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## IMPLEMENTING ECONOMIC DIPLOMACY AND INTERNATIONALIZATION



**International Center for Promotion of Enterprises**

# **PUBLIC ENTERPRISE**

Quarterly Journal, vol. 21, Nos. 3 - 4, 2014

## **IMPLEMENTING ECONOMIC DIPLOMACY AND INTERNATIONALIZATION**

Proceedings of the international conference on Economic Diplomacy and Internationalization, 2-3 June 2014, Sarajevo, Bosnia and Herzegovina

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## FOREWORD

Janez Podobnik\*

Dear readers,

The present thematic issue of the Public Enterprise Quarterly Journal is already the second special edition dedicated to the topic of economic diplomacy and internationalization, thus reaffirming once again that the International Center for Promotion of Enterprises (ICPE) is committed to continue its efforts in promoting the guiding principles and concrete solutions to be implemented by economic diplomacy and in internationalization processes.

The current issue contains the proceedings of the third international two-day conference on “Economic Diplomacy and Internationalization” organized by ICPE in June 2014 in Sarajevo in partnership with the Ministry of Foreign Affairs of Bosnia and Herzegovina and the Foreign Trade Chamber of Bosnia and Herzegovina, in cooperation with the Ministry of Foreign Affairs of the Republic of Slovenia. The conference represented the follow-up event of the first two highly successful events organized by ICPE in 2009 and respectively 2013 in Ljubljana, Slovenia, and it was also the first international event organized in the ICPE member state Bosnia and Herzegovina. Moreover, the event marked the increased cooperation between ICPE and Bosnia and Herzegovina which will be followed by the establishment of an ICPE permanent representation in Sarajevo in the following months.

As long as the conditions of the global economy are constantly changing, largely also due to the global financial and economic crisis, both the activities of economic diplomacy as well as the process of internationalization of national economies have to adapt in order to adequately respond to the challenges posed by the contemporary trends in the local, regional and global economy. For this purpose the conference brought together a wide range of high-profile speakers – representatives of international organizations in Bosnia and Herzegovina, representatives of various ministries from Bosnia and Herzegovina and other countries in the region, representatives of the diplomatic corps, business and academic professionals.

Since the conference took place in the aftermath of the natural flood disaster that affected Bosnia and Herzegovina in May 2014 one of the special topics included in the conference program was related to the steps to be followed for the alleviation of the natural disasters consequences and reconstruction, and the role of diplomacy in this process.

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\* Acting Director General, International Center for Promotion of Enterprises

For those countries with a limited market internationalization is an efficient way for bringing about economic growth. Furthermore, constructive input from companies can help to improve the work of economic diplomacy and chambers of commerce, hence the dialogue between the business sphere and various institutions should not be neglected. Last but not least, the internationalization experience of companies successful in foreign markets can be fruitfully used as models by companies which are still at the beginning of their internationalization process.

Besides the proceedings of the third international conference we enclosed in this edition of our quarterly journal also three theoretical articles focusing on the topics covered by the conference. The role of these articles is to offer a valuable theoretical background on the topic of economic diplomacy and its relation with internationalization and vice versa, in the hope that such an approach will benefit both theoreticians and practitioners in these fields.

I would like to thank to all speakers for their excellent contributions to the success of our conference and to the present publication. Additionally, I would like to express my deep gratitude to all co-organizers and partners for their outstanding work, as well as to the conference participants for their fruitful discussions. Last but not least I must thank the ICPE team and particularly to Igor Ferjan, ICPE Representative to Bosnia and Herzegovina.

ICPE will continue to give special attention to the activities related to economic diplomacy and internationalization which is one of its core programs. Accordingly, the 4<sup>th</sup> international conference on economic diplomacy and internationalization will be organized already in 2015.



**I.**  
**ADDRESSES**

## **WELCOME ADDRESS**

**Ahmet Egrlić\***

Your Excellency Mr. Sørensen<sup>1</sup>, Mr. Turdiu,

Representatives of the BH Government, Ms. Salkičević-Dizdarević, Mr. Kujundžić<sup>2</sup>,

Mr. Podobnik, Ambassador Grmek,

Representatives of the Diplomatic Corps in Bosnia and Herzegovina,

Representatives of the Chambers of Commerce in Bosnia and Herzegovina,

Representatives of the media,

Ladies and Gentlemen,

It is my great honor to greet you on behalf of the Foreign Trade Chamber of Bosnia and Herzegovina (FTC BiH) and in my personal name. I want to express special thanks to the International Center for Promotion of Enterprises and to Mr. Podobnik for the organization of this conference in our country.

FTC BiH has an important role within the overall concept of economic diplomacy. Together with the BiH Presidency, Ministry of Foreign Affairs of BiH, Ministry of Foreign Trade and Economic Relations of BiH, and with the Foreign Investments Promotion Agency it represents a strategic informal union of the BiH institutions aiming to develop the economy of our country.

In the previous period, in cooperation with the above-mentioned institutions, the Chamber organized numerous business forums abroad for example in the United Arab Emirates, Qatar, India, Austria, United Kingdom, Russia, etc. During these forums the BH entrepreneurs had the opportunity to meet with respectable partners from those countries and to achieve concrete business results.

Giving our full support to the organization of the Third International Conference on Economic Diplomacy, let me welcome all of you here in Bosnia and Herzegovina.

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\* President, Foreign Trade Chamber of Bosnia and Herzegovina

<sup>1</sup> Peter Sørensen, European Union Special Representative to Bosnia and Herzegovina

<sup>2</sup> Mitar Kujundžić, Ambassador, Assistant Minister for Multilateral Relations, Ministry of Foreign Affairs of Bosnia and Herzegovina

Economic diplomacy represents a key part of modern diplomacy considering that in the contemporary world accelerated globalization creates a new reality in international relations, especially when talking about economic issues.

Globalization and trade liberalization produce, as a consequence, the increase of competition in domestic and foreign markets. Under these circumstances the countries with an undeveloped concept of economic diplomacy are faced with major problems regarding their economic development.

FTC BiH, as the key association of companies in BiH, has recognized the importance of economic diplomacy and carries out promotional activities of the BiH economy in the world and was officially recognized as the Agency for Export Promotion.

Today's gathering and its venue speak about the Chamber's devotion to the development of economic diplomacy. In the coming period FTC BiH will give its full contribution and engagement to the development of economic diplomacy for the purpose of reinforcing the competition of the BiH economy.

I believe that this two-day conference will produce concrete results and offer directions for future work.

I wish you a successful work and thank you for your attention.

## ADDRESS

**Ermina Salkičević-Dizdarević\***

I am honored, on behalf of the Ministry of Foreign Trade and Economic Relations and myself, to welcome you to the 3<sup>rd</sup> international conference on Economic Diplomacy and Internationalization.

I believe you already know that the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER) covers a number of sectors such as the sector of foreign trade, foreign investment, improving exports, energy, the environment, natural resources, economic development and entrepreneurship, agriculture and veterinary inspection, which is why we can make a significant contribution to the BiH prosperity and internationalization of the economy of Bosnia and Herzegovina in all its essential aspects.

The international obligations of Bosnia and Herzegovina are primarily related to the process of European integration. I especially want to highlight the Stabilization and Association Agreement (SAA) which contains all the obligations of Bosnia and Herzegovina falling within the jurisdiction of MoFTER. Unfortunately I have to say that there are parts of the agreement that we had the will and capacity to accomplish, but we did not manage to implement them at the expected pace and at the pace we wished for. A significant part of the blame is on the complexity of the harmonization and decision-making system.

I believe that we can remove the barriers to Bosnia and Herzegovina's access to the European Union (EU) market, but also to all other open markets in a relatively reasonable time through the use of all local power and resources, maximizing the political will and, of course, with the significant help of the wider international community.

We know that most of the offered agreements contain the same or nearly the same provisions when it comes to cooperation in the sectors they cover, they are all concluded in order to use the benefits of liberalization and greater market share and we are aware that a slow approach to their acceptance and implementation is largely at the expense of Bosnia and Herzegovina. This is not unknown to us, nor have those who become "stronger" partners in these agreements necessarily violated any rule or obligation under the international treaty, they are actually just faster, more efficient, and they recognized the possibilities and benefits of such agreements more professionally.

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\* Deputy Minister, Ministry of Foreign Trade and Economic Relations, Bosnia and Herzegovina

We are aware of the difficult functioning of Bosnia and Herzegovina, which is not only a result of its organization and internal weaknesses. We are aware that we need to overcome the difficulties in removing misunderstandings or the lack of defining the most important acts of our country combined with a complicated system of organization of the state as a whole, but we also believe in our commitment, strength, and I have to say the need to overcome it adequately and as soon as possible with your help and support. There are many examples of non-fulfillment of the obligations that we have and which are vitally important to us, such as the fact that for six years since the signing of the SAA, we could not even transpose the rules relating to the free movement of goods and technical regulations and conformity assessment of industrial products without which there is no BH export of industrial products. There are also SAA requirements related to agriculture and many others.

Other countries, including the CEFTA<sup>1</sup> countries, are moving faster in the EU process, so that our delay in the delivery of this legislation actually is a hurdle that we, I believe, are not able to overcome by ourselves, but I also know that there is full commitment to, with help from the institutions of Bosnia and Herzegovina and the support of international institutions, permanently resolve this issue through vertical and horizontal coordination in the system of political decision-making.

The basic strategic goal of Bosnia and Herzegovina is the commitment to WTO<sup>2</sup> accession and accession to the European Union. The CEFTA 2006 Agreement is a transitional stage on the road to EU accession, but it is also a good basis for the development and utilization of the benefits of goods trade liberalization in the region. Under this agreement during the past year, except for the liberalization of goods, other processes were developed: we joined the family of PEM Convention<sup>3</sup>, we gave each other non-discriminatory treatment in the field of investment and public procurement, we decided to negotiate to liberalize trade in services, and agreed on common growth targets in the South East Europe 2020 Strategy.

Our very geographical affiliation to Europe is insufficient for us and Europe, insufficient to satisfy our desires and the ambitions of Bosnia and Herzegovina to belong to the European Union not only by its geographical location but also by its politics, culture, economy, development strategies and its future. Good and mutually beneficial relationships can be built only if they are well-managed through cooperation and understanding.

<sup>1</sup> Central European Free Trade Agreement

<sup>2</sup> World Trade Organization

<sup>3</sup> Regional Convention on pan-Euro-Mediterranean preferential rules of origin

## ADDRESS

**Željko Jerkić\***

Excellencies,

Ladies and gentlemen,

It gives me great pleasure to welcome you all here in Bosnia and Herzegovina to the 3<sup>rd</sup> international conference on Economic Diplomacy and Internationalization in the name of the Ministry of Foreign Affairs of Bosnia and Herzegovina. The conference is co-organized by ICPE, the Ministry of Foreign Affairs of Bosnia and Herzegovina and the Foreign Trade Chamber of Bosnia and Herzegovina in cooperation with the Ministry of Foreign Affairs of the Republic of Slovenia and some international organizations.

I would like to commend ICPE for their pursuit of enhancing global dialogue and also for helping to organize this event and bringing these distinguished guests to BiH. I am especially glad that we are gathered here to exchange views on economic diplomacy, their value and priorities in these difficult times when floods affected not just our country but the neighboring ones as well.

Bosnia and Herzegovina is facing one of the most difficult natural disasters in its history which affected around one million inhabitants and approximately 25% of the territory. Unfortunately many lives have been lost, thousands of people had to leave their homes, while the material damage is comparable to war destruction. In Bosnia and Herzegovina floods caused landslides, some of them destroying entire households and settlements. Floods and landslides destroyed a great part of transport infrastructure causing cities and villages to remain isolated. We have serious damages in industrial areas and agriculture, but non-exploded devices and mines that have been shifted in many marked and unmarked places are causing special concern. Damage is severe and we need international support for repairing and reconstruction.

As the social, economic and political ties that bind the international community together continue to strengthen it is important that likewise our region continues to work to enhance its international profile as a leader on emerging global issues. Hosting such events in these difficult times signifies that economic diplomacy is taking prime place in the creation of foreign policy and economy, especially now when priorities have to be changed, redefined.

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\* Ambassador of Bosnia and Herzegovina to the Republic of Slovenia

The importance of economic diplomacy is to promote the state's prosperity which is closely connected to the political, public and other segments of diplomatic work. The main focus is on the promotion of our companies on foreign markets, attraction of foreign investments, businesses, technology and tourists. Developing an efficient concept of economic diplomacy implies much more than the activities related to the development of projects and it includes a series of other activities. The development of such a concept requires a multidisciplinary approach both in terms of the areas covered and institutions involved in this concept. A good and efficient concept of economic diplomacy can certainly contribute to move from poverty to prosperity, but only if it is supported by a proactive policy which engages institutions at all levels in our country, as well as the civil society and non-governmental sector.

Bosnia and Herzegovina has faced different challenges over the years. One of these challenges is how to achieve a successful economic development. Last year we focused on promotion and economic forums, this year we focus on projects and investments. Bosnia and Herzegovina is a country with great potential, natural resources, with a good strategic position, a free market involving 600 million people, including the largest economic zone (EU), a stable financial sector, a favorable tax and duty system, positive legislation for foreign investors, favorable trade and other agreements (CEFTA, Free Trade Agreement with the Republic of Turkey), competitive and extremely qualified workforce, as well as low operational costs. We have more than 70 projects ready for investors to invest in infrastructure, energy, agriculture, etc.

I want to point out that our largest institutional investor is the European Bank for Reconstruction and Development (EBRD) with investments amounting to 1.7 billion EUR in diverse projects, mainly in the energy sector. In the context of regional cooperation and new financial investments of the European Union, the EBRD will play an important role to attract investments in the region, in particular to BiH. The key priorities are creating new jobs, political reforms, improving competitiveness, reforming the system of social protection and improving infrastructure.

Recently in Thessaloniki the European Commission confirmed its decision that in the next five years it will invest 1 billion EUR individually, and 10 billion through various financial institutions, including EBRD, in regional projects intended for infrastructure development, energy sector, strengthening economic growth and the rule of law, and expressed its conviction that the aforementioned will be a solid basis for greater investments in the future. Bosnia and Herzegovina has already started preparing projects which are of regional importance, especially those aimed at the creation of new jobs intended for young people.

The three main directions of future cooperation with EBRD are: investment in the public sector, primarily to continue the construction of the Pan-European Corridor Vc, projects in the field of energy and small and medium-sized enterprises.

The importance of the further development of cooperation between the Western Balkan countries has been emphasized along with the fact that concrete infrastructure and energy projects are the best approach to integration in the region, as well as regional integration into the European Union. In that regard, the construction of the motorway within the Vc Corridor is of crucial importance for Bosnia and Herzegovina because it will offer better connections toward countries in the region and the EU, and it will provide an additional momentum for the strengthening of the economy and the creation of new jobs, while the energy sector is our biggest long-term investment project.

Ladies and Gentlemen,

At the end I would like to thank ICPE and all partners for their work on this conference and promotion of economic diplomacy. I believe that we will exchange valuable information and that we will be able to find a model of effective economic diplomacy that will unify our markets and help us to improve our life conditions and our economies. In that sense I wish you a successful conference and a pleasant stay in Sarajevo.

Thank you for your attention.



**ADDRESS**  
**Gazmend Turdiu\***

Excellencies,

Ladies and Gentlemen,

It is a great pleasure to be here at this conference on Economic Diplomacy and Internationalization. It is encouraging to notice the interest this conference has generated and the high level of participation.

We are living in times of globalization, but even here, in our small corner of the world, regional economic integration is not just a need, but a reality. And it is also advancing. We are increasingly relying on each other. During 2012 (as the data for 2013 are not yet fully available), we sold each other in the Western Balkans around 14 billion EUR worth of goods, which is almost 16% of our overall trade. Even if we look at the foreign direct investment (FDI) this is quite apparent – in 2010, the FDI originating from the region and being invested in the region stood at around 2.5 billion EUR.

We have also seen an emergence of a number of truly regional companies during the past decade, firms that are ever-present throughout our countries, with brands that are well-known to millions of our consumers.

The question is: how can we maximize the synergies of this regional market? How can we further promote closer economic ties and use them to our full advantage? Finally, and probably most importantly, how can we help our companies internationalize and move from the national to the regional, and then from the regional to the European or global level? This might seem as too ambitious, but these are some of the questions that we in the Regional Cooperation Council (RCC) are addressing through a better structured and more focused cooperation framework. And this is where a new regional growth Strategy – South East Europe (SEE) 2020 – comes in.

This Strategy, adopted by the Western Balkans' governments in November last year, represents the most recent example of moving the focus of regional cooperation in the Balkans from stability and peace-building to economic growth. The idea of the SEE 2020 is to use the various regional agreements and cooperation frameworks – such as CEFTA, the Energy Community, SEE Investment Committee and others – to promote economic growth and increased competitiveness.

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\* Deputy Secretary General, Regional Cooperation Council, Sarajevo

The logic for this is rather simple and it fits perfectly into the subject of today's conference. We are a collection of small, middle-income countries in a very rich neighborhood. In a rapidly changing world where economies are constantly rethinking their production and supply networks, we need to make sure that we are positioning the region on the radar of European and other investors.

The first area of intervention that the Strategy suggests is that of **integrated growth**. It builds on the need for closer trade and investment integration. The free flow of goods, services, capital and people is at the center of SEE 2020 Strategy and the measures put forward are already being implemented. For example: we are one of the few regions in the world where the trade in goods, including agricultural products, is fully liberalized, with no tariffs. Nevertheless, we are pushing forward – SEE 2020 envisions an ambitious agenda of further trade facilitation, further liberalization and investment integration.

While integration is important, we see it only as one of the ingredients necessary for increased competitiveness. Shifting the economic structure towards higher value-added products and services, and increasing our productivity is another important avenue, addressed in the **smart growth** pillar of the SEE 2020 Strategy. Measures here target a better and more cost-effective financing of research & development and innovation, strengthening education qualification frameworks, and alleviating skills gaps and skills mismatches in the labor markets.

The access to adequate infrastructure and efficient use of resources underpin the **sustainable growth** pillar of the SEE 2020 Strategy. This is an area requiring the greatest prioritization, as the infrastructure development needs are immense, but the fiscal space allows only so much to be done in the near term. While constraining the governments, this might prove a good opportunity to involve the private sector more closely into the process through innovative financing models such as public-private partnerships (PPPs). This is currently one of the topics being discussed within the Western Balkans Investment Framework, a joint initiative that brings together the EU, IFIs, bilateral donors and the governments in the region to help with project financing.

Finally, spreading the benefits of growth remains a priority, as does building strong institutions and predictable business environments. In both of these areas – inclusive growth and good governance – we have put forward measures spanning from labor mobility, labor market governance, to the introduction of alternative dispute resolution to cut back on lengthy court proceedings and address the judicial backlog.

The Strategy contains 86 measures, policy actions and instruments in 16 policy areas - in other words, a handful. The RCC believes that the way to prioritize this

further in the implementation is to take a sectoral approach. With this in mind, our governments have reached a consensus on the first two sectors for prioritization: (i) food and beverage processing and (ii) tourism. These sectors are being seen through the lens of the five pillars of the Strategy – integrated, smart, sustainable and inclusive growth, underpinned by good governance – through prioritizing the removal of trade barriers and promoting investment in the given sector, upgrading skills and promoting labor mobility, prioritizing infrastructure investment to support supply chains related to particular sectors, and ensuring an enabling governance framework. Differently put, we want to make sure that most of the things we do for the implementation of SEE 2020 in the next few years address these sectors first. The integration of businesses in this approach will be crucial and we are already developing links with chambers of commerce, business associations, but also with some of the biggest and most important companies in these areas.

Even the best of strategies and plans mean little without clear structures, resources and processes to execute them. Therefore, we are finalizing the entire governance architecture to enable the implementation and monitoring of SEE 2020 Strategy. Most regional and national action plans are in the final stage of development, while we have identified and put in place a number of indicators, in addition to the 11 headline targets, to measure how we are faring in this process.

The first meeting of the SEE 2020 Governing Board will take place in Bucharest on the 19<sup>th</sup> of this month<sup>1</sup> together with the RCC Annual Meeting. This meeting of the Board will take stock of the preparations and the start of the SEE 2020 implementation, as a joint regional effort to boost economic development, employment and European integration of the Western Balkans.

It is very fortunate that there is a clear understanding of the need to further and deepen cooperation beyond our national borders. I congratulate the International Center for Promotion of Enterprises, the Ministry of Foreign Affairs of Bosnia and Herzegovina, the Foreign Trade Chamber of BiH, and last but not least, the Ministry of Foreign Affairs of the Republic of Slovenia.

To conclude, I wish to express my wish and hope that events like this will be replicated throughout the region, thus serving to better connect our economies and our people. RCC will be present and will continue to actively support these processes.

Thank you.

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<sup>1</sup> June 2014



**II.**  
**ECONOMIC DIPLOMACY**  
**– MODELS, PRIORITIES, TOOLS**

## ECONOMIC DIPLOMACY IN BOSNIA AND HERZEGOVINA

Neven Kulenović\*

Economic diplomacy is an important part of the activities of the Ministry of Foreign Affairs of Bosnia and Herzegovina which is realized through the work of the Economic Diplomacy Department (EDD). The department is a functionally organized unit of eight diplomats, offering both geographical and sectorial coverage. Geographically we are covering a group of countries or continents/regions, like our neighboring countries, West European countries, Central and East European countries, states of the Middle East, Asia, Australia and Oceania, Latin America or Africa. The sectorial coverage includes the most important, strategic sectors like the energy sector, infrastructure, manufacturing, defense industry, agriculture and food industry, wood processing industry, tourism.

The promotion and protection of the economic interests of BiH are our primary goals. Secondary goals are the promotion of our companies on foreign markets, attraction of foreign investments, businesses, technology and tourists. The basic activities of the Department are achieved through the permanent promotion of the economy of BiH, organization and/or participation in business forums, the preparation of investment projects databases, the promotion of BiH companies at trade fairs, the participation in investment conferences, round-tables, participation in the Export Council of BiH, membership in Joint Economic Committees, etc.

