

YOUNG PARLIAMENTARIANS' PROJECT  
SEMINAR 3

SUMMARY REPORT

By Sheila Cannon  
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“The Working of a Genuinely Free Market Economy and the Rule of Law as an Essential Precondition: Western European Experience and Southeastern Europe”

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Introduction

Participants

Speeches

Marta Muço, “*Low state capacity in Southeastern European transition countries*”

Sara Morante, “*The work of Transparency International, and how corruption undermines market economy and the rule of law*”

Baroness Sarah Ludford, “*The market economy and civil liberties: two sides of the same coin*”

Daniela Bobeva, “*The dream of cooperation in the Balkans*”

Rigas Tzelepoglou, “*Preparing for the Future*”

Hermine Vidovic, “*Croatia after Tudman, a long way to European Union membership*”

Memorable Quotes

## INTRODUCTION

The six speakers at the third of four seminars held in Thessaloniki for young Members of Parliament from Southeast European countries were a diverse group coming from six different countries: Bulgaria, United Kingdom, Italy, Albania, Greece, and Austria. Their different professional backgrounds allowed for a wide scope of perspectives from which to view the topic: the working of a genuine free market economy and the rule of law as an essential precondition. Included in the forum was the perspective of a Vice-President of an International bank (Ms. Bobeva), a Head of Governor's Cabinet at the Central Bank (Ms. Muço), a politician (Baroness Ludford, MEP), an economist from a research institute (Ms. Vidovic) and one from an NGO (Ms. Morante), and a Professor of Business as well as a business owner (Mr. Tzelepoglou).

The six very different perspectives of the speakers gave insight into the topic at hand from six different angles, resulting in a full and complex, yet controversial and sometimes contradictory picture of the economic reforms that have taken place and that are still required in Southeast Europe. Two very different angles on the same situation were that of a businessman (Mr. Tzelepoglou) and that of a law-maker (Baroness Ludford); the former focused on how a business can successfully function within a free market economy, while the latter described the principles that should determine the laws that govern free market economies. Both speakers provided guiding ideals either for business or for legislation.

Another pair of different perspectives on the same problem was that of the two representatives from Banks, who differed in approach and opinion, but offered similar conclusions to their arguments. Ms. Muço and Ms. Bobeva had the perspective in common of how free markets function in relation to a financial institution, either an international or a national bank. Their two perspectives differed in that Ms. Muço examined the role of government and leaders within a system, whereas Ms. Bobeva's point of view was that of policy and investors. Their two opinions differed in that one saw the very destructive influence of corruption, while the other did not see corruption as a major destructive force. However, their two conclusions regarding the required reforms in the economies of Southeast Europe were remarkably similar, especially considering their differing approaches to the issue. They both recommended regional cooperation and active state support for strong free market economies in Southeast Europe.

The speeches of the two economists differed in that Ms. Morante gave an overview of the measures taken against corruption, while Ms. Vidovic spoke about the economy of one country in particular, Croatia. Ms. Morante focused on the issue of corruption while Ms. Vidovic elucidated the effects of corruption as well as the progress of the privatization process in Croatia. Both speeches provoked questions of methodology, such as how do the two economists gather their information, how do they calculate their statistics, how do they analyze the markets that they are studying.

Several speakers offered advice on how to deal with difficult and discouraging political and economic situations. Ms. Bobeva and Mr. Tzelepoglou advised against decisions that are based on intuition and emotion - strategic calculation is a better substitute. Baroness Ludford, Ms. Muço, and Ms. Bobeva all emphasized the importance of an appropriate state role in the economic sphere in developing countries. Ms. Bobeva and Ms. Muço both spoke about the need for fast and confident action in economic reform. Their words echoed the sentiment of Rahmi M. Koç spoken at a conference held in Thessaloniki, June 1997, entitled, "Culture and Reconciliation in Southeastern Europe," that brave and decisive actions are needed for successful economic reforms in transition countries.

Ms. Muço and Ms. Morante both spoke about how **corruption** undermines the government. All speakers agreed that corruption is a major problem that must be solved, except for Ms. Bobeva, who felt that the problem of corruption is exaggerated. According to her experience as the Minister of Finance in Bulgaria's first democratic government, Ms. Bobeva heard a lot of talk about corruption but did not see as much real evidence of corruption.

