SEMINAR ON
Economic Aspects of Security

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CONTENTS

OPENING

Ambassador Dr. Bisera Turkovic, Director,
Centre for Security Studies 4

OPENING ADDRESSES

General Claudio Zappulla
Personal Representative of the OSCE CiO for Articles II and IV
Annex 1B, DPA, OSCE, Vienna 6

Mr. Mirsad Ceman, Member,
House of Representatives, Parliamentary Assembly of BiH 8

Mr. Pierpaolo Tempesta, Special Advisor,
Permanent Mission of Italy to the OSCE, Vienna 11

Mr. Heinz Vetschera, Deputy Director,
Department of Security Co-operation, OSCE Mission to BiH 12

FIRST SESSION

Implication of Economic Development on transformation of power
and its influence on countries in Region

Ambassador Vladimir Matek, Head of Mission,
Permanent Mission of the Republic of Croatia to the OSCE, Vienna 16

"Economic aspects in function of countries in transition - Case of the FBiH"
Mr. Izet Zigic, Minister,
Ministry of Energy, Mining and Industry of the FBiH 17

"Demobilisation of RS soldiers in light of reform of defence system in BiH"
Mr. Slavko Zmaric, Director,
Centre for Strategic Studies of the Ministry of Defence of RS 21

"Role of Stability Pact for South Eastern European the process of
retraining of discharged military personnel and military base conversion"
Mr. Jiri Kalasnikov, Acting Director,
Working Table III, Pact Stability for south-eastern Europe 23

"Market Liberalisation in the countries in south-eastern Europe
as an instrument of security and improvement of investment opportunities"
Dr. Richard Temsch
The Missing Link, International Consultative Corporation 28

DISCUSSION PERIOD 41
SECOND SESSION
Investment and Security – Investment perspectives in Bosnia and Herzegovina

Ambassador Emina Keco-Isakovice, Head of Mission,
Permanent Mission of BiH to the OSCE, Vienna 49

"Effects of investment in the development of infrastructure in south-eastern Europe:
Building of corridor 5C and its influence on the Region"
Mr. Almir Dzuvo, Advisor for Interior Policy,
Office of the Chairman of Council of Ministers of BiH 50

"Restructuring of BH-Gas: Possibilities and perspectives of investment"
Mr. Huso Hadzidedic, Director,
BH GAS 52

"Investment perspectives in the Region"
Dr. Mladen Stanicic, Director,
Institute for International Relations, Zagreb, Croatia 60

DISCUSSION PERIOD 65
THIRD SESSION
Importance economy in the period of transition

Ambassador Branislav Milinkovic, Head of Mission,
Permanent Mission of Serbia and Montenegro to the OSCE, Vienna 74

"Economic aspects of security"
Dr. Marcin Swiecicki, Co-ordinator of OSCE Economic
and Environmental Activities, OSCE, Vienna 76

"Human Security as the precondition for the economic development
in south-eastern Europe"
Mr. Moises Venancio, Resident Representative,
United Nations Development Programme, BiH 87

"Economic development from Practitioner’s Point of View"
Ambassador David R. Nicholas, OSCE Project Co-ordinator
in the Ukraine, U.S. Secretary of Defence Representative to the OSCE 95

"Corruption and crime as basic impediment to economic development
in the south-eastern Europe"
Ambassador Nedzad Hadzimusic, Head of the
Department for Multilateral Relations,
Ministry of Foreign Affairs of BiH 99

FINAL DISCUSSION PERIOD 101
APPENDIX A – Programme 103
APPENDIX B – List of participants 107
OPENING

Ambassador Bisera Turkovic, Centre for Security Studies

General Claudio Zappulla, Personal Representative of the OSCE
CIO for Articles II and IV

Mr. Mirsad Ceman, House of Representatives, Parliamentary
Assembly of BiH

Mr. Pierpaolo Tempesta, Permanent Mission of Italy to the OSCE,
Vienna

Mr. Heinz Vetschera, Department of Security and Co-operation,
OSCE Mission to BiH
Ambassador Dr. Bisera Turkovic, Director, Centre for Security Studies BiH

Your Excellencies, ladies and gentleman,

It is my honour to welcome you to this seminar in Trieste on the 'Economic aspects of security'. I would especially like to thank General Zappulla, on whose initiative this seminar has been organised.

Today, here with us, we have representatives of the OSCE, representatives of the executive and legislative bodies of Bosnia and Herzegovina, as well as respected experts from the economic and security fields.

It is our great pleasure to also have here with us the Ambassador of Bosnia and Herzegovina to Italy, H.E. Luksa Soljan.

In these introductory remarks I would like to say something about the importance and the motivation for this seminar.

First of all, I would like to emphasise the goal of Annex 1B of the Dayton Peace Agreement which is the establishment of confidence and transparency between Bosnia and Herzegovina (its entities), the Republic of Croatia and Serbia and Montenegro. All efforts to date, have been directed towards addressing the military aspects of security, as a basic form of insecurity. However, in the context of the new security environment, the economic threat is increasingly overtaking the position of the military threat. A strong economy is a vital factor for confidence building and as such it is an important contributor to the goals of Article II, Annex 1B of the Dayton Peace Agreement.

As the name of this seminar indicates, the most important economic aspects of security will be discussed with an emphasis on the economy and economic security. It is the economic underdevelopment, which today is a significant source of insecurity and instability in the region.

Security under the conditions of globalisation is dependent upon economic, democratic and military-organisational factors. Economic progress is an increasingly important factor for it is one of the factors for a democratic society and the creation of a strong defence sector. One of the main problems faced by countries in transition is economic under-development. This leads to poverty, corruption, economic insecurity, and contributes to other forms of insecurity.

Economic insecurity provides a breeding ground for organised crime, human trafficking and corruption in both Bosnia and Herzegovina and the region. The battle against transnational organised crime, which today is a global problem is closely related to the problem of corruption. Corruption has a negative effect on human rights and the process of democratisation, that is, it negatively influences the basic principles of a modern democracy.

It is therefore important that we address the root cause of security challenges – economic security. Economic security is a precondition for effectively addressing all other security challenges; it is a precondition for the stability and prosperity of Southeast Europe.
In Bosnia and Herzegovina the building of a single economic space is a pre-condition for domestic and foreign investment.

The main weapon against economic underdevelopment is foreign investment. Economic insecurity and the incomplete process of the establishment of a legal state has contributed to a deficit in foreign investments into Bosnia and Herzegovina. The State is the most important factor in the process of attracting foreign investments, for it is responsible for developing basic conditions to make BiH a more attractive place to invest, by way of fiscal benefits and cheap labour. However, practice to date has shown that political stability, democracy, rule of law, entrepreneurial culture, developed infrastructure, and an educated workforce are more important factors than fiscal benefits and cheap labour. Bosnia and Herzegovina has attractive resources for foreign investors, but it must fulfil the mentioned conditions.

Bosnia and Herzegovina, like the other countries in the region, is still in the process of transition, the aim of which is the establishment of an economic system based on private ownership and a free market capable of generating sustainable economic growth and competition at the international level. In the economic sphere the transition must create conditions for the economic development of the country, as well as conditions for the respect of human rights and their protection by state institutions. A successful process of transition should increase employment, which would reduce poverty and economic inequality through the distribution of economic well being among all social classes. This will increased economic security, as well as other forms of security.

The process of privatisation and reconstruction of companies which is one of the most important economic developments for countries in the region. It is still unfortunately incomplete in Bosnia and Herzegovina. Without reconstruction and privatisation it is impossible to increase the capacity of those companies which have at their disposal a significant amount of unused resources. These resources could effectively be utilised through restructuring. Structural changes in the economy should lead to an increased number of new companies with greater Competitive capacity.

I would also like to say something about another significant economic problem that exists in Bosnia and Herzegovina, and that is the process of the demobilisation of soldiers. The social picture of Bosnia and Herzegovina, shows a military budget which was too large, and with international standards, this has lead to a reduction of the armed forces. Until now, two waves of demobilisation have been successfully carried out in Bosnia and Herzegovina. However it is necessary to continue with the reduction, and for this additional funds are required. I hope that we will here be able to find a most effective model for the forthcoming wave of demobilisation which would not have a negative effect on the economic development and economic security of the country.

I would like to conclude with the belief that this seminar will increase awareness of the economic aspects of security, and with that, it will help contribute to the finding of solutions to some significant economic problems that exist in our region.

I would now like to give the floor to our host, General Claudio Zappulla, the Personal Representative of the OSCE Chairman-in-Office for Article II and IV of the Dayton Peace Accord. Thank you.
General Claudio Zappulla, Personal Representative of the OSCE CiO for Articles II and IV

Distinguished Ambassadors, Ladies and Gentlemen,

I welcome you to this seminar on the “Economic Aspects of Security” which is being held in beautiful Trieste. I wish to thank the Italian authorities for the support they have provided and for allowing us to hold the seminar here, especially during this period when Italy has responsibility for chairmanship of the European Union. Additionally, I wish to thank Ambassador Turkovic and her Centre for Security Studies’ staff for doing the lion’s share of the organisational aspects of this seminar.

This seminar is a natural evolution from the one held last year in Portoroz; one which many of you participated in. In the twelve months since Portoroz, Bosnia and Herzegovina has seen substantial improvement in restructuring the military forces and ministries of defence and focus should now shift to the challenges this country faces in order to join Partnership for Peace, for example, as well as other Euro and Euro-Atlantic organisations. In my view, the time for the natural progression of Bosnia and Herzegovina to these institutions is drawing closer and closer. Obviously the overall security of BiH must be sufficient to guarantee stability in the future.

As I travel throughout Bosnia and Herzegovina and meet with different officials, I have reached the conclusion that confidence is at an optimum level. In the meetings I attend, discussions are held in a professional, calm manner and we are seeing tangible progress. However, much more can, and should be done because an essential element of stability in Bosnia and Herzegovina, as in any country, is a strong, healthy economy. The future generations, the next generation, of citizens of Bosnia and Herzegovina need to see that there is hope in their future.

I do believe that many differences such as: ethnic, cultural, religious will remain in the future, only as an indication of cultural identity, but not as a symbol fanatic or extreme nationalism. Differences, if correctly understood, and based on reciprocal respect, represent an enormous rich heritage from which you must take out the best. Unfortunately, when we take the worst the consequences are ethnic conflict.

The growth that needs to occur in Bosnia and Herzegovina that I have alluded to is economic growth. However, let’s look at this economic growth purely from the security perspective. I want to acknowledge that the Parties to the Article II Agreement, the Agreement on Confidence – and Security-Building Measures in Bosnia and Herzegovina, have made concrete efforts in realising a defence system that is day-after-day more consistent with their economic means. This remains an ongoing process with further reduction of personnel, at all levels, which I recommend takes place in a rational and balanced way.

That said, further improvements can be made; I am referring of course to the initiatives proposed by the Defence Reform Commission. A body established by the High Representative, Lord Ashdown, supported by the OSCE through the extraordinary efforts of the OSCE Head of Mission in Sarajevo, Ambassador Beecroft, and chaired by Mr. Locher whose experiences give him particular expertise in guiding this body through these painful, yet necessary, defence reforms.
Who can really contest the necessity to eliminate duplication, particularly at the highest levels, within defence? The requirement for a unique command to provide guidance and direction is fundamental to any military and is an incontestable principle. I encourage those of you present who are a part of the defence reform process to achieve as much standardisation as possible, especially in light of future Euro partnerships and in light of the cost savings involved.

What can we expect by referring to “economy” through “security”? First of all, and principally, optimisation of precious, and scarce, resources. Then, keeping in mind the primary institutional role of the armed forces in Bosnia and Herzegovina, why not shift the focus of military capabilities towards logistics, namely, by providing resources and personnel for the development of infrastructure such as roads, bridges, improved railway lines and improved airfields. All of these are indispensable to the development of Bosnia and Herzegovina as a whole.

Such a contribution by defence to Bosnia and Herzegovina, in the form of personnel and resources, would represent an enrichment of the country from which, in the future, the defence forces would see tangible benefit in the form of increased budget and as a consequence improved operational capability, improvement in the quality of life of soldiers, and an overall increase in the general welfare of personnel. This logistic capability is paramount for future participation in international organisations, namely, in peacekeeping operations. Such a role for the armed forces is not a new concept. After every major conflict in the past the respective militaries have been used in national reconstruction efforts.

Ladies and gentlemen, during this seminar we will listen to a variety of points of view, all designed to stimulate thought and hopefully provide solutions to some of the complex and difficult problems in Bosnia and Herzegovina. I hope the Parties to Article II will try to obtain the greatest benefit from the presentations in this seminar, particularly, the senior authorities present who represent Bosnia and Herzegovina. I wish all of you a wonderful weekend as we listen to the various presentations and I hope you will take some time to enjoy this beautiful part of Italy.
Mr. Mirsad Ceman, Special Representative of Member of the Presidency of BiH;
Member of the House of Representatives, Parliamentary Assembly of BiH

Excellencies, Ladies and Gentlemen!

As Ambassador Turkovic has already stated I am here in two positions. One of them is as a parliamentarian, Chairman of the Constitution-Legal Commission in the House of Representatives, Parliamentary Assembly of BiH and my second position here today is personal representative of Mr. Sulejman Tihic, Member of the BiH Presidency who, due to other obligations, could not be personally present here today.

Please allow me to greet you in the name of Mr. Tihic and pass on his wishes for a successful realisation of this seminar. Mr. Tihic strongly supports the activities and hard work that General Zappulla and Mrs. Turkovic are placing into this field, together with your co-operatives, through the activities of the OSCE and the Centre for Security Studies.

I would like to greet you also as a parliamentarian with a belief that the long list of participants, together with us parliamentarians, is certainly contributing in widening the understanding of this very important topic as well as the development of trust within BiH as well as with its neighbourhood. This is very important for all of us because trust and security are one of the main preconditions for a normal life and the development of any community.

In addition I would like to mention a few things that I think are important and are related to the agenda of this seminar. Taking into consideration that it is not necessary or possible in the time given to express everything that should and could be expressed on this seminar. After all today's seminar is a continuation of the seminar on the same topic from Portoroz Slovenia, which took place in September 2002, when lots of important matters were discussed.

Ladies and Gentleman,

It is indubitable that security in Bosnia and Herzegovina (BiH) has irreplaceable importance in returning and building trust, reconstruction and recovery as well as prosperity to the whole region.

Security and trust are mutually conditioned and as such essentially accelerate one another. Today, we are discussing the economic aspects of security. I would like to emphasise that I agree with the review already given according to which the economy, or more precisely, economic recovery and stability are a main component and irreplaceable factor of stability and security generally.

BiH, in co-operation with the international community, more than a year ago adopted a special programme entitled 'Work and Justice', which should, together with other documents and commitments of governments at all levels, contribute in solving priority tasks, such as unemployment, and everything that goes with it.

Ambassador Turkovic, if I remember well, mentioned that BiH still has a very a high level of unemployment, especially in the youth. The data varies, but approximately
70% of young people and those who are formally classified as employed, are actually unemployed and are so called 'employees on a waiting list'.

How can one expect to have a stable society if unemployment is so explicit? It unavoidably creates frustration which results in the increase of crime and so on. Complete security would be improved by the completion of the process of proprietary transformation in BiH, with the support of foreign investments to speed up economic recovery and thus improve economic means. There have been some improvements regarding that issue, but it is still far below what is necessary for BiH and the region.

The project of building a motorway through BiH, as a party of the well-known Corridor 5C, about which we will hear more today, will mean an important move for the recovery of the BiH economy and thus for the social security of citizens. This means that this opportunity must be used as an important issue for general security within BiH. Social security, which means employment, regular payment of pensions, adequate measures of social security for the unemployed and other population categories, are unavoidable issues in the context of today's topic.

The reconstruction of economic co-operation between the economic subjects in the area of the former Yugoslavia, I am emphasising this especially as today we have present here representatives from the Republics of the SFR Yugoslavia, will essentially contribute to the economic recovery, not only for BiH but also the region which would mean an improvement in total stability and security.

On this plan certain steps have been taken, with some of them just the initial steps, and in other cases significant steps. I would like to encourage co-operation between business people regardless of some unsolved political and other issues that remain between our countries. Improved economic co-operation might be the answer for solving those problems.

The issue of viable return of refugees and exiled persons, in a situation when in BiH it is possible to improve general security- incidents and attacks sometimes with tragic consequences are still not completely excluded and currently poses one of the biggest problems for returnees and security in general. Viable return, would mean the creation of employment conditions, health insurance and education are all factors that for returnees create feelings of security and readiness to return to live in areas where they did previously. Contrariwise, the wish for remaining is lost and it sometimes causes incidents in which the entire situation becomes burdened.

In this context, the economic aspects of security and issues of internal and external departments of BiH is of great importance. I of course, do not want to elaborate widely, but it is something that is unavoidable. Everything mentioned, as well as other things that I did not state directly or indirectly are favourable grounds for the rise in crime, and that all this is an important factor for the evaluation of security in BiH and it neighbourhood.

As I already stated lots can be said on this topic, but my intention was for this introduction, to support the general evaluation of the interdependence of economic recovery and security of an individual and community to emphasis a few important issues in connection with BiH. I would like to thank you for the invitation to
participate in this seminar. Undoubtedly, through the exchange of thoughts and experiences we will gain more understanding and a new energy for the improvement of the general conditions for everyone in BiH and the region.

As a parliamentarian I would like to emphasise that the legislative activities of the Parliamentary Assembly of BiH, in relation to some earlier period, especially the first few years post-Dayton, has improved considerably. A number of framework laws have been adopted which standardise the criteria for, work and business in BiH, the status of returnees, the fight against crime and corruption as so on.

This would mean that the presence of parliamentarians, on such events, next to our personal importance, could mean a lot in the entire process connected to the problems that are happening through the scope of state bodies in BiH, including the Parliamentary Assembly.

General Zappulla, Mrs. Turkovic, colleagues, ladies and gentlemen, I would like to thank you for your attention and I wish you a successful realisation of this seminar. I am emphasising my readiness to participate in further sessions and I believe that I can contribute to the positive processes that we have already discussed or will discuss.
Mr. Pierpaolo Tempesta, Special Advisor, Permanent Mission of Italy to the OSCE – Vienna

Thank you, Mrs. Chairperson.

Let me introduce myself. My name is Pierpaolo Tempesta. I am member of the Permanent Mission of Italy to the OSCE in Vienna.

I probably owe you a word of explanation for the different representation of the MFA from what was originally planned: as you know, Italy is holding the presidency of the European Union and therefore all human resource of the Ministry are fully engaged in that function. In addition, at present very important law projects concerning the welfare state are being discussed in the Parliament, keeping away members of the Government that are also parliamentarians from other duties.

Let me start by saying that it is an honour to welcome this distinguished audience in Trieste for this important event.

From the privilege observatory of Vienna, the Italian Mission is able to follow closely the developments of the situation in BiH, through the periodical reports we receive from the Head of the OSCE Mission to BiH and from the Personal Representative of the CiO for Art. II and IV of Dayton. This attention reflects the special interest of my Country for the area.

It is source of great satisfaction and encouragement for continued support by the international community the clear indication from the reports received that continuous progress is being made in all fields.

As far in particular the economic field is concerned, it must be noted with great appreciation that BiH succeeded to introduce in short time important reforms, which contribute to create the basis for the correct functioning of the economic system of the State. The projects for a reform of the commercial legislation, in which the contribution of the local enterprises played an important role, the progress made concerning the implementation of the property law and the stabilising factor represented by the «currency board» deserve special appreciation. Certainly, there are areas where improvements are still needed. It is to be hoped that also in this respect early progress will be achieved: Italy remains engaged in providing all possible support. As a good example for this, let me refer to a project brought forward by Unindustria Venezia aimed at creating an industrial park in the area of the district of Breko and supported by the Italian Government, in the conviction that political stability can be fostered through the development of the local productive system.

Mrs. Chairperson,

There is an obvious link between economy and security. Therefore, we believe that this Seminar organised by Gen. Zappulla – to whom we express all our gratitude – is an Important and timely initiative to examine all the aspects of this complex problem. The impressive participation of qualified speakers will certainly be conducive to reach important conclusions.

Thank you, Mrs. Chairperson.
Mr. Heinz Vetschera, Deputy Director, Department of Security and Cooperation, OSCE Mission to BiH

Excellencies, distinguished participants;

I may welcome you at this Seminar on behalf of the Head of the OSCE Mission to Bosnia and Herzegovina, Ambassador Beecroft. We also welcome the initiative by the Personal Representative of the OSCE’s Chairman-in-Office who had undertaken already some years ago efforts to widen the scope of contacts and co-operation under Measure XI of the Vienna Agreement beyond the purely military aspect of security, and who has found a congenial partner in the Centre for Security Studies for organising these annual seminars on the economic dimension of security. We appreciate this initiative not only because of its substance, but also – as an OSCE Mission – because it reflects the OSCE’s comprehensive approach towards security.

Today’s understanding of security does not limit itself to the military sector. Security rests on political, social, economic and military stability. Decreasing economic stability leads almost inevitably to social and political instabilities, and all too frequently to armed conflicts. There have been enough horrifying examples of this correlation in the course of the last century, including the conflicts in former Yugoslavia which could be traced in their origins to the deteriorating economic situation in the early eighties.

On the other side, it is obvious that lacking social, political or military stability would discourage economic initiatives. Investors would think twice before investing into a country characterised by social and political tensions, or by military polarisation between various factions, ethnic or religious groups, etc. Attracting investors requires to resolve the most destabilising questions, and it is the primary responsibility of the political elites to create the basic conditions which then encourage investments into the country’s economy.

Also, security is no longer understood in the narrow terms of “external” or “internal” security of States. Under the term “human security”, it now focuses on the security of the individual human being and encompasses areas as broad as the rule of law, combating crime and terrorism but also social security and economic well-being.

This wide understanding of security is, however, not as new as it might appear. The then US President Franklin D. Roosevelt in addressing the Congress on 6 January 1941 referred to four basic freedoms:

- The freedom of speech and expression;
- The freedom of worship;
- The freedom from want, and
- The freedom from fear, meaning the prevention of aggression.

This comprehensive understanding of security was then reiterated in the Atlantic Charter of 14 August 1941 where its fifth principle explicitly referred to the objective of securing “improved labor standards, economic advancement and social security”, i.e. the economic dimension.

This dimension was then somewhat neglected during the Cold War. It was however again fully recognized in the CSCE process which has led into today’s OSCE. The 1973 Conference on Security and Cooperation in Europe focused on three baskets:
• One regarding the politico-military dimension, including basic principles of the States’ relations and military confidence-building,
• another one dealing with economic issues, and
• the well-known “third basket” on the human dimension.

This comprehensive approach towards security was enshrined in the 1975 Helsinki Final Act. It has since then accompanied the CSCE and later the OSCE and was reinforced after the democratic changes in Europe in the 1990 Charter of Paris. There, all participating states pledged to adhere to the principles of human rights, democracy and the rule of law; of economic liberty and responsibility combined with social justice and environmental responsibility, leading to economic co-operation based on free market economies; and to continue their efforts with regard to arms control, disarmament and confidence-building. The close correlation between the politico-military, the economic, and the human dimension of the OSCE has become the guideline for the work of the organisation as such, but also for its missions.

The OSCE Mission to Bosnia and Herzegovina is no exception. While there is, formally speaking, on its organisational chart no specific department for economic issues, the economic dimension runs through the work of all departments in the Mission.

