THE EASTERN REVIVAL

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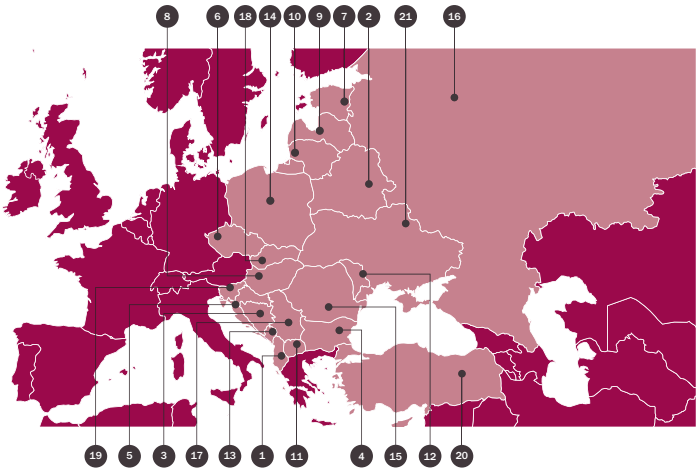
BRICs may monopolize the headlines, but a group of eastern European economies – "Emerging Europe" – is quietly growing at twice the rate of western Europe

"Emerging Europe" is an informal term denoting 21 countries in central and eastern Europe, many with above average economic growth rates or prospects.



1. Albania
2. Belarus
3. Bosnia and Herzegovina
4. Bulgaria
5. Croatia
6. Czech Republic
7. Estonia
8. Hungary
9. Latvia
10. Lithuania
11. Macedonia
12. Moldova
13. Montenegro
14. Poland
15. Romania
16. Russia
17. Serbia
18. Slovakia
19. Slovenia
20. Turkey
21. Ukraine

BRICs may have been the most fashionable economic term of the past decade, but "Emerging Europe" is coming back in vogue. Though the region's economies are resurgent, its sheer diversity makes it a challenging story to tell. Most people could rattle off the four countries making up the BRICs, but those under the Emerging Europe umbrella would be harder to name. The 21 nations commonly named (including Russia, one of the BRICs) are as diverse as Turkey and Estonia, but are bound by certain geographical, historical, cultural and economic ties. They also share a largely untapped potential for economic growth.

Together these nations cover a vast area, from the Czech Republic in the west, to Russia and the Baltic states in the north, to Turkey and other Black Sea countries in the south. Ten are European Union members, while another four have pending applications. Economically, the region is expected to grow by 4 per cent this year, twice the rate of western Europe, proving those who wrote off eastern Europe in the last decade wrong.

Poland, in particular, is becoming a regional business hub, with the Warsaw Stock Exchange growing in influence. Also, Turkey, with a population of 74m – half of whom are under the age of 29 – is striving to become the financial bridge between Europe and the Middle East. Ukraine, traditionally dependent on Russian gas imports and nuclear energy, is now promoting green energy businesses as part of its plan to diversify its energy mix and, more broadly, to promote inbound investment.

Emerging Europe countries offer diverse opportunities, as well as challenges, for investors. Cheap skilled labor, comparatively low public debt and impressive levels of growth are all attractive, while issues such as corruption and investment volatility are less enticing. Investors also need to be aware of the contrasts and similarities within the region. Across a relatively small distance of 300km one can encounter quite different languages, religions, cultures, legal systems and economies. Each opportunity is unique.

Here we look at three very different countries – Ukraine, Turkey and Poland – each with a compelling growth story to tell.

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— Ukraine

A green energy plan takes root in Ukraine as it sets a cleaner path to growth

Ukraine and "green energy" are words that most people would not immediately put together. In the energy sector, Ukraine is best known in recent years for a series of rancorous disputes with Russia over gas supplies, which has served to underline Ukraine's dependence on its powerful neighbor. It also is tragically associated with the worst industrial nuclear disaster in history, at Chernobyl. So, an energy diversity program that includes attracting inbound investment is highly challenging, but that challenge is well understood by Ukraine's policymakers.

