Telecommunication Technologies Development in Countries of the Former Yugoslavia: History, Needs and Policy Options for the Future

by

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Abstract

In the first part of this thesis I give an overview of the political-economic and telecommunications sector developments in major western economies, as well as some of the advanced Eastern European countries. I use this framework to analyze the telecommunications sector development in countries of the former Yugoslavia: Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro. Here I address the relevant legal and regulatory landscape development as well as the entrance of the most important business actors in the telecommunications markets of these countries. The history of the telecommunications sector development is also placed in the context of a broader set of political and economic shocks that affected this region of the world after the fall of the Iron Curtain.

Throughout the thesis I build on insights learned during the research internship project that I undertook this summer: I visited capitals of all the former Yugoslavian countries and gathered data relevant to the telecommunications sector development by interviewing government and business sector officials there. This information is heavily used for the derivation of a set of policy recommendations and options that government officials should consider for advancing the development of the telecommunications technologies in the countries of the former Yugoslavia. Strategies for telecommunications sector development, their barriers, and solutions for surmounting these barriers are presented in the third part of this thesis.

Thesis Supervisor: Nicholas A. Ashford
Title: Professor of Technology and Policy

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1 Introduction

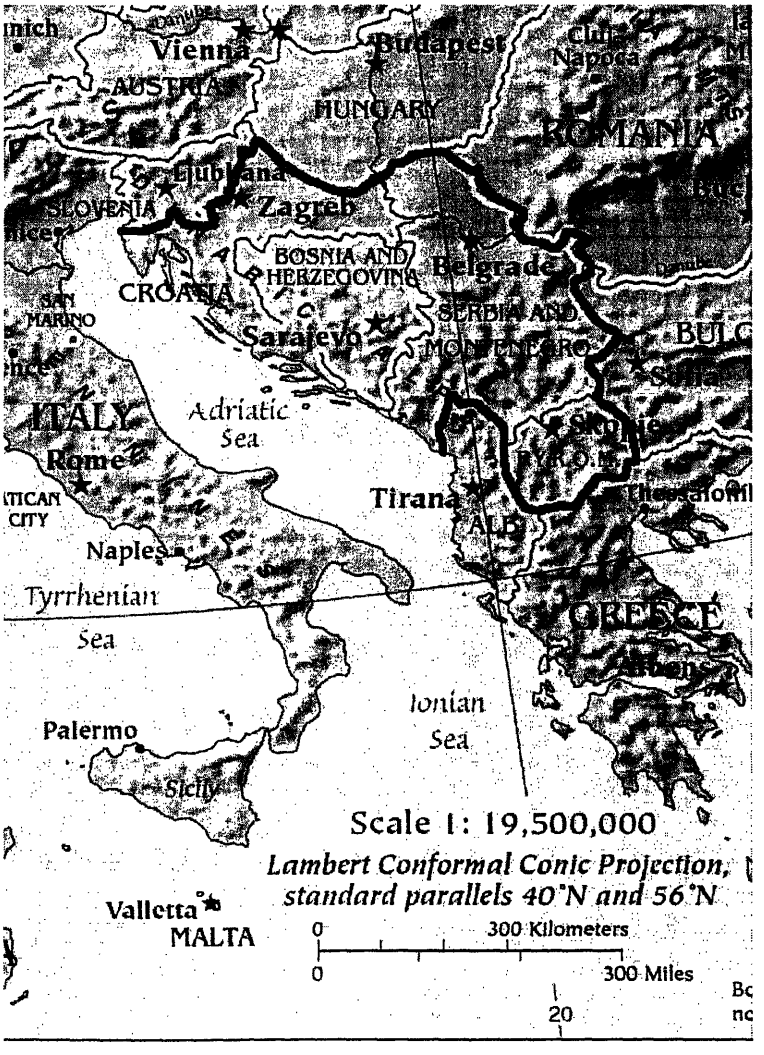
The fall of formerly socialist countries in South and East Europe marked the beginning of one of the most exciting natural experiments of our time: the transition process of centrally planned economies to market-based capitalist societies. While the initial optimistic projections of the speed and character of this transition have been proven somewhat over-enthusiastic, many countries underwent relatively successful transformation. For ten of them, the restructuring of their political and economic systems has progressed far enough to justify the admittance to the European Union (EU): In an official ceremony held on May 1, 2004, eight countries from former Warsaw Pack, together with Slovenia and Cyprus, became the new members of the emerging political entity on the European map. For those countries still aspiring to become members of the EU, the lessons from transition process of the newest members can serve as useful guidance for future policy decisions. Given the variety of the initial conditions, policy paths and the resulting institutional arrangements, experiences of the ten accession countries offer a rich set of policy options for policy makers in countries outside the EU.

This aim of this thesis is, by deriving from some of the experiences of other Central and Eastern European (CEE) countries, to provide policy recommendations for government officials in most countries of the former Yugoslavia[1]: Bosnia and Herzegovina (BIH), Croatia, Macedonia and Serbia and Montenegro (SCG). The Figure 1 below shows the geographical position of these countries in the region of Southeastern Europe often referred to as "Western Balkans". In addition to all having being members of former Yugoslavia, they also shared the unfortunate

[1] Slovenia, a first republic to declare independence from former Yugoslavia, is not the focus of this thesis because of it is already a member of the EU.

faith of each having experienced violent conflicts on their territories at one point in the past fifteen years. These events have in large part been the determining force behind the transition process in BIH, Croatia, Macedonia and SCG. Outbreaks of violence have also significantly slowed down the transformation process of their political and economic systems. As a result, even with favorable initial conditions at the beginning of the transition in 1991, their present state of economic development is largely inferior to most of the Eastern European countries.

Figure 1: Countries of the "Western Balkans" region[1]



Telecommunications markets are one of the indicators of the gap that presently exists between the majority of the CEE countries and countries in the Western Balkans. Electronic communication, with historical technological advances in the field of telecommunications in the past 30 years, has become the prevalent medium for exchange of information in modern societies. Consequently, telecommunications services are considered to be one of the main drivers of economic growth in developed and developing countries alike. For these reasons, we focus our analysis in this thesis on the telecommunications markets in BIH, Croatia, Macedonia and SCG with the goal of understanding the causes behind their underdevelopment. Building on those insights, and using the experiences of other CEE countries in the telecommunications markets, we outline areas for policy reform and derive specific policy recommendations for advancing deployment of telecommunications technologies in Southeastern Europe.

This thesis proceeds as follows. The second chapter provides an overview of major political and economic systems that have emerged in the most advanced countries in the world and discuss how some of the paradigms from these capitalist economies apply to transition economies. The third chapter presents the history of telecommunications markets and the relevant legislative frameworks in western European countries and the US. These two chapters, therefore, set the stage for the analysis of the corresponding political-economic as well as legislative and institutional developments in the countries that are focus of this thesis. The subsequent four chapters delve into these issues for each of the countries. Chapter eight compares the present state of the transition processes and the outcome in telecommunications markets of BIH, Croatia, Macedonia and SCG. Chapter nine borrows insights from the existing body of literature on telecommunications markets development in the CEE countries and specifies policy recommendations for government officials in countries of the former

Yugoslavia. The final chapter concludes with the summary of major findings presented in this thesis.

2 Varieties of Capitalism

In their seminal book "Varieties of Capitalism", Peter A. Hall and David Soskice "elaborate a new framework for understanding the institutional similarities and differences among the developed economies" (Hall and Soskice[2], pg. 1). The varieties of capitalism (VoC) approach is centered on major economic actors "each of who seeks to advance his interests in a rational way in strategic interaction with others" (Hall and Soskice, pg. 6). Companies, however, are the main focus of the VoC, because of the web of economic relationship between them and other participants in the economy. The VoC approach builds around the following three most important relationships: systems of finance and corporate governance, inter- and intra-firm relations, and vocational training and education (Hall and Soskice, pg. 7). Depending on the amount of coordination that actors develop in each of these areas, the VoC distinguishes the following two main types of political economies: Liberal Market Economy (LME) and Coordinated Market Economy (CME). "In LMEs, coordination takes place primarily through markets and hierarchies, competition and formal contracting being the main coordination mechanisms" (Varheim[3], pg. 7). In contrast, economic actors in CMEs rely on non-market coordination and informal networks and "the competencies of businesses are built through collaboration rather than through competition" (Varheim, pg. 7). Even though such a simple dichotomy of modern capitalist countries may seem, and often is criticized as an oversimplification, most OECD countries have been easily classified as one or the other. Australia, Canada, United Kingdom and the United States have thus been shown to 19 belong to LMEs, whereas Japan, Germany most other Western European countries (including all Nordic countries) are regarded as CMEs.

2.1 Coordinated Market Economies

The coordination between economic actors often takes different forms in different CME countries. The VoC authors present Germany as an archetype of a CME, which exemplifies strong coordination networks along the three dimensions of economic relationships discussed in the opening paragraph of this chapter.

2.1.1 Finance and Corporate Governance

A cursory inspection of Germany's financial systems and the closely related system of corporate governance reveals tight relations between German companies and financial enterprises. German companies do not rely in nearly the same extent on stock markets and equity-based financing for raising capital as their American counterparts do. Instead, they often turn to large German banks when seeking external sources of funding. In the absence of frantic stockholders, who are often focused on short-term results only, companies in Germany are able to seek financing "that is not entirely dependent on publicly available financial data" (Hall and Soskice, pg. 22). Consequently, companies are assured of having influx of capital even when they are not generating substantial profit in the short-term. This allows them to keep their skilled workforce intact and to "invest in projects generating returns only in the long run" (Hall and Soskice, pg. 22). The lending institutions require, in turn, greater access to 'inside' information about the firms operations and prospective of their projects. After all, after choosing to overlook sometimes companies' balance sheets and similar financial statements, "investors must have other ways of monitoring the performance of companies in order to ensure the value of their investments" (Hall and Soskice, pg. 23).

The 'patient capital' nature of financing German companies leads to a unique system of corporate governance as well. In order to ensure the salience of their assets, banks often place their representatives on corporate boards. Moreover, banks interact closely with industry associations from which many companies derive benefits not only related to financing. These industry 'interlocutors' work closely with managers on resolving common industry-related issues, such as standard setting, technology transfer and training. By having substantial insight into specific company's projects as well as overall familiarity with a given industry, the industry associations gather and transmit valuable information about each to prospective lenders. This way, bank managers can obtain justification for the companies they choose to finance, while company managers do not have to worry about generating short-term profits and can pick projects that they deem are optimal for company's financial health in the long term.

2.1.2 Inter- and Intra-firm Relations

Inter-firm relations are characterized by large degree of cross-shareholding among different companies: "Other companies are not only represented on the supervisory boards of firms but typically engaged closely with them in joint research, product development and the like" (Hall and Soskice, pg. 23). The aforementioned industry associations are also one of the mechanisms for creating inter-firm cooperation. Firms rely on these organizations to channel the sharing of information about their ongoing projects and technological innovations. In addition, they perceive industry associations as intermediaries for resolving necessary coordination problems with lenders (e.g., by providing them with an 'insider' view of firm operations) as well as the workers. By negotiating industry-wide wage-setting agreements with trade unions, industry association minimize the likelihood of their members loosing their skilled personnel to

other companies in the same industry (i.e., those that may want to offer higher wages). The workers, on the other hand, are also assured of more secure positions through the system of works councils, which protect workers against arbitrary actions by their employers. Works councils are "composed of elected employee representatives endowed with considerable authority over layoffs and working conditions" (Hall and Soskice, pg. 25). Works councils, therefore, create a unique type of intra-firm relations in German companies by guaranteeing employee security as well as ensuring the shop-floor peace between the workers and their employer.

2.1.3 Vocational Training and Education

The vocational training and education provided by German companies is perhaps one of the most distinct trademarks of German economy. The elaborate system of worker education and training relies largely on the employer associations and trade unions, which both supervise a publicly subsidized training system. These associations ensure that most of the companies do train workers, thus eliminating potential free riding problem created by those firms that choose not to train. In addition to negotiating aforementioned industry wage levels employer associations and trade unions also strike the industry wide training levels provisions, which then ensure that workers achieve comparable training levels independent of the company, which provides the training. Therefore, "workers emerge from their training with both company-specific skills and the skills to secure employment elsewhere" (Hall and Soskice, pg.26). The coordinated industry-wide wage bargaining also ensures that all firms with a given industry provide equal wages to their employees of the same skill. The employees, therefore, have a much higher incentive to remain with a particular firm and are assured "that they are receiving the

highest feasible rates of pay in return for the deep commitments they are making to firms" (Hall and Soskice, pg. 25). In addition, they are also willing to invest their time and effort in training to obtain the company-specific skills, as they expect (assured by the wage bargaining process as well as the systems of works councils) their tenure with the company they train with to be significant and long.