All our activities are based on the joint work with the diplomatic-consular network of Bosnia and Herzegovina, which consists of a total of 56 missions, 44 Embassies, 6 Permanent Missions and 6 General Consulates. Their geographical distribution is not adequate - the majority is in Europe (36), North Africa and the Middle East (8), while Bosnia and Herzegovina does not have diplomatic missions in Latin America and the Caribbean, nor in Sub-Saharan Africa.

Talking about the countries-strategic investors, these are divided into three important groups: *European Union* – Austria, Croatia, Slovenia, Germany, Netherlands, Italy, Luxembourg; *neighboring countries* – Serbia; and *third countries* – Turkey, Kuwait, Qatar, Russia, United States of America, United Arab Emirates, Malaysia, Indonesia. The total balance of direct investments in December 2012 was 5.6 billion EUR, and the largest share is still held by Austria (1.3 billion EUR), Serbia (959 million EUR) and Croatia (754 million EUR). The top 10 investor countries include almost 90% of all investments. Due to the good reputation and long industrial tradition of

\* Head, Economic Diplomacy Department, Ministry of Foreign Affairs of Bosnia and Herzegovina

Bosnia and Herzegovina, the manufacturing sector received the largest amount of FDI (35%). A significant share of investment has been recorded in the banking sector (21%).

The Ministry of Foreign Affairs of BiH is the co-founder and member of the informal *Strategic alliance*, together with the Ministry of Foreign Trade and Economic Relations of BiH (MOFTER), the Foreign Investment Promotion Agency of BiH (FIPA) and Foreign Trade Chamber of BiH (FTC). Economic diplomacy can certainly contribute to the faster development of the country if supported by adequate policies involving the government sector institutions at all levels, non-governmental ones and the civil society alike.

### **The Activities of the Economic Diplomacy Department**

In 2013, we were focused on *promotion and economic forums* in which EDD played the coordinating role in setting up the part of the BiH delegation dealing with economic issues, led by the Deputy Chairman of the Council of Ministers and Minister of Foreign Affairs of Bosnia and Herzegovina, Dr. Zlatko Lagumdžija. Business forums were organized in different countries with great success.

38 BiH companies and the Faculty of Mechanical Engineering Sarajevo participated in the business forums “BiH – United Arab Emirates” and “BiH – Qatar” (Abu Dhabi, Dubai and Doha, March 2013).

3 BiH companies: FAMOS East Sarajevo, Umel Tuzla and Elcom Tuzla participated in the business forum “BiH – India” (New Delhi, March 2013).

The investment forum “BiH – United Kingdom” (London, April 2013) was organized by the Embassy of BiH in London in association with the Developing Markets Associates (DMA). The forum was attended by around 200 delegates including key stakeholders and high level representatives from both the public and private sectors interested in investing in Bosnia and Herzegovina. During the respective sessions, three BiH municipalities: Tešanj, Prijedor and Laktaši presented their own projects to potential investors.

The business forum in Russia was held in Moscow (30 May 2013) and was attended by the representatives of 23 companies and 7 institutions from different sectors of BiH economy and over 80 companies from Russia.

In 2014 the focus is on projects and investments, particularly on the preparation of the *database of projects for foreign direct investments* in Bosnia and Herzegovina. The first phase was to collect them through different channels, and then, in the

second phase, to distribute them to our diplomatic/consular network.

### **Floods and Landslides**

With the recent floods the situation changed dramatically. Bosnia and Herzegovina was hit by one of the most difficult natural disasters in our history, as a consequence of the catastrophic floods and landslides. Many lives have been lost while the material damage, comparable to the war destruction, is comprised of more than 100,000 destroyed houses and buildings, 230 devastated schools and health centers.

Local authorities with the support of the European Union, together with the World Bank and United Nation Development Programme (UNDP) will perform the damage assessment that will be carried out by international experts and reported to the BiH institutions. Additionally, the institutions of BiH are preparing a Donor Conference in order to assist in alleviating the consequences of the worst floods that ever struck BiH, conference that will probably be held at the end of June or beginning of July 2014. We are expecting the participation of potential donors, representatives of international financial, humanitarian and other organizations and countries.

Life has to continue and in the future our activities will be focused on our stated objectives, in parallel with solving the problems caused by floods and landslides.

### **The Business Environment in BiH**

Bosnia and Herzegovina has a great potential given its natural resources, its strategic position, the access to a free market of 600 million people including the EU market, a stable financial sector, an advantageous system of taxes and duties, attractive legislation for foreign investors, favorable trade and other agreements, a highly qualified and competitive labor force, and low operational costs.

BiH was assigned B credit rating with a stable outlook by Standard & Poor's Agency (March 2014) and B3 sovereign credit rating with a stable outlook by Moody's Investors Service (December 2013).

### **The Financial Sector**

BiH has a stable financial sector, in spite of the global financial crisis. In 2013 there were 27 commercial banks. 19 banks are foreign-owned and reached 92% of the total banking sector assets (end of 2012). They operate in a stable macroeconomic environment characterized by a very low inflation.



## Natural Resources

Bosnia and Herzegovina offers a strong resources base, with estimated reserves of 6 billion tons of coal (brown coal and lignite), with an estimated potential of over 6000 MW partly exploited hydro, a significant wind energy potential estimated at 2000 MW, as well as approximately 1.5 million m<sup>3</sup> of forest/wood industry residues.

## Trade and Other Agreements

Bosnia and Herzegovina has signed the *Central European Free Trade Agreement (CEFTA)*, with Albania, Serbia, Moldova, Montenegro, Macedonia, and UNMIK/Kosovo. BiH has also signed a Free Trade Agreement with Turkey which provides additional free access to this consumer market of 70 million people.

*The Interim Agreement on Trade and Trade-related Matters (IA) between EU and BiH* entered into force on 1 July 2008, and will be in force until the Stabilization and Association Agreement (SAA) implementation start. According to the IA, all goods of BiH origin that fulfill the EU technical-technological standards and conditions can be imported to all EU countries without any quantitative restrictions and without paying customs or other similar duties.

*The Free Trade Agreement between Bosnia and Herzegovina and EFTA* (Switzerland, Norway, Iceland and Liechtenstein) was signed on 24 June 2013 in Norway. The agreement stipulates the complete abolition of customs duties for goods imported between the parties after its ratification.

BiH has signed/ratified 42 *Agreements on the Promotion and Protection of Investments* with the following countries: Albania, Austria, Belgium, Belarus, China, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Iran, Italy, Jordan, Kuwait, Lithuania, Luxembourg, Macedonia, Malaysia, Moldova, Montenegro, Netherlands, Pakistan, Portugal, Qatar, Romania, Serbia, Libya, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Arab Emirates, Ukraine, and the United Kingdom.

Bosnia and Herzegovina has *Agreements on the Avoidance of Double Taxation* with Albania, Algeria, Austria, Azerbaijan, Belgium, Montenegro, Czech Republic, Denmark, Egypt, Finland, France, Greece, Croatia, the Netherlands, Iran, Ireland, Italy, Jordan, Kuwait, Qatar, China, Cyprus, Hungary, Malaysia, Moldova, Norway, Germany, Pakistan, Poland, Romania, Slovakia, Slovenia, Serbia, Spain, Sweden, Sri Lanka, Turkey, United Arab Emirates, United Kingdom and Northern Ireland.

### **The Foreign Direct Investment Law**

*The Law on the Policy of Foreign Direct Investments* of Bosnia and Herzegovina ensures the treatment of foreign investors equal to that of the national ones, i.e. foreign investors have the same rights and obligations as the residents of BiH, they are entitled to open accounts in any commercial bank in the domestic and/or any freely convertible currency on the territory of BiH, or to freely employ foreign nationals, subject to the labor and immigration laws of BiH.

Foreign investors are also entitled to transfer abroad, freely and without delay, in convertible currency, proceeds resulting from their investment in BiH. They may own real estates and they enjoy the same property rights with regard to real estate as the BiH legal entities.

Foreign investors are protected against nationalization, expropriation, requisition or measures having similar effects.

Foreign investors concerned about risks of transfer restrictions, expropriation, war and civil disturbances and denial of justice, can be insured against these risks through the European Union Investment Guarantee Trust Fund for Bosnia and Herzegovina, administered by the Multilateral Investment Guarantee Agency (MIGA, member of the World Bank Group).

### **Tax Rates**

*The unique value-added tax (VAT)* rate is 17%. The Indirect Taxation Authority is in charge of collecting the value-added tax and coordinating fiscal policy issues in general. This body is also responsible for collecting customs and excises on the entire territory of BiH. VAT is a general tax applied to all commercial activities, including the manufacturing and distribution of goods and providing services.

*The corporate income tax* rate is 10% on the whole territory of Bosnia and Herzegovina. Profits are calculated in accordance with the applicable laws, by deducting (real) expenses from revenues. The tax base includes the profit gained through revenues and capital gains, according to the accounting regulations. Expenditures must conform to the accounting standards.

*The personal income tax* is 10% of the gross salary on the entire territory of Bosnia and Herzegovina.

### Competitive Labor Force

BiH is characterized by the availability of a skilled, educated, competitively priced and multilingual labor force that is familiar with international business, a workforce characterized by relatively low labor costs according to Western standards. The average net wage in BiH in December 2013 was 838 BAM<sup>1</sup> (428 EUR).

### Export / Import

In the period January-December 2013 export amounted to 8,380 million BAM, which is 6.6% higher than in the same period of 2012, and import amounted to 15,170 million BAM, which is 0.5% lower than in the same period of last year. The coverage of import by export was 55.2% and foreign trade in goods deficit amounted to 6,790 million BAM.

BiH's export to CEFTA countries amounted to 1,336 million BAM, which is 1.3% higher than in the same period of 2012, while import amounted to 1,679 million BAM, which is 2.5% lower than in the same period last year. The coverage of import by export was 79.5%.

The export to EU countries amounted to 6,172 million BAM, which is 7.9% higher than in the same period of 2012, while import amounted to 9,110 million BAM, which is 2.7% lower than in the same period last year. The coverage of import by export was 67.8%.

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At the end let me quote a part of the famous Kulin Ban Charter from 1189 which proves that free movement of people, goods and capital is not an innovation of modern times:

“...All Dubrovnians (people from Republic of Dubrovnik) can walk where I rule, trade, move wherever they want to, with real confidence and real heart, without malice...

... They will not be forced by my officers, and as long as they stay in my lands, I will help them as I would myself, as I can, without any evil thoughts...”

<sup>1</sup> Bosnia and Herzegovina convertible mark

## POVELJA BOSANSKOGA BANA KULINA

(29. VIII 1189)

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<sup>1</sup> Fol. 49<sup>v</sup>-53<sup>r</sup> (Cod. slav. 12 Bibl. Vatic.), v. sp. XIII i „Slovo“ 9-10.

<sup>2</sup> Prema tzv. lenjingradskom (izvornom) primjerku.

## **THE SLOVENIAN ECONOMIC DIPLOMACY IN BOSNIA AND HERZEGOVINA**

**Iztok Grmek\***

### **Slovenia and BiH are Important Economic Partners**

Bosnia and Herzegovina (BiH) is Slovenia's 12<sup>th</sup> most important foreign trade partner. The total value of the foreign trade in goods in 2013 was 909 million EUR, of which the total value of exports was 557 million EUR and the total value of imports 352 million EUR. According the Bank of Slovenia the amount of trade in services in 2013 was 136.6 million EUR. So, the value of trade altogether (goods and services) in 2013 was more than 1 billion EUR.

In 2013 there were 3,121 Slovenian companies that exported to BiH and 1,307 Slovenian companies that imported from BiH. On the other hand it is also important to state that Slovenia is BiH's fifth to sixth most important foreign trade partner.

According to the Bank of Slovenia (data by June 2013) the amount of the Slovenian direct investments in BiH was 572.9 million EUR which represents 10.2% of all Slovenian direct investment abroad. BiH is on the third place among the countries where Slovenia has invested the most after Croatia and Serbia.

As a consequence, there are 566 companies with Slovenian capital operating in BiH that employ more than 17,000 people.

### **Slovenia and BiH Have Many Joint Business Opportunities**

The opportunities for the economies of both Slovenia and BiH are largely enhanced by the Joint accession to the Third Markets where one or the other country has good economic and diplomatic ties. To officialize this kind of business cooperation among Slovenia and BiH a Joint Declaration on the Cooperation in Third Markets was signed this year<sup>1</sup>. In this Declaration it is stated that the joint accession could be possible especially in the fields of fresh water, wood industry, food industry (halal), infrastructure and energy.

Slovenia recognizes the Sarajevo Business Forum as an important mechanism to attract foreign investors from the Arab, Gulf and other Muslim countries to the region and as a possibility for joint accession to these markets. Therefore different

\* Ambassador of the Republic of Slovenia to Bosnia and Herzegovina

<sup>1</sup> 2014

Slovenian officials and business people are attending the Sarajevo Business Forum each year trying to establish a business bridge between Slovenia and these mostly Muslim countries.

Some of the construction companies from the region (including BiH) have already joined the Feniks project and are applying for the construction tenders in Third Markets.

### **Slovenian Development Aid in Bosnia and Herzegovina**

BiH is an important partner for Slovenia in the field of International Development Aid. Between 2008 and 2013 Slovenia has assigned 5.5 million EUR to BiH. In the years 2013 - 2015 there are foreseen activities in the amount of 1.5 million EUR of which 1.2 million EUR for infrastructure projects, investments and technical aid to the private sector.

For technical aid in the field of EU accession, prevention of corruption and organized crime, for projects in environmental protection, care for children and women capacity building around 100,000 EUR is foreseen for each area.

### **Activities of the Slovenian Economic Diplomacy in BiH**

#### *Sessions of Joint Commissions for Bilateral Economic Cooperation*

So far Slovenia and BiH held two sessions of the Joint Commission on Bilateral Economic Cooperation, the first being held in December 2010 in Ljubljana and the second in December 2012 in Sarajevo. On 27 May 2014 there was a meeting between the two Co-chairs of the Joint Commission in Ljubljana where the bilateral economic cooperation was reviewed and the problems of some Slovenian companies in BiH were highlighted.

#### *Business delegations which accompany high-level state representatives on their official visits abroad*

The Slovenian Embassy in BiH has so far organized many high-level visits (president of the state, president of the government, etc.) accompanied by business delegations. During all these visits business conferences and meetings were organized. In October 2013 the President of the National Assembly of the Republic of Slovenia, Mr. Janko Veber, paid an official visit to BiH and a Business Conference in co-operation with BiH Foreign Trade Chamber and the Slovenian Chamber of Commerce and Industry (GZS) was organized during the Zenica International Fair (ZEPS).

Several times per year, hand in hand with the Ministries of Foreign Affairs, Chambers of Commerce and the Slovenian Business Club in BiH the Slovenian Embassy in Sarajevo also organizes different other types of business delegations and meetings in various locations in BiH. During each event so far there was special time reserved for B2B meetings. In 2013 there were different conferences of that type – two in Sarajevo, one in Vitez, one in Mostar and one in Zenica. During these meetings the main focus is sometimes on different specific sectors (metal, wood, food industry, etc.) and sometimes the representatives of different sectors and various companies gather together.

These business events are mostly organized with the support of a special “Business Project Fund” foreseen by the Slovenian Ministry of Foreign Affairs which helps reducing the organizational costs for individual companies and chambers and facilitates companies’ meeting with several potential business partners in one place at the same time. In 2014 the Embassy is planning to organize at least four more events: a B2B meeting, marketing conference, wine festival, and FMCG conference.

### **The Support of the Diplomatic-Consular Network in BiH**

At the Slovenian Embassy in Sarajevo there is a full time Economic Counselor who helps Slovenian companies by establishing communication with the BH public institutions (Ministry for Foreign Trade and Economic Relations - MOFTER, Foreign Investment Protection Agency - FIPA, Foreign Investment Council - FIC, other state, entity, cantonal, local institutions and trade chambers, etc.), public and private companies.

One of the duties of the Economic Counselor is also helping to solve some of the problems Slovenian companies have in the BH market, mostly through contacts with the relevant institutions or with specific companies, by getting information from the courts where the processes are delayed and informing the EU Delegation when the BH legislation is not in concordance with the EU rules.

The Economic Counselor (co)organizes and participates in business meetings at various institutions and companies, trade fairs (especially in joint presentations of Slovenian companies in cooperation with the Slovenian SPIRIT Agency - Foreign Investment Promotion Agency - and the Chamber of Craft and Small Business), seminars, conferences and other promotional activities throughout BiH.

Additionally, the Economic Counselor informs Slovenian companies about business opportunities in BiH by publishing foreign public tenders at [www.izvoznookno.si](http://www.izvoznookno.si), counseling about the possibilities, steps and habits of entering the BH market,

finding business contacts and potential business partners. The consular Office of the Embassy in Banja Luka provides the same above-mentioned services to the Slovenian companies in that region.



## **CORPORATE DIPLOMACY AND INTERNATIONALIZATION OF NATIONAL ECONOMIES**

**Dr. David Đ. Dašić\***

The European Center for Peace and Development (ECPD), as an international educational and research institution, through the realization of its ambitious and prestigious Program of International Diplomatic Studies, at the master and doctoral level, has been contributing to a better understanding, theoretically and practically, of the importance of economic diplomacy in contemporary international relations.

Foreign policy and diplomacy are inseparable from the market, market realities, market laws, market logic and ethic, and from the so-called market fundamentalism. The market places have become a promised land all over the world, and business people, investors and corporate decision-makers have become almost sacred people. It is a reality of the contemporary world economy, not a simple propaganda of economic neo-liberalism, nowadays under severe crossfire from all sides.

Profit, as the main market value and business criterion, must become a tool to measure the quality of foreign policy and diplomacy of every single state in the international relations and on the world economic scene. No country can consider its foreign policy and its diplomatic service efficient if it has a very high deficit in the balance of trade and balance of payment, huge foreign debt, high unemployment, low standard of living, and so on.

Nowadays, in every prosperous country, economic diplomacy comprises the biggest part of all activities of the ministries of foreign affairs, diplomatic and consular bodies and many particular diplomats. The national economic policy has become a substance of foreign policy, while diplomacy, especially economic diplomacy, has become a tool for the realization of the national goals on the world market scene characterized by fierce competition. It is not an exaggeration to say that contemporary diplomacy is, in fact, economic diplomacy.

Working in the USA and Brazil as a diplomat for years (as Yugoslav Consul general to New York City and ambassador to Brazil, as well as the head of Montenegro's trade mission in Washington, D.C.), I will briefly present their economic diplomacy. My impression is that the first line of the American diplomacy is formed by the interests of the U.S. corporations. Very simply put, for Americans the "business of diplomacy is a business", apprehended in the spirit of the American urban myth of entrepreneurship: "what is good for General Motors is good for the United States".

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Hillary Rodham Clinton, former U.S. Secretary of State Department, in her Opening Remarks at the President's Export Council (11 March 2011), told the audience, *inter alia*, that it is:

*"a critical aspect of my job to help open every market I can find and sell every American product I can sell [...] So I not only like to promote our products and services, but our ingenuity, our creativity, and everything else that we stand for. [...]"*

*We are working hard to turn our ambassadors into CEO [...] And we believe that having a CEO model for the chief of mission will help us manage the myriad of U.S. Government assets and activities in every country in the world today[...] So [...] we help provide the tools that our ambassadors need to be able to do everything possible to promote this mission about expanding our exports [...]"*

*When I do travel, I try to do a commercial diplomacy event in many places. I was in Australia where we did an event with Caterpillar, John Deere, Harley Davidson, and GE. When I was in Russia, I visited the Boeing engineering facility in Moscow and witnessed firsthand the extraordinary cooperation, not only between Russians and Americans but between Moscow, Chicago, and Seattle."*<sup>1</sup>

Also, I do believe that Brazil owes its impressive economic prosperity, among other things, to its economic diplomacy. Every single day, on his working table in the Itamaraty Palace, the Brazilian Minister of External Relations has precise data of the country's exports and imports. One of the major mottoes of the Brazilian foreign policy and diplomacy is achieving a favorable balance of trade on a daily basis. Due to such an approach to the foreign trade policy, Brazil has been obtaining a surplus in its international exchange of goods and services.

In my opinion the two above-mentioned examples are very instructive for all professional people dealing with economic diplomacy in a practical way. Apparently, one of the main goals of economic diplomacy is to boost exports, developing international trade and spur connectivity among national economies.

A particularly important form of economic diplomacy is the so-called corporate diplomacy, invented in the lap of global corporations. At the beginning of the XXI<sup>st</sup> century there are over 65,000 global corporations in the world and around 500,000 corporate branches located in other countries, striving to expand businesses worldwide. Nowadays, global corporations are controlling over 80% of the world's financial capital (foreign direct investment and portfolio investment). Over 90% of all new patents and advanced technologies in the world are now in the hands of

<sup>1</sup> <http://m.state.gov/md158181.htm>

global corporations. Over two thirds of the worldwide trade is being carried out by global corporations through the intra-firm and inter-firm trade, while the income of some global corporations is higher than the gross domestic product (GDP) of many national economies.

In the year 2011, for example, there were only 30 countries in the world having a higher GDP than the revenue of Wall-Mart Stores was. Its revenue was over 5 times higher than the GDP of Serbia. The revenue of *BP plc* (former British Petroleum) was higher than the GDP of all former Yugoslav republics, now independent states (Serbia, Croatia, Slovenia, Macedonia, Montenegro, Bosnia and Herzegovina). The GDP of Serbia was equal to the revenue of *BMW*. The revenue of *General Electric* was almost two times higher than the GDP of Croatia. The Danish GDP was slightly higher than the revenue of *Chevron*.

Global corporations have become the driving force, main generator of globalization and prosperity of the entire world economy, spreading the awareness that “the world is one and indivisible”. They have forged a business network of global linkages, global interconnectivity around the world, linkages that bind us – countries, institutions, and individuals – much closer than ever before. They bring new, modern forms of economic organization and management, and offer a new global way of thinking in solving the current economic problems. Wherever they have appeared, they have brought and bring an appropriate economic revival, rapid economic growth, increased investment, job creation, increased standard of living, and so on.