Ms. Bobeva and Baroness Ludford elaborated on the destructive effect of **political competition** between neighboring countries. The belief that one country can delay another country's entry into the European Union must be dispelled; regional cooperation doesn't mean that all the countries in the region must move at the pace of the slowest.

Ms. Muço and Ms. Bobeva identified **regional cooperation** as the only way to progress in Southeast Europe. Ms. Muço brought attention to the need for a regional solution to the problem of illegal trafficking. Ms. Bobeva spoke about the importance of regional cooperation for large infrastructure projects, such as building roads and pipelines.

Two speakers referred to the role of the **media** in transition countries. Baroness Ludford explained the importance of having free press, among other civil liberties, in order to have strong civil society, which is essential to any free market economy. Ms. Bobeva differed in her opinion, stating that the media must have a very measured role in young democracies, because slander and libel easily become common practice when independent media is not governed by some form of guidelines or policy. Unregulated and often false accusations and go unpunished and can seriously damage politicians, particularly those of opposition parties.

## **PARTICIPANTS**

### **Speakers**

Daniela Bobeva - Vice-President, Black Sea Trade and Development Bank, Thessaloniki

Baroness Sarah Ludford - MEP and Member of House of Lords, United Kingdom

Sara Morante - Head of Southeastern European Division of *Transparency International*

Marta Muço - Head of Governor's Cabinet, National Bank of Albania

Rigas Tzelepoglou - Director of ICBS, Thessaloniki

Hermine Vidovic - Economist, Vienna Institute for Comparative Economic Studies, Austria

### **Audience**

#### *Belgrade*

Bojan Pajtic, Democratic Party (DS)

Marijana Trifunovic, Demochristian Party of Serbia

#### *Banja Luka*

Ljiljana Marinkovic, Stranka Nezavisnih Socijal, Demokrata Republika Srpska (SNSD)

#### *Bucharest*

Cornel Alecse, Civil Servant

#### *Podgorica*

Isidora Filipovic, People's Party of Montenegro

Irena Pavicevic, People's Party of Montenegro

#### *Skopje*

Radmilla Sekerinska, Social Democratic Union

Nenad Ristovski, Democratic Party

#### *Sofia*

Stefan Nikolaev Maznev, Union of Democratic Forces

#### *Tirana*

Fatmir Mediu, Republican Party

Sokol Hajre, Socialist Party

Sokol Hazizi, Socialist Party

#### *Thessaloniki*

Albert Broomhead, Lecturer on the London School of Economics External Programme, DEI;

Economist and Investment Analyst, Eurobros

Zacharias Talihazis, Sinedermos Party, Teacher of Business and Economics, Pinewood

International School

#### *Athens News*

Kathryn Lukey-Coutsocostas, Thessaloniki Correspondent

## **SPEECHES**

### **Marta Muço**

*“Low state capacity in Southeastern European transition countries”*

Ms. Muço elucidated the direct relationship between good governance and stable market economies in the countries of Southeast Europe which are considered “transition countries,”

having recently changed from communist states with closed markets to countries with democracies and free-market economies.

Her main point was that the Balkan countries do not have enough state capacity, in terms of both leadership and economic strength, to provide the necessary support for developing market economies in their countries. Transition economies require extensive state support to create the necessary market institutions and to ensure the rule of law. A vicious cycle exists such that state support requires economic strength, which cannot exist before the creation and implementation of adequate state market support. In the transition countries of Southeast Europe, markets are still weak and public administration is not effective in enforcing the rule of law. When corruption is high and state is weak, a parallel authority appears. Alternative public services exist parallel to the official state services. Often, this alternative system, however illegal, is superior in quality and efficiency to the weaker and impoverished official public system.

Corruption can be divided into two categories: public and private. Corruption in the private sector of businessmen and citizens is of course related to the corruption in the public sector of elected officials and state workers in that the causes and effects of both types of corruption overlap. For example, the cause of both public and private corruption may be low salaries, and therefore a serious and practical need to seek alternative sources of income.

