

WHAT DOES THE EUROPEAN UNION'S (EU'S) NEW APPROACH BRING TO BOSNIA AND HERZEGOVINA (B&H)?

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Abstract

Bosnia and Herzegovina has been lacking the collective political power to address the reforms that were necessary for progress towards EU over the years. The B&H politicians could not agree upon any effective coordination mechanism on EU issues. The lack of coordination mechanism has negatively affected the country's interaction with the EU. Beside the coordination mechanism the other political issues could not be resolved. The EU Commission intensively facilitated resolution of the Sejdić-Finci ruling of the European Court of Human Rights that B&H has to implement, but without any success. The political actors have also been unable to agree upon countrywide strategy required for Instrument for Pre-Accession Assistance, in sectors, such as: agriculture, energy, transport and environment. These negative developments led to a substantial reduction of funding in these areas. Political disagreements have caused economic stagnation on moving towards European standards. In February 2014, widespread, citizen-led protests have occurred. These protests have underlined the fragility of the socio-economic situation. The EU Commission has launched a New Approach for B&H towards EU aiming to shift the focus towards economic reforms and issues of direct concern to citizens. This included development of a 'Compact for Growth and Jobs'. The Compact is supposed to be the yardstick for the necessary economic reforms. In this paper we will explain the importance of the New Approach for B&H, as well as what 'Compact for Growth and Job' brings to B&H.

Key words: EU New Approach, Economic reforms, Compact for Growth and Jobs, Bosnia and Herzegovina

Introduction

Bosnia and Herzegovina (B&H) is post-conflict country with very complex political system that provides opportunities for political elite instability. The country has fragmented society, complicated state structure and weak institutions. B&H has been lacking the collective political power to address the reforms that were necessary for progress towards EU over the years.

The B&H politicians could not agree upon any effective coordination mechanism on EU issues. The lack of coordination mechanism has negatively affected the country's interaction with the EU. B&H is the first and only country ever that lost pre-accession funds. It is the only case when the EU redirected its pre-accession funds from B&H to Kosovo. The political actors have also been unable to agree upon countrywide strategy required for Instrument for Pre-Accession Assistance, in sectors, such as: agriculture, energy, transport and environment. These negative developments led to a substantial reduction of funding in these areas. Beside the coordination mechanism the other political issues could not be resolved. The EU Commission intensively facilitated resolution of the Sejdić-Finci ruling of the European Court of Human Rights that B&H has to implement, but without any success.

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These protests have underlined the fragility of the socio-economic situation. Political instability negatively affects investments and economic growth causing poverty and dissatisfaction of the people. Peoples' dissatisfaction brings social unrests which again have effects on stability of the government. In order to assist B&H, the EU Commission has launched a New Approach for B&H towards EU aiming to shift the focus towards economic reforms and issues of direct concern to citizens. This included development of a 'Compact for Growth and Jobs'. The Compact is supposed to be the yardstick for the necessary economic reforms.

In this paper we will explain the importance of the New Approach for B&H. The main purpose of this approach is to make consensus about the goals of main economic policies between all levels of B&H government and to work together in order to fulfilling those goals. The second purpose of the new approach is to help B&H citizens regain the confidence in their governments which is an essential factor for economic development.

The paper is organized as follows: Section 1. represents the Introduction. Section 2. gives the review of the previous literature. Section 3. presents the back-

ground on B&H and EU relations. Section 4. analyzes and explains the importance of the EU's New Approach to B&H, and Section 5. represents the Conclusion.

Previous literature on the political instability and the economic growth The growth theory of a new political economy considers the political stability to be a necessary condition for the economic growth. The thematic literatures usually distinguish two kinds of political instability: 1.) non-elite political instability (i.e. violent coups, riots, revolutions, civil wars, etc.) and elite political instability (e.g. cabinet changes, government crises, instability due to frequent instances of minority governments, etc.).

Rodric (2000) stated that development and improvement of democracy ensures a high-quality growth. In his paper the author pointed out the importance of institutions and stated which institutions are deemed to be significant and crucial for the economic growth.

Alesina et al. (1992) stated that the political instability represented a negative element for the economic growth. They used a sample of 113 countries from the period 1950-1982 and showed that the economic growth was lower in countries with high probability of government collapse. Similarly, Aisen & Veiga (2011) used a sample covering 169 countries, in the period 1960-2004 and found a negative relationship between the political instability and the economic development. They stated that the political instability, viewed as cabinet change, reduces the GDP growth rates, significantly. Political instability has a negative effect on total factor productivity, also affects growth through the physical and human capital accumulation. The paper suggests that the countries need to address the political instability.

