The future of Central Europe: Impressions from the Spring 2004 Forum in Vienna

Steven Halstedt, Peter Widmer, Earl Wright, Donald L. Stevens

Steven Halstedt is a cofounder and a managing director of Centennial Ventures, a private venture firm formed in 1981. Previously he was president of Daniels & Associates, an investment banking firm specializing in the cable television industry. He was the founding president and a former chairman of the Venture Capital Association of Colorado and is currently a board member of the National Venture Capital Association. He received a BS from Worcester Polytechnical Institute and an MBA from the Amos Tuck School of Dartmouth College. He also attended the University of Connecticut School of Law.

Peter Widmer is financial advisor to a small number of wealthy European families. He previously was Chairman of Julius Baer Investment Management, Inc. and Member of the Executive Board of Julius Baer Holding in Zurich, responsible for the company’s institutional investment activities outside Switzerland. Prior to working for Julius Baer, Widmer was with Swiss Bank Corporation and London & Dominion Trust and Thomson-Schwab & Co. He holds the Commercial Diploma from the Swiss Business Association.

Earl Wright is president and CEO of AMG Guaranty Trust, NA. AMG provides fee-only financial counseling, investment advisory, trust and wealth management services to more than 1600 clients throughout the United States, either directly or through one of more than 50 corporate program relationships. A nationally chartered, non-depository trust bank, AMG Guaranty Trust is headquartered in Denver with regional banks in Chicago, New York and Philadelphia. Wright holds an MBA degree from The Wharton School of the University of Pennsylvania and was honored as a Master in Profession from his undergraduate alma mater the University of Nebraska.

Donald L. Stevens is assistant vice chancellor for Academic and Student Affairs at the University of Colorado at Denver and Health Sciences Center (UCDHSC). He is also director of the University’s Institute for International Business and director of the Institute’s Center for International Business Education and Research (CIBER). Stevens also holds an appointment as professor of finance at the business school and was dean of UCDHSC’s College of Business & Administration from 1981 to 1991. Prior to coming to Colorado, he served on the faculties of the University of Tennessee and the University of Illinois and received his Ph.D. in business administration/finance from Michigan State University.

In spring 2004, just weeks prior to EU enlargement, the Forum visited four of the 10 new countries that would forever after be referred to as the EU 10. Based in Austria, Forum members and guests were treated to an up-close look at the Czech Republic, Slovenia, Slovakia and Hungary and learned about the issues affecting their long-term stability. Highlights of the trip were contained in the Spring-Summer 2004 Forum report. In the following discussion members review their impressions in light of what has transpired since their visit. Panelists: Steven Halstedt, Peter Widmer, Earl Wright and Donald L. Stevens.

Steven Halstedt: We heard some concerns in Austria, which is already in the EU and is a very stable and advanced economy, that the 10 new countries would suck growth from the west because of their lower wage rates and lower tax rates. There was also a concern that there would be immigration from the east into western Europe once the borders were open. But generally speaking most people we talked to were very optimistic about what was about to occur and what the positive effects on their economies were going to be. There were generational differences in how people responded. The amount of enthusiasm was inversely proportional to the age of the person that we were talking to.

Donald Stevens: The older people were more skeptical. They said, Yeah, I did vote for it but I don’t know what it’s going to mean. One guy said that he buys all his stuff in Italy which is just 20 miles over the
border. When he comes back he gets a big VAT (value added tax) refund. Now he won’t get that refund because it’s all part of the EU.

Halstedt: We saw both entrepreneurial activity and foreign direct investment in these countries. There was a general level of optimism. I didn’t get the sense that once the borders were open there was going to be a rush of immigration into western Europe. And I don’t think that has happened. I think the concerns on the part of western Europe were a little bit overwrought; they worried that the pie was just so big and now eastern Europe would get a bigger slice than western Europe. I think what is going to happen is the pie will just get bigger. What the EU has done with this enlargement is introduce a well-educated, highly motivated young workforce that’s going to be able to build lots of things and improve the economy for everyone.

Stevens: There’s a contrast between this trip and the one we made in 1992. The workers we saw in Czechoslovakia at the time were so young and seemed so enthusiastic. When Czechoslovakia split into two countries in 1993, Slovakia was at the bottom of the pile economically. There were 300,000 workers that had made tanks and weapons for the (former) Soviet Union and they instantly lost their market. Slovakia went through a huge upheaval and now it looks like one of the brightest areas in the region. Their auto industry is booming and they expect to be producing 5.3 million automobiles in the area around Bratislava by 2008 or 2010. Slovakia’s flat tax of 19 percent is having ripple effects in western European countries where taxes are higher. So now there’s a proposal in the EU for a law that would set a minimum tax at something a lot higher than 19 percent.

