

Speech By The HR/EU Special Representative Paddy Ashdown To The American Chamber Of Commerce

I am delighted to speak to you today, because there is no subject that pre-occupies me more than the state of this country's economy.

If you ask me the issue on which I will be campaigning most vigorously in the months ahead, I would simply echo Bill Clinton's campaign slogan and tell to you bluntly: 'It's the economy, stupid'.

Bosnia and Herzegovina has huge economic potential. We have talented people. We have natural resources. We are on the door-step of the biggest consumer market in the world. We have a lot going for us.

What we do not yet have are those remaining elements that business requires to do well, and to create jobs, and which it falls to government to put in place: the right business environment; the rule of law; sensible regulation; minimum burdens on business; encouragement and support for small and medium sized enterprises; the necessary certification procedures to take advantage of the export opportunities available to us, not least in the European Union.

Last May last year I laid out my priorities in this job – Justice and Jobs. They are closely related to each other – as the Chinese say, as close as lips and teeth. Without the rule of law, there is little prospect of investment and jobs. Without jobs, there is little prospect of lasting stability. The message then, is simple: we have to forge ahead with reform, and we have to do so at eye watering speed. We simply have to make BiH competitive.

Are we competitive today? Are we the first place an investor thinks of when he or she has money to spend in Central or South Eastern Europe? Alas not.

It's not the people of BiH who are failing – it's the business environment that is failing.

The business environment is the first thing a potential investor looks at. A good business environment brings in investment; investment brings in jobs. Our business environment scares investors away, instead of enticing them in. If BiH is to attract investment, it needs to care for it and cherish it. It needs to make it feel at home, and go out of its way to tend to its needs.

We should welcome anyone who wants to invest – local or international – because when we welcome investment we welcome jobs. Yet investors who want to start a business here run a gauntlet of contradictory rules and pointless bureaucracy.

That's why we have been working, in partnership with the local governments and the international financial institutions, at unlocking the business potential of BiH.

Together, we are starting to make headway.

Bulldozer Initiative

We know that we need business-friendly legislation. The question is how to go about it. Joining with the government, we are trying a new and innovative approach – and I believe it is working. Let me explain.

We have joined with the local business community to identify the problems they face. We have asked them to fax us, to phone us, to write to us with the worst and most ludicrous examples of enterprise-suffocating regulation and red tape, which drive away investment and snuff out initiative. You won't be surprised to hear that our phone lines and fax machines have been overheating with astonishing examples – like the mandatory tax for atomic bomb shelters. Those businessmen created a Committee, the Bulldozer Committee. Please note: it is not an international committee, but a BiH committee. This is a committee made up of BiH's business community. Its recommendations are theirs, not ours. The dialogue is between them and the Government, not the international community and the government. We may have been the catalyst – but they are the motor of change. This group has come up with 50 specific recommendations, urging a strict timetable for change. These recommendations were presented to a joint

session of the BiH Entity and State governments here in Sarajevo last week.

Next week, the Bulldozer will meet a joint session of the BiH State and Entity parliaments – a historic first for this country. BiH civil society, for the first time speaking directly to the Government about the changes it wants to make this country better.

This is a hugely positive development – an example to BiH and to the wider region. The Bulldozer – driven, not by the IC but by the citizens and elected leaders of this country, is ploughing ahead, clearing a path for investment, clearing the way for jobs. Here's an example of BiH leading the way in this region, and doing so with flair and success.

In this way, the dialogue between elected representatives and the private sector is key to improving the business environment, attracting investment and generating jobs.

I am pleased to see that AmCham today has developed itself as such an organization that brings together local entrepreneurs to provide advice and services, as well as links with foreign investors.

Custom and tax reform

But we also need to move ahead with more fundamental structural changes within the economy, if we are to help business, cut fraud and meet European standards. That is why we have been working so hard in the last few months on customs reform and VAT. Again, we have made real progress here.

Since the beginning of this month the Indirect Taxation Commission has been meeting under the chairmanship of a senior European Commission official, tasked with establishing a single customs administration in BiH and a countrywide VAT system. These two reforms, which have the backing of the mainstream parties, are crucial to the overall economic strategy.

A single VAT for BiH will send a clear signal to those considering making an investment into BiH that BiH is serious about making it easier to do business. It will also create a level playing field, in which legitimate businesses are not obliged to carry a disproportionate tax burden while crooks evade tax with ease. And it will allow this country to dock with EU standards.

Corporate Governance and Fiscal Responsibility

But this is not the only area where BiH needs to come up to European standards. There is also major work to be done in the field of corporate governance.

To ensure a better level of corporate governance, we have launched a series of Special Audits in the public sector. The Special Audits found the running of the Elektroprivredas shot through with the second-rate practices that have prevented companies in BiH – especially large publicly-owned companies – from delivering services to citizens in an efficient and competitive way. Indeed quite the reverse: instead of serving the people, they've been ripping them off.