Ukraine was hit hard by the financial crisis, but is inching back to recovery. The introduction of "green tariff" incentives is a further effort by the government to support economic growth, with the dual purpose of helping Ukraine to reduce its debilitating economic dependence on Russian gas – as both a consuming and transit country – and its reputation as a polluter.

The potential for reducing Ukraine's greenhouse gas emissions is enormous. The International Energy Agency estimates that Ukraine's steel sector, for example, produces twice as much CO_2 as the international average. Ukraine can take advantage of the Kyoto agreement, whereby a developed country can finance CO_2-reduction projects in Ukraine in return for credit against its own obligation to cut emissions. However, just such a deal with Japan two years ago led to allegations of corruption.

Ukraine has since elected a new president, Viktor Yanukovych, who ran on a stability and pro-business platform. The government set up the Agency on Green Investment to attract financing, and the new tariffs – which mandate the fees power generators must pay for green energy supplies – should help promote clean power generation.

Vienna-based Activ Solar is one of the energy companies that was attracted by Ukraine's efforts to nurture a green economy. It converted a dilapidated, Soviet-era semiconductor factory in the southeast of the country into a state-of-the-art plant producing high quality polysilicon for solar cells. Running on half the electricity and a third of the water required by its former operators, the new factory provides components to big solar panel producers in Europe and Asia.

"After several years of instability and difficult economic growth, Ukraine is on track to become one of the most promising markets in eastern Europe," says Kaveh Ertefai, CEO of Activ Solar. "In particular, the government passed regulation in support of green energy – and looking at the recent events in Japan, this was a timely move."

Last September, Activ Solar also completed Ukraine's first large-scale photovoltaic power plant, near Simferopol, the capital of the Crimea region. The location is no accident as Crimea offers very high annual solar radiation and good potential for solar power growth. Crimea also is heavily dependent for electricity on the Zaporizhzhia nuclear power plant, the largest such facility in Europe, supplying a fifth of Ukraine's power. Well before Japan's Fukushima disaster, Ukraine had its own reasons for wanting to reduce its reliance on nuclear energy.

