



The Grow East Congress 2023 – A Review

"Bringing growth back – Time to rethink the business strategies for Central and Eastern Europe"

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On November 14, 2023, the **14th Grow East Congress** took place again in the WKO Conference Center and was live-streamed simultaneously. 120 guests followed the congress on site and more than 40 guests online. The initiators of this congress series, **Arnold Schuh**, Director of the Competence for Emerging Markets & CEE at WU Vienna, and **Manfred Berger**, Partner of ICONIC Consulting & Founder of Neusicht Think Tank, organized this event together with **Gudrun Hager** and **Gerd Bommer** of Aussenwirtschaft Austria/ADVANTAGE AUSTRIA.

The theme of the congress was well chosen. After three years of pandemic and more than a year of war in Ukraine the world feels differently. The recovery from the pandemic was accompanied by immediate surges in demand, supply chain bottlenecks and labor shortages. With the invasion of Ukraine by Russia in 2022 security and political aspects came to the fore. An accelerated digitalization and rise of AI, demands for more sustainability and inclusion, high inflation and changed attitudes towards work have further complicated the situation for management. On the other hand, crises create opportunities and room for new ventures. Entrepreneurial thinking and drive are even more needed to succeed in such critical times.

At the Congress we addressed the following questions:

- What do these global and regional developments mean for the economies of Central and Eastern Europe and the businesses operating there?
- How are they affected by these developments and how do they adapt to these changes?
- What are the growth opportunities in this context? What new products, services and business models will drive future growth in the countries of CEE?

To discuss these questions the organizers invited representatives of institutions, executives, entrepreneurs, experts, and academics:

- Martin Selmayr, Head of Representation of the European Commission in Austria
- Gunter Deuber, Head of Economics, Raiffeisen Research, Raiffeisen Bank International
- Vladimir Vano, Chief Economist, GLOBSEC, Bratislava
- Marcus How, Head of Analysis, ViennEast Consulting GmbH, a risk advisory firm
- Gudrun Hager, Regional Director Western and Central Europe, ADVANTAGE AUSTRIA
- Marlene Hölsken, Head of R&D, CEE Henkel Consumer Brands
- Frank Gawor, CFO, Benedict GmbH

- Zsolt Kelliar, COO, and Maria Baumgartner, CEO, HROS
- Kurt-Stuart Ristl, Head of Project Development, LSG Group
- Tobias Schediwy, Commercial Director CEE - Consumer Panel Services, GfK
- Matthias Koch, European Policy Department, Austrian Federal Economic Chamber
- Gerd Bommer, Regional Director Southeast Europe, Eastern Europe/Central Asia, ADVANTAGE AUSTRIA
- Valerie Breitenfeld, Austrian Deputy Trade Commissioner for Poland, ADVANTAGE AUSTRIA

Gudrun Hager, Regional Director Western and Central Europe, ADVANTAGE AUSTRIA, welcomed the guests and emphasized the long tradition of the Congress and its important role as promoter of Vienna as a business hub for CEE. Co-organizer **Manfred Berger** gave an overview of the program and the three sessions and emphasized the necessity to focus on economic growth in CEE.

Session 1: “Drivers of Growth in CEE – The big picture”

The invited speakers shed light on the developments in CEE from different perspectives - EU, politics, economics, and business. **Arnold Schuh**, Co-organizer and Director of the Competence Center for Emerging Markets, WU Vienna, started with an introduction into the topic. **“Bringing back growth to CEE”** fits perfectly the **DNA of the Grow East Congress** series. He denied that the choice of the theme in 2023 was an act of **“growthwashing”**. There are plenty pockets of growth in the region when you just look closer. He suggested exploiting the growth differential in the region where Southeastern Europe and the Western Balkans outperform the Central European economies, riding the waves of green & digital transformation (and getting financial support from EU’s RRF), looking beyond the regional and business core and betting on structural changes in industries such as the automotive industry’s turn to electromobility and the related investments in gigafactories in Hungary and other CEE markets. Growth is not a gift from heaven – it needs an entrepreneurial mindset, profound analysis and consequent measures.

