

The Fourth EU-Southeast Europe Summit Sofia, October 14th-15th 2015

John Andrews, Consultant Editor, The Economist, introduced **The Fourth EU-Southeast Europe Summit**, held in **Sofia**, Bulgaria on **October 14th-15th 2015**. The summit, co-chaired by **Joan Hoey**, Regional Editor for Europe at The Economist Intelligence Unit (EIU), was attended by the President of Bulgaria, Rosen Plevneliev, senior government ministers and officials and representatives of foreign and domestic businesses.

Speaking about the present economic situation and outlook for the Balkans, **Laza Kekic**, Independent Consultant and former EIU Regional Director for Europe, noted that after many difficult years a recovery is under way in 2015. In 2014 average regional output was still flat, but in 2015 five regional economies (Albania, Kosovo, FYR Macedonia, Montenegro and Romania) will record growth of more than 3%. Bosnia and Herzegovina and Bulgaria will grow at about 2%. Croatia and Serbia are still lagging behind, with growth of less than 1%. The recovery is set to continue in 2016-17.

The 2015 recovery in the Balkans is due to a host of reasons: an uptick in euro zone growth, which has underpinned increased external trade, remittances and foreign direct investment in the Balkans; low international oil prices; strong domestic demand growth in a number of countries; and currency depreciation in some countries with flexible exchange rates.

Risks to the recovery abound. These include international financial market volatility, especially in China and emerging markets; prospective US monetary tightening; possibly a new euro area weakening; delays in reforms, privatisation and fiscal consolidation; and political instability.

According to **Joan Hoey**, the Balkan countries have features that predispose them to political instability, including: new and inexperienced states; a history of unrest; ethnic and border disputes; high unemployment; non-consolidated democracies; very high levels of dissatisfaction with political elites; corruption; and low levels of trust in institutions.

Some countries are suffering from outright instability (Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro); others are under political strain (Bulgaria, Croatia, Romania); and Serbia, hitherto relatively stable, may now be destabilised by friction with the EU over Kosovo.

Some Balkan states are in the front line of the refugee influx from conflicts in Syria and elsewhere. They do not have the resources to cope. As the EU hardens its borders, there is a danger that these countries will become holding camps for migrants. There is a heightened risk of intra-regional conflict over this issue.

Former Swedish PM and FM **Carl Bildt** noted that globalisation is weaker now than in the two decades leading up to the 2008 global economic and financial crash. Geopolitics is back and Russia is becoming more unpredictable. The Middle East and Islamic world has entered a period of profound instability. Mr Bildt pinpointed Brexit as the biggest risk facing Europe. In its 2020 goals, Europe is falling short in several areas, especially R&D expenditure and employment rates. He concluded by saying that "the world has become more dangerous, divided and disorienting."

Meglana Kuneva, Deputy PM for European Policies Coordination and Institutional Affairs, emphasised Bulgaria's commitment to utilising the potential funding available under the Juncker investment plan. Ms Kuneva also criticised the EU's failure to grant Schengen membership to Bulgaria and Romania, even though they have both met all the technical criteria for membership and have invested heavily in securing their borders.

Minister of Economy **Bojidar Loukarski** said that a key government aim is to increase foreign investor confidence in Bulgaria through improving the business and regulatory environment.

Stamatios Theodoropoulos, chairman of the Hellenic Business Council in Bulgaria, representing 164 Greek and Cypriot companies active in Bulgaria, emphasised that despite the Greek crisis there has not been a significant decline in Greek economic activity in Bulgaria.

Bas Bakker, senior resident representative for Central and Eastern Europe, IMF, said that although income convergence between south east Europe and developed Europe is not guaranteed, it would resume provided that countries pursued the right policies: "Pursuing the right policies does not guarantee that a country will become rich; but pursuing the wrong policies guarantees that it will remain poor."

Ruja Ignatova, founder and owner of OneCoin, disputed the usual gloomy picture of the region and said that Eastern Europe can innovate, grow and use new technology effectively. She emphasised that the future of money would be outside the banking sector, but acknowledged that the development of cryptocurrency is in its infancy.

In a keynote address, **Laza Kekic** noted that there is a bewildering array of geopolitical challenges in the region. These include the impact of the Ukraine conflict; the Syria conflict; the refugee and migrant crises; the fragile Balkan economies; and heightened political risk in Turkey. The over-arching issue is US-Russia tensions, including the risk of accidental war, which has increased now because of Russian involvement in Syria. Several factors give cause for serious concern: Russia's president Vladimir Putin may be becoming reckless; the next US president is likely to be less cautious than Barack Obama; the present generation of leaders do not have the restraining influence of having experienced world war two; Russia is being isolated and nobody is trying to include it in a European security architecture; and polls in both the US and Russia show that the public is prepared to discuss the possibility of nuclear war.

Temenuzhka Petkova, Minister of Energy, said that Bulgaria is assuring energy security through diversification of sources and supply routes. She said the government is working very hard to finalise inter-connectors with Greece, Romania, Serbia, Turkey.

Konstantin Simonov gave the Russian perspective and presented a critique of what he called "Diversification against capitalism". He rebutted criticisms of Gazprom and criticised Bulgaria for cancelling the South Stream pipeline project.

Marcin Olander, representing Google in Central and Eastern Europe, said that there were tremendous opportunities in SEE, but serious digital skills deficiencies and resistance to change prevented these from being realised. **Jambu Palaniappan** of Uber noted that the company's model is being extended to many countries in the world at breakneck speed. However, it is encountering strong resistance in many parts of Europe. For example, in Sofia, where it has experienced one of the fastest growth rates, vested interests have managed to close down its operations, at least temporarily.

Speaking at the closing Gala Dinner, president **Rosen Plevneliev** said that Europe is suffering multiple challenges, which are severely testing European unity. He criticised those "Yes, but" Europeans who try to block common policies. President Plevneliev noted that every European crisis originated when somebody broke the rules. The rules of Schengen are being flouted. "If we have prime ministers saying 'we don't want Muslims here' that is Europe from the 1930s."