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To: Members of the Executive Board

From: The Secretary

Subject: West-East Economic Conference of Ministers of Economics

There is attached for the information of the Executive Directors the summary of conclusions of the West-East Economic Conference of Ministers of Economics, Industry and Trade, held in Muenster, May 7-9, 1992.

Att: (1)

Other Distribution:
Department Heads

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**Summary of Conclusions
of the West-East Economic Conference
of Ministers of Economics, Industry and Trade
in Münster, 7 - 9 May 1992**

At the invitation of the Federal Minister of Economics of the Federal Republic of Germany, the First Deputy Prime Minister of Belarus, the Prime Minister of Kazakhstan, the Vice Prime Minister and Minister of Economics of the Ukraine, and the Ministers of Economics, Industry and Trade of Canada, the Czech and Slovak Federal Republic, France, Hungary, Italy, Japan, Poland, Portugal, the Russian Federation, the United Kingdom, and the United States of America, as well as representatives of the Commission of the European Communities, the Organisation for Economic Co-operation and Development (OECD) and the European Bank for Reconstruction and Development (EBRD) met in Münster from 7 to 9 May 1992.

Giving special attention to the pivotal role of the private sector in economic reform, they exchanged views on policy measures and possible assistance to help accelerate the transition of the countries of Central and Eastern Europe as well as those of the former Soviet Union to market economies, and, in particular, necessary conditions for closer international business cooperation. Representatives of industry from participating countries took part and made valuable contributions based on their experience to date in the reform economies.

The participants agreed on the vital importance of encouraging rapid development of the private sector in the reforming countries and of accelerating foreign direct investment, which can play a major role in the economic reform process. They examined necessary policy measures by the reform states and addressed various areas of useful assistance by established market economies, including privatisation, the creation of a capable small and medium-sized enterprise sector, conversion from

military to civil production, enhancement of the role of trade, training in market economy skills, cooperation in environmental protection, and, in particular, framework conditions that are necessary for investment from the private sector. Participants also acknowledged the vital role of the international financial institutions and other specialised organisations in this context.

The participants expressed strong support for the reform efforts being undertaken. They recognised that the process of transition to market economies has advanced to different degrees among these countries and that some, in particular the Czech and Slovak Republic, Hungary and Poland, may well be in a position to share experience with and offer advice and technical assistance to others that are beginning the reform process, above all as regards privatisation. Participants also acknowledged that experience taken from established market economies may have to be adjusted when transferred to reform countries and that realistic time horizons should be assumed to take account of the differences featured by the reform countries both as a group and individually. In a bilateral learning process between established market economies and reforming states, creative solutions are called for.

Participants emphasised that the performance of market-based economies relies primarily on the freedom of individual enterprises to make their own decisions, while governments provide the overall framework for economic activity. The provision of a stable macro-economic framework ranks high among the necessary conditions for private economic activity.

Reform of Economic Structures

There is an urgent need to reform economic structures, e.g. to implement demonopolisation and privatisation which will promote management autonomy, entrepreneurial initiative and accountability. Even while enterprises remain state owned, breaking-up monopoly enterprises will actively promote competition. The established market economy countries and some of the more advanced reform countries agreed to provide, and, if

possible, extend help and advice on privatisation and on any mechanisms they had adopted to regulate monopolies. Participants also agreed on the importance of fostering the establishment of a healthy small and medium-sized business sector. The established market economies offered to share their experiences in supporting small and medium-sized businesses, including specialised government agencies, an appropriate legal framework, supporting financial institutions, training centers and advice on business start-ups. Participating countries agreed to encourage and facilitate the establishment of chambers of industry and commerce, small business consortia, trade associations and similar bodies in the reform countries and to foster links with their equivalents in the established market economies.

