Speech by High Representative and EU Special Representative Valentin Inzko, At a Conference on The Southeast European Economic Space – EU Accession Prospects

A False and Damaging Proposition

Ladies and Gentlemen,

First of all let me say what a pleasure it is to take part in this conference, because the topic is central to the future development of Bosnia and Herzegovina. The discussions that have taken place here in Sarajevo over the last couple of days will, I hope, contribute to greater regional harmonisation of legal systems as a means of promoting faster economic growth.

And I am particularly pleased that the initiative for the conference originated in my own country, Austria.

As all of you know, the present political configuration in Bosnia and Herzegovina has halted reforms that are needed to move the country further along the EU integration path and – a matter of even more pressing concern – that are needed to

reverse the dreadful economic downturn of the last two years.

Part of the problem is a basic lack of understanding about the very nature of the European Union.

The EU has delivered security and prosperity to 500 million people by developing a free and vibrant single market and an open society protected by the rule of law.

From the EU perspective this may seem self-evident, but there are many in Bosnia and Herzegovina – and unfortunately this includes senior politicians and party leaders – who have not grasped these fundamental facts about the EU.

There is a belief among some, for example, that consolidating the BiH Single Economic Space – which is a key element in both the Dayton Peace Agreement and the EU accession process – is an option rather than an imperative. These people seem to imagine that Bosnia and Herzegovina can climb out of recession on the back of a divided internal market and a fractured business code.

For some years now the Law on Obligations, prepared through an exhaustive process of consultation with legal experts and business people throughout the country, has been ready to be enacted by the BiH Parliament. The law will introduce uniform contract rules throughout the country and thus help consolidate the domestic single market and carry it forward towards harmonisation with the EU single market. This will introduce legal and commercial clarity and thus legal certainty and business predictability, which will serve as a significant incentive to inward investment – and the thousands of jobs that can be created through that investment. Moreover, it will ensure that contract rules in force fully correspond to the needs of 21st century business, including e-commerce.

Until today, the law and the advantages it will bring to the people of Bosnia and Herzegovina have been vetoed by delegates

challenging state competency for regulating obligation relations and objecting to its formal transfer from the entity to the state level.

Similar, politically motivated but economically unjustified arguments have been advanced to prevent the modernisation of the BiH banking supervision system, another initiative that has been considered over an extended period of consultation and can be implemented as soon as political objections are withdrawn.

Establishing a modernised banking supervision system at the State level will help bring the BiH banking sector into line with EU norms. This will standardize and update banking rules throughout the country, which will directly help the banks operating in Bosnia and Herzegovina. And it is in the interest of Bosnia and Herzegovina to help those banks do business smoothly – their contribution to the country's post-war recovery and overall employment is enormous. And such a system will also introduce a higher degree of transparency of banking operations and thus result in improved public confidence. In due course, this may result in increased liquidity of the banks and in this way help to bring down interest rates and make much higher volumes of capital available to start small and medium-sized businesses.

Most people – and certainly every BiH citizen who is looking for work – would, I think, view the likely job-creation benefits as an unanswerable argument for getting on with this reform.

Unfortunately, some government officials and parliamentarians appear to be indifferent to this argument.

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Until three and a half years ago, when political paralysis set in, Bosnia and Herzegovina was making substantial and rapid progress. Today, it has fallen well behind its neighbours in

the EU accession process.

This is bad for the people of this country and the people of neighbouring countries and, in the long term, it is bad for the people of Europe as a whole.

Of course, Bosnia and Herzegovina faces distinct and profound challenges. We cannot simply wish away the bitter legacy of war. The work of preparing for EU accession has been harder in this country than in other countries. The integration road has seemed longer and steeper, and very often that negative perception has been an accurate reflection of a harsh reality.

But the challenges are not insurmountable and though the road is long it can be travelled.

The fact is that problems have been exacerbated by a false statement of the options facing BiH citizens.

Routinely, we hear that – given a choice between ethnic security and prosperity – a majority of citizens would choose security.

In other words, if we have to give up prerogatives acknowledged at Dayton, for example, entity commercial codes, in return for investment, jobs and EU membership, we would rather be poor and jobless and stay outside the European Union.

But this proposition itself is false.

And unspeakably damaging.

Because modernising the commercial law and the banking supervision system so as to help consolidate the Single Economic Space provided for in the constitution, attract investment, create jobs and take a step closer to EU membership cannot reasonably be presented as “giving something up”.

It constitutes, instead, a sensible step towards the greater security and prosperity of everyone living in Bosnia and Herzegovina.

A perverse and self-destructive line of thinking has led this country into a paradoxical situation where the European Union is doing everything it possibly can in terms of providing technical expertise and financial assistance for the country to make progress along the path towards full membership – and some politicians are consistently finding reasons not to move forward along that path.

I believe there is scope here for cooperation from neighbouring countries – because just as the European Union stands to benefit from having Bosnia and Herzegovina as a stable, prosperous and democratic member state, so too do neighbouring countries stand to benefit if the current political gridlock can be resolved.

The potential for trade with and investment in this country is enormous.

Conversely, the potential for Bosnia and Herzegovina to be a fly in the Southeast European ointment – damaging the region's overall investment image – is significant.

The arguments for a sensible approach to improving the BiH business environment are compelling. I believe in an election year they can be made irresistible.

That will pave the way for what could be a rapid economic recovery. When I took up my duties as High Representative and EU Special Representative nearly a year ago I believed – and I continue to believe – that Bosnia and Herzegovina doesn't simply have the option of "getting by" economically. It has the human and natural resources to compete and prosper.

I hope that this conference will help to highlight the urgent need for improvements to the business environment –

improvements which in many cases can be made before the October elections – so that that prosperity is not needlessly deferred for another three and a half years.

Thank you