2.2 Liberal Market Economies

In contrast to CMEs, LMEs are characterized by a much smaller rate of collaboration between their economic actors: "In LMEs, firms rely more heavily on market relations to resolve the coordination problems that firms in CMEs address more often via forms of non-market coordination that entail collaboration and strategic interaction" (Hall and Soskice, pg. 27). The United States is often used as a typical example of an LME.

2.2.1 Finance and Corporate Governance

Unlike their counterparts in CMEs, companies in LMEs rely heavily on equity markets to secure financing. LMEs, however, "usually lack the close-knit corporate networks capable of providing investors with inside information about the progress of companies" (Hall and Soskice, pg. 29). Consequently, publicly available data about firm's financial standing is the only information that external lenders have about firms that they consider investing in. This is why, firms in LMEs have to pay special attention to their share price and the short-term profitability in order to have a secured access to their sources of finance. (Hall and Soskice, pg. 29) The corporate governance reflects the situation in LMEs' financial system. Company managers and top-tier executives are aware of company's obligations to its shareholders; they focus, therefore,

on projects that are likely to bring the short-term profitability and that will ensure new streams of finance in the future.

2.2.2 *Inter- and Intra-firm Relations*

While many LMEs' firms enter industry associations that coordinate, for instance, standard setting (e.g., IEEE for electronics industry), in LMEs we rarely observe the depth of cooperation and exchange of information that goes on between the same sector companies in CMEs. Instead, companies in LMEs compete fiercely for their market share and are very protective and secretive about their research and development projects as well as any technological breakthroughs that they accomplish. Thus, the inter-company relations are, for the most part, characterized by the standard market relationships (Hall and Soskice, pg. 30). Market forces are also governing labor supply and demand in LMEs, with "top management...(having) substantial freedom to hire and fire" (Hall and Soskice, pg. 29). Moreover, workers in LMEs have relatively little assurance about their job safety and they have little or no representation on the governing boards of the firms. While unions exert considerable strength in some industrial sectors, unions as well as industrial associations, overall, are significantly weaker than the corresponding organization in CMEs. Consequently, industry-wide wage coordination in LMEs is rarity.

2.2.3 *Vocational Training and Education*

Vocational training and worker education practices in LMEs complement well the situation in the other two dimensions of the LME-CME dichotomy. Workers typically acquire only general skills during their formal education process and cannot rely on firms to offer

training programs in industry-wide skills: "Companies are loath to invest in apprenticeship schemes imparting industry-specific skills where they have no guarantees that other firms will not simply poach their apprentices without investing in training themselves" (Hall and Soskice, pg. 30). Since workers face such a huge uncertainty at their jobs anyway (i.e., because of the union weakness and lack of worker representation), they are also inclined to invest their time and money in acquiring general skills that they can easily transfer as they move from one firm to another. Having a workforce with a variety of general skills also has a positive effect of lowering the cost of any additional training that firms choose to provide (Hall and Soskice, pg. 30). Such training, however, rarely takes the form of German-style apprenticeship-like training, because of the high opportunity cost that companies face when they lose a worker they trained.

2.3 Transition Economies

The VoC approach has been successfully applied for understanding differences among major national economies. Scholars of comparative political economy continue to use the VoC framework to explain different choices that policy makers face in developed countries: "The institutional types of economy are stable and self-reinforcing systems that determine the behavior and organization of firms, unions and employer associations as well as governments regarding public policies" (Varheim, pg. 7). A particularly exciting application of the VoC, however, have been the emerging market-based economies of the Central and Eastern Europe. These countries lend themselves as an excellent test of various VoC theories: The "path dependency" theory, for instance, is often evoked when analyzing the flavors of capitalism in these countries in the context of the idiosyncrasies of their centrally planned economies[4] (Rodrik). In addition, a number of research papers analyze both the relative divergence in paths that some of these

economies had taken as well as the impact that their choices had made on the development of various industrial sectors in these economies, including the high technology sector and telecommunications. At the same time, analysis of the transition economies of Central and Eastern Europe often runs into problems that are not commonly observed with the application of the VoC framework to OECD countries: "One explanation might be that in transition economies a bulk of legacies, also with regard to cultural understandings, still prevents a liberal western-style model from evolving" [5] (Buchen, pg. 18)

2.3.1 Hungary, Poland and Czech Republic

Introduction of this section states that the legacies from the socialist past often influence the institutional development path in transition economy countries. David Stark[6] (Stark), for example, examined the institutional transformation in Hungary in the first half of the 1990s and discovered that economic actors kept their practices from the socialist regime, albeit in a "recombined" form, and found a way to apply them in the emerging capitalist organization of Hungarian economy. He referred here mostly to those "informal and inter-firm networks" that evolved into parallel structures of centrally planned economies and which were essential for amortizing the inefficiencies caused by imperfect government decisions on production quotas (Stark, pg. 994). Examples of such networks include "informal ties that cut across enterprises and local organizations", bargaining between supervisors and informal groups used to alleviate pressure from shortages and supply bottlenecks as well as entrepreneurial activities that differed in scope, density of network connections, and conditions of legality across the region" (Stark, pg. 994). After the fall of communist regime in Hungary, Hungarian actors relied on these practices to keep them "above water" in the new conditions of market economy. David Stark concluded,

based upon these examples, "actors in the post socialist context (resorted to)...rebuilding organizations and institutions, not on the ruins, but with the ruins of communism as they (redeployed)...available resources in response to their immediate practice dilemmas (Stark, pg. 995).

In his recent paper on institutional change and firm-creation practices in Poland and Czech Republic, Gerald McDermott[7] largely agrees with Stark's point of view that the informal relationships in transition economies of Eastern Europe played important role in their restructuring, and notes "firm and political actors under communism created distinct socio-political networks to obtain resources and to protect themselves from the uncertainties of shortage economies" (McDermott, pg.3). In the Czech Republic, the government embarked early in the transition process on the course of rapid, massive privatization and firm restructuring. In doing so, the government sought to "construct a strong policy apparatus that cut itself off from potential 'rent-seekers', such as parliament and special interest groups" (McDermott, pg. 6). These policies, however, led to destruction of the informal ties between and within Czech banking and industrial sector, which McDermott argues, explains wave of bankruptcies and manufacturing plant closures in Czech Republic in mid-nineties. Poland, on the other hand, employed a more gradual "embedded politics" approach of privatization and firm restructuring by delaying privatization of its biggest banks and state-owned enterprises and cajoling them in their adjustments to new market economy conditions. Consequently, Poland registered a much stronger economic performance at the turn of the millennium in comparison to Czech Republic.

While Manuel Costescu[8] acknowledges McDermott's embedded politics approach as a reasonable explanation of Poland's superior economic performance, he contends, "it lacks the purported generality when tested against other countries in Eastern Europe" (Costescu, pg. 3).

Instead, Costescu observes that it may be impossible to design "a unifying grand theory" of capitalism in countries of Eastern Europe, where "the large number of actors involved in the reforms, the idiosyncrasies of the countries, the differing starting positions, and the abundance of reforms on which the countries differ" makes any sort of generalization extremely difficult (Costescu, pg. 8). For example, Costescu tests the salience of McDermott's theory on the case of Romania. After following privatization path similar to that of Poland, Romania found itself in an opposite economic situation than Poland. While Romania also distributed responsibilities to its local and regional governments, thus preserving the network ties between its largest economic actors, its GDP growth followed a much more humble path in comparison with Poland (Costescu, pg. 18). In order to explain for this anomalous result in light of McDermott's "embedded politics" theory, Costescu also brings to fore the theories of "depoliticization" and "imitation", which perceive market forces and the "invisible hand" as best mechanisms for reorganizing [Eastern European] societies (Costescu, pg. 5).

2.3.2 Estonia and Slovenia

Slovenia and Estonia lend themselves for an excellent comparison of two drastically different approaches to telecommunications technologies development. Prior to the fall of the Iron Curtain, Slovenia and Estonia were both socialist countries and members of Yugoslavia and the USSR, respectively. Nevertheless, in 1990 Slovenia had a much more developed economy, including Internet and Communications Technology (ICT) infrastructure: "The country's higher degree of economic openness led to a higher level of ICT diffusion and advancement of intellectual capital before the break-up of Yugoslavia"[9] (Kitsing, pg.3). Over the past 14 years, however, Estonia, through the set of radical reforms, rapidly developed and achieved the same

level of ICT penetration as Slovenia. What happened? Slovenia developed a set of socio-democratic political economic institutions that facilitated "a smooth transition in which the prices of telecom services were kept low and domestic stakeholders were protected from competition" (Kitsing, pg. 3). Estonia, on the other hand, adopted aggressive privatization, deregulation and economic liberalization policies including "unilateral free trade, flat income tax, no corporate income tax and a currency board" (Kitsing, pg. 2). These measures opened the door wide open for foreign direct investment and technology transfer in Estonia. In addition, Estonia's outdated technology made it easier for new technologies to come in and replace the existing one. (Kitsing, pg. 4) In contrast, "Slovenia's dependence on older technologies also created disadvantages, as the interconnectivity between older and newer technologies was not always feasible." (Kitsing, pg. 4)

In addition to having adopted such different macroeconomic policies in the aftermath of socialist system dissolution, Estonia and Slovenia exemplify diametrically opposite types of economies as viewed through the VoC lens. Magnus Feldmann[10] points to market-based coordination among economic actors of Estonia and the highly institutionalized coordination of their Slovenian counterparts. He shows the perseverance of high union membership (above 40 percent) in Slovenia together with system of works councils and strong inter-firm ties maintained through company's mandatory membership in Slovenian Chamber of Commerce (Feldmann, pg. 12). Furthermore, banking sector in Slovenia continues to be the dominant source of finance for Slovenian firms. At the same time, Estonia's union membership plummeted from traditionally high rates in a socialist economy (above ninety percent) to the lowest levels among the transitioning countries. Estonia's system of works councils disintegrated quickly after the introduction of market economy reforms. Company membership in Estonian Chamber of

Commerce is very small; consequently, Chamber of Commerce plays small role in organizing coordination in Estonia's economy. Market capitalization of Estonian companies, on the other hand, is among the largest in the transitioning world and stands at 35 percent of Estonian GDP compared to market capitalization of 26 percent in Slovenia (Feldmann, pg. 15).

While Slovenia and Estonia achieved comparable rates of economic growth and ICT development and are often singled out as the success stories of the countries in transition, they, as Meelis Kitsing and Magnus Feldman point out, achieved this with drastically different macroeconomic policies and political-economic institutional organization. This astounding empirical evidence of two radically different reform paths leading to same economic outcome inevitably looms in our analysis of other ex-Yugoslavian countries, as we naturally wonder whether Slovenian or Estonian mixture of policies would apply more appropriately to delicate political and economic situation in Bosnia and Herzegovina, Croatia, Serbia and Montenegro, and Macedonia. We delay answering this question for several more chapters. However, we do present Meelis Kitsing's suggestions for countries of Central and Eastern Europe in search of quick solution for their underdeveloped ICT sector: "In general terms, these case studies [of Estonia and Slovenia] demonstrate that transition and developing economies should open their telecom market for competition immediately, while concurrently privatizing incumbent telecom companies". Furthermore, Kitsing advises, "these policies should be combined with a liberal foreign direct investment regime in both the telecom sector and other areas of the economy" (Kitsing, pg. 55). Kitsing, therefore, recommends that other transition economies adopt the radical reform path of Estonia and embrace market as predominant coordinating mechanism of their economies.

3 Telecommunications Regulation

For the first three quarters of the twentieth century provision of telecommunications services was considered a natural monopoly with prohibitively high cost of deploying necessary infrastructure (e.g., telephone poles, wires) resulting in "an industry whose economies of scale represent a barrier to competition and result in a single provider of a good or service"[11] (Guzzi, pg. 1). Consequently, the US and the European governments allowed single operator—a private company in the US and state owned companies in Europe—to control the entire telecommunications market and provide all the associated services. At the same time these government imposed price caps on telecommunications service, thus limiting powers of these "regulated monopolies". This ensured relatively inexpensive access to basic telephony (i.e., local phone calls), which were already determined to constitute a "public good" for the entire society. Because the European telecoms were state-owned, governments in Europe derived the additional benefits from this particular arrangement: "Governments used [public telecommunications operators (PTOs)]...as policy instruments for their macroeconomic and industrial strategies"[12] (Thatcher, pg. 10). For example, the PTO tariffs represented indirect wealth transfer by having business users (the main users of international phone service) effectively subsidize the cheap local calls of residential customers (Thatcher, pg. 10). The PTOs also contracted national companies for equipment supply, thus diffusing the benefits of their strong base to other economic actors in these countries.