Martin Selmayr, representative of the EU in Austria, countered the notion that the EU is losing economically against the USA. When using the ratio of EU/US GDP at 2017 international PPP US-\$, then the ratio has remained the same since 1995. He also made the case for an **EU-enlargement** to the Western Balkans and Eastern Europe as the accession of those countries would be a driver of growth. The old EU-CEE enlargement tripled the trade between the old EU15 and the new EU12 but boosted the internal trade among the EU12 fivefold. The further EU enlargement is necessary for **economic and security reasons**. However, convincing the Austrian public will not be easy as 60-70% of the population are against the enlargement (although Austria was one of the biggest beneficiaries of EU membership and EU’s enlargement to CEE).

Gunter Deuber from RBI pointed in his presentation at the higher growth rates in Southeastern Europe than in Central Europe. A combination of economic stagnation with high inflation (stagflation) has been plaguing most of Central European economies in the last year. However, on a positive note, the unemployment is low due to tight labor markets (“Job-rich downturn”). He expected that CE/SEE will be on aggregate larger than Italy by 2025. And strong growth impulses by the **re-emerging EU-enlargement** initiatives to the Western Balkans and Ukraine.

The political risk analyst **Marcus How** highlighted the current four drivers of the political discussion in CEE: security, energy independence, economic liberalization and institutional reform. There is still a tendency to increase the (already large) role of the state in the economy, e.g., to escape the “middle-income-trap”. At the same time, we see a backsliding in terms of quality of institutions in Hungary, Poland and Serbia (eroding rule of law and less willingness to fight corruption). In his opinion we have to prepare for a long war in Ukraine and there will be **no return to business as usual with**

Russia. In his view there will be no sustainable cooperation with Russia as we had it before. As the expropriation of Carlsberg shows there are no safe spaces anymore in doing business with Russia, the separation between sanctioned and non-sanctioned gets blurred and doing business with Russia is therefore very risky. Multinational firms need to pay more attention to the local environment and current situation (main players, their interests etc.) to reduce political risks and find the right mode of presence. **Vladimir Vano** from the Slovakian think tank GLOBSEC pointed at the risks resulting from too low gas storage levels and fluctuating prices for gas and LNG. Sufficiently **accessible and affordable energy** are a precondition for growth. In his opinion the economic catching-up has stalled in CEE. He did not see **“more government as the solution”** - as we accepted it during the Covid-19 and energy crises – and pleaded for gravitating back to more **private investments** and private-public partnerships.

Session 2: “Growth strategies for CEE – The business view”

The development of the EU towards a greener economic model found a strong consensus among the executives. Henkel CEE’s R&D head, **Marlene Hölsken**, mentioned the lack of proper waste management and recycling systems in CEE what hinders the sourcing of recycled plastic for sustainable packaging. And CEE consumers are not ready for this change yet. **Kurt-Stuart Ristl** of LSG Group explained that a successful rollout of photovoltaic plants needs certain preconditions. For instance, the discontinuation of power plants driven by fossil fuels, so that renewable energy can replace them and use their capacity in the grid. Finding people for installing large-scale plants is no problem as the own staff of 20 people is complemented by up to 200 people from the region. Security is not a problem too as photovoltaic plants create income in the region by renting out land and creating jobs for operating the facility. It is in the interest of the local community to have a well running operation.

Frank Gawor, CFO of Benedict GmbH, used specific examples from his experience and Benedict GmbH's current projects in Bosnia-Herzegovina and North Macedonia to underline that those countries are **good locations for outsourcing** for Austrian and German firms and that you can expect the same quality level as in DACH. Green- and brownfield projects in the Western Balkans don't face more risks than anywhere else in the CEE-region.

That **people are the core** of each success story was also shared by **Maria Baumgartner** and **Zsolt Kelliar** from the Austrian-Hungarian “joint venture” **HROS**, a talent platform for startups and tech companies. Nationalities play no role in the search for talents. Digital qualifications, good command of English, flexibility, and an entrepreneurial mindset count. 30-40% lower wages for tech talents in the emerging markets of Europe make them attractive for tech firms in the DACH region. Work ethics in CEE differ positively from Western Europe: they “like to get things done”, are highly reliable and flexible when necessary. At **Henkel CEE** the **“culture of a large family”**, where people know each other, helps in the implementation of innovations and sustainability in processes and products.