The future of the world economy, as well as of every national economy, lies in the hands of global corporations, which are the paramount subjects of trade, domestically or internationally, as buyers or sellers. Only those who observe the contemporary world through categorical terms that are narrower than global ones are in conflict with global corporations.

Not only are the global corporations very powerful economically, but also politically. They hold real, rather than formal, levers of power and influence around the world, in all countries, including the United States, known as *factocracy*. The leaders of global corporations (Chief Executive Officers – CEOs) and their owners have become the most important part of the so-called “global super-class”, becoming very influential at the national and global level.

Observing the rising power of global corporations and their leaders, governments of many countries, including their major political parties, have established some kind of special partnership with them, known as a *corporatocracy*.

Aiming to be more efficient in the world market places, global corporations practice their own diplomacy. They have created and developed their own special service (sector) for “foreign affairs”, with their own diplomats, their own protocol, and other mechanisms that are required for establishing various forms of cooperation and relations with particular states, with other corporations and business entities and with their own branches, located in different countries outside the site of the respective corporation. The “diplomatic service” of some global corporations is even better equipped than the diplomatic service of certain independent states.

Official state diplomacy and unofficial corporate diplomacy rather cooperate than confront, striving to achieve common strategic goals. It is more and more evident that the powerful global corporations actively participate, directly or indirectly, in shaping the foreign policy of many countries. The diplomatic potential of global corporations has become some sort of diplomatic reservoir necessary to the state diplomatic sector, to the Ministries of Foreign Affairs and other diplomatic bodies. Moreover, at the same time, career diplomats fluctuate from the diplomatic service to global corporations to carry out business diplomacy.

Today, for many countries, advanced and less developed or developing, the economic cooperation with global corporations is even more important than the economic cooperation with some other countries. The new era, marked by the rise of power of global corporations, both economically and politically, requires a new approach towards contemporary diplomacy and its appropriate models, underlining the inevitable role of corporate diplomacy as a crucial part of modern economic diplomacy.

It seems that the existing diplomatic systems, based on the official relations between states, as well as between states and international organizations, were not completely capable to meet all challenges of the contemporary global market economy. Taking into account the new global circumstances, it is maybe high time to start thinking about the possibilities of introducing special official regulations of diplomatic relations between states and global corporations, and between international organizations and global corporations.

## ESTABLISHING AN EFFECTIVE AND TAILOR-MADE COMMERCIAL DIPLOMACY

Dr. Boštjan Udovič\*

The idea of commercial diplomacy is to generate welfare. The logic is quite straightforward. With their apparatus states help enterprises to internationalize, become more competitive and expand their operations abroad. By expanding their operations, these enterprises offer more jobs and better salaries (at home and abroad). With regard to the latter, a higher extent of economic operations, if conducted appropriately, leads to higher income. Enterprises pay income taxes and the money is transferred from private to public hands. To sum up, we can say that commercial diplomacy as such is an activity that generates higher welfare for the citizens of the country that pursues it. Although we can agree that the presented process is overly simplified and that in real life things do not proceed step-by-step, the fact remains that commercial diplomacy helps increase the welfare of all citizens.

Since the activities of commercial diplomacy are financed by the state and the human resources used in commercial diplomacy frequently come from the state administration, the basic question is how to establish an effective commercial diplomacy that will be able to maximize the output with a limited input. We think there are four steps that a country needs to take if it wants to establish an effective (and efficient) commercial diplomacy. But before going into details, we need to explain what is meant by 'effective commercial diplomacy'. In this respect, three views are possible: the citizen's perspective, the enterprises' perspective and the perspective of the state (administration). The following paragraphs briefly explain each of them.

### Effectiveness for Citizens

As taxpayers, citizens are not interested in high-flown words on the relevance of commercial diplomacy. The only thing that they care about is its price. Thus, in the mind-set of citizens commercial diplomacy should not be expensive, it should give results with minimum funding and should lead to more jobs, higher welfare and a better development pattern. A typical taxpayer is therefore not interested in the structure of commercial diplomacy, which institution takes primacy within its structure, how commercial attachés are selected; nor is the taxpayer interested in the structure of the national economy, the orientation of export and foreign direct investments, etc. The only issue that is relevant is the optimization of commercial

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diplomacy in such a way that citizens will pay – directly and indirectly – as little as possible.

### **Effectiveness for Enterprises**

Compared to the citizens' view, the perspective of enterprises on commercial diplomacy is far more complex. Here, we first need to distinguish between the *ex-ante* and *ex-post* commercial diplomacy. While *ex-ante* commercial diplomacy allows state officials to influence the external environment and to be as friendly as possible for the exporters and investors from the incoming country, *ex-post* activities deal with mitigating and resolving negative occurrences that have affected the operations of businesses. In short, commercial diplomacy – from the point of view of enterprises – is effective if it enhances (by improving the environment) or protects their business operations.

The next touchstone of the effectiveness of commercial diplomacy from the enterprises' perspective is the level of protection of national firms' interests in relation to other competitors. National commercial diplomacy competes with commercial diplomacies from other states. Thus, if enterprises are satisfied with the work and activities of the national commercial diplomacy, the latter can be considered as effective. On the other hand, if there are problems or a substantial gap between the expectations and real practice, the national commercial diplomacy is understood as ineffective.

Finally, we also have to mention that enterprises compete among themselves and that they understand commercial diplomacy along the Roman maxim *mors tua vita mea*. This means that enterprises are, in a way, trying to privatize the services of commercial diplomacy or sometimes even monopolize them. Since they have to retain comparative advantages, they try to use the strategies of the first comer and niche player. Especially in the cases of public dominion, commercial diplomacy can be quite helpful to them. However, when they have reached the top position, they no longer favor the possibility of commercial diplomats also helping other firms, particularly if they are in direct competition. In such cases, the effectiveness of commercial diplomacy is measured in its 'partiality'. From the state's point of view, on the other hand, commercial diplomacy activities need to be impartial and should offer assistance to anyone requesting it.

### **Effectiveness for the State (administration)**

Since there are no clear-cut criteria for measuring the effectiveness in state administration, it is also quite difficult to measure the effectiveness of commercial

diplomacy at the state level. Nevertheless, there are two sets of criteria that can be used as a measure for the effectiveness of commercial diplomacy, i.e. the cost-benefit ratio and the achieving of national interests. With respect to the former, the effectiveness logic is similar to that of individuals. The background of such an approach is that the state should perform its tasks in the best possible manner while spending as little (taxpayer) money as possible. However, the second criterion for the effectiveness of commercial diplomacy is more problematic than the first one. Firstly because there is a problem in defining national interest and secondly because it is difficult to measure whether the national interest has been achieved or not. This is why a country first needs to firmly define its national interests (firmly because this view should not be changed after each election) and then also set the criteria on how the meeting of the national interest goals will be evaluated. Only after all this has been done can we start debating about the effectiveness of commercial diplomacy.

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We have seen that defining and measuring the effectiveness of commercial diplomacy can be a ‘mission impossible’ when (a) there are no clear criteria, (b) there is a strong link between economy and politics, and (c) the expectations do not meet the reality. This makes it very important to set the criteria as a measurement scale for the effectiveness of commercial diplomacy. In the following paragraphs, we present four criteria that should be met if a country wishes to establish a competent and effective commercial diplomacy:

- 1) A country should have a single national strategy on the relevant markets and relevant branches for the country in question.
- 2) Effective commercial diplomacy requires an intersection of ‘demand’ (what enterprises need) and ‘supply’ (what the state can offer).
- 3) Enterprises should be encouraged to take a proactive approach towards their internationalization.
- 4) All three previous measures have to be granted strong public relations support.

### **A Single National Strategy**

A national strategy on the internationalization of companies is a condition *sine qua non* in modern economic relations. It defines the most important markets, branches and industries. However, it is not only the result, i.e. the national strategy, that matters, but also the process of the economic and political actors preparing the national strategy. Since all strategies are political documents and commercial

diplomacy deals mostly with economic issues, decisionmakers, politicians and economists/businessmen all need to work hand-in-hand in preparing the national strategy.

The first step in preparing a national strategy is to find the most important sectors/industries from the point of view of national interest. These sectors have to be selected carefully, including all relevant stakeholders and bearing in mind the long-term development of the country. This means that if there is potential in an underdeveloped sector, it should be included in the strategy. The second step is the verification of the strategy. After preparing the strategy, political decision-makers have to test it in the business community. Businessmen and enterprises need to know which branches and industries are declared as strategic and in what way the state is to promote, develop and protect them. Only if all stakeholders play with open cards can the national strategy be successful. Finally, it is important that the national strategy of internationalization is not a 'white elephant', but it is flexible and changeable; meaning that when it is necessary to change it and adapt it to new facts, this can be done quickly and smoothly.

### **The Intersection between 'Supply' and 'Demand'**

The logic of an intersection between 'what enterprises need' and 'what the government should offer' is a typical case of Pareto optimization. The government is a sort of service for the national economy, which is why the government should answer the requests coming from the business world. It is thus important for the government to know the needs of the business sector and only then employ its tools. A reverse behavior, when the government offers lots of instruments without taking into account the capabilities, possibilities and issues within the business sector, is quite unproductive and ineffective. However, it is necessary to emphasize at this point that the government is still only 'a service' and is not entitled to lead the business activities of companies. Therefore, the government can assist enterprises in their development towards internationalization, but it is not its role to make strategies, approaches and activities instead or in the name of private companies. To simplify, we can say that the government should establish a platform within which enterprises can operate or develop their activities. Finally, it should be added that, along with the differences among countries, approaches to internationalization also differ. This is why successful government activities from one country do not guarantee their success in other countries. All activities that have been tested in other countries and a specific government wants to introduce in its own country should first be tested and if proved successful also adapted to the local particularities. Without the adaptation of instruments to local customs and business behavior, they would become a relict and therefore a demonstration of ineffectiveness of the national commercial diplomacy.



### **Adopting a Proactive Approach**

The internationalization process is not conducted by countries but by enterprises. Therefore, the precondition for discussing the process is that domestic enterprises are interested in their own internationalization. The main problem here is that, especially in small and transition economies where enterprises were mostly oriented to the domestic market, there is a lack of internationalization culture, meaning that enterprises and entrepreneurs are not interested in starting to operate abroad because they are satisfied with the activities on the domestic market. In such cases, the state should adopt measures that will give a push to domestic enterprises to start (thinking about) the internationalization process. These measures can cover a large area of activities: from direct subsidies for internationalization to indirect measures that develop and enhance a friendly business environment. However, this is not enough since the state's measures can only assist and cannot force enterprises to internationalize. This is why enterprises need to become more proactive when it comes to internationalization. They have to be able to see further than only their front yard and think about the long term to develop their operations strategically. To achieve all this, entrepreneurs have to develop business plans that should employ the activities of their enterprises for reaching the efficiency and effectiveness of operations. A substantial help in this process that can come from political decision-makers is the organization of education and training, both of which are of utmost importance in modern international business.

### **Effective Commercial Diplomacy Is about Communication**

The modern era is the era of communication. While in the Roman Empire communication referred to the logic of *ventimiglie*, the modern world without communication does not exist. 'Publish or perish' or 'if you are not in the media, you do not exist' are the classical approaches to how things are going on in the current reality. That is why it is important that the services offered by the state are presented and known among their 'consumers'. Media can serve here as an excellent platform since they can allow commercial diplomacy actors to present their activities, while on the other hand they also represent an echo coming from the business community. It is through the media that the modern-day dialogue is developed. Acknowledging this it is necessary that the 'service sector' (i.e. the supply) frequently presents its activities at press conferences, open debates and round tables, offering the opportunity to debate the relevance, appropriateness and usefulness of the proposed tools and instruments. On the other hand, the 'demand' side has to react clearly and succinctly to the presented tools, making it clear for the 'supply' side which tools, activities and instruments are commonly accepted and can be applied in practice, and which of them are more obsolete, less useful and irrelevant. Since for effectiveness

the supply has to meet the demand, it is necessary not only to test and improve all the instruments proposed by the 'suppliers', but to develop them within a 'supply-demand' debate. Thus, public relations lie at the core of effective commercial diplomacy. Without public presence, the instruments and activities remain unused (If you do not know that something exists, how can you use it?) and they stay in a dusty corner, decreasing the efficiency and effectiveness of commercial diplomacy.

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## Conclusion

The role of commercial diplomacy is in assisting domestic enterprises when operating abroad. As part of the 'state administration', commercial diplomacy is required to follow the rules of economic optimization, i.e. maximizing outputs with moderate inputs. This means that commercial diplomacy particularly needs to be (a) cost-effective, (b) productive and (c) customer-oriented. However, these three conditions should not be understood separately but inclusively, meaning that there is not an 'or' but rather an 'and' between them, since taking each of them separately would mean that commercial diplomacy would lack one of its constitutive angles. Finally, it has to be added that an important issue guaranteeing the effectiveness of commercial diplomacy is the feedback information, which is too often absent in the relation between the 'supply' and 'demand'. Feedback as a process is extremely important in maneuvering and improving the structure and activities of commercial diplomacy, because it is a sort of a test on the operational capabilities and targetedness of commercial diplomacy. Through feedback, 'suppliers' can verify day-by-day whether they have reached their goal and whether the effectiveness of commercial diplomacy has increased. Without sufficient feedback, their instruments and activities cannot be developed and better tailored to the needs of the economy.

## THE PRIORITIES OF THE SERBIAN ECONOMIC DIPLOMACY

Radoslav Janković\*

The main concern of economic diplomacy is to devise ways to ensure a better place for its export-oriented economy and businesses on world markets, bearing in mind the laws of stiff competition, both economic and non-economic, prevailing there. Against this backdrop, the foremost task is to protect the country's national economic interests, and have the largest possible share of the global gross domestic product achieved. The skills and efficacy of economic diplomacy are not only about the amount of the information provided and their timeliness, but also about the variety of ideas and the subject-matters to be negotiated. When considering the priorities of Serbian diplomacy, three basic strategic goals are indisputable: the continuation of the efforts to safeguard the constitutional system of the country, acceleration of the European integration process and improvement of good-neighborly relations. However, diplomacy has to adapt its priorities to the expectations at the economic level. Therefore, the primary objective is to prevent the country's economic problems from being compounded. As the economic crisis is still unfolding and making problems more complicated, economic diplomacy must step up its activities. In the long run, economic diplomacy must rely only on those investments that expand production and increase productivity, thus leading to economic growth.

Economic diplomacy in Serbia, too, should be developed more as an organized activity, skill and as a profession. Economic diplomacy is important in maintaining direct contacts with the managerial teams of global companies, with the aim of protecting the interests of its own economy and its better placement and positioning in the global market.

Serbian economic diplomacy is currently under the authority of the Ministry of Trade, Tourism and Telecommunications which engaged 29 economic diplomats and assigned them to our diplomatic missions.

As assessed by eminent economic experts, *the current concept of economic diplomacy* has fallen short of expectations.

It should be pointed out that such a concept of economic diplomacy, applied in a large number of countries, generally failed to produce the expected results. To my knowledge, in our neighborhood, Slovenia, Montenegro, Bosnia and Herzegovina and Macedonia put this concept on trial but eventually brought back economic diplomacy under their Ministries of Foreign Affairs.

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The new leadership of Serbia is committed to returning the economic diplomacy to the Ministry of Foreign Affairs, and all ambassadors posted abroad have been charged to place economic diplomacy high on the agenda of their priorities.

The complexity of this historical period and, indeed, our country's very unfavorable economic situation, makes it necessary to accelerate the integrative processes in order to boost development, primarily the economic one, considering the increased interdependence with highly developed countries. Viewed in this light, the process of Serbia's EU integration is an obvious opportunity for our economy. So far, this process took place mainly at the political level. However, the experience of European countries in transition which became EU members suggests that it is equally important to have significant improvements of the economy, without which the EU integration is impossible.

Significant economic progress requires the continued enhancement of competitiveness of our economy which is the only effective way of increasing exports. The experience of developed countries shows that the success of their exports is largely dependent on their highly professional and best quality economic diplomacy.

Following the democratic changes and the general social consensus achieved over the political and economic changes Serbia highlighted, as one of its foreign policy priorities, the need to renew its membership in international organizations (World Bank, International Monetary Fund, World Trade Organization, European Bank for Reconstruction and Development, the European Investment Bank, etc.). Thus, one of the major priorities of the Serbian foreign economic policy and its economic diplomacy is to join the World Trade Organization (WTO), taking into account the global importance of this Organization and its institutional connections with the IMF and the World Bank in shaping or adapting to the macro-economic environment.

The global economic crisis, in view of the situation faced by all countries of the Western Balkans at home, has a certain impact, because the necessary reforms to be implemented in the EU accession process are demanding from the economic and social point of view. The fact that the EU countries, due to the economic crisis, are preoccupied with their own problems and are doing everything possible to respond to the challenges posed by the global economic crisis should be taken into consideration. Therefore, regional cooperation among the countries in our region is of special importance. The Balkan countries, EU candidates, are forced to cooperate among themselves and establish relations that they will maintain at the time when they become equal members of the EU. It is therefore necessary to highlight the Central European Free Trade Agreement (CEFTA), which gave an additional impetus to regional cooperation, and provided Serbia with the largest trade surplus in the region.

The main long-term strategic objective of the Serbian diplomacy and, consequently, the basic priority of economic diplomacy of the Republic of Serbia is its EU membership. However, against the backdrop of the world economic crisis there are also other priorities or specific steps and measures to be taken.

In such circumstances, the Serbian economic diplomacy should prioritize its tasks. Furthermore, economic diplomacy is required to play an active role in developing a national strategy in response to numerous challenges of the global economic crisis and recession. Moreover, there is no doubt that Serbia is heavily indebted, and that its trade deficit gives rise to concern.

The role of a modern state is not to invest in businesses and to administer the economy, but to put public finances in order, allow the entry of competitors to the infrastructure sector and remove barriers to investment. The participation of countries in transition in traditional international institutions (e.g. WTO) and various forms of economic integration and trade blocs requires a new model of approach and diplomatic action, in order to better protect their economic and political interests in the globalized contemporary economic relations. These are, among other things, the tasks of all diplomats dealing with economic affairs.

Thus, the modern system of international economic relations and processes of globalization and integration necessitate intensified economic diplomatic activities aimed at the realization and protection of economic priorities and interests. The developing countries and transition economies must look up to the most developed countries for guidance in formulating their foreign policy and setting their foreign economic priorities. One of the conditions for the integration of the Western Balkans into the EU is regional cooperation which is of particular importance at a time when EU member states are faced with the global economic crisis.

As the crisis has affected a larger part of the developed world, some economists suggest that Serbia should look for new attractive markets or sources of fresh capital and possible economic cooperation. This means that under the current circumstances when Serbia is already well-established in terms of its economic diplomatic activities in the EU countries (the largest number of economic advisers have been appointed there), opportunities must be sought on the markets of China, Africa, Arab countries, India and Latin America. After all, the role and importance of any economic diplomacy is not only in finding new markets but also new opportunities and modalities for economic cooperation. In this regard, Serbia should adopt an economic diplomacy strategy resulting in the operational plan for access to target markets or approach with respect to a particular country and a particular business venture.



**III.**  
**INTERNATIONALIZATION**  
**– THE MACRO AND MICRO LEVELS**

## **ECONOMIC DIPLOMACY OF BOSNIA AND HERZEGOVINA THE ROLE OF THE FOREIGN TRADE CHAMBER OF BiH – A BRIEF OVERVIEW**

**Elma Kovačević-Bajtal\***

I will begin the present article with the following quote of Professor Miroslav Raičević: *“The more developed the economy and state are, the more significant the role of economic diplomacy within them are, and vice versa.”* In this regard, much can be said. First of all, classic economic diplomacy:

- represents the specific activity of the state and other actors in economic and diplomatic processes;
- aims at contributing to the overall positioning of the state in foreign trade;
- ensures the internationalization of its business entities.

All these activities are carried out in accordance with the national interests of the country, its key objectives of economic and social development.

The most significant non-governmental institution in BiH - which provides a major contribution to the economic positioning of the country - is the Foreign Trade Chamber of Bosnia and Herzegovina (FTC BiH). It is an independent, non-governmental, non-political and non-profit association of business entities dealing with public authorities within BiH. Its activities are aimed at the development and improvement of economic relations between business entities in BiH and foreign economies, including partnerships with its members and advocating their interests with the competent authorities of BiH and similar associations abroad. It is well known that the Foreign Trade Chamber of BiH has a 100 year long tradition of existence, continual work and legal succession.

The experience of the Foreign Trade Chamber of BiH during the last fifteen years shows increased contacts initiated by both BiH and foreign embassies and consulates, which almost always have the same goals:

- identifying the possibilities of improving economic cooperation with foreign companies in BiH; and
- gathering information on investment opportunities for foreign companies in BiH.

The main objective of the Chamber is to:

- provide high quality and specific information to its members about regulations

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- regarding targeted markets and trade shows;
- provide advice about business opportunities in foreign markets;
- connect potential partners;
- organize bilateral meetings of businesspeople;
- ensure participation in trade shows;
- provide various forms of education necessary for the successful realization of the established contacts;
- create business partnerships.

To date, the Chamber has organized several successful market appearances of BiH business entities in foreign markets in cooperation with BiH embassies.

The Foreign Trade Chamber of BiH utilizes various methods for establishing contacts with business entities and chambers of commerce abroad, from participation in international economic forums, relevant trade shows, cooperation with Eurochambres and other chambers, direct contacts with suitable companies, etc. In addition, during the diplomats' preparations prior to their departure to new destinations, the Foreign Trade Chamber of BiH has always been - and still is - the essential address for gathering useful information on the previously established cooperation with individual countries, and the possibilities and potentials for improving such cooperation. Unfortunately, the Foreign Trade Chamber of BiH does not have representatives or representative offices abroad. This is a very important reason for the close cooperation between the Foreign Trade Chamber of BiH and the Ministry of Foreign Affairs of BiH.