Rapid advances of information and telecommunications technologies, however, undermined the natural monopoly status of the PTOs: "The costs of establishing competing networks (fixed line, mobile, and satellite) fell, and new services developed that were clearly not natural monopolies, such as advanced data services" (Thatcher, pg. 15) With emergence of these

new service, as well as the reduction of cost of the existing ones, value of the telecommunication markets also increased: "From being dull utilities, they [(PTOs)] became potentially lucrative investments, especially in the "new technology" stock market boom of the 1990s" (Thatcher, pg. 16). In the US, the monopolistic dominance of American Telephone and Telegraph Corporation (AT&T) was seen as one of the main inhibitors for improvements in telecommunications services. All of these resulted in gradual telecommunications market liberalization: The trend first started in the US symbolized by break-up of and subsequent creation of several regional local phone service providers (a.k.a. "Baby Bells"). The British governments followed the suit in early 1980s when it privatized the British Telecom and eventually ended its monopoly by the end of that decade. Other major European governments, such as German, French and Italian, took slightly longer to take noticeable action; however, in the early 1990s they also separated the postal from telecommunications branch of their PTO incumbents. Over the course of past decade the majority control of telecom has been transferred from governments' to private hands, and their telecommunications markets have been liberalized (Thatcher, pg. 10).

3.1 Telecommunications Market Liberalization

Telecommunications market liberalization in the UK and the US on one hand, and Germany, France and Italy on the other shows contrasting policy decisions of ruling parties in these countries along the "Varieties of Capitalism" lines described in previous chapter. The more economically liberal UK and US have started this process at least a decade earlier than corporatist Germany, France and Italy. Britain, for example separated the postal from

telecommunications services as early as 1969[2] when "the Post Office was removed from the civil service, becoming a public corporation with its own legal identity" (Thatcher, pg. 10). German PTO, at the same time, remained one company until 1989 when separate German Telecom was created. By that time, British Telecom had already been privatized and even the state telecommunications regulator created. The delay in PTO separation and privatization was mirrored by the delay in creation of the telecommunications regulatory agencies in these countries: While British Office of Telecommunications came to existence in 1984, the German counterpart was not established in 1998 (Thatcher, pg. 11). Development in French and Italian telecommunications markets followed similar path with their privatization of incumbent telecom occurring in 1990 and 1994 respectively.

The delay in liberalization of telecommunications markets that we witnessed in western countries of continental Europe can be justified by the strong economic links that the PTOs created with other actors in these societies. In Germany, for example, limited changes were introduced already in early 1980s, but the core monopoly of the German Post (DBP) was left untouched: "Changes faced a determined coalition of DBP trade unions, together with parts of the political Left, equipment suppliers, and on liberalization the DBP management" (Thatcher, pg. 11). Situation in France followed similar scenario where "attempts...to alter the organizational position of [French PTO]...away from its civil service status failed because of strong opposition from trade unions and employees" (Thatcher, pg. 10). Italian political parties, in their bitter struggle for political governance, relied on PTO as "sources of finance and jobs" and would not let the long-needed overhaul of its organization structure to occur (Thatcher, pg. 11). At the end of 1980s it seemed that the situation in telecom markets in the major world

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[2] In the US, postal and telecommunications services have never been offered by the same company as the United States Postal Service and AT&T were always two separate entities.

economies followed the dichotomy of liberal vs. coordinate market economies, with the UK and the US leading the market liberalization, and Germany, France and Italy preserving the integrity of their telecom operators.

The 1990s, however, brought about substantial changes in telecom markets of the traditional CMEs resulting in a regulatory and competitive landscape of these markets akin to those of the LME countries. According to Mark Thatcher, main drivers behind this convergence phenomenon have been "transnational technological and economic developments, overseas reforms, and supranational [EU] regulation" (Thatcher, pg. 15). We discussed the impact of technology improvements at the beginning of this chapter; the second factor relates to changes in the UK and US markets giving impetus to other European countries to reform their PTOs as well to respond better to competitive pressures coming from the LMEs. The significance of the third, and for the discussion on the telecom markets in the Balkans perhaps most relevant driver, increased with the rise of the European Union and its main governing body, European Commission (EC). EC started developing regulatory framework for telecommunications from the late 1980s, beginning with outlawing of monopolies for some specialized telecom services and "then moving to core areas such as voice telephony and the infrastructure" (Thatcher, pg. 19).

The EC framework for telecommunications eventually evolved to the requirement "that competition be allowed throughout telecommunications" (Thatcher, pg. 19). While there have been some strong debates over the actual dynamic through which market liberalization has been achieved (i.e., whether the EC imposed the regulation on the reluctant states or the EC developed the regulation in partnership with EU members), the significance of this outcome is the same for the countries in the Balkans. All of these countries aspire to become EU members some day. One

of the main requirements before they can join the EU is the alignment of their legislative frameworks (including the telecom market regulation) with the EU laws. Furthermore, whatever obstacles local politicians in the Balkan states for implementing these significant reforms, they will be have a somewhat easier time carrying them through by resting the exclusive blame on the EU requirements for the harmonization of regulatory frameworks. The same scenario played out in some of the EU-15 member states when "Governments and PTOs argued that the EC made liberalization inevitable" (Thatcher, pg. 22).

3.2 Local Loop Unbundling

Even though advances in technologies have reduced the cost of telecommunications switches and other equipment, some aspects of telephone networks (e.g., wires in the ground) are difficult or physically impossible to replicate by competitors. In order to avoid telecom companies laying entire networks side by side with the incumbent's network, modern regulatory frameworks for telecommunications, such as the Telecommunications Act of 1996 in the US, define the concept of local loop and specify the terms of interconnection between the incumbent and competitors at points of the local loop connection. Local loop usually refers to infrastructure (wires, switch box) that connects customer to the nearest switch on the network. This switch "in turn routes calls from one telephone to another" (Guzzi, pg. 1). Without access to this part of incumbent's network, the competitors would be unable to route calls from their to incumbent's subscribers; this would create insurmountable network externalities problem for the newly entering companies. In addition to defining the right to interconnection, Congress also defined the right to unbundled access, which allows "competitor to use only those network elements which it requires without being forced to use unwanted elements", as well as the right to resale,

allowing "competitor to purchase the incumbent [local exchange carrier's] existing retail offerings at a wholesale rate, which the competitor may then resell to customers" (Guzzi, pg. 1). Article 12 of the European Commission's Directive 2002/19/EC on telecommunications defines similar access principles by granting the national regulatory authorities a right to "impose obligations on operators to meet reasonable requests for access to...network elements and associated facilities, *inter alia* in situations when...that denial of access...would hinder the emergence of a sustainable competitive market"[13] (2002/19/EC, pg. 9).

Giving basic rights to local loop access does not immediately ensure the proliferation of competition in the telecom markets. The cost of rights to local loop has to be considered as well. Specifically, the US and the EU legislation impose the obligations on the incumbent to provide access to local loop at the actual *cost* of providing that particular interconnection to the network. The US Telecommunications Act defines the "forward-looking economic cost of a [network] element...[as] the sum of the total element long-run incremental cost...plus a reasonable allocation of forward-looking common costs" (Guzzi, pg. 2). Dividing this number by an expected number of units to be used by competitor yields the actual cost of the interconnection element. The EU Directive 2002/19/EC does not provide such a detailed cost analysis; however it does call upon the national regulatory authorities to require "a vertically integrated company to make transparent its wholesale prices and its internal transfer prices *inter alia* to ensure compliance where there is a requirement for non-discrimination...or, where necessary, to prevent unfair cross-subsidy" (2002/19/EC, pg. 9). Furthermore, the operator providing local loop interconnection may have to "publish a reference offer, which shall be sufficiently unbundled to ensure that undertakings are not required to pay for facilities which are not necessary for the service requested" (2002/19/EC, pg. 9).

3.3 Universal Service

The US and the EC telecom acts referenced above enabled competition in both local and long-distance telephone markets. In the US, simultaneous opening of both markets was not likely to generate significant distortions as the long-distance and local telephone providers have been separated as early as 1982. In the European countries, however, the incumbent telephone operators have been sole providers of telephone services in both local and long-distance markets. In addition, they heavily cross-subsidized the cost of local telephone calls by extracting above-normal[3] profits from intercity and international telephone calls. With the introduction of competition in the long-distance markets, the incumbents, left without significant profits in these markets, would be forced to increase the cost of local telephone service. The EC recognized, "rebalancing of tariffs so that they better reflect the underlying cost structure was considered as a pre-requisite for full competition" [14] (Cullen, pg. 11). Consequently, they had to ensure that all the obstacles (e.g., price caps on the local telephone service) be removed to allow for the changes in incumbent's price structure. Otherwise, "the incumbent operator would face competition and declining profits in the high profit areas and loose the capability of supporting services provided at tariffs that are below cost" (Cullen, pg. 11).

While the tariff rebalancing is a plausible scheme for adjusting to new competitive environments in local and long-distance call service, a difficult problem arises in local call service provision to rural areas: "In the early to mid 1990s when liberalisation was being debated in the European Parliament, there was a concern that incumbents would likely retain their market dominance in rural areas and may charge excess prices there" (Cullen, pg. 25). Faced with the

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[3] Since they were not subject to competition in long-distance telephony markets, they could charge prices as high as necessary to cover the cost of the local telephone service.

competition in local telephone markets and decreasing profits in traditional sources of cross-subsidies, the natural incumbent's response would be to increase the price of service in rural areas to meet its cost of providing such service[4]. The initial government's response would be to require incumbent to *average* the price of local calls between the rural and urban areas. This, however, distorts the competition in urban regions where the incumbent is required to provide local loop access at cost. Consequently, the incumbent company would "come under severe pressure from new entrants who would be able to 'cherry-pick' customers" (Cullen, pg. 49). "In such circumstances national price averaging tends to become a difficult and inefficient policy to sustain over the long term" (Cullen, pg. 49).

Instead of requiring price averaging for the local phone calls, the EC devised a *Universal Service* scheme under which operators are obliged to provide service to rural areas and low-income customers at the price that would not exclude these people from having access to telephone network. Thus, Article 3 of the EC Directive 2002/22/EC on Universal service provision calls upon member states to "ensure the services set out in this Chapter are made available at the quality specified to all end-users in their territory, independently of geographical location, and, in the light of specific national conditions, at an affordable price"[15] (2002/22/EC, pg. 9). In order to avoid incumbent and telephone operators assuming losses from providing service priced below the cost, the EC suggests, "Member States may establish mechanisms for sharing the net cost of the universal service obligations with other organizations operating public telecommunications networks and/or publicly available voice telephony services; whereas public telecommunications networks include both public fixed networks and public mobile networks"[16] (1998/10/EC, pg. 2). One method for recovering losses would be establishment of the Universal

[4] Initial investment in infrastructure enters the calculation of local phone call cost. These investments are particularly high in rural areas where the number of subscribers is relatively low compared to densely populated urban regions.

Service Fund, in which each operator contributes proportional to their revenue or profit streams: "Entities required to make support payments contribute a calculated percentage of end-user revenues derived from providing inter-state telecommunications services including international telecommunications revenues generated by providers of inter-state telecommunications" (Cullen, pg. 26).

3.4 Licensing of Telecommunication Operators

The local loop access and changes in universal service are one of the most important prerequisites for achieving liberalization of telecommunications markets. In addition to providing comprehensive legal definition of these two processes, the European Commission in the 2002 Framework also focused on simplification and streamlining of authorization process for operators of electronic communications services, because of the importance attributed to licensing process for the market development: "It is now widely recognized that licensing procedures and conditions must be applied judiciously since they not only influence market entry but the post-entry competitiveness of markets" [17] (Xavier, pg. 483). The transparency and the simplification of the licensing process are particularly relevant for countries with underdeveloped telecommunications infrastructure, as non-discriminatory licensing procedure ease the entry of foreign competition and the inflow of foreign capital.

In section 3.1, we discussed the pressure that opening of telecommunications markets in the US and the UK exerted on major EU Member states. This was manifested in the World Trade Organization (WTO) Agreement on basic telecommunications services concluded in February 1997 and General Agreement on Trade in Services (GATS) agreement, which opened door for liberalization of telecommunications markets around the world. In addition to committing to

open their telecommunications markets to internal competition, the 69 signatories of the WTO agreement have also obliged to "grant services and service providers of other WTO Members...full or partial market access" as defined in the schedule submitted by a particular country (Xavier, pg. 485). Even though the GATS agreement does not explicitly mention licensing, "the GATS presumes that licensing is not to be used to erect market access barriers, and strives to ensure that they would not be used as such" (Xavier, pg. 485). Moreover, "the GATS obligation of national treatment requires a government to treat foreign firms in the same way as national firms in relation to all laws, measures and practices (except as ways clearly described in [particular government's GATS] schedule)" (Xavier, pg. 485).

Acknowledging the importance of simplified licensing schemes for improving telecommunications markets in member states, the EC devoted Directive 2002/20/EC to describing this process: "The least onerous authorization system possible should be used to allow the provision of electronic communications networks and services in order to stimulate the development of new electronic communications services and pan-European communications networks and services"[18] (2002/20/EC, pg. 1). The dominant theme of this Directive is the removal of the explicit approval requirement for telecommunications operators whenever possible: "Those aims [of market development] can be best achieved by general authorization of all electronic communications networks and services without requiring any explicit decision or administrative act by the national regulatory authority and by limiting any procedural requirements to notification only" (2002/20/EC, pg. 1). Article 3 of the Directive reinforces this idea: "The undertaking concerned may be required to submit a notification but may not be required to obtain an explicit decision or any other administrative act by the national regulatory authority before exercising the rights stemming from the authorization" (2002/20/EC, pg. 5).