Jong-A-Pin (2009) offered a survey on how to measure the political instability and its impact on the economic growth. He distinguished four dimensions of political instability: civil protest, politically motivated aggression, instability within regime and instability of the political regime. In his paper the author questioned the credibility of the political instability in regards to single proxies as viewed through the cabinet changes.

Political elite instability and institutional weakness in B&H are causes that country is unable to formulate and adopt the appropriate policies that encourage long-term growth and needed unique and innovative policies toward joining the EU.

Background on B&H and EU relations

In the early 1990s, the collapse of the centrally, and by only one, Communist

party, planned self-managed economic system and the transition to a market economy started with the disintegration process of former Yugoslavia. As a result of the breakup, there emerged seven countries: Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo and Former Yugoslav Republic (FRY) Macedonia. Slovenia joined the EU in 2004 and Croatia in 2013. Serbia, Montenegro and FRY Macedonia are candidate countries, while Bosnia and Kosovo are still the potential candidates.

As other countries in the region, Bosnia and Herzegovina is still in the process of transformation from a socialist, previously self-managed economy, to a modern market economy. This process started in 1989, but was interrupted by the aggression and internal war in Bosnia and Herzegovina from 1992-1995. The process of the transformation restarted in 1996, immediately after the Dayton Peace Agreement was signed. Bosnia and Herzegovina was economically growing and progressing towards the EU membership. As a result of that progress the Stabilisation and Association Agreement (SAA) between B&H and the EU was signed in 2008 and ratified in 2011. While Bosnia-Herzegovina signed the SAA with the EU in 2008 it has lagged behind its neighbors. Ongoing ethnic tensions in Bosnia-Herzegovina have prevented that country from carrying out the necessary reforms for Euro-Atlantic integration. However, SAA has entered into force in 2015, when the EU switched its approach towards B&H.

The political system in Bosnia and Herzegovina is defined by the Dayton Peace Agreement. The Agreement outlines the Constitution of the state. There were established two entities (i.e. the country was divided into the two parts – one is the Federation of Bosnia and Herzegovina (F&H) and the other is Republika Srpska (RS)). Later, in 2000, a new administrative unit District Brcko was established. The government is highly complex. Bosnia and Herzegovina has around 14 governments (1 at the state level, 2 at entity level, 10 cantonal in FB&H and 1 for the District of Brcko). Beside different levels, in order to ensure the ethnic representation the government on each level requires the participation of different ethnic groups. Decision making process is very complex and it gives the possibility to the elected representatives to protect the members of their own ethnicity. However, the possibility of protection, the right to veto and the right to protect the vital interests has been overused and become main weapon of the political elites to stop certain changes or economic progress. For these reasons B&H's government cannot make prompt and adequate decisions regarding any issues. This complex situation causes delays in the policy realization, slows down and largely brings to the halt the economic growth.

The political environment in Bosnia and Herzegovina was unstable during the whole transition period but it was highly unstable during the mandate from

2010-2014. Fifteen months was needed to form the state government (i.e. Council of Ministers, and in the period of three years there were four changes of the coalition partners). Thus, the coalitions were changed several times at the different levels, as well.

By 2014, the EU insisted in B&H's fulfilling the Copenhagen political criteria, which required the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

The European Commission undertook the intensive facilitation efforts to B&H in order to resolve the Sejdic-Finci ruling of the European Court of Human Rights. The *Sejdic-Finci vs. Bosnia and Herzegovina* is the legal case, ruled in December of 2009, which proclaimed the ethnic discrimination for representation in the institutions of the country for persons not belonging to one of the three constituent peoples (i.e. Bosniak, Serb and Croat). The ruling has not been implemented due to narrow political parties' or ethnic interests. Having not implemented the Sejdic-Finci ruling, the country has not yet ended the discriminatory practice whereby citizens of Bosnia and Herzegovina not declaring themselves as belonging to one of the three Constituent Peoples are prevented to run for the Presidency and/or the House of Peoples' of Bosnia and Herzegovina. Thus, the legislative processes, in general, remain extremely slow, due to the lack of political will to reach necessary compromises. The frequent use of the urgent procedures to introduce laws in the Parliamentary assembly of Bosnia and Herzegovina resulted in an extensive use of the Vital National Interest procedures. Due to the lack of political agreement, the legislations were often blocked by using the Entity veto.