• This is first and foremost true for education as the key investment into the country’s economic future. The economy of BiH cannot flourish without well-trained young people educated to European standards with respect to foreign languages, modern sciences and technologies, and mutual tolerance. Getting education to overcome the obstacles created by a narrow approach based on ethnicity is thus a direct investment into BiH’s economic growth;

• It is also true for human rights with an emphasis on the rule of law. Economic development needs a functioning, reliable and fair legal system. The settlement of property claims is an important element in creating a legal climate where investment becomes attractive;

• The efforts in democratisation to enable a civic society to grow are also of relevance for the economic sector. They instill the necessary sense of self-confidence and responsibility as a prerequisite not only for a functioning democracy but also for a truly free market economy;

• With respect to the Mission’s military element within security co-operation, the recent efforts in defence reform have resulted in opening the doors to creating responsible defence structures on the State level and bringing BiH a step closer to normality in the field of military security. This, in turn, may alleviate concerns which until now might have had prevented further investments as long as the military situation could not be regarded as normal, compared to other countries. Also, the efforts undertaken in security co-operation in integrating demobilised soldiers into the civilian workforce have had an obviously positive effect on the social as well as the economic side.

Let me thus again congratulate you for organising the seminar on the economic aspects of security. These aspects have not been ignored in the OSCE Mission’s day-to-day work and we may assure you that the OSCE Mission to Bosnia and Herzegovina will continue on this way, in close co-operation with all national and international authorities as well as the individual citizens of Bosnia and Herzegovina.
Let me thus wish you all success for this seminar as well as for all future efforts to strengthen the economic dimension of the security of BiH.
I thank you for your attention.
SESSION I

Ambassador Vladimir Matek, Permanent Mission of the Republic of Croatia to the OSCE, Vienna

Mr. Izet Zigic, Ministry of Energy, Mining and Industry of the FBiH

Mr. Slavko Zmaric, Centre for Strategic Studies of the Ministry of Defence of RS

Mr. Jiri Kalasnikov, Stability Pact for south-eastern Europe

Dr. Richard Temsch, The Missing Link, International Consultative Corporation
Ambassador Vladimir Matek, Head of Mission, Permanent Mission of the Republic of Croatia to the OSCE, Vienna

First of all, please allow me to welcome you all and to thank the organisers for the invitation to participate, and then I would like to introduce myself. My name is Vladimir Matek, I hold the position of permanent representative of the Republic of Croatia to the OSCE in Vienna.

I hope that in the envisaged time we will be able to get though the topic of this meeting, which is entitled “Implications of economic development on transformation of power and its influence on countries in the Region”. The presentation of our speakers show that they will address two separate issues. The first one is directly connected to the economic aspects of transition and the other one to the issue of reforming the defence system, demobilisation and conversion of the military system during peacetime. Even if from the title itself it would not be possible to conclude it, the first and second parts are indirectly connected to then issue and I hope that our speakers will be thankful also for the questions.

In the first part of today's seminar we heard some emphasis that sets out a framework for this discussion. Ambassador Turkovic emphasised that the military threat of security is nowadays replaced with an economic threat, and that economic security is actually a precondition for any other kind of security. This is certainly one of the key elements that have to be taken into account. I will not quote other speakers, but it is obvious that they laid down a framework for our discussion.

Before I give a word to our first speaker, please allow me to say something in the mentioned context - as we will have in discussion some opportunity to return back to some issues - where I would like to mention another element for which I believe that in discussions in the present economic situation and its reflection on security is too often forgotten. As distinguished from other countries in transition, our countries, the former Yugoslav countries, went into specific transitions with reforms that the government of Premier Markovic began, which means before the war that broke out in 1991. It occurred that all the negative effects of market acclimatisation, of one completely newly established economy in time and space, pounced upon the political transition and the war. The countries in this region have had, therefore, a triplication of negative effects in comparison to other countries in transition. That is most probably the key element that had an influence in some areas, which used to be far behind BiH, Croatia and other former Yugoslav countries, surpassing in its development a good part of the region, economically and by getting closer to European integration. With the hope that this reminder will be a distinctive consequence to discussion, I would like to give the floor to our speakers in order to discuss the most interesting issues at point.

Our first speaker in this session will be Mr. Izet Zigic, Minister for Energy, Mining and Industry of the FBiH, who will discuss the economic aspects of countries in transition –the case of the FBiH. Mr. Zigic the floor is yours.
Mr. Izet Zigic, Minister, Ministry for Energy, Mining and Industry of the FBiH

Excellencies, Ladies and Gentlemen,

I would like to greet all of you present here today and to thank the organisers for the invitation to participate at this seminar, especially Mrs. Turkovic who, with her Centre knows how to choose the right topics when BiH is the issue, together with the OSCE, and to offer more discussions on important issues which engross BiH.

I do not plan to completely follow the given topic, because that topic could certainly cover a much bigger meeting where there would be lots of discussion. Due to this reason I will talk about certain designations of that topic, where I will try to open certain questions on which we presently do not have proper answers. With this seminar and the stated topic for discussion I would like to say a few things that can be connected to the topic and I will also present the case study- 'Economic aspects in function of countries in transition – Case of the FBiH'

The stability of the Balkan region and the neighbouring countries is an issue which, over the past decade, has concerned the whole world. Economic stability is closely related to political stability, which is obviously the topic of the Stability Pact of SEE, about which certain suggestions and conclusions have been made. However, taking into consideration the economic situation of the countries from the mentioned region, and especially the Balkan countries after the dissolution of Yugoslavia, the practical problem of the realisation of economic self-preservation is more and more emphasised.

I strongly believe that in our discussion today the suggestions made will give special emphasis to this problem, because it is a known fact that the economies of the newly created countries are leaning on one another and that their markets were undoubtedly connected. This time I would like to emphasise on a few issues that certainly need to be regulated in the region and that reflect the vital interests of economic development of all countries, for which the creation of economic, social and other kinds of security of a country is the final goal. The security within an economy and security itself cannot be isolated islands, so the economic problem and security problem of one country cannot be an isolated problem of that country only.

Firstly, I believe that it is necessary and useful to define the customs and fiscal policy of the countries of the region in the context of the existing production and trade exchange. This in particular would mean that certain preferences or liberalisation of foreign trade relations should enable a more effective flow through and trade exchange of certain industrial products in the framework of trade exchange between the countries in the region. This would considerably reduce the negative effects that have manifested such as illegal imports, trade with negative side effects and corruption. BiH and its neighbouring countries with the creation of certain agreements over the past couple of years have provided certain results that have dealt with a part of this problem.

The other issue, connected to the same problem, is how ready is BiH to economically accept those agreements and how much is it on an equal footing, especially when we
think about Croatia and Slovenia and take into consideration their economic development.

Furthermore, legal procedures in foreign investment have to be examined and simplified, which would mean moving towards the realisation of European principles that would contribute to a faster process of integration. The defining of and implementation of emphasised regulations is a very demanding task in respect to the time, it is believed that it will develop gradually. It can be concluded that every country has the desire to accelerate the reorganisation of the legislature this leads to the presumption that there will be faster implementation of the expected processes for European integration. A special contribution has been made by the international community which along with domestic authorities, commenced determined realisation through the 'Bulldozer Commission'. The bulldozer Commission aims at removing the existing administrative barriers and aims at creating favourable legal conditions for investments.

The FBiH, as well as the State of BiH, it seems, for the first time is doing everything by its choice in the framework of transition processes in the past two years. Undertaking action in reforming the economy, firstly by heading towards the privatisation of companies along with the development of small and medium sized businesses. Until now this process has been very slow and it did not result in the desired expectancies and effects. The government of the FBiH set out certain priorities orientated towards a more intensive turning of economic flow and employment which would give better indicators. We already have the results of this and it seems that the economic and social status of BiH depends upon two very important elements; employment and investment. That would mean improvement in domestic production and I believe that this aspect has to be resolved separately, especially because the programme documents of the European Commission emphasised the need for an improvement of trust in BiH products.

Support for increasing production in BiH carries more positive aspects for the viable development of BiH, this includes employment, poverty reduction, improvement of living standards, better trade exchange and the viability of return for refugees and misplaced persons. This, with certainty, positively influences security issues regardless of it being an economic, social or other approach. I believe that in BiH, forces have to be put in place on solving priority tasks and here I mean by supporting industrial development through small and medium sized companies. Principles of focusing on the development of neglected occupations within small and medium sized companies are certainly also applicable in BiH. Taking into consideration natural sources and status of industrial production, and especially the food industry, we have to support the development of private businesses in rural areas of BiH which represent- uncommon employment potential, development of certain areas, development of the manufacturing industry especially in the field of agriculture and food production. I think that in both entities in BiH this approach has already found a process for implementation where bigger economic societies in the field of food production are employing producers of a certain agricultural crop in co-operation, in order to create a final product. Even if many think that large systems and large industries do not have a future, I believe that the future possibilities for activating, at least partly, those systems needs to be looked at where the activation of some parts, and here I am talking about the Steelwork industry in Zenica, Agrokomerc and
Energoinvest from Sarajevo, would signify the turning point for the development of supporting economic branches. In that respect I think that in this year we can expect significant results in regards to this issue. Development of industrial production would correspondingly mean stability and development of credit-monetary systems, as well as of transport and communications, which are vital for economic development.

The main aspect of economic development, which presently engages attention, is the continuation of the process of privatisation. This year, international as well as domestic institutions paid special attention to speeding up the transition problem in BiH. Especially in relation to, creating a more effective method of implementing privatisation, strengthening the trust levels of foreign investors and blending into international investment circulation. One of the basic problems, I think, that BiH is facing, is internal debts, to which over the past few months special attention has been given, and I think that this issue was for the first time properly taken into consideration with the involvement of the International Monetary Fund, World Bank and OHR. Solving those issues is not important only for establishing work in industries which are presently blocked by internal debts, and without which there is no real running of industrial production in BiH, but also important for the further continuation of the privatisation process. Apart from a few companies that are good examples of businesses, even as state property, i.e. cement industries in Kakanj and Lukavac, we can rarely mark positive examples of privatisation. Companies overloaded with internal debts, reciprocal debts and debts towards the state simply were not attractive for investments. I think that this problem was highlighted and will raise a storm of public discussions in BiH, but we think that it is also an issue for reform in BiH.

When natural resources in BiH are at issue, we can say that they present a base of viable development. Water resources are in a wide sense one of the most important natural potentials in both an ecological and energy sense. BiH hydro-energy production presents a very important element of viability and is an important factor that engrosses the attention of neighbouring countries. This means that this kind of production must develop in a legal framework that satisfies the protection of the environment as envisaged by the European principles on the usage of water resources. Another very favourable ecological thermo and electric power supply resource is coal, which is also involved in the viability of the BiH economy. Adoption of an action plan for the restructuring of the electricity power supply sector which establishes the aims for this sector, as well as the preparation of an action plan for the restructuring and modernisation of the coal mines, (which we take as a whole because of the unbreakable connection between mines and the thermo-electric power supplies) we believe that we are taking a big step forward towards opening BiH and liberalising the market in regards to power supply.

Next to emphasise on the natural-energy aspect. We believe that we have to support the principles which envisage the strengthening of regional identity. Here I mean the preservation of cultural-historical characteristics by which other economic elements would gain new importance. Here, this would include tourism, investment and security. I believe that localautonomies in BiH must adopt these principles in implementation. A large burden of initiated reforms beginning with education, security, the army and economy represents a solution, or better to say a resolution of social issues. Failures in the process of privatisation are connected to the problems of
surplus labour for which social programs do not exist. This is a burden for commencing production. An example of this is the restructuring of the electric-power supply sector of BiH which will result over the next three to four years in a few thousand of surplus labour and in the mining sector six to seven thousand. For these issues we still do not have any adequate answers. Why am I stressing this? The reason for this is that from a security aspect, this represents a social bomb. All reforms could be put on hold if we do not find adequate solutions, which would be social programmes. International financial institutions have failed to resolve these kinds of problems thus far, but we have had support for demobilised soldiers, unlike for the dismissal of workers. Dealing with reforms in BiH, which are tailored by the Dayton Peace Agreement, with a large rate of unemployment, poverty, large payment deficits (which in this year has been reduced), huge general spending and huge internal debts represents a great challenge, but it is also the only chance for BiH to reach micro-economic stability and security. Regardless of all the problems emphasised here, the solution is to continue reforms, which are faster and more radical, regardless of how painful they could be for governments in order to go through this process as quickly as possible.

The case study that I have discussed, and on which I did not elaborate to its end, discusses the economic aspects of the development of societies in transition—in particular the case in the FBiH. Here it could have been placed on BiH also. I hope that over the next few years, reforms that are already in place which concentrate on the case of BiH will simply be eliminated and that BiH will be ready for European, economic, security and all other forms of integration.

Thank you for your attention.
Mr. Slavko Zmaric, Director, Centre for Strategic Studies in Ministry of Defence of RS

Before I begin, I would like to pass on the greetings from the President of the Republika Srpska (RS), who unfortunately could not be here today.

I will start with a paraphrase of one sentence of the OSCE and SFOR in BiH, which states that the demobilisation of and reintegration of soldiers cannot be completed successfully if the economic and political reform in BiH is not successful. The presentation of prior speakers showed the real economic situation and I think that the reform of the defence system moved the furthest.

Not long ago we moved to second or third phase of reduction of the armed forces in BiH. In order to be more clear, I will share with you the data regarding the reduction of soldiers in the Army of the RS and the reduction in personnel of the Ministry of Defence (MoD) of the RS. The MoD of the RS last year created a programme of improving finances for discharged professional soldiers and employees of the MoD. This program envisaged the reduction of personnel in two stages; the Army of the RS for 1,544 soldiers and the MoD for 160 employees. This was agreed and affirmed by the defence policy of BiH, where we were obliged and we accepted to reduce the number of soldiers to 6,600. For this reduction it was planned to secure 17,040,000 KM.

The first stage of the programme, 984 persons were discharged by 31 August 2002, where 826 of them were soldiers and 158 MoD personnel. Severance pay and compensation was paid by the beginning of October 2002, in the amount of 10,306,000 KM. Secured maintenance of 7,800,000 KM was used for severance pay and with two outstanding salaries and taxes it reached the amount of 10,306,000 KM.

In the second phase, 718 persons were discharged by 31 October 2002, where 8 persons were from the MoD. Expenditure for the second phase was 7,709,000 KM, and it was paid out by December 2002. It was concluded that with this programme of providing for discharged personnel, the total number of discharged soldiers and employees of the MoD was 1702, which is just two persons less than it was planned. Taking into consideration other ways of dismissal and voluntary termination of employment, the number of soldiers and employees of the MoD was reduced to 6,585.

I would also like to inform you about the structure of those means on 17,040,000 KM, where 16,691,000 KM are means from funds of succession of the Former Yugoslavia, and from the budget only 1,324,000 KM arrived. We have an obligation to return those means and so far we did not return any.

Not long ago, on the suggestion and request of the High Representative, a new programme for the reduction of the Army of the RS came into force, which envisages a further reduction of 1,600 soldiers, which will mean that we will have 4,000 professional soldiers.

What are the problems of discharged soldiers? Our analysis, actually the analysis of the MoD of the RS shows that it is only a minor number of dismissed soldiers who found permanent employment. The amount of 10,000 KM received is too small for an individual to actively start up private businesses. Those people are disappointed and in
a certain way they regret leaving this system. Now, we are facing a second or third phase, where we have to discharge personnel for which we do not have financial support. Without the help of the international community we will not be able to adequately support those people who were accepted by the reform of the defence system. I can tell you that FBiH is facing the same problem.

We created a guide, in this stage, for all demobilised soldiers that would contain all useful information and contact numbers of the organisations where they would be able to ask for help.

I hope that I have given you some information on the results and plans of the programmes for providing help for discharged soldiers of the Army of the RS.

Thank you for your attention.
Mr. Jiri Kalasnikov, Acting Director, Working Table III, Stability Pact for South-Eastern Europe

Mr. Moderator, Ladies and Gentlemen.

I would like to start by thanking the co-organisers for inviting the Stability Pact of South Eastern Europe (SP) to attend this seminar.

I think personally that the issues like defence, economics or links between security and investment are sometimes underestimated. That is why, I am fully convinced, the topic of this seminar – economic aspects of security – is a very timely and relevant one and deserves the attention of the international community. Moreover, these questions belong to those we are following very closely in cooperation with our partners, like NATO, EU and OSCE.

Allow me to start with the second part of the title of this seminar – SECURITY. It is more than evident that there is no more traditional, cross-border military threats in the SEE region. However, traditional concepts of national security are only one element of the approach the Stability Pact takes towards security and defence issues. Security Sector Reform, Small Arms and Light Weapons, the continuing problems of antipersonnel land mines, military downsizing, fostering security dialogues, assisting civil-military cooperation, effective border security and management and the fight against organised crime, including trafficking and corruption, are all of considerable and continuing importance. We see all these elements as an integral part of Human Security.

One of the most pressing and challenging issues facing the defence sector of South East Europe is how to restructure and downsize the military forces to conform with the new security situation and economic realities, especially in light of the historic decisions on the enlargement of both the EU and NATO that will improve the environment in which the Stability Pact operates.

We see three different issues grouped under the military conversion umbrella: retraining of demobilised military personnel, conversion of military assets especially bases, and conversion of defence industries. All of these have the potential to create very serious problems of a financial, social and political nature in terms of employment and the development of businesses and social services and consequently deserve close consideration.

These topics have been broadly discussed during the very successful international conference DEFENCE CONVERSION: CHALLENGES AND OPPORTUNITIES - Force Reduction, Base Closures, Industrial Overcapacities (Berlin, 16-19 September 2003). This event was co-organised by the Federal German Ministry of Economics and Labour, the Federal German Ministry of Defence, the George C. Marshall European Centre for Security Studies, the NATO Defence and Security Economics Directorate, in cooperation with the Stability Pact for South Eastern Europe.

Just to illustrate the importance of the issues that we are discussing here in the beautiful city of Trieste, let me mention one aspect reflected broadly in several international research studies (BICC, NATO etc). The sudden release of a vast
number of military personnel (i.e. of officers, soldiers, defence bureaucrats, etc.) into a struggling economy with significant levels of unemployment and social tension can seriously destabilise a state. In extreme cases, the lack of adequate reintegration can provoke an increase in organised crime, weapons smuggling, mercenary activities, and violence towards minorities.

In addition, the shutdown of bases can be particularly painful for specific cities and regions whose economies strongly depend on military presence. For example, in the case of the Simitli base (which used to be home to a motorised infantry regiment), located in the South West of Bulgaria, 30% unemployment rate has been reached and the closure of the base as well as an aluminium mine have had a catastrophic effect on the local economy.

Last but not least, a lot of experts have already confirmed that the ecological contamination of many military sites can pose an immediate threat to the surrounding population. The painful and potentially dangerous consequences of military personnel and infrastructure downsizing represent a major obstacle in the way of defence reform.

Obviously, each country faces a unique set of circumstances and challenges as it faces up to the economic and social costs of restructuring and inevitably downsizing its military or defence sector. The legal, social, financial and political implications are enormous and individual to each nation. However, we can observe a number of shared issues and each of the countries in the region should have access to a shared pool of knowledge and experience.

In the field of “defence economics”, the NATO Economics Directorate has taken the lead in the Stability Pact initiative. Successful partnership with our NATO colleagues made it possible to convene a group composed of NATO member nation experts to attend especially the programmes for assisting the transition to civilian life of discharged military personnel in some SEE countries, among them Albania, Bulgaria, Croatia, Romania.

Valuable advice and expertise were provided in the development of national programmes, which – also very important - enhanced the credibility of those programmes vis-à-vis bilateral donors and financial institutions, especially the World Bank. It is very important to note that we started to co-operate in a similar manner with the former Yugoslav Republic of Macedonia, and Serbia and Montenegro.

Reintegration of released military personnel also constitutes one of the crucial elements of military reform in BiH. We are aware of the excellent job done by the BiH authorities, OSCE, IOM (Transitional Assistance to Former Soldiers of the Armed Forces of Bosnia and Herzegovina Program) and the World Bank (Emergency Demobilisation and Reintegration Project and Pilot Emergency Labour Redeployment Project) in a process of resolving this complex problem. In this context let me assure you that we are fully ready to joint the efforts of others.

Like in many western countries, a shrinking military sector necessitated the closing of a large number of military installations which in turn created acute economic distress in particular local communities. Again, working with NATO, we pursued a similar
approach with an experts’ group review of plans, followed by its showcasing to international donors.

An added dimension, however, was the insistence of the pursuit of pilot projects that would pave the way to overall national strategies. These pilot projects are intended to help start the process of developing comprehensive base closure and conversion strategies through the practical demonstration of principles, possibilities and regional co-operation. A NATO expert team has provided advice and recommendations to national authorities on planning one or more projects to convert a redundant military base to civil use. Canada, France, Germany, Poland, the United Kingdom and United States are actively engaged in the initiation of projects by providing expertise and technical assistance.

The idea was to start with teaching the countries concerned to “catch fish” rather than “giving fish”. This kept the emphasis on the development of a results-oriented process. Initiatives are now underway in both Romania and Bulgaria. Other countries that have expressed interest in this cooperation are Albania, Croatia, the former Yugoslav Republic of Macedonia and Moldova. Co-operation with donors includes the European Commission PHARE that should be the source of three million Euros in 2004.

Finally, a new area for us, at the request of several regional countries, is the question of converting military industrial facilities to civilian use. Several South East European countries have already raised the topic specifically, seeking guidance and help. We are anxious to look at ways international assistance can be brought to help ease the transition in this important field.

This gets to the essence of how the Stability Pact functions and what it represents. We do not control any bank accounts and thus have no specific capability to finance any project. What we can do, however, is provide a forum for coordination and exchange of information on what else is happening in the region by which we can shape a regional agenda for donor consideration. The Stability Pact is widely accepted as an umbrella, making it possible to bring together the expertise of NATO, the European Union and IFIs in the different areas of concern.

Speaking about international cooperation in these fields, let me express our conviction, that a “merging” of NATO’s expertise, namely in the field of base conversion and retraining, the intermediary role of the Stability Pact and the funds of the financial organisations and donors appear to be a pragmatic and efficient model, that has already resulted in very concrete cooperation. Moreover, I am sure, the Stability Pact framework provides the opportunity for institutions to operate within their own competence and still achieve a synergy of efforts.

The concerns and challenges embodied in the question of the defence sector conversion are undoubtedly economic, although our primary motivation remains security. We consider the defence economics file as a cross-table issue. As a consequence, we will consider possibilities to increase the visibility of this issue through presentation to the working table on economic issues.
Both SP and NATO are ready to develop a "marketing package" for use with the donor community. Once this package has been developed, SP to arrange presentations to donors on a bilateral basis and to IFIs (WB, CEDB, EBRD). Our common goal is to help IFIs to gain a better understanding of the range of military and defence-economic co-operative activities that we support and encourage. Whereas these institutions would not be in a position to support certain activities it focuses on military capabilities, they might be able to support those activities directed at encouraging broader reform of defence and the development of healthy civil-military relationships.

However, as our NATO colleagues told us, financial support is an ongoing crucial issue and recent experience has shown that the financial resources available for these types of projects generally come under the category of loans from IFIs. Unfortunately, these loans even at a very low interest rate can be a burden for the countries and can be difficult to endorse due to the many priorities governments should deal with.

Therefore, participating countries cited the importance of obtaining some grants to at least start the programmes through identification of pilot projects and feasibility studies. Both Croatia and Albania highlighted their desire to achieve early practical results in their retraining programmes and sought donor support. Romania and Bulgaria discussed the importance of a creative donor response to their base conversion projects. Serbia and Montenegro officials notably from the MOD and some NGOs have proposed the creation of a Conversion Agency and a Conversion Trust Fund in the region to provide funding through the incomes derived from conversion activities. But this would need in the beginning public finance support, to be supplemented from the sale of assets.

