



INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ACCOUNTING, FINANCE AND MANAGEMENT SCIENCES



The Competitiveness of the Economy of Bosnia and Herzegovina

Agim Mamuti

To Link this Article: <http://dx.doi.org/10.6007/IJARAFMS/v3-i4/384>

DOI:10.6007/IJARAFMS /v3-i4/384

Received: 13 October 2013, **Revised:** 17 November 2013, **Accepted:** 30 November 2013

Published Online: 10 December 2013

In-Text Citation: (Mamuti, 2013).

To Cite this Article: Mamuti, A. (2013). The Competitiveness of the Economy of Bosnia and Herzegovina. *International Journal of Academic Research in Accounting Finance and Management Sciences*. 3(4), 169-179.

Copyright: © 2013 The Author(s)

Published by Human Resource Management Academic Research Society (www.hrmars.com)

This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at: <http://creativecommons.org/licenses/by/4.0/legalcode>

Vol. 3, No. 4, 2013, Pg. 169 - 179

<http://hrmars.com/index.php/pages/detail/IJARAFMS>

JOURNAL HOMEPAGE

Full Terms & Conditions of access and use can be found at
<http://hrmars.com/index.php/pages/detail/publication-ethics>



INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ACCOUNTING, FINANCE AND MANAGEMENT SCIENCES



The Competitiveness of the Economy of Bosnia and Herzegovina

Agim Mamuti

Faculty of Business Administration, International University of Sarajevo (IUS)

Email: amamuti@ius.edu.ba

Abstract

The war that happened in Bosnia and Herzegovina (BH) in the period 1992-1995 has decreased the production 80%, and subsequently caused high rates of unemployment. The country's fragile economy also faced many ups and downs; the output recovered in 1996-99 but slowed in 2000-02, raised again during 2003-08 (GDP growth exceeded 5% per year). Today, World Bank characterizes BH as an upper middle-income country. Bosnia and Herzegovina is a potential EU candidate country that tends to apply EU acquis requirements. According to the Copenhagen criteria, EU candidate countries must be able to prove their capacity to cope with the market forces and competitive pressure within the EU. Unfortunately, the existing surveys show that the competitiveness of BH economy is at much lower level than the rest of EU countries and some candidate countries as well.

To be able to define the current state of competitiveness of Bosnia and Herzegovina, this study focuses on the statistical data provided by the GCR (Global Competitiveness Report) of WEF (World Economic Forum) for year 2012-2013.

Keywords: Competitiveness, Export Growth Strategy of BH, Global Competitiveness Report, World Economic Forum

Introduction

Economic Overview of the Country

Bosnia and Herzegovina (BH) recorded many developments from mid 90s onwards, while in the period between 1998 and 2008 strong economic growth was observed. This strong growth quadrupled the GDP per capita of the country and poverty level dropped from 20% to around 14%. In the third and fourth quarters of 2008, BH economy started showing negative trends that contributed to a general decline in the economic activity. The direct result was slowing in the economy, rise in the unemployment rate and lowering of the GDP what caused unequal income distribution among BH citizens, leading to further discontent and disappointment among the citizens.

With the start of the global financial crisis in 2008, BH economy faced long-term consequences that had broad negative impacts, dragging the country economy into deep recession. This recession caused a decrease in GDP by 2.9%, and the economy has just started to rebound by 1% growth in 2011. In 2011, inflation once again returned to the country, and increases in international food prices caused a rise in food prices in BH, creating additional

limits for the already weak domestic demand. This weak demand caused additional growth limitations in year 2012.

According to the latest projections of the World Bank (WB), the economic growth of the country will gradually increase by 0, 5% in 2013 and 3, 5% in 2015 (2012). Further limitations on the growth of the economy of BH caused by country's decentralized governmental structure and constant political instabilities are the major barriers to reforms and economic policy coordination. As a result, existing segmented market and excessive bureaucracy are the main sources of discourage for foreign investors. Bosnia and Herzegovina faced tremendous fall in GDP of nearly 3% in 2009, and although the private sector is growing, foreign investment has not still achieved the levels of 2007 or 2008.

The Table 1 shows the general country economic indicators of Bosnia and Herzegovina. As it can be observed from the table, living standards of BH citizens remain low, while unemployment is one of the biggest problems in the country. According to the Progress Report of European Commission (EC) for BH (October 2012), unemployment in Bosnia was 28% in 2011, while youth unemployment was 57.9%. The unemployment figures are not accurate, because of the fact that some Bosnians work abroad during a certain period in the year, and the grey economy affects unemployment, so the results are generally variable.