Furthermore, B&H lacks an effective government coordination mechanism on the EU issues. Political tensions within the ethnic groups related to the division of competences across different levels of government have continued. This unfortunate situation has been compounded by the complexity of the institutional arrangements in the country. The political actors have been unable to agree on countrywide strategies required for the Instrument for Pre-Accession Assistance in sectors, such as: energy, transport, environment and agriculture. A failure by the authorities of B&H to agree upon Pre-Accession Assistance for Agriculture and Rural Development (IPARD) structure, has forced the EU to suspend funds for this purpose. In 2013, 45 million EURO in pre-accession assistance funds for B&H has been redirected to Kosovo. It is the first case that the EU redirected its pre-accession funds from one country to another. Moreover, constant political disagreements led to a substantial reduction of funding in different areas. In that sense, the new EU approach would help B&H's government to reach the necessary agreement on economic issues. This will open the way for Bosnia and Herzegovina to benefit fully from the

available pre-accession funding.

A lack of collective political will to address the reforms necessary for progress on the EU path is the main obstacle in B&H. There has been very limited progress on the political and economic issues and on moving towards reaching and/or accepting the European standards. The economic stagnation and an increase of poverty brought widespread, citizen-led protests in February of 2014. The demonstrators' demands and complaints were about the economic and social issues. Unemployment, difficult living conditions, dysfunctional local administrations, reviewing corrupt privatizations of local companies and lowering salaries for official were some of the concrete demands of the protesters. Furthermore, the severe floods, which hit the country in May of 2014, have had a considerable socio-economic impact on the whole country.

The EU provided the immediate and substantial rescue and relief efforts and organized a donors' conference in July of 2014. Significant recovery assistance pledges were made from the international community for the recovery and reconstruction phase.

In order to facilitate B&H, the Commission has launched three initiatives to shift the focus towards reforms that B&H needs and on addressing the issues of direct concern to citizens. It has expanded the EU's initiative called- Bosnia and Herzegovina Structured Dialogue on Justice, in particular, the fight against corruption. It has set up a joint EU- Bosnia and Herzegovina Working Group to accelerate the implementation of the EU's funded projects. It has focused on strengthening the economic governance in B&H. This included development of a 'Compact for Growth and Jobs', an economic agenda that was developed together with the domestic experts, as well as with the international financial institutions.

What Does the EU's New Approach Bring to B&H

In late May of 2014, the European Delegation organized the Forum for Prosperity and Jobs for B&H, in order to identify the economic reform package for B&H. It became clear that B&H's authorities could not agree upon any important political issue. These disagreements halted the country's economic growth and caused severe social unrests. People and society become frustrated and irritated with flagrant irresponsibility of the politicians. Constant changes at all levels of the B&H's government, the initiatives of policy makers who tried to take benefit of the position they have, various disagreements regarding the Sejdic-Finci case and constitutional changes among political party leaders without the discussion at the Parliamentary Assembly, as well as inability to use the IPA funds for certain sectors

created a serious uncertainty with the respect of institutions' functioning.

The EU realized that a large unemployment in B&H and stagnation in socio-economic reforms had to be addressed. The EU Delegation in B&H facilitated the various governments' levels in B&H with creation of the Compact for Growth and Jobs and an announcement that the EU is shifting its approach towards B&H, (i.e. switching from the political to the economic roadmap). The Compact for Growth and Jobs is the document that defines several socio-economic areas that have to be reformed in B&H.

These documents define six measures (e.g. taxes on jobs, barriers to registration of the companies, increasing competitiveness, restructuring enterprises, fighting corruption and providing social protection) that are intended to spur investment, accelerate the creation of the jobs, encourage the fight against corruption, properly define and target for social protection. Dapo & Ridic (2015) explained how a new economic initiative "Compact for Growth and Jobs" may influence the economic growth and accelerate the transition process in B&H.

The main purpose of this economic agenda created by the EU is to eliminate the political instability that exists due to the complexity of decision-making process in B&H, to regain the confidence of the people in their governments and provide the citizens with the vision for the existence of the better and brighter future.

In political economy literature, it is known that "nothing is more damaging to successful development than incompetent, irresponsible and corrupt government; nothing brings development more effectively to an end, indeed so effectively reverses it, as an internal conflict" (Galbraith, 1994). Many post-conflict societies are defined by the political instability, an endemic corruption and lack of the effective state institutions (Collier & Hoeffler, 2004). B&H is not exempt from these characteristics that reversely affect the economic development. Corruption is increasing and presents a key obstacle to the necessary economic reforms and the establishment of the rule of law in Bosnia and Herzegovina (Dapo & Ridic 2015). The previous literature review shows that the political instability is one of the factors that negatively affect the economic development. Both, domestic and foreign investors are discouraged by the threat of political upheaval and changes in the policies. Political instability scares away new investments, and, in case of B&H, it stops the pre-accession funds needed for development of the country. Soubbutina & Sheram (2000) explained that the existence of the political instability prevents a faster economic growth and improvements in people's economic welfare, causing even more dissatisfaction, which causes more demonstrations and again, through a new social conflicts, it increases the political instability. As a result, a country falls into a vicious

circle of political instability. Falling into the vicious circle of political instability can seriously impede the efforts to boost the economic development.

