

# Speech by High Representative and EU Special Representative Valentin Inzko at the Velden Economic Forum



## Good News and Bad News

*16 September 2009*

Ladies and Gentlemen,

Let me begin by expressing my thanks to the organisers of the Velden Economic Forum – for three things. First of all, thank you for inviting me to take part in this discussion. Second, thank you for inviting everyone else! And thirdly, thank you for facilitating a debate that brings together economists and policymakers from a part of Europe whose natural economic parameters are only now emerging.

When we speak about Central or South Central Europe we still tend to speak in post-Cold War terms or in terms of EU integration. These are important issues – indeed, EU integration forms the overall template of recovery and development in Bosnia and Herzegovina, where I serve as High Representative and EU Special Representative.

But emerging from the stress and distortion of the Cold War

and embarking on the path of EU integration are only facets – albeit significant facets – of a region that stretches from the Baltic to the Adriatic – a region, as it happens, in which we are at this conference very close to the geographical centre.

There are underlying cultural affinities, commercial links and historical connections that bind this region together – quite apart from the mechanics of the EU – and these form an interlocking matrix that is now becoming visible.

### **Being themselves**

Among the new EU member states we are seeing today something we witnessed in Austria in the years immediately after EU accession. The countries that joined the Union in 2004 and 2007 are asserting themselves, distinctively but not disruptively – they are *being* themselves, as members of any robust and lively community ought to do.

In fact I would argue that the real alchemy of EU integration is that it allows societies to be themselves, but more dynamically and more productively than before.

I remember how Austrians were perceived before we joined the EU – we were viewed by many as a species of country cousin. We resented this, yet our economy was heavily protected and our society was substantially inward looking. EU integration made us dismantle the protection and look outward. The moral of this is that the important thing is not what you are when you start the integration process: it's what you can *become* when you carry the process forward.

It was the Austrian experience, and I believe it is now the experience of the new member states, that EU accession enhances national self-confidence and opens up multiple ways in which a country and its people can contribute to Europe

creatively and constructively.

This has profound significance for South Central Europe, including Bosnia and Herzegovina and other countries in the Western Balkans that aspire to EU membership but have not yet secured this goal.

### **Natural synergies**

When Austria joined the Union in 1995 its economic relations with many of its immediate neighbours remained stunted, as they were only then emerging from half a century as part of a different political and economic system. As those countries embarked on the high road of EU-accession reforms Austria was able to develop the myriad natural synergies that existed between it and its Central European neighbours.

I believe that we can look at a very similar situation today.

When the new accession countries began their approach to the EU in the 1990s the Western Balkans were mired in conflict. Today, the new member countries can fruitfully begin exploring and exploiting the natural synergies that exist between themselves and the emerging markets of Southeast Europe.

I speak as an Austrian and also as a Carinthian. For two generations our southern border represented an artificial boundary. We were intimately familiar with the potential synergies between ourselves and our Slovenian neighbours but we were unable to exploit those synergies. In the last decade we have been able to do so and the results have been rewarding – for us, for them, and for everybody else.

### **What Southeast Europe brings to the table**

Most of us are familiar with the ways in which EU membership has changed Austria, but I believe we should consider

sometimes how Austria has changed the EU. We are German speakers who are not German; we are a society with a unique and uniquely valuable cosmopolitan heritage; as EU members we have been able to bring these quintessentially Austrian attributes to European decision-making.

Other new member states have brought their own particular and distinct attributes to the table.

In the same way, the EU as a whole will gain enormously when the countries of the Western Balkans secure membership.

Take Bosnia and Herzegovina as an example. It is a pity and a great mistake that this country is viewed through a prism of bloodshed and political failure that is nearly two decades old. This image is out of date. The reality is that Bosnia and Herzegovina is a society that preserves and celebrates civic values that have been lost in other parts of Europe. I'm speaking of hospitality, and neighbourhood solidarity, and "merhametluk", which can be translated roughly as "compassion" but encompasses more than that. Indeed, the preservation of these civic values among people who have had to endure much in the recent past often makes me think that societies like ours further to the north are cold and uncaring in comparison.

In Southeast Europe we find a cultural world that is intrinsically part of our Central European cultural universe but which has been separated from it by history and circumstance. This has been *our* loss.

Culture is food for the soul – as important as economics and politics, and the cultural\_enrichment that Europe will derive when Bosnia and Herzegovina and the other Western Balkan states secure EU membership will be nothing less than phenomenal.

**Look to the South**

The fact is that South Central Europe comprises a vibrant market of 55 million people in countries, inside and outside the European Union.

Fifty-five million consumers and an industrial and transport infrastructure that has been radically upgraded in the last decade and now needs more investment for further development; an entire region that can serve as a production platform that will exploit geographical proximity to the rest of the continent, competitive education and training standards and competitive labour costs. That's the reality.

From Velden we can look to the south and see a part of Europe that is now poised for rapid economic growth; it is reasonable for the rest of the continent to ask: how will we foster that growth and how will we benefit from it?

If we are not asking these questions it is because we lack imagination.

The countries that recently joined the EU have transformed themselves in barely half a generation. Their social, political and economic landscapes even as recently as the 1990s are now all but unrecognisable.

The countries of the Western Balkans are on the same trajectory – and they are a natural part – culturally, historically and economically – of Central Europe.

