

FINANCIAL TIMES

Serbia: hostage to its past despite a spurt in growth

By Neil Macdonald in Zrenjanin

Dirk Vermeulen says he could hardly sleep at night when he first moved to Serbia to set up a factory for bus and truck panels in February 2006. In his native Holland, Serbs have a reputation, acquired since the 1990s Balkan wars, as bloodthirsty gangsters and war criminals.

His company, Pecocar, had worked with Serbian suppliers; and labour costs for the mostly manual casting process dictated moving the Dutch operation out of western Europe altogether.

Work that costs \$26 (E 20) in Holland can be done for E2.50 (\$3.30) in Zrenjanin, the industrial free-zone city where Pecocar now operates, 65km north of the Serbian capital, Belgrade.

After a year getting to know his neighbours, Mr Vermeulen says he has come to love the place. He may even stay in Serbia after he retires.

He is also satisfied with the business environment, in spite of some unfamiliar practices. "Do your homework, know what to expect, and you can deal - more or less - easily with it," he says.

But even as trade flows with neighbouring countries and the European Union improve, the country re-mains symbolically isolated. EU pre-accession talks - collapsed over Belgrade's failure to capture Ratko Mladic, the Bosnian Serb military commander charged with genocide for the July 1995 Srebrenica massacre.

Investment promotion agencies say the fugitive general is holding the country hostage, scaring off large amounts of foreign direct investment that recent economic reforms ought to merit. Jasna Matic, director of the Serbia Investment and Export Promotion Agency, points out: "Time passes, and because of Mladic we're still not able to seize the opportunities we should."

Despite remaining stuck in the ex-Yugoslav political mire, Serbia's leaders began economic liberalisation, privatisation and critical bank restructuring after the fall of Slobodan Milosevic's socialist regime in October 2000.

The economy has seen growth of 6 per cent or more for the past three years - among the fastest in eastern Europe. The Belgrade area has won some of the largest single greenfield investments by foreign companies in south-eastern Europe, in some cases outshining Romania and Bulgaria, which joined the EU this year.

But Serbia cannot afford to neglect basic reforms. Communist-style bureaucracy still creates problems, and the title to real estate is often unclear. Competing political parties treat government departments as private fiefdoms. These "process risks" are more of a deterrent than the Serbs' reputation as Balkan bad boys, says Justin Faiz, director of Pluto Group, a UK-financed developer.

Some municipalities have tackled the problem locally and been rewarded with investment inflows. Zrenjanin two years ago established an industrial park with free land, high-quality infrastructure and set-up cost of only E6 per sq m. Investors from 15 countries have since signed contracts worth \$500m to set up factories in the 140,000-strong town, says Goran Ibrajter, the deputy mayor.

Publication: Financial Times
Subject: Political effects on Serbian growth
Date: April 2, 2007
Circulation: 419,249
Source: Coverage arranged by Wide PR

The largest deal, signed five months ago, promises to bring E380m worth of greenfield investment from Biotech Energy, a Hungarian-US company, which plans to produce bio-ethanol fuels from wheat and corn, with animal fodder and bio- fertiliser as by-products. The 60 hectare complex should start production in 2009, employing 350 directly and another 1,500 in agriculture and logistics, Mr Ibrajter says.

Mr Vermeulen came to Zrenjanin because investment conditions were right. Pecocar now employs 22 and aims to double its labour force in the next two years.

The spurt of industrial growth received an additional boost from the United States Agency for International Development, USAID, which has brought in consultants to advise several progressive municipalities since 2000. Zrenjanin has received \$1.5m worth of assistance so far.

EU funding is more substantial - the European Agency for Reconstruction has just celebrated its first E1bn worth of aid to Serbia - although little of this flows straight to municipalities. Officials fear their financial powers will be eroded under the Serbian constitution passed late last year.

But despite Mr Vermeulen's optimism and the high hopes of some foreign investors, the political risks are not far away. With United Nations-brokered talks over the status of Kosovo - Serbia's 90 per cent ethnic Albanian southern province - in their final weeks, Serbian political parties appear unable or unwilling to form a new government based on the January 21 election results. Meanwhile, the state budget for 2007 remains undecided, and economic restructuring has been put on hold.