

Speech by Principal Deputy High Representative Raffi Gregorian At the Presentation of the Annual Global Competitiveness Report Academy of Art and Science



An Uncompetitive System that Must Be Changed

Ladies and Gentlemen,

I am not here to talk about 5 + 2, OHR – EUSR transition, but about BiH. I don't believe this will have come as a surprise to anyone that while in 2005 and 2006 Bosnia and Herzegovina continued to improve its ranking in the Global Competitiveness Index, over the last two years it has slipped.

In 2005 and 2006 we witnessed an encouraging degree of political and administrative pragmatism. The legislative calendar wasn't stellar, but it was beginning to tackle key reforms: 80 laws were enacted in the State parliament, many of them leading to far-reaching reforms which came to be reflected in terms of increased GDP, foreign direct investment, increased employment, and low inflation.

As we all know, 2007 and 2008 have been a different and quite

dismal story. The results of this can be easily seen in the Parliamentary Assembly, where just 20 laws have been passed, one of which was for a pay increase for parliamentarians.

For two years the business of the people – and by that I mean job creation, improvements in social services and basic infrastructure, and progress on Euro-Atlantic integration that can offer guarantees of stability, security and prosperity – has been put on hold.

Media attention and political energy have been sucked into a protracted inter-party impasse that have more to do with dividing wealth rather than creating it, and personalities rather than principles.

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All of this is reflected in the report that is being issued today.

Bosnia and Herzegovina has gone from 88th position in the world in 2005 (which was, by the way a significant improvement on 2004) to 107th position.

In the category that lists countries in terms of ease of doing business, Bosnia and Herzegovina has plummeted from 91st place in 2005 to 119th place this year.

In the region, Bosnia and Herzegovina now stands at the bottom in the overall rankings, basically tied with Albania, but with one important difference: Albania's prospects are looking up.

Significantly, this year's report cites government and political instability and an inefficient bureaucracy as the main causes of the country's poor performance.

Unfortunately, although these are the main causes, they are not the only areas where a decline has been registered. Bosnia

and Herzegovina has slipped in the categories that rate the efficiency of institutions and the quality of infrastructure; it has also gone down in higher education and innovation and in almost all aspects of the workings of its internal market.

It's worth noting that BiH is at the bottom of the regional table when it comes to fulfilling the requirements of the EU's Lisbon Strategy. The main plank of the Lisbon Strategy is job creation – and if there is one area where this country desperately needs to do better and certainly cannot afford to do worse it is job creation. Yet in this, as in so many other fields, it has come last.

Politicians need to stop hitting the snooze button on the wake-up call this report represents.

Things cannot continue as they have done for the last two years. The country is being dragged in the wrong direction.

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I said earlier that the political stalemate may have more to do with personalities than with principle. In some ways this might be viewed in a positive light, because if it's essentially a matter of personalities it may be possible to resolve the problem quickly.

We saw evidence of this in November, when leaders of three major parties were able to reach a consensus on key issues that had been sticking points for years. The so-called Prud Agreement, if it is grown in the right political "Petri Dish" and given legislative flesh and bone, could enhance state institutions' capabilities to prepare for NATO and EU integration and thereby remedy some of the glaring problems that have been highlighted in the Global Competitiveness Report.

But even if the Prud Agreement is fully implemented in an acceptable and worthwhile form, it will not in and of itself

make BiH more competitive. Much more needs to be done. Just over a year ago, the three prime ministers agreed to implement a series of key economic reforms which are essentially technical and which will have a positive impact on the economic climate in the near term. Two of these reforms – the enactment of a BiH Law on Obligations and the setting up of a modern and efficient banking supervision system – have still to be carried out.

It would certainly be a sign that Bosnia and Herzegovina is moving back onto the path of reform-driven prosperity if progress could be made in the first months of 2009 to implement these measures, both of which are part of the European accession agenda. They are also consistent with Article 1 of the BIH Constitution, which mandates a single economic space with the free movement of goods, services and people.

This would also, in an eminently practical and appropriate way, address several of the glaring deficiencies in the BiH business environment that have been revealed in the Global Competitiveness Report.

The BiH paradox is that there is little dispute over what has to be done to make the country more competitive. Few countries have had a development path so carefully mapped out, and few countries have had an international coalition behind them that has so consistently shown its willingness to support that development path.

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I believe that much of the political gridlock that has done such damage to the material wellbeing of citizens is caused by the political system within which politicians work. They can't help themselves from exploiting the system to their own benefit.

The same applies in the economy. The problem does not lie with

people – citizens in this country are as hard working as anywhere else; entrepreneurs here are just as entrepreneurial – the problem lies in the system.

I would like to share with you very briefly a proposal that I believe could revolutionize the BiH economy.

As well as serving as Principal Deputy High Representative I am the Supervisor for Brcko District. In Brcko we have identified government ownership of the sources of wealth as a major disincentive to business growth and job creation and we have set out to break this link.

Bearing in mind that in Bosnia it takes nearly two years to have a contract enforced by a court, and it takes more than twice as long to register a business as to close it down, we need to look at ways that simplify business activities to make them more profitable and thus encourage greater job growth.

One way to do this *and* at the same time eliminate major sources of potential corruption is to set in place a system that encourages private ownership of construction and agricultural land. This will help to create an authentic property and mortgage market, which in turn will lower the cost of doing business and promote job creation. After all, why would a bank want to provide a low-interest loan for a business to expand if the only collateral is a building sitting on land owned by the government?

At the end of January, I intend to present the Brcko Assembly with a draft law that will facilitate the comprehensive sale of publicly owned land not needed for government functions. We started by asking why is government the biggest landholder? Is it better at business than businessmen? Is it better at land management than farmers?

The District encompasses about one percent of BiH territory and has a population of just over 100,000 people – yet there is, in Brcko alone, as much as 500 million KM worth of real

estate under public ownership. The price of private land is distorted while the government's cost of maintaining this property barely covers its rental revenues, and significant sources of revenue are lost because the government doesn't pay real estate tax to itself.

This is a staggering figure, just in Brcko! Consider what it is for Bosnia and Herzegovina as a whole!

Billions of KM worth of real estate is under public ownership throughout the country, and therefore under control of politicians.

Land reform will have a positive impact on government finances, on investment, on job creation, on business efficiency and, in the long run, on consumer prices. Politicians may not be able to agree on what sort of country Bosnia and Herzegovina should be – but the very least they should do is agree on policies that will make the country more prosperous.

It is high time that economic reforms stop being sacrificed for the sake of zero-sum politics. Reform is not a dirty word. Past experience has demonstrated that reforms make things better, even if short-term pain is required. Consider how things were getting better when reforms were being adopted and implemented as compared to today. The slow-down and roll-back of reforms has seen BiH slip backward in terms of competitiveness.

If sensible steps are taken to improve the business environment, Bosnia and Herzegovina's ranking in next year's Global Competitive Report may be significantly better – and, much more importantly, daily life in this country may be much better too. But the politicians need to hear from *you* that you insist on such steps.

Thank you