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*From ownership to responsibility:
Regional cooperation in South East Europe and EU membership*

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Unity (and/or) of diversity – diversity in harmony – the need for a new development approach

1. In the attempt to draw the attention to the need for a different SEE countries' development approach in the context of EU integration, we have paused over the construction “unity of diversity” and “diversity in harmony”. The reason for this is that we wish to stress that despite differences in economic performances and progress on the way towards the EU membership, there are common attributes and challenges for all countries of the region which presently put particular emphasis on a different development approach. With this, of course, there is also a need for different profiling of regional cooperation and a new, especially important role of the RCC and its engagement in the forthcoming period.
2. All SEE countries are on their path towards the EU integration and are part of the single Stabilisation and Association process and accompanied by the unique EU financial instrument – IPA. However, despite the common EU approach towards the SEE region in the context of integration, countries of the region have different statuses – from Croatia which signed the Accession Treaty and is becoming full EU member state in 2013, to [FYRO] Macedonia, Montenegro and Serbia which are candidate countries and Albania and Bosnia and Herzegovina which have not passed the “stabilisation threshold” and embarked into the accession process yet.
3. SEE region also faces a unique challenge in the context of global economic flows. From this point of view, regional economic initiatives created more production opportunities and opened the doors to better making do in large markets and strengthening competitiveness. Of course, we need to remind ourselves that the prerequisite for valorisation of these effects is the accomplished level of structural reforms in all countries what is yet another area of diversity and differentiation by countries. It is also worthwhile mentioning that the countries of the region are very vibrant in terms of low value added activities and rigidity of labour market. All this is reflected on the investment activities and especially on the (non-) attractiveness in terms of FDI. If we add to this the high concentration of economic activities and characteristics of the trade in the region, it will be clear as to the reason of underused development potentials of the region as a whole as well as of individual countries. Social and economic disparity as a consequence of demographic shifts and ruralisation of urban areas, inadequate infrastructure and labour market integration issues additionally hampered achieving the necessary flexibility and higher level of competitiveness of these economies. Let us also mention the impact of climate changes which are especially seen in the agribusiness sector, energy, fishery, tourism and the like,

key sectors for development of countries from the region. All these challenges refer to the need for one utterly different development approach and resolution of issues arising from global and regional restructuring.

4. Special area of analysis is the reflection of global economic crisis and debt crisis in eurozone onto the region. Let us remind ourselves of the following:
 - Financial crisis as of July 2007 reflected onto the entire region in the last quarter of 2008;
 - The crises was transmitted onto the region through financial and trade channels;
 - Reflections of the crisis in all counties of the region were: decline in exports, pressures to the labour market, growing foreign debt and budget deficits;
 - Recovery of all countries of the region was driven by external conditions (both in terms of financing and export demand). Hence the next impact – as of 2010 new issues emerge as a consequence of debt crisis in eurozone.

4. What is a common trait for all countries of the region prior to the crisis as a result of which we see such crisis reflections and challenges for the region?

Growth model in all countries of the region was driven by capital flows, credit expansion, spending based on local demand. Credit expansion influenced the growth of population's purchasing power, increase in investment activities and increase of tax base, created upon such a model.

Such a growth model emphasised the external weaknesses which prior to the crisis drew attention to the sustainability issue, especially due to the external imbalance. It is worth noting that the growing deficit of the current account, growing foreign debt share in GDP and high-level of compliance of financial systems and Euroisation have been the common characteristics of all in the region.

Despite this, the growth conditions varied among the countries. Domestic weaknesses of each of them resulted in various growth performances. The differences arouse from having a sort of an autistic macroeconomic policy what was a reflection of domestic risks and weaknesses of foreign shocks.

Before the crises, for example, Bosnia and Herzegovina, [FYRO] Macedonia, Montenegro and Serbia used expansive and procyclic fiscal policy, increasing external imbalances and dependency on external financing. This resulted in pronounced weaknesses with the first disturbances in external financial flows.

Among these four countries, Serbia and Bosnia and Herzegovina recorded significant financial gap that also resulted from local conditions affected by global trends. In order to finance the gap, adjust programmes and restore macroeconomic and financial stability, they used additional IMF funding sources in the form of stand-by arrangements.

In contrast to this, Albania and Croatia were more oriented towards external balances. Internal financing in these two countries was made difficult by disrupted external balances rather than by the impact of global crises.

Though having different causes, such policies created pressures onto domestic demand and resulted in growing deficits in the current account. This resulted in the following: when the

crisis hit external finances and internal financing decreased, countries were limited in using the anti-cyclic response. The use of fiscal policy as an automated stabiliser was limited and the crisis became widespread.

Expansive fiscal policy in the four countries also limited the area of use of discretionary fiscal instruments as a response to external shocks, while Croatia and Albania with more careful fiscal policy managed to cover their external and internal finances without officially requesting external support.

However, despite this common trait, the growth reflections are different. Albania, which was the only country able to partially use fiscal policy instruments (financing through revenues generated by privatisation), continued recording economic growth, while at the same time Croatia suffered consequences of long-term recession.

