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American Chamber of Commerce in Bosnia and Herzegovina Luncheon

**FOREIGN INVESTMENTS AND POLITICAL STABILITY IN BOSNIA
AND HERZEGOVINA**

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Ladies and Gentlemen

It is a pleasure to be with you here today. I thank you for inviting me here and for inviting me to share with you some of my ideas in an area in which you are yourselves very much involved in Bosnia as well.

INTRODUCTION

Investments for Bosnia and Herzegovina have always been my priority and, although the times have not always been so kind to Bosnia, I can see the new momentum on the horizon. I believe that Bosnia has a very good future and its economic boom is around the corner.

However, the road to success is not an easy one. The political stability is a key factor in that process and, therefore, we will need a fast-track adaptation to suit new trends which are fast becoming our most pressing challenges. The challenges to offer our economy a real chance of showing its full potential.

Bosnia's progress is very much dependent on its future strategy on economic Euro-Atlantic integration. Political stability and foreign investments are two core issue which need to be addressed. They are also both inter-linked. Political stability is an essential requirement for attracting foreign investment, however, the investments are those that by default offer stability. Bosnia needs to get its priorities right so that we make sure one thing does not become a hostage of the other.

Political stability is a key driving force in establishing a unified economic space, however, it is the economic recovery and its progress that ensure a long-lasting political stability. Delivering an effective economic policy is important in order to unlock the true potential of Bosnia's resources.

Bosnia's at the crossroads between the true progress in the Euro-Atlantic integration and its negligence on the margins of the Western Balkans. It must not allow its backward political forces to stop its future generations in claiming true reward of their economic prosperity. That is why some key political issues must be resolved to ensure the next six months bring to Bosnia what all of its peoples deserve – a firm path towards EU and NATO membership.

The International Community must also play its part in that process. The upcoming meeting of the Peace Implementation Council in Brussels is another opportunity for the International Community to show that Bosnia is welcome in its selected membership. Therefore, we need to unblock the outstanding reform processes with the help of the International Community and move forward to signing the Stabilisation and Accession Agreement sooner than later. International Community owes this opportunity to Bosnia's people. We are ready to accept the challenge as much as we are ready to face our responsibility in the Peace for Partnership program, recently agreed upon.

Bosnia has been showing strong commitment in its path towards democratisation and outward looking. The improved credit rating is one of the signs that the progress is underway.

DEVELOPMENT

Some Economic Indicators

According to the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina direct foreign investments in our country from May 1994 to June 2006 amounted to just over €2 billion. Foreign direct investment to the Bosnian economy was on the highest level in 2004 with the amount of €18 million. In the first six months of 2006 different investors from abroad invested in our country totalling €107 million.

When foreign investments are divided by the sectors it is visible that €1.2 billion in the same period were invested in production sector, which is 57.2 % of total amount. In the second place we find the banking sector with €337 million, or 16.8 %, followed by trade sector with €144 million or 7.2 %. Tourism, service, transport and other industries cover the remainder of 18.8 % of foreign investments.

Foreign investments divided by investor countries in the same period, between 1994 until June 2006, are as follows:

Biggest foreign investor in our country is Croatia with €16 million, or 15.7 %, followed by Austria with €93 million, or 14.6 %. Slovenia is in third place with €57 million, or 12.8 %.

United States of America is in 15th place on investors list with €20.7 million, or just 1 %. Some indicators show that since 1995 to date, the US have spent more than \$1 billion in support of peace process, economic transform, increase of transparency in political and public life, building infrastructure, NGO sector, media and many other useful projects, as well as it largely contributed to the humanitarian aid in addition.

On the other hand, despite the sharp increase in inflation rate following the introduction of Value Added Tax (VAT), the Economist Intelligence Unit expects that strong investments and exports will drive Bosnia's annual average real GDP growth of 5.4% in 2007-08. Moreover, even though the foreign export deficit in Bosnia and Herzegovina is high, at €3.2 billion, the exports have risen by 25% as opposed to the 11% increase in imports. In terms of the trade the Bosnia is in the best position with the United States of America. The US appears to be the only country so far that Bosnia's trade is not in deficit. Of course to this position big help comes in from the recent sharp increased in activity. In the last 10 months the level of trade with the US has increased by astonishing 90%, according to Bosnia and Herzegovina Chamber of Commerce. This is all a result of an increased activity by the US, not only in trade, but

