Regional Economic Development in the Balkan Region

Regional Economic Development in the Balkan Region

Edited by

Teoman Duman, Merdžana Obralić, Erkan Ilgün and Uğur Ergun

Cambridge Scholars Publishing

Regional Economic Development in the Balkan Region

Edited by Teoman Duman, Merdžana Obralić, Erkan Ilgün
and Uğur Ergun

This book first published 2016

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-4438-8527-4
ISBN (13): 978-1-4438-8527-0

TABLE OF CONTENTS

ACKNOWLEDGEMENTS

As the editors of this current volume, we are grateful for the efforts of a number of contributors to this joint work. The book comes after hard and patient work, and makes a significant contribution to the academic community who are interested in the topics offered in it. The collection reflects not only the academic publications of its authors, but also conveys first-hand experience of authors who have lived in the region for many years, which makes the book special among its counterparts. Taking this opportunity, first, we would like to thank to all authors in the book for their great contributions. Also, we would like to thank International Burch University and its Faculty of Economics and Social Sciences staff members for their support to this collection. Among, them, Mrs. Emina Mekic deserves special thanks for her assistance during the preparation stage of the book. Overall, the book is a product of a fruitful cooperation among academics coming from different parts of the Balkans. We are all happy to make such a contribution to our region.

LIST OF ABBREVIATIONS

BH	Bosnia and Herzegovina
CBA	Currency Board Arrangement
CBBH	Central Bank of Bosnia and Herzegovina
CEEC	Central and East European Countries
CEFTA	Central European Free Trade Agreement
CNB	Croatian National Bank
CSE	Colombo Stock Exchange
DA	Development Agency
DAKAP	South-eastern Anatolia Regional Development Project
DAP	Eastern Anatolia Project Master Plan
DOKAP	Eastern Black Sea Regional Development Plan
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDSS	Fiscal Discipline and Sustainability Strategy
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GLPS	Group for Legal and Political Studies
GMP	Gross Material Product
IIC	Investment Incentive Certificate
IMF	International Monetary Fund
INSTAT	Albanian Institute of Statistics
IZKA	Izmir Development Agency
MCOs	Microcredit Organisations
MFIs	Microfinance Institutions
NUTS	Nomenclature of Units for Territorial Statistics
OECD	Organization for Economic Co-operation and Development
OIZs	Organized Industrial Zones
OLS	Ordinary Least Squares Method
PRP	Priority Reconstruction Program
RDA	Regional Development Agency
R&D	Research and Development

SEE	South East Europe
SETX	South-Eastern Europe Trade Index
SME	Small and Medium Enterprises
SPO	State Planning Organisation
SSK	Social Insurance Institution
TL	Turkish Lira
T&T	Travel and Tourism
TURBAN	Turkish Tourism Bank
TURSAB	Association of Travel Agencies
UNWTO	United Nations World Tourism Organisation
U.S.	The United States of America
VAT	Value Added Tax
VAR	Vector Autoregressive Model
WWII	World War II
WTTC	The World Travel & Tourism Council
YHGP	Yeşilırmak Basin Development Project
ZBK	Zonguldak-Bartın-Karabük Regional Development Project

CHAPTER ONE

INTRODUCTION

TEOMAN DUMAN

Technological progress in manufacturing, transportation and communications has been continuing at a dizzying speed in recent history. The invention and development of new technologies, such as the semi-conductor silicon chip and satellite technology have reshaped the economic structure of many regions and nation states. Stimson, Stough and Roberts (2006) attribute such changes to globalisation and structural adjustment, which were triggered by the development of new technologies starting in the 1970s. The effects of these technologies on economic structures were mainly due to "highly skilled and flexible labour, management and strategic alliances that are all highly mobile" (Stimson, et al., 2006). The use of such new technologies called for a big shift from manufacturing-oriented and energy-dependent economic environments to environments where labour, goods and services moved much more freely, both inter-regionally and internationally. Coupled with rising energy (oil) costs, financial deregulation and globalisation of financial markets in the 1970s, the development of these new technologies forced many nations to eliminate trade barriers and enter into the new era of globalisation.