Ms. Muço attributed the blame for corruption to several factors related to institutional and economic reform, among which is leadership. Responsible leadership and good governance are imperative in order to reduce corruption and stabilize a genuine free market economy in Albania. Ms. Muço's advice for a genuine and successful free market economy was major economic reform, privatization without hesitation, a stronger judiciary system, and last but not least, a regional effort to end illegal trafficking.

The politicians present from Albania responded by reiterating the importance of the role of leadership in transition countries, but also stressed the importance of an informed and active public. Fatmir Mediu spoke about an issue that is of great importance to all transition countries: the understanding of political power. How politicians interpret their own role is essential to good governance. Leaders of dictatorships saw themselves as owners of the state, whereas leaders in democracies must see themselves as servants of the democracy. In the countries of Southeast Europe, the leaders carry the legacy of being owners of the state, and thus are not very concerned about the security and protection of the people.

Radmilla Sekerinska explained the role of the historical legacy of transition countries, a legacy that inhibits the progression of constructive political change. The countries of Southeast Europe carry a socialist heritage such that the people expect everything from their governments. Furthermore, the public has unrealistically high expectations of the progress that their countries can achieve. Politicians have irresponsibly inflated the hopes and expectations of their public for their own ends. In the early 1990's, politicians depicted a beautiful picture of the future and the people believe that this future is a realistic possibility. These politicians may have been temporarily popular, but now the reality is that the beautiful future is impossible to deliver.

As a solution to the problems of low state capacity, Ms. Sekerinska pointed out the importance for politicians to look honestly at the present and future conditions of their countries, in addition to the need for anti-corruption measures. The countries of Southeast Europe share a historical legacy that lacks any tradition of market economies guided by state institutions, thus the development of markets must start from zero. Politicians, she advised, must be pragmatic and seek solutions somewhere in-between the high expectations and the problematic historical legacies.

## **Sara Morante**

*“The work of Transparency International, and how corruption undermines market economy and the rule of law”*

Ms. Morante described her perspective on the issue of corruption by describing the goals and activities of Transparency International (TI), a non-governmental organization at which Ms. Morante is Programme Officer of the department for Southeast Europe. The organization was formed by Peter Eigen, also Chairman, in order to raise awareness on an international level of corruption in many countries. In the past, corruption was not discussed openly. Peter Eigen identified the need for transparency in both public and private sectors as a way of reducing corruption. By revealing or making transparent the practices of businesses internationally, TI pressures governments to take preventative measures against corruption and pressures businesses not to use illegal practices.

Presently, TI has National Chapters in 77 different countries. In Southeast Europe, TI has partners in all countries of the region, and has National Chapters in Bulgaria, Romania, Greece, Turkey, and Croatia.

An effective tool that TI uses to fight corruption on an international level is publicized indexes ranking countries on different aspects of corruption. For example, the Corruption Perceptions Index (CPI) ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. Since CPI was first published in 1995, the index has played an outstanding role in sensitizing the public to the damage caused by corruption and in shattering the taboo that surrounds even discussing corruption. The Bribe Payers Index (BPI) gives the other side of the coin by ranking the leading exporting countries in terms of the degree to which their companies are perceived to be paying bribes abroad. This new survey, conducted in 14 emerging market countries, involved detailed questions to more than 770 senior executives at major companies, chartered accountancies, chambers of commerce, major commercial banks and law firms. These respondents included foreign nationals and executives at international firms. The questions concerned the propensity to bribe senior public officials by corporations.

Corruption challenges the government because it undermines the official processes that the state employs, thus undermining the legitimacy of the government. In the private sector, corruption increases the cost of business. Studies show that on a 10-point scale, if there is a reduction in corruption of 2.38 points, annual investment will increase by 4% of the gross domestic product (GDP). By publicizing such statistics, TI discourages national businesses from corrupt practices because they see that corruption discourages foreign investment. All parties, businesses and governments, are encouraged to take action against corruption by the mere existence of TI's reports. By making public the levels of corruption in a country, foreign investors are aware of these levels, and thus TI's reports influence investors' decisions.

