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PABSEC

INTERNATIONAL SECRETARIAT

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REPORT*

**“Foreign Investments and Economic Growth of the BSEC
Member States”**

Rapporteur: Mr. Marcel RADUCAN (Moldova)

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I. INTRODUCTION

1. Promotion of foreign investment in the Black Sea countries and proper trade policy represents leverage for sustainable development, stability and prosperity for the citizens of the Black Sea region. The real economic growth observed in the Black Sea countries was more than triple the average annual rate of growth of the rest of Europe during the 2000-2007 periods. In the world economy the Black Sea region is the third fastest growing region with impressive economic growth that is a reflection of the improvements in the business environment and consequently is an outcome of positive trend in the investment climate of the region.
2. PABSEC has always been attaching particular importance to the issue of foreign investment in the light of economic development of the member states. Thus, in its Recommendation 38/1999 on "Promotion and protection of investments in the Black Sea region" Assembly calls to "create an environment conducive to investment through the progressive elimination of obstacles to foreign investment which lead to the transfer of funds, technology, know-how and increase and production and trade, as well as to strive for transparency and constituency in the enactment and enforcement of laws and regulations pertaining to foreign investment".
3. In its Recommendation 72/2003 on "Shaping a European Economic Space" the PABSEC call the member states to "facilitate the free movement of goods, people, services and capital by alleviating constraints to foreign investments flows, to work closely with the EU on the identification of priority fields of interaction at the regional level focusing on trade cooperation and investment promotion, as well as to convert existing pairs of bilateral trade preferences and bilateral investment agreements into multilateral ones, compatible with the WTO in light of the states' current or imminent membership in the Organization.
4. Recommendations on the Black Sea Trade and Development Bank (BSTDB) adopted by the PABSEC emphasize its role in the investment policy in the region. Recommendation 33/1999 on "The Black Sea Trade and Development Bank" calls "to expedite legislation efforts towards the materialization of essential privatization and protection of investments, as well other reforms relevant to the smooth finance and viability of the projects undertaken by the Bank", and Recommendation 65/2002 on "BSTDB: the financial pillar of cooperation in the Black Sea region" recommends to the Bank to "step up cooperation with multilateral financial institutions and organizations for the purpose of preparing, co-financing and evaluating projects, contributing to attracting investments in the region".
5. Information in Report is based on the scientific researches, sources of the BSEC related bodies as well as those of international organizations (OECD, WTO). Rapporteur is thankful to the national delegations of Azerbaijan, Greece, Romania and Turkey for the contributions to Report.

II. FOREIGN INVESTMENTS IN THE BLACK SEA REGION

a) Trends of investment policies in the region

6. Among various types of investments a substantial role in the region is featured to the foreign direct investments (FDI). Investment climate in most of the BSEC countries creates favorable conditions for the attraction of the FDI. At the same time share of the region in common European FDI flows is still low despite the market potential and positive changes in FDI dynamic after 2000 until now. This fact is concerned with a number of specific peculiarities pertaining to the Black Sea region and different attitude of the member states to the policy of attracting FDI.
7. Development of trade and integration of the regional market has always been a basic priority of the BSEC member states giving special emphasis to the investment policy. Liberalization of the trade and capital movements has become the first indicator of attracting foreign investments to the national economies of the member states. Besides, after declaring a policy of the market economy, most of the member states in their economic reforms laid down a principle of elimination of state monopoly on international trade. Therefore significant re-orientation of trade with regard to both partners and goods has followed.
8. Since middle 1990's, both inward and outward FDI have been increasing in most of the BSEC member states by strengthening successful reintegration to the world economy. Initially, there have been wide differences between the member states by the FDI share in forming fixed capital. Role of FDI was especially high in the countries with low level of internal capital and large amount of FDI was mostly linked with foreign purchase of the state enterprises. Second aspect was the political instability in certain countries of the Black Sea region that had impact on the realization of economic reforms and frightened off the international investors. Aid consumption increased while as manufacturing sector was in stagnation and divergences in current balance were covered by foreign aid. FDI has acquired a form of the small enterprises supporting import and distribution of the consumer goods.
9. In that period FDI share in the manufacturing sector was higher than in the service sector, but after starting complex privatization of the banks, telecommunications and public utilities enterprises, a tendency has emerged in favor of the non-manufacturing sector. Apart from the contribution to the stabilization of financial resources, modernization of technologies and promoting access to the world market the FDI has started to play a role of strengthening private sector and eliminating macroeconomic and structural distortions.
10. Principle of the national producers readjustment stipulated in the national economic policy of the BSEC member states offered an opportunity for increasing productivity and developing business services that led afterwards to the engagement of the privatized entities with multi-national corporations. As an outcome of these processes in the end of 1990's in most of the BSEC countries an impetuous growth of the gross domestic product (GDP) became correlated with the FDI increase.