Changes in global economic environments also brought about changes in regional economic structures. Previous energy-dependent mass production centers were dominated economically by modern high technology regions, such as Silicon Valley. Such changes in regional economies have occurred not only in manufacturing and technology production centers, but also in agricultural and trade centers. Currently in the world, there are "new geographic clusters of industries" and "mega metro regions that serve both national and international markets" (Stimson, et al., 2006, p. 2; Amin and Goddard, 1986; Erneste and Meier, 1992). Castells and Hall (1994) rightly point out the fact that mega metro regions are seen as the main drivers of economic development beyond the effect of nation states (Stimson, et al., 2006, p. 2). Many examples of regional economies (not as nation states) worldwide can be assessed by their economic centers in terms of manufacturing, trade and technology development.

Despite political restrictions, changes in economic environments force nations to eliminate borders to achieve easier movement of information and financial assets, and to promote travel. Economic difficulties that are experienced even in developed nations (i.e., economic crises of 2008) motivate businesses to cooperate more with others to benefit from their strengths. The appearance of recently developed, highly specialized economic regions is also changing the international trade paradigm. Just as nations have looked for comparative advantage in the past, these economic power centers are now looking for competitive and collaborative advantage (Porter, 1990; Huxham, 1996).

A planned approach to economic policy change that will bring competitive and collaborative advantage to regions and national economies necessitates a strategy. Planning and policy development are needed at both the macro and micro levels. The efforts toward establishing economic unions and political alliances at the national level are examples of macro policies, whereas, establishing technology, science and innovation parks are examples of micro-level policies to reach regional economic development.

This book aims to discuss different aspects of regional economic development of the Balkan region. As mentioned briefly, there are many reasons why economic development is not only a national matter but also a concern at the regional level for many economies. Most national leaders would agree with the idea that competing at the regional level is more practical than competing at the national level for protection of national interests. By definition, "regional economic development is the application of economic processes and resources available to a region that results in the sustainable development of, and desired economic outcomes for a region, and that meet the values and expectations of business, residents and visitors" (Stimson, et al., 2006). The ultimate goal of regional economic development is to stimulate business activity and employment in a sustainable manner (Blakely, 1994). More specifically, the products of healthy regional economic development are employment, wealth, investment, infrastructure, and quality of life overall (Stimson, et al., 2006). The process and the products of regional economic development are given in Table 1-1.

Table 1-1: Regional economic development as a matrix of qualitative, quantitative, process and product outcomes

Regional economic development matrix	Qualitative	Quantitative
Regional economic process Policy Planning Analysis Strategy Resource Application, etc.	Inputs and outputs	Inputs and outputs
Regional economic product Employment Wealth Investment Infrastructure Quality of life, etc.	Inputs and outputs	Inputs and outputs

Source: Adapted from Stimson, R. J., Stough, R. R. and Roberts B. H. (2006)

To reach the desired outcomes, a well-planned economic development process is necessary. As a first condition of this process, policy development at the national or regional level has to be achieved to set the groundwork for future planning. Well-worked, agreeable and sustainable policy development will open up all channels for workable development plans. Short-term and long-term plans are needed to guide all related parties to a common goal. Plans should reflect strong and weak sides of regional resources and parties should benefit from all opportunities for the region as a whole. All inputs and outputs of regional economic development should be defined qualitatively and quantitatively. Quantitative inputs and outputs include tangible aspects of regional resources and outputs, such as goods, services, raw materials, expertise and financial outcomes. Qualitative inputs and outputs, on the other hand, include intangible aspects, such as social and intellectual capital, values, culture and the resulting effects on the quality of life.

Stimson, et al., (2006) propose that in a process model, drivers of regional economic development are factors of investments at the level of consumption and effective governance, and they are created through external and internal sources of wealth (p. 8). External sources of wealth can be created through income from external investments, grants and private capital, while internal sources of wealth are created out of inputs from profits, dividends, savings assets and social capital. To achieve desired outputs, such as increasing levels of exports and wealth creation, mediators such as a competent workforce, effective institutions, well-developed infrastructure (at the regional level), and innovation and commercialization of new products and services (at the firm level) are needed. Regional policymakers should make use of external income (i.e., exports) and internal sources of wealth (i.e., profits) in such a productive way so that drivers of the strategy (i.e., investments, consumption) produce the desired outcomes in a sustainable way. Here, sustainability refers to reducing the leakage of capital from activities to support development at the regional level. Stimson and his colleagues further argue that the strategy of regional economic development described above is a representation of the model successfully applied by some regional economies in different parts of the world. The success of regions like the Third Italy, West Jutland in Denmark, Bangalore in India, and Silicon Valley and Route 123 in the United States (U.S.) in innovation of new technology and entrepreneurial activity can be explained in part by the application of regional economic development policies. Other examples abound in different sectors, such as tourism, agriculture, mining and manufacturing.

