

**Dr. Momir Čećez**  
*Faculty of Economy*  
*University of Sarajevo*

## **HOW TO JOIN THE EUROPEAN UNION?**

(Are we fit for Europe?)

*Text is published in periodical "Survey" 3-4, 2005*

There is a clear determination of all political, state and other structures in Bosnia and Herzegovina for accession to the European Union. All activities of the state and social institutions are directed towards that goal. Everyday life is filled with constant repetition that we are heading towards the EU association. Every session, political speech, economic measure and action in the society is linked to the association of Bosnia and Herzegovina to the European Union. All that is understandable, for there is no doubt that becoming a member of the European Union represents the future of Bosnia and Herzegovina.

This process raises two issues; first of them is whether or not Bosnia and Herzegovina, i.e. its economy in the present shape, is ready to keep up with the world market competition once inside the European Union and, second, if measures taken in Bosnia and Herzegovina are sufficient for accession to the European Union and for development within the Union.

Economic performance figures of Bosnia and Herzegovina are well-known, so I will not elaborate on the issue in detail. I will mention only the most important ones. Economic development is very low and makes about 50% of the 1990 GDP. In the past several years (since the year 2000), the GDP growth rate has been low (2 – 3%) for underdeveloped countries and is likely to decline further. The most famous characteristic of the economy is considerable import and hardly any export. Trade rate balance is 30%, which means that import exceeds export by three times. That is a consequence of not only economic policy of the country, but also of uncompetitiveness of Bosnia and Herzegovina at the foreign market. Those are the two basic characteristics of any country's economy, without

which national economy is not likely to progress. Investments, which are an important development factor, have been rare (they made 19% of GDP in 2003); foreign investments were especially lacking, contrary to the expectations. A lot was expected from privatization, which ended in a failure. Badly conceived and implemented even worse (with a few honorable exceptions), then terminated, privatization had neither increased production or the number of investments nor opened new jobs. There are no development-oriented budget policies in Bosnia and Herzegovina; 60% of the country's budget is used to provide salaries for an enormous number of state administration servants.

If we were to compare these and other economic indexes, for example, competitiveness, quality, productivity, even the overall conditions necessary for successful competition with other countries of Europe and the world, we would face a gloomy image of the situation in our country and bad conditions for accession to the European Union (I will elaborate on this issue in the second section of the text).

Poor production, productivity and competition increase indexes have caused many social problems as well. The unemployment rate has exceeded 40% and is getting closer to the employment rate. Many employees are not paid regularly; some of them do not receive health and pension insurance benefits. Bosnia and Herzegovina is characterized by poverty, 20% of the population is below the poverty line, 30% of the population is at the very poverty threshold or slightly above it, which means that about 50% of the country's population is poor. From a social perspective Bosnia and Herzegovina is a very unstable country with frequent and numerous protests which may lead to a wider protest and riots. The current governing structures are doing little to increase production and solve the issue of unemployment and social problems. Instead, they have been characterized by the personal interest philosophy and short-term survival; there is no interest for the future. A system, in which inaction and negligence are justified and which favors partial and individual successes, raised to the level of higher importance while true problems are left in the dark, prevails.

A significantly higher level of development, higher GDP and other economic parameters are necessary for accession to the European Union. A different concept of reform is needed in our country. Strengthening of state institutions is, although important and favored by the International Community, insufficient; what is truly necessary is to accept our economic

reality in a deeper and wider manner and pass measures at the micro-economic level, which will lead to the increase of production. That is what I would call economic reform, provided that the domestic ruling structures are willing and able to implement it. Any country entering the European Union is also entering the European free market and, unless it has at least some level of development and constructiveness, as well as other conditions necessary for successful business, that particular country will not be able to keep up with the market and will keep collapsing. Corruption, crime, safety of contracts, even freedom of press, together with the quality of infrastructure and the educational system influence the competitiveness. Some companies in Slovenia, whose economy is ten times more developed than our own, encountered difficulties and, as a consequence, had to decrease production or implement reconstruction.

In our country, even talk of accession to the European Union creates a false optimism, as if this would solve all the problems. We have had a similar situation several years ago, with the promises that the privatization process would solve all problems. Let us not fall into the same trap again.