The Foreign Trade Chamber of BiH and the Ministry of Foreign Affairs of BiH have strong and positive partnership relationships, particularly with regard to the cooperation in organizing, preparing and carrying out business delegation visits to BiH and abroad. Nevertheless, BiH embassies do not have sufficient capacities or personnel resources for economic diplomacy operations. For this reason, in the future it will be necessary to staff embassies with economic diplomats, particularly in BiH's largest and most important foreign trade partner - and leading investor - countries, as well as in the countries with identified potentials for improvement of economic cooperation.

In order to ensure success, it is necessary to maximize networking by involving a wide range of participants in the fields of trade and investment, including the use of an underutilized potential - the BiH diaspora. It is also essential to create a country brand, as this will create a better perception of BiH products. Moreover, it is necessary to use innovative and original methods of presenting our own potential, and raise

them to a professional level. Due to the limited potential for market research, it is crucial to involve faculties as well, especially when it comes to market research and preparation of feasibility studies about cooperation with foreign markets.

However, in order to achieve a high quality economic diplomacy performance, specific expertise and support from relevant BiH institutions - which are active partners in these affairs - are of crucial importance. A School of Economic Diplomacy should be set up as soon as possible to provide our economic diplomats, and also entrepreneurs planning to establish branches abroad not only with the theoretical but also practical knowledge and skills. Certainly, the Foreign Trade Chamber of BiH will have a special role and significant involvement in this educational process. We have already taken the first steps in this regard, as well as in the field of lobbying (advocacy).

Economic diplomats are expected to support local and foreign enterprises, with the help of the Foreign Trade Chamber of BiH. Experiences from neighboring countries indicate that economic diplomacy activities are often carried out by the employees of chambers of commerce, something that has recently become a common practice in many countries. In order for economic diplomats to assess the type of information that is relevant and important for BiH businesspeople, they must be familiar with the state of the BiH economy, the priorities and efforts of our companies, and their realistic possibilities. It is particularly necessary to protect the interests of BiH businesspeople.

Unfortunately, BiH does not have strong multi-national companies. That is precisely why each success of BiH companies in foreign markets becomes a success for BiH. This requires enhanced coordination and communication between companies in the same industry, their market partnership and joint action in foreign markets. Last, but not least, it is necessary to actively build and improve BiH's image abroad through systematic planning. Export is a prerequisite for the further development and survival of BiH companies. All relevant BiH institutions should assist these companies according to their own abilities.

In this sense the Foreign Trade Chamber of BiH prepares each year a number of promotional catalogues such as: catalogues of promising industries, trade shows catalogues, information about economic trends, information about foreign trade, etc. Without proper knowledge, expert advice and analyses, information and guidelines for action on the international economic front, economic diplomats cannot perform their jobs adequately. The Foreign Trade Chamber of BiH is the only address in BiH where all the above can be found.

## **THE AGREEMENT ON AMENDMENT OF AND ACCESSION TO THE CENTRAL EUROPEAN FREE TRADE AGREEMENT (CEFTA) 2006**

**Lejla Hamzić\***

The CEFTA 2006 Agreement was signed on 19 December 2006 in Bucharest, and for Bosnia and Herzegovina it entered into force on 22 November 2007. This concluded the process of ratification by all Parties, and in accordance with Article 4, the application of the Agreement started in all signatory states. The agreement was published in the "Official Gazette BiH" - International Treaties No. 9/07.

The signatory parties to the agreement are: the Republic of Albania, Bosnia and Herzegovina, the Republic of Croatia, the Republic of Macedonia, the Republic of Moldova, Montenegro, the Republic of Serbia and the United Nations Interim Administration Mission in Kosovo on behalf of Kosovo in accordance with the United Nations Security Council Resolution 1244. The Republic of Croatia withdrew from CEFTA last year when it became a full member of the EU.

The CEFTA 2006 agreement replaced a network of 32 bilateral free trade agreements and expressed the commitment of governments in the region to promote trade and investment policy in Southeastern Europe. It has established a free trade zone in accordance with its provisions and the rules and procedures of the World Trade Organization. The agreement is fully adapted to the rules and procedures of the World Trade Organization and the provisions of the European Union, and if effectively implemented, the agreement between the signatory parties provides an excellent framework for the preparation of their accession to the EU.

The agreement regulates the trade in goods, and provides the possibility of making mutual concessions in the trading of services. Additionally the agreement regulates other trade issues such as technical barriers to trade, investments, public procurement and protection of intellectual property rights.

### **The CEFTA Structure**

The CEFTA signatory parties have created a number of structures to manage and support the implementation of the Agreement. Some of these such as the Joint Committee were established under the Agreement itself, others have been set-up

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\* Senior Expert, Unit for Trade Relations with European Integrations, Ministry of Foreign Trade and Economic Relations, Bosnia and Herzegovina

through Decisions of the Joint Committee and some function on an *ad hoc* basis.

The official bodies of CEFTA include:

- the Joint Committee - composed of representatives of all Parties at the ministerial level, meets once a year and all decisions are made by consensus;
- the Sub-committee on Agriculture and Sanitary and Phytosanitary Issues;
- the Sub-committee on Customs and Rules of Origin;
- the Sub-committee on Technical Barriers to Trade and Non-Tariff Barriers;
- the Working Group on Technical Barriers to Trade;
- the Working Group on Trade in Services;
- the Working Group on Customs Risk Management.

The subcommittees and working groups work at the expert level, and regularly hold meetings to discuss the current issues in their field of action, and in order to smooth the implementation of the Agreement.

In accordance with Article 40, par. 2 of CEFTA 2006, the Joint Committee is supported by a small permanent secretariat located in Brussels. The overall role of the Secretariat is to provide technical and administrative support to the Joint Committee, to any sub-committee, expert group or other body established by the Joint Committee.

In accordance with Article 44 of the CEFTA 2006 Agreement a network of contact points through which communication takes place between the CEFTA Parties is established.

The position of Chair in Office rotates annually from the 1<sup>st</sup> of January and is held sequentially by the Parties, following the alphabetical order of their names in English. Thus the Chairmanship schedule since the entry into force of CEFTA 2006 is as follows:

- 2007 The Republic of Macedonia
- 2008 The Republic of Moldova
- 2009 Montenegro
- 2010 The Republic of Serbia
- 2011 UNMIK/Kosovo
- 2012 The Republic of Albania
- **2013 Bosnia and Herzegovina**
- 2014 The Republic of Macedonia

### **Significant Results Achieved during the BiH Chairmanship of CEFTA in 2013**

At the meeting of the CEFTA Joint Committee held in Sarajevo on 20 November 2013 the Additional Protocol 3 to the Agreement on Amendment of and Accession to the Central European Free Trade Agreement was signed. Through the Additional Protocol Bosnia and Herzegovina and Albania abolished all tariffs on imports of all charges having equivalent effect, and all import duties of a fiscal nature in the sale of agricultural products.

The CEFTA Joint Committee issued the Decision No. 3/2013 - Amendment to Annex 4 of the CEFTA 2006 Agreement - Protocol on the definition of the concept of “originating products” and methods of administrative cooperation referred to in Article 14, paragraphs 1 and 3, according to which Annex 4 of CEFTA 2006 Agreement is replaced by the text set out in the Annex of Decision 3/2013. The Annex stipulates that the applicable rules of origin will take into account the CEFTA Protocol and the Regional Convention on pan-Euro-Mediterranean preferential rules of origin.

At the meeting of the Joint Committee of Ministers of CEFTA Parties the participants supported the opening of negotiations for further liberalization of trade in services in 2014, as key elements for achieving the ambitious objectives of the strategy SEE 2020 regarding intra-regional trade.

### **CEFTA Implementation**

The Central European Free Trade Agreement (CEFTA) plays an important role in promoting trade and investment in the Western Balkans thus contributing to a better economic governance of the region and its competitiveness.

CEFTA is a modern and comprehensive regional free trade agreement. It provides a strong legal basis for policy formulation and implementation in key areas related to trade and investment. The successful implementation of the Agreement with a full liberalization of trade in industrial goods and agriculture has largely contributed to the creation of a free trade area in South East Europe.

CEFTA has secured a stable free access to markets during the time of economic crisis. This is proven by a firm and consecutive increase in the volume of the intra-CEFTA trade by 23% in 2012 compared to the level of 2009. CEFTA has a share of 24%, which ranks second in the overall exports of CEFTA Parties following the EU share of 57%. The share of intra-CEFTA trade is some 40% of the overall trade of CEFTA Parties in agricultural products, while the share of non-agricultural products is close to 20%.

The implementation of CEFTA has so far been successful not only in dismantling tariffs in the regional trade of industrial and agricultural goods but also in establishing the CEFTA diagonal cumulation, introducing reporting on state aid schemes and a well-functioning dispute settlement mechanism.

Despite the elimination of tariffs in the trade of goods among the CEFTA parties we cannot say that the intra-CEFTA trade is free from market access barriers. Nevertheless, a number of serious efforts have been made in CEFTA and upgrading the CEFTA Market Access Barriers Database is one of those actions which have started 2012. During our Chairmanship, the web-based CEFTA MABD has become fully functional and through it every CEFTA party can encode their market access related problems by selecting a number of predefined classifications. Thus, the CEFTA MABD would be not only a tool to exchange information with regard to the existing market access barriers, but it would also help us systemize detecting the most frequent barriers encountered in the regional trade and eliminate them. In the near future this database will be part of the CEFTA Transparency Pack, the users of which will also be able to have access to the Sanitary and Phytosanitary measures, and to the technical standards and regulations of the Parties. Our efforts aiming to enhance transparency in trade policy and measures are not limited to developing those tools.

CEFTA parties should concentrate their efforts on the elimination of Non-Tariff Barriers (NTB) to trade in the areas of transparency, synchronizing the harmonization with the EU standards and other international requirements, concluding mutual recognition agreements, identifying and agreeing on the applicability of EU/international regulations and standards, and increasing the use of risk management. Non-Tariff Measures are of vital importance for international trade and regional integration. The lack of transparency is a major obstacle, both for policymakers negotiating trade agreements and for businesses seeking to export and import.

## THE INTERNATIONALIZATION ACTIVITIES OF THE GERMAN CHAMBERS OF COMMERCE

Alexander Märdian\*

The German Chambers of Commerce, the AHKs, are located in all countries of particular interest for the German industry. AHKs have existed for more than 100 years. The first AHK was established as far back as in 1894 in Belgium. Further AHKs were set up as the German economy and the global business relations developed during the last century. Beyond the boundaries of changing history, the AHKs have always fulfilled their role in successfully representing, promoting and developing the interests of German industry at the same time as the respective bilateral economic interests.

Today there are AHKs in 85 countries with 125 locations worldwide. There is an AHK in all countries of particular interest to German economic interests. AHKs exist in three different forms:

- bilateral Chambers of Industry and Commerce;
- delegations of German Industry and Commerce;
- representations of German Industry and Commerce.



\* Head of Office, Bilateral Economic Relations, Delegation of German Economic Affairs in Bosnia and Herzegovina (AHK BH)

### **Bilateral Chambers of Industry and Commerce**

Bilateral Chambers are organizations abroad funded by companies with their registered headquarters either in the host country or in Germany.

### **Delegations and Representations of German Industry and Commerce**

Delegations and Representations as a rule are the stage prior to a bilateral Chamber. They can be founded in countries where it is not (yet) possible to set up a bilateral Chamber according to the German understanding of an autonomous body or where the establishment of a bilateral chamber is ongoing.

AHKs have three basic functions in their host countries:

- official representation of the German Industry;
- setting up of member organizations;
- function as service providers to companies.

### **AHKs as the Official Representation of the German Industry**

The AHKs are the most important partners abroad for the German Ministry for Economic Affairs and Energy in terms of the German industry promotion abroad. Together with Germany's missions abroad (embassies and consulates) the AHKs officially represent the interests of the German industry. This function obliges AHKs to neutrality and objectivity.

### **AHKs as Member Organizations**

The AHKs have 44,000 member companies all over the world. These both German and local companies put a lot of effort in intensifying and improving the whole spectrum of foreign business relations, specifically those between Germany and the respective host country.

### **AHKs as Service Providers to Companies**

AHKs support the market interests of German companies in the host country. At the same time they provide services to local companies which are involved in bilateral business. AHKs are increasingly active in the marketing of Germany as a business location for interested companies in the host country. Under the service brand "DEinternational" the AHKs provide services which are globally harmonized and special services according to the specific requirements of the very location.



### **AHK Bosnia and Herzegovina – part of a worldwide AHK-network**

AHK - Delegation of German Industry and Commerce as the official representative of the German Economy in BiH exists in Bosnia and Herzegovina since 1997. Today Germany is the most important trade partner for Bosnia and Herzegovina. AHK in BiH is made up of two organizations under one roof:

- delegation of the German Industry and Commerce in BiH; and
- the association Wirtschaftsverein BiH.

The AHK BiH maintains a close cooperation with the:

- German Embassy;
- GIZ (Deutsche Gesellschaft für international Zusammenarbeit GmbH);
- Agency for Promotion of Investment and Exports 'Germany Trade & Invest' (GTAI);
- Ostausschuss der Deutschen Wirtschaft (Committee on Eastern European Economic Relations);
- Ost- and Mitteleuropa Verein, Germany;
- GKM Mostar;
- EDA Banja Luka;
- Foreign Investors Council (FIC BiH).

### **Range of Activities / Scope of Work**

- consulting services for German companies – first point of contact;
- presentation of market potentials in Germany;
- organization of seminars and workshops;
- lobbying for its members' interests;
- organization of networking events;
- consulting services for its members;
- lobbying for its members;
- supporting BiH companies for activities on the German market.

### **Membership Benefits**

- networking;
- expert know-how at reduced costs;
- representation of interests towards official bodies;
- information advantage through our publications and special events;

## IMPLEMENTING ECONOMIC DIPLOMACY AND INTERNATIONALIZATION

- visibility on our website and other AHK media;
- invitations to exclusive events;
- recommendation of member firms to companies in Germany and BiH;
- additional advantages as part of the Premium Membership;
- lobbying.

We are very proud to be the biggest bilateral business association for economic relations in BiH with 75 members (as of June 2014) with a continuously growing number of members.

*The logos of our members (as of June 2014)*



## **ADVANTAGE AUSTRIA - THE AUSTRIAN INTERNATIONALIZATION AGENCY**

**Sigmund Nemeti\***

The Austrian Federal Economic Chamber is entrusted with various government responsibilities, amongst which there is a statutory obligation to promote foreign trade. It is financed through membership contributions. Its main activities focus on lobbying, business development as well as knowledge transfer in Austria and abroad. Advantage Austria is the official Austrian Foreign Trade Promotion Organization, part of the Austrian Federal Economic Chamber and the largest provider of services in the area of foreign trade. Advantage Austria offices are the gateway to Austria for international companies looking for world-class suppliers.

With a network of 113 offices in 70 countries Advantage Austria is uniquely positioned to accompany Austrian enterprises worldwide. Advantage Austria's representatives throughout the world help Austrian companies find new contacts and improve their existing business connections. We put exporters in contact with potential agents, importers and prospective partners.

Advantage Austria publishes different brochures and uses its internet presence to promote export opportunities for Austrian companies. It organizes trade missions and official participations in international trade fairs, while also providing advice and assistance for inbound buying missions. Advantage Austria unites a high degree of international orientation with an extensive network of local Austrian contacts. These advantages ensure rapid and competent answers to any inquiries and problems that a company might encounter.

Austria is a bridge to new markets, especially in its southeastern neighborhood. Exports have significant importance to the Austrian economy. In 2013 Austrian exports to Eastern Europe went to a large extent to the Czech Republic, Poland, Hungary, Slovakia and Slovenia. Bosnia and Herzegovina took the 9<sup>th</sup> place with economic relations growing robustly over the past years. Austria is the largest investor in the Central and Eastern European (CEE) region. Having 300 regional headquarters of international companies, including 28 Fortune 500 firms, Austria is considered the preeminent CEE headquarters with a close proximity to the target markets. Furthermore, the focus is not only on exports and imports but also on investments.

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\* Commercial Counselor, Embassy of Austria to Bosnia and Herzegovina

Advantage Austria strongly supports exports, 125.4 billion EUR in exports and 130.0 billion EUR in imports of goods being generated in 2013 through 47,000 exporters, which represent 10% of all Austrian companies. The export sales ratio is 6 out of every 10 EUR generated in Austria. Austria is the world's 7<sup>th</sup> largest exporter with 20,134 USD exports per capita. Austrian exports by region in 2013 went primarily to the neighboring countries of the European Union, as well as to Asia, North America, the EFTA (European Free Trade Association) countries, the Commonwealth of Independent States (CIS), and southeastern Europe.

Advantage Austria is an internationalization agency for the Austrian economy encouraging international activities by identifying business opportunities abroad and supporting cross-border commercial activities while also placing Austria globally as an attractive business location and a reliable business partner.

## THE ROLE OF ECONOMIC DIPLOMACY – THE POINT OF VIEW OF ENERGOINVEST

Senada Spahić\*

In the following lines I will present the market position of Energoinvest and then I will offer some comments on several issues pertaining to economic diplomacy.

### Market and Competition Analysis

The predictions that referred to the difficulties in doing business during the current year which were based on the slow recovery from economic crisis worldwide, especially in markets with unstable political situation (where Energoinvest has contracts), as well as a lack of investment activities in Bosnia and Herzegovina, were successfully overcome with a strategic approach that provided a good accomplishment of our targets in the current year and contracting new works in 2014.

The approach adopted by Energoinvest has proved to be a successful model which should be further developed over the next year and it entails strengthening efforts on the continuous monitoring and the analysis of existing solutions to alleviate the negative effects that are a result of the global crisis, providing stable business operations together with maintaining and strengthening the market position of the company.

Most of its activities, primarily in the area of electricity, are carried out by Energoinvest on foreign markets, hence facing the strong competition of global companies, and also the increasing dominance of companies from developing countries. Energoinvest has been successful due to years of experience and efficiently implemented projects in the past, but also to the good reputation of the company.

Most of its contracted works are currently carried out on the markets of *Albania, Iraq/Kurdistan Region, Algeria, Ethiopia, and Libya*, which represent promising markets despite the unstable political and security situation. The regional market has a tendency for large investments in the energy sector; therefore it became significant for Energoinvest which aims to become a regional leader in the implementation of these projects.

The northern part of Iraq - Kurdistan region represents a promising business area for Energoinvest. In this area, Energoinvest successfully manages a contract for the

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construction of four new 132kV power substations and the expansion of the existing 132kV power substations based on the “key in hand” principle. The value of this contract is approx. 49 million USD. The effective implementation of this contract has created the premises for new deals of the company in the future so Energoinvest began to receive direct calls from MOE to participate in tenders. In fact, since the electric network is not developed enough in this part of Iraq, temporary reductions of electricity still exist. In the field of transmission lines in the Baghdad region (Iraq) business deals were closed for the delivery of transmission towers worth around one million USD.

In Algeria, the implementation of the agreement for the construction of 60/30kV transformer substations worth approximately 15 million EUR is in progress. The cooperation with the Algerian company Sonelgaz has been expanded and the construction work of 400kV and 220kV transformer substations worth around 51 million EUR was agreed based on the “key in hand” principle. The work on the construction of a 60kV power substation and the expansion of the field for the existing substations has also been assigned to our company. This deal is worth around 10 million EUR. A contract worth 9.5 million EUR was signed with the same investor for building a 60kVA power substation. Another contract (3.4 million EUR) was signed with the investor Sarl Biskra Ciment related to the design, delivery of equipment and construction of a 220kV transmission line.

Ethiopia is another strategic market of Energoinvest and the implementation of the contract for the construction of 230kV transmission lines for the Electric power industry of Ethiopia worth 48 million EUR is in progress. Our company has also signed a contract for building an approx. 60km 132kV transmission line, the value of the contract being 3.9 million USD.

Three contracts of a total value of more than 100 million USD are in the process of implementation with investments from GECOL and they include the designing, transport and construction of a 400kV transmission line with a length of 200km, a 220kV transmission line with a length of 500km and a 66 kV transmission line with a length of 750km. Energoinvest is also doing work related to the electrification of oil fields for AGOCO which is worth 2.5 million EUR.

### **Energoinvest in the Region**

Concerning the presence of Energoinvest in the region, there is a contract in Albania (for the Operators Sisitemit Transmetimit (OST)) whose implementation is still in progress and it includes the construction of transmission lines and 110kV transformer substations expansion in Southern Albania, the value of the contract amounting to approx. 30.5 millions EUR. Negotiations for a 400kV transmission

lines construction project in the northern part of Albania worth 29 million EUR are ongoing with the same investor. The signing of the contract is expected by the end of the current year. The Albanian market is a very promising market and we hope that we will have the opportunity to participate in the implementation of new projects.

We signed a contract in Kosovo for the relocation of 110kV, 220kV and 400kV transmission lines, worth approx. 2.5 million EUR.

Owing to the references that we received after the successful completion of activities relating to the ecological project of the ash handling system in the Nikola Tesla B block of the power plant in Obrenovac (Serbia), a similar project was implemented in Macedonia, relating to the Transportation system for water disposal of ash on the river Oslomej (approx. 6 million USD). Energoinvest is the only company in the region that has references for this type of environmental projects at the moment.

In this regard, Energoinvest intends to participate in tenders for the reconstruction of thermal power stations in Bosnia and surroundings such as TE Pljevlja, Kakanj, TE Tuzla as well as building new ones (e.g. TE Banovici) in partnership with the Czech company - Skoda Praha.

Energoinvest is now in the negotiations phase for a 400kV transmission line in Montenegro, section Lastva - Čevo, EBRD being the investor, while our competitors are Spanish and Hungarian companies.

Speaking about the presence in the European Union, Energoinvest participated in a consortium with the Austrian company VLB for a contract in Slovakia for the construction of a 400kV transmission line (worth 28 million EUR). This project is a good precondition and reference for other markets in the European Union. In the EU market our company has also succeeded to sign the contract for a project in Sweden that is related to the delivery of steel poles for a 400kV project.