In this connection, I would like to mention another example of good cooperation with IFIs. CEDB informed us about the feasibility study it was currently conducting on the general problem of street children in Romania and Fundulea. This is a pilot project focusing on an ex air force base located 50km from Bucharest and has been nominated to be part of the study. One of the ideas was to transform this base into a rehabilitation centre for kids with drug problems. The ownership of the base has been transferred to the Ministry of Health.

We also believe there is a substantial role here for other international organisations (like OSCE, UNDP, NGOs) for example the Geneva Centre for Democratic Control of Armed Forces and existing regional experience. Greater involvement of civil society into the defence conversion process is one of the preconditions of its success.

Retraining, base conversion, defence industry reform and military budget transparency have to be seen in a broader context of democratic control of the armed forces/security sector reform. How can we assist here? We are ready to develop further our two track approach: working with the Geneva Centre for the Democratic Control of Armed Forces to build capacity at the parliamentary level and using the Zagreb-based Regional Arms Control Verification and Implementation Assistance Centre of the Stability Pact (RACVIAC) to provide capacity-building at the officials level. We are in touch with both Centres in order to see how Serbia and Montenegro and other countries in the SEE could benefit more directly from these programmes.
Speaking about “experience sharing”, let me inform you that we are working very seriously on the question of how to increase the involvement of incoming EU members with the specific transformation experience in order to expand tailored assistance to the region. That is why we are also thinking about the possible use of relevant Central European military transformation experience including military reforms for the countries of SEE.

Now, I would like to turn your attention to the first part of the title of this event – ECONOMICS. One of our comparative advantages in the Stability Pact is the fact, that we can also tackle the issue of defence conversion, including its economic and social consequences, from the point of view of our priorities in the area of economic reconstruction and development in SEE region.

Let me mention some of them. Creating a common market attractive to foreign investment is essential for the development of the region. Further developing the network of free trade agreements including the development of a free trade area are necessary steps in this process. Work in this direction is crucial for attracting foreign investment and preparing the region for future integration into the European market.

Additional cooperation in the energy sector will make it more attractive to investments while advancing integration into European structures. Further developing the MoU on the Regional Electricity Market into a binding international treaty, as planned for the end of the year will be an important step in this direction.

European experience has shown the necessity to complement the free movement of goods with that of people, requiring close cooperation in the broad area of visa liberalisation, border control and migration in general. The SP would like to commend those countries in the region that have already taken important steps in this direction. Others need to follow suit in order to allow for the full freedom of movement within the region.

As the Special Co-ordinator of the Stability Pact Dr. Erhard Busek pointed out recently, this is, on one side, what we may offer. On the other, our friends from the region have to fully acknowledge that the onus for progress is on them. They are responsible for seeing that these issues are addressed and that available international resources are effectively utilised. There can clearly be no progress in this important area without the full commitment of the countries concerned.

Thank you for your attention.
After going through a high intensity conflict and achieving peace, a country or province has to go through numerous steps to regain stability and rebuild its economy. Only after security for the people has been provided and the rule of law has been established, the economy can start to grow. Sustainable economic growth is a prerequisite for employment and subsequent poverty reduction. Poverty reduction is crucial for political stability. In certain regions of the Balkans over 50% of the population live in poverty and over 20% in extreme poverty, which means they have to survive on $2 per day or less. Prosperity is a vague dream for all but a very few.

The key ingredients of the recipe for creating a stable and prosperous democracy include institution building, infrastructure rebuilding, private sector development, vocational training and education, sustainable industrial development, along with social and political evolution.

The elements of a post-crisis society, who need urgent help, are people with no or low income, such as children, retirees, the unemployed, the homeless; small entrepreneurs, who start up or rebuild their businesses; schools, hospitals and the independent media; many public sector institutions, such as courts, police, tax and customs authorities.

The former communist countries of Eastern and South-eastern Europe were characterised by a command economy. The command economy of former Yugoslavia was more flexible than the economies of the USSR and the COMECON countries in general, but large parts of former Yugoslavia went to a lengthy war situation, which killed hundreds of thousands and destroyed most residential and industrial property in the afflicted areas. Refugees left their homes in large numbers and arable land was rendered useless by landmines. Tourism was annihilated as a source of income.

The Eastern European countries, which did not suffer from armed conflict, have been going through a difficult, but peaceful transition on their way towards market economy. Some of them have progressed remarkably fast and will access the European Union in less than a year from now. Bosnia and Herzegovina and the province of Kosovo passed through a war economy, then a post-war economy and are now transiting towards a peace economy that should eventually evolve into a functioning market economy, too.

A war economy is characterised by the collapse of production and services, extreme deficiency of basic supplies, destruction or seizure of property, severe market distortion and black markets, hyperinflation, breakdown of infrastructure, dysfunction of the legal system, usurpation and profiteering. The employment situation depends on the stage of the war. In the beginning there may be a labor shortage as a result of workers turning into fighters and increased military production. Later, when the industries do not produce any longer, unemployment rises fast.

When the war is over, the economy is in shambles. Before a functioning government is taking charge, political instability and legal and fiscal uncertainty deter investors. Black and gray markets, which have developed during the war or already earlier in the communist era, continue to flourish. Warlords and former political bigwigs, who still have the connections, become richer and the rest of the population suffers from
poverty. The middle class has virtually vanished. Inflation soars and capital migrates to safer places.

A shadow economy unfolds in many facets: trade of goods (smuggling of cigarettes, alcohol and other merchandise, drug and human trafficking), services (moonlighting, unlicensed labor, selling illegal favors, abuse of office, prostitution), manufacturing (pirated CDs, DVDs and software, fake brand name items) and banking (usury, money laundering).

The shadow economy does contribute to economic growth, but it causes many problems: rise in crime, inequality, loss of tax and customs revenues, health threats, human suffering, deterrence of investment capital. Therefore, the government ought to curb the gray and black economy and create and enforce rules that would guarantee a level playing field for entrepreneurs, a transparent and accessible market for consumers and revenues for the treasury. This can be done best by liberalising markets in order to eliminate or reduce the need for a shadow economy.

Market liberalisation is not just liberalisation of trade. Different types of markets, such as

- Goods - industrial, consumer, agricultural
- Money - currency, stocks, bonds
- Labor - manufacturing, trade, services
- Energy - electricity, heat, gasoline
- Information - Telecom, Internet, media

are subject to different liberalisation options:

Domestically, deregulating/reregulating
- Monopolies and competition
- Ownership of land and means of production
- Permits and licenses
- Banking and currency transactions
- Labor laws and business hours
- Collection and distribution of information

Internationally, granting free(r) movement across borders of
- Capital
- Goods
- People
- Information

Liberalising the market for agricultural goods, e.g., is a most difficult endeavor and has caused fierce arguments over decades within the EU and between the EU and the
US. Currency markets were strictly controlled by the Communists (and triggered black money changing at rates typically five times under the official rate). Now they are widely liberalised throughout the CEE and SEE area. Liberalisation measures for labor markets are hot discussion items in all EU countries and certainly also in the transition economies, because the trade unions generally oppose them. In the former communist countries energy was commonly subsidised and therefore cheap for the consumer. Liberalising electricity prices causes hardship for the poor and is politically hazardous. Totalitarian regimes have tried to control and minimize public access to information, while they were gathering as much information as possible on their citizens. Liberalisation of access to and distribution of information has been at the core of political change in the former Communist part of Europe. The right to free migration across borders has been a key consideration in the EU’s selection of accession candidates.

Since liberalisation and deregulation of markets must be accomplished in an orderly manner to avoid failure and chaos, most command economies have followed this pattern:

Abolition of central planning $\Rightarrow$ Corporatization of enterprises $\Rightarrow$ Commercialisation $\Rightarrow$ Privatisation $\Rightarrow$ Protected competition $\Rightarrow$ Open markets $\Rightarrow$ Global integration

For the same reason, deregulation must be accompanied by harmonisation of

- Standards for safety, compatibility, quality, environment, etc.
- Taxes, e.g., VAT, corporate income tax, personal income tax
- Laws (the EU’s acquis communautaire is an example for this concept)

Economic integration is the objective of international trade liberalisation and harmonisation. Depending on the size of the economic space envisaged, there are different categories:

- Regional – EFTA, CEFTA, Stability Pact MOU, bilateral Free Trade Agreements (FTA)
- Continental - European Union, NAFTA
- Global - WTO

Some examples for economic integration efforts in SEE/CEE:

**CEE**

- Bulgaria, Romania and Slovenia are CEFTA members
- Croatia and Turkey have FTAs with CZ, SLO, H and PL
- S&H and Hungary have an FTA since 2002 (fully in force 2006)

**CIS**

- Moldova and S&H have FTAs with Russia

**EFTA**

- Bulgaria, Croatia, FYROM, Romania, Turkey have FTAs with EFTA
EU

- Greece is a EU member, Turkey has a customs union with the EU
- Bulgaria, Romania, Slovenia have Europe Agreements (EA)
  
  *Includes duty free trade with industrial goods*
- FYROM, Croatia have Stabilisation & Association Agreements (SAA)
- Albania’s industrial products are duty free in EU, SAA is planned
- BiH can export duty free to EU till 2005, no quantitative restrictions

WTO

- Albania, Bulgaria, Croatia, FYROM, Greece, Moldova, Romania, Slovenia, Turkey are WTO members
- BiH and S&M are observers

CEFTA, SECI and the Stability Pact MOU are three of the most important free trade initiatives in SEE and will be discussed here in some more detail.

**CEFTA Central European Free Trade Association**

One of the objectives for founding CEFTA was to prepare its members for EU accession. It has currently 8 member states, which joined in the following order:

- 1992 Hungary, Czech Republic, Slovakia, Poland
- 1996 Slovenia
- 1997 Romania
- 1999 Bulgaria
- 2003 Croatia

The admission of Serbia and Montenegro is envisaged under the precondition of trade liberalisation.

Since 2001 the trade among members with almost all manufactured goods is duty free. CEFTA has been less successful in liberalising the trade with agricultural produce. Most agricultural tariffs and quotas are still in place.

**SECI Southeast European Cooperative Initiative**

Based on the "Points of Common EU-US Understanding" SECI had its inaugural meeting in Geneva on 5 – 6 December, 1996. The following countries are currently members of SECI:

Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Hungary, Moldova, Romania, Slovenia, FYROM, Turkey, FRY (as of December 2000)

Some of SECI’s guiding principles are

- Enhancing stability by economic and environmental cooperation
- Complementing, not duplicating, other initiatives in the region
• Leaving the initiative to the participating countries
• Participants select a high-level SECI coordinator
• IFIs, EU and U.S. may participate in SECI projects
• SECI is not a base for requesting additional EU or US funding

Dr. Erhard Busek, Coordinator of the Stability Pact for SEE, is also the Coordinator of SECI.

**Stability Pact for SEE, Memorandum of Understanding of 27 June 2001**

The highlights of the MOU are

• Forming a network of Free Trade Agreements for goods
• Complying with WTO and EU rules
• Abolishing export duties
• Abolishing import duties for at least 90% of trade
• Abolishing import and export quotas
• Simplifying customs procedures and harmonising with the EU
• Harmonising trade statistics
• Foreseeing future liberalisation of trade in services
• Harmonising standards, regulations, accreditation systems
• Enhancing quality control for production processes
• Harmonising company law, taxes, banking law with EU
• Harmonising competition law with EU
• Upgrading intellectual property protection to WTO standards
• Liberalising trade with the rest of the world
• Progress review by Stability Pact Working Group
• Facilitating WTO accession of BIH, FRY (now S&M), FYROM
• Seeking international technical and financial support for the a.m. activities
MOU Implementation: FTA Network as of 4 March 2003

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<th>BiH</th>
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<th>S&amp;M</th>
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(Source: Stability Pact)

GDP in the Balkans

The per capita GDP in the Balkans varies strongly among the different countries, entities and provinces. Slovenia is at the top and the province of Kosovo at the bottom of this scale. The difference is in the order of one to ten.

<table>
<thead>
<tr>
<th></th>
<th>GDP € billion</th>
<th>GDP per capita</th>
<th>GDP pc ppp*</th>
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</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>22.4</td>
<td>€11,208</td>
<td>$18,530</td>
</tr>
<tr>
<td>Croatia</td>
<td>23.8</td>
<td>€5,368</td>
<td>$10,030</td>
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<tr>
<td>BiH</td>
<td>5.6</td>
<td>€1,475</td>
<td>$6,400</td>
</tr>
<tr>
<td>FYROM</td>
<td>3.9</td>
<td>€1,925</td>
<td>$6,520</td>
</tr>
<tr>
<td>S&amp;M</td>
<td>14.0</td>
<td>€1,679</td>
<td>$4,500</td>
</tr>
<tr>
<td>Kosovo</td>
<td>2.0</td>
<td>€900</td>
<td>$2,700</td>
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</table>

*per capita purchasing power parity

(Source: WIIW Database, Figures for 2002)

It is surprising that in some areas of the Balkans private consumption is higher than GDP. This is the case in Bosnia, where private consumption was 110% of GDP in 2002, and in the province of Kosovo (see chart below).
Countries outside of Europe with private consumption at 100% or more of GDP include Eritrea (132%), Haiti (100%) and Lesotho (101%). The world average is 61%, according to WDI 2002.

Source: WIIW 01/2003 Kosovo Selected Indicators

GDP is often described as the sum of private consumption $C$, private investment $I$, government spending $G$ and net exports (exports $X$ minus imports $M$) $NX$:

$$GDP = C + I + G + NX = C + I + G + X - M$$

If $C$ is greater than GDP, this means that imports $M$ are greater than $I$, $G$ and $X$ combined. The result is a huge trade imbalance, which entails several adverse consequences. Firstly, imports are often more expensive than domestically manufactured goods. Secondly, there is no value added in the country and no employment created. Most critically, however, paying for imports depletes the country’s currency reserves. They have to be either replenished by donations or by foreign loans, which cost interest and make the imports even more expensive. These effects can be typically observed in poor developing countries:

- Donations bounce back to donor countries as value creation in recipient countries is low
- Poor countries pay higher prices than rich countries for many goods and services

**Does intra-regional trade contribute to GDPs?**

Comparing the exports and imports of the SEE-7 within the region shows that five of them have a trade surplus and two (Albania and BiH) are net importers. While it is
obvious that positive net exports add to the GDPs of the countries with a surplus, the
countries with a negative trade balance suffer from the opposite effect.

Source WIIW Database 2003 and national statistics

It has been stated by some analysts that intra-regional trade would have very little
direct impact on the economic growth of the regional, but only significant indirect
effects, such as harmonised regulations, increased security, better infrastructure and a
larger economic space. This conclusion is derived from the fact that the total sum of
net exports (NX) within the region is a very small number in comparison to the
combined GDPs of the countries and therefore would not much augment the sum of
GDPs.

This concept is misleading, because intra-regional trade is a zero-sum game. Exports
and imports compensate one another, and it is only due to statistical imperfections that
the combined NX is not zero. However, while the NX contribution to the gross
regional product (GRP = Σ GDPn) from trade within the region is nil, the contribution
to the other GRP components C, G and I is significant. In other words, if the region is
viewed as one economic space, then intra-regional trade becomes domestic trade, and
increased domestic trade expands the economy without net exports involved.

**BiH Exports and Imports**

Both imports and exports of BiH have increased over the years after the end of the
war, but the gap is narrowing too slowly. Presently, imports are still three times of
exports in value.
It is remarkable that 42% of BiH’s imports come from Croatia, Hungary, Serbia & Montenegro and Slovenia, while 35% of its exports go to Croatia, Serbia & Montenegro and Slovenia. This shows the importance of trade with other SEE countries. The significance of trade with the EU is characterised by 31% of the imports coming from Austria, Germany and Italy and 39% of the exports going to the same three countries. Italy and S&M are BiH’s largest markets, accounting for 40% of its exports.

**Foreign Direct Investment**

Worldwide FDI rose sharply between 1996 from $400 billion to $1.5 trillion at its peak in 2000. In the following year its collapsed to about half of this value, namely $752 billion. However, this rise and fall took place mainly in the industrialised countries and hardly touched the developing countries, where it has been hovering at some $200 billion between 1996 and 2000 (up from less than $100 billion in 1993) and Central and Eastern Europe, which has shown a rather flat line over a decade approaching the $25 billion mark.
South-eastern Europe has received only about $3.6 billion FDI in 2001, out of which $2.6 billion went to Romania, Croatia and Bulgaria. The remaining $1 billion was shared between FRY, BiH, Albania, and FYROM. In this order, each of the latter three countries got about half of the amount the country mentioned before it received (from FRY with $550 million to FYROM with $67 million).

FDI Inflow 2002

Stability Pact Investment Compact and OECD, March 2003
Bosnia’s FDI inflow has doubled within the year 2002 to over $300 million and the FDI inward stock has reached $800 million.

*Source: UNCTAD Database*

**What Drives Investors?**

Investment seekers are driven by many obvious motives, such as building manufacturing capacities to reduce imports and boost exports, augmenting their currency reserves, creating jobs, raising quality standards, acquiring new technologies, receiving vocational training, etc.

It is more challenging to explain what drives investors to risk their money in one country rather than in another. The international consulting firm KPMG conducted in 2002 a survey in Bulgaria among top management personnel of major foreign enterprises, asking them about the principal factors for approving current and future investments in Bulgaria. Ranked by the number of votes, the main factors were

- 59% Stable political environment
- 47% EU membership prospects
- 46% Skilled labor
- 39% Positive regulatory environment
- 38% Tax incentives

The proven success of some CEE countries in attracting FDI confirms these results. The Czech Republic, Hungary, Poland and Slovenia are typical examples. They are stable and have a functioning and relatively supportive regulatory environment, a skilled workforce and will be EU members soon.

In a nutshell, these are the main preconditions for attraction investment:
Stability is the most important, because most investors are very cautious and not gamblers. They do not want to put their money at unreasonable risk, even not for high potential profits.

A positive regulatory environment provides protection from extortion by bureaucrats and mafia, and from fraud and other crimes. It ensures consistent laws and taxes, as well as transparency and cooperation of government authorities.

The high rating of EU membership prospects in the survey shows the importance of free trade to investors.

Tax incentives are always welcome, but without the other elements in place they will not attract substantial investment. In an unstable environment they can be revoked easily, and if the laws are not clear, they may encourage corruption of and extortion by the officials who approve the incentives. Experience suggests that among different types of incentives some work better than others, e.g., accelerated depreciation of investments has been generally more beneficial than tax holidays. Removing tax disincentives can be even more important than granting incentives: a high payroll tax may cause investors to employ fewer staff or avoid a country altogether.

The Investment Guide for SEE 2003 (www.seerope.net) compares tax regulations in different countries:

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<tr>
<th></th>
<th>Corporate Rate</th>
<th>VAT</th>
<th>Double Tax Treaties</th>
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<tbody>
<tr>
<td>Albania</td>
<td>25%</td>
<td>20%</td>
<td>16</td>
</tr>
<tr>
<td>BiH</td>
<td>FBH 30/RS 10%</td>
<td>n.a.</td>
<td>1</td>
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<tr>
<td>Bulgaria</td>
<td>23.5%</td>
<td>20%</td>
<td>51</td>
</tr>
<tr>
<td>Croatia</td>
<td>20%</td>
<td>22%</td>
<td>30</td>
</tr>
<tr>
<td>FYROM</td>
<td>15%</td>
<td>19/5%</td>
<td>23</td>
</tr>
<tr>
<td>Rumania</td>
<td>25%</td>
<td>19%</td>
<td>67</td>
</tr>
<tr>
<td>S &amp; M</td>
<td>20%</td>
<td>n.a.</td>
<td>20</td>
</tr>
</tbody>
</table>
Foreign Direct Investment and Transnational Corporations

TNCs are by far the biggest contributors of FDI worldwide. They take much blame from anti-globalisation activists, but it is important to understand that they provide much more than investment capital to developing and transition economies:

- Innovation and technology transfer
- Higher quality and environmental standards
- Manufacturing and marketing skills
- Managerial know-how
- Access to new markets
- Information and communication infrastructure
- Participation in global production systems and value chains
- Integration in regional or global distribution networks

Without attracting FDI from TNCs it is hardly possible for a transition country to cut the learning curve and to find the money to advance its economy in a reasonably short period of time.

Summary - The Effects of Market Liberalisation

South-eastern Europe is in every aspect a very diverse and heterogeneous territory. Every country has to be treated individually and there are no universal remedies, which will work the same way in every part of SEE. However, the SEE countries have also many features, traditions and challenges in common. Building on this common ground, market liberalisation can bring economic growth and a better standard of living to all nations of South-eastern Europe:

- Accelerated economic growth in all SEE countries
- Increased regional security
- Harmonised standards, taxes and laws
- Higher quality of goods and services
- Improved transport and communications infrastructure
- Environmentally sustainable development across the region
- Better integration with EU and global economies
- Minimisation of trade, manufacturing and financing costs
- Level playing field for competitors
- Better protection from organised crime and political cronyism
- More choice and transparency for consumers
- Single market of over 55 million people, attractive for foreign and domestic investors
- More and higher paying jobs, poverty reduction and a growing middle class
SESSION I DISCUSSION PERIOD

General Claudio Zappulla, Personal Representative of the OSCE CiO for Articles II and IV

Thank you very much. I have one observation, if I may, which derives from the presentation of my friend Dr. Richard Temsch. A stable political situation is a key factor of economic development. Today we are discussing the security environment and security reforms in BiH. We are on the right path. The reform is ongoing. The democratic control of the Armed Forces is the key point of this stable political framework. I want to ask my friend Richard, two questions. Firstly, in the parameter you presented what drives investors, on that parameter, could you tell us how much BiH satisfies this parameter? The second question, I saw a lot of imbalance in south-east Europe imbedded in different values, but I am realising today that we are becoming one Europe in the sense that we are overcoming all these differences. Is this a key factor that south-east European countries should take care of? That there is a need to co-operate more in order to evaluate those values? Thank you very much.

Dr. Richard Temsch, The Missing Link, International Consultative Corporation

I will take the second question first. I think that co-operation is really the key to prosperity in the region, because this is why the European Union was formed in the first place. It was formed as a European Economic Community and was meant to accelerate economic growth after World War II and to bring prosperity to all the countries and member states. As we know this has been very successful in terms of bringing economic growth and prosperity. I think, indeed, that only co-operation in the region and also co-operation out of the region with the European Union will help to evaluate this process. The differences between the countries, is that surprising? No, it is not. Some countries are simply bigger than others and have a better industrial base then other countries. If you look at for example Romania, it has an oil industry, Slovenia and Croatia also have quite some industry as we know. Slovenia is not only investing in the region, but it is also investing in Poland and the EU. Bosnia is not yet there. They do not have those bases, because they do not have investment yet, and also it is a smaller country. To return to your first question, what drives investors and whether BiH has fulfilled the criteria. I would say, as far as the most important criteria are concerned BiH has done a lot, because security has been established much faster than it was anticipated, and the rule of law is right now also in the process of being taken care of. We have the Independent Judicial Committee working, we have, certainly, the Office of the High Representative working in that direction and as you all know the 'Bulldozer' initiative, which is meant to abolish laws and regulations that are detrimental to business development, so in that regard I think - yes. On the other hand, of course, there is still a long way to go, because the financial system has been harmonised and as I understand of course it will take a while to get investment. You first have to take the money to do something with it in the factory, whether you open a new factory, or you renovate a factory this takes again maybe a year or two, or even longer to break even and make a profit. But what it will do in the meantime is, it will certainly improve the employment situation in the country and that has improved already. We currently have, as Ambassador Turkovic said, 22% if you count unofficial employment and we were over 40% a couple of years ago. I know that
these figures are probably not totally accurate, but the tendency is there. I think that BiH has shown that it is really stabilising security and providing an independent legal situation, even though if it is only in the fledgling phase, there is evidence that this really works.

