

# Article by Alexandra Stiglsmayer in Ljiljan: "What are economic reforms?"

*Foreign investors are not social welfare institutions. They will not take on huge amount of debts or surplus employees they do not need. They want to make money.*

Economic reforms were the main topic at the meeting of the political directors of the Peace Implementation Council's Steering Board with State and Entity officials in Brussels this week. The Steering Board demanded from the domestic authorities "a total, immediate and professional commitment to drastic, overdue, long-term, institutional, legal and economic reforms and implementation."

This is of course not the first time that economic reforms were discussed. For years, everybody has demanded them. Nobody disputes that they are necessary, but Bosnia and Herzegovina still has a long way to go until it can claim that it is a country open to and eager for investment both by local and foreign investors. At the same time, time is running out. Most other post-Communist countries in the eastern Europe have already made the transition – BiH has to catch up with 10 years that it lost during the war and post-war period.

The list of what economic reforms encompass is known: establishment of a single economic space in BiH, privatization of the state-owned companies, the establishment of an efficient and sound banking system, elimination of corruption, harmonization and simplification of the tax system by lowering the tax rates and at the same time increasing the number of individuals and legal entities that actually pay taxes,

removal of bureaucratic barriers, passage of the appropriate legal framework supporting private business activity, reform of the utility sector (for example, electricity and telecom), agricultural reform, as well as the establishment of a judiciary that will protect investors, business people and consumers efficiently.

Although this list is long, it is worth bearing in mind that significant progress in some areas has already been made. For example, the essential laws governing privatization have largely been enacted. Likewise the abolition of the old Socialist-era payment bureaus and their substitution by commercial banks, at the beginning of this year, was a landmark success in BiH's overall economic reform program. Bosnia is the post-communist country that has dismantled them most quickly.

So, it's not all dark. And there is another, very important aspect that needs to be mentioned. Economic reforms are not up only to the domestic authorities. They are a societal task that requires everybody's support and the acknowledgment that they may initially hurt. The abolishment of the payment bureaus is a case in point. Several thousand people were employed by them. They were afraid of losing their jobs. The union protested. But a way was found to take care of the employees. The bulk found employment in commercial banks, a small number got compensation packages and some were retrained. Of course, the change was not easy for the employees, but to keep the payment bureaus in place would have suffocated any business activity in BiH.

Similar things will have to happen now. Many of the big companies that were doing well before the war will not be restarted, or will be liquidated if they have somehow managed to survive until now. Some were loss-making even before, others have lost their markets and are not capable of regaining them,

yet again others have such a mountain of debts that they'll simply have to declare bankruptcy. Those employed by such companies and their unions will have to be sensible about what they can achieve. Simply to demand from the authorities to keep all these companies alive would bankrupt the state and in the end not help anybody. Privatization and restructuring is the only way forward.

This is a normal process. Change is a function of all economies, not just the economies of countries in transition from socialism to the free market, or countries recovering from the devastation of war. The recent history of the industrialized democracies – currently the world's richest countries – is essentially the history of fundamental, and often painful, change. In the 1970s their heavy industries were in crisis and their social and physical infrastructure were in decline. They re-engineered their economies during the 1980s and 1990s, abandoning steel and coal industries and substituting them with alternatives – high tech, renewable energy, services and so on. The most successful companies also radically altered the way they did business, substituting rigid management hierarchies with flexible networks.

Bosnia and Herzegovina has to do the same – from the huge conglomerates left over from the prewar period, to the energetic start-ups which are now slowly beginning to emerge. Change is the essence of economic success. Don't fight change: embrace it. If you have a business idea, execute it. Do not wait for the state to offer you a job.

It is of paramount importance to attract investment, both by domestic business people and foreigners. One has to bear in mind that they are not social welfare institutions. They will not take on huge amounts of debts, or surplus employees they don't need. They want to make money. BiH needs them, so profitable business is generated and thereby jobs are created.

Investors' money isn't aid. It isn't humanitarian. It is an instrument which provides economic benefits to the investor – the profit he makes – and an economic benefit to the partners on the BiH side, managers, workers and the community as a whole – through job creation and wealth creation, among other things, in form of paying fair salaries, pensions, social welfare support etc.

By taking an active role in economic reform and by exploiting the opportunities it offers, entrepreneurs, managers and workers can all benefit from the wealth creation cycle. In today's BiH, bit by bit conditions for the favorable business environment are being created, where economic take-off can be achieved. The central element in this process is a willingness to embrace change, exploit opportunities, deliver goods on demand, and move forward. That willingness, like the benefits that come with it, is slowly but surely making itself apparent on the BiH business scene.