Along with fiscal limitations, anti-cyclic policy is also limited by monetary instruments, especially in Bosnia and Herzegovina and Montenegro. Limitations to the systems of fix or quasi-fixed exchange rate regimes allowed only Albania and Serbia to use monetary instruments for absorption of external shocks. However, this had limited benefits for Serbia due to the inflationary tendencies.

Albania is thus the only country in the region that recorded economic growth and the only country that partially used instruments of discretionary fiscal policy and monetary instruments and, as a result of this “success”, reached record high budget deficit and the largest public debt in the region.

5. What have all these diversities highlighted as a common trait?

- Export-driven growth slowed down with the debt crisis making domestic demand key to stimulate growth. However, due to the request for fiscal consolidation and decrease in externally financed credit growth, domestic demand recorded a decline. Let us also mention that the reduction of demand was also a request for adjustment of external imbalances, deficit in current account.
- Credit terms and conditions resulted from disrupted public finances, increased budget deficit and growing debt share in GDP.
- Country's capacities to use external sources to expand economic base and export capacities are limited.
- The crisis additionally fostered the need for a new development approach. Transition to a more balanced growth model is imposed as an imperative in order to avoid the effects of re-accumulated disequilibrium and fragility of the economic system.

7. Given that social consequences of crisis will last longer than the crisis itself, along with unpredictability of global economy caused by financial and economic turbulences, the priority question arising is how to adjust to these challenges?

In the context of crisis impact onto economic and social sector, the path towards a solution is undoubtedly more and different regional cooperation. The imperatives of new circumstances ask for development of mechanisms of regional cooperation as a possible way for the region and individual countries to respond to the devastating impacts of economic crisis while fully employing their development potential in a new combination set.

Thus, new development circumstances, new development paradigm, regional cooperation with new modalities.

Why?

It is a path towards

- Strengthening economic performances as an engine of regional competitiveness, economic growth and employment;
- Bringing more dynamism in the process of approximation of the region towards the EU and reducing regional imbalances caused by different status of countries in the context of the EU;
- Reducing disparity of the region as regards the EU;
- Bringing disparity within the region to the level of necessary mobility;
- Improving economic performances of each individual country and using regional cooperation to accelerate dynamics of EU approximation;
- Strengthening regional responsibility which is a concrete example demonstrating the benefit of cooperation in the context of EU integration, and at the same time promotion of benefits of EU integration and its policies;
- Let us be reminded that the European principles of regional cooperation strengthen both region's sustainability and regional responsibility.
- The region stresses the issue of responsibility of individual countries, at the same time increasing reliability in meeting the obligations by all stakeholders in the region;
- It is also an answer to the crucial issue of economic motivation for both the imperatives of debt sustainability and reducing budget deficit, and for strengthening competitiveness and implementation of structural reforms that the growth is dependent on;
- It is also a catalyst of necessary social consensuses, providing linkages among the projects and realising positive external effects.

8. What do the logics of sustainability strategy demonstrate for the countries and region as a whole?

- Development is possible but is not a result of automatism;
- There must be a common vision accompanied with the development strategy;
- Prioritisation is of particular importance given the large demands determined by economic and social issues and limited resources.

In the context of this paradigm, regional cooperation gets a new important meaning as a development opportunity in line with the new package of regional priorities.

This, of course, does not mean moving away from all-inclusive modality of regional cooperation. However, strategic approach and regional priorities need to profile a new structure by reallocating resources in order to put them to a more efficient use, have modern infrastructure, enable expanding the export basis and inflow of FDI as a source of dynamic benefits for us all. Lack of strategic approach and regional priorities carefully selected in line with the new circumstances would continue the agony of increasing exports and FDI inflow as an end rather than means to this end, an instrument of development

strategy, mechanism for generating economic and productivity growth and provision of more sustainable internal and external position of both the region and individual countries.

Therefore, concrete development-oriented cooperation which includes the impacts of unresolved issues in EU onto the enlargement process.

In this context, it is worth noting the necessary external prerequisites – conditions for valorisation of effects generated by the new cooperation modalities:

- Importance of preserving the enlargement dynamics in the context of full-scale stabilisation of the region
- Importance of regional dimension in the EU enlargement and accession process.

In these demanding times, region must not be left alone, to itself or warmed over the feeling of abandonment. This points out to the dangers of not only economic but also of social and political consequences important in the context of each country, region as a whole and the EU as well.

This needs to be the key determinant in assessing readiness on the part of the EU to support regional development projects in the spirit of new paradigm in these harsh and challenging times.

In this sense, I wish to stress the importance of RCC, especially in the period ahead of us, as institutional framework for regional cooperation and the role in regional dimension of the EU accession process, but also as a tool and engine of necessary changes in the approach.

Challenging and also demanding for the RCC.

I am convinced that the new direction of your engagement in the forthcoming period will demonstrate the importance of your work for everyone and especially for Bosnia and Herzegovina which has the privilege to host your Headquarters in Sarajevo. On this path, you will need a great deal of wisdom, courage, efficiency of your work and innovative approach.

With the gratitude for everything done so far, I wish you all the best in your endeavours which should justifiably highlight the importance of the region and the regional approach as well as the RCC.