Dr. Azra Hadziahmetovic, Member of Parliament, Parliamentary Assembly of BiH

I was presented here as the former Minister and Member of State Parliament but I would like to participate as someone who is doing academic work, more specifically the Macro economy - Case of BiH. Mr. Temsch was very inspiring and I hope that we will have some time to exchange some thoughts and to enter into further discussions. I was carefully following your presentation on the topic stated in the agenda "Implications of economic development on transformation of power and its influence on countries in the region". Maybe, it would be interesting to discuss the topic "Implications of global and security changes on economic development", because for a country such as BiH and other countries in the region such a topic is very important.

I would like to remind you of one of the radical changes in economics and security, as well as the implementations and implication solutions that have happened worldwide over the past few years as a part of the new rules of the game. The solutions are national, but the problems are global and in that context, especially when talking about economic problems, a special emphasis needs to be given when solutions in economic transition are the topic or in the segment of transition which is connected to the economy of the region of south-eastern Europe. A few years ago, when Mr. Alvin Tofler wrote a book entitled "Power Shift" many people described this careful analysis of changes as sclerotic. Mr. Tofler talked about new types of power, about transformations, military and economic powers, where he emphasised economic aspects.

Due to this reason, today's meeting and all others of this kind are welcome. May I remind you that this book, which was criticised and described as early sclerosis, today is used to understand present world problems for those who did not have a chance to read it. As you presented me as the former Minister of Foreign Trade and Economic Relations, who was engaged especially with the work which Mr. Temsch spoke about, I would like to mention to you a few delusions that can be used in all countries in the region and which sometimes are stopping or slowing down the whole process of transition.

Please allow me to give one more comment or observation. I am not sure that BiH is at the phase in which you place it in your presentation. We did not have time for post-war reconstruction and this might have been a handicap for BiH, unlike Kosovo, but in you presentation you placed Kosovo and BiH in the same context. At the same time some key transitions took place in BiH, as well as in other countries that did not have as an imperative post-war reconstruction. Therefore, for us the post-war economy and the transition economy were taking place at the same time. We need to see reasons why some things happened the way they did.

In the process of economic transition and transformation and at the same time integration in the region and the European context it is going to be noticed that one of
the key problems that surprised all countries in transition, and possibly BiH especially, is that there are so few positive examples of privatisation. Attributes 'positive' and 'negative' that are connected to privatisation are connected, at the same time, to key delusions that brought us to the point that privatisation almost draws level with corruption. The delusion here is what type of approach to privatisation we have had? It, unfortunately, became its own object, instead of it being a means of transition, reconstruction, actual transformation of the economic structure, a key impulse or stimulant for investments-especially foreign investments, it became its own object. This resulted in negative derivatives, or very little positive examples, as was described by Mr. Zigic.

I will speak about some delusions, not ranking them by importance, because all delusions are equally large in the process of transition. The second delusion is in regards to the understanding of liberalisation that in our categorical apparatus of understanding is understood almost as anarchy. Some processes of liberalisation are bringing Adam Smith into context or some other classical or theoretical interpretations of the liberalisation processes, emphasising that we are not ready for liberalisation and that we need the state and strong institutions. The need for strong institutions appeared in your presentation Mr. Temsch as a necessity, which is very important, and I believe that there is not a person who would disagree. The next issue is managing transitions, especially economic transitions, or how to create effective leading components that would not lead us towards a pitch or a game in which we will disappear.

In the region, time often evaluates if we are ready or not for certain processes and as Mr. Zigic said, BiH was not ready for an agreement on free trade and that we still should not be involved in it. However, there is a dilemma on liberalisation in that, it unfortunately draws level with anarchy, the same way as privatisation draws level with corruption. This is one of the key characteristics in moving towards a market economy. I am not talking about transformation into a market economy, but about a path towards a market economy.

The next delusion that characterises all countries in the region of south-east Europe is integration within regional Europe and the global context that occasionally is balancing or is bringing it into connection with sovereignty. As we live in the region of south-east Europe, unfortunately, we still “breath sovereignty”, “live sovereignty”, “raising 'political' and 'economical' sovereignty” and sometimes those two categories and processes, i.e. integration and sovereignty, are contradictory. Therefore, a misunderstanding of the relations between integrations and sovereignty is present, even if we are all aware that everything has changed worldwide, one thing that did not change is the political philosophy. One very important delusion, especially in BiH in comparison to other countries in transition, is the issue of the effect of any kind of reform path of transition for the short or long-term period. This means understanding that things you are doing presently might be shown as a positive movement even when your mandate expires, even if by nature the mandate of the executive power, government and politicians is a short term orientation, mostly orientation to the length of the mandate. Due to this reason its represents obstacles in some very important reform issues. Even when BiH is orientated towards European integration, membership in the WTO and there exists the realisation of some initiatives or memorandums of understanding through the Stability Pact, intolerance is
It comes to a point of misunderstanding that something that is taking place presently and is shown as negative in the short term, brings positive effects in the medium or long term. This kind of delusion has an effect on the processes which will move slowly, inadequately or not at all, as it is already happening in some segments of transition.

Furthermore, it is very important not to neglect the consequences of the original accumulation of capital in former socialist countries, with all the socio and cultural characteristics and negative implications of original accumulation of capital, through which the developed market economy went through in the 18th century. An important issue here is the price of transition that every country had to pay, some more, some less, or that will be paid now or in the future. When discussing BiH I have to emphasise that many specificities of BiH and the environment in which reforms are taking place bring into context the fact that it is a smaller price to pay now rather than later. I also have to emphasise that I have mentioned just some of the delusions which exist and are mainly the result of insufficient readiness as well as an inappropriate understanding of the reform packet as a whole, which includes also transformation and integration at the same time.

General Zappulla apostrophised very well an issue of economic growth in the context of security. I would like to mention that BiH, according to all the indicators, is half way in comparison to the pre-war period in relation to the GDP per capita, level of employment and the net component relations with abroad. Unfortunately, we have a big problem in regards to the topic of which we are here today, and that is economic security. The problem here is the large dependence on foreign means. I am not going to talk about donations, but foreign means that are noticeable on the surface of explicit dynamics of economic yearly growth of GDP in the post war years, 86%, 75%, 68%. On one side we have a large rate of growth of GDP straight after the war, on the other large dynamics of fall in GDP which brought us to a one digit number eight years after the war, with a large dependence on foreign assistance. Therefore, growth did not generate development, which will represent key problems for the future not only in BiH, but other countries in the region.

Ambassador Branislav Milinkovic, Head of Mission, Permanent Mission of Serbia and Montenegro to the OSCE, Vienna

I have two practical questions. First of all I would like to thank all the speakers, to those from BiH as well as international experts. I am pleased to hear harmony in reviewing Mr. Zigic and Mr. Zmaric on issues they were covering. It seems to me that economic indicators in the FBiH, covered by Mr. Zigic, are surely comparable to the situation in the RS, as well as I heard from Mr. Zmaric about problems of demobilisation of military personnel.

You mentioned that you talked to colleagues from the FBiH and that problems are similar regarding these very specific, practical issues of economic aspects of security. After that we had the opportunity to hear from Mr. Kalasnokov about how the Stability Pact would be able to, in that segment help and I needed a closer connection between those two presentations. Due to this reason I would like to ask practical questions in the following way. Firstly, to Mr. Zamaric. You did not mention in your
presentation the interest for training issues for former military personnel. Which path, in your view, this training would follow and what concretely would it be possible to do?

And the same question to Mr. Kalasnikov actually. Maybe naively I thought I would listen to more about the projects when maybe one hundred former soldiers would have been identified for very concrete training projects in the FBiH or in the RS. Instead of that there is only the example of the Stability Pact where we heard the story of the street children from Romania. Why is that so? Who should take the initiative on possible projects partnered by the Stability Pact in very concrete activities that are going on in the Security Sector Reforms, in both FBiH and RS? What are the obstacles of those projects to be identified and implemented? I have another question to Dr. Temsch, whose presentation we all listened to with great interest. I was also attracted by the same issues as General Zappulla, maybe even a bit surprised with the results of the analysis of how stable the political environment is. I think it is some 20% higher on the rate than positive legal regulations, according to Bulgarian data. My question is actually how those investors who should be now invited to our region evaluate this level of Stability in the political environment? Which criteria do they use in order to assess this? Do we really have a stable political environmental or not? Thank you.

Mr. Slavko Zmaric, Director, Centre for Strategic Studies of the Ministry of Defence of RS

In my presentation I tried to be as brief as possible. I might not have touched issues such as retraining of discharged or demobilised soldiers. May I remind you that the situation is the same in the RS and the FBiH. Practically we have two kinds of soldiers. Firstly, those who were educated as a profession and now they can more or less become involved in the economic processes. The other kind concerns those people who became soldiers during and after the war, they had the status of professional soldiers. That population was educated for the economy and their retraining and directing for the economy is easier.

The RS, and as far as I am aware the same activity is taking place in the FBiH, completed a guide with all addresses and possibilities involved in the process of training. Many projects are taken by the employment bureau, some time ago it used to be done by job centres, nowadays we have a Bureau for Employment in the RS, who is training those people for certain projects. Furthermore, an international NGO used to exist with the same idea, to involve those people in establishing small and medium size companies in the future. I emphasised the example where we were giving 10,000 KM to start a business, and as far as I am aware the same was done in the FBiH, this is too small an amount to start up a business. A huge problem is, and Mr. Zigic mentioned the same problem, that we, in certain ways took on the obligation to take care of those demobilised soldiers but another huge problem is also unemployed workers who were employed in large companies that have closed down. These people do not receive the financial support that soldiers do they are in a privileged position in comparison to other unemployed or dismissed persons.
Even if the international community did not want to take into consideration the possibility to abolish the army in BiH, I would be happy if this would be part of some discussion in the near future. I was a member of the commission for reform and it was difficult to harmonise the comprehension of a professional army, where we will have military service reduced by 50% in comparison to the present length, because it is too costly.

I did not mention that the budget of the Army of the RS is 87 million KM per year, and that over the past eight years we did not increase salaries of soldiers for one single pfennig. Their wages are very low, but still 87 million KM is a large amount for the RS taking into consideration the RS economy. I am not sure that I satisfied your question, but that is it.

Mr. Jiri Kalasnikov, Acting Director, Working Table III, Stability Pact for South-Eastern Europe

Thank you very much. If I understood Ambassador Milinkovic's question correctly, it was that we should initiate individual projects for retraining etc. My intention was just to provide a description of what the Stability Pact is ready to do. First of all, we have our own instruments. Our main vehicle in use is the NATO Economic Directorate and group of experts. So, we are ready to assist you, but first of all you need, I mean the country concerned should identify their goals, not the project itself, but some idea of what should be done and definitely we can provide assistance and put together the knowledge we have with International Financial Institutions. I mentioned, that was correctly said, two examples, one in Bulgaria and one in Romania regarding the use of a former base, as the most successful and most illustrative examples. I can tell you that the Minister of Defence, Minister Tadić, visited our Office in the spring of this year and Dr. Busek discussed with him what could be eventually done. Only after that, at the beginning of September we received information that currently there is discussion in Serbia and Montenegro over the military reform and this military reform package should be finalised and the legislative process will be finished by the end of this year. I hope that once you have clearly established goals which should be achieved in the process of military reform, then immediately, even during the time before we are ready to go, to sit down with you and identify very concrete projects on how to provide finance etc. So, we are open. Certainly, as for international co-operation a lot could be done on a bilateral basis. I know that for example the U.K. is very active in Russia and the Ukraine as well as for example the USA was also in Russia, the Ukraine and other countries. Simply, there is the question of co-ordination and we are here for that reason.

Dr. Richard Temsch, The Missing Link, International Consultative Corporation

The question was how do investors evaluate the investment environment and particularly the political stability in the country. The short answer is, by experience and gut feeling. It is not so much a scientific exercises really, but if you, for example, have seen that the government changes three times in the year and is reversing its economic policy three times in the same year, you are not confident that this is a stable situation. If you go and apply for a licence to manufacture cement and
somebody says first you should transfer US$50,000 to my Swiss bank account and you question if this is really a reliable judicial system. You certainly ask what other people do, you watch other companies moving, you watch investors in the country trying to attract other investors to invest in their enterprise or if they rather sell what ever they had and transfer the money abroad. Things like that really, it is not complicated, when you are not harassed by bureaucracy, when you are not harassed by the Mafia, if you see continuity in policies over time, as it takes some time, you gain confidence.
SESSION II

Ambassador Emina Keco-Isakovic, Permanent Mission of Bosnia and Herzegovina to the OSCE, Vienna

Mr. Almir Dzuvo, Council of Ministers of BiH

Mr. Huso Hadzidedic, BH GAS

Dr. Mladen Stantic, Institute for International Relations, Zagreb, Croatia
Ambassador Emina Keco-Isakovic, Permanent Mission of BiH to the OSCE, Vienna

Ladies and gentlemen, dear colleagues,

I would like to welcome all attendees on this Session 'Investment and Security – Investment perspectives in Bosnia and Herzegovina'. I would like to thank the organisers of this conference, firstly General Zappulla, Personal Representative of the OSCE Chairman in Office and to my colleague Dr. Turkovic, Executive Director of the Centre for Security Studies in BiH, who brought us all here together in Italy. The country which has the Presidency of the European Union through to the leading country in the European Union to discuss and exchange our experiences and suggestions in this field because through dialog people can always find a better solution.

It is a pleasure and honour for me to moderate this Session with its interesting guests, great experts and politicians from BiH who will be keynote speakers and who will present the situation in BiH and help find a possible solution for the economic situation in BiH. I believe that all other conference participants, our dear guests, neighbours, hosts and representatives of the OSCE member states, who are with us today will give their contribution to the discussions of our keynote speakers. I will give the floor to our respected guest Mr. Almir Dzuvo, Personal Representative of the Chairman of the Council of Ministers of BiH.
Mr. Almir Dzuvo, Advisor for Internal Policy to the Chairman of the Council of Ministers

It is my pleasure to be able to greet you in the name of the Chairman of the Council of Ministers of BiH, as well as in my own name and to thank the organiser for the invitation to participate at this seminar.

I will be a bit more optimistic than the previous speakers, as I think that some things in BiH over the past year have changed considerably. I will start my presentation with a statement that security in BiH is very good, and I am telling you this as a person who is working on these issues and who has quite a lot of information and details regarding the security situation. In the region, that is one of the best and most stable situations. Seeing daily reports from Iraq, I have to mention that not a single incident has happened with members of the international forces in BiH, so from that aspect BiH is quite a safe country.

At the end of last year we had elections, where we finally elected a government whose mandate will be four years long and which, in every sense, is committed to the implementation of economic reforms. It is very important to emphasise three reforms that are presently ongoing. The first is the reform of the armed forces, which is presently in the process of realisation. Second, is the reform of the Intelligence-Security Services, which is important for every country and the third is the reform of Customs, which is in my opinion, the most important of those three, where a unified customs system will be established, which will introduce VAT. These are some factors which will help place BiH, in-line with other countries of the region that have established institutions necessary for the functioning of every country. They will also help in fulfilling the security and political preconditions set by both the international community and by other segments that make up the economic structure.

Preparing development strategies in BiH has been worked on for more than a year and on that basis not long ago we accepted an action plan for the realisation of urgent reforms over the next six months which will, improve the business climate, speed up the process of privatisation, strengthen fiscal discipline and reorganise the tax system. All those segments will secure economic and political stability. Last month we received visitors from the International Monetary Fund (IMF) and I can tell you that the implementation of the stand-by arrangements are having a very positive effect from both sides. By the end of the year we will defiantly implement the whole arrangement and begin with medium-term arrangements in cooperation with the IMF who will enable credit of more than 300 million KM, which will successfully strengthen and make BiH more attractive for further investment.

Over the next four years we envisage economic growth in BiH at an average rate of 5-6%, with a low inflation rate, convertibility of currency and continuous reduction of the budget deficit. In this way we are going to secure the credit capability of the country in the international market capital by 2008. During the same period we are planning to reduce the public debt and a special emphasis shall be placed on the reduction of total public spending in order to reduce the present GDP of 56% to 10%. Our aim is to reduce taxes, which will subsequently stimulate the growth and development of the private sector and the economy generally. During the meeting with IMF last week we made an obligation to additionally reduce taxes and income
tax by the end of 2004, which will then be less than 70%. For the first time we are noticing a reduction in the commercial deficit with a positive growth in industrial production. We are expecting the formation of a free trade zone of SEE by the end of next year, where BiH will be the centre of that region for transport connected by roads and railways with the Mediterranean sea and the river network of Europe.

Even if we read in neighbouring countries that the international community is making all the decisions in BiH, the Council of Ministers in co-operation with the entity governments made an action plan of realisation and a plan of new reform which will enable BiH to have, in the future, greater stability with the view to attract more economic investments. In the medium term period, it is planned that reforms will take place in the labour market, as we are noticing that it is necessary to make labour more concrete. Reforms will also occur in education, which is presently showing clear results. In the same period we are placing attention on the liberalisation of the telecom and electric energy markets, with the aim of creating more competitive prices for those services on our market in comparison to the prices in the region. I have many reasons why it was not very successful and I would like to mention the subject that Mr. Zigic brought up. In my opinion 40% of companies in BiH were privatised, none of those were strategic companies. This means, fifteen big strategic companies are left for privatisation, excluding those that were privatised during the period of Ante Markovic.

When the advantage that BiH has, in comparison to other countries in the region, is an issue we can mention the metallurgical and food industry. In line with this I would like to emphasise organic food production, the manufacturing industry and the textile and leather trade, which before the war was very present. As you already know, the present industrial development in BiH is approximately 40% in comparison to the pre-war period. This is very low, but even so we are still in a better position than some other countries in the region. We also have to take into consideration that the war lasted for a very long period and the economy overall was destroyed by it. Something very important and which I would like to emphasise is that 92% of bank funds were privatised, which means that foundations for investment exist as well as money resources, which can enter into investments. Over the past two years, approximately US$1 billion was invested in BiH, this along with the present reforms taking place under the ‘bulldozer’ committee, where over a four month period it was necessary to adopt approximately 150 laws, mostly relating to the economy, will ensure that the position and conditions that BiH can offer will be ahead of some other countries in the region.

By way of continuation, I would like to mention that the international motorway known as Corridor 5C, which will run from Budapest to the Adriatic Sea is in its preliminary phase. You know very well what this investment means not only for BiH but for the whole region. The investment of 5 billion KM is a financial injection for the whole region, 20,000 employment places will be opened only for the motorway building, with additional co-operations and other industrial fields that would be involved in the building of this motorway. I believe that this investment would be able to lift the entire economy. In my opinion the future of BiH has just begun, for the first time we have managed to bring in so many laws at the state level which will enable the creation of a stable state and with it give a guarantee which will enable all investors to secure investments in BiH. Thank you.
Mr. Huso Hadzidedic, Director, BH GAS

Respected Ambassadors, Ladies and Gentlemen. I will try to present to you the problems of natural gas, its presence in BiH and its perspectives.

BiH is one of the European countries with the smallest representation of gas on the energy market and one of the countries with the biggest uncertainty of gas supply. The reason for this is a specific combination of geographic, political and economic factors such as the disposability of domestic sources of energy, hydro energy, lignite and biomass, mostly from wood. Subsequently, the location outside the integrated European gas system in combination with the relatively low population density and configuration of hilly land resulted in a relatively high expense in gas transport. Cold winters and warm summers depict climate conditions. The delay in the implementation of development plans for gas from the 1980s was caused by the break up of Yugoslavia and the halting of implementation during the war period, 1992-1995. The difficult post war economy with its low level of production and profit resulted in one of the lowest GDPs per capita in Europe. Even if political and economic factors change, it is important to keep in mind the geographic difficulties in the development of the gas sector in BiH. Also, the country is almost completely closed, which makes it dependent upon the decisions of neighbouring countries in regards to new transport communications.

Gas was brought to Sarajevo in 1979. From 1979, Bosnia, as well as most other parts of the former Yugoslavia was using gas that came mostly from Russia. BiH, along with Serbia, was exclusively supplied by the eastern side that went through the Ukrainian - Hungarian border via Hungary to the border with Serbia and Montenegro, via Belgrade and Batajnica towards the eastern border of BiH, Zvornik. The length of this high-pressure gas pipeline is 640 km, with a yearly capacity of 750 million m³ of gas conveyance for BiH needs. BiH has 170 km of gas pipeline, from Zvornik to Sarajevo, towards Zenica by the river Bosna valley, which has supplied this area since 1979.
The specific use of natural gas before and during the war was 600 million m³, with the plan to increase consumption by 2005 to 1.2 billion m³ per annum. In the post war period it is possible to see a drastic fall in gas consumption, which was hardly exceeding 200 million m³, and in some years depending on the level of work in the industry it would reach 300 million m³, which presents 25-30% of pre-war consumption.

It is very important that with the level of consumption a new structure of natural gas users also appears, and this structure drastically changed in the post-war period. Before the war there was large industry involvement in gas consumption, and in 1990, 85% of pre-war total consumption was reached. During the post-war years it has reduced, stopped and the cessation of production in Birac, Zvornik and the Steel Industry in Zenica, with the level and the structure dramatically changing to household consumption. In 2002 the percentage of industrial involvement in relation to gas usage, from total usage, was 28%. This has had huge consequences for the gas industry, with usage and consumption during the summer and winter periods being disproportional.
During the pre-war period yearly usage of natural gas was relatively equally arranged, as the industry continuously used gas, therefore summer consumption was close to winter consumption. Nowadays, there is a very low level of use by industry and households, therefore 6-7 months per year the level of use is below average, which creates a huge problem with gas suppliers, especially with gas transporters, as the transport capacity of gas pipes in all other neighbouring countries is rented relatively fixed.

This situation in the gas sector initiated the action of the World Bank, which in the reform of the whole energy sector placed special attention on the natural gas sector and initiated two studies in this area. A Danish company named Ramboll and an English company, Nera completed these studies. Ramboll was dealing with the problems associated with projection of consumption in the future period and development of the transport system, while Nera was dealing with research in the problem and the need for restructuring within the gas sector. The main aim of the Ramboll study was to determine the need for natural gas and define a strategy for development regarding the source of supply and the development of satisfactory infrastructure by using gas. The prediction of gas needs was done on the basis of three scenarios, where two approaches were used. The first approach, the so-called 'from up down' was based on a comparison of the economic and energy (power-supply) development in other European countries compared with the energy (power-supplies) characteristics and domestic energy resources in BiH. The other approach, 'from down up', involved an analysis of, natural gas use in the various areas of consumption, on the basis of the economic value of gas in comparison to competitive fuel.

I would like to mention that the speed of economic development is one of the most important, but also the most unstable factors in the evaluation of the needs for natural gas. With GDP being just above US$1000 per capita in 1999 it represents one of the most important economic productions in Europe. After the war, the rate of growth dropped from 70% in 1996 to only 10% in 1999. The IMF and World Bank predicted the growth rate of 15% in the year 2000, and slightly less than 14% in the year 2001 it dropped to 5% in 2005. Even with such a high growth rate, BiH will need twenty years to reach the present levels of production of the EU countries. In this study the constant price of oil used was US$18 per barrel in 1999.
As a basis for the prediction of needs for energy and gas, three scenarios for economic and political development in BiH were chosen: a scenario of high growth, a scenario of low growth and a base scenario. These scenarios offer the main assumptions used in the evaluations 'from up down' and 'from down up' and those scenarios are based on the examination of previous studies. They are however up to date with the developments in 1995, including the political and economic developments that have taken place over the past few years in BiH as well as in Europe generally. A focus was placed on regional, economic and developmental changes that occurred in neighbouring countries and in BiH.