According to TI, the appropriate measures for reducing corruption depend on the country in question because the political environment and the causes of corruption differ significantly from country to country. For this reason, TI National Chapters are actively designing their own national anti-corruption strategies, which include actions such as lobbying governments, informing the media, and bringing together people worried about corruption in their country.

TI's work raised several questions that were discussed by the group and not resolved. The lack of answers for these questions reveals the complexity of dealing with corruption, that it is not as straight forward as black and white. Two such irresolvable issues were raised by Baroness Ludford and by Ms. Sekerinska. Both issues illuminate the utmost importance of transparent practices in trying to fight corruption.

Baroness Ludford remarked that TI sent a memorandum to the European Parliament that included the names of countries that were black listed because of bad practices and corruption. Deciding which countries belong on the black list does not depend on a judgement by a court of law. Without a legal court decision, one is acting in the domain of suspicion thus the process is open to abuse. In fighting corruption, one has to be able to defend one's methods in order to be able to deal with the question of false allegations.

Ms. Sekerinska gave an example of allegations, perhaps false, which reveal the complexity of working in the field of corruption. The oil company, Shell, in an effort to improve its bad reputation because of its business practices in developing countries, got involved in the programs of TI. Ms. Morante explained that TI's policy is to look forward and promote change, rather than to look backwards and make accusations. When TI accepts to cooperate with certain companies, it looks first for clear signs that the company is sincerely committed to "cleaning up its act" and changing its business policy. Corrupt practices which a company may or may not have followed in the past do not interest TI as long as the company is visibly heading in a new direction. Despite the efforts of TI to function transparently, the organization will constantly face issues of false allegations and transparent practices precisely because the organization itself is working in the field of corruption.

### **Baroness Sarah Ludford**

*"The market economy and civil liberties: two sides of the same coin"*

Baroness Ludford stressed the importance of the link between strong civil societies and the existence of genuinely free market economies. She contended that civil liberties and free market economies are mutually reliant on each other. Motivated individuals are a precondition to free market economies. The Liberal Democrat ideology was central to her argument: governments must take a positive and active role in expanding opportunities for individuals by regulating markets, enabling individuals to realize their talents.

A free market is not an end in itself, but rather the most effective mechanism yet discovered to maximize individual choice, to encourage individual initiative, and to de-centralize property. Active government is needed to correct market distortions and prevent undue concentrations of power within the market sectors. When the state is too strong, individual liberty and civil society are threatened and when the state is too weak, corruption finds opportunities to flourish. Civil society can only be strong if all people have the right to civil liberties. Intolerance, a natural consequence of group psychology, prevents the development of strong civil societies.

Baroness Ludford cited Russia as an example of a country in which adequate freedom of expression does not exist and concentrations of power rule the market. She quoted from the International Herald Tribune, Igor Malashenko, Deputy Head of the Board of Directors of Media-MOST, a major Russian media organization, who wrote, "four days after Putin's inauguration as President, heavily armed government agents in ski masks broke into the office of Media-MOST which had published critical articles on his conduct during the Chechnyan War on high level corruption and questionable activities of the Federal Agency of Defense." When civil liberties, such as freedom of the press, are not ensured and protected by the government, a free market economy cannot genuinely exist.

Baroness Ludford gave an example of the cynicism that those in new democracies feel toward the system. The Governor of the Bank of Italy depicted Russian officials as not only being cynical about Western values, but as believing that their Western counterparts are equally as cynical. "A typical ex-KGB official is very likely to think along the following lines: these guys in the West think about their constituencies, public opinion, and their damned free press, but when it comes right down to it, they are smart enough to pay no more than lip-service to this democracy above all stuff." The implication is that developing free markets and a democratic

system in general offer opportunities for corruption to take root, unless firmly dealt with from early stages.

The implementation of a political philosophy is much harder than it seems when it is discussed in a comfortable conference room. Marijana Trifunovic articulated the distance that she finds between political philosophies, such as that of the Liberal Democrats, and the implementation of those philosophies, especially in the case of Yugoslavia. Ms. Trifunovic points to the lack of a body of citizens who have the resources to be innovative and motivated, as the primary reason why the Liberal Democratic philosophy is unrealistic in Serbia, and in other transition countries.