also in other areas, such as, helping young people find their first jobs by establishing a new web portal, as well as a transfer of \$8 million to 4 micro-credit funds by USAID. More opportunities will come when the new initiative on CEFTA agreement materialises, which we hope will happen soon. Many opportunities lie with the Small and Medium Enterprises in Bosnia and Herzegovina. We hope that big international companies specialising in mediation will realise the potential in establishing contacts between Bosnia's SMEs and those around the world. Our problem with the privatisation currently administered at the entity level is hampering the level of activity in Bosnia, which otherwise would have been much higher, however, this gives a lot of advantage to new SMEs. Of course, more effort will be needed to compose efficient and effective SME strategy proposal. The failure to adopt the workable SME strategy is one among other reasons for the decrease in the foreign direct investments (by 4% by mid-2006).

On the other hand the trade with the EU is far the greatest. 70% of all trade in Bosnia is carried out with 5 countries, three of which are from the EU. Again the list of goods exported fits a narrow list. They are mostly from minerals, metal and metal related goods, 40%, while chemicals and wood products account for further 20%.

To single out one sector that performs at an envious level it would have to be the banking sector. The operations continue to grow strongly and total assets have increased to 80% of GDP. There are only 6 banks in FBiH left to be privatised, while most of other banks are owned by foreign banks – current percentage of share of foreign capital stands at 73%.

Overall, the economic growth in the last year was recorded at 5.5%, even though it is mainly based on raw materials and related manufacturing. More diversification and increase in value and prices should help the figures grow even higher. Of course, the major contributing factor will be the straightening the country's institutions so that the legislation does not block the growth but rather serves to stimulate it.

State strategy for economic development

First and most important step for Bosnia and Herzegovina is to define State strategy for economic development.

- What is going to be the main focus of our economic development?
- How to be recognised in the world?

When we define our goals, all other steps will follow that decision. We have to apply strategic marketing management and try to manage our country as a corporation. There are lot of discussions in Bosnia about economy, our potential, chances, and resources which can bring a better life for all. We can often hear that Bosnia has good chances for economic growth if it develops and invests in energy sector, tourism, wood industry, healthy food production, and, of course, construction of corridor 5-c. In the last few years a development of computer industry has also showed very strong growth. In 2002 there were 200 companies in this sector. In 2005 that number jumped to 2,587 companies. A very interesting point here is that 70 % of these companies are partially or completely owned by Bosnians.

When we define strategic directions of our development we will present our projects and attract foreign investments. Based on our goals of strategic expansion we will need to build our infrastructure across the spectrum.

State marketing: Proactive managing of state image

Promote Bosnia and Herzegovina and its resources. Bosnia needs to be recognised as attractive tourist destination and good place to invest capital in.

How is Bosnia's image supposed to be recognisable? What are the Bosnia's recognisable features?

- Switzerland, for example, is recognised by secured banks.
 - o Bosnia's trademark is in tourism, healthy food, multi-cultural monuments, huge energy potential.

Recent CNN promotion of Bosnia and Herzegovina is good example of our changing marketing strategy in the series of short promotional clips - "*Enjoy life in Bosnia*".

Targeted investment projects

Bosnia needs stable political system, good economy, modern infrastructure so that we build strong platform for progress. What are some of the forthcoming challenging and optimistic projects?

Corridor 5 – C

Every one is talking about construction of this very important European highway. This project has to be approached seriously and professionally. We must not make the same mistake twice. The initial project proposal by American Bechtel and Turkish company Enka was a missed opportunity. Had we taken it up, we would have been well into the building of one of the most important corridors which would link north border of Bosnia to the Adriatic Sea. Today we have to approach that project with more conviction and remove all administrative and political obstacles and start with the construction. Everyone is aware how this project can push economic growth forward in a number of sectors. This project should be our common goal and it should show our unity, and not just ours but also of our neighbours. All people in our country are expecting that. We are sure that we can bring the investors who will be able build this highway.

Energy sector

This sector holds a great opportunity for Bosnia and Herzegovina as well. There is huge competition in the region for it. We cannot be late in this competition. Europe needs additional energy production. Our country can offer that energy, because of our great resources. We have enough space and potential to built new hydro and thermo power plants. Our government has received some offers by a number of large foreign investors and we hope that some of them will materialise. It is important to ensure the environment is protected, the competition is transparent and the investment is in the best interest of Bosnia's people. Also, a number of world banks have expressed interest in contributing to the financing of this project as well. The energy sector is believed to have the potential to attract few billion Euros of foreign investment and we will commit our best efforts to see this come through.

