

POSITION PAPER

Digitalization in South Eastern

The networked future is happening now!



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Trends, Opportunities, and Challenges

The term "digitalization" describes all the aspects associated with the conversion of analog information to a digital form. Compared with current figures, collected data is forecast to quadruple to 40 trillion gigabytes by 2020. This will revolutionize business and industry, bringing new business models, restructured value chains, and new questions regarding social issues.

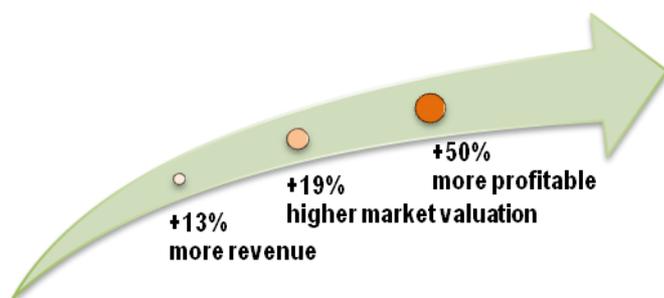
Over the last five years we have seen data processing speeds, transmission rates, and artificial intelligence improve so much that the increased volume of data can be used for new applications, thus allowing customers, corporations, and public authorities access to information anytime and anywhere. Products and offers can be compared online 24/7 no matter where you are. This enormous growth in offers and options brings more transparency, but it is also more confusing.

Alongside data collection and transmission, there is another aspect of digitalization that comes into play here: data analysis – mature algorithms and artificial intelligence. Because the individual alone cannot make good use of the collected data, adaptive algorithm-based artificial intelligence takes over this process. It enables information to be optimized to the customers' needs so as to deliver real added value.

Microchips, automation, and transmission systems are so powerful today that anything can be networked. There are virtually no bounds to storage media capacities, computing power, and transmission speeds. Analyses based on genuine data (not on scientific market research) allow customer use and buying behavior to be precisely evaluated. These findings can lead to new adapted products and disruptive innovations. And it does not take more than having access to the Internet to be able to create digital products or offer digital services.

The world's largest overnight accommodation provider owns no hotels and the world's biggest taxi business owns no taxis. Online retailers bring the end user and service provider together and are even moving more toward taking logistics into their own hands. Many intermediate steps in traditional trade (warehouse expenses and risks, retail floor space costs, etc.) are eliminated, resulting in new, more direct (and more economical) sales channels for manu-

facturers and retailers. Customers benefit from greater, more international product diversity and lower prices.



A Clear Advantage:

Digitally mature companies benefit significantly over other companies through their commitment.

Source: MIT Sloan Management Review and Deloitte's 2015 Global Study of Digital Business

The growth potential is immense: for instance, a study on the Fourth Industrial Revolution conducted by Accenture suggested as early as 2015 that industrial digitalization would provide an approximately 14-trillion-euro growth potential worldwide by 2015. However, the risk of not being able to keep pace with digitally mature countries and businesses is considerable. John Chambers, former Cisco CEO, estimates that 40% of the 1,000 leading corporations worldwide will cease to exist in the next ten years. One outstanding example of this is Blackberry, which did not make the leap into the modern smartphone world. Those who fail to prepare for the future will quickly fall behind and no longer be competitive, ultimately losing out.

The Dynamics of Digitalization in South Eastern Europe

Digitalization creates a sense of urgency for companies, governments, and social actors to take action. This development must be supported in order to create new jobs and to fully exploit the growth potential. It is important to ensure that the greatest possible benefit for all will be achieved. In the next few years all actors will therefore need to put a great deal of effort into foresighted thinking and actions. It would be enormously beneficial to continue to qualify current and future employees on the path towards digitalization. Accenture estimated in a 2016 study entitled "Digital Disruption: The Growth Multiplier" that the world economy could generate an additional value added of more than 1.8 trillion euros by 2020.

The countries of South Eastern Europe already benefit from digital solutions and are part of this trend. Firefighting in Greece, for instance, applies intelligent systems to better combat forest fires.

Data collected by drones and geographic data are evaluated to enhance the level of preparedness and response. Above and beyond this, early warning systems keep the public informed about a current situation. These use various data sources to automatically evaluate and process information to better control operations and quickly inform the public. In this way, the linking of data, computing, and innovative ideas save human lives in a real emergency.

In 2013, Croatia introduced a fiscalization of the checkout systems to collect taxes from cash transactions more efficiently. Digital fiscalization solutions allow data to be easily transmitted from the point of sale to the tax authorities. All that is required is an intelligent checkout system, connectivity, and cloud storage with targeted evaluation at the tax authority. Sales transactions are thus made transparent in a very unbureaucratic way. In an annual comparison, tax revenue has risen by 18% in the gastronomy sector and by 40% in the hotel sector. This means that the state receives revenues that had previously not been collected, while at the same time business owners are not burdened with further bureaucracy.