It is an indisputable fact that although in the past we only had two or three competing companies, today up to 20 companies compete in tenders. Up to 40 companies buy the tender and prequalification documents. A large number of competitors are new in this business. The price difference between the bidders during the bid opening process was thus reduced to 1%.

With such a strong competition during the phase of drawing offers our company must pay attention to the screening of each major element of calculative offers. Our most common competitors are companies from India, Spain, Turkey, Saudi Arabia, Italy, France, etc. The biggest problem is represented by the tenders to which companies from India apply because they offer very low prices and become the best bidders.

The operations in Bosnia are negatively affected by the declining of investment, and the presence of strong competitors. Energoinvest gained a contract for the 220 kV transmission line Kakanj - Danube bank worth around 430,000 BAM for Euro-Asphalt and another one for Elektroprivreda BiH to develop the investment and technical documentation - preliminary design of the hydroelectric power station Janjići, worth around 500,000 BAM.

Energoinvest mostly implements projects on the local market that are related to architectural engineering services, services for creating project validation, consulting services, services of the revision of technical and investment documentation, supervision of works on power plants parts, hydropower, as well as in projects related to water treatment. The most important investor in the area of the activities listed above is Elektroprivreda BiH. We also develop projects for BH Telecom in the field of information and communication infrastructure.

### **Activities Planned to Win New Markets and Preserve the Existing Ones**

In the year 2013 business operations were realized under the conditions of extended stagnation which was a result of the economic and financial crisis present in the global market. In spite of that, Energoinvest has managed to gain contracts in existing and new markets through its strategic positioning which provided a stable and increased activity in 2014, especially in the area of the power sector. The next period should be marked by the gradual strengthening of the company's market position anticipated as a result of the positive trends registered in the region and worldwide.

The prequalification for participation in large projects opens the possibility to take part in tenders through direct calls, which is important especially in the cases of increased competition. Energoinvest's business strategy envisages the start of partnerships with leading companies and other financial institutions through consortium agreements or some other forms of cooperation that could allow the penetration of a larger share of the market.

Even though there is a huge risk from the commercial and political points of view, it is still easier to accomplish tasks in traditional markets such as the African countries. In Algeria, we have prequalified for the implementation of projects in the area of transformer stations in the oil fields for the Sonatrach – AGIP Company. The projects that were announced for the construction of power stations of all voltage levels and the preparation of the offer for a 400kV Ousera power transformer represent great expectations and a great opportunity for Energoinvest.



Uganda is the most interesting market for Energoinvest. The bid for the 220 kV transmission line Masaka - Kawanda has been submitted recently along with the prequalification documents for the power industry of Uganda with the goal of implementing the construction project of the 220 kV transmission line Nkenda - Hoima. We have also submitted the prequalification documents for large projects announced for the construction of electrical networks Ethiopia – Kenya.

The preparation of several offers for the construction of power stations and transmission lines for the Ministry of Energy of Kurdistan is in progress. In case of gaining these contracts, the position of Energoinvest in Iraq would be even stronger. According to the latest information received from the Director of the Department of Planning of the Ministry of Energy of Kurdistan, it is expected that a tender will be published for the construction of the power distribution network in the region of Kurdistan with an estimated budget of over one billion USD. Despite Energoinvest's involvement in the tenders for transmission lines in Kurdistan, it must be noted that it will be very hard to beat the competition, especially the Turkish companies that offer extremely low prices in partnership with local companies. This is primarily because of the lower costs of equipment transport and better conditions for securing financial arrangements.

Focusing and strengthening our market position continues in the region, for example in Albania, Macedonia, Kosovo and Kurdistan and Algeria, where we finalized the previously contracted works. Our company will intensify the activities for the preparation of its entrance and market positioning in Montenegro, Kazakhstan, Turkmenistan, Iraq and Tunisia, in order to get new orders in the future.

The Gulf countries are still in the focus of our interest. By setting among the strategic goals to bond with local companies, Energoinvest tries to enter the markets of Qatar, United Arab Emirates, Oman, Kuwait, and Saudi Arabia, and prequalify for construction projects of transmission lines and power stations.

There are big plans for the construction of transmission lines in the Scandinavian countries. We are trying to increase the opportunities for Energoinvest's participation in tenders in Norway through the constant renewal of membership in Sellicha Achille (Norway) where we are present along with other global companies. Members of this bidders' database have no obligation to secure bid guarantees, which is an important financial relief for companies, especially in the case of large projects. We are currently preparing bids for the construction of 420 kV Ofoten - Balsfjord transmission lines, in Norway, for Statnett. Because of the specifics of this market, Energoinvest aims to implement the abovementioned project with the maximum participation of local companies.

Our goal is to improve the quality of completed projects and complete the work before the deadlines set for the finalization of certain contracts, as well as to satisfy the demands of our customers.

It is necessary to properly evaluate the possibility of getting new businesses through constant analysis with respect to the internal potentials of the company and the influence of external factors, on the basis of the considerable number of already contracted projects, to set a realistic correlation related to the participation in new tenders in 2014. This can lead to the reduction of the number of submitted offers in the next period since there are obvious difficulties with providing collateral warranties even for the bid guarantees.

In so far as the local market is concerned, public investments should have a growing importance with the increase in the number of international lenders. The largest investments in the local market are expected to be in engineering, expansion and revitalization of the existing, and construction of new power facilities, primarily hydro and thermal power plants, as well as investments in the road network, projects in which Energoinvest could successfully participate.

### **The Local Market in 2014**

The most realistic projects in the local market for 2014 are in the area of telecommunications, and in these projects the most important investor is BH Telecom with whom we intend to continue to implement more complex projects.

*In 2014 foreign direct investment in the local market is expected to amount to 620-820 million BAM. Out of that amount the investments in the electrical energy sector were around 390 million BAM. Out of the investments planned by Elektroprivreda BiH and Elektroprivreda HZ HB, a large part will go to projects in the construction of renewable energy sources. In order to adapt to the needs and demands of the market, a strategy for participation in projects that involve the application of new technologies in this field is in the preparation process and Energoinvest could apply. Considering its already acquired references, its possibility for applying for other similar projects is increased.*

### **The Role of Economic Diplomacy**

Taking into consideration what has been mentioned above, the areas of work together with the large number of markets where Energoinvest operates, economic diplomacy as one of the essential parts of modern diplomacy is very important for us.

In cooperation with the Foreign Trade Chamber of BiH we took a very active role regarding all issues connected with this topic, as well as in the business forums organized in the recent period.<sup>1</sup> For a long time we have played an active role in the initiation of the very important membership of BiH in Asia and Africa Bank as one of the requests and important premises for bidding in international tenders in those areas. We also support the initiative of diplomatic missions in North Africa, especially in Algeria.

Everywhere we operate and implement our projects diplomatic missions are places where we can find good opportunities for support, common work in business lobbying and networking, presentation of information, etc. The best example of this essential support is the case of Libya in February 2011. Energoinvest and the Embassy of BiH have done an excellent common work to solve the very difficult and dangerous situation that occurred in Libya which was one of Energoinvest's most important markets at the time. In that sense we are going to do our best to continue to be an active actor of economic diplomacy also in the future.

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<sup>1</sup> The business forum held in London (2013), the business forum held in Moscow (2013) and the business forum held in Qatar (2013).

## **THE ROLE OF BBI BANK IN THE INTERNATIONALIZATION OF NATIONAL ECONOMY**

**Amer Bukvić\***

### **The Importance of Economic Diplomacy**

Economic diplomacy is the most important segment of modern diplomacy – it is essential. All we can see in international relations today is telling us that economic relations are preceding other forms of diplomacy. Strong economic relations and mutual interest are the forerunners of strong diplomatic relations. Therefore, diplomats and businessmen are inevitably referring to each other and they should work and exercise their influence in the same way. The synergy between the representatives of public and private sector is the key to lead the national economy towards economic growth and good international relations.

### **The Role of the State Sector in the Internationalization of National Economy**

The first and most important task of the state sector is to serve and support the private sector. Politicians should, on a regular basis, consult businessmen and ask them for advice on how to improve the working conditions and entrepreneurial ambient because businessmen are players who bring success for every segment of the society. There are two important questions for the officials of the state sector to answer at the end of every month: How are public revenues collected? What is the main catalyst of foreign investment that generates employment? Yes, we must all honestly admit that the state sector lives from taxes and fees of entrepreneurs from the private sector who are striving to produce, to sell, to create new jobs and to add new economic values to the society. The state sector must keep in mind that the private sector is the main driver of wealth, growth and employment of the national economy.

Considering the consequences of all that happened in our region during the last twenty years, I have no doubt that everyone is absolutely aware that regional collaboration is much better for all of us and more constructive than regional conflicts. Regional leaders should understand that the Western Balkans region is attractive for foreign investors and businessmen. Therefore, they should avoid any kind of disputes and disagreements and cooperate in the best possible business way for entering foreign markets and work together for better joint offers for attracting foreign investors. For example, United Arab Emirates is attracting direct investments by making laws tailored to the needs of business; each five years laws are adapting to the needs of entrepreneurs.

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\* Chief Executive Officer, Bosna Bank International (BBI)

What we desperately miss in Bosnia and Herzegovina, and what I am fighting to achieve for the sake of doing good business are: one stop shops, new taxes policy, easing visa procedures for investors coming from the Gulf region and free trade agreements.

### **BBI Bank and the International Investment Conference Sarajevo Business Forum as a Model**

Bosna Bank International (BBI) is in its essence a socially responsible financial institution. One of its founders and majority shareholder is the worldwide prestigious development bank Islamic Development Bank from Jeddah. Besides the commercial day-to-day banking activities BBI implements very important projects for our clients and society as a whole, such as: BBI VIP Business Club, Master program of Islamic finance and Banking in collaboration with the University of Sarajevo and Bolton University, BBI Academy, Scholarships for orphans, Charity Fund activities, distribution of cows for poor population, special financing lines (Turkish financing line for support of returnees, IDB Fund, Al Maktoum Fund, BBI Waqf Fund).

It is without doubt that the Sarajevo Business Forum is BBI's most important socially responsible project. The five-year long efforts made by BBI's staff and our partners promoted the Sarajevo Business Forum (SBF) as the most important investment conference in the region and branded SBF as a model to follow. Economic experts acknowledge that SBF is the main platform for business networking and investments in Southeastern Europe.

*What has the Sarajevo Business Forum achieved?*

- a) Sarajevo Business Forum is an excellent model of cooperation between the public and private sectors to promote the internationalization of the domestic and regional economy. BBI's employees, officials from the Ministry of Foreign Affairs of Bosnia and Herzegovina and diplomats from our embassies and consular offices cooperate for the organization of SBF each year. Furthermore, SBF is a mediator between the state and the private sector. SBF brings together to one place project owners and businessmen from the region (private sector cooperation), as well as private and sovereign wealth funds representatives (cooperation with the state sector and economic diplomacy).
- b) During the entire year, SBF's local, regional and international media partners together are intensively working on the promotion of Bosnia and Herzegovina as a central place in the region of Southeast Europe for investment and business projects. For example, media channels from Bosnia and Herzegovina,

Montenegro, Turkey (TRT), Qatar (Al Jazeera Network), Pakistan, Malaysia and other countries show promotional videos of Bosnia and Herzegovina as a country of extremely natural beauty, rich in natural resources, tremendous cultural heritage and as a place where investment will bring profit.

- c) SBF is recognized and rated as a platform for business networking and investments in Southeastern Europe. Every year more than 300 international businessmen and investors attend the SBF. Most of them are rich people from the GCC (the Cooperation Council for the Arab States of the Gulf) countries who come with the intention to investigate existing business possibilities, to identify investment projects and connect with local entrepreneurs.

### **What Should Economic Diplomacy Achieve?**

Sarajevo Business Forum, as a project planned and implemented through the initiative of the private sector, is one serious step forward to internationalize the national economy of Bosnia and Herzegovina. We do hope that there will be much more similar, even better, initiatives, as well as projects from the state sector.

Diplomats, together with businessmen, should strive to:

- attract foreign investments by making laws tailored to the needs of business;
- seek new business and investment opportunities in foreign markets through economic diplomacy;
- strengthen regional relationships through: joint resources, joint strengths, joint strategy, joint market, joint expertise.

Public and private sectors are much stronger when they go together and can achieve common objectives for a better society and better standard of living.

## **MIKROELEKTRONIKA AD – OUR VIEWS ON THE POTENTIALS OF ECONOMIC DIPLOMACY**

**Sanja Praštalo\***

### **Introduction – Where We Are Today**

Mikroelektronika AD Banja Luka (Bosnia and Herzegovina) was founded back in 1975 as part of a large industry which produced electronic components for the military. Being part of the planned economy, typical for communist countries such as the former Yugoslavia, Mikroelektronika produced for a familiar buyer. The entire production was organized based on planned sale and most of the production was exported. During 1990s due to major political changes, economy switched to commercial and so Mikroelektronika had to become market oriented. We stopped the production designed for the military and had to choose whether to discontinue the production in general, or select different products we could develop and produce.

After thorough analyses we defined our main advantages as follows: high accuracy, low own consumption, the capacity to work under heavy duty conditions and non-stop. It was clear that there were not many commercial products with such high technical requests and in order to take advantage of our competitive edge, we had to choose between the few available products at the time. We chose to produce digital electric energy meters and develop them as highly sophisticated devices and systems for the management of electric energy consumption. Today, these products are defined as elements of Smart Grids, and a base for Smart Cities.

In order to be competitive in the EU and global markets, we had to invest into obtaining many relevant international standards. We are proud to always be among the top producers in our field and we can confirm this status with prestigious certificates, such as: DLMS/COSEM, CE, MID, GOST, IDIS, etc. The main market for our products has been Serbia, while recently we have managed to make our first steps in the markets of Russia, Slovakia, Middle East, Kosovo and the Czech Republic. Our strategy is to open those markets and become their regular supplier.

When it comes to our company and our position compared to global competition, it is important to understand the position where we come from. Bosnia and Herzegovina is a small country with bad reputation which we must overcome when we want to succeed in the field of high technologies. Mikroelektronika is also a small company compared to those we generally compete with. However, we have got some important advantages that we can underline and which can also be used as a marketing strategy

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\* Director, Marketing Department, Mikroelektronika AD, Bosnia and Herzegovina

for Bosnia and Herzegovina when presenting our production capacities abroad.

As a small company, our management is much faster when it comes to the decision-making process and we can choose to cover all specific requests from our customers. This enables us to provide custom-designed solutions and constantly develop new technical characteristics based on the real needs of our buyers whom we treat as partners even in the process of research and development (R&D). Our R&D is also much faster in response to customers' requests. Moreover, we always guarantee our high quality with the same standards and certificates as our global and much larger competitors.

We have got one more great advantage for countries that need the technology we provide and do not have their own production - we are committed to provide our license to interested producers in the form of technology transfer.

### **The Possible Influence of Economic Diplomacy on Exports**

So far, we have mainly worked with our own capacities in order to reach the point where we are now and provide high quality competitive products which can be exported.

In our company, we believe that government institutions could greatly aid to our efforts and help domestic companies to reach the same level where we are now and help us become export oriented companies which should increase the incomes of our country.

We see several areas in which government support would be essential for potential exporters:

#### *1. International standards and certificates:*

- a. Financial support – the government could provide special credits, subsidies or at least guarantees for commercial credits oriented towards investment in production.
- b. Institutional support – it is important for our country to invest in local laboratories to help domestic producers to test and certify our products. This should help us avoid the extremely high costs of international laboratories.

It could also provide an additional income to the country, as those laboratories could offer their services to foreign producers.

An additional benefit of local laboratories would be in the protection of our



market from dangerous products imported to our country, as samples could be tested. Today, all we can do is trust the papers that reach our customs and we cannot make sure that the rights of our consumers are properly protected.

## *2. References:*

When it comes to reaching foreign markets, a company needs to provide certain references to prove the quality of their product. Standards and certificates are usually not enough. Therefore local companies need to have relevant references and those need to be primarily from their domestic market. To allow our domestic producers to participate in local markets, we need to set some standards and distinguish adequate from inadequate quality. Today, during all public procurements the decisions are based mainly on the price and importers provide lower prices and accordingly low quality. Since the procedures of public procurement are not based on products samples and tests of those product samples, any product can be sold regardless of the quality, and it is clear that domestic production cannot compete with prices offered by some of the world's greatest economies that offer low quality but great production volume. We believe that the process of public bids should be thoroughly supervised and laws should be fully implemented.

## *3. Foreign contacts:*

- a. Financial support – the government could help with financing domestic producers who wish to present their products during international fairs and conferences. It is also good to organize international fairs and conferences in our country where foreign contacts can also be established.
- b. Institutional support – embassies should always have skilled economists who should assist domestic producers when they need to obtain information about foreign markets and also organize meetings with potential buyers.

## *4. Local support:*

We believe that it is important to establish close connections between producers and educational institutions. Universities, as well as high-schools, should base their programs on the actual needs on the market. Students should be well-informed about the skills which are appreciated and needed, so that they could make their life decisions properly. We should teach young people about the potentials in our own country, rather than investing into an education which will turn them into a desirable workforce abroad. On the other hand, they should be able to study modern programs and also have a chance to spend some time in domestic companies so that they could reach their future employers and learn in advance what they will need to work on in the future. Last, but no least, universities should add to our efforts to develop new products and services through their practice.

## **GS-TMT D.D. TVORNICA MAŠINA TRAVNIK AND ITS EXPECTATIONS FROM DIPLOMACY**

**Snježana Koepruner\***

Globalization caused redistribution in the global market. In the field of mechanical engineering it is impossible for us to have a more complex product, like cars, tool-machines, etc. that we could sell. The development of such products requires large investments and long-term development of products and markets. We have found our place in the world market as a supplier for global brands. That is very specific in comparison to other end products.

### **About the GS-TMT d.d. Tvornica mašina Travnik**

In the year 1952 the joint stock company GS-tmt was formed from a car repair workshop which was part of the large business system Bratstvo – Novi Travnik (BNT) and the Company operated like that until 1996. At that time, with 370 employees, the company was engaged in the production of machinery for forestry, agriculture, presses, cutting machines, delivering machined parts for the domestic market and repairing various machinery and equipment.

From 1996 until 2004 the Company operated as a new joint stock company called BNT TMT. With 52 employees the Company made an annual income of 830,000 BAM with an export share of only 5%.

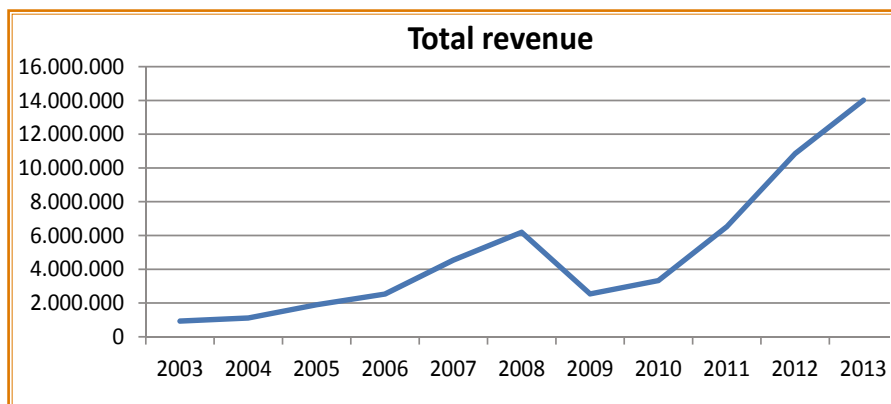
From October 2004 the company is 100% privately owned and its major stockholder is the German company Global Sourcing GmbH from Regensburg.

In 2005 the company changed its name into *GS-tmt d.d. Tvornica masina Travnik*. From 2005 until now investments were made in the repairment of production facilities and also for the purchasing of better-performing machines. The total value of investments made by the end of the year 2013 reached just over 5.6 million BAM. Today our company employs 162 workers.

The annual revenue at the end of the 2013 was 14,000,000 BAM with an export share of 97%.

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\* Chief Executive Officer, GS-TMT d.d. Tvornica Mašina Travnik, Bosnia and Herzegovina

*Revenue growth 2003 - 2013***Our Vision and Related Activities**

With a highly motivated, flexible and young team, with an average age of 36, in the future we plan to modernize the technology of welded constructions and to use the newest technology in CNC machining.

We see our advantage over our competitors in the technological orientation of making welded constructions which have almost disappeared in the EU countries and are too expensive to import from China and other remote countries. We try to give these constructions an added value by using precise machining. For the time being we are succeeding.

In particular, we take care of our employees, especially their health, by providing annual systematic health exams and also by financing various procedures at the dentist or optician. This year we introduced the EN 18001 standard for protection and safety at work. We give great importance to protecting the environment, and we are at the moment working on the implementation of the EN 14000 environmental standard.

The highly committed GS-TMT team is working to deliver fast for demanding foreign partners, to rapidly process inquiries, and to provide quality and timely deliveries. At the same time the factory is in the process of expanding its production capacity and recruiting new workers.

## **Products**

On a total area of 52,000 m<sup>2</sup>, in two production halls with a surface of 7,000 m<sup>2</sup>, we produce a wide range of products for our customers and recognized partners such as Knorr Bremse, Grob, Messer Cutting&Welding, Ruff Cycles, Liebherr, Bombardier, Siemens, etc. For them we produce welded constructions with mechanical treatment.

Our products include special tools machines, rail transport systems for cutting machines, cutting machines, special tools machines, etc.

## **Services (Outsourcing)**

In a factory hall intended to perform locksmith-welding works and in another hall intended for machining and assembly, we offer our customers the following services:

- 1) plasma/autogenic cutting (8000x2500x300mm);
- 2) bending (4200mm, 200t);
- 3) MAG I TIG welding;
- 4) all kinds of machining;
- 5) thermal treatment (annealing);
- 6) surface protection, painting, varnishing.

## **Certificates**

We prove the quality of our products and the long-term satisfaction of our customers with the following certificates: the quality assurance system ISO 9001:2000; quality requirements for fusion welding of metallic materials EN ISO 3834-2; quality requirements for welding on rail vehicles & vehicle components DIN EN ISO 15085-2.