11. Namely in that period the member states in their economic policy moved from the stabilization to growth ensuring that included itself realization of the investment stimulation. The essence of these measures was tax rates reduction, facilitation of customs regulations and increase of the state subsidies in certain spheres. Most of the countries have established specialized agencies for investment promotion dealing with creation of business links on bilateral basis with the view to attracting FDI by stakeholders.
12. Moreover, foreign investments in general underwent qualitative changes after 2000, when BSEC member states began to clearly define their own priorities in attracting investments. Cooperation with international institutions in this field has acquired systematical character and those countries which were net recipients of FDI started to invest in the economies of others.
13. The EU countries and USA account for a major foreign capital in the BSEC countries. Typically, most of the member states concluded Bilateral Investment Treaty (BIT) with the USA, regulating American investments in respective countries. Investment flows from the EU to the region converted to another stage after the enlargement process of EU and adoption of the European Neighborhood Policy (ENP).
14. An analysis of the direction of FDI indicates that FDI is heavily concentrated on the triangle of the states of Russia, Turkey and Greece which together absorb more than two-thirds of the region's total inflows. Due to the developments made by the BSEC countries in FDI-related legislation and trade liberalization there is certain positive dynamics in intra-BSEC capital flows. Turkey is the main investor in the area followed by Greece, Russia and Bulgaria, at the same time during last years Azerbaijan raised its weight as an investor to national economy of some states in the region.
15. Greece is considered as a major investor in Albania, Bulgaria and Romania. Greek investments in these Balkan states deal with trade related services, food industry, agriculture and banking sector. Besides, Greek investments are present significantly in the field of telecommunications in Armenia and Moldova.
16. Important role in the region is played by investments of Turkey. Turkey has more than 15 percent of the total FDI in Azerbaijan while it is the largest investor in the non-oil sector operating with companies in production, construction, transports and trade related activities.
17. One major observation in terms of the FDI distribution is that Russian investments in the BSEC area are concentrated on the energy sector. Russia remains an important source of FDI in Armenia (more than a quarter of the FDI after 2000) and Moldova (30 percent).
18. Another important aspect of intra-BSEC capital flows is investment activity between the three most important sources of FDI within the region namely Greece, Russia and Turkey. Greek investments in neighboring Turkey and vice versa are mainly directed to the banking sector, while as Turkish investments in Russia are concentrated on the construction sector with some investments going to the food industry and textile industry.
19. As it can be concluded the BSEC countries give preference to conduct bilateral agreements with regard to promotion of trade and investments. At the same time a process of concluding bilateral contracts on avoiding double taxation started in early 90-ies is lasting.