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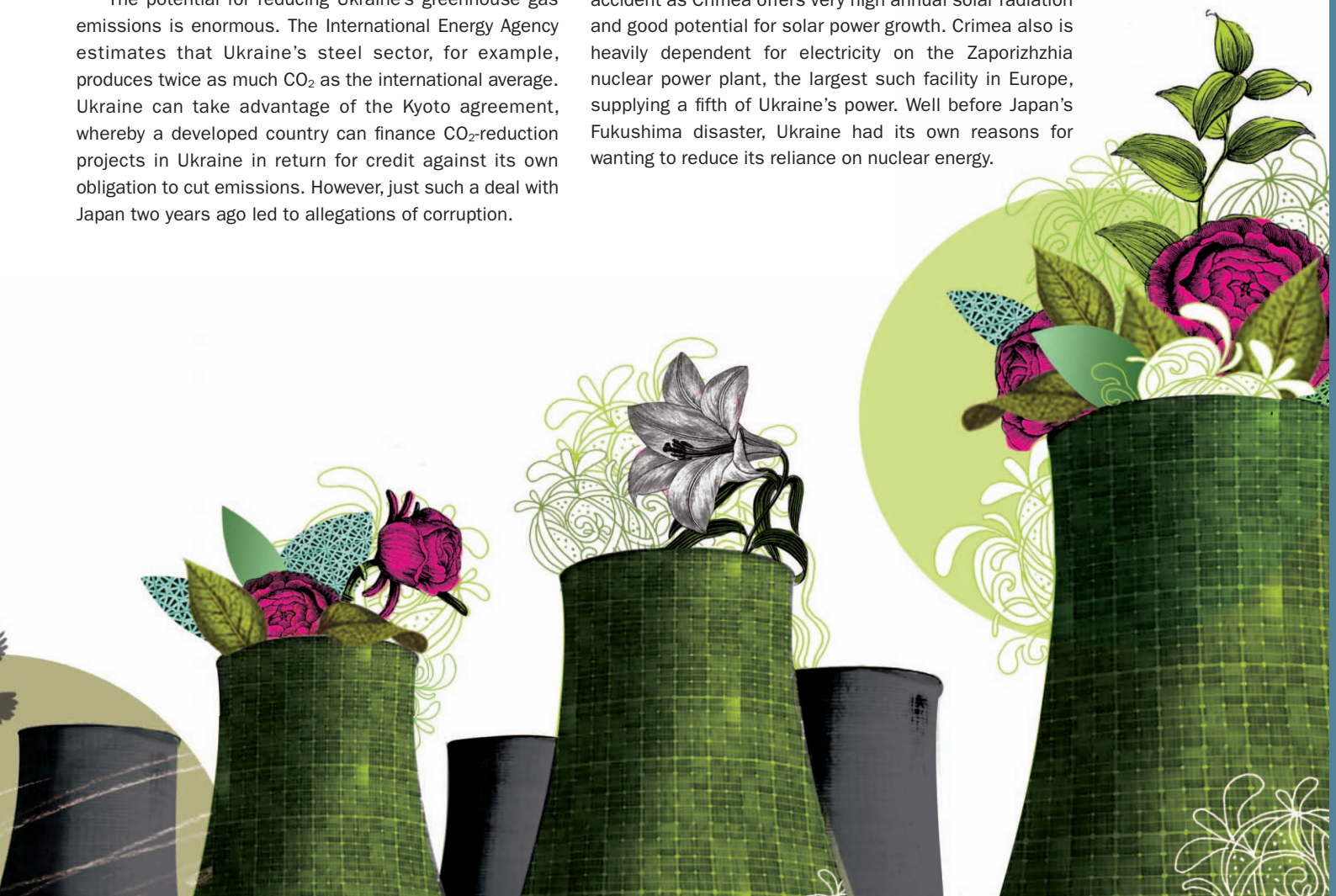


— Turkey

Acting as the "Europe-Asia bridge," Turkey aims to double the size of its economy in a decade

Turkey has long benefited from its unique location bridging two continents, an advantage that is arguably more alluring than ever for international investors. The country's investment promotion agency, Invest in Turkey, also known as ISPAT, has been successful in promoting this idea to international investors. The main challenge for Turkey is to reassure investors that it can also bridge the sometimes choppy east-west political waters.

TURKEY RANKED AS THE 15TH MOST ATTRACTIVE FOREIGN DIRECT INVESTMENT DESTINATION FOR THE PERIOD 2008-2010

Turkey has significant attractions for foreign investors. M. Ilker Ayci, President of ISPAT, can point to many successes in recent years. "It is a stable country with a strong financial industry and a growing business environment," he says. "Qualified staff, attractive cost levels and favorable taxation have already attracted numerous companies." Turkey ranked as the 15th most attractive foreign direct investment destination for the period 2008-2010, according to the most recent *World Investment Prospects Survey* by UNCTAD, the United Nations trade and development arm.

