

Remarks by the High Representative Carl Bildt at the PROMO business fair

Ladies and Gentlemen,

When I visited PROMO last year I was most impressed by the vitality, the entrepreneurship and the talent from all over the country that was demonstrated. It was less than half a year since the war had come to an end, but businessmen were already planning and working for the future. It was one of the most encouraging of all signs in Bosnia during the spring of 1996.

Since then, a year has passed. And we have to assess how that time has been spent in creating the conditions for better economic development for all of Bosnia for the years to come.

There is no doubt that today we have an economic situation far better than a year ago. There is a rapid, although fragile, economic recovery, primarily in the Federation.

But we must admit that this has more to do with the inflow of money related to the presence of IFOR and SFOR and as well as to the numerous reconstruction projects of the World Bank, European Commission and others than it is the beginning of a sustained and self-supporting economic recovery.

Last year, the international community made the transition from humanitarian aid during the war years to the reconstruction assistance that is now underway. It took some time to make that transition, but at the end of the year app. 1 billion USD had already been spent, and since then the reconstruction effort has proceeded at the pace of more than 100 million USD every month.

This is a significant amount. If we were to make a comparison with the Marshall Programme after WWII, the 50 year anniversary of which will be commemorated shortly, the amounts spent here are in relative terms four times larger.

And this will continue for some time to come. We have significant funds left over from the 1.7 billion USD pledged by the international community last year, and we hope that we will soon have the opportunity to raise a further 1.4 billion USD to continue efforts during this year.

But let me be honest: this will not continue forever. While last year saw a continuous acceleration and increase in international reconstruction efforts, they will at the very best continue on this level for some time, but will then gradually start to diminish, and increasingly be concentrated on just a few key sectors.

Last year saw the transition from humanitarian assistance to reconstruction assistance. In the same way, this year must see the emphasis shift from reconstruction assistance to genuine economic reform.

Without radical economic reforms, Bosnia and Herzegovina will not recover, and this conclusion is irrespective of how many billions of dollars or DMs or something else is contributed by the international community. During the past few decades, we have seen too many countries wasting the opportunities presented through international aid by not adopting sensible and clear economic reform policies, and in some cases even ending up in worse shape than when they started.

This must not be allowed to happen in Bosnia. But I must admit to you that I am worried. If we do not see a clear break-through with economic reforms this year, and the level of international assistance starts to be reduced next year at the same time as the international presence is diminished, there is a very real possibility of a very difficult economic and social situation in the country some years from now.

Not only will this make it far more difficult to deal with the task of rebuilding after the war, it will also greatly complicate the task of preparing for the return of all those refugees wanting to come back. And it could, in the worst of circumstances, even lead to people leaving the country because of a declining economic and social situation.

This must not be allowed to happen. And PROMO certainly demonstrated that there is enough talent and ability in Bosnia to prevent it, and to create a good basis for development in the years to come. But for it to be avoided, the political authorities of the country must move forward faster on a large number of issues.

As you recall, on September 14 last year, Bosnia Herzegovina elected Parliaments at the State level as well as in the Federation and in the Republika Srpska. The Council of Ministers of BH as well as Governments of the Federation and RS have since been established and ministers have been appointed.

With a new political structure in place, one might have expected that seven months later, the efforts of the business community would be supported by a sound economic policy. But this has not been the case, as yet.

There are a number of reasons for this. We should not underestimate the purely political problems that exist in getting the common institutions of Bosnia and Herzegovina to start functioning after the war, neither should we underestimate the hurdles to be overcome with the different institutions of the Federation. In a sense, it is remarkable that they have come as long as they have during these months.

But what worries me is that economic issues are not sufficiently in focus for the different institutions. They tend to deal with political issues far more than economic issues. And there is also a tendency to block progress on key economic issues if political conditions of one sort or the other are not met.