b) BSEC framework in the policy of the foreign investments

20. Since its establishment the Organization of the BSEC defined promotion of investments as one of the priority tasks in its activity. BSEC Economic Agenda directly reflects that “although it depends to a high degree on the efforts of the Member States themselves to stabilize their key macroeconomic indicators, to eradicate bribery and corruption in administrative structures of various levels, and to improve the business environment the BSEC should play a role in facilitating the investment implementation process in dismantling bureaucratic obstacles, and in encouraging legislative measures for FDI promotion. Direct investments are of key importance both for the countries’ development and for consolidating stability in the whole Black Sea area”.
21. On 25 October 1996 in Moscow the BSEC member states agreed on basic principles of investment collaboration, which are transparency, non-discrimination, investment stimulation, investment control exportation and compensation, convertibility, entry and sojourn of key members eliminating of restrictions on exporting capital, investors’ conduct and settlement of disputes.
22. Afterwards, the BSEC activity in this field is also characterized by several important initiatives forwarded by the member states and carried out in collaboration with other international partners. In 2001 the Republic of Turkey in cooperation with the BSEC Business Council and Organization for Economic Cooperation and Development (OECD) designed a concept to promote investments in the region, which was approved at the meeting of the Ministers responsible for SMEs (Istanbul, 27 September 2001) named as “**Black Sea Investment Initiative**”.
23. **Black Sea Investment and Promotion Program (BSITP)** signed in 2006 is a joint initiative of the Governments of the Hellenic Republic, Republic of Turkey, BSEC and the United Nations Development Program (UNDP). Program aims at the expansion of the intra-regional trade and investment links in the region by identifying the untapped investment and trade potential and putting into place the mechanisms to exploit it.
24. BSEC particular interest in developing region-wide multilateral projects is expressed by new developments of finalizing two memoranda of understanding on **Black Sea Highway Ring** and on the **Motorways of the Black Sea**. These two regional projects were elaborated by the UNDP and OECD and aimed at increasing intraregional trade and investment promotion.
25. Particular role of the BSEC strategy on investment promotion belong to its two related bodies – **BSEC Business Council (BSEC BC)** and **Black Sea Trade and Development Bank (BSTDB)**.
26. Emphasizing the role of the BSEC BC in investment promotion in the region the Heads of the BSEC States and Governments in the **Declaration on the Occasion of the Fifteenth Anniversary Summit of the BSEC** adopted on 25 June 2007 “appreciate the contribution of the BSEC Business Council in catalyzing business cooperation and promoting innovation, as well as envisage an increased role for it in the future in facilitating the process of identification and elimination of trade barriers and business/investment disincentives towards greater economic and trade integration and the establishment of a favorable business and investment climate in the Black Sea region.”

27. The BSTDB benefits from a subscribed capital base and concentrates primarily on the following areas: i) project finance, including economic infrastructure investments with strong cooperation and development impact, preferably involving participation of several member countries, ii) trade finance aimed at fostering trade and economic cooperation among member countries, and iii) private enterprise sector development by providing credit lines and equity investments.

III. NATIONAL POLICY OF THE MEMBER STATES IN THE FIELD OF FOREIGN INVESTMENTS

Albania

28. In Albania availability of a number of natural resources presents the opportunities for attraction of investments in strategic sectors, such as mining, energy generation, oil and gas, telecommunications, finance. This process has attracted foreign investors, mainly from Greece, Italy and Turkey. Privatization strategy for the sectors of primary importance explicitly seeks to attract qualified foreign firms as strategic investors.
29. Law of Albania on "Foreign Investments" grants a favorable investment climate for foreign investors (either physical or judicial persons) in the country offering considerable guaranties to all foreigners willing to invest in business in Albania. Such provisions include absence of prior government authorization for all sectors, no limitation on the percentage share of foreign participation in companies, right of foreign investors to expatriate all funds and contributions.
30. There are limited exceptions to this liberal investment regime, most of which apply to broadcasting, health services and legal services. Restrictions on the purchase of real estate are also notable: agricultural land cannot be purchased by foreigners, but may be rented for up to 99 years; commercial property may be purchased, but only if the proposed investment is worth three times the price of the land.
31. Albania has concluded bilateral investment protection agreements with five BSEC member states – Bulgaria, Romania, Greece, Russia and Turkey. According to the statistics of the Bank of Albania FDI growth in the country was from 143 million \$ in 2000 to 341 million \$ in 2004. Sixty percent of FDI has come via the privatization process and the main sectors of the foreign investment in Albania are telecommunications, industry and agro processing.

Armenia

32. In accordance with trade and investment policy of Armenia the foreign companies are entitled to the same rights as Armenian companies (national treatment) and in some cases may benefit from temporary preferential tax treatment. Country is in the process of privatizing some of its larger state entities. Armenia's 1997 Law on Privatization (amended in 1999) states that foreign companies have the same rights to participate in the privatization processes as Armenian companies. Under the Armenian law, foreign investments cannot be nationalized; they also cannot be confiscated or expropriated except in extreme cases of a natural or state emergency, upon a decision by the courts and with compensation.

33. Country currently has incentives for exporters (no export duty, value added tax (VAT) refund on goods and services exported) and foreign investors (income tax holidays, and the ability to indefinitely carry forward losses). Also, in accordance with the Law on Foreign Investment, several ad hoc incentives may be negotiated on a case-by-case basis for investments targeted at certain sectors of the economy and of strategic importance to the economy. The government has imposed performance requirements for investors as part of privatization agreements, especially for the privatization of large state assets like mines or the telecommunications network.
34. Armenia has bilateral investment treaties with 16 countries, including four BSEC member states – Georgia, Greece, Romania and Ukraine.