Peter Widmer: It’s 24-28 percent.

Halstedt: Last April there was also some concern expressed about jobs moving east and the loss of foreign direct investment.

Widmer: Most of the workforce we saw in Slovakia’s Volkswagen factory was from Romania and Bulgaria. Youngsters who came for the jobs.

Halstedt: I was struck by how modern that VW facility was. It was built so that it could be totally automated at some point in the future when manual labor costs got too high and they had to reduce the workforce.

Earl Wright: They didn’t have the robotics that you’d see in Germany. But they said at $4.25 an hour they could afford to employ a lot of labor and when the rates go up, they were ready to put in more robotics and more technology.

Halstedt: The manager of the plant was a German who had managed a plant in Munich, and he contrasted the differences between the Munich plant and the one in Slovakia. Labor costs in Munich were about $40 an hour compared to $4.25 an hour in Slovakia. In Slovakia, he said, there were three shifts and workers work around the clock. In Munich there is only one shift and no one works around the clock.

Guest: With the auto plants coming into Slovakia and the jobs leaving Germany, what does that do to west Germany and east Germany? What kind of drag is that going to be on the economic well-being of the EU?
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Widmer: The jobs from Germany are going into Poland. There’s no financial incentive for companies to keep the jobs in Germany or shift them from the western part to the eastern part.

Stevens: The young people have no interest in immigrating. If they do immigrate it’s only a temporary situation until they can go home. The mobility of the workforce there is much different than we know it in the US. People in Europe want to stay at home, they want to live where they grew up. So the economy sort of has to come to them. I would echo Steve’s comments about enthusiasm. I found just everywhere young people thinking about some entrepreneurial venture.

Wright: The workforce is young. In the Volkswagen plant, there was hardly anybody employed over the age of 36. The education of the young people is really quite exceptional. They have degrees in technology, mathematics and the sciences. The Communists did a fine job of educating these young folks. So I would think they have a great opportunity, as do all these countries, for economic growth.

Guest: When I went to eastern Europe shortly after it was opened up, the Polish laborer had a very poor attitude about work. Now you’re talking about the youth who are very motivated. Are they simply jumping over a generation?

Guest: Absolutely. The Polish worker today is very productive and it’s a great place to do business.

Wright: I was really taken by how the five countries we visited rejected any influence from western Europe. They were more likely to be influenced by the Viennese bankers than they were by anybody out of Germany or France. There was still some bitterness with regard to the Germans and not much appreciation for the French. I wanted to know where the capital flow was going to come from for the infrastructure and for growth. They don’t have internal sources of capital so they have to have foreign direct investment. It was clear that it was going to come out of Vienna and the banks in Vienna.

There’s a lot of infrastructure that has to be built, and there’s a lot on the government’s side that’s lacking. In Slovenia, for example, they don’t have good property rights laws. If you’re a large company and you can work with the government you can get a lot accomplished. But if you’re an entrepreneur or a small investor, unless you’re really plugged into the government, you’ll have a difficult time trying to get something going from a commerce perspective.

Halstedt: In Bratislava (Slovakia), there were cranes everywhere and lots of construction going on. Obviously lots of capital was being invested.

Guest: I wonder, Peter, how much institutional capability does a country automatically have available to it when it becomes part of the EU?

Widmer: All the EU laws have to be adopted at the time of entry. So any laws a particular country may have that aren’t congruent with the EU body of law have to be changed as part of coming in.

Wright: The legal firm that made a presentation to us pointed out that part of the EU is subject to the French Napoleonic laws and part is subject to common law. That presents a bit of a challenge. And that’s something they still have to figure out as far as commerce goes -- how they’re going to work across borders and the laws that will prevail. All these issues will be worked out in time.
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Guest: I think the point has to be made that a lot of investment has happened with the entrance of these countries into the EU. It’s been gradual and a lot of it occurred before the bell rang making their entry official. So there’s been a lot of progress there.

Stevens: It’s not possible to put a dollar figure on the value of reuniting people. We don’t have a full appreciation in the US for what it had been like to break apart all these countries because of various wars and political reasons. Now they’re coming back together as a people, as a culture. It’s absolutely dramatic; you can feel it, you can almost touch it.

Widmer: One hundred fifty years ago Europe was full of warlords and people were divided. Now they’re together. It’s hugely positive.