Just as there are successful examples of regional economic development, there are many others that have potential but limited application of such progress. For this book, the Balkans is a case in point. The purpose of the collection of academic papers presented in this book is to draw attention to the fact that the Balkans as a region should and can be a good prospect for developing regional economic development policies for the future.

As a geographic region, the total area of the Balkans is 666,700 square km with a population of 59,297,000 (Danfort, 2015). The following twelve countries are fully or partially located in the Balkan Peninsula.

Table 1-2: The Balkan countries

	Balkan countries	Area	Location in the Balkan peninsula as a country
1	Albania	28,748 km^2	Fully located
2	Bosnia and Herzegovina	51,197 km^2	Fully located
3	Bulgaria	110,993 km^2	Fully located
4	Croatia	56,594 km^2	Partially located
5	Greece	131,990 km^2	Fully located
6	Kosovo	10,887 km^2	Fully located
7	Macedonia	25,713 km^2	Fully located
8	Montenegro	13,812 km^2	Fully located
9	Romania	238,391 km^2	Partially located
10	Slovenia	20,273 km^2	Partially located
11	Serbia	88,361 km^2	Partially located
12	Turkey	23,764 km^2	Partially located

Source: Bideleux and Richard (1996)

There are many reasons why the Balkans area should be analysed for regional economic development. One main reason is its location. Throughout history, the Balkans has always been the corridor of European nations to open up trade between Eastern and Mediterranean nations. Geographically, this region is a part of Europe, and there are strong economic and social ties among the Balkan and other European nations. For a long period in history, the Balkans was part of the Ottoman Empire, but this governance helped eastern and western nations to get closer to each other through the connection that the Balkan nations provided. This connection brings out the fact that economic and social policies for this region will benefit not only its own nations, but other nations in Europe and in the East. Another reason for economic development is related to the Balkan social structure. This region houses such diverse population structures that it presents the perfect human potential for sociological dynamism. The regions' populations know each other's cultures very well and are ready to cooperate on issues that will bring about the common good for everyone in the region. In addition to geographical and sociological reasons, there are many other economic reasons why this region is a good prospect for regional development policies. Some sectors, such as tourism, energy, mining and agriculture, are especially strong in the area.

Attempts to energise the economy in the region have been continuing for some years, especially with the policies to integrate the Balkan countries into the European Union (EU). Romania, Bulgaria, Greece and recently Croatia have joined the EU, and the efforts of other countries in the region are continuing. Although the region has many opportunities for national economies and their outer-regional integration, recent war and the political conflicts following the breakup of Yugoslavia in 1992 have prolonged the process of integration.

Glogorow, Kaldor and Tsokualis (1999) pointed out that for the EU as a big power in the region to be effective in helping the Balkan countries to complete their transition processes, political will, financial resources and innovative ideas are needed. Political will is necessary for policy development and planning, whereas financial resources and innovative ideas are needed to achieve regional economic development. According to Glogorow et al. (1999), an important part of efforts to establish policies for regional development should be focused on safety and security in the region. Also, the development of intraregional policies (i.e., trade) should be prioritised as compared to outer-regional ones, especially in the short term. Cooperation on regional development policies by the Balkan countries is also needed due to the fact that many economies in the region are small in size (Causevic, 2012). Development of strong financial systems (through cooperation) in the region is one of the steps that can be taken towards regional economic development policies. Currently, most countries in the region are considered to be transition economies, and they are in need of joint efforts to benefit from each other's strengths.

This book points out the need for regional economic development policies for the Balkan region and brings together insights from academics on various economic and social aspects of regional development. An original collection of ideas from a number of academics from different countries in the Balkan region, the book starts with a critical investigation of the transition that Bosnia and Herzegovina has been going through following the separation of countries from Yugoslavia during the 1990s.