Azerbaijan

35. Azerbaijan is one of the most successful countries in attracting FDI due to not only energy resources, but also to such aspects as favorable geographical location and geographical diversity that give opportunity for large-scaled investments to the transport system and agriculture. In the last decade the total FDI stock in Azerbaijan exceeded 25 billion \$ and country has achieved gradual improvement in the overall legal framework for the investment activities in the country for last several years with a number of practical regulations liberalizing conduct of business and reducing red tape obstacles. It carried out a legal reform with adoption of new Tax code, Civil and Civil Procedure Codes, Land Code, Labor Code, Customs Code, Foreign Exchange Law as well as Law on International Arbitration made the system a way more transparent and friendly for local and foreign businesses.
36. Generally, the Azerbaijani legislation establishes a very permissive national regime for FDI (which means that FDI are welcome in any sectors where the local investor is allowed to invest). Such regime also basically exists for the privatization of the state owned property setting a principle of openness and transparency. There are no special permissions or specific registration requirements for foreign investment and the licensing was substantially simplified with foreign investors' interest in mind. Presently now a foreign investor in Azerbaijan enjoys non-discrimination regime, except few sectors related to the national security issue. Particularly the government lifted limitations for foreign participation in the banking sector.
37. The Government has introduced a number of initiatives recently aimed at the improvement of the dialogue with the business community. Apart from the usual ways of policy lobbying and communication with the government via its ministries and agencies the avenues exist for a foreign investor to deliver the messages via such structures as the Azerbaijan Export & Investment Promotion Foundation (AZPROMO) and Azerbaijan Investment Company (AIC) aimed at the promotion of export and investment mainly in the non-oil sector.
38. Azerbaijan has 27 bilateral treaties on the mutual protection of investments, including such BSEC countries as Bulgaria, Georgia, Greece, Moldova, Romania, Turkey and Ukraine, being also a party to a number of multilateral treaties concerning foreign investment.

Bulgaria

39. Bulgaria has a liberal foreign investment regime and government focuses on developing promising sectors of the economy for foreign investment, including energy, information technology, transportation, telecommunications, and agriculture. Continuing economic progress and political stability have enhanced Bulgaria's ability to attract respected international investors and its international credit rating is stable and improving, reflecting the country's positive economic prospects and prudent fiscal policies.
40. The Investment Promotion Act of Bulgaria stipulates equal treatment of foreign and domestic investors. It creates conditions for improved administrative services and includes an investment incentive package. The law encourages implementation of investment projects over a period of up to three years. The law explicitly recognizes intellectual property and securities as a foreign investment. The most common type of organization for foreign investors is a limited liability company. Other typical forms are joint stock companies, joint enterprises, business associations, general and limited partnerships, and sole proprietorships.
41. Accession of country to the EU significantly changed legislation framework in the field of foreign investments adapting it to the EU *acquis communautaire* that in its turn have led to the adoption of a constitutional amendment which will allow EU citizens and entities to acquire real property, while all other foreigners will be able to do so only on the basis of an international agreement ratified by the Bulgarian Parliament. There are no legal restrictions against acquisition of land by locally registered companies with majority foreign participation.
42. The government policy for promotion of investment is not applicable to banks and other financial institutions, insurance companies, investment companies, companies with special investment purpose, pension and health insurance companies, gambling companies, or investments made pursuant to the Privatization Law. Under the latest draft amendments to the law, real estate and tourism sectors are also excluded from government's investment promotion policies. In 2003, the government introduced tax incentives for investments in regions with high unemployment. VAT exemption on imports for investment projects over 6.65 million \$, which was introduced in 2004, is still in effect for non-EU companies.
43. Bulgaria has foreign investment promotion and protection treaties or agreements with most of the BSEC member states: Albania, Armenia, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey and Ukraine. Apart from that there are at present six operational free trade zones in Bulgaria: Ruse and Vidin ports on the Danube, Plovdiv, Svilengrad (near the Turkish border); Dragoman (near the Serbian border) and Burgas port on the Black Sea. They are all managed by joint stock or state-owned companies and the government provided land and infrastructure for each zone.

