

The Challenge of World Economy for BiH: Further Steps Towards the European Union

Hans-Juergen Zahorka¹

(Seminar on European Single Market, Sarajevo, 4.3.2002)

Business in BiH will have only one choice in the long term: to approach the European Union, as this is the continent's most striving framework for economy, for laws, for common democratic institutions. It will be a primary task for the public service on every level in this country to help business in this approach towards the EU.

The world economy has developed within the last twenty years to a «global village». In one of its earliest attempts of definition, globalization has been defined as «think global, act local». There are nowadays academic arguments between economists, whether it would be better to say «think local, act global». Whatever one opts for: BiH is not alone on the world, it is part of a continent where most of the internal borders are lifted, and its economy cannot be blocked off from the mainstream of companies' activities, be it from the inside or from the outside.

The European Union has made up in the early 1980s to create a Single Market. There were calculations that a Non-Europe, a Non-Single Market would cost huge amounts of money to the economic operators and the EU member states, and the following reasons led to this Single Market:

- internal border controls cost too much, as to personnel costs, the buildings for border controls, the waiting time for lorries transporting goods and related deterioration of goods – to transport goods from Rotterdam in the Netherlands to Florence in Italy on the road would go with the speed of a stagecoach from the times of Johann Wolfgang von Goethe, namely 30 km/h, because of the many border controls and related waiting times, to be silent of train transports where waiting times could amount to several days;
- as there was not yet a liberalised public procurement, public procurement making up to 15% of the Gross National Product of the EU in expenditures, about 120 million KM were thrown out of the window in taxpayer money as many companies delivering goods, services, also construction services, or water, energy, telecommunication and transport, wanted to be the delivery company “appointed by His Majesty the King” of the relevant country. They had no real competitor – and competition keeps prices down and technical and quality levels high.
- It was calculated how much money has been spent by changing from one currency into the other. If you went in 1990 with the BiH Mountaineering Association on a trip through all the 15 countries and took 10.000 KM with you (provided it existed at that time already) and changed in all of the 15 EU countries this amount into local currency, you would return only with 30 to 60 percent of the amount. With the difference to 100 percent you just paid the costs of the banks, and effectively you lost 40 to 70 percent (depending of the sequence of the countries visited and weather you change it in the destination or originating state). About 1,5 percent of the export revenues of small and middle enterprises have been “thrown into the sea” by change fees, and whoever from you has her or his experiences from exporting into other countries being paid by bank transfers know what is meant. Therefore as a result of the Single Market also a European Monetary Union has been envisaged in the early 1980s, now almost 20 years ago. This was a project even before this date, but in the Eighties preparations for today’s Monetary Union have been concretized.
- The biggest part of savings however could be made by the so called «economies of scale»: If you make a technical instrument – e. g. an overhead projector, and this would not be accepted in another EU country – e. g. for national security reasons etc., you would, as a producer of this instrument, feel obstacles to develop your products, to invest in the production and to invest in marketing etc. The EU opted for an open, dynamic economy in bringing down existing national barriers for all kinds of business, also seeing that more competition **within** the EU will make the whole of the EU more

¹ The authors views are personal and do not bind the European Commission.

competitive, towards its main competitors on the world markets, namely in parts of Asia and North America.

It is not by chance that in recent times states – before existing in the traditional form of national economies – form in all different parts of the world regional cooperation zones,

- like the European Union, which has set the pace being an example for «best practice» among these integrations,
- like NAFTA (North American Free Trade Agreement),
- like Mercosur (a regional cooperation between Bresil, Argentina, Uruguay and Paraguay),
- like ASEAN (Association of South East Asian Nations) between 12 countries around Singapore, Indonesia etc.,
- like SAARC (South Asian Association for Regional Cooperation) between India, Pakistan, Bangla Desh etc.,
- like the GCC (Gulf Cooperation Council) around the Emirates in the Persian Gulf,
- like SADC (Southern African Development Cooperation) with South Africa and 14 other countries of the region etc. etc.

One has to take therefore note that many circumstances have changed for all European enterprises in the last years.

