

Speech by the High Representative for BiH Paddy Ashdown at a conference on 'Transition in Central and Eastern Europe: Challenges of the 21st Century' Organised by the University of Sarajevo School of Economics

Ladies and gentlemen, distinguished guests,

You will, no doubt, have heard me talk before about the challenges that we face in Bosnia and Herzegovina, and about the things that we must, together, try to do.

Some of you will have heard me talk about my priorities: First Justice. Then Jobs. Through Reform.

Today I want to talk about the second part of that slogan – about the one thing that impacts most on the daily life of every citizen of this country: our economy.

When he was running for President in the early 1990s, Bill Clinton's campaign manager attached a large notice on the wall of the Democratic Party Campaign Headquarters to keep the party's activists ruthlessly focused and on message in the hurly burly of the election campaign.

That notice said very simply: IT'S THE ECONOMY, STUPID!

No doubt without the last adjective, every incoming Minister could do worse than affix such a message to their office wall

to remind them what really matters.

The challenge for Bosnia and Herzegovina

Because this country must travel a very difficult, steep, and tough road to economic success.

Some of the pitfalls are all too visible:

The lure of many of our best and brightest young people to enticing opportunities abroad.

The rampant crime and corruption that saps our economic strength and impoverishes our public services and those who rely on them.

The worrying coincidence of declining aid flows and rising debt.

The uncertain global economic outlook, which means that countries like this one have to work all the harder if they are to attract foreign investment.

It is not the role of the High Representative to depress people unduly.

But it is my task to tell things as they are, not as we might like them to be.

How is the state of our economy?

A quick glance at the main economic indicators confirms what anyone who has lived in BiH already knows.

Unemployment levels are very high – somewhere between 17 and 40 per cent depending on whether or not you include the euphemistically titled ‘gray economy’.

Almost half the population lives close to the poverty line: one in five of our citizens live on less than 5KM a day – one in four in the Republic Srpska.

Our national wealth stands at less than half its pre-war level.

Foreign direct investment is lower than anywhere in Central and Eastern Europe except Albania. Many of our businesses are riddled with bad debts and liabilities, crippling their ability to expand and create jobs.

Even allowing for the 'informal' economic activity – the under-reporting of salary levels to avoid social insurance payments, the scaling-down of company balance sheets to avoid sales and profit tax, the hundreds of millions of KM in unregistered money transfers from abroad – the economic situation in Bosnia and Herzegovina remains, allow me a little English understatement, depressingly flat.

The reasons are many, but they all come down to one thing: we have not reformed anything like enough, or fast enough.

Ask any businessman trying to get on, make a profit and employ people in this country. From Citluk to Banja Luka I have heard the same stories, the same concerns:

Fragmentation, mal-administration, regulation, taxation, inspection, corruption. A cacophony of complaints, too many of them well founded.

Because instead of making it as easy as possible for businesses to start up, expand and hire staff, the laws, taxes and governments of this country do the exact opposite.

That, frankly, is crazy.

Because this country has great assets. It is rich in human talent and potential, in a region poised for growth, on the edge of the world's biggest market.

Instead of snuffing out that talent with burdensome bureaucracy, your governments should be working night and day to set it free.

So I say to every new Minister: each day, over your morning coffee, I hope you will ask yourself this question:

What can I do today to make this country a better place in which to do business and a more welcoming place for foreign investors?

Ask yourself that question, because that is what Ministers in the most successful governments in the most successful economies ask themselves every day, and do every day.

And what is the answer to that question?

The challenge for government

The first thing is to be clear what governments can and cannot do.

In a market economy, governments cannot create jobs by decree. There is no magic wand marked 'employment' that I, or any government in this country, can wave around to create more jobs and better wages.

But governments can make a huge difference – both good and bad.

Good governments provide a legal framework that makes it easy for businesses to set up.

Good governments give them as simple – and as light – a tax structure as they can.

Good governments spend wisely, so as to keep to a minimum the amount they need to tax business to pay for essential public services.

Good governments work hard to clear away obstacles, so business can operate as freely as possible in the market place, at home and overseas.

And in doing these things, good governments create the

conditions in which jobs occur naturally.

Bad governments do the opposite.

Bad governments spend profligately, tax recklessly, legislate thoughtlessly, and entangle enterprise in a thicket of red tape.

Bad governments pursuing bad policies don't just fail to create jobs – they create systems that destroy jobs and destroy livelihoods.

And, as too many of our citizens have discovered to their cost, no amount of hard work and toil will lift people up, if we don't first change the system that keeps them down.

There has been progress.

The introduction of a single currency, the abolition of the payments system and the smooth functioning of the Central Bank have all assisted in creating a stable, low-inflation, macro-economic framework.

The newly re-furbished Unis towers across the road where the HVB has set up its Bosnian headquarters testify to progress.

But serious structural problems remain.

Exports are low, imports are high, and production is flat.

We are not producing enough, not making enough, not selling enough.

We have more debt than profit, more liabilities than assets, more consumption than production.

And to cap it off, we are heading towards a serious domestic debt crisis next spring, which could seriously undermine our ability to maintain services and pay salaries.

There is one way out of this morass, and one way only – to

step up the pace of reform.