Governments (state and entity) have been preoccupied with institutional reforms, i.e. with all the conditions set by the International Community for accession to the European Union. However, the governments, and especially the International Community, are not taking into account the realistic state of the micro economy. Nobody is concerned about the low productivity rate, bad management structures, low competition at the world market, poor quality of products, lack of positive business moral, weak and inefficient administration, business environment (which is an important condition for good business), legal protection, efficiency, etc.; let alone the complete negligence of scientific research and innovation in the sector of economy. Those are the main characteristics of any economy and economic system, and the economies which significantly fall behind the world market according to such indexes have nothing to look for neither in the European Union nor at the world market. If it happens that some countries, including Bosnia and Herzegovina, for reasons of political safety, should enter the European Union, its economy will decline and the society will rapidly split to a small percentage of rich and well-off people on one hand, and to a mass of poor people living a life of increasing difficulty on the other.

In order to assess the position and characteristics of the economy of Bosnia and Herzegovina in relation to what has been presented in the text above, I will present comparative indexes concerning Bosnia and Herzegovina and some aforementioned economic parameters by using the World Economic Forum's "Global Competitiveness Report 2004-2005".

The publication contains results of a research on competitiveness in 104 countries of the world, which encompass 97% of world production. The report includes 40 countries from Europe, 22 from Africa, 21 from Asia (and Australia) and 20 from South and North America. The World Economic Forum determined, through special research with its associates in every of the 104 countries, which involved certain data and indexes, as well as special methodology, general and widely-accepted indicators which enable comparison and track of development of individual countries. That is how they have developed the "Growth Competitiveness Index" and another similar index – the "Business Competitiveness Index". The "Growth Competitiveness Index" consists of the following three parts:

- a) macroeconomic surrounding
- b) public and political institutions subindex
- c) the growing importance of technology in economic development

Jeffrey Sacks and John Mc Arthur, both professors at Harvard, participated in the preparation and development of the Growth Competitiveness Index. Each of the three parts mentioned (a, b and c) was assigned 1/3 of the value in the process of determining the Growth Competitiveness Index.

The macroeconomic environment includes the macroeconomic policy, economic stability, public expenditures (budget), financial market and loan rating of a country. The Public Institutions Index includes, apart from public institutions and their financial functioning, regularity, corruption rate, contracts, etc. The technological index concerns the development of science and its connection with economy, innovations and discoveries, as well as development of communications.

Bosnia and Herzegovina has been ranked 83 at the Growth Competitiveness Index, among 104 countries. If we take a look at the ten countries which have been ranked higher and lower, we will see that nine African, five South American, four Asian and three European countries are our closest neighbors. If we were to look at the last 25 countries on the list, including Bosnia and Herzegovina, then we would see 10 African, eight

South American, two Asian and four European countries (Ukraine, Serbia and Montenegro, Macedonia and Georgia).

Finland, USA, Taiwan and countries of Scandinavia are ranked at the top of the Growth Competitiveness Index. As far as the former Yugoslav countries are concerned, Slovenia is ranked 33, Croatia 61, Macedonia 84 and Serbia and Montenegro 89.

Top 40 countries include 24 European, 13 Asian and 3 South and North American countries and not a single African country. That also reflects the image of economic development.

	Europe	Asia	Africa	South and North America
Top 20 countries	11	7	0	2
(20-40)	13	6	0	1
(40-60)	5	1	5	9
(60-80)	3	6	5	6
(80-100)	5	3	7	5

If we were to observe the three main parts of the Growth Competitiveness Index, we would see that Bosnia and Herzegovina is, according to the macroeconomic environment, ranked 85<sup>th</sup>, which is slightly below the general competitiveness index. We are followed by African and South American countries, as well as by Georgia, Serbia and Montenegro. We are ranked 80<sup>th</sup> according to the contracts and law subindex and 66<sup>th</sup> according to the corruption subindex. As far as stability is concerned, we are ranked 61 and 91<sup>st</sup> according to the general government expenditures and credibility of the country. We are ranked 61<sup>st</sup> at the stability subindex and 91<sup>st</sup> at the general government expenditure subindex. We are also ranked 91<sup>st</sup> in terms of the country credibility.

Bosnia and Herzegovina is ranked 78<sup>th</sup> according to the Public Institutions Index, which puts us in a slightly better position compared to the Macroeconomic Environment Index. We are ranked 82<sup>nd</sup> according to the Technology Index. All other data show that competitiveness of Bosnia and Herzegovina is unfavorable, especially according to the Macroeconomic Index. A general overview of the countries' rankings according to the Growth Competitiveness Index shows that we belong to the lowest ranking group of countries (20% of the countries ranked), and that we go hand in hand with other underdeveloped countries of Africa

and South America and with several other underdeveloped countries of Europe. The issue is how are we to enter the European Union in such a situation?