Georgia

44. Georgia is continuing to develop a regulatory framework intended to foster competition and legislation governing foreign investment establishing favorable conditions, but not preferential treatment, for foreign investors. The Law on Promotion and Guarantees of Investment Activity protects foreign investors from subsequent legislation that alters the condition of their investments for a period of ten years. Other legislation regulating foreign investment includes the Law on

- Entrepreneurs, the Bankruptcy Law, the Law on Courts and General Jurisdiction, the Law on Limitation of Monopolistic Activity, the Law on Customs, Tariffs, and Duties, the Accounting Law, and the Securities Market Law.
45. Georgia has negotiated 34 double-taxation agreements, of which 19 have entered into force. Among the BSEC member states the active agreements are with Armenia, Azerbaijan, Bulgaria, Greece, Romania and Ukraine, as well as bilateral agreements on investment promotion were negotiated with Moldova and Turkey.
 46. FDI in Georgia peaked twice, in 1997-1998 and 2003-2004 and both peaks were related to the energy projects - construction of pipelines, Baku-Supsa and Baku-Tbilisi-Ceyhan respectively. However, despite completion of the pipelines, foreign investment inflows after 2004 were larger than in previous period. Thus total stock of foreign investment in Georgia in 2005 was \$2.3 billion, which was 36% of country's GDP.

Greece

47. Greece's infrastructure has improved significantly in the last three years, and the ongoing liberalization of the energy and telecommunication markets offer investment opportunities. Greek businesses are among the leading investors in Southeast Europe and Greece is considered as a hub for Balkan trade. The economy is projected to grow by approximately 3-3.5 percent annually over the next three years. Growth has been financed by private sector borrowing and public sector absorption of EU structural adjustment funds, which totaled roughly 24 billion dollars for the 2000-2006 period. A similar amount of EU funding, approximately 24 billion USD, has been allocated for Greece for 2007-2013, and the Greek government has budgeted 3.5 billion during the same period for infrastructural projects.
48. Greece, which restricted foreign and domestic private investment in public utilities, has opened its telecommunications market and is in the process of slowly liberalizing its energy sector. Restrictions exist on land purchases in border regions and on certain islands (on national security grounds). The government has pledged to undertake fiscal and other structural reforms to enhance the competitiveness of the Greek economy. The administration has been gradually adopting an economic policy mix designed to achieve fiscal consolidation, implement tax reforms, reduce red tape in business transactions and expedite market deregulation. One of the government's immediate goals is to privatize several state-owned enterprises, including listing the Postal Savings Bank and the Athens International Airport in the Athens Stock Exchange, as well as allowing private ownership of ports and port service facilities. The plans also include the further reduction of the state's share in the Agricultural Bank and the Emboriki Bank. The government has not yet finalized its plans on the future exploitation of the venues for the 2004 Olympic Games, but there are proposals to lease some of them to private concerns. Foreign and domestic investor participation in privatization programs is not subject to restrictions.
49. Greece has bilateral investment protection agreements with all BSEC member states and investments by EU member states are governed and protected by EU regulations. Greece has three free-trade zones, located at Piraeus, Thessaloniki and Heraklion port areas. Greek and foreign-owned firms enjoy the same advantages in these areas. Goods of foreign origin may be brought into these

zones without payment of customs duties or other taxes and remain free of all duties and taxes if subsequently transshipped or re-exported.

Moldova

50. The government of Moldova has created an adequate legal base, including favorable tax treatment for both domestic and foreign investors. Under the Moldovan law, foreign companies enjoy the same treatment as local companies (national treatment principle). The government views investments as vital for economic restructuring and sees modernization and implementation of new competitive technologies as prerequisites for higher productivity, profitability, incomes and employment. Priority in attracting investments is given to the following sectors: software development, manufacturing of new building materials, production of virus-free vineyard and fruit tree saplings, development of telecommunication and IT infrastructure, pharmaceuticals, manufacturing of electric and electronic appliances, equipment and machinery. Wine making, light industry, construction, furniture, agribusiness and food are potentially attractive to foreign investors as well.
51. In 2004 government approved the Economic Growth and Poverty Reduction Strategy (EGPRS), which established a policy framework for Moldova's sustainable development in the medium term. Together with the EU-Moldova Action Plan signed in February 2005 and the new government activity program ("Modernization of the Country, Wellbeing of the People") approved in April 2005, the EGPRS is intended to guide the further development of Moldova's economy. One of the goals in the EGPRS is to improve the investment climate and accelerate domestic and foreign private sector investment. The primary policy objectives in this area are the maintenance of macro-economic stability, reforms in the public sector, and regulations to improve the investment environment.
52. In the business registration procedure, the government simplified document submissions by implementing a "one-window" approach. The government simplified the licensing procedure by setting up in 2002 one authority in charge of business licensing, the Licensing Chamber, and by reducing the number of business activities that require licensing.
53. Since 2004 FDI inflows has been increasing constantly up to 250 million \$ due to several large investment projects, including those by Germany's Metro Cash & Carry store, Austria's Grawe insurance company, Azerbaijan's AzPetrol petroleum company and U.S. investment fund NCH Capital.