Now the European Union hat again set the pace in making feasible

- that you can sell or buy whatever you want or can to and from wherever you want, which has its special meaning in an internet-oriented society,
- that you can go within the European Union – with the exeptions of still two countries – across borders without to have to show your passport – there are just no more controls, and there is at the same time no security deficit, as police authorities work closely together,
- that you can pay with the same money everywhere.

Though the EU is far from being perfect it turned out to be a clear and positive perspective, otherwise 13 countries of Central and Eastern Europe as well of Southern Europe would not have placed their accession requests.

The first of these accessions will be most likely in effect from summer 2004, the Accession Agreements being signed most likely in 2003, the others will follow some years later.

What will happen to the former republics of Yugoslavia? Slovenia, as former powerhouse of Yugoslavia with 8% of the population generating 25% of its economic performance and 33% of its export performance, is today on the same level as countries like Greece or Portugal. The other countries, however, will follow, and I am convinced that for reasons of political and economic systematics also Bosnia and Herzegovia will join the European Union once as a full member.

It is evident that this will take some time, but gradually it will take place, and there is no alternative. Robert Schuman, the former French Minister of Foreign Affairs, held a famous speech in May 1950, saying that the Germans and the French had three wars against each other within 70 years – in 1871, 194 and 1939. These wars in our view from today had no clear reason, and we all know from conflicts having taken place only recently and not far from here or even here that many conflicts in historical perspective have turned out to be totally irrational. «What did it bring to whom?», is the key question on these events, and this question can hardly be answered.

Robert Schuman proposed in order to avoid any further future war between Germany and France to put the two basic materials suitable for wars, namely coal and steel, under a common management – purchase, selling, market access and the personnel for these activities should be available to all member states of the first European Community, the European Community for Coal and Steel which started in 1953 with six member countries: France, Italy, Belgium, the Netherlands, Luxembourg and Germany.

Today we are not only six countries, but 15, with 12 more knocking at the door, and we do not only work on coal and steel but in reality on everything – we even have to discuss on what not to regulate by the EU. The basic reason for Robert Schuman was to prevent conflicts and to preserve and improve peace. Today the EU tries to find formulas to wash off its image as «economic giant, but political dwarf», and the recent decisions to keep under EU auspices the NATO troops in Macedonia may be the first turnaround. It is not easy for the EU to accelerate nor to turn rapidly to issues, as sometimes complicated compromises would have to be found. We live in somehow different legal traditions, as one elder Eurocrat said it years ago:

- In England, everything is allowed which is not explicitly prohibited,
- in West Germany everything is prohibited which is not allowed in long but precise laws,
- in East Germany everything was prohibited even it was allowed,
- and in Italy everything was allowed even it was forbidden....

It can only be speculated how exactly the EU sees the membership of Croatia (which will most probably be applied for still in this year), of Macedonia, of Albania, of Bosnia and Herzegovina and of Serbia, the present Yugoslavia, as well as of Kosovo which without doubt will remain and become independent of Yugoslavia, as well as of Montenegro which will if not being independent from Yugoslavia exercise an ever higher degree of independence or autonomy. There is not yet any official institutional framework for these countries, but once needed it clearly will be.

Whatever and whenever there will be a full membership of BiH in the European Union, it is clear that BiH enterprises must comply with the rules the EU has found within decades of functioning. Maybe in the time of examining these rules for BiH we can find out how to improve them.

BiH should well think about adaptation to these needs, for the present constitution and the Dayton Agreement are for sure not suited to this kind of statesmanship Bosnia and Herzegovina needs. One thing is clear, however: **When all the other European countries have made up their mind to join voluntarily the European Union, one of the most evident reasons for this has been the fact, that no country alone and based on nationalist views can manage its problems alone.**

Be it environment, peacekeeping, security, economic framework, energy, trade, social policy and cohesion, be it monetary policy and the watch on democratic institutions – all these traditional tasks of a country cannot be managed in our modern world by traditional national states, but only together, in the case of Europe in an European integration, in an European Union.

The EU Single Market

The EU Single Market is a self-evident framework for any EU citizen today. When we introduced it, many voices warned, put the risks in the foreground and even told the people myths like «We'll have only one sort of unity cheese or sausage in the EU Single Market». Of course, they will not recall their warnings now.