Moreover, the Directive limits the amount information that the operator needs to provide when applying for the authorization of electronic communications service: "This information must be limited to what is necessary for the identification of the provider, such as company registration numbers, and the provider's contact persons, the provider's address, a short description of the network or service, and an estimated date for starting the activity" (2002/20/EC, pg. 5).

3.5 Common Regulatory Framework

Recent innovations in the field of telecommunications technology is the main cause behind the convergence of traditionally separated telecommunications services: "In the US, the UK and Japan, *triple play*, i.e. the offering of TV, telephony and Internet access over cable has already become routine" [19] (Rosenthal, pg. 1). The 1.5 Mbit/s Deutsche Telekom DSL-service in Germany, for instance, "will thus allow, for the first time, the transmission of standard quality TV-signals via the Internet" (Rosenthal, pg. 1). The EC framework of 2002 sought to "adapt the existing regulatory conditions to the technological development in a converged communications environment...[and] to ensure that market participants do not face uncertainty and an excessive, irreconcilable maze of regulation" (Rosenthal, pg. 2). Responding to these challenges, EC Directive 2002/21/EC "establishes a harmonized framework for the regulation of electronic communications services, electronic communications networks, associated facilities and associated services"[20] (2002/21/EC, pg. 6). The main goal of the Directive is thus to remain "technologically neutral", thus ensuring "that sector-specific regulation applies to any network or service permitting the transmission of signals—including satellite networks, fixed (circuit and packet-switched including internet) and mobile terrestrial networks, and broadcasting networks regardless of the type of information conveyed" (Rosenthal, pg. 3).

In addition to its technology independent character, the 2002/21/EC Directive requires that member states "guarantee the independence of national regulatory authorities by ensuring that they are legally distinct from and functionally independent of all organizations providing electronic communications networks, equipment or services" (2002/21/EC, pg. 7). Those member states that retain majority ownership of entities providing telecommunications services are required to "ensure effective structural separation of the regulatory function from activities associated with ownership or control" (2002/21/EC, pg. 7). The fairness of the regulatory framework is further assured by requiring the member states to provide appropriate legal channels for exercising right to appeal: "Member States shall ensure that effective mechanisms exist at national level under which any user or undertaking providing electronic communications networks and/or services who is affected by a decision of a national regulatory authority has the right of appeal against the decision to an appeal body that is independent of the parties involved" (2002/21/EC, pg. 8). Finally, directive 2002/21/EC demands that national regulatory bodies "promote competition in the provision of electronic communications networks, electronic communications services and associated facilities and services" (2002/21/EC, pg. 10).

3.6 EU Framework Critiques

The EU Framework for telecommunications can be commended for significant improvements over the prior EU as well as other countries' regulatory environments. The foundation for achieving the main goal, opening of telecommunications markets, has been laid out with local loop access specification as well as the simplification of the operator licensing regime. In addition, the EU Framework is truly technology independent, which makes it easily adaptable to evolving telecommunications technologies and their markets. Even such a

comprehensive legal structure, however, is not flawless. The EC attempt to reduce the legal complexity surrounding rapidly advancing telecommunications technologies left many of the Framework provisions vague or under specified. For example, the interconnection between the incumbent and other operators is required in general terms only, while the requirement for the minimization of cost of interconnection between competing public telecommunications operators (e.g., wireless service operators) has not been properly described. Moreover, the Framework focuses on defining access to electronic communication transmission network, but does not delve into describing competitive environment for operators supplying only content. To be fare to the EC, certain limitations of the Framework reflect inherent technology and/or economic deficiencies of the underlying market. For example, calculation of local loop access cost, which affects the fairness of the local loop access provision, is a cumbersome task, which operators themselves, and regulatory authorities in particular, find extremely difficult to compute.

3.6.1 Local Loop

Even though it is in the heart of the drive for opening of the telecommunications market, "access to the last mile is still considered to be the least competitive segment of the liberalized telecommunications market" (Rosenthal, pg. 10). There are several causes behind this situation: "An external study published in September 2001, reflecting and summarizing the views of new entrants, confirmed these conclusions and identified mainly tariff and cost related as well as behavioral problems as reason for the slow progress in unbundling the local loop" (Rosenthal, pg. 12). The behavioral problems refer to incumbents "unwillingness" or outright refusal to provide open loop access. This problem has been particularly acute in provision of the DSL service: "In seven Member States (Belgium, Germany, France, Luxembourg, the Netherlands,

Portugal and Sweden) the incumbent currently holds virtually all DSL connections" (Rosenthal, pg. 11). The EC, however, did not fail to take action against these violations: "The Commission is concerned that incumbents continue to promote their own DSL-services over their local access networks thereby preventing competitors from offering broadband as well" (Rosenthal, pg. 11). As a result, the national regulatory authorities responded quickly to EC's "infringement proceedings", thus providing closure for most of those: "The Commission has already closed the cases against Greece and Portugal after both states took the appropriate remedies" (Rosenthal, pg. 11).

While the "behavioral problems" of some incumbents are relatively easily to overcome, other problems inherent to the economics of the local loop access are more difficult to solve. Fair estimate of local loop access cost is the most prevalent one: "First of all there are considerable *practical* problems in assessing the costs of networks providing a phone call"[21] (Lust, pg. 26). Since most costs associated with network operation are fixed, quantifying the operational (i.e., variable) cost becomes a challenging task: "The physical investment in wiring and hardware is without doubt a fixed cost independent of usage. Due to modern electronic switching and accounting methods there are also negligible changes in power consumption or wear of the system whether it is only on 'standby' or actively setting up a call" (Lust, pg. 26). The EC's investigation against Deutsche Telekom illustrates the problems associated with local loop cost assessment: "The Commission...is concerned about Deutsche Telekom's practice of charging new entrants higher fees for wholesale access to the local loop than what Deutsche Telekom's subscribers pay for retail access" (Rosenthal, pg. 14). At first, it seemed that Deutsche Telekom was not following an illegal business practice, as it was respecting the price caps on local loop access cost prescribed by German regulator: "Each price Deutsche Telekom wants to charge its

competitors for rental of its local loop needs to be approved by the German regulator Regulierungsbehörde für Telekommunikation und Post (RegTP)" (Rosenthal, pg. 14). It turned out, however, that RegTP was unable to establish the appropriate price caps, "because Deutsche Telekom never provided sufficient factual cost information" (Rosenthal, pg. 14). Consequently, "RegTP has so far never been able to establish the price in relation to the efficient provision of the local loop access service as mandated under German price regulation" (Rosenthal, pg. 14). That is why the price of the local loop access actually exceeded the regular price of retail access.

3.6.2 Interconnection Pricing in Mobile Telephony

The European market for mobile telephony exhibits significant differences in relative cost of mobile-to-mobile and fixed-to-mobile phone calls: "Fixed-line users, who want to call a mobile subscriber, have to pay up to 10 times more than for a normal call and up to 3 times more than a mobile user would pay for a similar mobile-to-mobile [call]" (Lust, pg. 1). The main reasons behind this discrepancy are the economics of wireless service provision in Europe. The cost of acquiring single customer in mobile network is much lower than that in fixed network: "Since, unlike fixed telephony, an additional customer does not need any hardware investment in wiring the 'last mile' except the handset, the mobile operator should try to gain customers even more radically than in the fixed line sector" (Lust, pg. 10). This results in fierce competition for customers, thus driving profit margins down for services delivered to mobile users. Consequently, "there is a quite natural tendency to use the less popular segments…[such as the ability] to call the mobile phone from another network (as for example from a fixed line) to charge quite high prices and earn excessive margins in these areas, which compensate possible losses in more competitive segments" (Lust, pg. 11). This "tendency" manifests "in the currently

rather over-priced interconnection fees in the mobile sector" (Lust, pg. 39) Because of the "calling-party-pays" principle adopted by all European operators, the excessive interconnection fees are born only by the fixed line customers. Therefore, by overpricing the termination of phone calls from the fixed line network, the mobile operators are enjoying extra profits without sacrificing their relationship with the existing mobile customers.

The incentives that mobile operators have for charging excessive interconnection fees are coupled with vague guidelines of the EU Framework on interconnection of mobile networks. Directive 2002/19/EC, which summarizes rules of interconnection, primarily targets the local loop access and the interconnection with the fixed network of the incumbent operator. For example, the incumbent is required to make the cost of the local loop access transparent and accessible to the regulatory authorities (see section 3.2). At the same time, the language that defines interconnection between any two communication networks does not specify the requirements that the connecting service providers need to follow: "According to art. 5, the national regulatory authorities shall 'encourage and where appropriate ensure [...] adequate access and interconnection, and interoperability of services [...] in a way that promotes efficiency, sustainable competition, and gives the maximum benefit to end-users'" (Lust, pg. 19). The use of vague language and weak (e.g., encourage) verbs creates an environment where interconnection overpricing practice of mobile telephone operators goes unsanctioned even though it does not give the "the maximum benefit to end-users".

3.6.3 Content Regulation

The present EU Framework focuses on regulation of transmission of content, but it "does not cover the content of services delivered over electronic communications networks...[, which]

includes audiovisual content, financial services and certain information society services" (Rosenthal, pg. 3). The lack of content regulation creates an unclear legal situation for providers of both the transmission service and content (e.g., ISPs). For instance, "recital No. 10 of the new Framework Directive provides: 'The same undertaking, for example an Internet service provider, can offer both an electronic communications service, such as access to the Internet, and services not covered under this Directive, such as the provision of web-based content'" (Rosenthal, pg. 5). Depending on the interpretation of the role of an ISP, the right to open access defined in Directive 2002/19/EC may or may not apply to such operator. While in most cases ISPs *are* providers of electronic transmission service, and as such enjoy the right to open loop access, some operators provide online content only (e.g., video offering). In this case "it may be argued that the offering of ISP-based content does not involve the offering of Internet access and thus does not imply any electronic communications service" (Rosenthal, pg. 6). Such interpretation would carry negative consequences for the development of market for online content provision, because it would limit access to such market to only those entities that also provide transmission service. This would imply, for example, that providers of cable broadband would have the sole right for provision of content to their subscribers as well—an outcome, which should be hardly desired by a national regulatory authority.

4 Bosnia and Herzegovina

The recent conflict on territory of Bosnia and Herzegovina (BIH) in the period between April 1992 and November 1995, left deep wounds in BIH's society. Civilian population endured enormous casualties, "as the key goal of the armed conflict was the homogenization of ethnic territories through population displacement"[22] (EIU-BIH, pg. 5). Over 2 million people—almost every other person in a country with population of 4.3 million—forcefully left their home while more than 200,000 died during the war[23] (Bojkov, pg. 2). Significant loss in human capital was compounded by severe destructions of industrial capacity and infrastructure. For example, "industry's share had declined from over 50% of GDP in the late 1980s" to "some 30% of GDP by 2002" (EIU-BIH, pg. 25), while the number of fixed telephony lines at the end of the war in 1995 stood at about one third of its prewar size in 1991[24] (Sermpetis, pg. 49). At the end of 1995, BIH, shattered socially, economically and politically, was in an unenviable position of having to embark on rebuilding effort on the ruins of the recent bitter ethnic strife. Moreover, the Dayton Peace Accord, signed by leaders of all three ethnic groups in BIH, allowed the nationalist parties, that led the people of BIH on their path of violent destruction, to continue their political activities in BIH. Consequently, ethnic tension continued to dominate discussion about practically every institutional and societal reform in BIH, and was the main root behind BIH's slow and haphazard economic progress in the years following the violence.

4.1 Political and Economic Developments

Dayton Peace Accord established a complicated political system in BIH by creating multiple layers of government with weak central government and two "entity" governments. The

two entities, Republika Srpska and Federation of BIH, account for approximately one half of BIH's territory each and mostly follow ethnic division lines that resulted from the conflict. The inefficiencies of such a complex governance system are evident from the inability of the multiple of the government bodies to agree on even the simplest issues, such as common passport or license tabs for the cars. Anticipating these problems, the international community included the mandate for strong international presence in BIH under Dayton Agreements and created the Office of the High Representative (OHR). The High representative (HR) was given broad constitutional powers under the Dayton Peace Accord, and, unfortunately, often had to exercise them to stimulate the reform process in BIH: "The HR has had to impose laws important for creating conditions for reconciliation and for the functioning of a multiethnic state administration [and] has also taken numerous decisions on removals and suspensions from office" (Bojkov, pg. 18). While the HR played a crucial role in rebuilding process of BIH, the HR has also been blamed for undermining democracy in BIH and for imposing *de facto* international protectorate in the country (EIU-BIH, pg. 6).