In the next chapter, Nowak investigates the progress of transition in some Balkan countries in transitioning to an open, market-oriented economy. Nowak compares nine Balkan countries to identify the ones that have gotten closest to open market economic conditions. The next chapter in the book concerns with the foreign trade positions of Balkan countries. In this chapter, Bjelic considers foreign trade as a factor of economic development in the region. The chapter analyses the trade performance of some Balkan economies and the impact of regional trade integration on their development. In the following chapter, Dobardzic investigates foreign direct investment positions of selected Balkan countries and analyses the role of political instability on foreign direct investment positions of these countries. He also points out the temporal effects of privatisation policies on foreign direct investment positions in these countries. Subsequently, Binis and İpek attempt to identify the role of tax incentives on regional economic development through an analysis of Turkey's experience on the issue, in which they try to identify how tax incentives and new investment developments are related to each other.

The other chapters in the book present more specific aspects related to regional economic development in the Balkan region. The chapter by Okicic talks about trading volume and security returns in Balkan stock markets. Lovrinovic and his colleagues present an up-to-date discussion on the two transitions Croatia has been going through after gaining EU membership. In this chapter, the authors discuss the effects of EU membership on the Croatian economy using specific examples. In the following chapter, Can presents a discussion on the role of regional economic development agencies on regional economic development with reference to the experience of one development agency in Turkey. He discusses the structure and operation of the Izmir Development Agency as a model institution for regional economic development planning in the eastern part of Turkey.

In her paper, Soko analyses the roles of foreign aid and remittances in Bosnia and Herzegovina's economic development and compares this effect with other Balkan countries. Additionally, Soko tries to identify whether foreign aid and remittances have any effect on the country's overall development.

The following two chapters are about Albanian economic policies. In the first one, Cani analyses exchange rates in Albania and tries to answer whether exchange rate volatility has any effect on export-import levels of the country. She argues that for the period she analysed, exchange rates had no effect on import levels; however, these rates had significant effects on export levels in the country. Laci and Hysa provide a detailed analysis on Albanian fiscal policies and try to determine the roles of different fiscal policies on the economic growth in the country. They argue that VAT policies are effective in regards to the economic growth in Albania.

Asllani and his colleagues analyse Kosovo residents' motives in their travel activities to the EU countries and provide a policy perspective on the economic development in their country. They try to understand the effects of visa liberalization policies of EU on countries like Kosovo, with their findings showing that after visa liberalisation policies, participating tourism and research activities are the two main reasons for visits to EU countries.

The following two chapters analyse the role of the tourism industry in the region's economic development. In their chapter, Kantarci and his colleagues attempt to correlate the effects of both public and private investments in the tourism industry in regards to tourism performance and gross domestic product (GDP) levels in selected Balkan countries. Based on their findings, they point out certain priority sectors for tourism development and GDP growth. In the next chapter, Duman provides a policy perspective and compares Bosnia and Herzegovina with Turkey in their tourism development policies. In both papers, authors emphasise the role of the tourism industry in economic development of the region.

The final two chapters in the book are related to Bosnia and Herzegovina; the first chapter evaluates the effects of the recent economic crises in Europe on the country's economy while the second critically analyses the implementation of a microcredit system in the country to start discussion about future policies in this area.

As mentioned before, the development of new technologies and the elimination of trade barriers have reshaped the economic structure of many regions and nation states in different parts of the world. The future calls for similar developments for the Balkan region in that many smaller economies in the region will have to cooperate more closely to reach mutual economic gains. We believe that the current volume closes a significant gap in providing the information needed to evaluate regional economic policies in the Balkans. The data and arguments provided in the book are expected to break new grounds for future discussions that will support the ideal of reaching harmonised regional economic development policies in the region.

References

Amin, A., Goddard, J. (1986). *Technological Change, Industrial Restructuring and Regional Development*. London: Allen and Unwin.

Bideleux, R. & Richard, T. (1996). European integration and disintegration: East and West. p. 249.

Blakely, E. J. (1994). Planning Local Economic Development: Theory and Practice. 2nd ed. CA: Sage Publications, Thousand Oaks.

Castellas M., & Hall, P. (1994). Technopoles of the World: The making of 21st Century Industrial Complexes. London: Routledge.

Čaušević, F. (2012). Small open economies in the Western Balkans: Controlled fiscal expansion for a new deal for the Western Balkans. *St Antony's College University of Oxford.*

Danforth, L. (2015, March18).The Balkans. Retrieved from <http://www.britannica.com/EBchecked/topic/50325/Balkans> on 18.03.2015.

Erneste, H., Meier., V. (eds.). (1992). *Regional Development and Contemporary Industrial Response: Extending Flexible Specialization*. London: Belhaven Press.