Table 1
Bosnia and Herzegovina, Country Economic Indicators

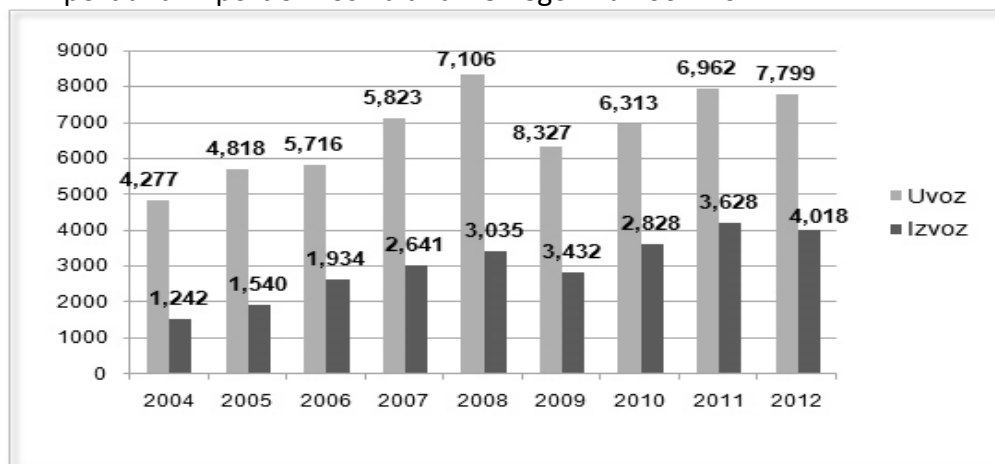
No.	Indicator:	Results:
1.	GDP (purchasing power parity) Country comparison to the world:	\$ 32. 43 billion (2012 est.) \$ 32. 66 billion (2011 est.) \$ 32. 25 billion (2010 est.) 111
2.	GDP (official exchange rate): GDP - real growth rate: Country comparison to the world:	\$17.33 billion (2012 est.) -0.7% (2012 est.) 1.3% (2011 est.) 0.7% (2010 est.) 193
3.	GDP - per capita (PPP): Country comparison to the world:	\$8,400 (2012 est.) \$8,400 (2011 est.) \$8,300 (2010 est.) 130
4.	Unemployment rate: Country comparison to the world:	28% (ILO definition) - 43.3% (2011 real est.) 43.1% (2010 est.) 190 *official rate; actual rate is lower as many technically unemployed persons work in the gray economy
5.	Public debt: Country comparison to the world:	43.8% of GDP (2012 est.) 40.6% of GDP (2011 est.) 78
6.	Inflation rate (consumer prices): Country comparison to the world:	2.1% (2012 est.) 3.7% (2011 est.) 42

Source: CBBH, 2012

The Report of EC concluded that the weakened consensus on the essentials of economic and fiscal policy negatively affected the country level reforms and BH has made a small progress towards a functioning market economy. There is a need for further reform efforts to ensure that the country will be able to cope with competitive pressure and market forces within the EU. Trade activities also increased and the level of trade integration with the countries in the region and EU remained high. BH business environment also has some changes for the better, and business registration acceleration can be observed. The Report further underlined that the external imbalances (the foreign trade gap and the current account deficit) have been increasing and that the privatization, liberalization of network industries and restructuring of public enterprises did not have any improvements (EC, 2012). The current reality on the ground is that BH has weak productive capacity and economic competitiveness, with inadequate exploitation of domestic sources of growth. Unemployment continues to be high and the business environment is affected negatively by the weak rule of law and administrative inefficiencies.