As a result, something of a policy vacuum has arisen. Instead of an emerging new economic framework, based on the radical reforms everyone sees as necessary, the old-style structures of a bureaucratic command economy still define the framework of business activities. Although there are differences, in this respects the similarities are more striking between the Federation and the RS.

For Bosnia Herzegovina this means that access to foreign markets and the necessary integration with the rest of the region, with Europe and with the world has been unduly delayed. This is particularly the case for the Republika Srpska, but also affects the Federation. And the people and the businesses in this country pay a high price for this.

During the 1990s, the road to economic reform has been shown to us by countries like Poland, Hungary, the Czech Republic and some of the Republics of the former Soviet Union.

The general blueprint is given by the concept of a market economy, but each country has been able to adapt this framework to its own conditions. The lesson we can learn from these examples is that the speedy adoption of a coherent economic policy package is crucial for successful economic transformation. And it is important that such a package lead to the right institutional framework and that it create a realistic vision of a better future.

Based on this, my office together with experts from the international community started to identify the economic policy priorities for Bosnia Herzegovina once the security situation had been stabilised. It was clear that, although much competence in the field of economic policy has been given by the Constitution to the Entities, the State would be responsible for foreign trade policy, customs policy, monetary policy and for the finances of the common institutions. Even without reference to fine points of constitutional law, it is obvious that the exercise of these responsibilities requires fully functional institutions at the State level.

Shortly after the nomination of the Council of Ministers, we presented the authorities with a carefully thought-out set of laws needed to implement a coherent economic policy. As an urgent action agenda, we called for the establishment of a new Central Bank, the adoption of State and Entity budgets, the enacting of laws on external debt and a unified single customs tariff rate for the country as a whole, and the integration of transport, power and telecommunication networks.

Additional key structural aspects of monetary and financial sector reform concern the issuing of a new currency, the adoption of modern banking legislation and the integration of the payment systems. Also, fiscal policy reform and tax harmonisation would lead to an improvement in budget design and to better incentives for private economic agents. It would also bring Bosnia Herzegovina closer to Western standards, where indirect taxation would bring some relief to companies that today have to bear the heavy burden of extremely high income and wage taxes.

With respect to the reform of Bosnia Herzegovina's external economic relations, a normalisation of debt arrangements with the Paris and London Clubs is as important as the introduction of open trade regimes according

to the standards of the WTO and the European Union.

While these steps are milestones on the way towards the implementation of a sound macro-economic policy, it is of the utmost importance that they be complemented by other measures to foster private business activities.

In this regard, the restructuring of the banking sector is one of the first steps that has to be taken. As you certainly know from your own experience, access to bank credit is almost not-existent in Bosnia Herzegovina. The loans offered by banks are extremely expensive and have maturities that do not allow for long term investment decisions. This is a major obstacle that businesses are facing today. Many people think that external credit lines can overcome this problem. Again, experience indicates that this is not the case. Only a reform of the whole financial sector can mobilise the financial resources needed by the economy.

Bosnia Herzegovina also needs to change many existing commercial laws that distort incentives for individuals and companies. For example, most of today's employment is generated in the underground economy because many enterprises simply cannot afford to hire people legally; labour market reform is required to remedy the situation.

And finally, although the international community has spent a substantial part of reconstruction funds for the repair of infrastructure, Bosnia Herzegovina remains largely disconnected across the two Entities and from neighbouring countries. This too must change.

All of this must be done, and it must be done as soon as possible. PROMO demonstrates the talent that is here all over Bosnia. It is up to the political institutions of the country – on the state level as well as in the two entities – to take the action and undertake the reforms that will prevent this talent from being betrayed during the years ahead.

I believe in the future of Bosnia. It must get rid of its legacy of socialist planning, heavy industry and dependence on raw materials. But it has a reservoir of talent and competence that is a far more valuable asset for the future.

And I am convinced that a clear program of economic reform would make certain that the PROMOs of the years to come will be larger and larger and have a greater and greater significance for the region as a whole.