Even with the HR overlooking institution building in BIH, the process of transition and reform has been painstakingly slow: "Privatization legislation was passed in Bosnia and Herzegovina only in 1999"[25] (Bartlett, pg. 10). In contrast to privatization schemes, which encouraged employee and manager participation[5], and which many transition economies (e.g., Macedonia and Slovenia) followed, BIH adopted mass privatization approach[6]: "Enterprises

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[5] So called management-employee buyouts correspond well to the theory of the embedded politics put forward by McDermott, because they seek to preserve the informal networks among the economic actors. On the other hand, their performance has had mix review, because labor managed companies of Central and Eastern Europe "always fare below other companies without insider involvement" (Costescu, pg. 12).

[6] Poland and Czech Republic employed mass privatization through vouchers. This is a popular method, because it allows the broadest reach to all country's citizens, "allowing each individual to participate in the divestment of assets from state ownership" (Costescu, pg. 12). However, "while the strategy is inherently equalitarian, it

were to be sold through public auctions, sealed-bid tenders, direct agreement, or put out to a management contract or leased" (Bartlett, pg. 10). In order to speed up the privatization process and ensure broader participation of BIH's citizen, the authorities issued vouchers marked with points value depending on citizen's age, length of work experience, etc. In a cash-starved nation coming out of war, this led to an immediate creation of "market for vouchers" where people sold vouchers for sometimes as little as few percent of their listed value. Inevitably, handful of rich, often mafia-connected war profiteers accumulated most of the vouchers, while dividing themselves, again, along the ethnic lines[7]. Co-Chairman of BIH's Council of Ministers (central governing body) "complained that 'as far as I know, a large number of companies have already been privatized based on the ethnic principle. That's the way of the world: after ethnic cleansing, ethnic privatization comes'" (Bartlett, pg. 11). The resulting economic on top of already existing political fragmentation in the country prompted Will Bartlett to characterize BIH's political-economic arrangement as a unique kind of "ethnic capitalism".

The ethnic divisions in practically all layers of BIH's society have given nationalist parties 'political capital' to mask their machinations with the motto of saving the "national" interest of their particular ethnic group. This allowed them to consolidate their grip on economic power in their respective entities and to resort to widespread corruption (Donais, pg. 2). Peter Singer singles out 'criminalization of Bosnian body politic' as the most serious threat to successful implementation of Dayton Peace Agreement and concludes "instead of the expected shift from ethnic nationalism and war to political pluralism and economic liberalism, there is

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disseminates asset ownership drastically reducing the shareholders' ability to influence the managerial decision-making process" (Costescu, pg. 13)

[7] Almost half of vouchers was distributed by ethnic governments to their citizens affected by the war, "including unpaid solders, war veterans, and war widows", which led to "a disproportionate distribution of vouchers to ethnic majorities in both entities" (Donais, pg. 9).

only a tightening vise of corruption and cronyism [in BIH]"[26] (Singer, pg. 2). Timothy Donais, in his analysis of privatization practice in BIH, summarizes nicely all the complications of BIH's institutional structure: "More than six years after Dayton, Bosnia remains an unstable, corrupt place with a small, divided market, few functioning institutions and a decidedly unfriendly business environment"[27] (Donais, pg. 12). This friction in BIH's institutional functioning reflects poorly on foreigners' perception of the country's risk factor for investments. It is not surprising, therefore, that—apart from international aid that has been poured into BIH after the signing of Dayton Peace Accord—the relative amount of foreign direct investment (FDI) has been prohibitively low compared to other transition economies in the CEE.

Banking industry has been the only area of the economy experiencing significant inflows of FDI: "Over 80% of banks in BIH are in majority ownership of foreigners"[28] (Sahovic). However, foreigners were eager to invest in banking sector only because they were able to realize quick short-term profit. Consumer credit remains the dominant source of revenue for BIH's banks. Consequently, they have been unable or unwilling to substitute for the lack of FDI with long-term loans to private enterprises. Establishment of more significant capital markets, on the other hand, has to wait for other reforms to take place, such as the corporate governance reform: "Presently, BIH firms have no mechanisms for issuing public financial statements and many of them do not even know how to prepare their balance sheets" (Sahovic). Moreover, "the companies shareholders have been disenfranchised from their right to vote on companies' strategic decisions" (Sahovic). For example, the government of Republika Srpska has allowed up to two members of outside institutional investors (e.g., Pension Investment Fund (PIF)) to serve on company's governing board even in situation when PIF hold as much as 55 percent of the company's ownership (Donais, pg. 11). The inflexibility of financial system for significant

capital investment in new private companies stands in contrast to relative flexibility of BIH's labor market. While most of the BIH workers in manufacturing are organized in trade unions, the high unemployment rate (around 40 percent) undermines their employment security (Sahovic). Consequently, employers have significant power over their employees when it comes to wage and benefits bargaining.

4.2 Regulatory Framework for Telecommunications

Communications Regulatory Agency (CRA) was established on March 2nd, 2001 by the decision of OHR[29] (INA-BIH, pg. 55). Governed by foreign personnel for the first two years of its existence, this independent institution has been charged for overlooking and stimulating competition in the telecommunications market in BIH. However, its powers remain somewhat limited amid complicated political conditions and vertically fragmented institutions of the government (state, entity and local level). Moreover, the Law on Communications, adopted in 2003, while touching upon most of the modern-day issues in telecommunications regulation (INA-BIH, pg. 54), fails to specify the exact mechanisms for local loop access to incumbent's network or the Universal Service provision. The Law is aligned with privatization and liberalization push in the telecom market; however, it does not include provision for equal treatment of incumbent and non-incumbent operators (INA-BIH, pg. 53). In reality, there exist three incumbent telecom operators in three different ethnic regions of the country, each maintaining its monopoly status. With the World Bank and European Bank for Reconstruction and Development (EBRD) Privatization Assistance Projects and Corresponding Loans, all three telecoms will likely be privatized by the year 2005.

Several of my interviewees in Sarajevo confirmed that incumbents used unfair competition practice against private telecom operators. For example, Amir Orucevic, the CEO of EuroProNet, a private Internet Service Provider (ISP), complained, "Telecom BIH cross-subsidizes their provision of the internet service with the revenues from the local telephone service that they provide across the same telephone lines"[30] (Orucevic). Tarik Zaimovic, a United Nations Development Programme (UNDP) officer in Sarajevo, explained the difficulties with creating a single wireless telephone market in a multiethnic country: "Bosniaks in Sarajevo do not want to subscribe for MOBI's[8] service because of pain and suffering inflicted upon them during the three and half-year long Bosnian Serb bombing campaign of Sarajevo"[31] (Zaimovic). Tarik also pointed to reasons behind the delay of incumbent operators' privatization: "Among other revenue streams, the government uses revenues from international call termination to balance its enormous capital account deficit[9]" (Zaimovic). Natasa Gospic, the assistant to general manager of Telecom Srpske (the incumbent operator in Republika Srpska), voiced her frustration over the lack of guidance on part of the CRA for the provision of Universal Service: "Telekom Srpske expects the government to formulate mechanisms for contributing to Universal Service Fund, to determine contribution level for each operator, and to specify the ways in which the Universal Service Fund is redistributed to Universal Service providers"[32] (Gospic).

[8] MOBI's is a mobile operator from Republika Srpska.
[9] The capital account deficit is primarily due to higher volume imports compared to weak BIH's exports.

5 Croatia

Croatia has gone through a bumpy transition process after the break-up of former Yugoslavia in 1991. Together with Slovenia, Croatia led the secession process and proclaimed its independence in June 1991. Unlike Slovenia, however, Croatia had significant Serb minority, which refused to follow Croatian government in its quest of independence. Instead, Serbs, backed by Yugoslav People's Army, mounted military operation in their effort to keep parts of Croatia in Yugoslavia. After the peace agreement in January 2002, Serbs controlled about one third of Croatian territory. In August 2005, however, modernized Croatian Army "with US encouragement ...launched an assault on...[Serb-controlled territories], which led to the exodus of most of the 200,000 Serbs living there, and returned the region to government control"[33] (EIU-Croatia, pg. 10). After the end of war, Croatian President Franjo Tudjman had an effective control of all government institutions and used them to increase the power of his Croatian Democratic Union (HDZ) party: "State institutions were used to harry the independent media and critics of the government, and the hard-line wing of the HDZ tightened its grip on power" (EIU-Croatia, pg. 10). The economic depression in which Croatia fell in 1998 and 1999, however, increased voters' dissatisfaction with the ruling regime. After Tudjman's death at the end of 1999, moderate parties formed the coalition in the government and Croatia got a new, also moderate, president. Since then, Croatia has embarked on the steady road towards economic stability and integration with the EU.

5.1 Political and Economic Situation

The privatization program that HDZ implemented in the first couple of years of Croatian independence led to a wave of asset stripping in companies whose management rose to positions

at company boards not because of their managerial expertise but because of their strong political ties with the ruling party: "While the state increased its control over some sectors in the Croatian economy, the main effect of the privatization program was to transfer ownership to a narrow new class of politically connected individuals" (Bartlett, pg. 7). Consequently, these so-called 'tycoons' (Bartlett, pg. 7) benefited heavily from the privatization process, while the majority of employees faced the financial hardship because of the losses incurred by their under performing employers. In addition to having a direct control over most of Croatian companies, the HDZ, through the largely state-controlled banking sector, also had an indirect influence on companies' source of finance: "As a result of debt-equity swaps between the commercial banks and the privatized enterprises, the banks became significant shareholders in some of the biggest loss-making companies" (Bartlett, pg. 6). With such strong informal connections spread between industrial and financial sector throughout Croatian economy, and misaligned managerial incentives, banks often resorted to extending loans to private enterprises without traditional guarantees for their repayment. The Croatian economy lingered throughout most of the 1990s because of such incompetent business practices. Eventually, "the economy entered into a recession in 1999, unemployment reached unprecedented levels and GDP growth collapsed and even turned negative for a while" (Bartlett, pg. 7).

The moderate government that took charge in the first month of the new millennium embarked on bold and largely successful political and economic reforms in Croatia: "Within the space of a few years the Croatian banking system had been bought out by foreign banks and by 2004 as much as 85% of banking capital was under foreign ownership" (Bartlett, pg. 8). In addition to having stable banking sector, market capitalization on Croatian stock exchange increased drastically and today stands at approximately 26.3 percent of Croatian GDP—a

comparable rate to that of Slovenia (EIU-Croatia, pg. 43). The Croatian government also committed to improving Croatian attractiveness for foreign investors: "In 2000, the Croatian government adopted several measures in attracting foreign investors such as the Law of Investment introducing investment incentives, the reduction of the payroll and corporate taxes and the drafting of plans for the liberalization of the energy and telecom sectors"[34] (Hunya, pg. 6). While the trade union membership in Croatia continued to be one of the highest among the transitioning countries, the workers had already lost some safety nets compared to their counterparts in CMEs: "Workers' councils were formally abolished in all enterprises [in 1991] and replaced by a supervisory board representing shareholders" (Bartlett, pg. 6). In order to encourage higher flows of FDI in Croatia, the government undertook additional measures for increasing Croatian labor market flexibility: "New rules that came into force in January 2004 stipulate shorter severance periods for workers who have been made redundant, as well as lower statutory severance pay" (EIU-Croatia, pg. 32). As a result, Croatia enjoys the highest levels of FDI in Southeaster Europe and fares well compared to other CEE countries as well: "The stock of FDI per capita at US$1,530 exceeds the average in the so-called CEEC-5 states, which stands at US$1,485 per capita" (Bartlett, pg. 8).

5.2 Telecommunications Regulatory Framework

In its effort to speed up the accession process to the EU, the Croatian government focused its activities on harmonizing its legal environment and corresponding institutions with European Union's Legal Framework[35] (UNDP-ICT, pg. 42). In July 2003, the Croatian parliament adopted the new telecommunications legislation: "The new Telecommunications Act has introduced modern regulations to an open telecommunications market. It has provided for the establishment

of the Croatian Telecommunications Agency – an independent national regulatory agency for telecommunications management" (UNDP-ICT, pg. 42). In order to ensure its independent status, the Telecommunications Act spells out the procedure under which the regulators are appointed: "Staggered appointment of Regulatory Agency staff minimizes potential for its political bias"[36] (Nikolac). The Act also defines the mechanisms for Universal Service provision in more detail: "The [Regulatory] Agency establishes the [Universal Service] Fund upon the recommendation of a Minister, in the event where there are several Universal Service Providers, and when none of these providers has more than 80 percent of the total revenues from that particular telecom market"[37] (Croatia-LOT, Article 37). The local loop access is explicitly mentioned: "Operators of fixed public telephone networks, that the [Regulatory] Agency's Council found to be the dominant market players in the provision of fixed telephone service...are obliged, upon request from other operators, to provide unbundled access to their local loop" (Croatia-LOT, Article 60).