Gligorov, V., Kaldor, M., &Tsoukalis, Loukas. (1999). Balkan Reconstruction and European Integration. *Hellenic Observatory of the LSE, the Centre for the Study of Global Governance (LSE) and the Vienna Institute for* International Economic Studies (WIIW).

Huxham, C. (1996). *Collabourative Advantage*. London: Sage, Thousand Oaks.

Porter, M. E. (1990). *The Competitive Advantage of Nations*. New York: MacMillan.

Stimson, R. J., Stough, R. R., & Roberts, B. H. (2006). *Regional Economic Development, Analysis and Planning Strategy.* Heidelberg: Springer.

CHAPTER TWO

BOSNIA AND HERZEGOVINA, FROM THE SELF-SUSTAINABLE ECONOMY TO UNFINISHED TRANSITION: WHAT'S NEXT?

SEAD KRESO

"Study the past, if you would divine the future".
—Confucius (about 600 BCE)

Abstract:

This chapter is envisaged as a broad elaboration of the basic ideas presented at the International Conference on Economic and Social Studies (24–25 April, 2014), organized by International Burch University.[i] *Since the University is based in Sarajevo, one of the aims of the Conference was to clarify the transition process, particularly privatisation, and to explain the delay in the ongoing economic development of Bosnia and Herzegovina (BH). In the first part of the chapter, I present facts about the economy during the dissolution of Yugoslavia and the emergence of Bosnia and Herzegovina. To do this, I need to give a brief impression of the war situation in the period 1992–1995, as well as the post-war reconstruction of BH. Next, I consider the transition process in BH, exploring the role of monetary and fiscal policy as the two most powerful instruments influencing the market economy. After that, I consider the consequences of the distinct dominance of foreign banks and bank-centric financial system in BH. My conclusions at the end of the chapter offer several recommendations.*

Keywords: *Bosnia and Herzegovina, transition process, fiscal and monetary policy.*

Dayton: Where did Bosnia and Herzegovina come from?

Dani Rodrik, in his paper "*The Past, Present, and Future of Economic Growth (2013)"*, showed that during the thirty-year period 1952-82, Yugoslavia's average growth rate was 4.9% per year. Only 23 other countries matched or exceeded that 30-year record of dynamic growth since the end of the Second World War.[ii] Table 2-1 confirms Rodrik's findings, showing that Yugoslavia achieved its highest development dynamics between 1973 and 1986. During this period, Yugoslavia improved its relative share of GDP in World, Europe, and Southern Europe rankings. There were two distinctive phases within the period however. Huge investments were undertaken during the 1970s, but from 1980 onwards, numerous imbalances ensued, caused by the excessive investment of the first phase. Compared to other countries, Yugoslavia showed reputable results in economic development during the entire period from 1973 to 1986, but the downward trend became apparent at the beginning of the 1980s, accelerating in the mid-1980s. The consequent disruption of economic and social development led to war and dissolution in the early 1990s.[iii]

Bosnia and Herzegovina was one of the six republics that made up Yugoslavia, and declared its independence on 1 March, 1992. At that time the war in former Yugoslavia[iv] was already raging, having started in Slovenia in 1991, and by 1995 intensified to the point of complete dissolution of Socialist Federal Republic of Yugoslavia. Basic pre-war statistics of the former Yugoslavia are presented in Table 2-2.

It is well known that the territory's area and the size of its population represent the basic resources for development. Being basic indicators, more comparisons would be needed for a more precise view, but for the purposes of this analysis, these indicators will suffice. Table 2-2 shows that Yugoslavia's area was comparative to Romania and Italy, and its population was slightly higher than Romania and the populations of Hungary and the Czech Republic combined. The second part of the Table provides a comparison of each republic's population with that of comparable European countries. This approach allows us to get a basic view of the size of the former Yugoslavia, as well as its former republics, now independent states, in relation to the area and population of selected European states.

