

PARLIAMENTARY ASSEMBLY OF THE BLACK SEA ECONOMIC
COOPERATION
PABSEC

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**ECONOMIC, COMMERCIAL, TECHNOLOGICAL AND
ENVIRONMENTAL AFFAIRS COMMITTEE**

REPORT

ON

**"DEVELOPMENT OF COOPERATION
IN THE FIELD OF TRADE AND
BUSINESS AMONG THE BSEC
MEMBER COUNTRIES"**

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INTRODUCTION

According to the decision made at the Sixth Meeting of the Economic, Commercial, Technological and Environmental Affairs Committee held in Athens on 14-15 February 1996, a *Report and Recommendation 16 1996* which follows have been drafted on the "*Development of Cooperation in the Field of Trade and Business among the BSEC Member Countries*".

Among the PABSEC Member Delegations, *Armenia, Azerbaijan, Greece, Moldova, Romania, the Russian Federation and Turkey* have contributed with relevant information for the assembly of the *Draft Report and Recommendation 16 1996*. The International Secretariat has also benefited from the information provided by the *BSEC Business Council* as well as from relevant sources of literature.

Upon their completion, the International Secretariat has submitted the *Draft Report and Recommendation 16,1996* to *Mr. Victor Kalnik*, designated *Rapporteur* of the Committee. Subsequently, in view of the instructions directed by *Mr. Kalnik*, the International Secretariat has finalized the *Draft Report and Recommendation 16/1996 on "Development of Cooperation in the Field of Trade and Business among the BSEC Member Countries."*

PRESENT OUTLOOK

In the context of the new world order due to the spectacular changes since 1989, the Black Sea Economic Cooperation has emerged and become functional since 1992. With a new role vested on it, the BSEC process aimed at establishing cooperation in order not only to find solutions to the economic problems encountered in the BSEC Member Countries, but also to seek political and social stability expected to induce peace and progress throughout the region. In this respect, gradual integration to the contemporary Western economies and adaptation to free market systems has been regarded as one of the ultimate objectives embedded within the spirit of the BSEC initiative.

In the world of today, economic integration is considered very significant as an instrument among countries with geographic proximity and mutual interests, therefore, is benefited to establish sound socio-economic and stable political relations. Indeed, economic integration will not only facilitate freer trade activities through the effective utilization of resources but also create division of labor and expertise for the purpose of increasing prosperity of the people in the region.

In that respect, the success and endurance of the BSEC process should still enthusiastically be considered as a unique opportunity for all the BSEC Member Countries as it has the potential to substantially contribute to the wealth of the region.

In most of the Member Countries, the elements of the market economy are still in their formation process inducing restricted production volumes. This causes a low level money-goods relationship which hinders the dialectic balance between the production dynamics and the returns on investment and money in the system. Again, the super inflation economies prevailing in most of the Member Countries have led to a continuous growth of budget deficits and to an increase in the debts of firms, which adversely effect the overall economic system. Other factors such as the need for capital, credit and foreign convertible currencies, independent relations in foreign trade activities, the establishment of equal rights for the foreign entrepreneurs and protection of foreign investments, the creation of foreign exchange markets, the development of more competitive market conditions, the advancement of cooperation in banking and finance sectors, the reduction

of government interventions, the improvement and harmonization of customs procedures, the elimination of double taxation, the relaxation of visa regimes, the development and rehabilitation of transportation, communication and telecommunication systems and, finally, the environmental concerns are the issues subject to play major role on the expansion of trade and business volume and commercial activities among the Members of the BSEC Countries.

Indeed, all above attempts are conducive to the effective formulation of related legislation and the establishment of necessary institutionalization which are yet to be achieved in most of the BSEC Member Countries. Although the Member Countries have adopted a free enterprise system in principle, many have not yet established the required legislative and institutional structure. In fact, there are serious legislative, institutional and regulative gaps in the areas of commerce, domestic and foreign trade, banking and finance, monetary policies as well in other areas that are mostly mentioned above in most of the BSEC Member Countries.