While Croatian Telecommunications Act shows significant level of harmonization with the EU's telecom directives, the legal framework is far from complete: "A complete regulation of the telecommunications market requires a series of subordinate laws based on the Telecommunications Act" (UNDP-ICT, pg. 42). The licensing regime in the telecommunications market in Croatia is also a barrier to entry for ISPs and fixed line operators: "Croatia is one of the rare countries that still require ISPs to pay a license fee, while license for the fixed line operator cost $6M" (Nikolac). Croatian Telecommunications Act also requires operators to obtain an explicit approval Regulatory Agency's Council before they enter Croatian telecom market: "The Council of the Agency will issue a license..." (Croatia-LOT, Article 25). This rule

runs against the spirit of the EU Framework and Directive 2002/20/EC, which seeks to limit the power of the national regulatory authorities with respect to license allocation (see section 3.4).

In addition to deficiencies of the Croatian telecom legislation, the Council of the Regulatory Agency, referred to in the Telecommunications Act citations above, has not been established yet: "Despite the provisions stipulating the establishment of the Council of the Croatian Telecommunications Agency, this management body has not yet been formed" (UNDP-ICT, pg. 42). In addition, the Croatian incumbent is guaranteed monopoly privileges until the beginning of the next year: "Croatian Telecom is obliged to allow other operators and service providers access to their unbundled local loop by the January 1st, 2005 at the latest" (Croatia-LOT, Article 119). The legal cessation of Croatian Telecom's monopoly will not necessarily lead to an immediate and fair competition in Croatian telecom market either. Miroslav Nikolac, for instance, cited weakness of Croatian's legal institutions to effectively handle the complaints of unfair treatment in the telecom market of Croatia: "While the appellate procedures have been worked out, the current inefficiencies of the Croatian court system reflect poorly on maintenance of competitive telecom market in Croatia" (Nikolac). Nevertheless, Croatia has taken long strides and achieved commendable accomplishment in bringing its telecommunications legislation in line with the EU standards.

6 Serbia and Montenegro

Even though Serbia and Montenegro (SCG) stayed mostly on the margin of major Balkan conflicts, the turbulent events in neighboring countries had strong social, economic and political impact on SCG's society. Shortly after the war in BIH began, the international community imposed economic sanctions on SCG, because of its military support to Bosnian and Croat Serbs. These sanctions starved the economic activity in the country causing the significant deterioration of its industrial output in 1993 and an unprecedented hyperinflation reaching several trillion percent. After the Dayton peace agreement and the gradual lifting of sanctions, the situation in SCG slowly improved. In 1999, however, the surge of violence in Kosovo brought about the 78-day NATO bombing campaign, which inflicted serious damages to an already aging industrial capacity. Removal of Slobodan Milosevic, one of the main goals of the NATO bombing, however did not occur. The international pressure on SCG persisted and eventually "Yugoslav politics underwent a major change in autumn 2000 after Mr. Milosevic was defeated in the September 24th presidential election by Vojislav Kostunica, the candidate of the Democratic Opposition of Serbia (DOS) coalition"[38] (EIU-SCG, pg. 8). The reformist forces emerged to SCG's political scene. They suffered a severe setback after Zoran Djindjic, Serbia's prime minister was assassinated in March 2003. Since then, SCG's political landscape has been characterized by continual bickering among the coalition parties of the ruling DOS, as well as the rise of ultra nationalist radical party.

6.1 Political and Economic Situation

Privatization of SCG's enterprises was equally chaotic as the political situation within and around the country. Following the imposition of sanctions, many "strategic" companies were nationalized, while "in other sectors, such as the steel, metal and electronics industries, enterprises were converted into so-called "mixed ownership" but in which the state had effective control" (Bartlett, pg. 13). Similarly to the situation in Croatia, therefore, Serbian government and the members of politically connected elite exercised control over the major SCG's companies. Moreover, "the banks, which often had a dominant shareholding, controlled many firms, which were formally privatized; and the big banks in turn were controlled by the state" (Bartlett, pg. 13). This situation continued throughout Mr. Milosevic's regime: "According to one close observer of the Serbian economy 'despite various privatization laws, the overall results have been extremely poor: by mid-2001 less than 40% of the country's [output] ...was produced in the private sector'" (Bartlett, pg. 13) Even after the arrival of the reformist government, the restructuring of SCG's economy has been going at a much slower pace than ideal: "The relative failure of the reformists to carry through their program suggests that no normal form of capitalist system will emerge in Serbia in the near future. Rather a process of gangsterization...and the revival of extreme nationalist politics is firmly on the agenda" (Bartlett, pg. 14).

In 2004, however, there have been signs that SCG's government may in fact be putting the country's economic development on the right path. Privatization is either underway or is expected to occur soon in several "strategic" sectors, including banking and energy: "The privatization of the Novosadska and Kontinental banks got under way in September, and that for Niska Banka is due to start by end-2004. The authorities intend to sell stakes in the power and energy utilities in 2005" (EIU-SCG, pg. 38). Privatization in Montenegro is proceeding at fast pace, "with 65 percent of state owned companies having been sold off, and only 25 percent of

banking assets remaining in state or social ownership" (EIU-SCG, pg. 39). The improvements in the financial sector are also matched with the increased flexibility in labor markets. Compared to other countries in the Balkans the relative rigidity of labor markets in SCG is comparable with regional averages, as indicated by several statistics, such as length of the maternity leave, unemployment benefits duration, and employment protection legislation[39] (Arandarenko, pgs. 32, 33, 34).

6.2 Telecommunications Regulatory Framework

Law on Telecommunications, "adopted in April 2003 is partly adjusted to the First European Telecommunications Framework [of 1998]. It introduces the new Regulatory Body/Agency for Telecommunications as well as instruments for fostering competition" (UNDP-ICT, pg. 49). The members of the Agency's Managing Board, however, are to be appointed by the government, which does not ensure transparency (UNDP-ICT, pg. 49). Moreover, the Agency has not been created even after more than one year after the law on telecommunications was passed[10]. "Definition of Universal Service and its applicability is harmonized with the EU Directives; however, the mechanisms for reimbursement of service provision cost have not been fully specified in Serbia's Law"[40] (ICL, pg. 12). The Law, while not making explicit reference to local loop unbundling and access, does stipulate the interconnection requirement between the operators: "All public telecommunications operators have a right to connect with other public telecommunications networks"[41] (Serbia-LOT, Article 46). The Law, however, does not address the converging technologies, such as Voice over Internet Protocol (VoIP) (UNDP-ICT, pg. 49). The Law also legitimizes the monopoly of Telecom Serbia until June 2005.

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[10] The Law on Telecommunications stipulates creation of the Regulatory Agency within 60 days of its adoption.

At the time of this writing, both Serbian and Montenegrin government committed to privatization of their incumbent telecom operators: "The government has announced its intention to privatize the fixed-line monopoly Telekom Srbija...The EBRD has offered Serbia a 25-year, US $121M credit on favorable terms (4% interest and a two-year grace period) to cover the costs of a pre-privatization project, on two conditions: that privatization starts within three years, and that the Serbian government sells its shares in one of the two mobile telephone networks" (EIU-SCG, pg. 38). For the time being, however, Telecom Srbija continues to exercise its weight and discriminate against its competitors. According to Slobodan Markovic, Head of Center for Development of the Internet, an NGO in Belgrade, the legal system in Serbia is too weak to enforce any legal rulings upon the incumbent telecom. For example, complaints made by private ISPs against the incumbent are either not taken by courts at all or the incumbent telecom simply ignores the court decisions in favor of other operators[42] (Markovic). Slobodan Markovic also blames SCG's weak government and the lack of political will for making more significant changes in the telecommunications markets. Widespread corruption further exacerbates this problem: "Since the incumbent is one of the most profitable enterprises in Serbia, company's management has enough resources to bribe whenever and whomever they need in order to delay, for example, establishment of the Regulatory Agency"[43] (Andjelic).

7 Macedonia

After the break-up of Yugoslavia, Macedonia declared its independence in 1992. From the very beginning, the tense situation with Albanians, a large minority group comprising 29 percent of the population, threatened the fragile peace in the country. Surprisingly, however, the flames of war, which were raging in Croatia and BIH by that time, did not engulf Macedonia. In April 1993, Macedonia joined the UN but under the name of Former Yugoslav Republic of Macedonia: "This name was intended as a temporary compromise...allowing the republic...to come to terms with Greece, which had reacted furiously to its request to be recognized as the 'Republic of Macedonia'"[44] (EIU-Macedonia, pg. 9). The issue with Greece has since been to a large extent smoothed out; however, the final agreement on Macedonia's name has yet to be reached. The dispute over the country's name was soon overshadowed by the growing signs of ethnic division between Macedonians and Albanians: "Inter-ethnic tensions had largely been contained in the 1990s, but the success of Kosovo Liberation Army in Kosovo encouraged Albanian extremists to seek a violent confrontation with the Macedonian state in the name of increasing the rights of Albanian minority" (EIU-Macedonia, pg. 10). In 2001, the armed conflict broke out and lasted for several months. Under the strong pressure of the international community the peace agreement was reached under which Albanians were given much broader rights, including the recognition of Albanian as a second official language in areas "where more than 20 percent of population is Albanian-speaking" (EIU-Macedonia, pg. 6).

7.1 Political and Economic Situation

Unlike BIH and Croatia, where violent conflicts hindered severely the early attempts of economic restructuring, or SCG, where economic sanctions starved already deteriorating economy, Macedonia embarked on the road of economic transition relatively early following closely advice of international organizations. Consequently, Macedonia started and completed the privatization process sooner than any of the other three countries discussed in this thesis: "A privatization law was introduced in Macedonia in 1993 under which enterprises could opt for voluntary privatization" (Bartlett, pg. 8). "After a relatively late start, the privatization program was carried out quickly and was largely completed by the end of 1997, by which time over one thousand enterprises had been fully privatized and only 234 remained in the privatization process" (Bartlett, pg. 8). Under the direction of the World Bank, Macedonia adopted management and employee buy-outs as the main method of privatization (Bartlett, pg. 9). However, "management buy-outs...[ended up] being the most prevalent in terms of both employment and the value of equity involved" (Bartlett, pg. 9). This led to concentration of the country's industrial capital in hands of a small group of the ruling elite: "A handful of people has privatized property with an estimated value of US$6-8 million'" (Bartlett, pg. 9)

The weakness of the state, as manifested by strong influence of the IMF and the World Bank in economic policy making, led to failure of the insider privatization to provide foundations for increasing Macedonian economic competitiveness (Bartlett, pg. 10). Instead, the industrial enterprise control concentration mentioned in the previous paragraph "provided ample opportunities for the distorted practices of corruption and clientelism, which have held back the indigenous capitalist development and opened the door to virtual takeover by Greek and other foreign capital" (Bartlett, pg. 10). Banking sector for example received significant influx of foreign capital: "As of March 2004 there were 21 banks, only one of which is state-owned"

(EIU-Macedonia, pg. 42). Even with the privatized banks, however, the financial system remains prohibitively weak to bootstrap the ailing economy: "Private companies in Macedonia continue to have difficulty securing finance for investments, in part owing to poor drafting of business plans and limited risk assessment capabilities at some banks" (EIU-Macedonia, pg. 42). The situation in Macedonian capital market reflects these problems as well: "The Macedonian Stock Exchange (MSE) opened for trading in Skopje in March 1996, but it remains underdeveloped because of the way privatization was carried out" (EIU-Macedonia, pg. 43).

7.2 Telecommunications Regulatory Framework

Macedonian public telecommunications operator was one of the first national operators in the region that underwent the restructuring process: "EBRD gave a credit of $42M to the Postal and Telecom Service (PTT) for the restructuring (i.e., break up in several divisions). On December 30th, 1996 the Government decided to break up the PTT; this process was completed by August of 1997"[45] (Burevski). Subsequently, Macedonian government privatized the former fixed telephony division of the PTT: "The National Telephone and Internet Operator "Macedonian Telecommunications" (MT) was sold to the Hungarian company MATAV (owned by Deutsche Telecom)" (UNDP-ICT, pg. 45). However, the privatized company was also assured of having a preferential market status for several years following the sale: "The agreement reached for this sale is exclusive (no other operator of fixed telephony can be given permission to operate in Macedonia) to 2005" (UNDP-ICT, pg. 45).

The Law on Telecommunications is relatively outdated compared to legal frameworks of other countries in the region. For example, it currently bans "offers of Voice over IP service, as well as the cable Internet service, though one TV cable operator in Skopje in cooperation with

two ISPs have started selling Cable Internet packages" (UNDP-ICT, pg. 44) Consequently it provides little protection for the private operators (e.g., ISPs) in the telecommunications market. However, the new law is currently being drafted and "it is believed to be able to correct these issues, and provide better regulation of the competitiveness within the ISP market" (UNDP-ICT, pg. 44). Even with the new legislation, however, the weak legal institutions may fail to ensure fair competition in the telecom market: "ISPs enjoy the legal protection against the incumbent's monopolistic behavior via 'Antimonopoly Law'. The government, however, has no mechanisms for enforcing this law and has to look for other non-traditional routes[11] to promote market competition"[46] (Kantardzijev). The current law on telecommunications does not stipulate independence of the regulatory agency from the government either: "With the current Telecommunications Law, the Telecommunications Directorate has been established in November 2000 with regulatory authority in the field of telecommunications. Unfortunately, this body is not independent. It has been constituted under the ministry of Transport and Communications" (UNDP-ICT, pg. 44).