Digitalization as Catalyst for Economic Growth

The role that digital solutions will play in economic development will become clear as production and sales structures are actually improved and new business partners acquisitioned within the framework of the “German Purchasing Initiative for the Western Balkan Countries” project. In close cooperation with companies from Germany, since 2014 a large number of South Eastern European companies have been able to participate in the process of improving production development and processes, actually bettering their order and earnings position.

Current analyses suggest that roughly 40% of German companies to date consistently digitalize their source and supplier relationships, managing them via cloud-based portals. That companies increasingly manage their supplier relationships using these types of portals indicates a rising trend. Suppliers can (and must) enter their credentials and certificates via these databases to qualify as potential business partners. The demand side benefits from this transparency on the status of each supplier. Processes can in this way be better controlled and developments more efficiently initiated and monitored. Online auctions, for example, can be arranged on platforms such as these. Businesses that react quickly and are open to new procedures can profit from digitalized processes directly and expand their portfolio. A study conducted in the spring of 2017 by the German IT trade association Bitkom concluded that the share of companies using cloud-based software and storage had risen from 54% to 65% between 2015 and 2016.

German Industry as Digitalization Partner for SouthEastern Europe

German industry has been a reliable partner for Southeastern Europe over the past twenty-five years. We know the different markets and can better implement future projects due to our broad commitment in many sectors throughout the region. German business has invested roughly 14.5 billion euros in Southeastern Europe – with a strong upwards trend in many of the countries. This positive trend is also reflected in trade volume figures. In 2016, these increased in almost all countries – in some cases by a clear double-digit percentage – as compared with the previous year.

Germany's economy is export-driven. Key success factors in addition to quality are adaptability to local conditions, sustainable implementation, and flexible entrepreneurial thinking. As a result, we are able to cooperate with contact partners under various conditions to implement projects successfully. This experience gives us the necessary prudence to accurately assess the challenges and opportunities and not to act too hastily.

Incorporating local knowledge, together we can build digital infrastructure and develop new business models, engage in public discussions, and advance digitalization. The Chambers Investment Forum, a network of the national chambers of commerce in the countries of Southeastern Europe, has created a good starting point for the formation of regional networks with its platform for the digitalization of the economy. Within this context we hope to increase communication.

The Ost-Ausschuss's Position

The German Committee on Eastern European Economic Relations (Ost-Ausschuss der Deutschen Wirtschaft) digitalization working group stands for:

- highlighting the opportunities and options for digitalization in the region,
- actively aiding this regional transformation from analog to digital and,
- enabling expedient communication between political representatives and investors.

Good Basic Conditions as a Prerequisite for Innovative Cooperation

Digitalization in South Eastern Europe offers opportunities both for German businesses and the countries of South Eastern Europe. In order to accomplish this, however, the countries of the region must first create **stable investment conditions**. Business terms and risks must be foreseeable. Unanticipated measures, such as taxes and duties levied on short notice, unnecessarily burden business models and good relations.

In order to be better able to plan the process, it is important that the countries **fully recognize the opportunities of digitalization and develop national digitalization strategies**. In addition, a regionally coordinated approach spurs investment scalability and stimulates more incentives to invest. In implementing national digitalization strategies, the focus must be to **expand the digital infrastructure**. Full network connectivity and coverage, and rapid infrastructure expansion can only be achieved if legal security is created by cataloging properties and establishing simple telecommunications easement rights. **Digital services cannot be provided without connectivity and access to digital resources.**

A successful digital transformation of the South Eastern European economy depends on setting the course for the future now. **Digital business models are not yet economical. This is why it is important to set incentives for the private sector to invest effectively.** National and regional investment funding is one option. Beyond that, EU funds and support banks may also be used to some extent.

Digital transformation will have a massive impact on the working environment and the economy. The opportunities this opens up can only work if **study courses and training are designed to be viable for the future and adapted to the technical, social, and economic challenges of a digital society and economy**. In any case, job descriptions will change. Targeted programs and qualification measures must be actively integrated into this process, to offer the chance to make structural changes. For example, a well-developed

digital infrastructure can improve rural education and rural-urban connections, thus providing some disadvantaged regions with new economic and social drive. **Close communication between industry and universities support this process.**

We want to contribute to clearly defining the opportunities and challenges of digitalization in this broad multi-stakeholder dialog, and to develop solutions together with associations, chambers, companies, and governments in Southeastern Europe.

The Committee is a part of the
Digital Transformation Initiative WB6+



About the Publisher

Founded in 1952, the German Committee on Eastern European Economic Relations (Ost-Ausschuss) is an umbrella for five German economic associations. We represent the interests of, and improve conditions for, German companies in Russia, Belarus, Ukraine, Central Asia, South Caucasus, and Southeastern Europe. We provide support in key economic policy developments in bilateral relations with these countries and promote trade, investments, and the transfer of services in those markets.

For current statistics, position papers, and more about German economic relationships with the twenty-one Southeastern European countries, go to: **www.ost-ausschuss.de**

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