During the planning stage, we had to take into consideration the consumption of both Europe and neighbouring countries. According to those approaches, it was established that BiH will not have, in the next twenty years the level of spending that Hungary or Italy will have in 2010. The level of gas consumption per capita in BiH is very low.

The prognosis of consumption of natural gas in BiH, which was undertaken on the basis of a low scenario, is closer to reality. Not even in the future period will it be possible to expect an increase in the amounts which would be on the level of planned consumption, for the period 2000-2050, which were envisaged in 1990.
On the basis of such needs and predictions for the consumption of natural gas, a particular scenario for the development of the transport system was completed. The predictions show that this programme which represents the completion of the gas system in BiH, worth US$110 million should, secure supply, increase the efficiency of the existing gas pipelines, cover a higher load and allow for the balancing out of the seasonal fluctuations which occur in consumption. However, the other programme envisages the connection of a gas system and the securing of new sources of supply via Croatia. Its goals would be, the creation of more secure supply conditions for BiH, new points of gas entrance most probably from Slavonski Brod and Bosanski Brod, further development of the natural gas market and a diversification of the sources of supply. It was estimated that the value of this programme is approximately US$95 million.

The project of expanding the existing transport system in the first phase envisages the connection of the gas pipeline Kladanj-Tuzla-Temina. That is the connection of an existing gas pipeline at a point in Kladanj in BiH towards the underground Temina warehouse near Tuzla, whose capacity would be approximately 60 million m³. This would be followed by the building of a compression station on the existing system whose total capacity is 3MV, and which would be built in Zvornik BiH.

This would create the possibility to exceed its capacity by 20-25%, beginning with a capacity of 750 million annually. The first phase would include connecting the gas pipelines Sepak, near Zvornik, Bijeljina, Ugljevik and Brcko, approximately 70 km in length. The second phase envisages the complete encircling of development plans with the following scope; a gas pipeline in Bosanski Brod, where the connection with Croatia would be, Doboj – Tuzla, with a total length of 110km and would have a measure station in Bosanski Brod.
Furthermore, the connection of gas pipelines near Banja Luka and Prijedor with the north-west of BiH with a length of 79km.

A review of the existing market for natural gas showed according to the Ramboll study that the most important concentration of natural gas in BiH is in its northern and central parts.

This is the chosen project for the development of the gas system that should be realised as a matter of priority. It needs to be emphasised that at present it is possible to think differently to that of when the study was being undertaken. That is to say, that with the actualisation of the building of the 5C Corridor can significantly alter the route of gas pipelines, and it would be very interesting also for the reservation of gas pipeline directions for BiH. Therefore, there are many new factors that have arisen in the past couple of years. Along with corridor 5C it is becoming very topical that Europe has to secure itself until 2020 with 80 billion m³ of natural gas for the needs of Central Europe. This is the concern on which the Turkish company Botash and the Greek company Depa are seriously working on by creating plans to build a gas pipeline system via its territory from the Caspian pool with Caspian gas to Europe. Once the direction has been made and the first steps in building through Greece and Turkey are undertaken there is an issue of which direction it will take throughout Europe. One of the possibilities is Macedonia-Serbia-BiH-Croatia to Central Europe. Due to this reason, all new factors have to be taken into consideration, as BiH might become a transit country for natural gas.

During the elaboration of the study on restructuring the gas sector in BiH several principles for an effective regulatory framework were considered and they are as follows; smallest expenditure of gas supply for final users, high transparency of the regulatory processes, minimal regulatory risk for gas companies, attractiveness for private foreign investors and the establishment of a separate regulatory framework in BiH. Three options for restructuring the natural gas sector were examined and I think that there is no need to talk about the present situation in BiH in regards to the organisation of the gas sector as an issue. The fact that this issue is legally at the entity level creates a number of problems. Due to this reason the first option was an independent regulatory commission at state level, and the present regulation would
remain at entity level. Next to the regulatory commission there would be a need to establish a state transport organisation where it would be modelled on the power supply sector where the Entities would keep the distribution and gas trade. Other options would be to form a regulatory commission at the state level but laws remain at the entity level. The third option would be to have co-ordination bodies at state level with independent regulatory commissions set up at the entity level.

On the bases of the aims laid down, the World Bank and Nera are suggesting the option that envisages acquisition, transport and distribution in the zone or responsibility of a country's independent regulatory commission, formed on the basis of laws brought at state level. The other is placing the regulation of users, local issues and technical aspects of local distribution networks under the responsibility of local and entity governments. An advantage of the suggested option is a very clear distribution of functions, effective co-operation of both entities and securing consistent and impartial regulations. This option also has its disadvantages which presently are less important than at the time of completing this study, and that is that this option is necessary for radical political support of both entities and requests for comprehensive state level laws with co-ordinated entities laws. 'Nera' suggested the first option as the most effective regulatory framework for achieving the stated aims of the gas industry.

In order to undertake these programmes for the development of the gas sector it is necessary to first fulfil the implementation of projects previously established in relation to, energy (power supply) strategy, the protection of the environment, the restructuring and organisation of the natural gas sector in which currently at the entity level different thoughts exist, introduction of tariffs and the adoption of standards and technical regulations.

The Ramboll study envisages the level of investment in the area of natural gas for the period up to 2020, to almost US$800 million. From this amount, a majority goes to the distribution sector, which in BiH is very low and presently properly organised only in Sarajevo. It is also initially being organised in Zvornik and Visoko. In much of the territory it is necessary to invest in the distribution sector and 65% of the total investments should go into this sector. 23% should be invested in the transport of gas pipelines, 6% from total investments in depots (warehouses) of underground gas that is necessary for the functioning of larger amounts and 6% for the rehabilitation of the existing systems.
The conclusion of this study clearly explains that energy potentials exist, as well as sources of natural gas and objective needs for natural gas. It is necessary to secure an effective market for natural gas and to create favourable conditions for direct investments as well as applying European directives for gas. In conclusion, on BiH’s way towards European integration, where natural gas is an issue, it is impossible to ask the question whether there is a need, but when there is a need.

Thank you.
Dr. Mladen Stanicic, Director, Institute for International Relations, Zagreb

Good afternoon. It is my pleasure to have been invited and to have the opportunity to speak at this meeting. I would like to thank my friends from the Centre for Security Studies in Sarajevo who have enabled me to be here as well as to co-organise this seminar.

My topic will be the 'Role of foreign investments in security improvement in the region of SEE'. Therefore, the topic is the economy, economic aspects of security or mutual influence between economic development and security, which can also be interpreted as the security aspect of economic development. I will speak about five countries that are in the process of stabilisation and joining the EU. I will begin at one very important starting point in that process, which was established at the summit of the Council of Europe in Thesaloniki, in June of this year. As it is already known it focuses upon five countries—Albania, BiH, Croatia, Macedonia and Serbia and Montenegro.

Even if it was not the only topic of the meeting, it was still thoroughly discussed. In the final document those countries were mentioned in the context of formulation, where the 'European door is open, or there is a perspective for entrance into the EU'. In that document those countries were for the first time officially mentioned in the context of West Balkans, therefore this was an officially introduced term, which before was unofficially used. That, in a certain way brings into doubt the sincerity of the formation of the 'open door to EU', because if the issue is the European perspective of those countries, then it is more logical to have in the title of their regional connection still the word 'Europe', consequently south-eastern Europe. When West Balkan is an issue, it seems that it is something different, something isolated from Europe, because in the title of the region, the reference to Europe is excluded.

However, much more important than those terminological connotations are the two messages extracted from that meeting. The first one is that it is necessary to create essential changes in strategy for further financial co-operation or financial support to the region. Co-operation or financial support must be strategically orientated to enable the region to develop an independent economy, that moves 'from aid to self-sustainability'. Unfortunately, this is not corroborated with concrete financial arguments, so the means given under the programme CARDS which is set aside for those countries, between 2002-2006 of 5 billion Euros are increased for only 200 million Euros. On the other side those countries still cannot enable access to pre-admission funds such as SAPARD and ISPA, which are very important as they help acclimatise some segments of the economy of those countries to the criteria set by the EU. SEPARD, for example is very important for helping with the acclimatisation of agriculture, taking into consideration the importance of agriculture within the EU and its relation with its joined members. The ISPA Fund is important for acclimatisation in the areas of transport and ecology. In order to place all that financial support in a more real frame, I will use a quote from a letter written by Mr. Christian Schwarz Schilling, who was also involved in the stabilisation of the area and BiH, sent to the German Parliament two years ago. He explicitly stated that Germany should not be too proved with the support given to the countries of this region under the framework of the programme CARDS, between 2002-2006 which assigned 5 billion Euros. It is known that 30 million people live in those countries and that the area was destroyed...
by war, which has left difficult consequences. For the same period the Italian province Sicily, with a population of 5 million, which falls under the underdeveloped areas of the EU, was assigned 30 billion Euros. According to this, it is obvious that the tendency is to reduce financial support, and that aid is orientated towards the form of consultancy and other forms of support, and that the acquisition of financial means is more and more left to those countries, actually to the skilfulness of their politicians and especially their business circles.

Therefore, it is necessary to analyse what are the means that are on offer to the region. First of all from concession sources, and what we can do ourselves in the region in order to become a more attractive area for foreign investment. Mr. Temsch discussed the list of standards, which foreign investors follow when they decide to invest in a certain area. I would firstly like to mention political stability, whose weight as a criterion has been ever growing over the past few years. This is especially important for this area, which was explicitly destabilised for all those years. Therefore, it is expected that when the area is stabilised it would become more attractive for foreign investments through the process of stabilisation and with membership to the EU. In this process Croatia has progressed the most, Macedonia is next, followed by the other three countries who have not even begun proper negotiations. Croatia has submitted the official request for joining, has answered the EU Questioner and it is expected that in the springtime of next year it will get an official status as a candidate. This will enable Croatia to apply for means from the financial pre-admission funds. Every country that is part of this process must, first of all, apply for the financial means from the pre-admission funds. Every country which is a part of this process must first of all show a certain amount of internal stability, which is a guarantee of its foreign policy and will contribute to the stability of the region and afterwards even wider. In other words, every one of those countries must prove that they will become more and more a 'producer' of stability and security and less and less just a 'consumer'. Due to this reason this agreement is called the Agreement on Stabilisation and Joining. For the first time the EU signed an agreement where in its title there is the word stabilisation. This means that those countries must become a legal state, because that is a guarantee of its internal and external stability. This is the second message from the summit in Thesaloniki.

The stabilisation process has a few aspects. The first one is political. In that area some positive as well as negative changes are occurring constantly. A Positive aspect is that there have not been armed conflicts for a while and there will not be either, regardless of the problems that some of the countries still have. However, neither the EU nor the international community can allow for conflicts to occur in that area. That would jeopardise the whole EU, especially in light of the frightening unconventional threats such as the potential means for mass destruction, terrorism etc, it would jeopardise global stability and security. In the political field, therefore, there will be a lot of work to do. A positive influence on the stability in the region had mutual apology of the Presidents of Croatia and Serbia and Montenegro, Mr. Mesic and Mr. Marovic, on which people commented differently, but which globally had a positive connotation. On the other hand latent tensions in Macedonia presently is a continuing threat for the stability of the region. BiH, according to all the occurrences is positively moving forward, which can mainly be seen through the expected joining of the armed forces and through the first steps of democratic control of the armed forces. This is still the beginning of a humble process, especially in comparison to Croatia. When democratic
control of the armed forces and the security sector are issues, as one of the criteria for joining the EU and NATO, in the area of internal stability—Croatia is the most advanced, but still far behind in the democratic control of the armed forces and security in comparison to many other countries in transition.

We reach the situation where we can say that political (in)stability should not be an obstacle for the entrance of foreign investment into a certain area. A larger obstacle would be a weak economic situation. We have already heard that it would be beneficial if in BiH a unified market would begin to operate, if this does not exist in one country how would it be in an entire region. According to this, the markets are too small for one serious investment and that, to a certain extent will discourage potential foreign investors. It is different if there is the possibility to reach a certain level of co-operation in attracting foreign investment. On the other hand, here a delicate question is raised. Where will that co-operation come from so that it does not become counter-productive? Economic co-operation between countries with such differences in economic development, as well as differences in the development of democracy, could be repartee-productive. It is necessary to study in detail even the theory of integration and mutual co-operation, which begins from functional co-operation. It then passes over to functional integration, from there into institutional co-operation and then institutional integration. It is necessary to analyse thoroughly what sort of co-operation, from those stated above, can be used in the region of south-eastern Europe.

According to economic indicators there are many differences in the development of Croatia and other countries in the region. According to the theory, as well as practice, those differences can only be overcome by the normal market approach, which is at the basis of all reforms in countries undergoing transition. The market approach is carried out from the business interests of business units and companies, not from political pressures that push for a gradual uniting at any cost. If Croatian companies have an interest in buying some companies in Serbia, and vice versa, they should do this by themselves and as for the states, they can support a certain kind of functional co-operation, such as the building of a gas pipeline which would go over Croatian territory, something that the speakers discussed earlier. States would be able to support the co-operation that would include zones of free trade, and all other multilateral zones of free trade, about which Brussels speaks in favour. Here, as it can be seen there is a very delicate situation at issue, towards which, from Brussels opinion as well as from active participants in the region, should be very subtle and decisions should be made carefully.

When other presumptions are issues for attracting foreign investments then the credibility of the judiciary and effective government are of great importance. This is the exact problem in Croatia. The judiciary in Croatia totally misused democracy, even though it should be one of the three independent society pillars. It has disassociated itself from society, closed itself in an impenetrable fortress and it does not allow anyone to object to any, even very small court decisions. This is happening at the level of civil and criminal relations, as well as in the procedure for accepting foreign investments. Here, the legal procedure is so complicated and long that when corruption processes occur at that level, as well as in privatisation cases they lay undealt with until the period for instituting the legal procedure has expired. There are some people for whom it is well know what they have done, but who successfully
defend themselves because their lawyers always find a way to gain time until their case period for instituting the legal procedure is too old. This kind of corruption follows liberal democracy, which is based on different postulates in comparison to totalitarian states. This is also happening in western countries. You have seen what happened in America with blowing up balances. Democracy brings that because it is too mild, it gives a right to everyone to defend themselves. Stalin used to say that it is better to convict a hundred innocent people than to release one guilty one. In liberal democracy this is the opposite, it is better to release a hundred guilty people than to convict an innocent one. This should not be misused. Some people say that this is happening because in the last decade the former government removed from office the entire judiciary, it brought in new judges who cannot be removed from office any longer. According to this, the inefficiency of the judiciary and state administration are the main problems that obstruct the entrance of foreign investments. The international community also noticed this. From the financial support provided, a large portion was assigned to the reform of the judiciary and state administration. These are the black holes that need to be dealt with in order to attract foreign investments. In Croatia the land-registry books have not been sorted out, so when a foreign investor asks which exact part of the land he/she is able to build a business on, nobody knows. Even if the EU criteria is heading towards decentralisation, it turns out that decentralisation at the local level and the decision on those issues at the local level is worse than centralised decisions. This is because their municipality representatives are in touch and are in constant co-operation with all those who are selling/buying and so corruption is blooming. For example, the Minister for the Environment stated that the decision making in relation to those issues have to be returned back to state level, municipality representatives are against the EU criteria, with the only difference being that the EU does not misuse it in the way Croatia does.

When good quality labour is at issue, as a criterion for attracting foreign investments, it is an area that can satisfy the European criteria. A bigger problem is presented by the tax system, at least in Croatia. All other countries in the region went, more or less, through a period of disorder and destruction, which was followed by rebuilding, return of refugees, problems with minorities, which all involve the strengthening of the state and public spending. In Croatia, state public spending is still above 50% of the GDP. In developed EU countries it is slightly above 40%. If the state and public spending is too high, it obviously, through taxation creates an important burden on the economy. The outcome of this is that the domestic economy cannot be a competitor in the foreign market. Everything that Croatia has achieved in the field of development, in order to establish some companies and mechanisms that can help in the development of the region, through co-operation and trade, was achieved by domestic spending. This in the long term is not good for a country whose small market requires that every production should be for export. Exports in Croatia is falling, but the compensation for this is tourism, which is not enough however to stop the negative tendencies in the balance of current payments and the increasing of external debt. External debt should not be a problem if exports would increase, however, if this tendency continues it would create big problems. If the Croatian perspective of speeding up its membership to the EU gets displaced and if there are tendencies of simultaneous growth in debts and the fall in exports continues in this situation of isolation from the foreign market, the country will come into crises. It is unable to return the foreign debt by personal accumulation. In that case even Croatia the 'Argentinean syndrome' can be repeated. The plan for entering the EU is as follows: In
April next year Croatia becomes an official candidate, after that there will be negotiations between Croatia and the EU, which will be completed between 2006 and 2007. The EU would then invite Croatia to become a full member of the EU. This would be realised in 2008 and in 2009 Croatian voters would be able to vote at the European Parliament. This would be evidence that the democracy of Croatia has entered into the democratic circle of the EU.

Thank you.
Ambassador Emina Keco-Isakovic, Head of Mission, Permanent Mission of Bosnia and Herzegovina to the OSCE, Vienna

I would like to thank all the speakers, as well as Mr. Dzuvo who presented some lines of direction for the Government of the FBiH in relation to future development and who encouraged all those who would like to invest in BiH, because it is for the good of BiH. Mr. Dzuvo might be able to thank his age for this optimism, because this is needed for BiH.

I would also like to ask Mr. Dzuvo to take some of our stands to the Government of BiH, in order to make it more possible to invest in BiH, because presently the system is so complicated that from my own position, as an ambassador, I would like to suggest some simplifications of the existing laws, so that foreign investors have motives and reasons to invest.

Our second speaker, Mr. Hadzidedic, gave us a picture of the energy status, not only for gas, but for all power-supplies in BiH and even if his presentation occasionally sounded pessimistic, I think that BiH and the whole region have hopes for investment in the energy system. Proof of this is that in the framework of the Stability Pact, SECI and other regional initiatives there are topics of investment programmes in the energy system, which is the future not only for BiH but for the whole region. Due to this reason, I think that your presentation was detailed and that in an analytical way it showed the present situation, which is not seen through rose tinted glasses, but from which it is possible to see that there is a possibility to come out of this situation and that future big investments are expected in this segment. This is an encouragement to all those have been in touch with those who are willing to invest in BiH and in the whole region.

Mr. Stanićić has tried to give an approach of the status of the whole region, where it was envisaged that the problems are similar, if not the same, with small differences in improvement. It is a reality that Croatia is the most prosperous country in the region, but unfortunately those shifts are not obvious. All countries in the region need financial help and investments. It is obvious that the stability of the whole region is a precondition for future financial investments in the whole region. It is clear that everyone who wants to invest money in a certain region will only do it in the places where the investment is safe.

From all this it can be concluded that the crises in the West Balkans are big, but also that our chances are not any smaller either. Nowadays, almost all countries that were in the armed conflict not long ago, understood that with co-operation they can reach security and the possibility for new investments. Therefore, we are all heading towards new European integration, because we all want to be a part of the European Union. I hope that this seminar will bring good questions, because good questions are a sign that we are doing some good.
Ambassador Luksa Soljan, Embassy of Bosnia and Herzegovina in Italy

I would like to welcome all participants present here today. I am pleased that I can say a few words to all the participants at the end of this day, rather than at the beginning, because I think that now I can say much more than what I would be able to at the beginning of the day. The official welcome that I would like to give is to exchange a little information which might be useful at this seminar, and on the other hand to address some issues that were raised here today.

In a formal, although rather honest part, I would like to thank the organisers of this seminar, because at the end of this day I have come to the conclusion that it is a good quality seminar. Above all, I would like to thank Ambassador Turkovic and General Zappulla, who enabled us to work here today and who ensured that all this passes as a good and high quality co-operation. I have to admit that my expectancies were exceeded, because usually invitations to the seminars promise attendance of high representatives and officials, but it usually works out to be an environment in which work is not up to a high enough standard. I think that all those participants who spoke in the name of their officials have done a great job and made a great contribution to this seminar.

Issues of vital importance for social development are reduced to two main pillars; the pillar of economic development and the pillar of unavoidable security aspects. We know that those two pillars are placed in a vicious circle, in the kind of a situation such as the chicken or the egg, where it is unknown which is older. We know with certainty that investments will not come into an unsafe environment, but with the development of an economic system, the foundations for building good security systems will exist, and vice versa.

The country in which we are present, Italy, is the seventh most developed country. It used to be fifth, and even if it is dropping down the rank list, it will not become eighth, because Russia is three times below and China is improving, but it will take time to reach the level of Russia. However, when reasons for stagnation of Italy are analysed, it can be seen that the inadequate implementation of reforms caused this slow drop of Italy on the list of most developed countries.

For those who are not familiar with Italy, I will give some basic details. The size of the country is 311,000 km², population 57 million, 400 billion GDP, where in BiH it is 7 billion, that is in comparison 200 times stronger. Italy also has problems as we do, because they do not conduct reforms, and do not conduct them because it is not easy. We, who are in this kind of situation, have to look to someone bigger and stronger, and someone who has larger problems. Italy, in many respects, can be an example for us, above all because development of small and medium size businesses was a pattern followed during their economic crises. They created co-operatives and co-operative banks that helped in the development of small and medium size businesses, but as you can see possibly due to this reason, Italy has a problem that even if it is the seventh strongest economic power in the world, Italy is only fifteenth or twentieth on the rank list of its investments abroad and also foreign investments in Italy. This means that it is at a relatively low position in the sphere of investments. Italians understood that
their future is in the so-called internationalisation of the Italian economy. They talked about it for years, but they are not successful in its realisation, even if they have the potential for 1400 billion per year as well as 550 billion public spending. Even next to all this potential, Italy still has significant problems.

As BiH Ambassador in Italy, not in some other country, I would like to inform you about the possibilities of how Italy can help BiH. Italy is a friendly state to BiH, and it is one of the closest friendly countries BiH has. It is a country that wants to help and the best thing is that it wants to invest in BiH. The strategic area of Italian interests is in what they call "Balkani". Geographically, by mentality and culture we are close to Italians. Due to this reason, there are no reasons why BiH, as well as some other Balkan countries, should not be Italian primer business partners. For BiH they really are first business partners in, total business, trade and economic exchange, which for the last year, unfortunately, was only 700 million Euros. However, it can be stated that for BiH standards this was well balanced, because our imports from Italy was compensated with 70% of our export to Italy, which is very positive.

With Croatia this balance was disastrous, as well as with Slovenia, with which this cover of export-import is just 20%. My Slovenian colleague said that the reason for this bad balance lies in the fact that Slovenia is the biggest investor in BiH. Italy also wants that, they are emphasising, but we are also to blame for this, because we are not reliable, safe and this is something we have to work on. We have to prove that we are safe and reliable, because capital is a timid category. We cannot expect from a small private businessman to open a company in BiH or elsewhere. However, an Italian patent, so-called "Industrial districts", where small producers are joined around one product, present a huge conglomerate. We visited one of them, near Bari, where 30,000 people are employed and are looking for the possibility to export their products to the Balkans. However, we have to prove, in the best possible way, that we are ready to do that job in the most efficient way, and as a result certain products will have a lower price, from which both sides will benefit.

