

Speech by the High Representative, Paddy Ashdown at a workshop on the Single Economic Space

Chairman of the Council of Ministers Mikerevic, Prime Minister Ivanic, Prime Minister Behmen, Ladies and Gentlemen.

Before I begin my speech, I'd like to say one thing.

I cannot and will not predict the outcome of a criminal investigation. But I want to state clearly that I believe the decision by the RS Minister of Finance, Milenko Vracar, to resign yesterday evening was an honourable and brave political act.

Mr Vracar has shown that ministers in this country can show leadership and take political responsibility for the actions or inactions of their departments.

I believe his decision marks potentially a milestone moment in the process of introducing European standards of political accountability in BiH.

And I very much hope that these actions will be reflected by other ministers elsewhere as they take responsibility for the actions of their ministries.

Ladies and Gentlemen,

When I arrived in Bosnia and Herzegovina, I outlined my priorities:

First Justice. Then Jobs. Through Reform.

Prvo Zakonitost. Zatim Zaposlenost. Kroz Reformu.

Today's workshop – about creating a single economic space – dovetails exactly with that agenda.

Justice – because the rule of law is the starting point – the essential requirement for the type of economy we are trying to create. For establishing new enterprises, for trading, for investing and for settling business disputes.

Jobs – because that is the prize if we get this right. And it's the thing that the people of BiH, across all communities, want above all else: a secure income, a chance to get on and to provide for their children.

And Reform – because we cannot make progress if we don't first change the economic system that denies people access to new markets, separates them from Europe and traps them in poverty.

And of all the economic reforms that are needed, creating a single economic space comes top. So I am grateful for this opportunity to discuss these issues today in a little more detail.

And I hope that in so doing, we can kick-start a debate that will run right through the election campaign beyond into the actions of the next government. Today, we are helping to shape the debate about what those actions should be.

For make no mistake, jobs and the economy are the people's top priorities.

They will only put up with inaction or obstruction for so long. They have already begun rejecting those who promote political division at the expense of economic recovery.

We cannot afford to waste more time or squander more opportunities.

It is time to deliver.

But before we discuss the reforms that are needed, let us just

pause and consider what a single economic space will bring to Bosnia and Herzegovina. What it really means.

A single economic space means a domestic market in BiH that has enough consumers to sustain commercial and industrial growth.

It means that companies can roll out their manufacturing and marketing activities beyond the artificial boundaries of the Entities, from Brcko to Trebinje, from Mostar to Bijeljina, from Banja Luka to Sarajevo.

And it means that investors deciding whether or not to put millions of dollars into the BiH economy will be presented with rules and regulations that are clear, uniform and consistent.

Today, investors face a mountain of contradictory regulations and laws from each of the four levels of government. Is anyone surprised that these same investors would rather open their factories in Bulgaria or Rumania or Croatia?

Let us not delude ourselves. Economic recovery isn't going to happen until the BiH economy is integrated – until the Brcko District, the Federation and the RS form one economy.

Without the investment that a single economic space can attract, there is little hope that the small and medium-sized enterprise sector – which can generate an economic renaissance in BiH – will take off. SMEs need a sizeable domestic market and they need investment – a fractured BiH economy provides neither.

This isn't something that is particularly complex or hard to understand. It's the way normal states operate. Successful decentralised countries – think of the United States, for example, or the United Kingdom – devolve government from the national to the local level, through various tiers of state and municipal authority, but they never confuse political

devolution with economic fragmentation.

The single economic space embodies the four freedoms of the European Union's *acquis communautaire*. It permits the unimpeded circulation of goods, capital, services, and people.

The way forward is clear. First we consolidate these freedoms inside Bosnia and Herzegovina itself; then BiH citizens can start to enjoy these freedoms as part of the European Union.

With every stage of this process, citizens benefit. They have access to a wider range of goods at more competitive prices; they have access to more and more job opportunities. Economic barriers don't create wealth, they destroy it. Eliminating barriers doesn't reduce people's freedom, it increases it.

Sensible economic coordination, competent administration, and common sense will not make the Entities weaker.

The simple truth is that the Entities will be better off when the BiH economy is unified. The reason 60% of the youth of Republika Srpska would rather emigrate than stay here is because the RS economy offers no jobs, no future.

Since the benefits are so straightforward, why has there been resistance to integrating the Entity economies? The answer can be found by asking who benefits from the status quo.

The present system multiplies the opportunities for corrupt politicians, crooked bureaucrats and outright criminals to steal from the public purse.

