand with customs, these create many problems. And one example, over-exploitation of road transport after 1990. And, bottlenecks at borders and (an) unbalanced ratio of incoming and outgoing shipments, etc. And infrastructure – (the) lack of (a) state transport policy and (the) low quality of roads and rails.

We established (a) logistic route because television parts are strong high-technology parts. Therefore, we have stock points in (the) UK and Germany. In (the) UK, we have two branches and, in Germany, Hamburg and München serve as two points. Especially in the case of Hamburg, 100 percent is imported to Hungary from Japan, (the) South East Asia area, and the USA, etc. by boat. Oh no, Hamburg. And the others are, we have many UK components ports. Newport port and **Hillsrae** port. And, (on) the continent, München in Germany We have four stock points. And, this is MTE, our company's factory (in) Pilsen. And, after (being) assembled, our televisions go to third countries for shipment by container, truck, etc. This means, of course, in the first two cases, we (had to) establish a new route.

And (the) next one. (The) localization process for television parts. Our television case - 1997 and 1999, and this year. (For) this year (the) target (number) is (the) same as (for) (the) Czechs. And CEFTA is (on) this chart Except (the) Czech (Republic). (It) (includes) Hungary, Poland, and (the) Slovakian parts. You can see (an) example from three years ago. 1997, the EC countries had (a) bar ratio of 72 percent, (the) Czech (Republic) only 2 percent, and CEFTA 65 percent. Other parts are imported from South East Asian countries, including Japan, and the others (are the) USA and other areas. 1999, (until) the end of this March (it is) nearly the same for (the) EC (with) 75 percent. (The) Czech (Republic) 6 percent. (The) CEFTA area has 12 percent. You know, year by year, (the) Czech (Republic) and (the) CEFTA area is now increasing . Our target for this year – (both for the) Czech (Republic) and (the) CEFTA area (is) 30 percent. But now it is a very difficult situation – about to 20 – 25 (percent).

And this is my company activity example – Panasonic quality management activities. This (is a) Czech Republic cost reduction project. This is very important for us. How to introduce Czech and CEFTA components. And very important are the greeting, (the) etiquette, manner, (the) smiles . You know, (this is) very important, basically, not only in (the) Czech (Republic), (but all over) the world. Very important. Therefore, our company (employs this to) 100 percent. (For) example, in the morning, of course, 'Good Morning', in Czech – 'Dobri Den' etc. This is very important. And especially smiling is most important. In the Czech Republic, there are many pretty ladies. Smiling is very important. This is my policy. And another, all ... how to ... together activities. This is (a) very important part of our policies.

And six is our future challenge. (There) are three challenge points. This means next year. We have another sister company in UK. How to optimise, (to achieve) optimum twin operation? And, of course, how to achieve low cost operation? This is, of course, not only this year, (but also) every year - (a) very important point in our future plan.

And, of course, (the) goals of our company. You know, our, of course, target is (to become) European number one in quality, cost and productivity. How to do it? All (through) employee participation. This point is very important, especially for Japanese companies. And continuous product innovation and then very high customer satisfaction. And, this I will explain in more detail How to do it? This is my policy, this is a combination of Japanese stuff, this cooperation will give us the strength to achieve the goal of our company and this way we challenge ourselves to assume a completely new style of management. This means: localization of the material parts, components, technology, and workforce. We aim to create a unique high-efficiency factory that appears to work in an attractive and proud atmosphere. And then our goal will be to be the best in Europe in quality, cost performance, and productivity. And we would like to grow to become one of the three industries, one of the 3 products in the Czech Republic, (of) which the Czech Republic is proud of in Europe and in the world – Beer, Bohemian glass, and Panasonic TV.

We would also like the Czech people to welcome us and (to) consider us valuable and caring citizens in their society. Thank you for your attention. Thanks for attention.

Ms. Marianne Kager: Thank you Mr. Inoue for your presentation. It seems it is a successful greenfield investment in the Czech Republic in terms of production and turnover, suffering from some problems, costs generated by a lack of business infrastructure. Let us pass on to Mr. Dörner and his presentation. It is your turn.