Session 3: “Growth strategies for CEE – The regional view”

The presentations and discussion addressed consumer behavior in CEE countries and promising initiatives (e.g. RRF) for the whole region or specific countries of the region that represent growth areas (e.g. infrastructure, green energy). **Tobias Schediwy** of the market research company GfK Austria opened the session with a presentation on **“CEE consumers between hopes and fears”**. The top concerns among households are **“economic, budget concerns”** (60% CEE/45% WSE-Western-Southern Europe), followed by **“my own safety/safety of my family”** (41%/31%) and **“physical health concerns”** (40%/32%) and **“climate change”** (25%/40%). The higher values for CEE reflect the tighter economic situation, higher inflation (24% in Hungary!) and probably the mental worries due to the geographic closeness to the war in Ukraine. By contrast, climate change plays a stronger role in the

West. 40% of CEE households feel a budget squeeze (32% in WSE), in Hungary it is even 57%. The crises since 2020 led to a significant change in shopping behavior: **discounters** increased their share in grocery retail sales up to 42% in Poland and 36% in Hungary and are the dominating shop format there. Promotion shares went up in most markets too – the Czech Republic stands out with 54%. And private label shares (i.e., own brands of the retailers) moved up too with Hungary (36%) and Croatia (34%) leading the CEE group. The presented consumers shopping data nicely complemented the macroeconomic figures shown by **Gunter Deuber** and they underlined the **stress for households to make ends meet** induced by soaring energy and food prices in particular and the stagflation in general.

The EU expert at WKO, **Matthias Koch**, emphasized in his presentation the importance of the **EU Recovery and Resilience Facility** that is providing an extra €720 bn. of grants and loans to alleviate the impact of the crises and to make the EU countries greener, more digital and more resilient. The EU's message is clear, we have to reinvent ourselves and now is the best time to begin with it. **Valerie Breitenfeld** from the Advantage Austria office in Warsaw pointed at the economic **success story of Poland**. Since 1990 the GDP has increased eightfold and the Polish economy grew even in crises times. EU membership was crucial for Poland and they used the EU funds effectively to modernize their infrastructure. Poland is the 7th largest export destination for Austria, more than 600 subsidiaries of Austrian firms are present there. With the expected new incoming EU-friendly government the presumable end of the blocking of the RRF funds will provide a further stimulus to the economy. **“Rebuild Ukraine”** is another factor that lures foreign firms to Poland in order to be in a good starting position when the war ends. The Regional Director for SEE, **Gerd Bommer** stressed the good economic performance of the Southeast European countries although they are at different development stages. Compared to Poland, Romania has still room for improvement of its transportation infrastructure (highways, railways) which is under pressure now to expand its capacity given the rerouting of Ukrainian exports on the Romanian road and railways network and through the port of Constanta. **Nearshoring** to Southeastern Europe seems to have picked up last year as increasing FDI inflows demonstrate. Not to forget the high importance of **IT outsourcing to Romania** – Porsche Informatik, Frequentis and AVL List are already present there.

Visionary thinking, entrepreneurship and profound analysis as precondition for growth

The Congress clearly showed that growth is happening everywhere even in this stagflationary environment. But crises are a good time for challenging existing business models and taking new paths. Entrepreneurship is even needed more during the crisis to find economic and business growth.

A profound analysis of economies, industries, and markets lays the foundation to identify high growth areas and to reallocate funds and management attention accordingly. Riding the waves of the **twin transformation** is a sure bet: the energy transition is necessary for climate reasons, for diversifying energy sources and for reducing energy costs. Digitalization will help making the new processes and technologies even more effective. **Geographic diversification** of sales markets and sourcing reduces dependencies and, consequently, the risk of major supply chain shocks. **Enlarging the EU** is a mid- to long-term project that will help raise the living standards in those target countries and will make the EU more secure.

The **Grow East Congress** is a project initiated and organized by Prof. Arnold Schuh, Director of the Competence Center for Emerging Markets & CEE at WU Vienna, and Dr. Manfred Berger, Partner of ICONIC Consulting & the Founder of Neusicht Think Tank. Advantage Austria, the international arm of the WKO (Austrian Federal Economic Chamber), is our Congress partner.

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