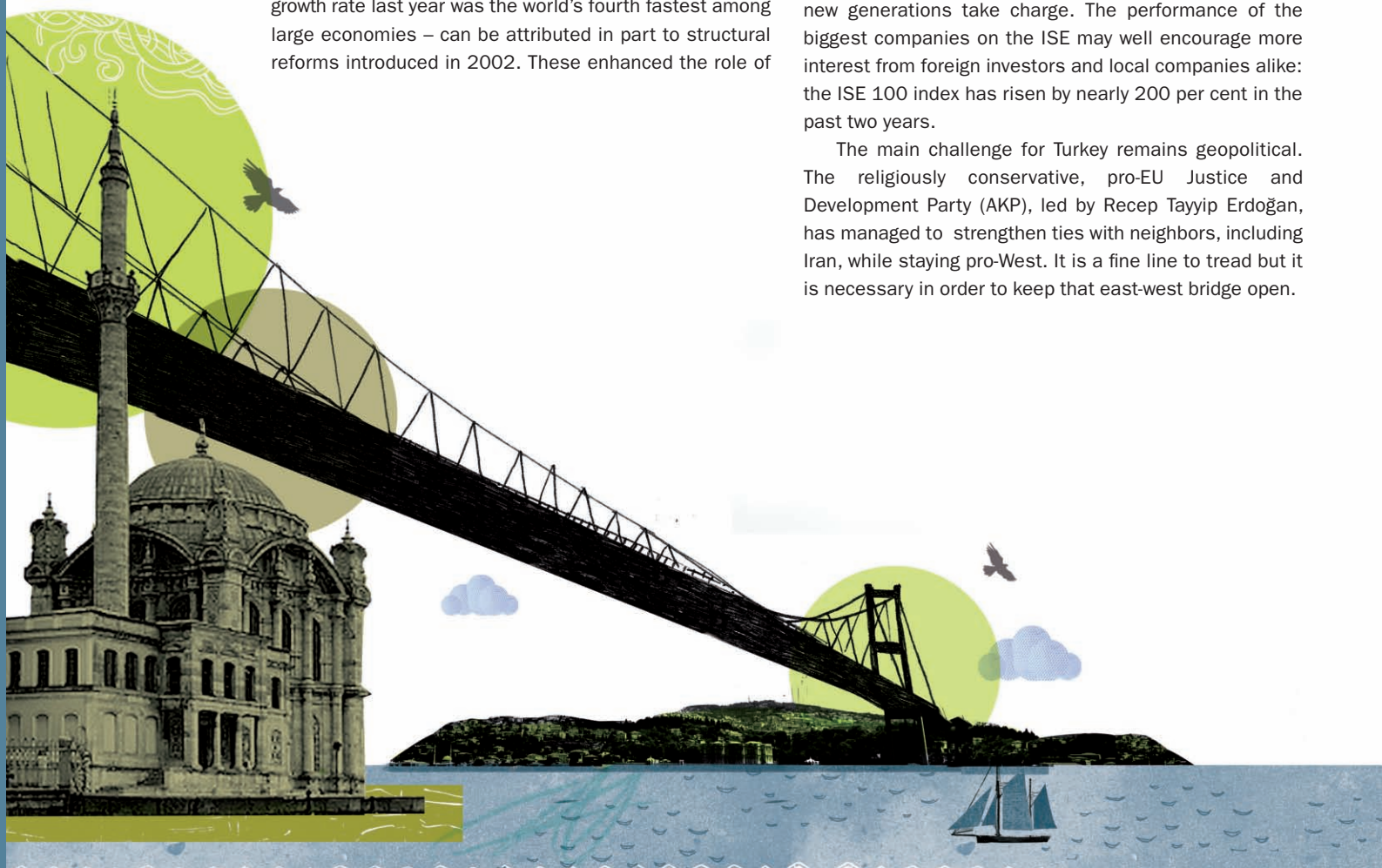
Recent economic success – Turkey's 8.9 per cent GDP growth rate last year was the world's fourth fastest among large economies – can be attributed in part to structural reforms introduced in 2002. These enhanced the role of the private sector and boosted the efficiency and resilience of the financial sector. They also placed the social security system on a more solid foundation.

Reform has been hastened by Turkey's desire to join the European Union. Negotiations began in 2005 but the bid has been politically controversial on many levels and may drag on for years. Nevertheless, the process has been good for Turkey's economy as it has encouraged policies to bring it closer to the EU. This convergence has promoted economic growth and has attracted foreign investment, just as it has in other countries that have followed the same process. As potentially the second most populous member state after Germany, the overseas interest in Turkey has been remarkable.

The government has set the ambitious target of making Turkey's economy one of the world's 10 largest by 2023, the 100th anniversary of the founding of the republic. The target for GDP is $2 trillion by that year, which would mean doubling it from the current level.