Mr. Christian Dörner, Germany
Business Infrastructure from the Viewpoint of the Private Sector

Mr. Christian Dörner: Well, thank you very much. Thank you very much and good evening ladies and gentlemen First of all, I would like to thank the organisers for inviting me to share with you the problems, the views, the hopes and the experience of investment and doing business in Central and Eastern Europe.

First of all, brief introduction (of) international relations, that is, within the corporate development department, a group that is concerned with privatisation, infrastructure, mergers, and acquisitions in Central and Eastern Europe. Myself, I worked with United Nations in this field for two years and, then, in the last four years, in an organisation that brought Austrian companies to Central and Eastern Europe. In your program, you see Christian Dorner with the mention of Austria. If you look at my page here, you have written (here), Christian Dorner – Germany and both are correct. Not because my mother is German and my father is Austrian, but also my mother-company is German for infrastructural reasons. I am located in Vienna, simply because the flight connections to all countries in Central and Eastern Europe are, more or less, the best from Vienna. We had a long discussion within the company on whether I should be based in any other capital in Central and Eastern Europe and simply because of logistics, in the end, we decided for Vienna.

I was invited to explain the situation a little bit that we, especially Siemens, found in Central and Eastern Europe. Some people might be surprised, but we personally found highly qualified technical staff in companies and also in privatisation agencies. Not all of them, I agree, especially in the agencies, but this really improved extremely during the last ten years. And, really, on the technical side, in certain cases, especially in the Czech Republic, they are far more advanced than technicians in EU countries. Problems, of course, and I am sure this has been discussed during this day, (were) the legal background and enforcement.

For privatisation, especially the protection of investment in some of these countries, you find (a) very effective legal background, but you hardly ever have real enforcement, which sometimes makes it, especially for smaller companies, a little bit difficult. And, one obstacle we see on the high political level is that the investment goal is sometimes not very clear even within the government and could be a little bit more precise. I will go into that a little bit later. And, it is a very sensitive issue, especially for employment reasons, if you talk about greenfield investment or FDI or privatisation. A lot of infrastructure companies in the countries of Central and Eastern Europe are privatised now or (will be) in the next (few) years, and normally the big fear is that staff has to be reduced.

Our motivation

First of all, we share a common past with all Central European countries. We built the first communication line between Moscow and Saint Petersburg about 150 years ago. So we have a (common) history, we know the governments. We have offices all over Central and Eastern Europe, now even in Montenegro and in Kosovo. All together, all over the world, we have 170 country offices, but activities in all countries of the globe, and, especially in investment, also since some 150 years, in Central and Eastern Europe.

There is an obvious need now, especially in South Eastern Europe. I always give some examples from South Eastern Europe, because that is my special area, not only because of the war impact, but also due to (a) lack of maintenance during the last, let us say, 30 years.

Historic cooperation - as mentioned.

And, Siemens is, in general, shifting its focus to service and solution orientation and this is a key issue as far as privatisation is concerned, (especially) in the field of electricity supply, water supply, telecommunications, and so on.

Just some examples, because figures are always very boring and you can read that in the Internet. In Bosnia, we had, last year of course, a cash flow of 33 million Euro, in Slovakia - 363, and in Slovenia – 63, due to, a little bit, the size of the countries and the development in these regions, which, in all three cases, is beyond our estimation. And what I always try to underline, and I mentioned it in my first slide, – there is no common understanding what the goal of investment (is), no matter if privatisation is involved or not. There are some prejudices. First of all that (a) Westerner is normally not interested in (the) local added value. (This) is simply not true. We had such a good experience because we hardly ever had a lot of people from Germany or Austria in our factories in Central and Eastern Europe. Up to the leading management, we always have two managers, one for the technical, one for the economic part, and at least one of them is local.

The government considers FDI a tool for budget regulation. This is, unfortunately, very often the case. This is very often also simply a lack of information in the government and then there is a different understanding of protection. There is this word "investment protection", but governments very often interpret it as (the) protection of employees. And the investor, of course, sees it as (the) protection of his capital. The goal of FDI is, of course - again from investor's side, a new profitable market, for the government, sometimes - simply a budget relief. This sometimes happens also in Western European countries. And there is one intermediate solution for direct investment. You have the free trade areas. This is the main activity in Croatia at the moment, where, because of the legal framework, investment protection is not warranted all over the country, but in some special areas. They have at the moment 25.They want to increase this (number) to 43.