Table 2-1: GDP of Yugoslavia, 1970-1990 (share percent)

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
In the World	0.43	0.43	0.39	0.51	0.51	0.51	0.53	0.58	0.58	0.63	0.58
In Europe	1.1	1.1	0.94	0.98	1.2	1.2	1.3	1.4	1.4	1.5	1.4
In Southern Europe	7.8	7.6	6.8	7.0	8.2	8.0	8.9	9.5	9.3	9.2	8.3
Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	
In the World	0.56	0.51	0.51	0.53	054	0.51	0.48	044	0.44	0.37	
In Europe	1.5	1.4	1.5	1.6	1.7	1.4	1.3	1.2	1.3	1.0	
In Southern Europe	9.0	8.4	8.8	9.4	9.5	7.5	6.4	5.9	5.9	-	

Source: http://kushnirs.org/macroeconomics/gdp/gdp_yugoslavia.html#main accessed on 24/12/2014

Table 2-2: Basic statistics of Yugoslavia's republics in comparison to some other countries

<table>
<tr><td>Total area</td><td>256,000 km^2</td><td>Romania 237,500 km^2; Italy 301,263 km^2</td></tr>
<tr><td>Population 30/06/1986</td><td>23.270M</td><td>Romania 21.5M;
Hungary 10M + Czech Republic 10.5M = 20.5M</td></tr>
<tr><td colspan="3">Republics (population)</td></tr>
<tr><td>Serbia</td><td>9.657M</td><td>Austria 8.3M, Hungary 10M</td></tr>
<tr><td>Croatia</td><td>4.665M</td><td rowspan="2">Ireland 4.5M; Lithuania 3.3M + Estonia 1.3M = 4.6M</td></tr>
<tr><td>BH</td><td>4.365M</td></tr>
<tr><td>Macedonia</td><td>2.041M</td><td>Latvia 2.3M</td></tr>
<tr><td>Slovenia</td><td>1.932M</td><td>Estonia 1.3M</td></tr>
<tr><td>Montenegro</td><td>619K</td><td>Cyprus 0.8M</td></tr>
</table>

Source: OECD Economic Surveys: Yugoslavia 1987/1988

At the end of World War II, Yugoslavia was a destroyed, exhausted country. The Republic of Bosnia and Herzegovina suffered greatly, having been the scene of five out of seven offensives launched by the Germans and other occupation forces in Yugoslavia. Undaunted, its people who had liberated their homeland through heavy, heroic struggle, were full of enthusiasm and ready to rebuild and develop the country, and that with their bare hands if they had to. They succeeded in every sector with the infrastructure, industry, educational, health care, and all other sectors being restored at a high speed.

The Yugoslav political elite, led by Tito, forged its own, independent way in the development of the country. Receiving significant support from the West and achieving notable economic progress, Yugoslavia soon reached a middle level of development. Much was still lacking, but the success was evident. This is clearly shown in Tables 2-3 and 2-4, which present the achieved production for structure of GDP and employment in 1986. The progress in the industry sector and the lag in agriculture are both evident (Table 2-4), but a great number of redundant workers in "Active population in private agriculture" were available for employment and able to contribute to the development and growth of industry, construction and service sectors.

Table 2-3: Yugoslavia, production – structure of GDP* in 1986 (percentage of GDP)

Agriculture, forestry and fishing	13.4
Mining and manufacturing	37.6
Building	7.3
Other	41.7

[1] At that time, Yugoslavia used the aggregate GMP (Gross Material Product) as a measure. It was not calculated in the same way as GDP and did not include, for example, public services.

Source: OECD Economic Surveys: Yugoslavia 1987/1988

Table 2-4: Yugoslavia, Paid Employment (1986, in 1,000)

Industry	2,625
Building	586
Agriculture	239 (social sector)
Active population in private agriculture	2,200
Total	6,716

Source: OECD Economic Surveys: Yugoslavia 1987/1988

Although Yugoslavia was a federation, and therefore by definition a state with a complicated structure in terms of decision making and management, it tried very hard to minimize the number of employees in public administration. Tables 2-5 and 2-5A show that BH was not as successful in this as Yugoslavia as a whole. An overly-large public administration not only gave rise to unjustified public expenditure but also had a very detrimental effect on efficiency.

Table 2-5: Yugoslavia government consolidated public sector accounts (percentage of GMP*)

Year	1986	1987
Revenue, including social security	32.2	-
Expenditure	34.4	33.5

*See note below Table 2-3

Source: OECD Economic Surveys Yugoslavia 1987/1988

Table 2-5A: BH Government Consolidated Public Sector Accounts (percentage of GDP)

Year	2008	2009	2010	2011	2012
Revenue of General Government (as a percentage of GDP)	43.6	42.5	43.7	44.1	44.5
Expenditure of General Government (as a percentage of GDP)	45.8	47.0	46.1	45.3	46.6

Source: CB BH, 2013; Main Economic Indicators

In 1987, international and domestic concerns emerged that Yugoslavia would not last under the burden of an external debt of 20 billion USD. At that time, Yugoslavia's total external debt was smaller in relation to GDP than the external public debt of BH today. Accordingly, BH is performing better than other Balkan countries, although it has already exceeded the relative ratio of external public debt to GDP, as compared to Yugoslavia's 1987 ratio for total foreign debt. Indeed, Croatia's total foreign debt equals the country's entire GDP. In fact, Croatian external debt alone exceeds that of former Yugoslavia's external debt (see Tables 2-6, 2-6A and 2-6B).