We need a bonfire of bureaucracy. A revolution of reform. We need to drive a bulldozer through our systems to sweep away the barriers that destroy business.

It means sorting out our system of government, making it leaner, cheaper and more effective. And let me say this to incoming governments. The quality of all Ministers is important. But the quality of Ministers of Finance, who have oversight over the expenditure of public money and who are the guardians of this country's reputation abroad, is most important of all. We will be keeping a close eye on this.

It means reforming the public administration, making it transparent, responsive, and cost-efficient.

It means sorting out our revenue system, introducing a modern VAT system organised at the State level and reforming our rotten, corruption prone customs administrations.

When I outlined these steps last week I said they would test the next governments' commitment to reform. So far, with different degrees of enthusiasm, everyone has expressed a willingness to engage in this process.

I will judge people not by their words, but by their actions. And I will return to these issues again, and again, and again until solutions are agreed and reforms are implemented.

Because, as I said before, when so many people are struggling to pull themselves up, we cannot afford systems that conspire to keep them down.

That's the challenge for the politicians of this country. To create the systems that will attract investment, safeguard public funds, support business and encourage enterprise.

That is the Government's side of the deal – to create the conditions, not just for survival, but for success.

The Challenge for Citizens

But the people of this country have an obligation too. There is no point creating the conditions for success, if our people do not take the necessary risks to achieve it.

We can change our laws, reform our systems and provide a light-touch, modern regulatory framework, but we will achieve nothing without the people of Bosnia and Herzegovina actively pursuing their dreams and striving to make them real.

So what we need in this country is not just a big change in administrative culture, but a seismic shift in attitude too.

After all, economies are only ever as dynamic as the people working within them. If we can engender a spirit of enterprise in this country – a genuine willingness to take risks, to innovate and experiment – and combine it with a tax and administrative framework that rewards the bold and those who work hard, then the economic growth we all crave will not be long in coming.

Certainly the potential exists. Take for example, the 'AlmaRas' clothing factory near Olovo:

It opened in 1998 in the basement of a family home. Almase and Dzamal Memagic had come to the conclusion that there was no real future for them on the small salary they earned from the pre-war textile giant 'OLI'. So they set up on their own – they took a risk – and slowly but surely they expanded their operation and their profits.

Today, Mr and Mrs Memagic employ 110 people.

Look also at the 'Orto-Optic' family firm in Laktasi, near Banja Luka:

This small, private company, which began as an opticians before branching into production of low-cost lenses, has seen its sales rocket from 35,000 KM four years ago, to over half a

million KM last year.

If this can happen in BiH today – if this can happen despite BiH today – just imagine what could be achieved once we have cleared away the clutter of absurd regulation that makes this country one of the hardest places in the world to do legitimate business.

So my message to the people of this country is simple:

Don't allow your politicians to obstruct reform. But don't wait for them either.

If you have an ambition, pursue it.

If you've spotted a niche in the market, fill it.

If you've ever dreamt of starting a business, of running your own show, then get out there and make it happen.

And don't feel you have to do everything on your own.

Already, across Bosnia and Herzegovina, economic development strategies are being implemented at the grass-roots level.

Businesses are coming together locally to share facilities and cut costs.

Technology parks and industrial zones have been established.

Support structures for small and medium sized businesses have been set up.

Job placement schemes and vocational training opportunities have been initiated.

One-stop-shops for business registration have been organised.

And all of it by has been done by ordinary people, taking charge of their own destinies and shaping the future for their own communities.

In more than 70 municipalities, local business people have come together with local Mayors to make things happen. They haven't waited for the senior politicians or the international community to do it for them.

Take the Brcko one-stop-shop for business support for example. This has already registered 160 new businesses, provided a range of other support services to local businesses and in the process succeeded in attracting foreign direct investment to the area.

Local action delivering real results.

Let's learn from these initiatives – let's learn from the progress made on the ground in half the municipalities of this country.

Why not, for example, accelerate the establishment of a single system of business registration for all Bosnia and Herzegovina? And why could that system not be up and running in the next few months? It would be rough and ready – of course it would – but it could be done, and it must be done.

The truth is that the only thing that stands between our plans, and their implementation, is the political will to see them through.

Peroration

As I said at the outset, we have a long, hard road ahead.

I cannot tell you when things will improve.

I cannot hide from you that there will be risks.

I cannot pretend that there will not be difficult decisions to be made, and painful consequences in the short term.

But I can tell you this with absolute certainty.

If we keep doing what we're doing, we'll keep getting what

we've got.

So if we want things to change, we have to make things change.

The longer we put it off, the harder it will be.

To those who are daunted by that task, I would say this.

Look around the rest of this continent.

Look at those who have embarked on this road before you, who have travelled this journey, and look where they are now.

Take the Czech Republic, where health spending is now nearly USD1000 per person, or Poland, where it has doubled in the last few years.

Take infant mortality, which has more than halved in both of those countries.

Take annual spending on education in these countries, which now stands at well over USD 3,000 per pupil – the same level as in Ireland, one of the EU's most successful economies.

Look at those countries, and take heart.

Because they show that reform is worth it.

They have transformed themselves, and the prospects of their citizens, through reform.

And so, I know, can this country, if – and it's a big if – we are ready to make a start.