

Opening address by the High Representative, Wolfgang Petritsch at the conference “Economy of Peace” organised by the Peace and Crises Management Foundation

H.E. Mr. Belkic, member of the Presidency,

H.E. Mr. Lagumdzija, Chairman of the Council of Ministers,

Ministers of the Council of Ministers,

Entities Prime Ministers Mr. Ivanic and Mr. Behmen,

Mr. Vukobrat,

Distinguished guests,

I am pleased and honoured to have been invited to address this conference. I have had the pleasure of working with some of you before. Zarko Papic, whom I believe is here this evening, is someone with whom I speak frequently and whose expertise I value – just yesterday he participated in the Civic Forum, a round-table discussion among intellectuals and civic leaders, held at my home. Dragoljub Stojanov, also with us this evening, is another person whose academic insight I have the greatest respect for, even when we do not see eye to eye. Last week, Professor Stojanov and I engaged in a lively TV debate about the efficacy of privatisation. And there is also Vladimir Gligorov, from the Vienna Institute for International Economic Studies, whose work on Balkan issues I very much

admire.

The theme of this weekend's conference – the Economy of Peace – could hardly be more timely. Economic reform has to be implemented as a matter of the utmost urgency in order to sustain the peace in Bosnia and Herzegovina and throughout the region. Last weekend I participated at a seminar in Venice organised by the Aspen Institute. A central theme of the conference was that, in light of the profound change in global opinion and global economic and political priorities following the September 11 attack on America, there is a pressing need for – and I quote – “a leap in maturity” among political leaders in Southeast Europe. International financial and military commitment to the region is not inexhaustible. The focus of global attention has shifted elsewhere. It is time for Southeast Europe to get its political and economic act together.

Foreign investment – the necessary fuel for a real regional economic renaissance – depends on political stability, the rule of law, and sound economic management.

Economic growth is a precondition for setting up and strengthening democratic institutions. By the same token, political stability is a precondition for economic success.

Two years on, it has become increasingly clear that the policy instruments which have been made available through the Stability Pact must be sharpened and used more decisively.

Many of you were present at a conference organised by the Peace and Crisis Management Foundation in Paris in June 1995. The recommendations of that conference, which took place while war was still raging, were validated to a remarkable degree by subsequent events. You identified a strategy of

“Europeanization” for the region, and emphasised the importance of macroeconomic stability, a sound legal framework for privatization, trade liberalization, and institutional reform. On regional cooperation, many of your recommendations were reflected in initiatives later undertaken under the auspices of the Stability Pact, namely:

1. The funding of regional projects through the Regional Conference process,
2. The Stability Pact Anti-Corruption Initiative (SPAI),
3. The Investment Compact,
4. The “Agenda for Regional Action” on refugee return, and
5. Dialogue with the Private Sector through a Business Advisory Council

Regional co-operation is an important dimension of the Economy of Peace. Members of the Peace and Crisis Management Foundation share the common legacy of coming from countries that used to be part of the Socialist Federal Republic of Yugoslavia.

Bosnia and Herzegovina, Croatia and Yugoslavia, all at very different stages of economic and political development nonetheless represent an important regional core group. Following the accession to power in all three countries of administrations that claim to have broken with the failed policies of the past decade, there are grounds for hope that the ideas which you define and articulate at this conference may fall on fertile political ground.

The spectre of the former Yugoslavia is sometimes raised in an attempt to dismiss the usefulness of regional co-operation. This argument does not stand up to scrutiny. Former-Yugoslavia is well and truly gone. It will not be reconstituted. By the same token, geographical proximity, linguistic affinity, and shared experience ought not to be ignored. There are advantages arising from the interconnectedness of this region which should be put to economic use. Now is the time to do this.

Another argument holds that the more prosperous states of former-Yugoslavia should not allow themselves to be bracketed together with the more backward countries in the waiting room of Europe. This too does not stand up to scrutiny.

Accession to the EU is a bilateral process, and each country develops a relationship with the EU on the strength of its own distinct characteristics.

In addition, all the countries in an economically integrated region benefit from this integration. And the countries that are most advanced tend to benefit even more than the others, since they have more resources with which to exploit economic opportunities –better knowledge of markets, more capital to invest, better scope for retaining and developing higher value-added operations and so on.