Central to Turkey's growth story is the Istanbul Stock Exchange (ISE), which also benefits from its pivotal role in bringing together investors from the west with those from the Middle East, Russia, Asia and elsewhere. While Turkey's business landscape has in the past been dominated by family-controlled conglomerates which have shied away from the public markets, that is changing as new generations take charge. The performance of the biggest companies on the ISE may well encourage more interest from foreign investors and local companies alike: the ISE 100 index has risen by nearly 200 per cent in the past two years.

The main challenge for Turkey remains geopolitical. The religiously conservative, pro-EU Justice and Development Party (AKP), led by Recep Tayyip Erdoğan, has managed to strengthen ties with neighbors, including Iran, while staying pro-West. It is a fine line to tread but it is necessary in order to keep that east-west bridge open.



— Poland

The IPO of the Warsaw Stock Exchange last year was symbolic of Poland's progress

It is November 9 2010, Warsaw. The bell rings for the opening of the Polish capital's stock exchange. But it is more than just a routine day of trading – this opening marks the debut of the Warsaw bourse itself. Shares in the Warsaw Stock Exchange (stock symbol GPW, based on its Polish name) soared 22.5 per cent on its first day of trading, as one of the most emblematic privatizations in Polish history came to a close.

The exchange's successful equity debut underlined Poland's achievement in establishing itself as the premier capital market for the region. Eliza Durka, the WSE's Director of Communications, says: "Our stock exchange has performed outstandingly over the past few years." This is backed up by the fact that the WSE has regularly been one of the busiest exchanges for European IPOs in recent years.

Located on the top floor of the former Communist Party headquarters, the exchange carries much symbolic weight for the transformation of Poland and the region since the collapse of the old regime two decades ago. Since then, the WSE has become one of the fastest growing bourses in Europe, having overtaken Vienna and Athens in terms of turnover and market capitalization.

The big banks also are being lured by this IPO boom, especially the prospect of a wave of privatizations planned by the government to raise more than $8bn through 2012.

Goldman Sachs, the investment bank, has established a presence in Warsaw and was one of the coordinators for the WSE's share flotation last November. "A stock exchange is an indicator of an entire market's development," says Monika Schaller, an executive director at Goldman Sachs. "Even during the financial crisis, the WSE proved to be a stable bourse with a very dynamic and efficient capital market."

As well as having the largest regional turnover, WSE is notable among the Emerging Europe countries for having the largest company list – today, a little over 400 domestic and overseas companies trade on the WSE's main market and the exchange's capitalization exceeds €200bn ($289bn).

The WSE has been quick to spot some of the international corporate trends and has, for example, introduced its Respect Index to take advantage of the increasing enthusiasm for investing in companies based on social responsibility criteria. Launched in 2009, the index includes companies that have formal "responsible management" systems in place, which serve as a tool for companies to formally communicate their achievement of specific corporate responsibility goals.

One index member is PKN Orlen, one of the largest oil refiners in the region. "The Respect Index is proof of the growing maturity of the Polish market and the need for companies to engage in corporate social responsibility," says Andrzej Kozlowski, PKN Orlen's Executive Director for Strategy and Project Portfolio Management. Through initiatives such as the index, "The Warsaw Stock Exchange helps to reinforce trust and create solid partnerships, which influence the value and profits of listed companies," Kozlowski says.

Despite such positive reviews, the WSE still has a fairly limited list of non-Polish companies. Of the just over 400 companies listed on the main market, only 32 are headquartered overseas. As the respective markets of Emerging Europe continue to grow, the WSE is aiming to build on its growing reputation as a capital raising platform to attract investors looking to do business in this region.

As with many other businesses, the WSE is also looking to the 2012 UEFA European soccer finals to promote itself as the regional capital market hub. Poland and Ukraine jointly won the bid to host the high-profile event – the European soccer finals rival the Olympics and World Cup soccer for attracting the most well-known companies, which will include Coca-Cola, Adidas and Hyundai-Kia.

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