When this kind of information is sent back to the country the response is silence, because nobody is reacting. When you contact the Foreign Trade Chamber, they inform you that they are not ready, because they are not equipped and grouped for that kind of business. In other words, the chances for Italian investments in BiH are good. I am sure that we can do it. However, in the BiH Embassy in Rome, we do not have enough personnel, because one individual who works as an expert in economic diplomacy must, at the same time, perform six other obligations. Our role is to connect our people with Italian business people in a business manner, but we cannot do business for our businessmen, they have to do it themselves. I am more than happy with things I have heard here today and at the same time offering to all those who would like to contact me by using either the institutional or out of institution way regarding help and some joint projects to do so.
Mr. Mirsad Ceman, Member of Parliament, House of Representatives, Parliamentary Assembly of BiH

I have got a question for Mr. Dzuvo. The topic he talked about was very inspiring, because our topic is "Economic Aspects of Security", and the topic he talked about was the "Building of corridor 5C and its influence on the Region". The perspectives that would be opened with the building of corridor 5C, and especially going through BiH, would provide great opportunities for recovery and a way out from problems in which BiH has found itself and would be prosperity for the future. Taking into consideration that I am a Member of Parliament, and in Parliament we talk about these issues, I would like to hear what are the predictions of the Council of Ministers regarding the start up of this job, taking into consideration legal regulations in effect and all information, regarding that corridor, which is reaching citizens. So, where in BiH is all this?

Mr. Almir Dzuvo, Advisor for Internal Policy to the Chairman of Council of Ministers of BiH

The important fact is that corridor 5C does not have an alternative. I think that the Council of Ministers in BiH is on a good way and that in a relatively short period of time, and here I mean by the end of the next month, will define its stand and that with the Law on Concessions. This law will be completed and will go to tender, it will regulate the conditions for all investors that wish to build the BiH motorway by concession.

You all know that we cannot ask for credit, as the Republic of Croatia did, but I think that the model of concession is the most famous model world-wide, and that almost all countries, including Italy, were using it. The investor who will be able to fulfil the conditions will receive the concession. According to the law, the concession can last 30-50 years, and which concession period we are going to have I do not know. The investment of 5 billion is not only attractive for BiH, but also for the whole region as well as Europe. One digression, from the moment 'Bosmal' as a 'company' which is the most interested in building a motorway through BiH, offered 300 million KM as a guarantee, in fifteen days we had 50% more inquiries regarding investments in BiH. All building capacities of BiH cannot fulfil even 30% of the needs for building a motorway. The countries in the region have a great interest in building this corridor and I presume they will get most of the work. It is necessary to put on the side politics and political relations and organise the corridor 5C exclusively on economic principles and rules.

Ambassador Bisera Turković, Director, Centre for Security Studies

I would also like to ask a question to Mr. Dzuvo. You know, as well as most of us present here today, that BiH forces managed to reduce the number of personnel, in two waves, from 33,000 to the present number of 19,500 soldiers. With the reform of the security sector, which is presently ongoing, this reduction will continue. In a short period of time a further reduction of 7,000 soldiers will take place, with the possibility to exceed this number, where the final number will not be 12,500, but potentially
9,500. In the light of building corridor 5C, are there possible plans to form a unit or company which will help in retraining or employing former soldiers as potential builders or in some other profession? Bulgaria solved this problem of difficult status of demobilised soldiers by opening a state transport-building company, which helped with retraining and employment. Nowadays, we have a huge problem of conversion of military personnel in the armed forces and this problem will potentially grow. Due to this reason I am interested in possible thought focused in this direction.

**Mr. Almir Dzuvo, Advisor for Internal Policy to the Chairman of Council of Ministers of BiH**

The total number of armed forces in BiH, according to the latest figures we received, should be reduced to 8,000, but presently there is no intention to those demobilised soldiers other than offering severance. I believe that the building of corridor 5C and the involvement in that investment process of a certain agency or something similar like in Bulgaria will appear in order to enable demobilised soldiers to actively get involved in building and simply get jobs.

Presently, one study is in the process of being undertaken which will establish the qualifications demobilised soldiers held prior to entering the armed forces, because a large proportion of armed forces in both entities were not professional soldiers before the war. They had different professions before the war, and by chance they became professional soldiers. Presently it is endeavoured to return them to their pre-war occupations and that this is the purpose of this study, organised by the Council of Ministers. This is not a simple task, but there is an example of Hungary where in a period of six months, they demobilised approximately one hundred thousand soldiers in the process of the transition, where approximately eighty thousand of them started up private businesses and began development. I believe that it is necessary to have more initiative from people who are made redundant.

**Ambassador Branislav Milinkovic, Head of Mission, Permanent Mission of Serbia and Montenegro to the OSCE, Vienna**

I have two questions and a comment to make. This meeting is to a certain extent under the umbrella of the OSCE and therefore I would have questions that are connected to two topics we discussed a lot in Vienna regarding the OSCE Missions to BiH and Croatia. The first one is about the reform of education in BiH and the second one concerns the judicial system in Croatia. When Mr. Beecroft comes to Vienna a lot of his time is used on the reform of education. I am interested, taking into consideration that Mr. Dzuvo stated one very important sentence in his presentation and that is that the reform of education will be in the function of the labour market and that on the other hand it was stated that there are lots of those on the labour market who are highly educated. How do you see this practically, the reform of education in the function of reform of the labour market?

A question for Mr. Stanicic, taking into consideration that I totally agree with his observations regarding the importance of the rule of law and the judicial system in attracting investment. I listened with great interest to his presentation on the judicial
system in Croatia which sounds very pessimistic. On one hand, he stated that the judges were appointed in some previous period and that it is difficult to remove them from office, and on the other hand you also mentioned that certain funds in the framework of stabilisation and association exists. In your view, how can this situation change, or what practically can be done in improving the judicial system which is very similar for us and the whole region?

If I may give a comment on your evaluation, actually a personal observation, the apology came possibly because the Head of the State Community of Serbia and Montenegro is a person from Montenegro. I will make a totally personal speculation and that is I would not share such a view because I think that there would be no reason for not stating it if by any chance the President of the State Community of Serbia and Montenegro was from Serbia. The reactions that I carefully observed in my country were even if they were negative they were not shared by Serbians and Montenegrins, but to hard liners within Serbia and Montenegro. I believe that psychological preparation for something like this was given at the meeting of the three Presidents; Republic of Croatia, BiH and Serbia, at the time the Federal Republic of Yugoslavia, it was Mr. Kostunica at that time. I would like to also remind you of the statement of the Minister for Foreign Affairs, Mr. Svilanovic, when he visited Zagreb there were lots of elements of an apology. Therefore, based upon your personal speculation, I am answering with my personal speculation that I would hardly be able to agree with what you stated, of course with total respect for your observation of that problem. Thank you.

Mr. Almir Dzuvo, Advisor for Internal Policy to the Chairman of Council of Ministers of BiH

It is not surprising that Mr. Becroft is paying attention to the reform of education, because I believe that the future of BiH lies in education. Reconstruction of the education system and regrouping will contribute to the present proportion of relations between labour and the type of education that we have to simply adapt to European standards and all conditions required in Europe. Work has been done on it and it is believed that the international community, together with the Government of BiH will abide by it and that the reconstruction of education will be realised in a short period of time, which will be to the satisfaction of all of us.

Dr. Mladen Stanicic, Director, Institute for International Relations, Zagreb, Croatia

Firstly, the issue of the judicial system, I am not an expert on the administration of justice, but I know how I would do it. You have to know that our Governments, in Serbia and Montenegro, BiH and Croatia are a weak coalition of governments and that this is too big an intervention in such an unstable area. For now, everything is left to normal procedure. The biggest problem, one that is on the surface, is the slowness of the court procedure that has become out of date. Would it be possible to do something out of normal procedure and not violate democracy? In the Constitutional Court of the Republic of Croatia people are working there who should not be, but how does one remove them from office and not become a totalitarian state. Some new governments, with a stronger mandate would be able to do that.
Taking into consideration the second thing, I am pleased with your response, what do you think about it? I am pleased that you think what you said, but you have to admit that you mentioned two names, a former President and a Minister of Foreign Affairs. I think that there is a big difference between them and I built my speculation on those differences.

Ambassador Vladimir Matek, Head of Mission, Permanent Mission of the Republic of Croatia to the OSCE, Vienna

I would like to give a small comment, based on our experiences, on the question Mrs. Turkovic raised, and that is an issue of conversion in civilian life. We began the building of our motorway and despite the large number of unemployment there was not enough qualified labour who could work with modern technology. There were only a few qualified companies that would serve for building for example tunnels. Education of the labour force is a very important issue. Demobilised soldiers have to go through a very targeted education, and that is professional training which will enable them to have civilian professions. Otherwise, you are going to end up with people who will just stand and look at what others do. We hired Turkish companies because ours were not adequate enough.

Mr. Slavko Marin, Adviser for Military Issues to Croat Member of Presidency, BiH

I would like to give thanks for the invitation to participate at this seminar. The starting point is the FBiH in 2000, when it was decided at the conference in Madrid to reduce the armed forces, which had 33,000 soldiers, by 15%. This was a reduction from 33,000 to 23,800, which meant the reduction of 9,200 people. The following step was to reduce this number to 13,200, which meant that we discharged an additional 10,600 soldiers. In total, this means we reduced the number of personnel by 20,000 professional soldiers. Those two reductions we followed by two projects for social support of the armed forces. The first two reductions were supported by the Ministry of Labour and Welfare, where credit was given by the World Bank for a programme aimed at career changing. According to sources I have, from the first group of discharged soldiers only 830 out of the 9,200 found permanent employment. The following group, 10,600 people, were given severance pay of 10,000 KM. This reduction and financial support was given by an NGO, the International Organisation for Migration, which also helped through seminars and career direction.

This means that the things that happened in the FBiH during the period of 2000-2003, can be characterised with two programmes and two different approaches. It was shown that the first one was not successful, because the end result was only 830 permanently employed people, and on the other hand we are aware that severance pay represents a short term injection where only a few of them started an independent business.

When the financial effects and calculations are observed it can be seen that they are not enormous. The approved budget for 2001, 2002 and 2003 for the Army of FBiH does not differ much in amount. Over 80% of means in the Army of the FBiH is for
personnel. The rest goes for unsolved problems of training and equipment. This is actually a reason why they will not achieve satisfactory results. Discharge of personnel will not, in real terms, reduce calculations of the FBiH Army, in order to be investor and not invests. With the forthcoming reform we will have to discharge an additional 5,000 people. They were already told that severance pay is prepared for them, which means that the first model, of career changing, will not be followed any longer. This is something that indicates that in the present discharge of armed forces we will have 25,000 discharged people and they are not demobilised soldiers, but professional soldiers that earn a living with the work of the Army of FBiH.

This is telling us that this population, 25,000 discharged people are war veterans. This is a specific aspect that has to be observed. They are people that had war on their shoulders and in the end they are paying the price of general changes. I think that we could have a seminar which would look at the total analysis of discharge so far, an analysis of the results achieved by the projects for discharged soldiers which have already been undertaken and the possibility for those investments, i.e. corridor 5C to find solutions by which this population will get involved in civil life.

Thank you.
SESSION III

Ambassador Branislav Milinkovic, Permanent Mission of Serbia and Montenegro to the OSCE, Vienna

Dr. Marcin Swieciecki, OSCE, Vienna

Mr. Moises Venancio, United Nations Development Programme, BiH

Ambassador David R. Nicholas, Office of the OSCE Project Coordinator in Ukraine

Ambassador Nedzad Hadzimusic, Ministry of Foreign Affairs of BiH
Ambassador Branislav Milinković, Head of Mission, Permanent Mission of Serbia and Montenegro to the OSCE, Vienna

It is my pleasure to greet you at the beginning of this morning's session. I would like to begin with expressing my gratitude to both General Zappulla and Ambassador Turkovic.

I would like to say a few words to our organisers. These seminars are becoming a tradition, as for the second time around we are meeting in order to discuss, I believe, very important issues. Seeing from the Vienna perspective, that the mission of General Zappulla is very successful. The application of Articles II and IV, Annex 1B, of the DPA is being realised very well, and those experiences are becoming more and more interesting outside of the OSCE. I think that General Zappulla showed extraordinary insight in choosing this topic to tackle the second time round, a topic related to his main activity as the Personal Representative for Articles II and IV- Economic Aspects of Security. With this he started up new ways of thinking and I think that it is worthy of all our attention. Using indirect methods he has opened up new areas for regional co-operation and thus improvement for the whole region.

At the same time, showing good insight in accepting this challenge in time, I congratulate Ambassador Turkovic. It seems to me that in our region an additional threat may appear, next to all other threats. That is the labour crises of academic community and research institutes. Because of this reason I am noticing, with pleasure the vitality of our research and academic community, and when I say 'our', I mean the whole area of the former Yugoslavia. This has been shown through the vitality of CSS, where I believe that this is an important phenomenon that should be nourished and developed through adequate involvement of other similar organisations from BiH and the whole region.

Before I give a word to our speakers, please allow me to give some opening observations. The topic of our meeting last and this year is of great importance for the state community of Serbia and Montenegro and there are at least two reasons for this. The first one is that this year, in the framework of the state community of Serbia and Montenegro, we began a serious reform of the armed forces, which the international community recognised as a positive development. This is a further reason to carefully follow the experiences so far in the reform of the security sector. It seems to me that certain things within the neighbouring countries have undergone more development than we have. The other reason is the new quality of regional co-operation, which in the area of the economic aspects of security can have a positive reflection on our future co-operation.

I would like to add one more observation in regards to BiH. Often, the international community emphasises that a peaceful and successful region is a precondition for the good of BiH. This is a well-known fact that we understand well. However, the reverse situation is important and correct. Good prosperity within BiH represents an improvement in quality for the whole region. Every successful step that BiH takes represents a successful move for south-eastern Europe.

Yesterday we had two exceptional sessions, rich in ideas and topics. I would like to highlight a few topics. We discussed new unconventional threats this might be one of
the main topics in the discussions of the security community, both academic and practical. From a long list of unconventional types of security threats, economic threats were separated. We talked about the concept of human security and we will continue discussing this today. We also discussed the complementary nature of the economy in the region and the chances that this offers. A more particular topic we talked about was the situation of demobilised soldiers and what sort of projects to use regarding their issues. We also mentioned a very important concept of small and medium sized companies, as a possible agitator of economic development. These are only some of the topics that I think are interesting, and which can be continued in today's presentation and possibly in debate afterwards.
I. What is security?

**The classical concept of security: National Security**
- Security of the territory from external aggression
- Protection of national interests in foreign policy
- Global security from the threat of a nuclear holocaust

National security is achieved by deterrence and the balance of power

**Characterisation of the international system of the Cold War**
- Struggle between two fundamentally opposed value and social systems
- Soviet Union and the United States as the two protagonists of the struggle
- The superpowers were endowed with the capability of projecting their power globally
- A bipolar world based on the logic of “mutually assured destruction” (MAD)

**Criticism on the classical concept of national security**
- Restricted scope of security to military threats from other states
- Restricted to the well being of the state
- Security concerns of the people were forgotten
- Since the end of the Cold War the world has undergone fundamental change

**Emerging trends since the end of the Cold War**
- From a bipolar to a system of one superpower in a multipolar world
- Diffusion of power: multiplication of international actors
- Democratisation of the state system
- Globalisation and regionalization
- Shift from interstate to intrastate conflicts
- Developments have become more complex and contradictory

**The changing nature of violent conflicts**
- Since the end of the Cold War more than 90 percent of armed conflicts have taken place within states
- Up to 90 percent of the victims in intrastate conflict are civilians
- Most of these conflicts are about access to resources, issues of ethnic and religious identity and result from state failure
- These conflicts are rather fought with small arms than with high-tech weaponry
- Intrastate conflicts can destabilise whole regions and can have global consequences

**The changing nature of violent conflicts**
The terrorists attacks on the World Trade Centre and the Pentagon demonstrated that people are vulnerable to becoming a victim of violent conflicts anywhere and at anytime!
The concept of National Security is not sufficient to guarantee people’s security!
The new concept of security: Human Security
-The concept of Human Security was elaborated by UNDP in 1994
-In contrast to the “nation-centred” concept of National Security it is “people-centred”
-It is based on the assumption that peace and stability can only be achieved by ensuring human security
-Human Security is :”freedom from fear and freedom from want” (UNDP 1994)

The components of Human Security:
- Economic security: an assured basic income, either through gainful employment or from a social safety net
- Food security: access to food via one’s assets, employment or income
- Health security: freedom from various diseases and access to health care
- Environmental security: integrity of land, air, and water, which make human habitation possible

The components of Human Security:
- Personal security: the individual’s freedom from crime and violence, especially women and children who are more vulnerable
- Community security: cultural dignity and inter-community peace within area where individual lives
- Political security: protection against human rights violations

II. What are the main threats and challenges to security in the economic and environmental dimension?

Poverty
Growing economic gaps between rich and poor nations and between the rich and the poor within nations is a major threat to security and stability throughout the OSCE region.

Poverty increased sharply from near negligible to endemic proportions in some parts of the OSCE region.
In some CIS countries more than 80 per cent of the population live below the international poverty line of $4.30 per person per day and more than 40 per cent below the absolute poverty line of $2.15 per person per day.
Poverty
Increase in widespread poverty, extreme inequality and rapid social marginalization can directly or indirectly contribute to conflicts:

• It provides fertile ground for corruption, clandestine immigration, organised crime, trafficking in human beings, drugs, small arms and light weapons
• It fuels fanaticism and terrorism
• A cycle of poverty, instability and violence can emerge

Environmental degradation
Inherited environmental damage, legacy of conflicts, environmental degradation and unsustainable use of natural resources may have significant social and economic consequences:

- Salinisation and desertification of arable land deprives peasants of their livelihood
- Groundwater pollution, toxic and radioactive waste cause health hazards

Migration pressures - Causes

In countries of origin:
• poverty, unemployment, discrimination, and lack of opportunity

In countries of destination:
• unsatisfied demand for cheap labor
Migration pressures - Example Moldova
-Majority of Moldovans aged 30 or less seek to emigrate or temporarily work abroad
-62% said they could go abroad to take a well-paid job 18% were ready to emigrate
-According to the Migration department 1.6 million Moldovans or 30% of the country’s able-bodied population are working abroad, 80% of that number illegally

Migration pressures - Example Bosnia and Herzegovina
-between Jan. 1996 and March 2001, 92,000 young people left the country (UNDP, 2002)
-77% of the young people would leave the country if they had the opportunity (UNDP 2003)
-24% of those willing to emigrate would permanently leave
-40% of those willing to emigrate would temporarily leave to work abroad

Migration pressures
Migration flows beyond a certain level can generate tensions:
-In countries of origin: loss in human capital; brain drain hampers the development of society in the concerned countries
-In countries of destination: political and social costs illegal immigration and integration
-When legal migration is constrained, illegal migration flourish, often interacting with trafficking, exploitation, black market and crime

Weak institutional capacity
Poor governance, including weak institutions and corruption deprive participating states of the capacity to provide peace, stability and prosperity.

Weak institutional capacity
Poor governance is characterised by:
-lack of participation in decision-making of affected groups
-inappropriate legislation
-inefficient law enforcement
-poor public management
-lack of transparency and inadequate access to information
-absence of national and individual security
-inadequate treatment of vulnerable groups

Weak institutional capacity
Typical symptoms of poor governance:
-the failure to make a clear separation between what is public and what is private
-arbitrariness in the application of rules and laws
-excessive rules and regulations which impede the functioning of markets and encourage rent-seeking
Weak institutional capacity and violent conflicts
- When institutions are not able to manage conflicts peacefully, violent conflicts appear
- Powerful groups capture state authority and power to serve their own interest
- Weak states become failed states
- Conflict and insecurity further weaken the economy and the institutional capacity, creating a vicious cycle of impoverishment and instability

Poor governance and slow economic development appear to be mutually reinforcing: Comparison between democratisation + good governance rating and GDP in 2002

Crime and terrorism
- Where governance is weak and not sufficiently democratic, criminal groups may be able to subvert public bodies, infiltrate organs of the state and ‘capture’ public institutions
- Flows of funds from criminal activities (trafficking in human beings, drugs and arms, etc) can undermine the legitimate economy
- Criminality can undermine the concept of the rule of law and public trust in institutions

Crime and terrorism
- Terrorist success depends on financing raised often from illegal activities
- The tragedy of the September 11th attack highlighted the fact that all countries are vulnerable to terrorism
- It appears likely that threats to security will continue to come from countries and regions, which are falling economically and socially further and further behind the advanced economies

Economic disparities and new division
- Among the ten new members who are joining the EU in May 2004 are 8 former centrally planned economies
- Their transition from a planned to market economy is coming to an end
- The enlargement of the EU extends the sphere of security in Europe
- Romania and Bulgaria will probably join the EU in 2007

Economic disparities and new division
However the pace of transition has been quite uneven in the OSCE region:
- Some OSCE countries of the former SU and of SEE are still facing major transition challenges
- In 2001 the 8 CEE EU accession countries exceed their pre-transition GDP by 9% on average
- In 2001 the CIS countries were still 38% on average below that level
- From 1991 to 2001 cumulated FDI averaged in the 8 CEE EU accession countries USD 1,400 per capita, while it was only USD 198 in the CIS
Economic gaps within and between countries are threats to security!

III. Why do some states have difficulties in catching up?

**Reasons for difficulties in catching**
- Unfavorable initial conditions (legacy of the past, lack of market memory)
- Unfavorable geography (distance from markets, landlocked)
- Weak reforms and inconsistency of policies
- Weakly functioning institutions
- Lack of human capital relevant for transition
- Ethnic and other conflicts

**Reasons for difficulties in catching up:**
- Bad governance
- Emergence of new states have disrupted markets (new borders, custom duties, new currencies)
- Some states are still in the process of nation building
- Poverty trap
- Insufficient, scattered and uncoordinated level of foreign assistance

**Promoting good governance**

*What is governance?*
- Governance is the exercise of political, economic and administrative authority to manage a nation’s affairs
- It entails:
  - the interactions between different levels of government within a country
  - the interaction between the public, including non-governmental organisations and business, and government
  - on an international plane it entails the interaction between different governments

*Why promote good governance?*
Good Governance is governance which delivers effectively and efficiently what the population wants, above all prosperity and security
- To know what the population wants and needs requires a responsive dialogue with those affected by government decision-making
- Security and stability of the state and security and safety of the individual are essential for a climate of confidence without which an economy will not flourish
- To flourish, an economy also requires sound and transparent institutions, policies and a skilled and honest public service
- Availability of basic services and infrastructure

*Why promote good governance*?
Good governance is a key condition for sustainable stability and security.
Good governance is an essential component of sustained economic performance.
Measuring good governance
Various efforts to measure the quality of governance by different actors (commercial risk agencies, international organisations, think tanks and NGOs)
-Researchers at the World Bank have aggregated these available governance indices containing more than 300 indicators for 175 countries

World Bank: Governance Indicators
The researchers defined governance as “the exercise of authority through formal and informal traditions and institutions for the common good”.

This process comprises:
a) selection, monitoring and replacement of governments 
b) capacity to formulate and implement sound policies 
c) respect for the institutions.

This definition of governance – for the purpose of measurement and analysis – was further unbundled into six more detailed governance concepts (two for each element).

World Bank: Governance Indicators
- Voice and accountability (which includes political rights, civil liberties and the independence of the media)
- Political stability and absence of violence (such as the probability that the government will be overthrown)
- Government effectiveness (e.g. quality of public service provision and the competence of civil servants)

World Bank: Governance Indicators
- Regulatory quality (e.g. incidence of market unfriendly or excessive regulation and inadequate banking supervision)
- Rule of law (e.g. crime, effectiveness of the judiciary and the enforceability of contracts)
- Control of corruption (e.g. the exercise of public power for private gain)

Expanding assistance
Institutions matter, but not for everything!

- Barriers to economic development are far more complex than institutional shortcomings
- Promoting economic development also requires direct interventions backed by expanded assistance – in order to address disease, geographical isolation, low technological productivity and limited resources which trap poor countries in poverty
Expanding assistance
Some countries can be too poor to find their own way out of poverty in the absence of outside help:

- Landlocked regions may be burdened by high transport costs: special investments are needed: in roads, rail communications, other transport and communication facilities
- A major project to construct roads would most likely exceed local financing capabilities
Sufficient foreign aid assistance to build the infrastructure is needed to link the region profitably with the world markets, and to initiate economic growth!