The present social, economic and political constraints in the region should be expected to be resolved gradually in the medium and/or long run. It is true that the problems in the region seem to be vast, but not insoluble. In that respect, the various platforms of the BSEC process could be effectively utilized - and have been utilized so far to a certain extent - for the purpose of attaining the desired levels of trade and business output not only among the BSEC Member Countries within the region but their cross-regional commercial activities with the non-BSEC Countries as well. The BSEC, with its affiliated organs, has the means to achieve those targeted objectives. In fact, since the commencement of its activities in various platforms, the BSEC process has been effective against all odds and, therefore, it should so far be considered productive under these cumbersome conditions prevailing in the region. Indeed, the BSEC process has gained its true identification with successful steps taken in a short period of time. Again, within this framework, PABSEC has now gotten a stable international recognition with its effective working instruments as well as with its decisions and recommendations so far produced on the vital issues that are directly related with the mutual interests of the Member Countries in the region.

Therefore, in order to activate the trade and business mechanism and its auxiliary market dynamics, the efforts should be directed to finding elastic, functional and practical solutions to the problems encountered in commercial activities, while keeping in mind that the principal purpose of the BSEC process is the stimulation of economic cooperation in the region. To that end, for the purpose of expanding trade and business volume, it is inevitable to take concrete steps towards the elimination of obstacles for the free circulation of goods and products as well as the free movement of business people and tourists among the BSEC Member Countries. Also, it would be substantially facilitating to establish a legislative data bank as to monitor latest developments and improvements towards effective economic cooperation. Although the whole process may require a long-term effort to achieve, it would not only be efficient but also wise to start and pursue on making necessary legislative and institutional changes and adjustments which would induce a more comfortable environment for the business people to travel freely and carry out their commercial activities efficiently at each other's territory in the region. Only then, could the liberalized international trading system based on transparent and effective principles of free and fair competition in conformity with the contemporary world practices be established.

FACTS, PROBLEMS AND REMEDIES

The most significant facts and problem areas adversely affecting the trade and business relations among the BSEC Member Countries are classified below. Also, the possible remedies are provided in terms of general recommendations towards solutions to those problems. (" - " signs denote problem areas and " * " signs denote general recommendations towards possible solutions).

LEGISLATION

- There is a lack of legislative basis for the smooth functioning and development of regional trade and business activities among the BSEC Member Countries, particularly, in the areas of; institutionalization, customs, double taxation and tax codes, insurance, licensing, standardization, international travel, visa formalities, transportation, banking and finance, monetary system, domestic and foreign investments, land ownership, competition, privatization, free trade zones, communications and telecommunications, technology, know-how and experience and, finally, political issues.
- * Necessary legislation should be enacted and enforced within the shortest possible time on all issues mentioned above to provide the best means for the activation of trade and business among the BSEC Member Countries through the establishment of sound infrastructure and institutionalization in order to catch up with the contemporary requirements of free market economies in compliance with the universal standards (*GATTWTO*).

INSTITUTIONALIZATION

- In many of the BSEC Member Countries, the basic institutional structure are not sufficiently established for the smooth operation of the social, political and economic mechanisms.
- Although market economy system is taken seriously, the organizational and behavioural framework required for this system has not yet fully existed in most of the BSEC Member Countries.
- Among many of the BSEC Member Countries, there is an urgent need for the development of effective incentive systems for business and labor towards a market economy.
- The existing institutional structure among most of the BSEC Member Countries lacks control, auditing and guarantee mechanisms.
- * The BSEC Member Countries which previously had state-run economies urgently need to establish concrete institutional basis as well as to create reliable legal framework for effective economic cooperation covering customs, visas, labor laws, collective bargaining, strike and lockout regulations and, etc., that are particularly important for the free movement of the means of production in the region.
- * The old bureaucratic system needs to be urgently replaced with an efficient mechanism.

CUSTOMS / PROTECTIONISM

- The current problems existing among some of the BSEC Member Countries in their trade relations are to a large extent related with major differences in their customs legislation and practices.
- There are important discrepancies in customs legislation among the BSEC Member Countries.
- There are too many tariff and non-tariff measures directly hindering foreign trade activities. Also, non-tariff restrictions like "*quotas*" cause significant problems.
- There are severe customs delays at the borders and ports of entry mainly due to border crossing formalities which also increase the cost of freight.
- Transit fees are kept quite high.