[11] For example, the government has been recently advertising in the local newspaper that Telecom Makedonije was illegally preventing other operators from offering their own ADSL service. This resulted in a popular backlash against the incumbent, which, since then, agreed to provide interconnection service to other ADSL operators (Kantardzijev).

8 Country Comparison

The previous four chapters presented political and economic developments in BIH, Croatia, Macedonia and SCG following the disintegration of Yugoslavia, as well as the current situation in their telecommunications markets. Table 1 below summarizes the major points from these chapters for each of the countries. The first thing that jumps out is the variations in the table reflecting diverging paths that these countries undertook after the separation from each other. This should come as at least mildly surprising because these countries lived in one union for almost half a century and they share many things in common, such as language[12], similar history and geography. A perhaps even more amusing is their divergence from the same path of institutional development, which some influential economists maintained to be the most determining factor for a country's future: "The idea of path dependency was introduced by Douglass North (1990) who argued that institutional change could be understood in the context of increasing returns to investment in specific institutional structures, which makes new institutions once established hard to change" (Bartlett, pg. 3).

[12] Language spoken in BIH, Croatia and SCG is, for all practical purposes, one and the same, while the Slavic language spoken in Macedonia differs somewhat, being related to Bulgarian.

Table 1: Country comparison of political-economic analysis and the developments in their respective telecommunications markets.

COUNTRY		BIH	CROATIA	MACEDONIA	SCG
Political and Economic Analysis	Corruption Perceptions Index[47]	3.1	3.5	2.7	2.7
	Bank Sector	Mostly private	Private	Private	Mostly state-owned
	Stock Market Capitalization (% GDP)	Negligible	26.3	Negligible	Negligible
	Labor Markets	Relatively strong unions	Increasing flexibility	Rigid	Rigid
	WTO Membership	Ongoing Accession Process	Full Member, 11/2000	Full Member, 04/2003	Ongoing Accession Process
Telecom Market Developments	Telecom Ownership	State	Private	Private	State
	Law on Telecommunications	Partially harmonized	Fully harmonized	Not harmonized	Partially harmonized
	Regulatory Agency	Independent	Independent	Under Ministry for Communications	Not yet established

The greatest divergence seems to have occurred in the level of GDP with Croatia enjoying almost three times higher GDP per capita than the other three countries. However, even between BIH, Macedonia and SCG there are some noticeable differences along other measures of political and economic development highlighted in Table 1. For example, the process of banking sector privatization has been largely completed in both BIH and Macedonia, while in SCG the first wave of bank privatization has just started. Croatian and Macedonian telecom operators have been both privatized as well, while BIH and SCG are expecting the privatization of their telecoms to occur in the near future. The WTO membership status follows similar divergence, with SCG lagging behind even in the WTO accession process compared to BIH. Croatia is the only country with more visible flexibility in its labor and financial markets with the stock market capitalization of Zagreb stock exchange reaching Slovenian levels. All four countries have a pretty poor corruption perception index rating; however, Croatia, again seems to have been able to distance itself from the pack of the other three countries.

The telecommunications markets reflect similar cacophony of laws and institutional arrangements as other political-economic developments. BIH for example created an independent telecom regulatory agency already three years ago, while SCG is still waiting for one even though the existing law on telecommunications envisioned its creation more than a year ago. Macedonian regulatory agency, on the other hand, is not fully independent and the corresponding telecommunications regulatory framework has not been harmonized with the EU Directives either. Croatia, again, seems to be have gone the farthest in aligning the institutional and the legislative frameworks with those of the EU. Consequently, the situation in current Croatian telecommunications markets paints the rosiest picture compared to other three countries. Table 2 shows the number of the Internet users per 10,000 inhabitants in for select

European countries over the period of the last three years. While Croatia is still lagging behind the most advanced CEE countries (e.g., Estonia and Slovenia) its Internet penetration rate is significantly higher than that of BIH, Macedonia or SCG. The latter three countries find themselves in an unenviable position of having some of the worst Internet penetration rates in all of Eastern Europe.

Table 2: Number[13] of the Internet users per 10,000 inhabitants in select European countries in years 2001, 2002 and 2003[48] (ITU).

Country	2001	2002	2003
Austria	3,194	4,094	4,620
Belgium	3,104	3,286	3,283
BIH	**118**	**262**	**262**
Bulgaria	746	897	2,058
Croatia	**55**	**1,62**	**2,**
Czech Republic	1,360	2,465	2,683
Estonia	3,004	3,277	3,277
Finland	4,303	5,089	5,089
France	2,638	3,138	3,656
Germany	3,736	4,241	4,727
Greece	1,321	1,547	1,500
Hungary	1,484	1,576	2,322
Ireland	2,331	2,709	3,130
Latvia	723	1,331	4,057
Lithuania	679	1,445	2,136
Macedonia	**42**	**48**	****
Poland	984	984	2,325
SCG	**562**	**597**	**787**
Slovenia	3,008	3,757	3,758

The drastic difference in the Internet penetration rates of the four countries analyzed in this thesis is somewhat less pronounced in the relative comparison of their fixed and wireless telephone line penetrations. Table 3 below shows the number of main telephone line and cellular subscribers per 100 users in select European countries. Croatian statistics are again comparable

[13] All numbers have been rounded off to a closest whole number.

to those of advanced Eastern European countries and even some EU-15 members (e.g., Greece and Croatia have almost the same penetration rate of the main telephone lines). While BIH, Macedonia and SCG are significantly behind Croatia in this statistic as well, they are much closer to some of the worse performing members of the recent 10-country accession pack to the EU. The main telephone line penetration rates in Latvia and Lithuania, for instance, are about the same as those in BIH, Macedonia and SCG.

Table 3: Number of cellular and main telephone line subscribers per 100 inhabitants in select European countries in 2003 (ITU).

Country	Cellular Subscribers	Main Telephone Line Subscribers
Austria	88	48
Belgium	79	49
BIH	**27**	**24**
Bulgaria	33	37[14]
Croatia	**58**	**32**
Czech Republic	96	36
Estonia	65	35
Finland	90	49
France	70	57
Germany	78	66
Greece	78	45
Hungary	68	36
Ireland	84	49
Latvia	53	28
Lithuania	67	25
Macedonia	**18**	**27**
Poland	45	32
SCG	**34**	**24**
Slovenia	87	41

[14] Data on main telephone lines for Bulgaria, Croatia, Estonia, Hungary and Macedonia are from year 2002.

9 Policy Recommendations

This chapter builds on the analysis of all the previous chapters to provide a set of policy recommendations, which may aid BIH, Croatia, Macedonia and SCG in the development of their telecommunications markets. We first present some universally recognized policies and practices aimed at promoting growth of telecommunications sector. These include development of legal framework in line with the 2002 EC Directives, privatization of the incumbent operator, political-economic institutional reform as well as the liberalization of the FDI regime. We then offer insights for addressing some of the unique challenges that each country in the region may have (e.g., multiethnic market in BIH). After proposing strategies for growth, we discuss some of the barriers that are likely to hinder implementation of these policy measures. Corruption, cash-strapped government, inferior economic performance and underdeveloped legal system, as well as continuing tensions in the region are likely to stand in the way of the quick development of the telecommunications technologies in these countries. In the last section, we discuss additional drivers for surmounting barriers to growth (e.g. strong international presence and support for desired reforms).

9.1 Strategies for Growth of Telecommunications Technologies

In chapter 3, we described the changes that occurred in telecommunications markets in developed countries around the world. The rapidly advancing technology gradually undermined the "natural monopoly" status of public telecommunications operators (PTOs) and resulted in opening of telecommunications markets. The liberalization started first in the world's most liberal economies, such as the US and the UK, but it eventually spread to even the more

coordinated economies of continental Europe. As a result of their liberalization policies, these countries enjoyed proliferation and better quality communications services, price decline as well as innovations of electronic communications technology. The countries of the former Yugoslavia are likely to experience similar growth rates of their telecommunications technologies by adopting similar policies. Meelis Kitsing in his analysis of relative telecommunications markets' development in Estonia and Slovenia echoes this idea: "In general terms, these case studies [of Estonia and Slovenia] demonstrate that transition and developing economies should open their telecom market for competition immediately" (Kitsing, pg. 55). For the relatively poor and less advanced countries of the former Yugoslavia the opening of telecom market will also bring the benefits of higher foreign capital inflows, technology transfer and diffusion as foreign telecom operators start competing for customers in BIH, Croatia, Macedonia and SCG.

One of the first prerequisites for opening the telecom markets is adoption of appropriate legislative framework. While the idiosyncrasies of countries of the former Yugoslavia will require each of them to draft a unique legislation applicable to their special circumstances, the 2002 EU Framework for Telecommunications provides an excellent foundation for writing such law. In addition to defining basic legal environment for opening telecom markets (e.g., local loop unbundling), the EC addressed the convergence of the telecommunications technologies by using a "technology independent" language the Framework's Directives. Despite some of the deficiencies of these Directives (see section 3.6), the technology independence character makes it one of the most advanced telecom legislations in the world. Consequently, countries of the former Yugoslavia would benefit from following the spirit of the EU Framework when implementing their telecom legislation. Presently, however, none of the Telecommunications Acts that we examined in previous chapter have been aligned with the EU Framework. While

Croatia has gone the farthest in including language on local loop unbundling and universal service provision, its licensing regime of telecom operators is still not in the spirit of Directive 2002/21/EC. BIH, Macedonia and SCG also lag in bringing their regulatory frameworks in full alignment with the EU Framework.

Privatization of the incumbent operator is one of the preconditions for ensuring unbiased enforcement of laws guiding telecom market liberalization. Privatization will likely increase incumbent's accountability and take away the preferential status that the state-owned enterprises enjoy. Meelis Kitsing also lists privatization of the incumbent telecom as one of the top priorities for policy makers of countries in transition: "Most importantly, the case studies [of Estonia and Slovenia] demonstrate that privatization of state-owned telecoms increases competitive pressures and reduces the possibilities for political interference" (Kitsing, pg. 56). The increase in competitive pressures will likely force a more efficient management of the incumbent operator and result in business practices that benefit consumers. In SCG, for example, the penetration of fixed telephony lines is extremely low in part because the management of the state-owned company does not feel the pressure from the owners (i.e. the Serbian government) to increase profits by e.g. expanding the customer base (Andjelic). Privatization of Telecom Srbija and transition to shareholder-based corporate governance model would eradicate this problem.

Corporate governance reform is an example of a broader set of institutional reforms that would accelerate adoption of telecommunications technologies in countries of the former Yugoslavia. Observing these economies with the VoC lens, we see that their relatively rigid labor markets, with bank-based financial system largely resemble the coordinated market economies of Western Europe. At the same time, however, the informal links and networks that benefited economic actors of other "coordinated" transition economies (e.g. Poland) are largely

not present in BIH, Croatia, Macedonia and SCG[15]. Rebuilding these links and "coordination" is extremely difficult as experiences of other countries (e.g. France in 1980s) show (Culpepper[49]). Consequently, these countries would likely benefit from liberalization of their financial and labor markets. The more flexible financial markets would connect investors to investments in telecommunications infrastructure, while flexible labor markets would allow easier entry and exit of telecom operators. These policies would put countries of the former Yugoslavia on the same transition path that Estonia followed and which Meelis Kitsing already identified as a better choice for less developed transition economies (Kitsing).

The increased flexibility of financial and labor markets will have a positive impact for less developed countries of the former Yugoslavia only if they are matched with simultaneous liberalization of their foreign direct investment regime. Liberalized FDI policy will allow the inflow of foreign capital and technology transfers, which, in cash-strapped countries without significant capacity for production of telecommunications technologies, would aid the development of their telecommunications sector. Meelis Kitsing considers FDI as one of the most important drivers behind the privatization process in Estonia and subsequent growth of Internet penetration: "The role of foreign investments was crucial in this [privatization] process, and was combined with the inflow of expertise and technology" (Kitsing, pg. 19). In order to make their countries attractive for foreign investment in telecoms, these countries should remove any preferential treatment that may presently exist for domestic companies. For example, the licensing scheme discussed in section 3.4, should be transparent and blind to the ownership of telecom operators. Moreover, favorable payroll and profit tax rates, combined with reasonable

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[15] The violent conflicts of the previous decade have not only destroyed most of the industrial stock in these countries, but they have also chilled many of the previously existing links among them. For example, raw material suppliers from SCG are less likely to contract with Croatian firms today, even though Croatian firms may have been their largest customers before 1990.

limits on the amount of profit that should be reinvested, would encourage entrance of large number of foreign investors.