Expanding assistance
Present levels of assistance to non-EU-candidate countries are insufficient:
- Between 1991- and 2000, the EU spent about 10 times less per capita on the non-candidate countries of Central Asia, than it did in preparing Central European and Baltic candidate countries for EU membership
- Accession countries haven been supported by pre-accession funds and twinning programmes assisted by hundreds of experts reviewing every comma of new legislation and helping to create modern market institutions

Expanding assistance
If such massive assistance was necessary to restore a market economy in Western Europe’s closest neighbours, who spent “only” 45 years under Communism, how much greater will be the challenge of building modern economies from scratch in such remote lands as the countries of Central Asia?
They have never experienced modern market arrangements. For 70 years, their contacts with the West came through a very unique filter that was the Soviet system.

Expanding assistance
The personal and technical capacities, which has been developed within the European Commission in order to prepare accession countries to join the EU should not get lost!

After 2004 a significant portion of Brussels’s know-how, presently occupied with the enlargement of the EU could be redirected towards assisting the non-candidate countries of Eurasia to support them in building capacity in market-economy related institutions.

Expanding assistance
The international community, its economic and financial institutions have to mobilize all their efforts to ensure appropriate response to the new challenges to security in the OSCE region!

Fostering economic co-operation and integration
Economic integration can be a powerful tool for achieving peace and stability!
Without international trade remote regions are condemned to small markets and inefficient division of labor, thus poverty continues!
Fostering economic co-operation and integration
-Trade barriers between states need to be removed
-Trade arrangements need to be promoted, opening the prospect of a common European economic space
-EU enlargement and the promotion of open trade with EU neighbours can be of benefit to the stability and security of all countries in the OSCE region
-Include CA and South Caucasus in the Wider Europe Initiative!

Fostering economic co-operation and integration
Include CA in Wider Europe, extend the EU sphere of peace and stability!
Prevent new economic divisions in the OSCE region!
The EU integration has been an anchor for reform and stability in Central Europe and the Baltic region.
The perspective of the EU accession played a powerful role of stimulating reforms in these countries, especially in the institutional and legal sphere.

The EU initiative “Wider Europe — Neighbourhood:
•Covers the Eastern European countries Russia, Belarus, Ukraine and Moldova, and the Mediterranean countries Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, the Palestinian Authority, Lebanon and Syria. Under certain conditions, it is also open to Libya.

The EU initiative “Wider Europe — Neighbourhood:
•In return for progress in the implementation of political, economic and institutional reforms, the EU’s neighbourhood will benefit from being offered a stake in the EU’s Internal Market and further integration and liberalisation to promote the free movement of persons, goods, services and capital.
• At a later stage, the European Union will examine whether the South Caucasus countries could also be covered by this initiative.
The Central Asian countries should also be included into this process!

Conditionality
-External influence on transition countries can be exerted through conditions associated with incentives
-NATO and EU, the external actors with the highest level of conditionality (accession criteria), have been the most successful in enforcing meaningful domestic reforms in the transition countries
-Further examples for conditionality:
-EBRD, Art. 1
-Wider Europe
Reforming the agricultural policy
-Farm trade is widely seen as the biggest stumbling block in the current trade round
-In 2002: costs related to farm subsidies reached about 320 billion USD in the
developed world, whereas its assistance to developing countries reached 50 billion
USD
-While nearly one billion people struggle to live on 1USD a day, the EU cow
averages 2 USD subsidies a day
-According to IMF estimates, a repeal of all rich countries trade barriers and subsidies
to agriculture would improve welfare by about 120 billion USD

European farm subsidies including export subsidies:
-are the largest in the world at 43$ billion per year (in 2002)
-eat up nearly 40% of the EU budget
-have resulted in huge surpluses, exported to developing countries
-have left many farmers in the developing world unable to compete with the
subsidised imports from Europe
-lead to high trade import barriers protecting European market against competitive
agricultural products from non-EU countries
-have raised the price of food for European consumers 45 percent above what it would
be in the situation of free trade, according to the OECD

Reforming the agricultural policy
•Recent reform of the EU CAP, partial “decoupling”, was a step in the right direction
•However, the reform still allows member states to keep a share of farm payments
linked to production; and general elimination of import barriers is still missing
•Full “decoupling” is needed!
•Credibility gap between the developed world’s free-trade talk and its market-
distorting actions on agriculture must not continue!
•End double standards!
•Fair trade is what poor nations need!

Managing migration together
Thessaloniki: the European Council has confirmed its endeavor to develop a common
European policy on asylum and migration.
-In addition, need for shared principles covering migration within OSCE region
aiming at:
•alleviating the underlying factors of excessive migration pressures
•managed immigration instead of restrictive rules and illegal immigration
•more effective integration of immigrants in destination countries
IV. Role of OSCE’s Economic and Environmental Dimension

Role of OSCE’s Economic and Environmental Dimension
The OSCE functions through politically binding commitments
OSCE’s Economic and Environmental Dimension (EED) is part of OSCE’s comprehensive, co-operative approach to security
OSCE’s EED aims at strengthening the ability of the OSCE participating States to address economic, social and environmental aspects of security

Activities in the Economic and Environmental Dimension
- Awareness raising
- Assisting participating States in establishing political commitments
- Promotion of entrepreneurship and SMEs in disinvested regions, in particular targeting at vulnerable groups
- Promotion of market institutions and human capacity building
- Fighting corruption
- Combating trafficking and money-laundering
- Building confidence through fostering environmental co-operation
Mr. Moises Venancio, Resident Representative United Nations Development Programme, BiH

1. Introduction

Situation Analysis

I have been asked today to make a speech on human security, however, when we look at developments in the world today I think it might be sadly more appropriate to talk about human insecurity rather than ‘security’.

Our news every night are packed with human beings, entire communities and countries, from Zimbabwe to Iraq, from Palestine to Kashmir, threatened daily by violence, death and suffering whether it is man made - which sadly most is - or by devastating diseases such as AIDS, natural disasters or worst of all, a combination of both man-made and natural disaster such as that which grips Ethiopia right now.

For all the global edifice of security which man has made, particularly since World War II - nuclear deterrents, power balances, strategic alliances, regional security pacts, the world today faces security treats which are not military in nature. AIDS and the sudden, unexpected break out of SARs and the speed with which it travelled across borders underscore this point vividly.

International economic disparities and the allure of migration to more developed countries has plunged many into the hands of human traders and even death. International organised crime, the emergence of radical groups whether intolerant in ideas or capable of terrorist activities has also substantially increased the threat to the lives, the stability and livelihoods of many- and usually the innocent!

The struggle for water resources, which is expected to rise, growing pollution and the ozone layer represent another considerable threat to the planet’s 6 billion population in the years to come.

Moreover, the last decade, as we know, and the last few years in particular, has witnessed the rise of internal civil conflicts and strife that has led to the deaths of thousands and made others refugees and displaced. I remember when I worked in Africa some ten years ago that the Ivory Coast and Zimbabwe were held up as examples of development on that continent. Today, the suffering in both countries, for different reasons, has increased tremendously. I also need not dwell on the effects of war for an audience that either comes from or works in Bosnia and Herzegovina.

What the rise in internal conflicts showed us from the early nineties onwards is that regional alliances and organisations are not the end all and the be all of security but that people and the politico-economic systems and structures that surrounded us have just as much importance when it comes to war and peace today.
In sum, today’s global population faces threats of multiple sorts that are local, regional and global in nature and where events in one place can fast trigger events in another.

**Concept of Human Security**

This backdrop highlights that in today’ world, Human Security is a complicated and multifaceted affair. For the UN, and in particular, UNDP, at the centre of human security, as all development, are not economic strategies or organisation or other plans and policies, these are only vehicles. At the centre of all development and thus human security is the welfare of the human person.

As such, The UN has identified seven key elements that constitute this broad concept, namely:

1. **food security** – meaning that people at all times have both physical and economic access to basic food;
2. **health security** – essentially, the ability to access and receive basic health services;
3. **economic security** – which is both employment security (in terms of both obtaining and retaining a job) as well as stability in real income;
4. **personal security** – such as for example security from torture by the state or arbitrary detention or threats from other groups of people (ethnic tension);
5. **community security** – the security most people derive from their membership in a group – a family, a community, an organisation, a racial or ethnic group that can provide a cultural identity and a reassuring set of values;
6. **environmental security** – which constitutes basic access to natural resources, for both recreational and economic use in a sustainable manner, and;
7. **political security** – meaning respect for human rights, but also the ability to participate and influence the political system.

In more simple terms, Human Security can defined as the ability to identify, avoid or mitigate threats to human lives, or fears, and thus by society and its members to offset the consequences of the occurrence of such fears and threats.

**Link between HS and Economic Development**

So what is the link between HS as defined above and economic development?

When we bear in mind the multifaceted nature of human security, we recognise that that economic development is only one component that makes up this concept. And
this is important because economic development therefore also relies on favorable positions for all the other components involved. In other words, economic development requires that all the other components of human security have or are evolving favourably.

This is demonstrated through the direct, everyday relationship between security and economic development. Without guarantees – either legal or emotional – that expenditure on investment will pay off, individuals, companies, communities and governments will be unwilling to engage in either business development or trade.

In turn economic development, growth and income means populations feel better and more confident and this is a key asset particularly in political transitions and makes the economic component of human security a crucial one. It is hardly surprising that in BiH according to UNDP’s Early Warning System, all Bosnians no matter what ethnic group or region have the economy and jobs as their top concern!

Moreover, although it will vary from situation to situation in most development contexts where there is a high degree of threat to human live across the seven components, it seems that we are talking more about laying the basis for economic recovery rather than economic growth.

Importantly, effective human security can only be assured when economic growth is one that avoids growing disparities as the latter will only fuel rising crime, social strife or political tensions. No more is this evident than in the growing disparity between the rich and poor halves of our planet or even the insecurity that plagues a city alone like Rio de Janeiro.

Economic growth rates are NOT the be all of human welfare and stability, sustainable human developments that takes into account comprehensive development needs are!

2. Southeast Europe and Human Security

So how does SEE rate when it comes to human security, economic development and what are the challenges that lie before it?

Socio-Economic Security

In terms of socio-economic security (that is, security of employment and income, and; access of individuals to major public services as healthcare, adequate housing, education), the situation has seen improvement in recent years, but outstanding challenges remain. Statistics on unemployment alone across the region underscore that. Unemployment rates in the region are staggering: 15% in Albania; 21% in Croatia; 22% in Bosnia and Herzegovina and almost 50% in Kosovo. Economic opportunities are limited and the brain drain of the best and brightest continues as the young, educated populations continue to leave in search of better opportunities for their future. At an individual level, ongoing privatisation processes in Bosnia and Herzegovina and Serbia and Montenegro have seen individual perceptions and fears
about job employment increase. This has been further compounded by market reforms that have been taking place parallely in each of the countries of the region.

Growth in the region is also not bad which bodes well for the transitions underway. In Bosnia and Herzegovina growth in the last financial year was 4.7%, in Croatia 5.5%, in Romania and Bulgaria 3% and 4% in neighbouring Serbia and Montenegro (SAM).

However economic growth has not been sufficient to mitigate high poverty levels.

In BiH, the UNDP EWS indicates that some two thirds of Serb and Bosniac households and one fourth of Croat households struggle to meet the minimal consumer basket. A livings Standard Measurement Survey recently also undertaken by UNDP, the World Bank and DFID highlighted that some twenty percent of the population live on a general poverty line of two dollars a day. Unemployment, according to the EWS, stands at some 44 percent and will most certainly rise (down to 22 percent when informal economy is taken into account). Salaries remain horrendously low at some Euro 150 in the Republika Srpska and some Euro 250 in the Federation.

Yet, when it comes to Poverty, BiH does favorably with regard to the region. With twenty percent of the population on the general poverty line, BiH fared well in comparison to the regional would -be power house, Serbia and Montenegro (SAM) where around one third of the population lives in relative poverty and one fifth in absolute poverty. BiH also does well in comparison to Albania where again one third of the population lives on two dollars a day and some half a million people live in absolute poverty!

These levels of poverty do little to inspire the trust of populations in on-going transition, the political leadership and the future. Such negative perceptions and hardship do little therefore to inspire confidence in a brighter future and of course continue to facilitate sparks that can ignite conflicts and social strife which in turn does little to improve economic development. As one Slovak reformer once told me, managing people’s perceptions is key to a successful transition that entails short-term hardships.

This situation is even more crucial in a country such as BiH and SAM, which were part of a middle income Europe in the early nineties and whose populations are now face the reality of poverty. In BiH, today GDP is at roughly Euro 1,000 per capita, which is half that of 1992.

In other areas pertaining to socio-economic security, the picture is not as bleak. Health systems - although often under funded, do function and people across the region do at least have elementary access to health services. Similarly, primary and secondary education is provided to all. There certainly is room for improvement in each of these areas. However, implementing improvements and reforms will, like in many western countries, inevitably be an ongoing process as governments strive to adjust to advancing technologies, educational methods and market-sector requirements.
Personal Security Risk

Personal security in SEE has also seen improvements in recent years but the situation remains concerning and indeed, challenging. Everyday cases of torture, the threat of war and street violence in the region are nowadays things of the past.

However, other threats to personal security persist and in some cases are on the rise. Crime across the region has been a continuing problem. Trafficking in particular has been a challenge, underpinned by weak controls and border services. At least 25% of the heroin consumed in Western Europe now passes through the borders of Eastern Europe.

Small arms and light weapons (SALW) and mine contamination are another serious threat to personal security in the region. SALW are a particular threat in Bosnia and Herzegovina, Southern Serbia and Macedonia. Not only are weapons stockpiles possessed by the armed forces high, but so too are the levels of SALW illegally in the hands of civilians. A recent UNDP report in Kosovo reveals that there are up to 460,000 firearms currently in civilian hands in that province alone. The presence of such high levels of SALW increases the sense of vulnerability on the part of citizens as well as presents a potential for undermining stability.

Mine contamination meanwhile has and continues to hinder refugee returns, infrastructure recovery programmes and economic development. In Croatia alone it is estimated that over 4,000 square kilometres of land is contaminated by mines. In BiH, mine contamination affects over 4% of the country’s territory. The UNDP has been actively engaged in assisting the governments of the region deal with this issue, but the nature of the mine clearance process itself has meant that progress is slow.

Perhaps most importantly, ethnic tensions – although they have been on the decline – still do linger in the region. Ethnic problems for example persist in FYROM, and resolution to the Kosovo problem is nowhere in sight. However, the situation is not as grim across the region – and this is certainly the case in Bosnia and Herzegovina in this regard. UNDP’s Early Warning System shows that perceived violations of minority groups in ethnic majority areas are not only declining, but are in single digits. The number of Serbs and Croats who see their future in BiH has respectively doubled and tripled in the last quarter and the percentage of the population who expects a war if SFOR pulled out has decreased.

Environmental Risk

Although efforts to improve socio-economic and personal security in the region have been ongoing, environmental security has been an area that has received insufficient attention. Environmental insecurity in Southeast Europe is high. Yet, ironically, there is widespread recognition of the fact that the environment is a decisive factor in people’s health and a key factor for a healthy workforce and economic development. While previously largely unchecked industrial pollution has diminished, as state-owned industries have closed down, there is an increasing problem of pollution by small and medium-size enterprises (SMEs) that have taken their place. Sewerage treatment facilities are largely not in place in the region and sewerage is often discarded directly into rivers, lakes and the sea. Most solid waste is dumped in rivers. There is also a serious problem of unexploded ordnance in dangerous condition at
military sites. It is estimated that at going rates, the destruction of just the Bosnian Armed Forces’ surplus ammunition stockpiles will take 137 years. Forest cover has dramatically reduced throughout SEE in the last decade. For example, forest cover in Albania has reduced from 36% to 16% in only the last 10 years. And illegal felling continues to be a serious problem.

The situation can be attributed to lax, non-existent or outdated environmental standards - coupled with poor enforcement mechanisms in cases where regulations do exist. In other cases, it can be attributed to the absence of resources to see environmental protection systems put into place. The overall results is an increased risk to human safety, increased water pollution, air pollution, soil degradation, respiratory and other diseases. If left unaddressed, the absence of attention to environmental security threatens to jeopardise living standards across Southeast Europe and cut short the countries’ long-term development opportunities.

**Political Risk**

In terms of political risk, the situation has been mixed. The ascent of progressive, democratic governments in the region has seen a decrease in civil and human rights violations, conflict, and domestic ethnic violence. Political risk however, also encompasses freedom from arbitrary behaviour that is not limited just to direct political risks but also includes aspects as corrupt civil service, unpredictability of institutional settings, poorly functioning judiciary, poor contract enforcement and the like. In the context of Southeast Europe, this is the single area where the absence of meaningful progress is poised to have the most critical effect on economic development in the foreseeable future.

Corruption and organised crime run rampant, maintaining the Balkan’s negative reputation and reducing incentives for foreign direct investment in the face of declining aid flows.

A we all know, Efforts to promote economic growth and stability are further hampered by weak public administration and legal systems throughout the region.

The crux of the matter though is that undertaking sensitive political transitions is not aided by economic uncertainty and high poverty.

### 3. SUGGESTIONS FOR FUTURE DIRECTIONS

To conclude, we can say yes - human security has improved in Southeast Europe and with this the chances for economic recovery and development; however, considerable work still needs to be done to ensure that human security and all the components that constitute human security are brought up to a level that will work towards fostering sustainable human development throughout South East Europe.

Personal security – which includes community security – still require further reforms to ensure transparent and effective legal and policing systems that can deal with crime and corruption. Ultimately in my view, at the heart of the development for a number
of SEE countries and thus the main challenge in establishing real human security and real economic development is the establishment of multi-ethnic liberal democratic polities capable of responding to the needs of citizens. This is certainly the case for BiH, Kosovo and even Macedonia.

In BiH, Bosnians of all sides need to study the various models of Government that exist in Europe to ascertain the final shape of an effective, streamlined Government apparatus that is a driving force for development and not a yoke – whether it is a unitary state such as that of Portugal/France, a State of many autonomous regions such as Spain, a cantonal system such as in Switzerland, a federal system such as Germany or a two-entity/two community system such as Belgium.

Second, the countries of the region must ensure that economic growth is broadly based – so that everyone has equal access to economic opportunities. Growth that leads to disparities will not facilitate the consolidation of stability nor of successful multi-ethnic countries. We have all witnessed all too well this century how frustration over inequality can take the form of religious and political extremism, leading to terrorism. However, history has also shown us – through concrete examples such as Malaysia, Singapore and Mauritius - that where human security and social integration are ensured, economic growth and human development can progress too.

Thirdly, it is essential that more attention is given to environmental security. Preventing further environmental degradation is necessary if the natural resources with which Southeast Europe has been endowed are to be around to sustain the economic development of current and future generations of Southeast Europeans.

Fourthly, EU accession is undoubtedly the greatest guarantor for the success of Southeast Europe politically and economically. In return for the ultimate prize of accession, the EC can use its influence to secure the kinds of reforms that will improve human security throughout the region.

In today’s Global village it is clear that human security is a multi-faceted concept that requires an integrated response. Recognising this the UNDP has been working in Southeast Europe to assist states in improving critical elements of human security – from assisting with mine action and small arms to supporting governance structures, local development, advancing information technology in the region and preventing HIV/AIDS.

UNDP and the other Agencies of the UN are also championing the eight Millennium Development Goals which work towards human security at a global level as targets to be achieved by all its members states by 2015. They include:

1. the eradication of extreme poverty and hunger;
2. achievement of universal primary education;
3. promotion of gender equality and empowerment of women;
4. reduction of child mortality;
5. improve maternal health;
6. combat HIV/AIDS, malaria and other diseases;
7. ensure environmental sustainability;
8. develop a global partnership for development.
In contrast to past UN conferences, the MDGs provided for clear national targets and long-term planning on which Government performance can be monitored, and ultimately, submitted to accountability through elections.

And indeed, it is only by working on these issues and other elements of human security in tandem that we can achieve human security for all. As citizens, neighbours, decision-makers, intellectual, we all have the responsibility for human security and we all have the responsibility to make it work.
Ambassador David R. Nicholas, OSCE Project Co-ordinator in Ukraine; U.S. Secretary of Defence Representative to the OSCE

Thank you Mr. Ambassador. I will tell you that even though my present position carries the title, “Ambassador,” I protest that I am not a diplomat in the career sense. I am a lawyer and former businessman. That is what I will always be, and that is what brought me here.

I spent most of my life in private law practice in the United States, where I had also been in my state legislature. I have been in business myself, as well. In my law practice, I represented among other clients, large corporations.

Our state has a law, one that I have worked with, both as legislator and as practitioner, that requires companies, which plan to build large-scale facilities in our state, to perform socio-economic studies (called socio-economic impact statements) in order to predict and to plan to mitigate the impact that proposed new installations would cause. First, those companies have to ascertain baseline data: How many classrooms and hospital beds, etc., are already in the potentially impacted areas; how much by way of police and fire protection is there; how much water and sewage treatment is available; how many miles of streets and highways are there; how much by way of social services, etc., are there. Then, the companies must know and divulge projected incremental changes in population both incident to construction and operation of the proposed facility, and, in concert with experts, determine whether existing infrastructure is adequate to handle the impact from the proposed facility. If not, they are required to cooperate with the authorities to plan the improvements needed to provide adequate services. Finally, provisions for sufficient resources to finance construction of infrastructure necessary to serve the projected population have to be included in the plan for construction of the facility. That is a fairly comprehensive undertaking. But it is necessary when construction of a large plant could double the population of a small community in a matter of a year or two. Construction-phase activities alone can put unbearable pressure on small communities’ limited resources. During the 1980’s, I had the privilege of representing some of those companies, primarily energy companies, so I became quite familiar with the process.

Now, I would like to discuss for a minute how I became involved in this part of the world and how the process I just described relates to the topic of this presentation and to you.

In 1989, I made a transition from that activity into the NATO arena as Defence Advisor at the U.S. Mission until 1993. There I developed a familiarity with the evolution and development of peace in this part of the world. It is no accident, I think, that there is peace in Western Europe, and institutions of democracy flourish here after hundreds of years of hundred-year wars. I submit to you it is because of the very things that you are experiencing right now: Development of habits of cooperation. It is, in part, due to NATO, where not only habits of cooperation evolved, but also, concerns about neighbours’ actions and intentions were resolved. In your case it can be, in part, through implementation of the Dayton Accords. The result can be the same: You can modify your definition of your defence requirements, because you are cooperating with your neighbours. Any plan for your
defence should be a plan with respect to which all of you would cooperate in formulating and with respect to which all of you would provide necessary elements in implementation. The habits of cooperation learned from participating in defence planning and sharing in mutual defence through NATO, allowed Europeans to cooperate more fully with respect to political and economic matters as well. You can profit from that experience.

Next, by way of short digression, I would like to speak briefly about some issues with respect to governance that previous speakers have raised. I agree with what was said, but some balance is required. One issue raised by other presenters relates to the degree of involvement of government in economic affairs. That involvement has to be measured against the need for a market economy. Furthermore, in designing a system, obviously, it is necessary to find ways to establish confidence in the market place. There should be no apprehensions about arbitrary governmental actions.

There was also discussion with respect to perceptions, and the point was made that perceptions have to be managed. I share that view; our office is working diligently to promote a fairer perception of Ukraine in the west. There, I think, reality is better than perceptions, so we are working to improve perceptions. For your countries, obviously there has to be direct relationship between perceptions and reality.