Tourism

Before the war of 1990s Bosnia was recognized throughout the World by hosting 14th Olympic Winter Games in 1984. It is time for another fresh positive image of Bosnia in the world. Bosnia still has beautiful Olympic mountains throughout its territory. Winter sport resorts at Jahorina, Igman, Bjelasnica, Vlasic, Kupres and Trebevic offer unique beauty and potential for winter tourism. Besides winter tourism, our country can offer heritage and religious tourism. Four main religions: Islam, Catholicism, Christian-Orthodox and Judaism meet each other in this country. Those attractions can be interesting for many regional and international tourists. Besides mentioned possibilities there are beautiful rivers and other untouchable areas of Bosnian nature which can be attractions for many visitors. This sector can develop and attract investors to build modern hotels and resorts, which can bring billions to the Bosnian economy. Tourism will be one of the priorities of our development in the future.

Incentives for Foreign Investments in BiH

Firstly, the main tax incentive is a 5-year tax deduction relief for foreign investors with 20% or more share of company assets, plus a 100% tax relief for the re-invested profit of the same business.

Secondly, for the politically averse investors who are concerned about transfer restrictions, expropriation, war and civil disturbances and denial of justice, the availability of the political risk insurance offers peace of mind. This type of insurance is available through the European Union Investment Guarantee Trust Fund for BiH, which is administered by the Multilateral Investment Guarantee Agency (MIGA), which is a member of the World Bank Group. In addition, the US Overseas Private Investment Corporation (OPIC) also provides political risk insurance for investors. However, the recently improved credit rating score given to BiH by Moody's means less concern for the investors in respect of political risk.

Thirdly, many countries have signed agreements with Bosnia and Herzegovina on avoidance of double taxation, however, not the United States of America, unfortunately.

Fourthly, many foreign investors see a lot of advantage in establishing their businesses in one of several Bosnia's duty free zones, which have many advantages in relation to taxation.

On the other hand, Bosnia has many riches and they are not just its natural resources (energy, mines, tourism). Bosnia also has young and well qualified workforce. This is one of its great assets, especially considering that shortage of skilled labour is a big problem with which many EU countries are facing themselves.

SUMMERY

Our economic strategy is full recovery of Bosnia's potential. The path towards Euro-Atlantic integration requires strenuous work on the reform process. Partnership for Peace membership means much more responsibility for us, however, the investments are needed in Bosnia and we will work hard to make sure those responsibilities are taken seriously. The SAA agreement is also needed to help boost Bosnia's hope for the better future and simultaneously help the democratic progress as well.

We need the International Community not just as the critic of our shortcomings but also as our partner – partner that will endure our political complexities and help us transform our politically fragmented mind-frame and steer it towards building more stable democracy.

Everyone understands that it is the economic stability through the participation of the foreign investments by which Bosnia sees its stability improve. The will of the political leadership across the international spectrum is needed to help Bosnia's transformation.

Our economic priorities are building our infrastructure, such as highway – corridor 5c -, which will not only help Bosnia's economy, but it will also open the door for more democratisation and building a stronger civil society.

Exploring our energy sector, such as construction of the electric power plants, will enhance Bosnia's competitiveness on the open market and, thus, improve our export capabilities. This will in itself help increase the employment rate as it will open up other opportunities in the mining sector and others as well.

Eco-tourism is still awaiting its recovery and we hope to achieve significant developments there. More winter sports, mountaineering, sightseeing, thermal baths, beach snorkelling are just some of the attractions of Bosnia's tourism potential.

In the end, we ask for the extended presence of the International Community in Bosnia and to help us establish Bosnia on the firm path towards Euro-Atlantic integration. We welcome its assistance in all sectors of our political reform. We urge the political leadership of the International Community to exert all the necessary political pressure here and abroad to secure Bosnia's irrevocable process of EU integration. We still need some strong presence of the International Community through the Office of the High Representative until we are securely on this path.

Last but not least, ladies and gentlemen, thank you for your time. Thank you for listening and I hope you will yourselves play a part in Bosnia's new phase of economic recovery.