In addition to adopting the "generic" policies for opening their telecommunications markets to domestic and foreign competition, policy makers of each of the countries discussed in this thesis should be mindful of the special circumstances that their country may have. While these "unique" situations are not likely to justify the rejection of liberalization strategies described above, they may require implementation of additional safeguards and legal underpinnings to ensure that these policies achieve desired outcome. In BIH, for example, the multiethnic character of the country and existence of three separate telecom markets complicate the creation of a single countrywide competitive market. Seeking to improve competition in provision of wireless services, regulators in BIH responded by requiring each of the three mobile operators to cover at least 80 percent of BIH's population[50] (Petrovic). Additional legal bindings need to be deployed, however, to promote competition in all markets for electronic communications in BIH. While not as acute as the associated difficulties experienced by BIH's regulators, similar problems may also confront Macedonian (because of recent ethnic strife with large Albanian minority) policymakers. SCG's regulatory authority will also have to deal with the fragmentation of SCG's telecom markets because of the loose links between Serbia and Montenegro and the international control over Kosovo.

While governments of each of these countries need to tackle the idiosyncratic features of their telecom market, they also have an ample opportunity to accelerate growth of telecommunications technologies by formulating joint strategies on regional development and cooperation. The markets for telecom services in BIH, Croatia, Macedonia and SCG are very similar because of their common past, language and culture similarities. Merging these markets,

by e.g. allowing telecom companies to operate across country boundaries seamlessly, would make these countries more attractive to foreign investors. Moreover, regional cooperation would create stronger pressure on governments to carry out the steps for opening their telecom market. In addition to having positive impact on the economic development, the regional cooperation in telecommunications services would also stabilize political situation and ease the tensions from recent conflicts. With shared Internet content and news sources, for example, people in these countries would learn quicker about each other's differences, thus paving way for reconciliation and future cohabitation.

9.2 Barriers to Implementing Strategies for Growth

Corruption and rent seeking are one of the main inhibitors of telecom market liberalization and growth in BIH, Croatia, Macedonia and SCG. Not surprisingly, the corruption indices for these countries are quite low compared to other transition economies (e.g. Slovenia, see chapter 8). Nevertheless, the negative effects of corruption manifested themselves slightly differently in each of them. Consequently, Will Bartlett, in his analysis of political-economic institutions of these countries, characterizes the emerging market economies in the Balkans as "tycoon capitalism in Croatia, ethnic capitalism under colonial-style regulation in Bosnia-Herzegovina and Kosova, gangster capitalism in Serbia-Montenegro and the system of institutionalized corruption in Macedonia" (Bartlett, pg. 3). In the context of telecom markets, the special connections that managers of public telecommunications operators maintain with government officials have a negative effect on the speed and the efficiency of the market liberalization process: "For example, Telekom Srbija likely exerts pressure on the government

officials to delay the adoption of the proposed Law on Telecommunications, because this law would significantly curb the monopoly powers that Telekom Srbija enjoys today" (Markovic).

Corruption lends itself as one example of a broader set of "confining" conditions that exist in the Western Balkans today[51] (Demetropoulou, pg. 90). Demetropoulou refers to four different groups of such conditions (political, economic, social and state building). Here we address political conditions (the other three are discussed later in this section), which are characterized by the "absence of political culture and of participatory democratic tradition" coupled with "weak organizational capacity of social actors and weak civil society" (Demetropoulou, pg. 91). The "lack of political institutions" and "of political experience and skill of governance" is one of the most defining deficiencies of their political systems and have been at the root of "incomplete or 'superficial' democratization'" in these countries (Demetropoulou, pg. 91). Bane Andjelic, former director of Serbian Government's Agency for Development, when asked to compare SCG and Slovenia, pointed to correlation of civil society strength (or weakness) with the telecommunications sector development (Andjelic). According to Mr. Andjelic, "Slovenia, because of well-entrenched institutions and norms of the civil society, achieved high Internet penetration rates even with the monopoly of the public telecom operator" (Andjelic). SCG telecom sector, on the other hand, mired with corruption and rent seeking of government officials, stagnates because of the continued monopoly of the incumbent.

Privatization of the state-owned incumbent operator would likely minimize the rent seeking that persists in BIH and SCG. In addition to corruption allegations described in preceding paragraph, the poor economy in these countries, however, has also caused the delay in privatization of the public telecom companies. The cash-strapped SCG's government, for example, views Telecom as one of the rare sources of significant revenue, which it can use to

keep the social peace in the country by balancing the negative effects (e.g. high unemployment) of declining output in other industrial sectors. Not only does the government accumulate revenues from domestic telecom services, but it also reaps significant capital inflows by charging excessive rates for international call termination (see Chapter 7). Thus, in addition to resisting privatization of the PTO, the government officials have little incentive to push for liberalization of market for international calls. Slobodan Markovic, however, blamed SCG's government for myopic approach to the issue of privatization, because he believes that the resulting social unrest would be minimal and negligible compared to the benefits that consumers would enjoy as a result of privatization and market liberalization (Markovic).

Besides stalling the needed changes on the supply-side of the telecom market, the weak economy has a detrimental effect on the demand for telecommunications services as well. Large segments of population in BIH, Croatia, Macedonia and SCG live below national poverty lines and have little resources to afford even the basic telecom service, such as a fixed telephone line. Moreover, large portions of people in these countries are computer illiterate, because majority has either primary or secondary level education. In BIH, for example, "only 60 percent of population knows what Internet is" (Zaimovic), while in SCG "67 percent of people is functionally illiterate[16]" (Andjelic). Besides low purchasing power and relatively low level of education, deficiencies of other sectors of their economies (e.g. financial and postal services), leave the traditional Internet content of developed countries, such as eCommerce (i.e. online shopping), completely missing in countries of the former Yugoslavia. In Macedonia, thus, only five percent of population uses credit and debit cards (EIU-Macedonia, pg. 43), while even in Croatia most people do not trust Croatian Post for timely and secure delivery of their mail[52]

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[16] Functional illiterate person can read written text, but it has trouble understanding its meaning.

(Pitarevic). The resulting low demand for Internet access makes these countries unattractive for foreign investors and further limits the development of this market.

Besides tepid demand for telecom services, underdeveloped legal system and poorly defined property rights make foreign investors vary of committing their funds in countries of the former Yugoslavia. For example, vague legal framework on rights and responsibilities of foreign owned enterprises make any long-term investment there a highly risky venture. Chapter 6 also gives an example of weak legal institutions hindering the effectiveness of the appellate process of ISPs against Croatian incumbent. We present similar claims against the SCG's courts in chapter 8. Furthermore, in SCG the incumbent is so powerful that it can even ignore court orders requiring it to seize illegal business practices against other competitors. Unstable political situation in BIH, Macedonia and SCG also generates negative image for foreign investors, who still remember the destruction of industrial complexes in the storm of violent conflicts in these countries during the past 15 years.

Tensions from ethnic conflicts that marked much of the recent history in the Balkans have softened significantly in the last couple of years, thus opening doors for reconciliation and regional cooperation. Mutual distrust, uncaught war criminals and several legal proceedings in International Court of Justice (e.g. BIH's case against SCG for aggression in the period of 1992-1995), however, threaten to undermine efforts for significant cooperation in the near future. Miho Pitarevic of Croatian Ministry of Sea, Tourism, Transport, and Development, for example, expressed skepticism about Croatia taking part in some kind of a pan-Balkan initiative for telecommunications sector development. Amir Orucevic, the CEO of a small ISP in BIH, thought that difficulties associated with regional cooperation were more technical in nature: "We created regional offices in each Balkan country anticipating that we could utilize efficiency gains

with inter-office cooperation. The telecommunication markets, however, followed such divergent paths in these countries that our offices now offer different services in different countries" (Orucevic). While these examples paint negative picture for prospects of coordinated strategies for telecom market development, there have also recently been several positive signs of growing regional collaboration. For instance, the recent announcement of plans for joint organization of basketball World Cup Championship in 2010, with BIH, Croatia, SCG and Slovenia participating, provides reason for optimism on future economic cooperation as well.

9.3 Strategies for Overcoming the Barriers to Growth

Table 1 in the previous chapter shows the diverging paths that BIH, Croatia, Macedonia and SCG have taken in opening of their telecommunications markets. These differences, however, do have one thing in common. The presence and support of the international community seems to correlate positively with the speed and efficacy with which reforms in the telecom sector have been carried out. Croatia, for example, has been a full member of WTO, and a signatory of WTO and GATS agreements since year 2000. As discussed in section 3.4, these international agreements had a significant effect on the liberalization of telecommunications markets around the world. It is not surprising, therefore, that Croatian Telecommunications Act is the most modern legislative framework in the Western Balkans. In BIH, the Office of High Representative implemented a range of successful reforms, among which the establishment of the Communications Regulatory Agency (the first independent regulatory authority in all of former Yugoslavia) stands out. In Macedonia, privatization of the public telecom operator was underway much sooner than in BIH or SCG. Among other reasons, the $42M EBRD loan with favorable repayment conditions sped up this process (Burevski). In SCG, on the other hand,

strained relations of Milosevic's regime with the international community in 1990s kept the international support away from SCG. Consequently, the telecom sector reforms in SCG progressed at a much slower pace than in other three countries.

At this moment, when all four countries have expressed their desire to join the EU, the EU accession process can serve as a more structured mechanism for providing international support. Having studied impact of EU presence in Romania and Macedonia, Leeda Demetropoulou argues "that EU membership aspiration can actually bear significant EU-oriented transformations and adaptations in the Balkan domestic scenes" (Demetropoulou, pg. 88). The author views the process of Europeanization as "systemic transformation and structural accommodation based on a set of special requirements for full EU membership...[thus] becoming a series of operations leading to systemic convergence through the processes of democratization, marketization, stabilization and institutional inclusion" (Demetropoulou, pg. 89). The tools supporting the Europeanization operations range from "control (promotion through specific policies supported by positive and negative sanctions)" and "conditionality (deliberate use of coercion, by attaching specific conditions to the distribution of benefits)", to traditional EU assistance programs for transition countries (e.g., PHARE) (Demetropoulou, pg. 91). Additionally, the EU established several Western Balkans-specific mechanisms for speeding up their transformation and accession to the EU. These include "the Stability Pact for South Eastern Europe, the Stabilization and Association Process, the CARDS Regulation, and the Zagreb Summit Declaration" (Demetropoulou, pg. 91). In the field of telecommunications the EU-wide eEurope Initiative has been mirrored by eSEE Initiative, with the EC representative participating in its sessions.

10 Conclusion

This thesis presented the reader with an overview of the existing political-economic situation in countries of the former Yugoslavia, as well as the present level of development of their telecommunications markets. The poor state of their economies and incomplete transition to capitalism made the analysis and parallels to economies of West and East Europe sometimes difficult. For example, applying a firm-centered VoC approach to an economy such as BIH's, which lost most of its industrial capital in the conflict, was a challenging undertaking. Nevertheless, the VoC lens helped us understand the evolution and the projected path of institutional development in these countries, thus casting the light onto some of the reasons behind their underdeveloped telecommunications markets. Moreover, placing these countries on the VoC map of the world made it easier to identify other countries in transition (e.g., Estonia) as potential "role models" for BIH, Croatia, Macedonia and SCG. By following the policy recipes adopted by these more-advanced CEE countries, countries of the former Yugoslavia stand a good chance of catching up with them in the level of telecommunications market and overall economic development.

Understanding and adopting the policy experiences from other countries will give reasonable guidance to government officials in the Western Balkans faced with challenges of economic reconstruction in their societies. However, the idiosyncrasies of these countries, their telecommunications market as well as the overall institutional structure will inevitably make simple copying of such policies a cumbersome task. As we showed in chapter 9, the division of markets in BIH in three ethnic regions, for instance, hinders efforts on part of the telecommunications regulators to institute fair competition in telecom markets. Similarly, the

rampant corruption in Macedonia and SCG currently preempts any attempts for reducing the monopoly powers of the incumbent operators and market distortions that are direct result of their unfair competition practices. On the other hand, the positive example of Croatia and the relative success of anti-corruption measures in this country give hope that the remaining countries of the former Yugoslavia are going to follow similar path of faster economic development.

Regardless of the positive trends that we have observed in recent years throughout the region, countries of Southeastern Europe continue to face bumpy road ahead of them. As the fire from recent conflicts in the region is still smoldering, the remaining unresolved issues of some of these conflict (e.g., Kosovo status in SCG, Albanian minority claims in Macedonia) continue to loom over the economic reconstruction efforts. The remaining tensions put the additional strain on their first attempts for broader regional cooperation on the development-related issues. For the time being, therefore, BIH, Croatia, Macedonia and SCG will be following their own unique paths of recovery and accession to the EU. Relying on experiences of other CEE countries, as well as each other's lessons, however, will certainly speed up this process. Moreover, strong presence and influence of the international community will ensure quicker adoption of changes of the institutional and legal environments as they are aligned with the EU standards.

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