The Business Competitiveness Index is complementary with the macroeconomic approach of the Growth Competitiveness Index. It assesses the microeconomic environment and the state of productivity in each of the 104 countries analyzed. It shows the business environment in every country, as well as operational practice, business strategy and the quality of the micro-environment in a country. The Business Competitiveness Index comprises of two subindexes:

- a) Company Operations and Strategy Ranking
- b) Quality of the National Business Strategy Ranking.

According to the Business Competitiveness Index, Bosnia and Herzegovina is ranked 93<sup>rd</sup> out of 104 countries. We are ranked 96<sup>th</sup> according to the Company Operations and Strategy Ranking and 92<sup>nd</sup> according to the Quality of the National Business Strategy Ranking. That means that Bosnia and Herzegovina is among 11 countries with the lowest business competitiveness index. If we analyze the ten countries ranked above us, as well as 10 countries below, we will see that we are ranked together with: 2 European countries (Serbia and Montenegro (85) and Macedonia (83)), one of the Asian countries (Bangladesh (95) and with nine African countries and seven South American countries. If we also consider the fact that a total of 22 countries from Africa was analyzed, then we come to a conclusion that we are indexed as an average African country. We have a slightly better business environment, but are still ranked 92<sup>nd</sup>. We are ranked the worst according to the Company Operations and Strategy subindex. That is an indication of a weak management. The United States is ranked first, followed by Finland and Scandinavian countries. 21 European countries, 12 Asian, two African (South Africa and Tunisia) and five South and North American countries (three from North America and Brazil and Chile from South America) are ranked at the top 40 positions.

This situation should worry the governing structures and companies' managements, for Bosnia and Herzegovina will not be able to enter the European Union with the existing microeconomic indexes.

Contemporary literature on economy holds the issue of relationship between the government and management with the business environment

highly important, especially from the point of view of changing and improving factors that influence that relationship. That is not a slow (evaluation?) process, but rather a fast, revolutionary process in the conditions of accelerated dynamics of technological and economic development. This is also very important for us in BiH, because the issue is not taken seriously, according to the importance it has in the contemporary development.

One successful example is Chile, a small country in South America which has developed significantly faster than other developing countries, increasing per capita income and significantly reducing poverty. I should only mention that Chile has been ranked 22<sup>nd</sup> according to the Growth Competitiveness Index. Chile's export rate increase is of a special importance for us. In 1975, Chile exported 1,5 billion USD and 3,8 billion USD in 1985. In 1995, it exported 16,0 billion USD and 21,0 billion USD in 2003.

Competitiveness analysis also focuses on international productivity. However, there is a methodological problem: the same results are not obtained if productivity is calculated according to the domestic product rate growth calculated according to the method of working hours or per capita production. It becomes immediately obvious that it also depends on participation of active employed population of a country. In that sense, productivity in the European Union is bigger compared to the United States, if calculated by the number of working hours. Also, productivity is bigger in the United States than in the European Union, if calculated by the method of per capita production.

Some authors (c.e. William Easterly, Craig Buruside and David Dollar) have examined if foreign financial aid is able to promote competitiveness of developing countries. They have come to a conclusion that not much success has been achieved that way. They see the main reasons for such negative results are incapability and bureaucracy at the aid agencies, as well as the lack of foreign coordination of such projects, for the purpose of maintaining successful management. Also, it has often been the case that the political climate was not good for those activities. The authors are of the opinion that only an improved economic and political environment will make foreign economic aid more efficient.

The second part of the Global Competitiveness Report 2004 – 2005 provides several characteristic data for each of the 103 countries analyzed.



14 questions were asked in all the countries and the answers were ranked. A graphic representation of each of the countries' burning business issues was drawn. The biggest problem for Bosnia and Herzegovina is the inefficient administration, that is, bureaucracy. Political instability is the second biggest problem and corruption is the third. Those are also the three biggest problems for business mentioned at the World Economic Forum Survey. That comes as no surprise to us. What is worrying is that not much is being done in Bosnia and Herzegovina to increase the efficiency of administration and weaken corruption. Political instability appears to be our fate. Developing long-term programs for changes in the sectors seems necessary.