Table 2-6: Yugoslavia, external debt

Year	1986	1987
million USD	19,026	20,242
GDP*, %	24.46	24.51

*To calculate the percentage relative to GDP, data was taken from: http://kushnirs.org/macroeconomics/gdp/gdp_yugoslavia.html#main accessed on 24/12/2014

Source: OECD Economic Surveys: Yugoslavia 1987/1988

Table 2-6A: BH[*]external debt

Year	2008	2009	2010	2011	2012
Government Sector, (million USD, end of period)	3,057	3,837	4,270	4,407	4,823
Government Sector, as a percentage of GDP	17.0	21.5	25.3	25.8	27.8

[*]Please note that BH external debt only includes debt of the government sector whereas Croatian external debt is shown as the overall external debt of the country (Table 2-6B).

Source: CB BH, 2013; Main Economic Indicators

Table 2-6B: Croatia, external debt

Year	2008	2009	2010	2011	2012
External debt (million Euro, end of period)	40,590	45,269	46,527	45,901	44,861
External debt, as a percentage of GDP	85.4	101.1	104.7	103.8	102.6

Source: NBH, 2013; Main Economic Indicators

By analysing statistical data of the former Yugoslavia, we can see the potential of its economy, especially regarding export industries. In 1987, the export of finished manufactured products was approaching half, 47 percent, of the total export (OECD, 1987/1988). This meant that 60% of Yugoslavia's imports consisted of raw materials and semi-finished products. The economy was certainly under the strong influence of state intervention, but even in current times of well-established neo-liberalism, every country is to some extent exposed to this influence. The economic results were very good, especially if compared with the current situation in BH. Yugoslavia maintained a trade deficit of between 1.1 and 1.5 billion USD; BH (just one republic of the former Yugoslavia) only managed to reduce the trade deficit from 8 billion USD in 2008 to 5.5 billion USD in 2012, and then only under the pressure of the Global Financial Crisis (GFC). Yugoslavia had significant economic potential in industrial production and the ability to export; now that the unified, larger country has split into six new and smaller countries, [v] not one of them has that potential or ability (see Tables 2-7, 2-7A, and 2-7B).

Table 2-7: Ex-Yugoslavia, foreign trade

	Structure of exports in 1987 (percentage of GDP)	Structure of imports in 1987 (percentage of GDP)
Food, drinks, tobacco	8.7	5.8
Raw materials and semi-finished goods	44.4	59.7
Finished manufactures	46.9	34.5

Source: OECD Economic Surveys: Yugoslavia 1987/1988

Table 2-7A: Yugoslavia, imports and exports by area (million USD)

Year	1984	1985	1986	1987
OECD	5,360	5,643	5,698	7,240
EEC	3,567	3,694	3,860	5,039
Total (Imports)	11,996	12,164	11,750	12,603
OECD	3,746	3,735	3,749	5,726
EEC	2,639	2,617	2,600	3,980
Total (Exports)	10,254	10,642	10,298	11,425
Trade Balance	-1,742	-1,522	-1,452	-1,178

Source: OECD Economic Surveys Yugoslavia 1987/1988

Table 2-7B: Net trade in goods and services (BoP, in current million USD)

	2005	2006	2007	2008	2009	2010	2011	2012
BH	-4,345.5	-3,624.9	-4,661.7	-6,225.9	-4,194.9	-3,698.2	-4,447.6	-4,148.7
Croatia	-2,745.9	-3,179.1	-4,284.3	-5,300.5	-2,002.6	-176.9	224.0	362.4
Macedonia	-1,102.4	-1,238.2	-1,599.8	-257.4	-2,144.7	-1,871.5	-2,148.8	-2,205.7
Montenegro	..	..	-1,588.9	-2,432.6	-1,277.1	-1,076.6	-989.4	-1,013.1
Serbia	..	..	-10,003.4	-12,785.8	-7,097.6	-6,068.8	-7,152.6	-6,743.4
Slovenia	-197.6	83.8	-598.1	-1,028.3	985.9	589.3	733.0	2,167.3
Total	-8,391.4*	-7,958.5*	-22,736.2	-30,347.1	-15,731.1	-12,302.7	-13,781.5	-11,581.2

*Incomplete data.