Integration into the Single Market from the point of view of BiH is not easy and takes time, and much has to be changed in the administration of this country. I can only call upon both entities not to block anything which may approach the whole of the country towards the EU, as the price of being thrown years back in approximation efforts is too high. The administration would have to be streamlined in the sense that e. g. there will be an Agricultural Minister speaking for the whole country in Brussels. Brussels will never accept a situation where ministers from two entities, the Brčko District or the Cantons will be present negotiating with them. But can this be a problem? Germany is a strongly federalized country, and all the *Laender* have their own Minister of Agriculture. But it is the national level who goes to Brussels, and who endlessly discusses, argues, works in contact with the Agriculture Ministers of the *Laender*. Both levels have the legal duty to cooperate closely, but towards the EU only the national level has the competence of negotiating with the EU level.

Single Market for EU citizens means above all the Four Freedoms:

- free circulation of goods,
- free circulation of services,
- freedom of capital,
- freedom of persons to settle down where they want to.

It is clear that in the negative conclusion of the latter any persons who settle anywhere cannot be driven out from their place. There are on the other hand no residence permits any longer between Spain, France and Germany, and others will follow.

If BiH companies – and the administration is there to serve them, being paid by taxpayer's money – want to engage themselves in the Single Market they are welcome. There are lots of possible partner companies, buyers and sellers. In the restricted framework of this text I can only recall some central aspects for BiH enterprises:

Export information and eBusiness

The more BiH enterprises, small and large ones, participate in international exchanges of goods and services, the more BiH will be integrated in a world of synergy, of cooperation and of burden sharing according to the relevant countries' potential. The theory of comparative costs will come again to actuality, and as costs here are relatively low, by trading, by exporting in itself a lot of jobs can be created.

First in this context I would like to remind you that thorough **information about the destination country** is necessary. i. e. the European Union, as there are no border controls between their member states. This information is widely compiled with the help of the internet, and one has to ask oneself permanently if online information has been made possible in an enterprise, and if so how. The quota of companies here working with internet as helper for sales and export is lower than within the European Union, a figure which should be changed rapidly (the homepage for the EU being: <http://europa.eu.int>). To disseminate information is not only an individual task for enterprises allowing their managers access to the internet, but above all a task for associations, chambers, but also embassies of the countries concerned. Feel free to approach them on detailed **workshops about their local market.**

When already working with the internet or introducing this, **eBusiness** should be a factor which should be considered. Groups of Bosnian companies should try to form **gateways** into their services and goods, Bosnian companies should above all try to land in the huge field of **subcontracting** which more and more is managed by the internet. Many big firms in the EU keep subcontracting relationships on a virtual level, where parts are tendered, offered and ordered electronically.

Make use of **preferential treatment** the European Union offers to BiH exporters. This provides know-how on the goods concerned. The percents cheaper due to preferential treatment can decide on an order.

Finally, the EU will soon be enlarged. 10 **Eastern and Central European** countries are standing before the doorstep. They will soon belong to the EU Single Market. This may constitute a danger, if BiH companies do not act, but also a chance, if these countries are used as a relais for BiH exports. In this context, BiH should make great use of the EU know-how now accumulated in Slovenia.

Indirect sales

It is wrong to think that every company can reach their buyers directly. While not excluding this possibility, in particular by the internet, companies from BiH should try to reach indirect partners in the EU.

Partners for indirect sales are **importers, trade representatives** assigned to different areas, or **agents**. Trade representatives are relatively simple to handle, even throughout the whole EU, as due a trade rep directive the relevant law had to be harmonised within the EU countries. Most of the items within a trade rep contract can be used in a harmonised way, although regional minor differences still may occur from some EU country to other ones.

Maybe a multilingual trade representatives contract once could be worked out by a chamber or association, including the **local language** here, so that exporting companies can use the same papers for several countries – we do have in the EU at present 11 official languages, which cannot be changed overnight, and will not. If business wants to «land» in Portugal, then Portuguese should be the destination language, if Greece, Greek, if Germany, German etc.

Another possibility is the waking up of the BiH foreign country based community. Many former BiH citizens are living now in the 2nd, 3rd or 4th generation abroad, and they keep their roots in coming here from time to time. I think a **voluntary export promotion service** by Bosnians and Hercegovinians abroad who have contacts to local businesses e. g. in Germany or other markets may be useful. They just must be activated, and possible thinking patterns in which the targetted persons do not think must be set free. The consulates, the embassies play a crucial role to help in coordinating such an activity, and I can imagine that the business mass media would consider such a proceeding as original. Every Bosnian citizen abroad thus could become economic ambassador of his country.