Romania

54. Romanian legislation and regulations provide national treatment for foreign investors, guarantees them free access to domestic markets, and allows foreign investors to participate in privatizations. The foreign investment regime has been affected by continuously changing legislation, particularly in view of the country's accession to the European Union. Romania's newly acquired position as an EU member has brought many advantages for foreign investors in terms of fiscal incentives. National tax regime enables small enterprises to pay either the corporate tax or turnover tax of 2,5 %. The Government is preparing a new investment law intended to encourage large FDI in regional development (including infrastructure), environment protection, research and development,

- human resources and social inclusion, including training. The law is expected to come into force during 2008 and to be in compliance with the EU State Aid requirements.
55. Foreign investors are entitled to establish wholly foreign-owned enterprises in Romania (although joint ventures are more typical) and to convert and repatriate 100 percent of after-tax profits. Foreign firms are allowed to participate in the management and administration of the investment, as well as to assign their contractual obligations and their rights to other Romanian or foreign investors. Foreign investor's participation can take the form of foreign capital, equipment, means of transport, spare parts and other goods, services, intellectual property rights, technical know-how and management expertise, or proceeds and profits from other businesses carried out in Romania. Foreign investment must comply with environmental protection, national security, defense interest, public order, and public health regulations.
 56. Free Trade Zones in Romania operate under Law No. 84/1992, amended in 2002 and 2004. General provisions include unrestricted entry and re-export of goods and an exemption from customs duties. The law further permits the leasing or transfer of buildings or lands for terms of up to 50 years to corporations or natural persons, Romanian and non-Romanian. Currently, there are six free trade zones: Sulina (located at the mouth of the Danube); Constanta-Sud Agigea (located close to the port of Constanta, at the entrance to the Black Sea-Danube Canal); Galati (located about 100 km from the Danube mouth); Braila (located 30 km up the Danube from Galati); Curtici-Arad (located about 30 km from the border with Hungary); and Giurgiu (located on the Danube, 60 km south of Bucharest).

Russia

57. Russia's vigorous GDP growth and rising incomes have attracted increasing interest from foreign investors. In addition, many regions have developed laws and programs to attract FDI (including plans to establish techno-parks near universities and export zones near ports and borders). The period of 2004-2007 was characterized as investment boom in Russia with 11-13% of basic capital increase per year. Amount of foreign investment in Russian economy was 186, 9 billion \$ in 2007 that included FDI with 53 billion \$, portfolio investment with 10 billion \$ and other investment with 124 billion \$. The investment climate in agriculture is developing due to several factors. Domestic demand for food products is increasing as a result of an upward trend in per capita income. This change is stimulating investments in the food processing industry, and in food wholesale and retail infrastructure. Food processing is expected to continue expanding at 15 percent annually. Profits generated from these enterprises stimulated investments and modernization of Russian agricultural production as well as rural infrastructure. Structural changes in farm ownership and financing have created a more favorable climate for investment. By the beginning of 2002, many former state and collective farms had completed privatization and bankruptcy procedures, and it became easier to acquire property as property ownership rights became clearer.
58. Basic legislative acts in the field of regulating foreign investments are the law on foreign investments and law on production share agreements. Law on foreign investments adopted in 2004 stipulates a principle of national (non-discriminatory) regime for the foreign investors and granting some custom and