In order to reduce the political instability in B&H and positively influence the economic development, the new EU initiative presented as “The Compact for Growth and Jobs” was created in a way that all levels of B&H’s government should maintain a consensus about the goals of main economic policies. The new EU initiative was supposed to break the vicious circle that the country was falling in (see Figure 1). Its goal was to achieve the political stability regarding the economic issues. Having consensus regarding the economic policies should relax the relations between different ethnic groups and different entities. Political stability regarding the economic policies would be the advancement on the roadmap towards the EU and these achievements would accelerate the pre-accession funds which are quite needed to B&H.

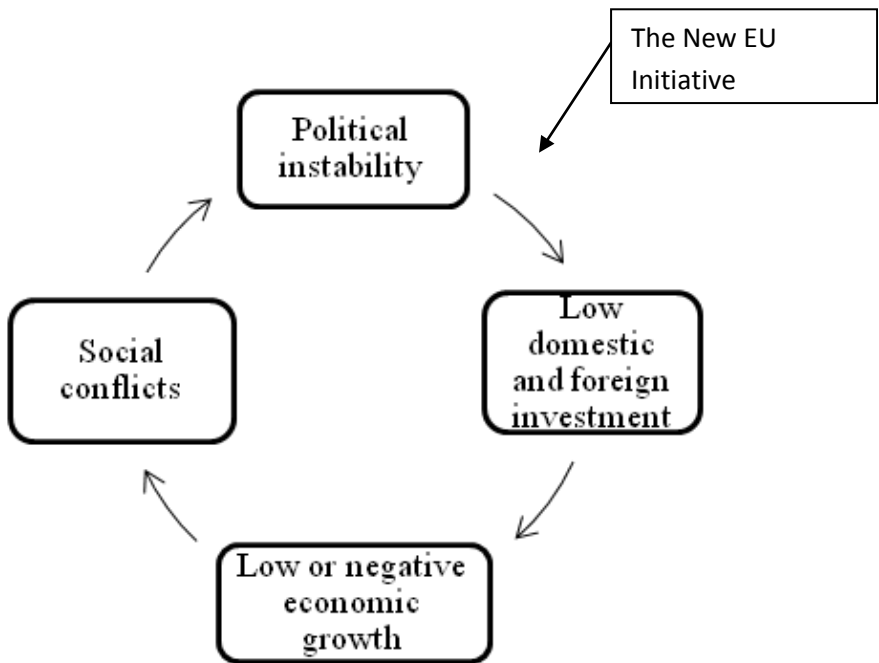


Figure 1. The New EU Initiative Breaking the Vicious Circle of Political Instability

The other important purpose of the new EU approach towards B&H was that various B&H’s governments regain the confidence of its own people in institutions. The confidence of people and their support presents an essential factor for the development (Kohama, 2003). B&H’s government should maintain a consensus about the goals of economic policies. Those goals should be transparently presented and explained to the public. This would motivate the people and would help them to easily accept various measures. This is the way for B&H to improve the functionality and efficiency at all levels of the government and to include its social partners into the decision-making processes. Governments need to focus on addressing the socio-economic priorities, adopt countrywide strategies for various sectors and im-

plement the pre-accession assistance. This is the way, as to how B&H may meet the EU standards on the economic development. After fulfilling these standards, in order to join the EU, B&H must meet the EU standards on the political freedoms.

Conclusion

In this paper we explained the importance of the political stability for the economic development of the country. B&H was progressing on its way towards the EU, until, 2008. Later, due to the internal political disagreements it stays far behind its neighboring countries. Political instability has the negative influence on the economic growth, which usually causes poverty and dissatisfaction of the people who try to make changes through the social unrests, which again cause the political instability. This is the way how the country falls into the, so called, vicious circle of the political instability. In order to help B&H, the EU introduced the new approach for B&H towards the EU.

Introduction of the new approach towards B&H presents the EU creativity. The EU was taking into account the specific problems that B&H was faced with. In this way, the EU contributes more actively to the solution of country's problems by facilitating the government to take the right path towards the EU. The EU facilitates the B&H government by defining the key areas that should be reformed. In the new agenda, "The Compact for Growth and Jobs", the priority is on the improvement of the B&H's economy. Another important aim of the new agenda is the fight against corruption.

Improvements in these areas would provide B&H with the resources offered by the Instrument of Pre-Accession Assistance (IPA funds). This initiative should bring the economic reforms that B&H badly needs to make a complete transition to the market economy, the economic growth in order to bring B&H closer to the EU.

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