- There are difficulties experienced in the requirements of a "*certificate of origin*" of goods and products.
- "*Protectionism*" not only restricts international trade but also obstructs the development of the national economies of the BSEC Member Countries.
- * The efforts should be geared, to the extent possible, to the expedient simplification, improvement and harmonization of customs legislation among the BSEC Member Countries according to the bilateral, multilateral and international agreements in conformity with the *GA TT/WTO* principles.
- * The border crossing formalities and customs surveillance procedures should be simplified and strengthened as well as customs fees should be reduced in Member Countries where customs duties are high.
- * Relevant legislation should be revised with a view to eliminate non-tariff barriers to trade such as quotas and regulations regarding government procurement.
- * "*Anti-dumping*" and "*countervailing duties*" should be regulated and applied.
- * The protectionist legislation should be eliminated as quickly as possible in conformity with the spirit of the "*Summit Declaration*" on the Black Sea Economic Cooperation which aims to facilitate trade among the BSEC Member Countries.
- * The conservative restrictions and barriers on trade and investments should be gradually removed.

STANDARDIZATION / INSURANCE / LICENSING

- There are serious problems regarding the insuring of exports/imports among most of the BSEC Member Countries.
- Due to legislation deficiencies concerning foreign exchange and modern system banking and insurance, the goods sent abroad cannot be insured in some of the BSEC Member Countries.
- The licensing applications create major difficulties in most of the BSEC Member Countries.
- * The legislation should be reviewed to determine the existing discriminatory quality and safety standards as well as rules and regulations regarding government contracts and purchases which may constitute obstacles to international commerce.
- * The secure insurance systems should be developed and applied in compliance with universal trade and business practices in some of the BSEC Member Countries.
- * The licensing requirements that are applied to some export/import goods and products should be examined and modified.

DOUBLE TAXATION / TAX CODES

- Application of double taxation, evasion of taxes due to loopholes in the tax codes and frequent changes of taxation systems are significant causes of impediment to regional trade and business activities in the BSEC Member Countries.
- Double taxation can have detrimental effects on the development of contracting services, international land, sea and air transport as well as cross-border investments.

- * Double taxation should be eliminated from the legislation of the BSEC Member Countries.
- * The bilateral agreements and the ratification process for the avoidance of double taxation should be concluded.
- * Tax codes should be reviewed by the BSEC Parliaments so as to cover all potential tax payers, reduce evasion to a minimum and yield adequate income for the Governments while encouraging businesses to invest and grow.

INTERNATIONAL TRAVEL / VISA FORMALITIES

- Visa formalities are so cumbersome, time consuming and requiring too many bureaucratic provisions hindering the free travel and movement of business people and tourists in most of the BSEC Member Countries.
- * A pragmatic approach should be generated for the sound conduct of visa formalities in accordance with the principle of "*reciprocity*" among the BSEC Member Countries.
- * Relevant legislation should be reviewed so as to eliminate visas and/or to simplify visa formalities in order to make it easier for the business people, experts, specialized labor and tourists to enter each other's countries. Also, they should also be granted to obtain residence permits that would allow them to operate freely in each other's territory within the BSEC Member Countries.
- * Visas should be granted at border crossings and other points of entry in the BSEC Member Countries for business people, in particular.
- * Legislators can be helpful by speedily ratifying agreements that would facilitate travel, make possible use of expatriate labor, and allow foreign business people to take up residence in the BSEC Member Countries.