Conversion of Military Production

The conversion of military production to civilian uses is of key importance to help-market based structures evolve. Success in the conversion process requires the definition of a clear economic strategy integrating structural, institutional and micro-economic approaches. The high concentration of such military facilities in some areas has important implications for regional economic development. International cooperation at the corporate level could expedite conversion. The full range of information should be provided to enable prospective partners to assess the economic potential of military enterprises. Financial and ecological burdens inherited by these enterprises also have to be addressed.

Expanding International Trade

All countries agreed on the importance of trade and place a high priority on the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations. As part of this process the reform states accepted the need to assume the obligations and disciplines of the international trading system.

Participants stressed the importance of market access, including in sensitive sectors, for the exports of the reform countries and

the value of measures such as trade preferences and regional free-trade agreements. The representatives of the reforming economies agreed on the need to continue traditional trade relations on a free-market basis, to avoid the introduction of new trade barriers against each other, and to look for ways to raise the level of trade within the region. Those who are not already Contracting Parties will seek to participate in the GATT system as quickly as possible.

To advance trade in general, problems of real pricing, functioning foreign exchange mechanisms, the lack of efficient banking operations and delays in external payments all have a bearing and need to be solved by the reform states.

In implementing current relief programmes, distortion of competition should be avoided and due consideration should be taken of commercial interests of trading partners in the region. The established market economies offer specific advice and assistance in building institutions that support trade, e.g. setting up export credit insurance and general trade-promotion schemes, in marketing and in training customs officials.

Promoting Private Investment

The participants agreed on the vital importance of contributions that private investments from established market economies will have to make to the reform process. To this end, framework conditions for private investors and the general conduct of business must be further improved and adapted to international standards and practice.

Drawing from the comments made by participants from industry, some key areas were identified for stimulating private investment, and participants agreed that the application of the following set of principles and recommendations would improve investor confidence and interest in the reform states:

- ensuring a positive investment climate in which investment flows are determined by market forces with fair and equitable

non-discriminatory treatment of foreign investors not less favorable than domestic competitors, avoidance of performance requirements, assured free transfers related to investments and fully convertible currencies;

- developing a secure and stable legal framework through adequate protection of investments including effective intellectual property rights, access to third-party arbitration, the effective enforcement of contracts and guarantees of prompt and adequate compensation in case of expropriation;
- facilitating market access through the dissemination of reliable and comprehensive economic data, transparent and stable commercial laws and regulations; active promotion of business contacts and streamlining admission procedures.

Fostering international cooperation, established market economies will seek to respond positively to requests for technical assistance and advice on matters such as legislation, procedures and the establishment and operation of bodies to promote inward investment. Responding to the reform efforts, insofar as applicable, they will also review their own incentives for investment, such as existing capital investment guarantee systems and other measures, including those for small and medium-sized enterprises.

Training

Participants from the established market economies agreed to encourage and, where possible, assist their enterprises to offer training positions for managers, supervisors and other staff in enterprises from the reform states. The governments of the reform states could establish centers for disseminating modern management and technological know-how with advice and technical assistance by the established market economies.

Environmental Protection

The transition process offers the challenge of simultaneously reforming the industrial fabric and overcoming environmental problems. Participants agreed that governments in the reform states, with advice and technical assistance from established market economies, should aim to set adequate environmental standards in line with international levels, ensure enforcement and promote the application of environmentally advanced technologies. In this respect, participants acknowledged the work underway in appropriate international bodies. They emphasised the major role played by proper economic mechanisms and incentives and stressed the role of private-sector investments which advance the introduction of cleaner technologies, together with the associated skills and know-how. They specifically pointed out that there is a need to clean-up past environmental pollution by reform states in order to avoid creating additional investment barriers.

Follow-up

Participants agreed to inform non-participating reform countries of the discussions held at Münster. They believed their meeting fruitfully addressed an area of special importance that deserves more attention in international efforts to provide assistance to reform countries. They agreed, therefore, to continue this consultation process and, together with business representatives, to review progress in the areas of cooperation identified at the Münster conference within one year.