A common thread running through these reports has been the scandalous ease with which the interests of citizens have been subordinated to the interests of a small band of well-connected and powerful insiders. If BiH is going to integrate in European economic structures, we need to change that. These Special Audits could and should do so. Let me be very clear: this is not about selling off the family silver. It's about running things properly, about serving the public as the public is entitled to be served. So I am pleased that the Entity governments have now issued clear instructions to the management of the Elektroprivredas to institute verifiable reforms over the next three months. This is a process that will be extended to other public utilities and which, we believe, can be in the vanguard of a systematic upgrading of the quality of corporate governance in BiH.

Deregulation:

If part of our joint effort between the international community and BiH is directed at tightening up lax practices and ending abuse, just as important is our work in partnership to free up the economy, and liberate whole areas that have been invaded by absurd levels of mindless regulation and red tape.

We are already putting extra effort into freeing the economy from the legal strait-jacket imposed on it by outdated

laws. Among the key steps taken by the BiH parliaments:

- the BiH State Parliament has considered laws on Electricity Transmission, Consumer Protection, Copyright, Industrial Ownership, Free Trade Zones, International and Inter-Entity Road Transportation, and Competition;
- the Federation Parliament has enacted a Concessions Law, a Law on Foreign Direct Investment, and laws on Excise and Sales Tax, Electricity and Forestry;
- the RS National Assembly has passed legislation on Concessions and on Excise and Sales Tax.

This is a positive beginning but it isn't nearly enough.

Single Economic Space

The Single Economic Space has to be made a fact of life because until the Single Economic Space is a reality BiH is going to be poor. That's the stark choice.

We will develop the Single Economic Space so that companies can access – and consumers can reap the benefits of – a countrywide market of four million people, rather than being confined uneconomically to tiny, economically insignificant micro markets.

Let me give you an example of what I mean. At present, the Bonaqua water produced by Coca Cola in the Federation is treated as an import in the RS. An import – from within this country. How daft is that? I am happy to say that one of the 50 Bulldozer reforms tackles this very issue by recommending a State Water law, with state-wide Euro-compliant standards.

Proper commercial courts

If part of the challenge is to strip away regulation, and remove red tape, the other, equally important task is to make sure that the commercial and contract laws that do remain are properly enforced.

Modern commerce functions at a high speed, and businesspeople need specialized courts, with judges specialized in commercial matters, that can dispense justice, resolve disputes, and uphold contracts quickly and transparently. We are moving, slowly, but steadily, towards that in BiH, and it will be amongst my foremost priorities over this summer. But we will need your support and your continued pressure to move ahead with the speed required.

Labor market and education

Equally, the labour market lacks an adequate legislative framework. We need to reform the minimum wage mechanism, for instance. We need to make sure that BiH young people get fair access to the labour market.

Privatisation

Equally, delays in privatisation have resulted in a significant decline in the value of state capital that is to be privatised. Machines are left to rust and buildings stripped of their assets. The privatisation agencies have been weak, reluctant to make difficult decisions such as restructuring debt or dividing up large enterprises that are not attractive to investors as a single unit. Agencies have been not responsible for results and follow up – shifting problems to already ineffective courts. That is why it is essential that we become more active in those matters – as until these companies begin to benefit from modern management techniques, they will represent this country's failed industrial past, not its promising economic future.

Conclusion

You will have gathered from what I have said that I am optimistic about this country's economic future. It has the potential and the ability to succeed. But it has been held back by the tragic turn of history.

I am sure that we can together tackle the tough path of reform that lies ahead.

But I cannot hide from you that it is a difficulties that lie along that road, or the consequences if we fail.

I do not believe this country will return to ethnic conflict, but I would not like to predict the outcome if, from failure

of will or courage, we dodge the challenge of tough deep and urgent reform to our economy. I know these will be difficult in the short term for some, perhaps many already living close to the poverty line. But it will be disastrous for us in the long term if we fail to act now.

The world economy is not strong at the moment and the events of the next 48 hours may create further uncertainty. It is not a good time to be looking for the investment BiH needs. And the murder in Belgrade a week ago will not have helped the reputation of the Balkans. So we are fighting against the stream.

Our challenge is considerable, but simple. It is to make BiH the most friendly country in the Balkans for business and investment – and to start immediately.

I will shortly be meeting with our partners in the BiH Government for a study week-end to discuss and decide what needs to be done. I hope from that meeting we will agree three or four key measures of economic reform to be done before the summer holidays, to set BiH on the path of fast economic change on the way to Europe.

Since I am speaking to AmCham, allow me conclude by quoting a passage from Alexis de Toqueville, the author of *Democracy in America*, which seem to me to be apposite.

'Do you want to test whether a people is given to industry and commerce? Do not sound its ports, or examine the wood from its forests or the produce of its soil...Examine whether this people's laws give men the courage to seek prosperity, the freedom to follow it up, the sense and habits to find it, and the assurance of reaping the benefit'.

That was true two hundred years ago of America, and it is true of BiH today.