There was another issue raised with respect to risks versus rewards. On the bus over here, a question was posed to me: If I were an entrepreneur, would I rather invest my resources in BiH or in Warsaw? It was intended to be a rhetorical question. I know, from my other experiences and from the people whom I represent, that most, but not all, people who invest are risk averse. The questions are, whether a person has risk capital, and whether the potential rewards are commensurate with the risk. That is something we can talk about during the questions and answers, or on the margins.

Finally, still reacting to what other speakers have said, I would like to say a word about democracy. It is important for the public to know that it can control its own destiny through the electoral process. Fair and transparent elections have to be among the things we gather to talk about, because whether fair elections are institutionalised and carried out or not goes to the heart of whether there is true democracy, rule of law, and the other ingredients that are taken into account by potential investors when considering whether a country is a good place to do business or not.

Now, back to what I was asked to talk about.

When I left Brussels, the Soviet Union had come apart. I had been lucky enough to be able to be in Vienna to watch some of the CFE Treaty negotiations. Even then, the “Warsaw Pact” was disintegrating. I also had the good fortune to have been in Paris during the signing of the Charter of Paris in 1990, and in Helsinki to observe some of then CSCE follow-up negotiations. Based on observations those events that were taking place and on conversations with people involved, it appeared to me that some planning (a term that was not favoured, because it conjured up visions of the past) for infrastructure for economic and community development in the former Soviet Union would be needed. I returned to private law practice in the U.S. in 1993. However, I had it in the back of my mind that the socio-economic work-ups we had been doing earlier relative to projected impact in our state, as well as the models for community
development that were used to predict and mitigate impact, could be germane to help predict systemic changes which would be needed within the Newly Independent States of the former Soviet Union to make the transition smoother. I went to Russia to see if it would be helpful.

A professor from our state university and I cooperated in developing several programs designed to assist there during the transition. One program consisted of a series of business and professional exchanges. One project matched business and professional people from Russia with people in our region in similar fields. We developed sister-state and sister-university relationships. Our universities exchanged professors, administrators, and students. Even today, there are numerous students and faculty in residence in each others’ countries, and we share distance learning programs. We brought parliamentarians and judges and administrators and governors back and forth for the same purposes. Those exchanges were valuable primarily because they created mutual confidence and relationships that endure to this day. We set up Rotary and other service clubs, as well, not only to try to develop additional mutual confidence, but to aid in the development of business-to-business relationships.

At the same time, we commenced to develop what I would call a “socio-economic inventory and analysis.” In simple terms, it had the ingredients of the socio-economic impact statements prepared by energy companies in compliance with the legislation in our state, discussed earlier. It also contained, among other things, a matrix, on which we listed the businesses that were already established in the community where we were implementing our program; those businesses were looked at by economists and roughly assessed for economic viability. Then, with the help of experts, we tried to reason in an informed way, but with certain amount of guesswork, which other businesses would be needed in the community for there to evolve a self-sustaining economic environment. We then attempted to fill in the blank spaces on the matrix by recruiting business people to engage in new enterprises which were needed, based upon our assessment. We reasoned, I think accurately, that one could not succeed in business in a community where so many others were unemployed and had no money to use to patronise that business. (Of course, this very general view was not 100% applicable, because, even in the early days after the transition, there was enough money in a city of more than a million people, as one survey showed, that there was a potential market for approximately ten thousand homes of values as high as $100,000.) We also tried to ascertain comparative advantages and to encourage businesses that could create value-added in the region, and then export their products either outside of the province within the Russian Federation, or even outside of the Russian Federation, to bring in new money.

All of that planning and the prospects for recruiting businesses occurred in the context of the reality that to create the kind of environment where new businesses could succeed, adequate infrastructure had to be in place. It was the promise of economic development that provided the incentive for the city and local leaders to adopt true systemic reform. It was certainly not because people from the outside were telling them what they needed. The local people who wanted to engage in business and to attract investors could see what they needed. They knew that there had to be confidence in the market place. We learned from experience, that the government had to clean up their tax situation; the government had to deal with their reputation for
corruption; foreigners had to feel safe. Legitimate investors would not pay extortion money; they would not pay bribes. U.S. law explicitly prohibits these types of payments. But potential investors did not want to pay money to petty bureaucrats to overcome bureaucratic impediments either. They would certainly not go to a place where they would be in fear for their lives or their safety. They would not go into business under circumstances where they would be uncertain with respect to whether the proper taxes were being paid. They would not invest in a complicated tax environment or in an environment where they would run any risk of being accused frivolously of having violated the law. Furthermore, they would insist that there be police and judges whom they could trust, and a court system in which they could repose confidence and seek redress of grievances with confidence that they would receive a fair hearing. If, when they were doing their due diligence, investors saw too many red flags, they would find other places to go and other things to do.

Only after the various criteria for business climate were met, would the investors look at the labour pool, the availability and cost of raw materials, availability and costs of energy and transportation, the extent of governmental cooperation, and quality of life issues. Most of these factors were quite favourable.

I do not have to tell you, because others already have, of the relationship between economic development and social issues. OSCE and other organisations that try to assist emerging nations are now focusing on development of small and medium sized enterprises in recognition of that direct relationship. That is where additional efforts need to be made right now. While we are working on projects which attempt to help in the process of social adaptation of soldiers displaced by downsizing by supporting programs that teach them what their rights are when they leave military service and enter civilian society, and we are working diligently in the fight against human trafficking through awareness programs and direct assistance, the single most important thing we could do for retiring soldiers and for victims of human trafficking alike would be to provide them opportunities for education and jobs. When I was student, we read numerous studies which demonstrated that simply raising the incomes of impoverished persons by a relatively small amount, so that each person would have at least a minimum subsistence level of income, would have a substantial impact on reducing crime. Creation of jobs is the first line of defence against many social problems including crime.

The final point I would make is that business development does not need to happen randomly. People in government can and should know what it takes in order to accomplish economic development. Competent leaders can and should do all things that are reasonably calculated to accomplish that desired result. I have listed a many of the considerations and things which need to be done. With a more specific set of circumstances and a lot more time, I would be prepared to expand the list and to go over each item in detail. Obviously, the government has to do many things. It has to do them in a way that creates the right kind of environment, so that a free market economy can flourish.
Ambassador Nedzad Hadzimusic, Head of Political Multilateral Department of the Ministry of Foreign Affairs of Bosnia and Herzegovina

In the wake of the latest elections, Bosnia and Herzegovina is once again in a state of flux. According to diplomatic officials working with the Office of the High Representative in Sarajevo, the BiH government has been slow to undertake the necessary reforms that are critical to its post-war transition including the elimination of corruption. While the absence of political will within the BiH government is no secret, the international community has warned that BiH's complacency is dangerous to its economic future.

Sir Paddy Ashdown, the High Representative in Bosnia and Herzegovina has time and again warned his interlocutors in Sarajevo recently about the new threat to the economic survival of BiH following the changes in the level of international assistance provided to the region. The international community is now concentrating its energy on Kosovo and on democratic reform in the rest of the former Yugoslavia. To all who were listening to Mr. Ashdown, the message was obvious.

BiH can no longer monopolise the attention of the international community. One of the central criticisms made by the international community concerns the high level of corruption in BiH. The latest analysis of the World Bank, the International Crisis Group, OHR Anti-fraud Unit, the U.S. General Accounting Office (GAO), GRECO (Group of Countries in the CoE Fighting Corruption) concluded that only a systematic war against corruption will deliver Bosnia and Herzegovina, as well as other countries in the region, currently in the midst of transition from its economic quagmire.

Corruption, identified as the misuse of the office for unofficial purposes is an evil that does not recognise borders or social barriers. It has achieved its best results in undeveloped and transitional countries where the rule of law is ignored and where kleptocratic leaders governed by the motto that "a gram of power is more precious than a load of gold". Admittedly, corruption exists in advanced democracies as well. The resignation of the European Commission a few years ago and the scandals concerning the funding of the Christian Democratic Unions pre-electoral campaign in Germany are just two cases in point.

But the effects of corruption in the Western Balkan region can be seen with the naked eye. Craters in the budgets of the Entities and uncollected customs along with other fiscal revenues have opened the door to abuse. In addition, inventive acrobatics in the privatisation process have managed to enrich some individuals at the expense of the countries economic interests. All guardians of the status quo are to be removed; a psycho-historical barrier based on the struggles from Byzantine control systems to highly centralised structures in the twentieth century should remain history.

A series of donor conferences have now ended. Donors emphasised that the country, that received the biggest amount of foreign aid per capita in history failed to capitalise on its exclusive position. Many youngsters
share the international communities frustration with the problem states and seek to leave. Battalions of young people, lining up in front of foreign embassies, affirm their sense of hopelessness.

The only alternative for this is to attract foreign capital into the SEE region, thereby creating jobs and reviving their respective economies. However, there is no hope that significant foreign investments will occur as long as there is no effective rule of law. Until corruption and organised crime are brought under control investors will look elsewhere. Fortunately, there are signals that a campaign for reform may yet succeed.

A comprehensive anti-corruption policy must include: a foreign policy, a prosecutorial service, a judiciary, interior affairs, finance and customs. A strategy for reform is gradual and includes the following targets: identifying the sources of corruption; punishing the principal culprits; involving the public in the identification of corrupt institutions; introducing corrective actions; encouraging reforms aimed at strengthening the rule of law; eliminating systematic corruption and identifying points of vulnerability in the system, rather than dealing with individual cases. (See the attached Anti-Corruption Team Project proposal).

The good news from Bosnia and Herzegovina is that the Regional SPAI Office will be established in Sarajevo by the end of October 2003. There is new hope that the region will begin to tackle the problem of corruption head on.

Other good news that I have the pleasure of informing you is that the First GRECO Evaluation Report on Bosnia and Herzegovina was adopted as recently as the 7th of August 2003 - at the ordinary session of the House of Representatives/Parliament of Bosnia and Herzegovina. The MP's praised the Report as correct and stimulating - by giving their go ahead to make it public, which will include placing it on the GRECO website.

As far as my country is concerned, it is clear that sooner or later, B&H will be forced to take its destiny into its own hands. Better sooner since Bin’s neighbours will not remain in their current state. To this end, BiH should consider the example of Hungary. It is a member of NATO and a candidate for EU accession. In Hungary, the war against corruption was timely and it complemented the states economic reforms. It succeeded remarkably well. According to the latest data, Hungary managed to attract dozens of billions in foreign investment. Thus, we learned that three of its biggest cities- Budapest, Pecs and Szeged have a larger export rate than Croatia and Bosnia combined!

Bosnia and Herzegovina has many specific problems, however the potential opportunities that exist to encourage foreign investment should not be ignored. That entails attacking the curse of corruption at its source. Failure to act will have enormous consequences. By eliminating the problems of corruption, BiH has the potential to liberate its potential and develop into a modern democratic state.

The future is a choice between poverty or prosperity - democracy or disorder. If it fails to seize this opportunity, it could slip below its European neighbours to the level of the Third World. Thank you for your attention.
**FINAL DISCUSSION**

Dr Richard Temsch, *The Missing Link, International Consultative Corporation*

I revered to the presentation of Dr Swiecicki. I would like to congratulate you on your compelling analysis, with all your conclusions. However, I have a remark and you can take that either as a question if you want to elaborate on the details or you can also let it stand as a comment. There are two types of economic statistics that always raise a caveat when they are being raised. One is the employment statistics and you did not raise that one, but the other is the comparison between GDP figures before and after the transition in countries and the reason why that raises a red flag when these types of statistics are used by politicians and they jump to conclusions that in most cases are very well founded. When you compare GDP figures before and after the transition period, first it is necessary to clarify what kind of GDP we are talking about. Is that really GDP or purchasing power GDP or josted GDP and then you are facing the problem of the conversion rate of the currency that existed before the transition occurred in the country. And then whether you take the official one or black market exchange rate. On top of that you always have the problem that, both before the transition and also after the transition you had, and still do have, a significant black market contribution to the GDP and I have never seen any comparison that I would have confidence in. I do not know if you wish to add something to that or to just let it stand. Thank you.

General Claudio Zappulla, *Personal Representative of the CIO for Articles II and IV, Annex 1B, DPA, OSCE, Vienna*

We are listening to different styles of discussion. I am the Personal Representative Chairman-in-Office, for Articles II and IV of the DPA, but I can say that in 2001 the discussion, which I was attending, was really different concerning BiH. Today the style and the content of the discussion is much more positive and that is the reason we have to achieve inside ourselves, this positive attitude and I recommend to take around this attitude in the world where we have the opportunity to talk. I would like to thank all of you, but especially the Joint Consultative Commission members present here, because this event that is taking place, it is not because of General Zappulla and Ambassador Turkovic, with full respect to both, it is because we have a small commission in Article II where people from BiH are representatives, three parties in BiH, RS and the Federation. Those people are making decisions and recommendations to me, “General, we want and we would like to talk on this matter”. It is their merit if today we discuss that. This is something that I call ownership of the process for Articles II and IV. They have the ownership of this process. Then let me thank all the people who worked silently. There are a lot of people around as, they did a lot of things starting from, what we called, technical staff, translators, all the people from the Centre for Security Studies and from my office. They do not appear like me behind a microphone, but they do a very important job. I would like to thank them. I also wanted to say that I did not trim-line this meeting that was supposed to end tomorrow, but I remain a General. I think of tactics and strategy, if we had concluded tomorrow we would not have the opportunity to organise another seminar next year.
So, I have an excuse for next year and that is why I could not conclude in time, so we will meet again.

Thank you very much, it has been a big pleasure for me.
APPENDIX A

Programme

SEMINAR ON Economic Aspects of Security

2 – 5 October 2003
Trieste, Italy

This seminar has been organised by the Office of the Personal Representative of the OSCE Chairman-in-Office for Articles II and IV, Annex I-B of the Dayton Peace Accords, in conjunction with the Centre for Security Studies BiH

Thursday, 02 October

From 18:30 Arrival to the Hotels of the participants

20:00 – 21:30 Hotel Riviera & Maximilian’s Welcome cocktail hosted by OSCE CIO’s Personal Representative for Articles II and IV – General Claudio Zappulla

Friday, 03 October

08:30 – 09:00 Registration

09:00 Opening session

Chairperson: Ambassador Bisera Turkovic, Director, Centre for Security Studies – BiH

09:30 – 10:00 Opening addresses:

- General Claudio Zappulla, Personal Representative of the OSCE CiO for Articles II and IV

- Mr. Mirsad Ceman - Special Representative of Member of the Presidency of BiH; Member of the House of Representatives, Parliamentary Assembly of BiH

- Mr. Pierpaolo Tempesta, Special Advisor, Permanent Mission of Italy to the OSCE – Vienna
• Mr. Heinz Vetschera, Deputy Director, Department of Security and Cooperation, OSCE Mission to BiH

10:00 – 10:15 Coffee Break

10:15 – 12:15 Session I: “Implications of economic development on transformation of power and its influence on countries in the Region”

Moderator: Ambassador Vladimir Matek, Permanent Mission of the Republic of Croatia to the OSCE

Speakers:

• Mr. Izet Zigic, Minister of Energy, Mining and Industry of the FBiH “Economic aspects in function of countries in transition – Case of the FBiH”

• Mr. Slavko Zmaric, Centre for Strategic Studies of the Ministry of Defence of RS “Demobilisation of RS soldiers in light of reform of defence system in BiH”

• Mr. Jiri Kalasnikov, Acting Director, Working Table III, Stability Pact for South-Eastern Europe – “Role of Stability Pact for South-Eastern Europe in the process of retraining of discharged military personnel and military base conversion”

• Dr. Richard Temsch, The Missing Link, International Consultative Corporation – “Market liberalisation in the countries of south-eastern Europe as an instrument of security and improvement of investment opportunities”

12:15 – 13:15 Discussion period

13:15 – 14:30 Lunch Break

14:30 – 16:30 Session II: “Investment and Security – Investment perspectives in Bosnia and Herzegovina”
Moderator: Ambassador Emina Keco-Isakovic, Permanent Mission of BiH to the OSCE, Vienna

Speakers:
- **Mr. Almir Dzuvo**, - Special Representative of Chairman of Council of Ministers, BiH - “Effects of investment in the development of infrastructure in south-eastern Europe: Building of corridor 5C and its influence on the Region”
- **Mr. Huso Hadzidedic**, Director, BH GAS – “Restructuring of BiH Gas: Possibilities and perspectives of investments”
- **Dr. Mladen Stanticic**, Director, Institute for International Relations, Zagreb, Croatia - “Investment perspectives in the Region”

16:30 – 16:45 Coffee Break
16:45 – 17:45 Discussion period

Saturday, 04 October

09:30 – 11:30 **Session III**: “Importance of economy in the period of transition”.

Moderator: Ambassador Branislav Milinkovic, Permanent Mission of Serbia and Montenegro to the OSCE

Speakers:
- **Dr. Marcin Swiecicki**, Co-ordinator of OSCE Economic and Environmental Activities, OSCE – “Economic aspects of security”
- **Mr. Moises Venancio**, Resident Representative United Nations Development Programme, BiH – “Human Security as the precondition for the economic development in south-eastern Europe”
- **Ambassador David R. Nicholas**, OSCE Project Coordinator in Ukraine; U.S. Secretary of Defence Representative to the OSCE – “Economic Development from a Practitioner’s Point of View”
• Ambassador Nedzad Hadzimusic, Ministry of Foreign Affairs of BiH — “Corruption and crime as basic impediments to economic development of South-Eastern Europe”

11:30 – 11:45  Coffee Break

11:45 – 12:45  Discussion period

12:45 – 13:00  Closing remarks
   General Claudio Zappulla, Personal Representative of the OSCE CIO for Articles II and IV

13:00 – 13:40  Lunch Break

   Free afternoon

Sunday, 05 October

08:00 – 12:00  Departure of participants
APPENDIX B

LIST OF PARTICIPANTS

1. Anoshkin, Alexander, Colonel
   Chief of Article II and IV Assistance Section, Department of Security and Cooperation, OSCE Mission to BiH

2. Basic, Samir, Mr,
   Coordination Officer of Article II and IV Assistance Section, Department of Security and Cooperation, OSCE Mission to BiH

3. Carter, David, Mr,
   Special Advisor to the Personal Representative of the CiO for Articles II and IV, Annex 1B, DPA, OSCE, Vienna

4. Ceman, Mirsad, Mr,
   Personal Representative of Member of the Presidency of BiH; Member of the House of Representatives, Parliamentary Assembly of BiH

5. Dzuvo, Almir, Mr,
   Personal Representative of Chairman of Council of Ministers of BiH; Advisor for Interior Policy, Office of the Chairman of Council of Ministers of BiH

6. Fernandez, Fatima, Dr,
   Project Personnel Manager, UNIDO, Vienna

7. Hadziahmetovic, Azra, Dr,
   Former Minister of Foreign Trade and Economic Relations of BiH; MP, Parliamentary Assembly of BiH

8. Hadzidedic, Huso, Mr,
   Director, BH GAS

9. Hadzimusic, Nedzad, Ambassador,
   Head of the Department for Multilateral Relations, Ministry of Foreign Affairs of BiH

10. Hadzovic, Denis, Mr,
    General Secretary, Centre for Security Studies, BiH

11. Hubo, Hajrudin, Brigadier,
    Member, Joint Consultative Commission, BiH

12. Janko, Dragan, Colonel,
    Member, Joint Consultative Commission, BiH
13. Kalasnikov, Jiri, Mr,
Acting Director, Working Table III
Stability Pact for South East Europe

14. Kapetina, Dragan, Mr,
Military Adviser to Serb Member of the Presidency of BiH; JCC Member

15. Knight-Sands, Kate, Ms,
First Secretary, United Kingdom Delegation to the OSCE, Vienna

16. Keco-Isakovic, Emina, Ambassador, Dr,
Permanent Mission of Bosnia and Herzegovina to the OSCE, Vienna

17. Krzalic, Armin, Mr,
Programme Assistant, Centre for Security Studies, BiH

18. Krznaric, Dijana, Ms,
First Secretary, Embassy of the Republic of Croatia in the Republic of Slovenia

19. Lackovic, Tomislav, Mr,
First Secretary, Embassy of the Republic of Croatia in Austria

20. Lazetic, Dragana, Mrs,
Programme Assistant, Centre for Security Studies, BiH

21. Marin, Slavko, Mr,
Military Adviser to Croat Member of the Presidency of BiH; JCC Member

22. Matic, Vanja, Ms,
Consecutive Interpreter, OSCE Mission to BiH

23. Matek, Vladimir, Ambassador,
Permanent Mission of the Republic of Croatia to the OSCE, Vienna

24. Mekic, Jasmin, Mr,
Consecutive interpreter, OSCE Mission to BiH

25. Milinkovic, Branislav, Ambassador,
Permanent Mission of Serbia and Montenegro to the OSCE, Vienna

26. Mutsch, Barbara, Ms,
Administrative Secretary, Office of the Personal Representative of the CiO for Articles II and IV, Annex 1B, DPA, OSCE, Vienna

27. Nicholas, David R, Ambassador,
OSCE Project Coordinator in Ukraine; U.S. Secretary of Defence Representative to the OSCE
28. **Numic**, Semin, Mr,
   Technical support, Article II and IV Assistance Section, Department of
   Security and Cooperation, OSCE Mission to BiH

29. **Palumbo**, Giovanni, Ltc,
   Implementation Officer, Office of the Personal Representative of the CiO for
   Articles II and IV, Annex 1B, DPA, OSCE, Vienna

30. **Puljic-Cadman**, Sanda, Ms,
    Programme Assistant, Centre for Security Studies, BiH

31. **Sahuric**, Arnel, Mr,
    Programme Assistant, Centre for Security Studies, BiH

32. **Segnani**, Riccardo, Mr,
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    Annex 1B, DPA, OSCE, Vienna

33. **Simic**, Predrag, Dr,
    Faculty of Political Science, University of Belgrade

34. **Siric**, Anton-Ivan, Mr,
    Member, Joint Consultative Commission, BiH

35. **Sokanovic**, Savo, Lieutenant General,
    Deputy Secretary General
    Standing Committee on Military Matters of BiH

36. **Soljan**, Luksa, Ambassador
    Embassy of Bosnia and Herzegovina in Italy

37. **Stanicic**, Mladen, Dr,
    Director, Institute for International Relations, Zagreb, Croatia

38. **Swieicki**, Marcin, Dr,
    Co-ordinator of OSCE Economic and Environmental Activities, OSCE,
    Vienna

39. **Tempesta**, Pierpaolo, Mr,
    Special Advisor, Permanent Mission of Italy to the OSCE – Vienna

40. **Temsch**, Richard, Dr,
    President, The Missing Link, International Consulting Corporation

41. **Turkovic**, Bisera, Ambassador, Dr,
    Director, Centre for Security Studies, BiH

42. **Turkovic**, Seid, Mr,
    Portfolio Manager, Country Portfolio Coordinator Institutional Capacity-
    Building, United Nations Development Programme, BiH
43. **Veljan**, Ekrem, Brigadier, 
   Member, Joint Consultative Commission, BiH

44. **Venancio**, Moises, Mr, 
   Resident Representative, 
   United Nations Development Programme, BiH

45. **Vetschera**, Heinz, Mr 
   Deputy Director, Department of Security and Cooperation, OSCE Mission to BiH

46. **Vujovic**, Slobodan, Captain, 
   Member, Joint Consultative Commission, BiH

47. **Zappulla**, Claudio, General 
   Personal Representative of the CiO for Articles II and IV, Annex 1B, DPA 
   OSCE, Vienna

48. **Zigic**, Izet, Dr, 
   Personal Representative of the Prime Minister of the FBiH”; Minister of 
   Energy, Mining and Industry of the FBiH

49. **Zmaric**, Slavko, Mr, 
   Personal Representative of Prime Minister of RS; Director, Centre for 
   Strategic Studies of the Ministry of Defence in RS