BANKING AND FINANCE / MONETARY ISSUES/ PRIVATIZATION

- There are serious legislative, institutional and infrastructural inadequacies in the banking and finance systems in most of the BSEC Member Countries.
- Trade among the BSEC Member Countries is substantially hindered by heavy bureaucracy in the banking sector.
- Contemporary correspondent banking practices do not exist and/or not widely used among most of the BSEC Member Countries. This slows the flow of transactions substantially and become quite costly for business people and investors.
- Due to insufficient banking infrastructure such as lack of computerization and inefficient telecommunications, serious problems are experienced in international transactions. This impedes trade as business people mostly complain of delayed money transfers.
- Problems like money and capital transfers, payments and letters of credit problems discourage investors and business people from getting involved in trading larger volumes.
- Most of the BSEC Member Countries are not yet ready to fully adopt and practice the contemporary foreign exchange system. This situation handicaps the smooth flow of money, hinders the investments, causes serious credibility problems, puts barriers to import/export transactions and, therefore, adversely affects the whole financial system.

- There is a need for improving legislation regulating foreign exchange operations facilitating trade and business cooperation among the BSEC Member Countries.
- In most of the BSEC Member Countries, the foreign currency reserves are in low levels which impede the proportional price balance, causing serious commercial difficulties. Again, most of the BSEC Member Countries are in urgent need of financial resources for their project investments.
- Due to scarcity of foreign currency and the non-convertibility of the local monies in most of the BSEC Member Countries, trade is sometimes conducted through barter transactions which require the preparation of balance sheets indicating the values of goods with long-term instalments.
- The finance sector in many of the BSEC Member Countries is deprived of developed instruments and know-how as might be the consequence of the ex-system centralism and monopoly of the state.
- *"Stock and Commodity Exchange Markets"* either do not exist or the ones which exist work with incremental volumes, and they are rather speculative and risky in most of the BSEC Member Countries.
- Factoring, leasing, clearing and other financial dynamics do not exist and/or are not fully functional in most of the BSEC Member Countries.
- The price mechanisms among the BSEC Member Countries are still vastly different.
- In regard to privatization, each BSEC Member Country needs to take into account many factors before it determines the rate and ways of solving this rather complicated problem, which necessarily passes definite evolutionary stages in national legislation. In parliamentary practice, in the countries with emerging market economies that earlier were regularized, attempts to expedite consideration and adoption of legislation to provide for more comprehensive privatization, are usually blocked and the problem gets bogged down in the endless bureaucratic details.
- * In general, the most specific banking problems, such as capital and money transfers, letters of credits, clearing transactions, foreign exchange transactions, etc., frequently encountered by the BSEC Member Countries while trading with each other should urgently be eliminated and/or simplified in order to attain larger volumes in their commercial activities. More efficient payment and settlement methods should be established in the banking system as well as the limitations on the purchasing of convertible currencies should be eliminated. In addition, the European system of accounting and statistics should be adopted.
- * Legislation regulating contemporary banking and finance system should be put forward and adopted.
- * The appropriate sources of capital, credit and funding at governmental and non-governmental levels as well as through international financial organizations required for the realization of projects and investments of common interest for the BSEC Member Countries should be actively investigated.
- * *"Stock and Commodity Exchange Markets"* as well as other elements of financial mediator dynamics such as leasing, factoring and clearing need to be activated and/or established among the BSEC Member Countries.

- * All the BSEC Member Countries may considerably benefit from the establishment of a "*Common Chamber of Commerce*," since such a step will facilitate to accelerate the closing of the gaps in the legislation of some of the Member Countries as well as to improve the information and communication networks.
- * The success of sound privatization programs in the BSEC Member Countries would not only strengthen the banking and finance sectors, but would also allow the stock exchanges to perform their roles.
- * The ratification process of the "*Agreement Establishing the Black Sea Trade and Development Bank*" should be urgently completed by all the BSEC Participating States. This "*Bank*" will not only play a major role to promote economic cooperation in the region but also is expected to be very instrumental for generating funds of common projects from other international financial institutions once it becomes operational.
- * The establishment of more joint "*Trade and Investment Banks*" among the BSEC Member Countries needs to be encouraged.