And, if this (difference in) understanding between the investor and the government is not carefully discussed and no similar understanding is found for both investor/government, or banks or whoever might be third, fourth, or fifth party, (then) we normally do not do this investment.

We have to be very clear, because, to our understanding, investment relies not only on the legal framework, but, since trade has for a couple of thousand of years also been relying on trust, we believe very much that we have to trust the government, we have trust (in) our partners, and we normally do not do this. And, as you can gather from our presence in the countries, we (do) find people we can trust and we can agree on.

Again, the government and (the) investor - sometimes the question had to be asked. And I see that very often in discussions with the government. 'Who is the client?' and 'Who serves whom?'. The investor, of course, is very interested in going to the country, but sometimes the government gives the impression that it considers this investment a grant (awarded) to the country. So, we have to ask: 'Who serves whom?' and 'Is it a kind of donation, also, to, maybe, give employment to the country?'. Because the government then afterwards must, of course, also give the investor a chance to make profits and, to a certain extent, to take the profits back to the home country. As I said, economic activities rely on trust. We need a clear understanding of FDI influence on the national economy and, what is very important for us, also, of the very closeness of the countries. We need the same or at least comparable systems of business economics in the companies.

The political or institutional background

The intention of the government has to be very clear and must also be communicated. We sometimes have the problem that if we talk to the government, they are very clear about it. But we could have known a couple of months earlier, yet it was not communicated (to us). They must be clear - the rules and regulations – and understandable and, of course, as I mentioned also on the first slide, we need good implementation of all these laws.

As far as employment is concerned, we do not agree that investment is necessarily combined with a reduction of staff. It is a question of training. You have to have the courage to train people and reassign them maybe to other jobs or to other parts of the company. It needs training and political courage on the part of politicians and, in the end, this training supports FDI in general and (supports) privatisation.

There is a market contradiction, which also gave rise to some problems. The market in Central or South Eastern Europe is a unified investment strategy. And at the same time, we discovered that the market needs a very clear country-by-country strategy, which seems to be a contradiction, but in the end, it is not. There are so many cultural differences in the way business is done that it is simply impossible to use a simple strategy. You have to adapt to the political circumstances in each and every country. But what you should do in the beginning, and this is the first point, is create a unified FDI strategy. We consider (this) and we have a lot of business areas. We want to be clear about our intentions in the various countries.

So, what is needed to improve the business infrastructure in this region?

If the government decides to support investment, the industry should be invited, and is in most cases also invited, (to participate) in the design phase of such a law. It needs a really clear and communicated political commitment and very often it needs model treaties. Even if the legal background is not there, even if enforcement is very weak. A kind of a model treaty, is a de facto law. It is a very pragmatic solution to the problem. And what our American friends do very successfully, is, they give tool kits for investment promotion agencies and with these they are normally a couple of steps ahead of all other countries in the privatisation business. Again, the free trade areas, but I want to underline it as just one possibility and it is just an intermediate possibility. And then, of course, and this is the goal for the international financing institutions, support for the local banks.

I want to thank you for your attention and I hope we have time for (some) discussion. Thank you very much.

/applause/

Ms. Marianne Kager: Thank you Mr. Dörner for your presentation. I think (a) clear relationship between the government of the country and the investors is necessary to have a good relationship in the future. That is the aim of your **intervention**. The floor is open for discussion, ladies and gentlemen. Please. Back there.

Questions, comments

Mr. Marek Jakoby: I am Marek Jakoby, I come from Slovakia, the Center for Economic and Social Analysis. I have two questions. The first would be for both speakers. If you have to rank the factors for investment decisions, where in the ranking would you put a financial stimulus like tax relief, or even tax holidays, provided by the government or government agencies? Where in the ranking would you put it in terms of importance? And the second question is related to my country. Actually, Matsushita is one of very few Japanese investors in Slovakia. On the other side, Siemens is one of the biggest investors in Slovakia. In general, I would just like to ask you to comment briefly about your experience with Slovakia as an investment territory. Thank you.

Ms. Marianne Kager: Mr. Dorner?