Let us not allow the spectre of the former Yugoslavia to distract us from the real and useful work of enlarging opportunities for economic growth for the real benefit of all citizens.

Imagine an integrated Southeast Europe. Visualise, for example, a manufacturing company building a factory in Bulgaria – using construction materials from Macedonia, and

going into production with the benefit of a BiH consulting company. Let's round out the picture by imagining our manufacturing company – with shareholders from Croatia and Slovenia, say – selling its products in Romania and Greece. The consulting company from BiH might have offices in Sarajevo, Banja Luka and Sofia.

The building blocks of prosperity which you will be considering in some detail during this conference are trade, investment, improved economic policy, and integration into Europe.

I note with great satisfaction the important achievement of the Memorandum of Understanding on trade liberalization signed last June in Brussels. Under this MoU, the beneficiary countries of the Stability Pact—Croatia, Bosnia and Herzegovina, Yugoslavia, Macedonia, Albania, Romania and Bulgaria – have agreed to liberalize 90 % of their trade with one another – in value terms – by 2006 for both agriculture and industry. Once fully implemented, this will represent a market of 56 million people.

I would encourage you to consider in your discussion, the challenges that can be anticipated in the implementation of this MoU. It sets an ambitious target. As of now, several countries in the region, including BiH, depend on trade taxes for a significant proportion of their revenue. The plain fact of the matter is that only less developed countries depend on trade taxes in this way. This dependence means that as trade is liberalized, tax reform will have to be implemented so as to provide adequate revenue streams for governments.

Liberalised trade opens the door to foreign investment, but the investment picture for countries in the region is worrying. The institutional and policy environment is very

much part of the problem. In this respect, important lessons can be learned from other countries. The Stability Pact Investment Compact, which I have already mentioned, provides a mechanism for sharing knowledge. Also it provides the opportunity to forge coordinated regional policy reform.

In Bosnia and Herzegovina, commercial legislation needs to be further developed, fully harmonized between the entities, and, above all, well-implemented. The business environment is needlessly complex and non-transparent. It takes up to three months to register a new company in BiH. It takes 10 days in Romania.

Similar problems exist in neighbouring countries. Policy dialogue among countries in the region can only bring benefits to all by sharing insights and applying – where appropriate – similar solutions so that the region comes to be seen, at a time when trade is liberalizing, as a thoroughly open investment space.

Coherent policy and a stable institutional policy-making framework are crucial for private investment and economic growth. Governance in some countries is still too uncoordinated and too indecisive. The people of this region expect their Governments to deliver prosperity – or, at the very least, not to place obstacles in the path of prosperity.

As a matter of fact, just today I visited a small start-up company in Ilijas, on the outskirts of Sarajevo. The company, Alplast, is a shining example of how the entrepreneurial spirit can blossom given practical assistance – in this case by the EU.

Integration in the EU is the main long-term political aspiration of the whole of Southeast Europe. The EU has

already affirmed its commitment to association and accession status for the countries of the region. This is a historic opportunity which has yet to be fully grasped. It is an opportunity which has the near universal support of ordinary people.

The governments need to play their part, first by fulfilling the conditions leading to a Stabilisation and Association Agreement. These agreements, which the EU has promised to sign with countries that can demonstrate their commitment to reform, will lay out in detail the criteria which countries must meet in order to reach full candidacy status. This will come with significant and focused assistance from the EU. The ultimate goal will be to enshrine and implement the body of laws that define Europe, the so-called *acquis communautaire*. Each of these stages will result in concrete benefits to citizens – in terms of enhanced protection of rights, and freedom of movement of goods, labour, services and capital.

Are we on the road to Europe? In Bosnia and Herzegovina, significant steps have been taken. The country is set to join the Council of Europe. Highly favourable trade preferences have been granted by the EU. The currency management system is anchored to the Euro. BiH is, for all practical purposes, part of the Euro zone.

Now is the time for the focused implementation of economic reform so as to build on these foundations. The economy *can* be turned around, and the long-term prospects for peace and democracy in the region *can* be realised. It is time for a political commitment to this goal. Your creativity can play a key role in furnishing that commitment with a sound and pragmatic economic-policy platform.

Thank you