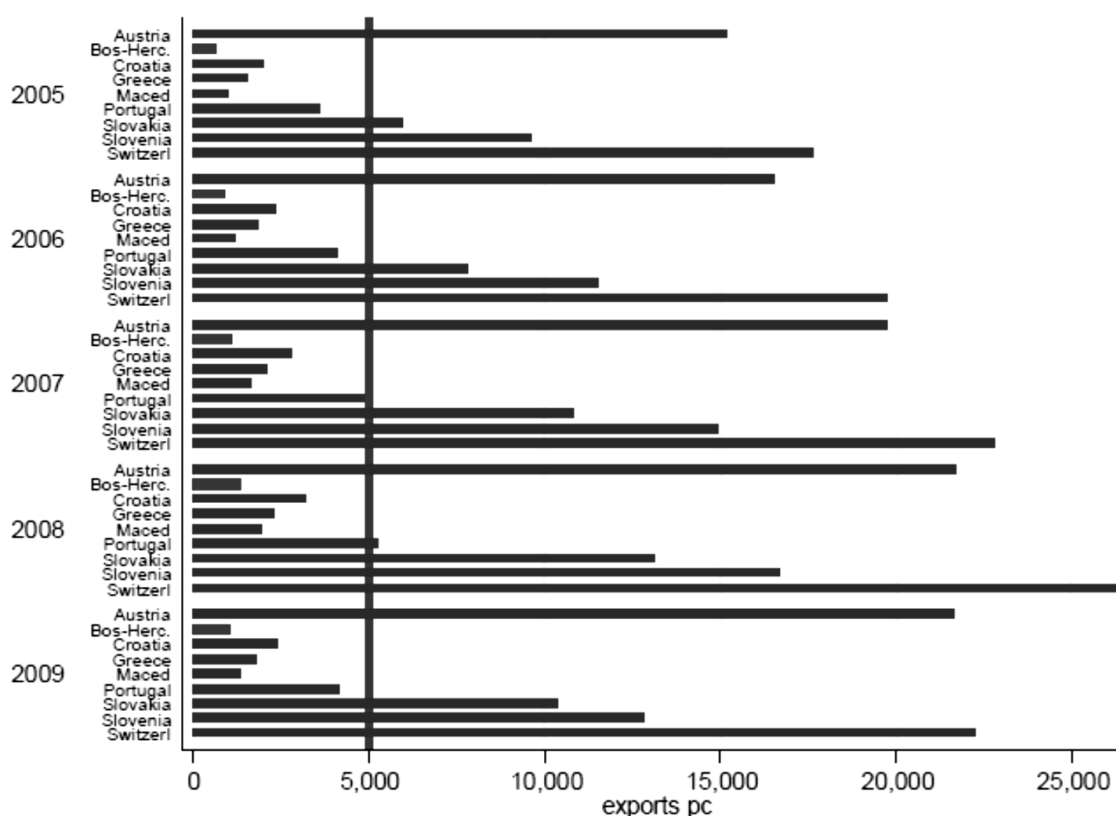
One of the steps taken by the country for improvement of the current situation is the Export Growth Strategy of BH 2012-2015. The Strategy tells us that the country is willing to embark on a new model of economic growth based on exports, introducing some very ambitious goals of building up better physical infrastructure, improving the business environment and human capital. Currently, BH continues to rely on Western Europe for both trade and credit. Although growth in exports is recorded in recent years (particularly base metals and electricity), the growth of imports due to recovering in domestic demands and rise in international oil and food prices have caused increases in the BH trade deficit which is one of the newest challenges for the BH government and business community. Figure 1 presents the trade export and import of Bosnia and Herzegovina.

Figure 1. Export and import of Bosnia and Herzegovina 2004-2012



Source: Export Growth Strategy of Bosnia and Herzegovina

Figure 2. Export per capita, compared countries, 2005-2009



Source: WTO, 2010

Trade deficit levels create a big problem (light grey- imports and dark grey- exports). The trade deficit has decreased in the period of economic crisis, however still priority of Bosnia and Herzegovina must be to increase its exports. Currently, BH mostly exports low value added goods. Kathuria and Sanjay argue that in the case proportion between exports in GDP and trade deficits is over 20% (in BH it accounts around 30-40% of the GDP), there is lack of competitiveness in the country (Kathuria & Sanjay, 2008). In the case of export, key BH challenge is the weak supply side, caused by the low production levels as well as the low efficiency levels both in terms of use of existing resources (especially its labor potential), and in terms of capital accumulation (especially infrastructure), as the key reason for low levels of GDP per capita and export. There are lots of limitations for economic and export growth of Bosnia and Herzegovina, as well as the reasons for trade deficits, but it can be argued that barriers mostly exist due to the small private sector, low competitiveness of the economy which causes low profitability and small number of investment activities.