INVESTMENTS

- There is an evident problem due to the unstable legislation as well as frequent changes in the national legislation mandating the protection of foreign investments in most of the BSEC Member Countries. This causes serious problems, particularly, in joint initiatives as sound policies do not exist towards resolving the legislative and financial conflicts which may appear between the parties.
- Legislation regulating the small and medium-sized enterprises lacks serious encouragement and incentives that are vital for them to survive.
- * The liberalization of the general regulatory framework on foreign investments should be secured through appropriate legislation aiming at providing safeguards and benefits for foreign investments:
 - Stable legislation mandating the agreements on the "*Protection of Domestic and Foreign Investments*" should be put into effect.
 - Equal treatment for foreign and domestic investments should be secured.
 - Existing restrictions on repatriation of both profits and invested capital should be reduced and/or removed.
 - Provisions should be brought to ensure that there will be no expropriation of foreign-owned enterprises without full and prompt compensation.
- * For joint projects, more active means of cooperation should be investigated with relevant international organizations such as the *World Bank*, *EBRD*, the *European Investment Bank*. Indeed, the provision of credits and funding through these organizations would also substantially contribute to small and medium-sized enterprises.
- * Due to the lack of sufficient convertible currencies in most of the BSEC Member Countries, the trade methods such as barter, counter trade, compensation, off-set, blocked currencies, switch trading and clearing are widely used during commercial exchanges. Although these methods are beneficial and should be supported, however, when the export and investment volumes reach large amounts, they may not become satisfactory at times. In this respect, joint venture practices may be preferred. At present, the joint venturing system is becoming quite widespread as shared investments are becoming more popular among the BSEC Member

Countries.

- * Relevant legislation should be put into effect supporting the establishment of more small and medium-sized enterprises as well as providing necessary incentives for the maintenance of the existing ones.
- * Parliaments should encourage bilateral agreements, particularly, on the protection and encouragement of foreign investments as well as legislation on the development of the system of financial leasing.

LAND OWNERSHIP

- Legislation on land property rights is restrictive and not clear, therefore, preventing foreign investors from venturing into new activities in most of the BSEC Member Countries.
- * Legislation restricting private land ownership should be liberalized and made transparent so as to enable local and foreign people to own real estate. This would also encourage the opening of the new businesses, particularly, in the form of small and medium-sized enterprises. In addition, private land ownership will open up opportunities to citizens to have their own housing in urban areas, in particular.

COMPETITION

- Due to the lack of appropriate legislation as well as deficiencies in the market control mechanisms, the competitive environment required for the realistic free market economic conditions have not yet been established in most of the BSEC Member Countries.
- The market suffers from the ill practices of competition inducing trusts and monopolies in some of the BSEC Member Countries. Again, occasional practices of "*dumping*" and "*countervailing*" cause an imbalance in the price equilibrium of goods and products and, therefore, encourage unfair competition in the market.
- * Legislation restricting free competition should be reviewed.
- * Necessary legislation should be generated and enforced for the prevention of the establishment of monopolies.
- * Legislation should be introduced for the protection of intellectual property and trade rights in order to avoid all modes unfair competition.
- * Deregulation should be pursued as to allow economies of the BSEC Member Countries to derive maximum advantage from greater competition.
- * Effective market control mechanisms should be introduced and enforced through the application of necessary legislation in order to avoid unfair competition practices such as "*dumping and countervailing.*"

FREE TRADE ZONES

- There are some unnecessary restricting quotas applied by some of the BSEC Member Countries to various sets of goods and products which limit the expansion of overall volume of trade.
- The number of free trade zones has not reached to satisfactory levels due to ill-practiced market activities, poor control mechanisms as well as existing political strains in the region.

- The existing free trade zones are not properly utilized.
- * Free trade zones can play - and has so far been - a very useful role in promoting trade and investments in the region. Therefore, unnecessary restrictions limiting the volume of trade in various goods and products should be avoided.
- * Relevant legislation should be introduced and enforced to facilitate the establishment of more free trade zones as well as to ensure more productive operation of the existing ones.
- * Effective market control mechanisms should be enforced in free trade zones to avoid resorts of unfair competition as well as the possible smuggling of restricted goods and products.