The following three issues, according to the ranking, are crime and thefts, financing accessibility and the tax system. The three different issues could be solved if the governments showed readiness for that. The following six problems affecting business are: instability of the government, low working ethics, insufficient education of the employees, high taxes, inadequate infrastructure and employment legislation. These factors, however, make a significantly lower impact compared to the first six. They still pose an obstacle for successful business. If we observe the 12 factors creating problems in business, it becomes clear why the foreign and domestic investments are lacking in Bosnia and Herzegovina, apart from all other measures.

Some other important factors which make an impact against economic competitiveness have also been mentioned and ranked. In the macro-economic domain, Bosnia and Herzegovina is ranked 100<sup>th</sup> according to the savings subindex and 91<sup>st</sup> according to the loan rating. We are ranked 91<sup>st</sup> according to the administration expenditures index. We rank slightly better according to the loan accessibility (67<sup>th</sup>) and according to the national currency exchange rate stability (ranked 61<sup>st</sup> out of 104 countries).

On the issues of public institutions the situation is slightly better. We are ranked 95<sup>th</sup> according to the private property survey and are ranked 78<sup>th</sup> according to the judiciary independence survey. We are ranked 75<sup>th</sup> according to the Organized Crime Survey and 66<sup>th</sup> according to the Import Tax Survey.

Bosnia and Herzegovina is badly ranked with regards to the technological conditions in BiH companies (102<sup>nd</sup>), as well as with regards to the companies' capability to implement the new technologies (the last position).



We are ranked 97<sup>th</sup> according to the Research and Development Survey and 81<sup>st</sup> according to the Internet Usage Survey. Our country is ranked 76<sup>th</sup> according to the Internet Accessibility at Schools Survey. As far as cooperation on research between universities and the economy is concerned, we are ranked 73<sup>rd</sup>.

What is the conclusion concerning the main goal of Bosnia and Herzegovina for accession to the European Union, activities of state and political structures and the above presented data on the state and competitiveness of the economy in our country? The first conclusion is that these efforts are not coordinated and that the country cannot enter the European Union with the present state of competitiveness; as well as that activities implemented by the state so far on reforming the economy did not bring about satisfactory results in the association process. Almost no results have been achieved on the issues of microeconomy and competitiveness.

Sadly, in a situation such as ours, it is necessary to constantly repeat the truths that a healthy and efficient administration, efficient legislation, democratic institutions, social conditions and other infrastructure contribute to the growth of the economy and development, but do not create fortune and new revenues. Revenue is created in companies and in the microeconomy. That is why macroeconomic policy measures and conditions directly influencing production, like export, trade, etc., are highly important for the development of the economy, apart from institutional measures.

Looking at the situation in Bosnia and Herzegovina, it appears as though the current authorities lack the sensitivity, knowledge or the capacities to grasp the entirety of economic developments and to act in a balanced manner at both the institutional and macroeconomic plane, as well as on issues of microeconomy and competitiveness.

The second conclusion that imposes itself from the very state of the economy in Bosnia and Herzegovina is that attitudes, the behavior and relationship of state and political structures towards the economy need to be changed from the very foundations. Politics and national behavior are not the main issues of our society. Economy is the main issue; the issue that we live from, something that is an overwhelming concern of the majority of the population in Bosnia and Herzegovina. Unless political parties of Bosnia and Herzegovina face this issue, they will lose the voters' support and people will pay a high toll in a further decline of the already low standard. We cannot enter the European Union the way we are. Even

if, by some miracle, we joined the EU, the economy of Bosnia and Herzegovina would decline because it would not be able to endure the competition at the world and European market. That means that the economic survival and development are a priority. Accession to the European Union comes second. In that sense, political and media activities should be directed towards that goal.

A strategy for the economic development of Bosnia and Herzegovina needs to be prepared as the first step in response to what has been mentioned above. We should think about the future, not limit ourselves to what the OHR is asking. That strategy should also contain all the conditions under which economic activities are conducted and it should be developed by the best experts from Bosnia and Herzegovina, without any influence of the International Community. Governments of Bosnia and Herzegovina should revise and update the current social reforms and develop a new economic reform which would also include privatization and reconstruction of the major state companies and introduction of new management in companies, as well as openness towards the region and the world economy. It needs to contain concrete measures for increasing production and economic competitiveness of the economy Bosnia and Herzegovina, etc. Such an economic reform also needs to contain a social program aimed at reducing unemployment and poverty.

If we immediately and persistently start addressing economic and living issues we could perhaps get a chance to join the European Union in the following ten years. If the situation remains as it is, not even Europe or anyone else will be able to help us. In such an event, Bosnia and Herzegovina will continue to deteriorate economically and fall behind on the international list of developing countries.