## **Conclusion**

Indeed it is a big responsibility to justify the trust of our customers, but it is more satisfying to acknowledge that we accomplished some of our business dreams for which we thank our customers, subcontractors, business partners and especially our employees who selflessly helped to bring a small provincial company to the world's Premier League of mechanical engineering.

The trust of the great world-known mechanical engineering companies was achieved by our company's employees with great effort and dedication, without any help.

Our best diplomats are our products, which are the result of the work of all our employees.

In so far as economic diplomacy is concerned I generally see the role of diplomacy along the following lines:

1. organizing business delegations visits;
2. organizing presentations at international trade fairs and promoting the products of domestic companies; and
3. as the most constant work on improving the image of the country in which we live and work.

This is a task for all of us and we need to work together to accomplish it.

## THE MANAGEMENT OF LARGE-SCALE NATURAL DISASTERS IN SLOVENIA

Ervin Vivoda\*

### Short Overview

Slovenia as a country, due to its geographical location – since it is situated in the Pre-Alpine world – is subject to all potential natural threats with the exception of volcano eruptions and tsunamis. The most frequent natural disasters are caused by intense rainfall resulting in flooding and triggered landslides. There are several causes of increasing flood damages, but in recent years their effects have been cumulated:

- increased intensity of natural phenomena which is related to the obvious climate change - heavy rain falls in a much shorter time;
- increased urbanization and a pressure to construct more and more, including on the flooding area;
- accelerated asphalt road coating without conceiving proper drainages;
- increased surface area of roof tops; and last
- increased watertight treatment of courtyards.

All of the above are causes of an augmentation of the amount and speed of water outflow, which is reflected in significantly increased hydrological peaks that current profiles of river beds are not capable to conduct.

There is another factor that causes the increase of potential damage when flooding occurs as long as in the past major investors wished to benefit from lower land prices and obtained (by lobbying) the necessary building permits to build on floodplains. Changes in the uses of watercourses for commercial purposes (mills, water-powered sawmills) represent a problem as well, since the private owners of mills were the ones who maintained the riverbeds of smaller watercourses in the past. But these are today abandoned as long as such economic activities have disappeared. Also, the poor maintenance of embankments of watercourses and dams, mainly due to lack of funding, results in an increased flooding risk.

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| Year         | Natural Disaster   | Damage Evaluation<br>(million €) | Used Budget Funds<br>(million €) | Remarks                                   |
|--------------|--|----------------------------------|----------------------------------|---|
| 2007         | Floods on 18 September 2007  | 193                              | 86                               |   |
| 2008         | Hail storms in July and August 2008  | 82                               | 31                               |   |
| 2008         | Floods due to the extremely high sea tides on the Slovenian coast on 1 December 2008 | 4                                | 7                                | <b>Reconstruction is still ongoing</b>    |
| 2009         | Floods between 22-26 December 2009   | 25                               | 15                               |   |
| 2010         | Floods between 16-20 September 2010  | 188                              | 50                               | <b>Reconstruction is still ongoing</b>    |
| 2012         | Floods between 4-7 November 2012   | 311                              | 52                               | <b>Reconstruction is still ongoing</b>    |
| 2014         | Floods, high snow and sleet between 30 January-27 February 2014                      | 430                              | 41                               | <b>Reconstruction has not started yet</b> |
| <b>TOTAL</b> |  | <b>1,233</b>                     | <b>282</b>                       |   |

The scope of natural disasters is defined, in addition to individual sectoral legislation, by two general laws:

- the Act on Protection against Natural and Other Disasters; and
- the Law on the Elimination of Consequences of Natural Disasters.

The Law on Protection against Natural Disasters provides us with a definition of the tasks and responsibilities necessary for the implementation of measures of protection and rescue, in particular those of the Civil Protection forces, as well as a system of evaluation of the occurred damage. The Law on the Elimination of Consequences of Natural Disasters defines the conditions and the method of State financing in the aftermath of natural disasters and the criteria that beneficiaries of these funds have

to satisfy. Individual sectoral laws list the tasks for preventive protection against natural disasters in a particular field (energy, food, transport, etc.).

Irrespectively of all the formal declarations of commitment to prevention, it is unfortunately impossible to avoid all the consequences of natural calamities. Floods have existed in the past and will continue to surprise us in the future. What is extremely important is the meteorological and hydrological warning system - provided by the Environment Agency - which is a service that belongs to the Ministry of Agriculture and the Environment. Timely and accurate forecasts of weather phenomena along with hydrological forecasts of the situation of watercourses allow us to significantly diminish the occurred damage, because people and private companies can readily prepare for the upcoming weather conditions.

Despite the high level of accuracy of meteorological and hydrological forecasts, and despite the extreme preparedness of the rescue services, unfortunately, we cannot entirely prevent damage caused by floods or other unfavorable weather events.

Therefore, in case of such a misfortunate event, intervention must be conducted and protection and rescue actions must be carried out, such as:

- alerting and informing the population by all media;
- evacuation of the population living in the most endangered areas;
- fitting the guard of endangered buildings in case of landslides;
- protecting the infrastructure against high water by pumping excessive water and by building barriers with bags filled with sand.

Once the implementation of rescue and protection measures has been terminated, we have to follow up with the assessment of the direct damage that has been caused.

Damage assessment is extremely important because it gives us an idea of the extent of its occurrence and it represents the basis for establishing the eligibility for resources from the state budget, eligibility for funds from the European Solidarity Fund, and it also serves as the basis for the preparation of the Program for Elimination of the occurred damage. Damage assessment is performed by designated commissions at different levels from the local to the state level. However, the entire procedure is IT-supported.

The Law on the Elimination of Consequences of Natural Disasters (hereinafter referred to as the Act) specifies the manner in which the state budget funds for reconstruction should be allocated in case of large-scale natural disasters.



According to the law, a large-scale disaster occurs when the assessment of damage reveals that the damage exceeds 0.3 pro mille of the annual state budget revenue, approximately 2.5 million EUR. In such a case, funds from the state budget can be used for the elimination of consequences, as defined by the law.

### **Preparation of the Program for Eliminating the Occurred Damage**

The law sets up a time limit of 3 months that must not be exceeded between the final damage assessment and the proposal of the Program for Elimination of occurred consequences.

During the 3-month period, each individual ministry, exclusively for its own field, identifies its priorities for improving the situation, acquires the relevant estimations of the reparation measures and draws up a priority list of buildings that need to be reconstructed. For the first year of the execution of the rehabilitation program, the funds are being drawn from the budget reserve.

The Ministry of Agriculture and the Environment is responsible for almost all procedures relating to building and civil engineering structures except for the state roads and motorways.

The categories of beneficiaries are enumerated in the following table:

| Eligibility for funding   |            | Remarks  |
|---|------------|--|
| <b>Entities of private law</b>  |            |  |
| Residential Buildings   | Up to 60%  | Without inner equipment  |
| Buildings for carrying out business activities  | Up to 40%  | Without inner equipment and machinery, stock and lost income     |
| <b>Entities of public law</b>   |            |  |
| <ul style="list-style-type: none"> <li>Facilities owned by municipalities</li> <li>Facilities owned by the state</li> </ul> | Up to 100% |  |
| <b>Items of cultural heritage or items for safeguarding the natural heritage</b>  | Up to 100% | These items must be declared in accordance with the relevant act |
| <b>Elimination of damage to the economy (equipment, supplies, semi-finished and finished products, loss of income)</b>      | Up to 50%  |  |

The priority is to establish emergency transport connections and the conditions that enable the secure housing of the population. Start-up companies play a very important role in the overall rehabilitation process of the affected area, but experience has shown that it is necessary to take care of the affected population first.

Financial assistance granted to enterprises by the Government is, when it comes to the elimination of consequences of natural disasters, allowed according to the European Union regulations, but it must not exceed 100% of the occurred damage. In addition to that any aid offered under these circumstances must be notified to and approved by the European Commission. It is obvious that we should be particularly careful with the state funds that we allocate to companies not to violate the provisions on the unfair state aid.

In order to help the reconstruction of buildings and to improve the process of offering appropriate advice to private individuals as well as to companies, we have developed the practice of creating special forms of technical advisory assistance on the ground. So-called technical government offices have been opened in the most endangered and affected areas. In these offices individual beneficiaries can get expert advice on the ways of obtaining government funds and quality advice on the technical solutions most relevant for the reconstruction of damaged private buildings.

Of course, any natural disaster is an opportunity for the companies and the population present in the entire affected area to establish through reconstruction significantly better conditions than those before the disaster. Nevertheless, we must keep in mind that the restoration, the rehabilitation of the affected area, is primarily a private business however involving public money. It is therefore necessary to fully comply with the rules on public procurement and to perfectly ensure the transparency of the public funds use.

Finally, I have to emphasize the fact that the decision to use public financial funds for the relief of natural disasters is a uniquely political decision. If a certain political will was evidenced by the approval of the Act itself, the law, however, does not specify the exact period within which the state should provide the necessary funds in the budget. Therefore, the provision of the necessary funds after the first year (during which resources are taken from the budget reserve) following the disaster, is left entirely up to negotiations between the coalition partners when they are formulating the annual budget. This leaves the respective Government with all the leeway to decide on an annual basis the amount of funds granted for reconstruction.

*We must not forget a very important financial instrument, namely the EU Solidarity Fund.*

The Solidarity Fund in the event of a major natural disaster provides financial assistance to EU Member States and countries involved in negotiations for accession to the EU, if the total direct damage caused by the accident exceeds three billion EUR (in 2002 prices), or 0.6% of the gross national income (2014: Croatia 254.2 million; Serbia 174.6 million; Slovenia 209.6 million EUR), using the lower of the two values. A neighboring Member State or an acceding state affected by the same disaster, even if the extent of the damage does not reach the threshold may also receive aid.

*“A country affected by a disaster receives a lower rate of aid of 2.5% for the part of the damage below the threshold of 0.6% of GNI and a higher share of aid of 6% for the part of the damage exceeding the threshold. This ensures that for the same amount of damage relatively poorer countries would receive more aid in absolute terms than richer ones.”<sup>1</sup>*

Unfortunately, until now Slovenia had the opportunity to apply for assistance from the EU Solidarity Fund three times and such assistance was granted for the:

- floods in September 2007 - in the amount of 8.2 million EUR;
- floods September 2010 - in the amount of 7.4 million EUR;
- floods in November 2012 - in the amount of 14.0 million EUR;
- an application for grants following the flooding and sleet in the winter of 2014 was also submitted. The expected grant amounts to 18.3 million EUR.

In each case, our permanent diplomatic representative to the European Commission in Brussels participated in the preparation of the grant application and coordination processes.

The problems that we have been facing in Slovenia over the last years are as follows:

The country's economy is organized on the basis of the law of supply and demand under normal circumstances; therefore our capacity to address the elimination of consequences of natural disasters is low, due to the lack of qualified firms to undertake the necessary works. As an example I would mention the lack of quality companies for roof covering that we observed after the hailstorm in the summer of 2008 when the demand for roof covering was high but supply fell short.

Also, there is no sufficient construction machinery and firms which are qualified to undertake complex construction works on the domestic market, especially in the first

<sup>1</sup> European Commission. *The European Union Solidarity Fund (EUSF)*. Press Release, 3 March 2010. [Online]. Available: [http://europa.eu/rapid/press-release\\_MEMO-10-59\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-10-59_en.htm?locale=en).

year. Therefore, it would be necessary to sign international (bilateral or multilateral) conventions on protocols enabling foreign companies to enter our market rapidly.

Sadly, the procedures for placing new buildings in an affected area substituting the destroyed facilities and preventing the recurrence of damage are extremely long.

In recent years, the very difficult fiscal and budgetary situation impedes us to proceed to damage elimination within a reasonable time. Consequently, in the subsequent floods the damage previously caused registered a significant increase. We must become aware of the fact that any damage left unrepaired in nature represents an open wound, which could, even in the case of an otherwise normal rainfall, result in a real catastrophe. This is especially the case for landslides and damaged banks of watercourses.

### **The Impact of Natural Disasters on the National Economy**

As it has previously been mentioned, natural disasters have a strong impact on the economy.

The rehabilitation process is certainly an opportunity for mainly local designers and construction companies to be engaged in the implementation of the renovation work. Knowing well the particular local conditions such companies can offer very competitive prices and be contracted for financially more important projects than they would have been under normal circumstances.

The acquired experience and knowledge in the field that these companies possess implies that they can also offer their services outside their normally operating range or even beyond the country borders - with the help, of course, of economic diplomacy.

The position of private companies in relation to their competition can suffer badly if their production must be stopped because of natural threats and if ordered goods are delivered with delay. This is the reason why today important clients perform in advance a careful checking of their suppliers, taking also into account the reliability of their production and deliveries in the event of natural disasters threats. When such a verification indicates, despite a good product quality and competitive prices, a high level of threat of natural disasters to the production, customers rather turn to other suppliers. This is logical, because today the reliability and timeliness of goods delivery is essential for a stable production and for business efficiency.

In conclusion, I wish to summarize what are, in my opinion, the key elements of the successful management of large-scale natural disasters:

- first of all, an appropriate legislative base which allows the effective implementation of protection and rescue measures and further on a successful elimination of the consequences;
- secondly, a coordinated planning and implementation of measures by authorities at all levels from the governmental, through the regional, all the way to the local level and vice versa, right from the outset of the disaster;
- thirdly, a transparent allocation of the resources available to individual beneficiaries on the basis of pre-established and harmonized priorities;
- fourthly, a stable financing through public funds;
- fifthly, a permanent political support to the implementation of adopted rehabilitation programs during the entire process of the execution of renovation;
- lastly, the minute the water disappears, the media focus is diverted to other topics, so politicians lose interest in it and usually forget their promises of a quick and efficient reconstruction.



**IV.**  
**ECONOMIC DIPLOMACY AND**  
**INTERNATIONALIZATION**  
**– FROM THEORETICAL CONCEPTS TO**  
**PRACTICE**

## **ECONOMIC DIPLOMACY: THE MODERN SYSTEM OF BUSINESS INTERNATIONALIZATION**

**Dr. David Đ. Dašić\***

### **The Increase of Economic Diplomacy**

The foreign policy of each advanced country in the world today is more than ever, economic policy, and economic diplomacy is an irreplaceable tool necessary to accomplish foreign policy goals.

### **Diplomacy and the Market**

Economy, economic (trade) interests and economic relations have never been of such importance in the foreign policy and diplomacy as they are today. Market and profit have become the alpha and omega of foreign policy, modern diplomacy, national security and international relations in general. The efficiency of diplomacy, diplomatic missions and diplomats are being evaluated more and more according to what and how large their contribution is in achieving their national economic (trade etc.) interests in the global, regional and local markets.

Instead of the classical political issues (power relations in the world, issues of war and peace, disarmament, demarcation etc.), the major task of diplomacy today is to study the forces of supply and demand on the market, where economic subjects, independently of their national identity, constantly fight among themselves by using economic weapons in the form of their products and services offered to various markets.

Success on the global market, in a merciless competition, directly depends on the quality of offered products and services, their competitiveness, the knowledge of “regularities” that rule on it, the knowledge of competitors’ strength, the success of marketing performance, etc. Today, nobody, regardless of their strength, can gain profit so easily on the global market, especially not companies from the countries in transition and developing countries. Practically, trade interests, materialized in profit in the market, are the gravitational point around which foreign policies of all countries in the world are “spinning” in more or less recognizable ways.

That is why economic diplomacy has become the key point, irreplaceable in finding solutions of the most complex issues in the modern world, both economic and political. Everywhere in the world, at the local and global level, it has become

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clear that foreign policy and diplomacy cannot be separated from the market reality, market logic and market ethics, as well as from the genuine effort to be better than others, with all the respect of one's competitors.

In short, market was and still is the starting point for each endeavor, not only of the economic policy of any country, but of its foreign policy and diplomacy. It can be said that a country does not have a good foreign policy and a successful diplomatic service if it is unsuccessful on the global market, if it is not recognizable on it with its goods, products and services, or does not gain a corresponding profit on it, and if it is constantly faced with deficit in trade, the payment balance and difficulties in the timely performance of its liabilities to foreign countries.

The increase of the factual influence of economic diplomacy in international relations does not diminish the importance of political diplomacy and the role that it has and should have in the future of the modern world full of contradictions, in the national diplomacy of individual countries and in the diplomacy of the international forums. Although economic and political diplomacy seem to be different, they are mutually permeated, intertwined and supplemented.

### **The “Economization” of Diplomacy and “Diplomatization” of Economy**

Globalization, global corporations and the internationalization of business have changed and are still changing the picture of modern world, giving a new role to diplomacy that is being adapted to those changes, changing its former and recent nature, as well as the priorities of its engagement.

Within the engagement of diplomatic offices in the world, their diplomatic missions and diplomats, economic issues take a dominant place, up to 90%. Diplomacy “has become the precursor of business (*read profit*) [...] and it has become an important participant in the achievement of business goals and results”. (Džombić 2010: 74)

All over the advanced world, above all under the influence of American diplomatic and economic experience, gained during the XX<sup>th</sup> and at the beginning of the XXI<sup>st</sup> century, the understanding that the *business of diplomacy is business*, is ever more present, and that the engagement in economic business activities has become a strategic preoccupation of each country claiming to be prosperous and its society advanced.

By giving more importance to economy and business in diplomacy, not only in industrially undeveloped countries, but also in developing countries and countries in transition, the direct or indirect involvement of countries and their diplomacies

into the business arrangements of their companies on the global market scene has led to the so-called “economization” of diplomacy, i.e. to the “diplomatization” of economy.

In that sense, without any exaggeration, it can be said that modern diplomacy is, de facto, economic diplomacy, that “economization” of diplomacy, and respectively the “diplomatization” of economy is one of very important megatrends in the modern world. States and societies that are not part of it are destined to delay in development, technological and of any other type.

Instead of traditional political priorities, economic priorities have become the highest ranked priorities of each country’s diplomacy. The market reality in the world imposed and is still imposing special emphasis on the importance of economic diplomacy, and turning diplomacy toward economic issues. “Strong diplomatic economic engagement” is an important characteristic of diplomacies in a lot of countries, not only the most developed ones, but also developing countries and countries in transition. Their major preoccupation is how to provide the most favorable position for their export economy and their companies on the global market, and how to protect their national interests and get the highest possible part in the distribution of the world gross product on those markets ruled by the laws of ruthless competition, not only of economic but also of non-economic nature.

Each country is trying, through economic cooperation with other countries, to achieve the best effects that are, sooner or later, materialized in related foreign exchange earnings. The accomplishment of the national goals in each country’s internal plan, such as total employment, balance of payments, effective exploitation of available national resources, stable and sustainable development, etc. directly depend on the success of that country and its companies on the global economic scene. All countries in the world subordinated and are still subordinating their major state mechanisms including diplomacy, its mechanisms and instruments, towards the accomplishment of such strategic goals. Diplomatic economic engagement has become the most important activity in the diplomacies of national countries, international organizations and economic integrations.

### **Models of Economic Diplomacy**

The national economy of one country in the modern world is not and cannot be self-sufficient, including economies of those countries that are rich in natural and other resources (for instance, Russia, Brazil, etc.) or those that are industrially and technologically highly developed (for example USA, Germany, Japan, etc.). The interdependence of national economies, of higher or lower intensity, represents a

general megatrend which is objectively brought along by the inevitable process of globalization. The internationalization of national economy and companies has become today, in full and legal terms, a strategic national interest (economic, political, security and military) of each advanced country.

Economic diplomacy is one of the important mechanisms to accomplish such goals. Generally, each country, more than ever before, is preoccupied by its tendency to promote, in the best way, the available resources of its national economy and its companies, and to be successful in its business operations at the global level, to gain the highest possible profit on the global market, and to protect effectively its national interests in international economic relations through various forms of trade and other types of cooperation with global actors (export, import, long term technological cooperation etc.).

With the aim to achieve such strategic goals today, almost each country has built its own model, institutions, instruments and mechanisms of economic diplomacy, or it is trying to design them. Those models are different in different countries depending on their narrow or wider geo-economic and geopolitical orientation. There is no universal, generally accepted model of economic diplomacy. However, in different countries there are different models of economic diplomacy that have their economic and other ratio, they serve their purpose, more or less successfully, but in any case they contribute to the enrichment of the general diplomatic experience and knowledge, to the manner in which economic subjects should act on the global market scene and behave in the international economic relations, and to the manner in which they can achieve the highest benefit, material and others, for their country.

The stronger presence of economy in foreign policy and diplomacy has led to a number of phrases, i.e. special terms that closer define the essence and role, as well as certain specificities of economic diplomacy, depending on the subject it deals with. So, for example, in modern economy practice and literature we encounter the following terms relating to economic diplomacy: *Diplomacy of Economy, Business Diplomacy, Commercial Diplomacy, Commercial Diplomacy & Commercial Diplomat, International Economic Diplomacy, International Trade Diplomacy, Diplomacy of Trade and Investment, Diplomacy: Economic Statecraft, Governmental Economic Diplomacy, Non-governmental Economic Diplomacy, Diplomacy of Economic Incentives, Transatlantic Economic Diplomacy, Diplomacy of Economic Integrations, Corporate Diplomacy, Dollar Diplomacy*, etc.

Recently the term “new economic diplomacy” has been used more often. Why is it insisted on the term “new”? “The reason for that is the fact that in the time of globalization of economic relations in which a strong competition between countries

and their economies for a better positioning on the global market is present, modern economic diplomacy has become a priority necessary to foreign policy whose function is to help economic development and to give support to national economy [...]” (Marjanović 2012: 22)

### **The Genesis of Economic Diplomacy**

The modern economic diplomacy phenomenon is usually related to the XX<sup>th</sup> century, especially its last three decades, and to the beginning of the XXI<sup>st</sup> century. However, economic, or more precisely, trade diplomacy can be said to be as old as society and states, market and trade, that is, goods exchange. It is very possible that commercial (economic) diplomacy had appeared even before political diplomacy. In any case, and regardless of the fact whether war had appeared before trade or the other way round, commercial (economic) diplomacy is certainly one of the oldest forms of diplomacy.