Mr. Christian Dörner: Yes. Thank you very much. The first question on tax reliefs. If you have (a scale from) one to five, so, it would be second, I believe. It is very important, but it is not the most important. I would say that the legal framework and the rule of law is the more important point, definitely. The tax release becomes important when there are two possibilities of where to put the investment. And also, not to mention your country, but if you take for instance Romania and Bulgaria, which are geographically very close and you have to decide where to put the investment, and under the condition that the legal framework is nearly the, same of course, then the tax release is a very important issue. But normally it is not the key issue.

The second (question) - as you mentioned, we are a big investor in Slovakia. So the answer is very simple. We have very good experience, of course, and we are greatly expanding in Slovakia. So, in our financial year, which starts on 1st of October to next October, we increased our staff (by) 30 percent. I think that is the best answer to show that we have (had) really good experience. Thank you.

Ms. Marianne Kager: And Mr. Inoue. Do you want to answer the first question?

Mr. Fumio Inoue: (My answer is) nearly the same. As you know, Matsushita is not only in Czech Republic, but (also) in Slovakia. However, component (business), already started three years ago (in Czech Republic) is now a very good success. (The) same as my presentation about television (production) in Czech Republic. Therefore, I think, the component business will continue to expand in Slovakia.

Ms. Marianne Kager: Ok. Are there other questions? Mr. Havlik?

Mr. Peter Havlik: I would also have one question for Mr. Inoue. You mentioned these logistic problems. My question would be, how many of the components are locally produced? What is the local content, so to say, of the TV sets that you are producing in the Czech republic? And, what are your plans for, say, local components delivery?

Mr. Fumio Inoue: Ok. As I mentioned, when I was explaining our television components from the Czech (Republic) on the table. (They) amount to only 6 percent. But also, you know, (there is) another factory already under construction near the Moravia area, which, of course, we expect to use in the next year. And, Transcorp factory already started to build in Czech Republic and that is very difficult now. Made only in Czech (Republic) are, for example, plastic components and only small aluminium components... Therefore, I would like, of course, (to) continue asking the government. Please more, no especially (to) electronic components, semiconductors etc. and also electronic companies - not shares - more semiconductors and many electronic components. Please support.

Ms. Marianne Kager: Ok.

Mr. Dragoljub Stojanov: I would like to ask both **speakers** about regulation schemes in host countries. For instance, how important is (the) requirement to reinvest money in the host country for you both? And the other one – how important is the stability of (the) domestic currency or, may I say (the) convertibility of domestic currency for your business?

Ms. Marianne Kager: Mr. Dörner?

Mr. Christian Dörner: Thank you very much. Just to clarify the first point. I did not get it completely. How important is it to reinvest?

Mr. Dragoljub Stojanov Metichke: Yes, you are required to reinvest part of your earnings in the host country. Do you like it? How much do you like it?

Mr. Christian Dörner: As I mentioned, we believe very much in local added value. So far, as it is in principle, (and this is) no problem at all, we normally reinvest immediately. Just between Austria and Germany, and they always take our money away. No, this is a joke. No, but, in Central and Eastern Europe, the money is immediately reinvested. So we have no problem at all with this. We would do this even if there were no requirement. And, the second thing is, of course, crucial, but was never a problem for us until now. So, convertibility, because normally we do business in hard currency and if this does not function, we simply cannot do it.

Ms. Marianne Kager: Mr. Inoue? Would you like to add something?

Mr. Fumio Inoue: No.

Ms. Marianne Kager: Mr. Benáček

Mr. Vladimír Benáček: Vladimír Benáček. My question is to Mr. Dörner. While Matsushita decided to invest on a greenfield, Siemens, as far as I could see it, prefers to privatise or take action through mergers and acquisitions. So, is there some rule or is my observation incorrect? So, are the mergers and acquisitions better than greenfield investment?

Mr. Christian Dörner: This is now a more personal opinion. No, it is not better or worse than the other according, again, to the long history we have. Because we simply have good contacts. Normally, this is our general rule – it is always better to take (a) share in an existing market than to develop a market yourself. So, if you take shares in a company, you have access to the market, (to) the companies already dealing with (it). So, this is simpler. The other thing is that a lot of activities of Siemens are in infrastructure business. So, that means railways, that means telecom, that means energy. And there, greenfield investment is very difficult, if not impossible. So, we (then) take (a) share in infrastructure companies. This is a market requirement and not a decision taken by Siemens. Please ask more in detail.