A political pull exists as a force *against* strong civil societies, a point raised by both Zacharias Talihadzis of Thessaloniki and Cornel Alecese of Bucharest. Leaders do not want human rights implemented in their country to help minorities because these leaders can use minorities as instigators for future wars. The philosophy of the ruling party for centuries in our countries, said Mr. Alecese, was to put one community against another, to put one nation against another. A minority against a majority has been used frequently as an instrument to build nationalism.

### **Daniela Bobeva**

*“The dream of cooperation in the Balkans”*

Ms. Bobeva gave a moving biography of her personal and professional life. She described the mission and the success of the Black Sea Trade and Development Bank, of which she is Vice-President, especially in respect to regional cooperation. She spoke generally, but genuinely, offering both her personal opinion and encouragement to the young politicians.

Ms. Bobeva defined herself first and foremost as Bulgarian. She had never travelled outside her country prior to 1989, because her grandfather was against the regime. She served as Minister of Trade, and has been fighting for the past 10 years to help Bulgaria move towards peace, stability and economic power. She was the head of the economic sector of the Center for Studies of Democracy, a Bulgarian NGO. In 1997, the government nominated her as Vice-President of the Black Sea Trade and Development Bank, which, at that time, was just being established.

Eleven countries created the Bank: Armenia, Azerbaijan Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and the Ukraine. Each country is represented on the Board of Governors and is entitled to be represented on the Board of Directors by one Director whom the member state appoints. Historically, these eleven countries of the Black Sea region have relationships marred by mistrust, emotion, and contradiction; tension between different member countries.

From the work of the Bank, Ms. Bobeva extracted the following lessons:

1. **Global institutions** separate from political institutions are essential for regional stability. So far, a global agenda has not succeeded in countering the influence of competing national, political agendas.
2. Globalization should be sought via **regional processes**. Neighboring countries need to cooperate on major infrastructure projects in order to have regional economic stability. Competition between the countries of any given region is counterproductive.
3. Starting from the beginning is better than reconstruction. To realize that one must start from the beginning is painful, but in the long run starting from zero is more effective and less painful than reconstructing.
4. **Foreign investment** should be encouraged in developing economies. In Hungary, the market is stronger than in neighboring countries because the Hungarian market is fully dominated by foreign investors.

In general, the people of the Southeast European region, Ms. Bobeva advised, need more courage and more confidence to take action. She felt that the countries of Southeast Europe should appreciate their achievements so far more than they do. The citizens of these countries need to find courage even though the situations in their countries might be challenging. In all the member countries of the Bank except for Greece and Turkey, industry is declining, trade deficit is increasing, and security is lessening.

Balkan countries and the member countries of the Black Sea Trade and Development Bank are in the process of major privatization, even in traditionally state-owned sectors such as telecommunications and electricity. Corruption is not as big a risk in the process of privatization as people think. During the time when Ms. Bobeva was Minister of Trade, she signed 37 privatization deals and was not approached with an illegal offer for any one of these deals.

Libel is a serious problem in Bulgaria. Media involvement in corruption accusation should be highly controlled. The media by accusing a politician of being corrupt can, and often do, destroy that politician's career and personal life. Because of the threat of false accusations, privatization deals were delayed in Bulgaria. The politicians need more courage to sign privatization deals.

Ms. Bobeva recommended investment programs, as well as programs to increase international trade. Investment programs popularly encourage small and medium size enterprises (SME's), but successful markets also need big enterprises. Funding institutions strongly support SME's without knowing much about economics. SME's can only exist, grow, and be as successful as is the whole market environment. Additionally, in all the Balkan countries there are no export credit agencies; an institutional framework is needed to increase international trade.

The subsequent discussion focused mainly on the Bank's criteria for giving a loan, and on the objectives of the Bank. The Bank may promote educational programs that include exchanges of experience between countries as part of the project.

### **Rigas Tzelepoglou**

*"Preparing for the Future"*

Mr. Tzelepoglou laid out some clear and basic steps for businesses, organizations, and even nations to strategically plan for the future. The reason why planning for the future is so important is because the future belongs to those who plan for it.