For instance, high quality wines which do exist in BiH could be exported to EU destinations, with the help of such «ambassadors» who know restaurant or hotel owners and can introduce products there. Maybe not in too big quantities at first, but on the long term quality will overcome all difficulties.

Certificates

In this context one of the biggest obstacles is that BiH has not yet an infrastructure of **quality testing**. In the industrial as well in the agricultural fields one needs **certificates** on international standards. These standards are self-evident, for nobody should be infected or otherwise brought to harm by eating anything with origin in BiH. It is not by chance that meat or likewise products cannot be exported to the EU, although there were and are excellent marketing possibilities. Only snails and frog legs, but nothing else, can be exported to the EU at present, as BiH has not yet an abattoir which complies with the standards of the EU, and there is no clear competence in veterinary examinations between the public institutions at present, which would allow a boost in exports.

Please understand that the EU Commission in the field of certifying cannot accept two entity agriculture ministers, perhaps one from the Brčko District and some cantons as well – in this context it must be crystal clear that BiH will need one Ministry of Agriculture. In Germany which is a federal country it works perfectly with one Ministry on the – there called – national, federal level (not to be confounded with «national» or «federal» in BiH), and 16 ministers in the 16 regions or Laender. As rapid as possible, this should be achieved here as well, and once the institutions established and clear competences for certificates as well, exports will rise considerably.

In this context I can only urge the business sector to lobby their politicians, and not show them, what can be seen and what consequences are drawn, but what can **not** be seen and what consequences have to be drawn from this point of view. Mainly the entity politicians should be the target of business lobbying.

Participations and investment

It is sure that investment, in particular foreign direct investment (FDI) is at present not yet in the stage in this country where sustainable effects on the job situation can be expected. But it should be pointed out that a small, even **symbolic participation of a foreign company** here or of a **BiH company into a foreign company** will from that moment on tie the two companies together. Participation, as mentioned even on a symbolic level, induces privileged clients, customer contacts and above all brings the companies together, and what starts symbolically can end up substantially. So at first do not expect big amounts to come from Europe, as in general the FDI situation perceived by the Europeans calls for caution still some more years. But try to offer symbolic participations in your companies, above all to small and medium enterprises who are more flexible than big companies who still hesitate due to the political situation. Again, do not forget the thousands of «voluntary economic ambassadors» of BiH abroad who may have contacts to suitable and interested companies.

As investment is no one-way street, it is also thinkable that BiH companies go abroad with investment. A symbolic participation of only 1.000 KM can already bring privileged business contacts which in itself may be manifold more than this amount.

Product liability – the price for product reliability

Finally it should be brought to your memory that in the EU there is, besides all liabilities codified in obligation law of the member states, a special rule which often may collide with liabilities within obligation law: the product liability for defective products. There is an EU Directive with the prosaic title 85/374 covering the approximation of laws, regulations and administrative provisions of the Member States concerning liability for defective products. That means, an EU producer of goods will be liable even if he is not guilty. This is evident before the background that we have free circulation of goods within the EU.

But the relevant part for BiH is that if producers in third countries (= non-EU countries) export to the EU, it is at first the importer, or possible even the retailer, within the EU who then will be responsible. That again imposes on producers from third countries

- to produce only according to the latest rules of technology and know-how in general,
- to make perfect descriptions of use and not instructions translated by amateurs being much cheaper than professional translators,
- and to keep records about the feedback and complaints of clients.

Also vice-versa, there is now in BiH a product liability chapter in the new State Law on Consumer Protection from 20.12.2001, and there will equally be one in the forthcoming Obligation Law on entity level. Both together, perhaps with some later amendments, will expose BiH to a product liability according to the EU levels of this legal instrument. This is also a task for insurance companies as a company can be insured against any risks of product liability.

After a mission to this country in December 2001 on questions of product liability, I have proposed a workshop with insurers on the one hand, and companies already exporting potentially risk products to the EU on the other hand, and I would like to repeat this idea again.