Mr. Vladimír Benáček: It looks like insider trading.

Mr. Christian Dörner: Insider trading?

Mr. Kamil Janáček: Yes.

Mr. Christian Dörner: Why?

Ms. Marianne Kager: Why?

Mr. Vladimír Benáček: Well, if you prefer, the already established market that is heavily in government control, because infrastructure is usually in the hands of the government, then you have got to have this factor of good relationships. Well, I am joking a bit, so please, do not try to take me as a person who would try to sue you as Siemens. But it seems to me that the importance of relationships and networking for your business is immense and that is very dangerous in these Central and Eastern European countries, because then insider trading is something very similar to your dealings.

Ms. Marianne Kager: May I answer only briefly. I think it is highly dependent on the business you are doing in a country. And if you remember the chart we saw about the exports of the television company. Only 15 percent of the production is for the Eastern European markets. And for Siemens, which is heavily engaged in infrastructure, I guess, the part of Siemens production in the CEE countries that stayed in these countries, which for the home market, (the) CEE market, is much bigger. And that is the difference if you wish to place a greenfield investment or if you acquire companies there.

Mr. Christian Dörner: Well, of course, I agree.

Ms. Marianne Kager: But that is logical.

Mr. Christian Dörner: That is what I wanted to explain. It depends very much on the business. But, to make another point also, we do not get every company we would like to and we do not get every management of a government infrastructure business we would like to. Of course, you are right. It depends very much on the good relations you have. But there are a couple of competitors who also have very good connections, so it is a market again, but it is a lobbying market of course.

Mr. Vladimír Benáček: Thank you very much.

Ms. Marianne Kager: Very simple, in the one case

Mr. Yoshio Koyama: Well, thank you very much. I am working for JICA as a senior advisor and just recently started working in Hungary for a small- and medium-size industry promotion advisor. We recently completed a study about how to promote small- and medium(-size) industries. That is the major topic tomorrow. In relation to Siemens and Matsushita, I would like to ask one question, a common question. That is - in Hungary and in many other Asian countries the supporting industry concept is now becoming very important. (With) supporting industries I mean the supply of parts and components to the large assembly industries. However, the previous explanation of Mr. Dörner, the reason of investment in that place, never mentioned supply as a possibility. This is related to the previous question. And also, in Matsushita's case, only 6 percent of the products are supplied locally by the Czechs.

Mr. Fumio Inoue: Czech Republic, right.

Mr. Yoshio Koyama: That seems to be (a) very small amount. And, is there not any important investing decision-making in certain countries (where) (a) supply exists, or suppliers' development is possible in the future, so that there are even more savings in all the costs and delivery time aspects. Because from the promoters' point of view, I mean government point of view, those international investments are becoming very important in order to promote local small- and medium-size industries and they strongly expect to get their suppliers to connect to the big multinational companies. That is my question.

Ms. Marianne Kager: Mr. Dörner?

Mr. Christian Dörner: Yes, thank you very much. I must confess, the answer is very simple, because Siemens is (a) supplier. The basic thing in the infrastructure sector is that, normally, there is a local company and we are a supplier for certain parts. Because, as far as assembling or metal work or something like this is concerned, this is all done locally, but, we supply the high-tech parts. For everything electronics is concerned with, a lot of very specific engineering is needed. There, we are the supplier. And we had been discussing within Siemens for a very long time – shall we take over a company, for which we are (the) supplier? And the decision was no in the end, we do not want to destroy our own market. We never want to buy our customer.

Ms. Marianne Kager: Mr. Inoue, do you want to add something?

Mr. Fumio Inoue: In our television case ... are already never present in Japan(ese) **product** companies. **Taiho Koio** is already under construction. (A) new building near Pilsen. This is very good news. Not only are we now trying for our Slovakian Matsushita component (company). (Not only current component company more than expanded **as a pass.**)

For example, the current situation. (The) South East Asia area, Singapore, Malaysia, Taiwan etc. Parts, now they are transferred to Slovakia under the new setting, (to) our Matsushita component company etc. We have (not only) decided (this), of course, (but also) how to cooperate with our competitors, assembly competitors, and how to approach a component company. This is, of course, (a) very important point.