Throughout history, humans have looked to the future and tried, successfully or not, to prepare themselves. Effective forecasting relies on rationale; one must identify the opportunities and threats in the environment or market place.

Any organization, whether it is a small business or a nation, must identify clear objectives, and then plan an appropriate course of action to reach those objectives. Without stated objectives, a deliberate course of action cannot be planned.

A sound strategy must take into consideration the environment in which it is operating, the political, economic, social, and technological factors. One has to leverage the initial resources in such a way that they can eventually reach a goal, one that perhaps was originally conceived as highly optimistic. The course of action required to reach one's goals must balance local action with global thinking. The formula must be global, but also must account for the differences between local environments.

## **Hermine Vidovic**

*“Croatia after Tudman, a long way to European Union membership”*

Ms. Vidovic described a grim picture of the Croatian economy, an economy stunted by unsuccessful privatization, high levels of corruption, insufficient market-regulating laws, and a long road ahead to accession into the European Union. In short, Croatia needs at least a decade to meet the Copenhagen criteria. She did, however, place hope in the newly elected government and its ability to make the necessary changes towards economic stability and growth.

The Croatian economy has not been governed by the rule of law in the past decade; the level of corruption is high; and the unofficial economy accounts for 25% of the Gross Domestic Product (GDP). Legislation related to denationalization did not exist, nor did an anti-monopoly law.

The process of privatization began in Croatia in 1991 in accordance with the “Law on transformation of socially owned enterprises.” In the early stages, privatization was carried out by management and employee buy out of large companies. The law allowed employees to buy shares at a discount and to pay for them in instalments of up to 20 years. Unsold shares had to be transferred to the Croatian Privatization Fund (CPF) and to the state pension fund. A part of a firm’s capital was left to the former owners, even in the absence of their claiming it. Many government purchases were done without a formal bidding procedure and without the normal surveillance of the public. As a result, no fresh capital came into the Croatian economy.

Croatian’s stabilization program introduced in 1993 has been successful. Inflation was estimated at just over 3% in 1996, an improvement from the past.

## **MEMORABLE QUOTES**

“Is corruption a sign that the state is weak in all its functions? Not necessarily. Corruption finds a better place to flourish in a democracy than in a totalitarian regime. Those regimes are not characterized by weak rules, and they usually exhibit less corruption. In terms of a market economy, high corruption is a sign of low capacity to manage property, set up proper institutions and enforce rules of law.” Marta Muço, Bank of Albania.

“Unfree people are not good workers. Liberate people’s skills and talents and they will be motivated to be innovative.” Baroness Sarah Ludford, MEP

“When you have a vast majority of the population who need to work extremely hard just to subsist, they do not have the time or energy to make the necessary changes. The only thing they can think about is how to survive until tomorrow.” Marijana Trifunovic, Demochristian Party, Belgrade.

“We (Liberal Democrats) – to avoid a famous saying - believe that all power corrupts, and absolute power corrupts absolutely.” Baroness Sarah Ludford, MEP.

“The route to European Union entry goes through regional cooperation, economically and otherwise, especially in the Balkan region.” Daniela Bobeva, Black Sea Trade and Development Bank, Thessaloniki.

“We can’t sit and wait for a market economy to happen. We need active and informed politicians.” Marta Muço, Bank of Albania.

“First, and most importantly, we learn that hesitancy is the grave digger of economic transformation. If reforms are not pursued with conviction, courage, and energy then reforms do not happen quickly enough – or perhaps they do not happen at all. Boldness is needed when liberalizing markets and prices. Speed and determination is required for privatization.

Unshakable strength of character is a requirement when a government faces the prospect of higher inflation and higher unemployment up front – when these are bitter pills to be swallowed on the difficult road to recovery.” Remarks by Rahmi M. Koç, published in “Culture and Reconciliation in Southeastern Europe, International Conference, Thessaloniki, Greece, June 26-29, 1997,” Paratiritis, Thessaloniki, 1997, p.234

“What is at stake for Romania’s next government, from 2001 to 2004, will be to finalize the transition to a functional market system,” Romanian Minister of Foreign Affairs, Petre Roman, quoted from the International Herald Tribune, 2 August 2000.