When regulations are pointless, obstructive or expensive, they invite circumvention. The attempt to establish separate economies at the Entity level has resulted in mushrooming regulations, which in turn have produced mushrooming crime. The criminals who benefit from artificial divisions are among the most ardent champions of separate Entity economies.

Even worse, the web of contradictory and rapacious regulations

and taxes have forced honest businessmen into the gray economy, simply to survive. Many foreign investors simply give up.

As you all know, excise tax has to be paid twice when a product is made in one Entity and sold in the other. I am informed that this might be finally resolved with effect from 1 July of this year. If this is the case, I welcome it. But it has taken over two years to tackle such a crucial problem. This is perverse. It is a monumental disincentive to trade. It encourages tax evasion and smuggling. There is no other country in the world that operates such a system.

The three fiscal jurisdictions, the Federation, the RS and the Brcko District, levy corporate tax at rates varying from 10 percent in the RS to 30 percent in the Federation. Wage taxes vary from 5 percent in the Federation to 10 percent in the RS. Income tax rates vary from Canton to Canton, never mind differences between Entities and Brcko.

Everybody loses from this, except those in authority who live off the margin.

Profitable companies create jobs, pay salaries, manufacture goods, and deliver services. They generate foreign exchange through exports and they help raise living standards. But as things stand, these companies have to hire accountants who understand the intricacies of Entity legislation if they want to do business in Bosnia and Herzegovina. They have to employ fixers to negotiate the weird and not in the least wonderful complexities of the large bureaucracies which run the complex systems of Entity and local government.

This makes it *harder* for companies to generate wealth, create jobs and serve the community. In normal countries, laws are designed to make it *easier* for companies to do this.

The fractured tax system is holding the economy of BiH back. And by discouraging investment and enterprise, the present

system is keeping people out of work and keeping Bosnia and Herzegovina out of Europe.

Reforming the system does not mean, in the case of taxes, for example, that revenues would no longer be allocated to the Entities so that they can carry out their responsibilities. Coordinating Entity fiscal regimes so that entrepreneurs, investors and taxpayers operate in a single tax jurisdiction instead of three separate ones would enhance economic activity, which in turn would mean that there is more revenue to allocate. It wouldn't reduce Entity income; it would increase it.

If any politician is truly wedded to the present complex and wealth-destroying state of affairs, I urge them to make this very clear to voters ahead of the October elections. Citizens will decide whether or not they want to vote for poverty and unemployment.

Till now, politicians have concentrated on tinkering with the system – often with a view to maintaining it rather than reforming it. That is simply not acceptable.

With a modicum of political will and administrative competence, the tax system can be reformed relatively quickly at the state level, as can the bulk of commercial legislation.

What needs to be done is not a mystery. But to get it done, you need to have politicians who are prepared to take responsibility for the difficult decisions ahead and see them through.

I mentioned Milenko Vracar earlier. Let me take this opportunity to tell you what I mean by ministerial responsibility.

In the sort of European democracy that Bosnia and Herzegovina aspires to become, ministers are ultimately responsible to the people of their country for the actions or inactions of their

ministries.

When their ministries are implicated in a major scandal, particularly a major abuse of public funds, they are expected to resign. Such resignations are not seen as an admission of guilt. Indeed, they are often seen as brave and honourable political acts.

This is the test that Milenko Vracar has just passed, and one that the Federation Minister of Finance, Nikola Grabovac, still faces.

Introducing a culture of ministerial responsibility is a process, not an event. It will take time. But we can only clean up politics if the ministers of this country learn to take real responsibility.

That means ministers who are prepared to take responsibility for creating a single economic space out of BiH's currently fragmented and over-regulated economy.

Let me reiterate what is at stake for the people of this country.

A single economic space means more investment, more jobs.

It means rising prosperity for all the citizens of this country and a future for your children.

It means that a good education and hard work will be rewarded.

And I want to be clear about another thing.

Without economic reform, without a single economic space, Bosnia and Herzegovina will never fulfill the conditions for EU membership.

So the choice is clear.

Hang on to the economic barriers that your politicians justify in the name of ethnic sovereignty, and live in an impoverished

ghetto excluded from Europe, deprived of its young.

Or support the sometimes difficult reforms, reforms that will open up opportunities for your families and your children to live prosperous lives here in Bosnia and Herzegovina, and open the way to this country's entry into Europe.

This is the choice your ministers face.

More importantly, it is the choice the people of this country will face in the elections in October.

But let me end by saying one thing.

If you vote for change, if you vote for a common economic future, if you vote for integration rather than separation, then I am confident this country has the talent and resources to succeed.

Thank you.