Therefore, my idea (is), in 2002, to make about 30 percent to 35 percent or more of our Czech components for our television, including ...etc. Of course, not only in Czech (Republic) and Slovakia. Hungary is, of course, very close to Czech Republic, and also Slovakia. Therefore, Hungary and Poland (also), the CEFTA area, is very important for our job.

Ms. Marianne Kager: Ok. Are there (any) further questions? If yes, I would propose that we collect two or three questions and have the last round. One, two, three. Ok.

Mr. Shinji Fukukawa: Thank you. I have a question for Mr. Dörner perhaps. Siemens has undertaken the Internet procurement system components and parts. And how do you organise the parts and procurement necessary for the factories in Central and Eastern European Countries? And my second question relates to the weakened Euro. The Euro is now becoming weaker than expected. Does (a) weak Euro disturb your business in Central and Eastern European Countries or does it not play a role, or does it make you profitable?

Ms. Marianne Kager: Next one, please.

Mr. André Barsony: I am André Barsony from OECD. I also would like to ask Mr. Inoue the following question. Why is it that, in his forecast, he is thinking that activities will move from South Eastern Asia to Central Eastern Europe? Is this because of local content, is it because of (the) privileged access to European Union markets or it is because the Euro is weak or it is all three considerations?

Ms. Marianne Kager: Ok, third question - last one.

Mr. Osamu Hayakawa: Thank you Ms. Chairman. My name is Osamu Hayakawa of the ...Foreign Currency Bank. My question is **addressed** to Mr. Inoue. And I basically consider his presentation a success story. But one thing I found missing in his presentation, (and that) is his figures on the profitability of his company. And it may seem that profits or profitability have increased continuously hand in hand with your company's growing production and sales. Thank you.

Ms. Marianne Kager: Perhaps, Mr. Inoue, can you start with the answer session?

Mr. Fumio Inoue: My presentation is, of course, generally (a) success story. But, of course, television business is now very serious business, not only in Europe, but the world (over). Therefore, of course, now very ... with regard to profits, because, as I mentioned, profits are doubled every year, it is expanding now. But how to not only (focus on) production? I am now trying – (for) example (the) Czech people, (they) are excellent. Therefore, I already established a research and development area. And of course (it is) very important how (you) **invite** a component company near the Czech area.

Ms. Marianne Kager: The second question was about the movement of components production from South East Asia to Eastern Europe.

Mr. Fumio Inoue: Generally, of course, South East Asia is too far from Europe. About two or three weeks by shipment. Now, of course, (in) our market situation, marketing, how to quickly produce is a very important - (that is) supply chain management. Therefore, the proximity of our factory is, basically, (a) very important point. Of course, (the) price is (also a) very important point. Generally, now, South Eastern Asia components are very cheap compared to European components, but, of course, not only (the) price (but also the question of) how to save delivery time is very important.

Ms. Marianne Kager: Thank you. Mr. Dörner.

Mr. Christian Dörner: Yes, thank you very much for the question. First, the supply of the Internet technology. I want to answer in two ways. One is – the main of technology is not produced in Central and Eastern Europe as far as assembling is concerned. The other things are either produced in Germany, or under license anywhere. Also, our mobile phones, from next year onwards, will be produced under license. It is just knowledge management, the know-how, the technology, which really belongs to Siemens, but no longer the production itself. The second thing is, especially as (far as) investment is concerned, we have bought a company, which is doing all our Internet business in Central and Eastern Europe. It is called Redstar.com and they are incubators or whatever you would like to call that. They buy shares in companies (active) in the Internet business.

The second answer, on the Euro – it does not affect, or, (better said), it does affect present operations but not to a very great extent. But, of course, as far as investment is concerned, we are hesitating a little bit at the moment.

Ms. Marianne Kager: Ok. Ladies and gentlemen, speakers, thank you for staying with us so long. Thank you for the discussion. Thank you for your interventions. I think some drinks will be offered here now and the bus will be waiting at seven in front of the door and it will bring you to the Japanese Embassy. That is correct?

Mr. Noriyuki Yonemura: The bus is available now, so move on to the bus in 5 or 10 minutes please . Thank you.

/applause/