The Central European accession countries benefited from the fact that they made their journey to the EU at the same time and in the same way. Positive developments in one country encouraged and facilitated positive developments in the other countries. The same is true of the countries that are principal members of the Regional Cooperation Council, which took over at the beginning of last year from the Stability

Pact for Southeast Europe and has its headquarters in Sarajevo.

I believe that in addition to the technical work being done by the RCC to ensure progress in economic and social development, energy and infrastructure, justice and home affairs, security cooperation, building human capital, and parliamentary cooperation, it can help to *re-brand* Southeast Europe.

This isn't the back-yard of the European house but a colourfully appointed living room; it's not a region full of problems but one that's full of opportunities; and it certainly isn't backward – in reality it is home to cultural and social reserves without which Europe, to put it bluntly, simply isn't Europe.

### **Good news and bad news**

As I am the International Community's High Representative and the EU's Special Representative in Bosnia and Herzegovina I will focus my remarks on developments in that country.

First of all, the bad news. Bosnia and Herzegovina has been hit hard by the global economic downturn. After nearly a decade of impressive GDP growth, the economic and social condition of the country has received a jarring shock as a result of external factors.

We have lost as many as 45,000 jobs since the end of last year – that's 45,000 to add to the nearly half a million BiH citizens who were already unemployed. Our imports and exports have declined over the same period, as has our tax revenue.

That's the bad news – and unfortunately it is very bad indeed.

But I am convinced that this extremely negative situation can be turned around if we act with pragmatism, optimism and

determination.

The good news is that the crisis has begun to concentrate minds in Bosnia and Herzegovina. There is growing awareness among the political leadership that the status quo is unsustainable – people won't put up with further declines in living standards while politicians squabble over issues that have nothing to do with the economy.

I believe we can leverage this popular impatience into support for key economic reforms. I should also point out that neighbouring countries have been affected by the global downturn in similar ways and that there too there exists the possibility of leveraging the crisis into a renewed reform effort, thus lending a regional dimension to this exercise.

There is throughout the Western Balkans an appetite for sensible economic measures that will ease the crisis. These measures can be implemented with a groundswell of support.

Neighbouring countries are suffering severely as a result of Bosnia and Herzegovina's economic contraction. Croatia accounts for nearly 15 percent of our imports, Serbia for nearly 10 percent. Croatian and Serbian exporters have been hit hard by the loss of BiH sales. And BiH has been hit hard by a corresponding decline in income from exports to Croatia and Serbia, our biggest trading partners outside the EU.

In the coming months I will be working with the head of the European Commission Delegation to secure faster implementation of the Stabilisation and Association Agreement, which amounts to a blueprint for modernising the BiH economy.

In 2008 we saw very limited progress because a political crisis brought much of the work of government and parliament to a standstill. We are now seeking to reverse the negative impact of this work stoppage and, as I mentioned, I believe we

enjoy massive popular support for a renewed reform effort.

Among the EU integration requirements on which we will be concentrating our efforts is the long delayed enactment of a BiH Law on Obligations that will standardize the commercial code throughout the country in preparation for entry into the EU single market, and the modernisation of the banking supervision system so as to further strengthen a banking sector that has been one of the country's economic success stories over the last decade.

Under the SAA, BiH undertook to develop a political dialogue with the EU and prepare itself for full participation in the free movement of goods, services, workers and capital; it also agreed to harmonise its institutions and laws with those of the EU, step up cooperation in law enforcement, internal affairs and finance, and develop an overall political cooperation with the EU – in other words it agreed to a comprehensive programme of root-and-branch reform.

Those of us working in Bosnia and Herzegovina have to push this programme along as fast and as far as we can – the SAA envisages the completion of the process within six years. At the same time I believe we must get the word out to prospective partners that Bosnia and Herzegovina really is changing.

Like the region as a whole, Bosnia and Herzegovina has to be re-branded.

That is one of the things I would like to explore further at this conference. This is a country that is a million miles from the news footage of the early 1990s. Just a handful of examples:

- It is the only net exporter of energy in Southeast Europe
- It is truthfully Europe's best-kept tourism secret; and

- It was until the recent downturn one of the fastest growing economies in Europe.

Like Austria, like the other countries of Central Europe, like its neighbours in the Balkans, Bosnia and Herzegovina can be transformed by EU membership – not changed utterly, but made more itself only better.

### **Creative and dynamic partnership**

When former Yugoslavia slipped the chains of authoritarian rule and descended into violence, Europe was unprepared and unable to offer effective help

Now the countries of the Western Balkans are engaged in an exercise of corresponding magnitude – slipping the chains of a planned economy and embracing the market

Are we going to stand aside and let them fail?

When the spectre of enlargement fatigue is raised I think the pertinent question to ask is this – Does the happy prospect of 20 million new EU citizens in a peaceful, democratic and rapidly developing Southeast Europe have a downside for the EU?

The answer is “no”.

That outcome makes sense – for them and for us – and we should continue to work towards it.

The EU responded creatively and dynamically to the prospect of eastern Enlargement. This has been a stunning success. We are now, logically, seeking to extend that success to Southeast Europe. We must continue to be creative and dynamic, and I look forward to exploring ways in which we can do this during the course of today’s discussion.

Thank you