Based on historically determined facts, trade with raw materials and other products existed in Assyria in the fourth millennium B.C., in Mesopotamia in the third millennium B.C., and not much later in Babylon. The trade agreement made between the Egyptian Pharaoh and the King of Babylon dates back to 2500 B.C. The first evidence about economic diplomacy was written on clay tables found in the Middle Egypt and they are from the period between 1460-1220 B.C. The trade between China and India was intensively developed in 800 B.C. The Old China developed good trade relations with Japan in the VI<sup>th</sup> and VII<sup>th</sup> century B.C., and this also led to the expansion of Buddhism and Chinese culture and literacy to Japan. Greek merchants had contacts with India via the countries on the Arabian peninsula in 300 B.C. At the time of the Han dynasty in China from 206 B.C. to 221 A.D., the *Silk Route*, *Amber Route*, and *Spice Route* were created from China (Far East) to the countries and areas of the European continent. The trade agreement between China and Rome dates back to 160 A.D. Most diplomatic jobs performed by the consuls of the Venice and Dubrovnik Republics were, in fact, trade jobs, which are today performed by economic diplomats (commercial attachés) in diplomatic missions, or by the representatives of companies, economic associations and chambers in trade promotion offices in foreign countries.

With the rise of capitalism and development of international trade, commercial (economic) diplomacy was given more importance, and among other things, it was a constitutive part of the policy of colonial conquests and expansion of imperial powers to the West and East (Columbus' discovery of America in 1492 and its conquest, colonial conquests of Africa and Asia, especially India, etc.).

France is considered the cradle of modern economic diplomacy. In 1648, when the Peace of Westphalia was reached, its Ministry of Foreign Affairs sent precise instructions to their diplomatic representatives in other countries, specifically for each country, about the manner in which diplomatic duties were to be performed best, especially in the sphere of economic jobs, in France's interest. These and other similar instructions that were later sent to diplomats were collected in the *Collection of instructions for ambassadors and ministers of France from the Westphalia Agreements to the French Revolution (Recueil des instructions données aux ambassadeurs et ministres de France depuis les traités de Westphalie jusqu'à la Révolution française)* that was published by the Ministry of Foreign Affairs of France in 1885 in Paris. A well-known French Minister of Foreign Affairs during Napoleon I's reign, Charles-Maurice de Talleyrand-Périgord, reorganized the state department (diplomatic office) in accordance with the trade interests of the French bourgeoisie as soon as he was appointed in 1797.

Through the XIX<sup>th</sup> century which elapsed in relative peace without any world wars, there was a time of searching for and improvement of diplomatic mechanisms, especially the legal regulations of diplomatic relations (*Vienna règlement*, etc.), including the development of economic (commercial) diplomacy that followed the process of industrialization in Europe and the world, particularly in Great Britain, the most developed and the largest empire of that time.

One of the roles of economic diplomacy was to show the world the achievements in the industrial and overall development of states. For that reason, in mid-XIX<sup>th</sup> century, under the patronage of Prince Albert (*Francis Albert Augustus Charles Emmanuel*, 1819–1861), British Queen Victoria's husband (*Alexandrina Victoria*, 1819–1901, Queen from 1837), in 1851, in London, the *First World's Fair*, under the name *Great Exhibition of the Works of Industry of All Nations* organized by the British Crown took place. It was not only the first and biggest international exhibition of industrial achievements (presentation of new products etc.), but also an exhibition of achievements in a number of other fields, such as art, design, tourism etc.

During the XX<sup>th</sup> and at the beginning of the XXI<sup>st</sup> century, economic diplomacy underwent its own comprehensive development. States started to increase the number of their diplomatic representatives abroad, carrying out commercial and other economic jobs in their country's economic and companies' interest. Additionally, companies also started to send their commercial representatives to other countries.

After World War I, together with the permanent bilateral economic diplomacy, when the League of Nations was established in 1919, the permanent multilateral economic diplomacy was institutionalized. The first international economic conference after

World War I was held in 1922 in Genoa (Italy), known as the Genoa Conference during which participants discussed the very difficult and complex European and world problems, consequences of the huge material destructions and human sacrifices during World War I.

In conceiving economic diplomacy as a science and practice, special merit goes to the French professor (of Algerian origin) of Economic History at the Sorbonne University (Paris) between the two wars, *Henri Hauser* (1866–1946), who advocated the establishment of special educational institutions (schools) to prepare diplomats for a successful performance in their future economic jobs.

Similarly, besides the further rise of bilateral economic diplomacy after World War II, i.e. just before and after the establishment of the United Nations in 1945, especially after the Bretton Woods Conference held in summer 1944, multilateral economic diplomacy began its unstoppable development, and through its institutions (United Nations Organization, International Monetary Fund, World Bank, World Trade Organization, UNCTAD, G-8, G-20, etc.) directly and resolutely has influenced the dynamics of both global (international) economy and national economies in numerous countries and economic regions until today.

Recognizing the importance of economic diplomacy at the time of globalization and internationalization of all spheres of economic activity (production, trade, finance, etc.), all countries in the world which aim to be technologically advanced try to find their own models of economic performance in the global, regional and other markets, intending to valorize their material and other resources in the best possible way, primarily through diplomacy, in particular through economic diplomacy in all forms of its expression (commercial, business, corporate, etc.).

As a result of the tendency of countries and their companies to realize the largest profit of their business with other countries, through goods exchange and other forms of business cooperation, namely, to position their economy on the global market in the most adequate way, today, all diplomatic offices in the world search for professional economic diplomats specialized for various tasks of economic diplomacy – bilateral and multilateral, governmental and non-governmental.

For years, countries that are dominant on the global market scene (USA, China, Japan, Germany, Russia, Brazil, etc.) have paid special attention to organizing competent teams of economic diplomats, irrespective of their engagement in government or non-government sectors, with the aim to gain a stronger access of their companies to the global markets and earn the highest profits.

### **Who Are Economic Diplomats?**

Economic diplomats are today highly-valued all over the world. They are required and necessary everywhere: in Ministries of Foreign Affairs, diplomatic missions (embassies, consulates, permanent missions to international organizations), in chambers of commerce, business associations and companies, as well as their branches abroad.

No matter how stereotypically this may sound, it will not be overstated if it is said that a modern economic diplomat is a particular creative compound of three specific professional profiles: a diplomat, an economist, and a manager. In fact, jobs in economic diplomacy can be successfully performed by a person: (1) who possesses the required predispositions to perform a diplomatic job; who has acquired the necessary diplomatic knowledge; who has mastered the diplomatic profession; who possesses diplomatic skills and a lot more (has enough knowledge of the domestic and foreign politics of their country and the recipient country, etc.); (2) who has pursued studies in economy at a higher level – in microeconomics, macroeconomics and global economy; who has good knowledge of the economy of his/her own country, its available resources and production capacities, its economic structure, macroeconomic policy, etc.; who has corresponding experience acquired in business and the economic environment (company, chamber of commerce, business association, state economic department, institute of economics, etc.); and (3) who acquired the necessary knowledge in strategic and operative management.

It is of special importance that economic diplomats are very good at methods and techniques (tools) of market research, that they present relevant information about the market ambient and legislation on foreign trade procedures in the recipient country in time, as well as the conditions under which the products and services can cross the border of the recipient country, together with the quality of products and services required on a particular market, which products and services can be offered to the recipient country market, which technological and other standards have to be met to achieve the best market performance, how high and what kind of demand is for the products and services intended to be offered, the competition on that market, the system of formation of prices for the goods intended to be offered in the recipient country market (if they are freely formed or they are under some kind of state control), the conditions and terms of payment of sold products and services, etc.

Economic diplomats deal with numerous and various jobs, so they need additional specializations, for instance: (1) in special fields or branches – for high-information technologies (IT), in mechanical engineering, energy sector,

agriculture, infrastructure, etc.; (2) in special products or group of products, such as steel, copper, aluminium, energy, agricultural products, services, etc.; (3) in the countries that are currently or may be especially important in the future; (4) in some large markets, both of goods and financial; (5) in some economic groups, integrations in the world, such as: EU, MERCOSUL, NAFTA, ASEAN, ECOVAS, and many others; (6) in newly created global, multilateral formations, such as G-20, BRICS (Brazil, Russia, India, China and South Africa), as well as in those that are being announced, the so-called, mega integration formations, such as, for example, the projected Eurasian Union, American Hemisphere Union, Southeast Asia Union, etc.

Economic diplomacy can be successfully performed only by “those persons who have a lot of knowledge. In the globalized economy, it is not enough to know the situation in one’s own country, but much more than that. Furthermore, it is not enough just to know data, but it is necessary to know how to interpret and analyze them. It is also important to point out that for diplomatic representatives even good knowledge of their country is not an advantage any more. There are a lot of sources of information and analysis about each country and their real possibilities. Therefore, an advantage can only be in good information about the economic policy and intentions of economic authorities, and in one’s ability to convince foreign interlocutors about them.” (Gligorov 2012: 9)

Economic diplomats cannot be created overnight. It is a process that needs time for a person to acquire the necessary professional knowledge in diplomacy, economy, strategic and operative management. Economic diplomacy jobs, as well as many other jobs similar to them, do not stand ignorance, superficiality, improvisation, amateurism. Not amateur, but professional economic diplomacy is a very important precondition for the economic improvement of any national economy, especially in those countries that have not managed to get out of the vicious circle of their undeveloped economy.

### **World Centers of Economic Diplomacy**

After the Peace of Westphalia (1648), especially during the XVIII<sup>th</sup> and XIX<sup>th</sup> century, Europe became the major continent for the development of diplomatic as well as political and economic (commercial) relations among numerous independent and free countries, mutually unrelated. “Diplomatic centers were opened in some European capital cities. Other continents were left behind. Parts of Asia and Africa were only important as imperial zones of the great powers at the time. Until the XX<sup>th</sup> century, America was isolated, geographically – by the ocean and politically – by the Monroe doctrine. High-ranked diplomats rarely left European countries, and they went over the ocean even more rarely.



Diplomacy was generally conducted between powerful countries. Capitals were in Europe. Diplomatic relations between powerful countries were directed to regulate their important interests. Small and medium-sized countries were interesting because of their strategic position or resources of raw materials.

Earlier, powerful countries considered that they were responsible to conduct the foreign affairs of others – small and medium-sized countries. That was the root of the theory of protection of small nations by bigger ones”. (Janković 1981: 215–216)

During the XX<sup>th</sup> century, there were huge changes on the world diplomatic map. Major diplomatic centers (Paris, London, Moscow, Berlin, Rome, Vienna) were no longer limited to only one continent (Europe), and they lost their previous importance. After World War I, and especially after World War II, the diplomatic pendulum moved more towards the capitals of other countries on all continents, especially towards Washington D.C. (the capital of the United States and seat of IMF and the World Bank), New York (seat of the United Nations), Beijing, New Delhi, Brasilia, Ankara, Cairo, and in a certain historical period towards Belgrade (the most important former center of the Movement of Non-Aligned Countries), etc.

Today diplomacy is not conducted only between large and powerful countries in the form of bilateral diplomacy. New and numerous forms of international cooperation between all countries in the world have been established. Small and medium-sized countries are not just pendants of big and powerful countries any more. The diplomacy of the international organizations, based on the UN Charter and other international acts (international conventions, resolutions, etc.) was established and it is constantly developed and improved. New York, Washington, Geneva, Paris, Vienna, Rome, Brussels, Moscow, Montevideo, Istanbul, Nairobi, Jakarta and other cities became major centers of multilateral diplomacy (diplomacy of international organizations).

At the same time, the world centers of bilateral and multilateral diplomacy have become the most important centers where economic diplomacy is performed. Many estimate that today, the majority of diplomats are located in New York, the biggest diplomatic and financial center in the world. “After New York, Milan is the second city with the highest number of permanently present economic diplomats although it is not the capital of the country. As the center of the second strongest European economic region (Lombardy), Milan is full of economic consuls, economic representatives of embassies, commercial agencies of different countries and regions, economy and commerce chambers. For instance, Egypt has four economic diplomats in Milan [...] Today the struggle for each Italian company, for each working place that could be opened abroad, for every single Euro of investment, is

evident. It is very important to have better contacts, to be faster, more efficient, and to have focus". (Stevanović 2012: 63).

### **Megadiplomacy and the Global Economic Crisis**

At the beginning of the XXI<sup>st</sup> century, in the first and at the beginning of second decade, the world economy faced and is still facing serious economic challenges, such as economic recession, unemployment, financial crisis, foreign debts, etc. At the same time, the world economy shows that it has huge potentials that promise prosperity: technological progress achieved in all fields, from medicine to agriculture, alternative energy sources, metallurgy, transport and communications.

Slowdown in economic growth was especially evident during 2008-2009. It has been proved that the existing international economic system is still not developed and efficient enough to prevent the outbreak of a global crisis. The way out of the current global financial and economic crisis is being searched through building a "more responsible market", namely a system of market relations taking into account the global trends that would be regulated by appropriate national macroeconomic measures, together with a stronger engagement of states in making crucial investment decisions, and for their realization and performance control. The state's comeback on the economic scene is the newest phase in the world's economic development.

So far, during the most difficult historical and social crossroads, since the great world crisis in 1930s onwards, the capitalist economic system has always managed to find progressive solutions for its current problems and contradictions (implemented necessary reforms, etc.), demonstrating its flexibility and the ability to adjust.

More than ever, the world today needs a strong innovative system of global management and global diplomacy (megadiplomacy), as a means of the global coordination, making and implementation of the decisions of global political, economic and other institutions.

The institutions practicing multilateral economic diplomacy – Bretton institutions (IMF and the World Bank), the World Trade Organization and many others – are interconnected by stronger or looser threads but, in any case, they are interdependent, and, in fact, they are the institutional order of global (world, planetary) economy, i.e. a global framework of international economic relations. In this regard, multilateral economic diplomacy is, at the same time, global economic diplomacy which is in direct relation with the processes and mechanisms of global management in the global economy and in the international community.

Once again, globalization shapes modern international relations, both political and economic. It forces all governments and their traditional diplomatic institutions (Ministries of Foreign Affairs and diplomatic-consular missions) to change, to leave the old methods of diplomatic work behind, and to adjust their jobs to the new global conditions and challenges.

A diplomacy that deals with the phenomenon of globalization, its face and backface, the international relations that it reproduces, is a kind of synthesis of multilateral diplomatic activities carried out within different global international organizations and institutions – political, economic, legal, social, cultural, humanitarian, ecological, military, security and others.

Likewise, diplomatic offices of individual states and societies have to constantly adjust themselves to the dynamic of global changes, to be in the center of the world's megatrends and an inseparable part of the process of globalization of international relations and diplomacy. The foreign political efficiency of each national diplomatic office will directly depend on the degree of its globalization, that is, adjustment to global changes and trends.

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## **THE IMPORTANCE AND ROLE OF ECONOMIC DIPLOMACY AND LOBBYING IN THE PROMOTION AND IMPROVEMENT OF EXPORT IN BOSNIA AND HERZEGOVINA**

**Dr. Duljko Hasić\***

The creation and harmonization of the new macroeconomic design of Bosnia and Herzegovina with its domestic economy needs and export prospects is a huge challenge for the institutions and economy in Bosnia and Herzegovina. A system that will implement the new foreign-economic strategy and its directives and recommendations should be created as soon as possible. It is necessary to start with the goal that should be achieved and the actors that will participate in the realization of these goals.

The concept of foreign-economic strategy relations is not only based on the important role of the state in regulating economic relations with foreign countries, but also on the direct tendency that the process of rehabilitation and development of Bosnia-Herzegovinian economy is built on increased production and export. Such an approach to economic development and foreign-trade activities in an economy and country like Bosnia and Herzegovina is based on the important involvement of the government and its apparatus, through different directives, regulations and decisions.

The BiH authorities have almost completely left the destiny of restructuring and development of the BiH economy, transition reform and system development to the international and other organizations and experts. This has greatly degraded the domestic research potential, and significantly passivized the activities and responsibility of BiH's competent authorities and institutions. There are some efforts, but they are not enough and they do not have that synergistic power to reproduce an integrative and stimulating economic/entrepreneurial-investment environment. That is why BiH's economic subjects long for the establishment of a stimulating economic system and its mechanisms (stimulation and protection), and corresponding market institutions.

The BiH chamber system has an important role in the elimination of negative trends and restrictions in the development of economy and entrepreneurial subjects. The Foreign Trade Chamber of Bosnia and Herzegovina (FTC BiH) can and has to bring the largest contribution to this process. Monitoring, studying, proposing and supporting independently taken measures for the development of BiH's economy

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and system, means that the Foreign Trade Chamber actively and investigatively participates in the implementation of its competencies defined by the law and its Statute. That implies its participation in activities related to strategic, developmental and system related projects of the state bodies in Bosnia and Herzegovina, including the activities that are performed to accelerate the fulfillment of the conditions for approaching and accession of our country to European Union, especially to promote the economy of BiH.

The image of Bosnia and Herzegovina in the world is mostly negative, and it is necessary to make a lot of effort to improve it. For that reason, it is important to design media campaigns to promote Bosnia and Herzegovina on the global scene.

Those are just a few reasons for which, together with the existing bodies and a number of the professional associations within the Foreign Trade Chamber of BiH, it is crucial to establish an Independent Chamber Body with an appropriate structure of domestic experts who should be able to deal with market reform issues and the establishment of a stimulating system in BiH – balanced economic development on one hand, and on the other hand to define, based on research, the mechanisms and measures to encourage the faster development of BiH's economy founded on the successful promotion of all its economic potentials centered around the positive branding of Bosnia and Herzegovina. Therefore, it is paramount to form an expert professional body which would, together with other activities, also actively contribute to the creation of a positive image of Bosnia and Herzegovina.

### **The Council for Branding Bosnia and Herzegovina**

The Council for Branding Bosnia and Herzegovina (formed within FTC BiH) should professionally check and with valid arguments finally form concrete proposals of the measures that would contribute to the creation of a positive image of Bosnia and Herzegovina. The Council for Branding would consist of eminent economic experts and respected businessmen, managers of the most successful companies, and a corresponding number of specialized experts as permanent members, as well as influential people from the bodies of the authorities in Bosnia and Herzegovina at all levels, primarily from: the Foreign Trade Chamber of BiH, Ministry of Foreign Affairs of BiH – Economic Diplomacy, Ministry of Foreign Trade and Economic Relations, Foreign Investment Promotion Agency, Export Credit Agency, etc. Through their mutual engagement, they should be able to participate, collectively and individually, in providing the environment needed for the creation of a positive brand of Bosnia and Herzegovina. Certainly, the Council would also define the strategic goals based on appropriate strategic economic analyses, determine existing problems, define developmental programs and prepare systemic measures.

On the other side, the Council for branding would be a technical body which would help BiH institutions to create a national brand and develop its image through counseling. The Council would be in charge with correcting and improving the current image of Bosnia and Herzegovina with its creative ideas. The criteria for the appointment of Council members should be their knowledge and experience.

The key role of the Council would be lobbying. Lobbying is a wide area, with an unlimited horizon of activities. It is used as a tool to achieve the goals of interest groups through negotiations with persons responsible for decision-making. Lobbying activities require the analysis of the area of operations in terms of different scientific disciplines (law, economy, politics and diplomacy).

The Council should be responsible for a creative and efficient dialogue with competent government bodies in BiH, with the aim to implement the proposed measures into documents of economic policy, legal regulations and other state acts of interest for BiH producers, exports and investors.

The Council for branding will closely cooperate with the diplomatic-business club, with the clubs operating abroad within the diplomatic-consular offices of Bosnia and Herzegovina, via the Department for Economic Diplomacy within the Ministry of Foreign Affairs of BiH. An Academy for Lobbying and Economic Diplomacy would be established within the Foreign Trade Chamber of BiH (Institute for Education) with the aim to educate competent staff that will provide the prerequisites for the internationalization of economy, increase of economic competitiveness and contribute to export oriented development through support to economic subjects in the implementation of their international business operations.

The economic diplomacy of any country has to have clear economic goals, such as monitoring of the results of the economic policy of the receiving country or lobbying for the business interests of the home country in the country of diplomats' posting. The goal is to link business and the promotion of one's own country as an attractive business destination. Economic diplomacy is more or less present in each country in the world. Therefore, Bosnia and Herzegovina, as a small country, has to have a large share of economic diplomacy comparing to all other forms of diplomacy.

The success of economic diplomacy (ambassadors, advisers and other diplomatic representatives) can be estimated by measuring the level of increase of economic activities, primarily export and inbound of foreign direct investments into Bosnia and Herzegovina from the country where a certain ambassador works at the end of his/her mandate comparing to the situation at the beginning of the mandate.

On the other hand, an important precondition even for the best diplomat to realize his/her mission successfully is a strong support from the base, i.e. government administration in Bosnia and Herzegovina and the professional economic public. Economic diplomats have to understand the language of economy, respect the interests of businessmen, and represent a sort of permanent service for economic subjects. Therefore, only those diplomats who possess strong knowledge in these fields can become good economic diplomats.

### **The Center of Business Excellence**

The causes of economic crisis in Bosnia and Herzegovina are not of financial, but of structural nature, and the crisis can be solved only through the implementation of structural reforms. Yet, the reforms are being implemented too slowly and this is one of major reasons for the continuing weak position of Bosnia and Herzegovina in the global competition. At the same time, Bosnia and Herzegovina is in the phase of necessary negotiations with the European Union. The process of adjustment to the EU standards, as a key precondition for the faster development of economy and society as a whole, is of great importance for Bosnia and Herzegovina. In this regard, it is especially important to plan and achieve economic growth and development based on the principles of sustainability. Quality development can certainly contribute to the implementation of structural reforms in the society and to the creation of a new system of values that is built on: knowledge, work, honesty, business ethic and tendency to excellence. That is the foundation on which it is possible to develop the competitive abilities of BiH's economy.