COMMUNICATIONS

- The region vastly lacks communications and telecommunications facilities and technology as well as exchange of information in all sorts of commercial sectors needed for the smooth conduct of trade and business activities among the BSEC Member Countries.
- The region's annual telecommunications deficiency is exceeding six million lines.
- * Bilateral, multilateral and international projects towards the development and enhancement of communications and telecommunications networks in the region should be supported.
- * The region urgently calls for the development of an accurate and non-stop means of exchange of information. This could be mostly materialized through the establishment of "*common exchange of information centers*" and/or "*data banks*", etc. Computerized "*Internet*" lines and/or "*on-line*" *telecommunications systems*" could be utilized for effective and smooth flow of information so as to enable the Member Countries to communicate with each other promptly as well as to give them the chance to gather accurate statistical, qualitative and quantitative information on current market conditions, without delay. By doing so, all sorts of potential investments and venturing opportunities can be timely spotted and oriented towards proper directions so as to boost the commercial activities and the volume of trade in the BSEC Member Countries.
- * In particular, high-tech on-line telecommunication networks should be urgently developed among the banking, finance and monetary sectors of the BSEC Member Countries.

POLITICAL ISSUES

- Existing political-ethnic problems in the region seem to pose difficulties for the realization of effective economic cooperation in the region.
- * It is a fact that the resolution of the political disputes in the BSEC region cannot be achieved easily and even seem to prevail in the long-run. Although this situation greatly hinders the overall trade activities in the region, it is possible to reverse the center of attention from political issues to economic ones, with compromising efforts given by the involved parties. In fact, if the efforts could truly be geared to more of economic concerns of the region than political ones, then, it may seem quite promising to resolve the political discrepancies. Undoubtedly, the materialization of such mechanism, that is to prioritize the economic benefits of the people of the region over political interests, would eventually pay off and induce peace, prosperity and political stability in the region.

CONCLUSION

The magnitude of the development and progress made in commerce in the BSEC region would reflect the success of economic cooperation among the affiliates of the BSEC Countries. In this respect, being able to achieve the desired goals calls for the maintenance of a reformist approach through the generation and enforcement of relevant legislation, the establishment of efficient economic and political institutions as well as dependable infrastructure necessary for the materialization of an effective free enterprise system. Indeed, the contemporary legislative and institutional development would most likely eliminate barriers to free trade as well as enable the free movement of individuals in each other's territory. In addition, the discrepancies and adversities constantly impeding the expansion of trade as well as the liberalization and promotion of commercial activities among the Members of the BSEC Countries need to be reduced to a minimum.

Undoubtedly, the weakest point of most of the BSEC Member Countries is their lack of capital accumulation required for project implementation and investments as well as their dependence upon Western economies stemming from their legislative and institutional deficiencies which create serious credibility problems in the international capital markets.

The complexity of the socio-economic and political problems in the region is another factor contributing adversely the financial credibility of most of the BSEC Member Countries, thus, inducing poor regional and inter-regional economic relations. Therefore, necessary measures should be promptly introduced and taken for the settlement of disputes prevailing in the region, particularly, the ones in political nature.

Finally, public confidence has to be built up in the region where the people will trust and depend on their governments and economic systems. Of course, this again calls for the establishment of a strong background with effective legislation and institutionalization, the utilization of contemporary technological infrastructure, the generation of necessary capital, the enforcement of efficient control and auditing mechanisms, the proper and productive implementation of credit and finance methods, the protection of foreign investments and the creation of a smooth foreign exchange systems, etc.

All above measures are conducive to the successful creation of an economic environment where goods and products are circulated freely as well as people are traveling and trading without facing superficial difficulties. As experienced in other regional cooperation schemes, the objectives targeted in the BSEC platforms may not be achieved at once, and even call for a long-term endeavor. However, the legislators of the BSEC Member Countries may indeed facilitate this process by enacting relevant and necessary laws and regulations within the shortest possible time.

The BSEC process including PABSEC, with its multi-faceted platforms, organs, and international connections, possesses the effective means of materializing such a growing atmosphere furnished with mutual acceptance, understanding and confidence in the Black Sea Economic Cooperation region, particularly, via bilateral and multilateral agreements towards a peaceful and prosperous future.