Source: The World Bank, WDI (World Development Indicators)

How did Yugoslavia manage to keep such a low level of trade deficit in the international exchange of goods and services? As we have said, there was strong state economic intervention, but there was also a prioritised strategy of investing in infrastructure: energy, industry, education and science, health-care and food production. In addition, a large portion of the production and trade within the former Yugoslavia became a basis for international trade for the new "small open economies" of the former Yugoslav republics. If we look at the trade balance of the former Yugoslav republic, and then at the "new-born" countries, we can see the effect of war and post-war transition: Devastated industry and agriculture as well as disrupted production and supply chains. Not surprisingly, the new republics have greater trade balance deficits.[vi]

To summarize, Yugoslavia after World War II (WWII) became a specific social and economic "project" which contrasted the East and West. The foundations of its development were the dedicated work of a large number of citizens, social cohesion, and the predominant patriotism generated during wartime, anti-fascist resistance under the highly creative leader, Josip Broz-Tito.

Post-WWII Yugoslavia was a specific "project" aimed at the development of market socialism. Although we cannot be proud of everything that happened in those times, the political elite headed by Tito transformed the Yugoslav economy from a primarily rural/agricultural set of provinces to a fairly industrialized, middle-income, united country by the end of the 1980s. Yugoslavia was a leader in understanding the concept, and developing the practice, of market socialism. Even by the early 1970s however, economic and social development dictated the need for deeper reforms to maintain the dynamics of the prosperity achieved. The reform urgently needed, we now realise, was the start of the process of privatisation – the promotion and policy of consistent transition to the market economy, based on private capital.[vii]The leading Yugoslavian politicians of the early and mid-1970s lacked the vision to foresee its need and the capacity to implement it. In 1971, a new Constitution was adopted in an attempt to introduce deeper reforms, but the measures were insufficient.

Tito, the President for Life, died on 4 May 1980, before the open launch of globalisation worldwide, and his death triggered the growth of nationalism across the country he had united. Yugoslavia disintegrated eleven years later, and a terrible war began that would culminate in the birth of BH.

The war from 1992 to 1995 in Bosnia and Herzegovina

Bosnia and Herzegovina suffered greater material destruction and more civil victims than any other part of the former Yugoslavia. Not only was it the "breaking point" of escalation of the war,[viii] but also an intended territorial prize of its new neighbours as formed by the dissolution of Yugoslavia. Even before that, BH was underdeveloped in comparison to the rest of Yugoslavia, as it had not fully recovered from the human suffering and economic destruction of World War II (WWII).

Pre-war and post-war Bosnia and Herzegovina

A document prepared for the 2nd Donors' Conference in support of Bosnia and Herzegovina (World Bank, 1996) shows that the International Community and the Government of the Republic of Bosnia and Herzegovina[ix] differed sharply in their assessments of war damage to property and assets.

In terms of physical losses, the government estimates the overall damages from the war at 50–70 billion USD. The economic replacement cost of the destroyed assets is huge; according to initial World Bank staff estimates it lies in the range of 15–20 billion USD (p. 10).

Table 2-8: GDP in Bosnia and Herzegovina (million USD)

Year	1990*	1991	...	1994	1995	1996	1997
GDP	10.633	8.670		1.254	1.867	2.741	3.423

Note: After the war, there was a change in the methodology from GMP to GDP calculation.

*GDP data for 1990 was taken from *Bosnia and Herzegovina – From Recovery to Sustainable Growth* (World Bank, 1997, p. 100).

Source: Transition report, 1999, EBRD, p. 201

The GDP in 1990 was five times higher than the GDP in 1995. GDP per capita dropped from 1,980 USD to around 500 USD.

As Table 2-8 shows, if we add the approximate wartime losses in GDP of estimated 35 billion USD to BH's government estimates of war damage of property and assets, the total amount of losses would have grown to 85-105 billion USD, not counting the effect of the many years in which the post-war BH failed to reach pre-war levels of GDP and the consequent huge loss of GDP due to the destruction of the economic base. It is, of