The Foreign Trade Chamber also wants to bring its scientific and professional contribution to those efforts through the establishment of the Center for Business Excellence whose purpose would be to contribute to the development of the competitive abilities of BiH's economy and to prepare it for export. Today everyone acts globally regardless of the fact that the current horizon is limited to the local market. Within the global context, one of the highest priorities, and also the key challenge that the management of any organization faces, is the efficient implementation of business strategy. However, the implementation of the strategy through concrete activities implies much more than just the definition of a clear vision. Modern managers and their organizations have to understand what business excellence is and what to do to achieve it.

It is becoming more and more difficult to maintain excellence in the conditions of growing global competition, fast technological innovations, permanent changes of processes, economic movements and demanding social environment. The Institute for Education within the Foreign Trade Chamber of Bosnia and Herzegovina can

provide the best knowledge to all interested, especially to successful managers for their achievement of business excellence.

Excellence demands the complete devotion of management and the acceptance of basic principles consisting of the group of principles on which an organization bases its behavior, activities and initiatives. When the organization accepts those principles in practice, it can build sustainable excellence.

The Center of Business Excellence would primarily have the following goals:

- to gather and connect experts, successful businessmen, especially successful exporters in Bosnia and Herzegovina with relevant knowledge and experience, and with excellent additional education, all that for a better promotion of BiH's interests abroad;
- to continue cooperation with institutions, regional initiatives and international organizations – for a more efficient use of available resources;
- to run joint development projects for bilateral and multilateral cooperation.

### **Business Support Center for Exporters**

In addition to the Center of Business Excellence it is necessary to form the Business Support Center for Exporters whose priority task should be based on contribution to expansion of export and conquest of new markets. A successful and efficient work of the Business Support Center for Exporters requires a closer cooperation and mutual, harmonized activities between the Foreign Trade Chamber of BiH and Ministry of Foreign Affairs of BiH. These two institutions should urgently discuss the possibility to open economic departments within the permanent missions of Bosnia and Herzegovina in foreign countries, especially in Brussels, the seat of European Union, a market where Bosnia and Herzegovina achieves over 65% of the total foreign-trade exchange.

The primary tasks of the Center would be:

- collecting and analytically processing data about the economy of various countries (such as the EU countries, CEFTA, Gulf countries, etc.), their import, export, available resources, legal regulations of the market, presence of foreign companies and their competitive power;
- comparative analysis of foreign countries' and BiH's economy;
- influencing and lobbying for the establishment of measures that will stimulate the export of domestic goods and control of capital flow in agreement with the overall developmental goals and strategy of economic performance of the country



abroad;

- presenting export possibilities of the BiH economy – products, programs and investment projects through participation in international fairs and exhibitions, organization of BiH economic exhibitions and promotions;
- organizing, preparing and ensuring the participation of the BiH economy representatives in international meetings;
- following and informing about the announced bids and tenders for the execution of investment works, purchase of equipment and materials.

All those activities would be directly related to the tasks and activities of the Export Promotion Agency of BiH that functions within the Foreign Trade Chamber of BiH.

### **The Necessity for Lobbying Infrastructure in Bosnia and Herzegovina**

Bosnia and Herzegovina does not have a law on lobbying, neither domestic lobbyists. As Bosnia and Herzegovina is approaching the European Union, domestic economic subjects will have to adjust their business with the demands of the European market and to implement the corresponding directives in accordance with the contemporary way of business operations within which lobbying is an inevitable component of influence, namely, modern business.

However, the key motive for the legalization of lobbying activities is the prevention of corruption. The high level of corruption could be reduced only if this area is regulated and its perception by people is changed. The law would enable that the grey zone becomes white and transparent, and consequently more available and interesting. There is a lot of ambiguity related to lobbying. Many think that lobbying can do anything, and that the way to achieve goals is much shorter and easier. Nevertheless, lobbying is just a technique of communication, i.e. being in contact with a number of people, and it enables exercising one's rights without causing any harm to any other party.

On the other hand, Bosnia and Herzegovina has already been in the process of creation of economic diplomacy, and in this case the experiences of the neighboring countries, especially of the people who have participated in that process for a long time, could help us to establish a lobbying system that has not existed in an adequate way so far, with the final goal to strengthen our economic diplomacy.

The lobbying actors can be the state, diplomatic representatives, entities, cities, local communities, non-government organizations, licensed lobbyists, and all those whose activities are not limited by the law. Lobbying is today a legitimate tool in international relations in the struggle for the achievement of national interests. The

Foreign Trade Chamber is the most important non-government institution in Bosnia and Herzegovina that brings a significant contribution to the economic positioning of BiH abroad. In addition, some other associations whose goal is lobbying are being established, and their activities are mainly directed towards the government, donors and commercial subjects. Finally, one of the possible lobbying subjects that must not be forgotten is the BiH diaspora. Diaspora as a usable lobbying group is present all over the world.

The legal regulation of lobbying is especially important for economy, since the agreed relation between the lobbyist and economic subjects is clear and transparent. In the developed world lobbying is a positive activity that has to be well-organized, defined by the law, and designed according to arguments. Unfortunately, lobbying is not yet a reality in Bosnia and Herzegovina and we have to change that.

The legal regulations of lobbying activities contribute to a more transparent decision-making, and at the same time they reduce corruption for which the countries in the region are being regularly mentioned in international reports. The Law on lobbying should be connected to the fight against corruption and criminality, and it is one of the obligations imposed to Bosnia and Herzegovina in its accession to European Union. The goal of lobbying is to regulate the relations of influence by making them transparent and controled. In addition to the law, BiH lobbyists also need education. The Foreign Trade Chamber of BiH and particularly its Institute for Education are the right places to acquire both theoretical and practical lobbying knowledge.

The term lobbying is still not very clear in Bosnia and Herzegovina, lobbying still being associated with negative connotations. However, in advanced societies lobbying is understood in a completely different way. Lobbying, i.e. public advocacy, is serious, well-defined, legal and legitimate profession that contributes to the quality of business and political decisions. For instance, in Brussels no decision, directive or guideline is released without lobbying, and today, it is a job that is performed mainly by young, excellently educated experts in certain fields of legislation or regulatory issues.

Professional lobbyists always perform their job based on contracts. Today, serious jobs or large foreign investments cannot exist without lobbying. Foreign investments without serious lobbyists and consultants are not real and serious, and they soon encounter problems. Lobbying is an established, organized and regulated practice to achieve the interests of a group or an individual in developed societies with a democratic political and market-economic orientation. That is why the creation of the legal and other lobbying infrastructure is of great importance to create a positive image of Bosnia and Herzegovina.

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## INTERNATIONALIZATION OF SMEs AND THE ROLE OF ECONOMIC DIPLOMACY

Igor Ferjan\*\*

### Introduction

The internationalization of small and medium-sized enterprises (SMEs) and economic diplomacy can be said to be two closely related activities in the process of internalization of each product or SME. Therefore, economic diplomacy is just one form of diplomacy in each country aiming to promote national interests. For this purpose states use different economic instruments that include all economic activities, including export, investments, borrowing, help, free-trade agreements, etc. Because of its importance, the goal of this paper is to explain practical ways to start the internationalization of SMEs, and the expected support of economic diplomacy. Due to the complexity of the topic, its clarity and possibility of application in the real sector, internationalization is narrowed to the presentation of the model that is most often used in the practice of SMEs, model that will be described step by step. The possibility and need for the support of economic diplomacy for achieving the success of the internationalization project, in both the domicile country of the economic subject and in the target country, has been indicated in each phase. The aim of the paper is to contribute to the strengthening of economic diplomacy in the process of internalization of SMEs and their products.

### Internationalization of SMEs and the National Interest

Nowadays the interest of all countries is to reach or strengthen the trend of their economic growth as soon as possible. The highest officials in Europe and America invite domestic enterprises to increase their activities outside the national borders and thus ensure a faster recovery from economy crisis, as long as GDP growth is directly related to internationalization. Since this attitude is present in almost all world leading economies, the critical question to ask is "Where to export?!"<sup>1, 3</sup>.

States should have a single (long-lasting) national strategy to encourage and help domestic industries (not necessary the ones with the most globally competitive products or services) in their internationalization process. The policy makers of a national strategy plan should bear in mind that a strong position of economic diplomacy in a certain country could not always match enterprises' interests or

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<sup>1</sup> Interview with Joseph Stiglitz ("Euro je bio pogreška, a politika štednje je propala", Globus, No. 1238, 29 August 2014: 40-42).

abilities in the market in question. And *vice versa*, markets of interests for enterprises are not necessarily always the same as the economic diplomacy position of the respective country on the ground.

States should build the public awareness of their good practice and economic achievements of domestic enterprises through media. By doing so they encourage more people to decide to take a risk and become entrepreneurs, to implement their ideas, activate savings, create new products or services, compete on the market, employ others, make profit, grow over the national borders and pay taxes.

SMEs are the backbone of the European economy and are considered as the main driver for innovation and employment. With almost 25 million SMEs in Europe today, which employ more than 53% of Europe's workforce (around 95 million people), they generate around 50% of Europe's total turnover. Slightly more than 90% of SMEs are micro enterprises with less than 10 employees.

Internationalization refers to the widening of economic activities related to sale, purchase, production, research and development (R&D) beyond the territory of the domicile country of an enterprise, and it is actually as old as trade, territorial exchange of goods. In its essence it has not changed up until today. A few thousand years ago, people were connected in groups that owned and protected their territory, and started the exchange of tools, weapons, animals and other goods with other groups. Later, trade was done between tribes that also possessed a clear geographical area, and this continued until the formation of nations which still live within a certain territory, that is, within the national borders. Nowadays the primitive exchange of goods turned into internationalization. Internationalization means that a "mother company" is set in one country, and its agents, distributors or "daughter companies" are in other countries. The connection between the "mother company" and its subsidiaries or "daughter companies" is centralized in the "mother company" which hierarchically takes decisions at the highest level.

The consequence of the internationalization and its upgrading is globalization or global internationalization which appeared as a result of the technological development that enabled functional integration of geographically widespread economic activities, causing national borders to lose their importance. In fact, the entire world is a single market. Regardless the specificity of local markets, global enterprises, due to the economy of scale, standardize the products they offer on national markets as global products leading to global standardization.

Enterprises that make business globally use the so-called "tax efficiency" and "cost-cutting opportunities" offered by different countries because of lower expenses related to labor, taxes, infrastructure and other benefits that significantly influence

business expenses. In that way a global enterprise today produces technologically very demanding semi-products in Japan because of the accurate technology, and heavy cast stands in Russia because of the low price of aluminium. Electronic components are produced in Taiwan, due to the low price and high quality of programmers software solutions are developed in India, everything is assembled in Germany (because of the global perception about the high quality of German technical products – Made in Germany products being sold for a higher price), and the final product is sold from Switzerland where companies for marketing and sale are located. Since companies produce and sell globally, they calculate “inter company prices” which enable lower customs and tax bases, hence gaining a higher profit also because corporations are registered in Switzerland where they pay lower taxes.

### **The Negative Element of Internationalization**

In a wider sense, internationalization is a positive economic activity which is welcomed by states because of increased economic activities resulting in increased GDP. During the last twenty years, outsourcing has been widely accepted as a positive economic activity, especially in terms of production costs reduction. In addition to the production costs reduction, outsourcing has been a tool in negotiations with labor unions, and from the point of view of the state, outsourcing is positive only if it is performed within the domestic market. If performed outside the domestic market, the so-called “offshore outsourcing”, it can be said that it is an element of negative internationalization from the point of view of a particular state. Still, during the last two years it has become clear that in industrially developed economies the relocation of labor intensive and technologically less demanding jobs causes problems. At the beginning the positive financial effects turned to be generators of economic and social problems, while the Asian countries that were the contracting partners in *offshore outsourcing* registered a GDP growth. Because of increased unemployment, there is an increased pressure on the social and pension funds, basic industrial skills have been lost, the needs for applicative research have been reduced, the demand for different technicians with secondary school studies has decreased, and many professional profiles have practically disappeared from the labor market due to *offshore outsourcing*. The reduction of the demand in the production sector leads to financial inability that affects the service sector and further on the entire economy, in the end resulting in lower incomes and higher state expenses. Therefore *offshore outsourcing* represents the negative part of internationalization for those countries (usually developed countries) from where less demanding works are relocated to usually developing countries – also called sourcing countries from this perspective.

Most countries are at the same time the biggest individual employer and consumer. If a country wants to help its economy, which is primarily a political issue and a matter of political will, it has to first and foremost fulfill its needs within its economy. Nowadays, state administrations in developing countries buy imported products providing the excuse of the open market, despite the fact that the USA market that is declaratively the most open market does not do that, since state administration fulfills all its needs exclusively from domestic producers to whom it is in most cases co-owner or owner. For developing countries imports decrease the economy of scale within the national economy and consequently cause the shortage of developmental finances necessary for innovations and product upgrading. This situation is not widely encountered in industrially developed countries.

### Internationalization of Enterprises

Economic theory acknowledges a few strategic models used to enter foreign markets, but not all models are adequate for small and medium-sized countries that only start the process of internationalization, due to financial and human resources requirements. When a company management decides to start internationalizing, it has to know that internationalization is an investment project which needs high financial and operative investments. For the successful penetration of SMEs in foreign markets, it is necessary to have an **international product**, **motivated management** (in most case the owner) and the **financial means**.

If a company wants to start the internationalization process, it has to have a product, or more precisely an *international product*. An *international product* can be the same product as the one commercialized in the domestic market or it has to be adjusted to the new market to become an international product. Normally the product or service has to cover its business costs and bring profit. Therefore, products that are sold in the domestic market can be inadequate for internationalization for many reasons, and it is quite often that products are not in line with the standards or measurement units that are used in other particular markets. Products can be related to population habits, religion, climate conditions or other specificities of one country, and it is much more difficult to internationalize such products to a market which does not display similar preferences or to a market open to becoming familiar with those specificities. Furthermore, the company has to have access to technological equipment and be able to produce the planned quantities, that is, to be ready to deliver potentially large orders no later than the agreed delivery deadline.

For instance, because of relatively low prices and high specific weight of cement, a cement factory is profitable if its products are transported by road up to 150 km, meaning that its products cannot be considered real international products in



geographically large countries where the distance between borders is up to a few thousand kilometers. The same holds true for bakers who produce croissants and other products of short shelf life, and water bottling plants, etc. Although these products are encountered in the global market and they do become international products, this is mainly due to subventions and/or other factors created by the producer or the state with the aim to avoid costs related to accessing international markets. For instance, if a cement factory wants to transform cement into an international product, it should solve the transport problem by building a river port which would enable the product's shipment to the buyer, and at the same time to supply the coal necessary for the production of cement. Besides cement, for example exotic flowers have become *international products* at the moment when air transport enabled the transport of exotic flowers at controlled temperatures.

In addition to products, modern international trade also comprises services, so the term "international products" refers to both products and services that are adequate for international trade. Nowadays, international products include most international and global services offered via internet, including marketing, trade, auctions, banking services, on-line telephoning, counseling, education, on and offline engineering, back office and other intellectual services.

A very important factor in positioning a product on a certain market is the "price/performance" perception. Depending on their perception, customers who encounter a new product on the market have an already formed attitude regarding the quality and price of that particular product. For example, it is obvious that only a few possible customers possess the technological knowledge that enables them to buy technologically demanding products. Consequently most consumers rely on recommendations, commercials, public opinion, experiences of other consumers, etc.

The first perception about the value of an international product is related to the country of production, and that is why, in the first phase, customers assess products in accordance with their country of origin. For instance, if we compare cars produced in Germany, Italy, France and Japan to those produced in Russia, China or the United States, there is a difference in the perception of these cars' quality, technical properties and price, since perception differs in different countries, and it depends on the customers' positive and negative experiences, on the period of time that a certain product has been present on the market or on the political and economic influence of the product's country of origin. A good example is the perception of Switzerland. When customers think about Switzerland they firstly think of banks, Swiss army knife, cheese, high prices and the best possible quality. This example shows that the perception of the quality of any product is directly connected to the

image of the country of origin – its levels of economic development, legislative framework, political stability, security, etc. – as well as on previous experiences with other products imported from that country. For this reason all countries should promote through their education curricula and economic programs the continuous development of quality and the production of high quality products.

Similarly to business in the domestic market, profit is the major motive of enterprises that decide to expand their business in the international market, and it is also the main motive for entrepreneurs who want to conquer new markets or who have to conquer new markets because of push/pull market influences. There are also entrepreneurs who have already earned consistent profits and are not motivated by money, but they are very often motivated by their own self-affirmation and new challenges. Some of the most widely-known entrepreneurs whose international engagement is not exclusively based on profit are for instance Richard Branson (Virgin), Elon Reeve Musk (Tesla Motors), and many others.

One of the key conditions to start the process of internationalization is that the management of the company needs to have the wish, will and knowledge to enter this process successfully. The management has to be ready for organizational changes, standardization, education and adjustment, and since each attempt to conquer foreign markets requires more knowledge, they need more staff engagement, as well as additional financial means. Accordingly, the company's management should understand their activities as capital investment as they solve the problems they meet along the process of internationalization.

### **Blue Chip Products: Guidelines for Economic Diplomats**

Countries should have “blue chip lists of products” which are crucial for their economy – they can be from public or private sector enterprises – and serve as guidelines for economic diplomats to have some products which they can focus on when they serve in their receiving countries.

They can use those products for promoting their national industry and also for potential intergovernmental barter trade. States are usually the biggest buyers, and economic diplomats have access to political decision makers.

Each country has some natural resources such as oil, metals, minerals, wood or agricultural products (vegetables, spices, meat and so on) or technical products like machinery, etc., which they produce in extensive quantities, and are willing to export or exchange them for commodities with other countries. But, in modern economy, products do not always take physical form, they can be in the form of good practice,

engineering, know-how, etc. At the same time states have their own needs, especially in the development of their public sector such as schools, medical care, defense, infrastructure, etc.

Consequently, an economic diplomat should be proactive to determine the needs of his/her receiving country and also to find out what his/her national economy has to offer. With this information (s)he can later propose a deal that will accomplish a win-win situation. If the economic diplomat is open-minded and is constantly looking for opportunities for both parts and a fair trade (s)he will give a positive signal to the receiving country. Since all economies need to export their commodities, an active economic diplomat will be an asset for his/her home country as well as for the receiving country.

Economic diplomats usually stress that they are not the ones that sign deals, which is actually true – but they need to help motivated economies to expand or diversify their business possibilities as much as possible.

A good example is the German Chancellor Angela Merkel who, a few months ago, successfully supported the closing of the deal between Airbus and China. Similarly, the U.S. president Barak Obama told in an interview on the national TV that he “helped” in closing a deal for Boeing. To conclude those deals, the manufacturers’ high ranking representatives worked hand by hand with economic diplomats probably for several months or even years, so that the President or Chancellor could give the “final touch” or close the deal – after all, heads of state are the highest ranked economic diplomats.

### **The Support of Economic Diplomacy in the Internationalization of SMEs**

Like a lot of domestic entrepreneurs and researchers who work and invest abroad, a lot of foreign companies invest into domestic economy, and the result is trade and investments that lead to growth and new working places. Nowadays, each government attempts to create better possibilities for their entrepreneurs on the international markets. Governments want to achieve that goal by creating an adequate and more efficient policy to meet the needs of the business operations of international enterprises, and major elements of that policy are based on the reduction of subventions and stronger efforts through economic diplomacy. With the aim to help SMEs’ start on the international markets, it is necessary to develop policies in cooperation with companies by taking into account their concrete needs.

Governments usually support the most important business sectors, and they pay special attention to strengthen on the international markets the position of

entrepreneurs who work in the energy sector, creative industry, science, high technology, water supply, agriculture and food technology, chemical industry, as well as other fields that are specific for certain countries. Although export and the creation of international products is very important, it is also paramount that governments make efforts to attract foreign companies and top experts to stimulate the development of knowledge economy.

With the aim to help entrepreneurs who want to enter the international market, governments should prepare and ensure different instruments that will meet entrepreneurs' specific requirements. Those instruments vary from providing information about the market complexity, counseling, help, promotions and trade representation. Governments should also provide subventions on loans, so that SMEs could maintain their activities on the international markets. It is known that there are countries which provide such subventions to their entrepreneurs to expand their business to China, India and other markets.

If entrepreneurs want to start the process of expansion to international markets, it is necessary to provide them with free basic information about different countries, provide contact points and access to quality information. Nowadays in many countries entrepreneurs can use the international networks of ministries of foreign affairs to get all necessary information and advice about trade, which should be the core of economic diplomacy.

International economic relations change at a rapid pace and as a consequence new markets such as India, Turkey, Brazil, Russia and China emerged, markets where governments still play the main role in the economic life. Governments should promote their countries' business interests through economic diplomacy. The key for the promotion of business interests is each state's economic diplomacy international network that includes embassies, consulates and offices for business support. Those missions together with the host governments solve the issues related to market access, restrictive rules and regulations. Missions should have advisers for offering support to interested exporters. Economic diplomacy should be supported by competent professionals in the sending state as well as in the receiving countries, complemented by the support of local experts in foreign markets.

Governments and industries should work together if they want to successfully support their enterprises in foreign countries. It is crucial that roles are clearly defined within this partnership. If companies are able to provide quality and reasonable prices, governments should not interfere, but if there are trade barriers, governments should make efforts to help their companies in foreign markets.

## Conclusion

Although internationalization is seen as one phase in the process of globalization, its role is very important within each national economy, as national GDP is directly related to internationalization. Entering the international market is one of the major decisions that should be made by SME entrepreneurs. Since they need help in that process, states are those actors that through their diplomatic channels can significantly help entrepreneurs. Economic diplomacy is one of the most important factors in that process, and through contacts with embassies, consulates and offices for business support, states can considerably ease the internationalization of products and SMEs. Through those channels, economic diplomats can promote products produced in their countries. In the current diplomatic relations, the most known cases of promoting products from their countries are the interventions of the German Chancellor Angela Merkel and USA President Barak Obama who have successfully helped in the attempts to achieve their countries' economic interests. Such examples of economic diplomacy have to be multiplied by the diplomacy of developing countries, since economic diplomacy is the core of modern diplomacy.