- tax incentives for joint enterprises. In its state policy on foreign investments the government of Russia attaches importance to the definition of strategic economic sectors, where access of foreign investors is restricted. In this regard the State Duma adopted the law on restriction of access of foreign investors in strategic economic sectors that covers 42 spheres, including nuclear energy, production and sale of weapons, fishery, cosmos, geological survey and earth bowels study on the plots of federal importance. According to this law the media business is partially considered as strategic sector as well, in particular largest TV and radio companies, and printing. The amended law on earth bowels includes several key provisions on administrative aspects of licensing investment activity and restricting foreign companies from taking a majority stake in strategic fields.
59. A new Forest Code, adopted in spring 2006, should stimulate foreign investment in the sector by providing tax breaks. In 2004, total investments in the forest industry were estimated at 1 billion \$, up from 825 million \$ in 2003. These investments included an estimated 280 \$ million in foreign investment, of which 70 to 80 percent was channeled into downstream wood processing. According to the Federal Agency for Forestry, 2 billion \$ of total annual investment is needed to modernize the Russian forest sector.
 60. In 2005, the Russian government passed the Law on Special Economic Zones (SEZs), which proposed the establishment of industrial-production zones and progressive-technical zones (focused on R&D) for twenty-year periods. In November 2005, the government announced the results of a tender and the establishment of six SEZs. Enterprises operating in industrial-production zones (20 square kilometers) will pay lower unified social taxes (with the highest rate reduced from 26% to 24%) and those within progressive-technical zones (2 square kilometers) are allowed to write-off all R&D expenses. Both types of zones will benefit from reduced land and property taxes and a waiver of customs duties on imports and finished exports.

Serbia

61. In Serbia although the continuing transition has not yet eliminated all structural barriers, the government recognizes the need to remove impediments, reform the business environment and open the economy to foreign participation. In June 2004 Serbian government launched an Action Plan (together with the World Bank) identifying barriers and cooperation with the business community to eliminate these barriers. Due to the well-known political processes in Balkans cumulative level of foreign investments in Serbia is still low comparing with other countries of the region, but in spite of this fact country's potential is considered by international investors as huge and perspective.
62. In 2003 FDI in Serbia amounted to around 1 billion \$ outperforming other countries of South East Europe. In 2004 FDI was somewhat lower at an estimated 900 million \$, primarily due to a slowdown in privatization and political uncertainty following a change in government in March 2004. But 2005 witnessed a rebound in investor interest with FDI estimated to have reached 1,5 billion \$, most part of which were concentrated in banking sector. In the same year Serbian firms invested about 59 million \$ abroad.
63. Since 2003 the United States is a largest investor in Serbia and country has more than 40 investment bilateral treaties. Among them are seven BSEC countries – Albania, Bulgaria, Greece, Romania, Russia, Turkey and Ukraine. Serbia is a

center of the South East Europe Free Trade Area, which was ratified and fully functional as of 2004 in the framework of the Pact on Stability in South East Europe. The agreement liberalizes at least 90 percent of mutual trade by the end of 2008. In addition, a free trade agreement with Russia is fully in force, offering access to a market of 150 million people. In 2000, the European Commission introduced Autonomous Trade Measures for Serbia and Montenegro. These measures permit exports to the EU without customs and quantities restrictions for almost all products originating from Serbia and Montenegro.

Turkey

64. The Government gave special importance to the foreign capital inflow at the Restructuring Program for application as decided in 2000-2002 years. For providing political stability, to establish and maintain permanent economic stability, to realize structural reforms, to increase the role of the private sector in economy and to create development focused on private sector, Turkey enacted a new Direct Foreign Investments Law in 2003 in order to implement the owned potential in direct foreign investments area within the scope of the maintained economic reform program. The new Law guarantees equal transactions and rights of the investors. The companies founded within the frame of Turkish Trade Code, are considered as Turkish Company, and equally derive all benefits of the rights that have Turkish Companies.
65. At the same time foreign investors are subject to restrictions on establishment in certain sectors. The equity participation ratio of foreign shareholders is restricted to 20 percent in broadcasting and 49 percent in aviation, maritime transportation, and many value-added telecommunication services (though telecommunications legislation has been amended to allow certain company-specific exceptions to these limits). However, companies receive full national treatment once they are established. Establishment in financial services, including banking and insurance, and in the petroleum sector requires special permission from the government for both domestic and foreign investors.
66. In addition to the legal arrangement, which was made for attracting foreign investments, Turkey Investment Support and Promotion Agency was established in June 4, 2006 in order to increase the investments that were required for economic development of the country, to determine and apply investment support and presentation strategies, which were oriented to promote them in Turkey.
67. Firms operating in Turkey's free zones have historically enjoyed many advantages, but these will be limited in the future by recent legislation. Twenty-one zones have been established since passage of the Turkish law on free zones in 1985. The zones are open to a wide range of activities, including manufacturing, storage and packaging of production, trading, banking, and insurance. Foreign products enter and leave the free zones without payment of any customs or duties. Income generated in the zones is exempt from corporate and individual income taxation and from the value-added tax, but firms are required to make social security contributions for their employees. Additionally, standardization regulations in Turkey do not apply to the activities in the free zones, unless the products are imported into Turkey. Sales to the Turkish domestic market are allowed, with goods and revenues transported from the zones into Turkey subject to all relevant import regulations. There are no restrictions on foreign firms operations in the free zones.

Ukraine

68. In August 2006, Parliament of Ukraine supported a draft resolution recommending that special tax regimes in free economic zones and tax incentives for technology parks be restored. Foreign investments are also regulated by Procedure for Foreign Investments, Civil and Commercial Codes.
69. Privatization of medium and large-scale enterprises was developed in 1995 under the "Mass Privatization Program" (MPP) project sponsored by USAID. In 2000 Privatization program for 2000-2002 was approved defining government policy for this period that has been considered by the Government as a final stage of mass privatization, where priority was given to large strategic industrial enterprises to be bought by investors.
70. There are few restrictions on foreign ownership. The major exceptions are publishing and broadcasting, and the manufacture of weapons. Otherwise, the regulatory framework for the establishment and operation of businesses in Ukraine by foreign investors is similar to domestic investors. As a general rule, investment permits are not required, but all enterprises must be established according to the form and procedure prescribed by law and registered with appropriate government agencies. Foreign investors are generally not required to seek special approval from authorities for FDI.
71. Total FDI at 1 January 2007 stood at around 23,2 billion \$, according to data from the State Statistics Committee of Ukraine. FDI investment in 2006 totaled 6,3 billion \$ that proves positive dynamic in this direction.

IV. CONCLUSIONS

72. Role of the BSEC region in international investment flows has grown spectacularly in last decade underpinned by widespread liberalization of trade and globalizing processes. Nevertheless as it was mentioned above the share of the region in general investment flows is low in comparison with other regions of Europe and the world. It means that all the countries of the region need to consolidate their efforts for investment promotion both at the bilateral level and in frames of the BSEC through elaboration and implementation of joint projects. National governments have to find ways of real integration of the regional market that in its turn would lead to the effective investment policy.
73. Role of the BSEC and its activity in this direction has growing importance for each country since being as a full-fledged forum for investment cooperation and establishing dialogue between public and private sectors. Nevertheless the Organization is facing a vital mission towards regional economic integration and elimination of barriers impeding trade liberalization and free movement of the investments capitals.
74. In foreseeable future cooperation of the BSEC with the EU in the field of investments could obtain due progress. Granting the European Commission an observer status, as well as adopted Strategy Paper of the European Commission "BSEC-EU interaction: the BSEC approach" open new possibilities for more close rapprochement of two organizations in expansion of investment cooperation.

75. There are number of issues to be resolved with a view of increasing contribution of the foreign investments to the economic welfare and prosperity. It applies to such aspects as fostering transparency in investment projects, improving legislation framework, in particular tax laws, more clear policy in defining “strategic” sectors of economy that are not subject to attraction of foreign investment and elimination of trade barriers.
76. Necessity to develop all types of investments is conditioned by the task of most member state for diversification of their economies. In that case portfolio investments are of particular importance and their progress directly depends on the development of equity market in the region. The member states should strengthen this sector in order to further stabilize financial and credit system of national economy that is interconnected with favorability of the investment climate.
77. It should be noted that several political aspects still exist in the region in creation of completely favorable investment climate. In the context of the freedom of foreign investments, a lack of confidence is observed between the partners and consequently there is a need to build and sustain trust among stakeholders through dialogue on concrete policy challenges, shared principles and values.
78. Political stability undoubtedly is a first precondition for creation of the favorable investment climate. Apart from internal political situation in the countries, the political conflicts between the countries is one of the significant impediments for the realization of vigorous investment policy and their prompt resolution in near future would facilitate the process of development of investment potential of the region.
79. Despite significant negative factors existing in the investment climate and outstanding objectives taking place in the region there is a reason for optimism for the future. Geographical advantages, market potential and availability of huge natural resources make the Black Sea countries a very attractive destination for the foreign investment and the role of the investments in the social and economic development of every country of the region is obvious.