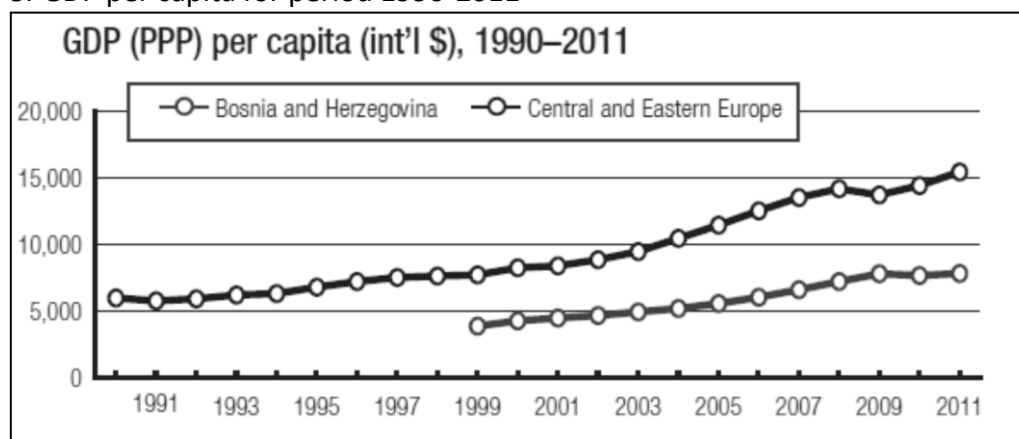
Value of exports per capita in Bosnia and Herzegovina is lower when compared to other transition economies. The Figure 2 shows that in 2009 BH in this sense is far behind Macedonia (1.4 times lower), Croatia (2.5 times lower), and Slovenia (9.6 times lower). EBRD (European Bank for Reconstruction and Development) report estimated that the private sector share in GDP of BH is 60%, while in Serbia and Montenegro, it is 65%, in Croatia 70% and in Albania and Slovakia, it is 75-80% (2010).

Competitiveness of the Economy of BH

According to the Copenhagen criteria, EU candidate countries must be able to prove their capacity to cope with the market forces and competitive pressure within the EU. Unfortunately, the existing surveys show that the competitiveness of BH economy is at much lower level than the rest of EU countries and some candidate countries as well. While the rivalry between the countries is escalating day by day, BH needs a careful analysis of its priorities to be able to diversify its competitive advantages. Strategies usually define the ways and means of achieving specific objectives, while through proper elimination of existing obstacles and coordinated and integrated approach of all activities and efforts, the country would boost its exports and attract the necessary foreign investment. To be able to define the current state of competitiveness of Bosnia and Herzegovina, this study focused on the statistical data provided by the GCR (Global Competitiveness Report) of WEF (World Economic Forum) for year 2012-2013. According to the GCI (Global Competitiveness Index) of WEF, BH is ranked 88th among 144 countries, while Macedonia is 80th, Montenegro 72nd, Slovenia 56th, Croatia 81st, Albania 89th and Serbia 95th. In the year 2011- 2012, the rank of BH was 100th, so it obviously has improved in the last one-year period.

WEF is ranging the states according to their competitiveness power. This ranking is done through collection of certain performance indicators that can be divided into three groups: Basic requirements (four sub-set of indicators), Efficiency Enhancing Factors (six sub-set of indicators), and Innovation and Sophistication factors (two sub-set of indicators). The ranking arrangements are performed considering the GDP of these countries. According to the Report, general indicators regarding Bosnia and Herzegovina can be summarized as follows; BH is ranked 88th among 144 countries, it is in the second league, i.e. Efficiency driven economy and the data regarding GDP per capita shows that BH is below the average of Central and Eastern European Countries as can be seen from the figure below.

Figure 3. GDP per capita for period 1990-2011



Source: WEF Global Competitiveness Report, 2012-2013

This study analyses the basic pillars of GCR, making the comparisons among the countries in the region: Macedonia, Bosnia and Herzegovina, Montenegro, Slovenia, Croatia, Albania and Serbia, as the neighboring countries with a similar background, history and future strategic directions (EU integration, NATO structures, successful transition etc.).

The Table 2 is a comparison regarding the Basic Requirements Pillars:

Table 2

WEF, GCI 2012-2013 Basic Requirements Pillars (ranking)

COUNTRIES	RANK	BASIC REQUIREMENTS			
		PILLARS			
		1.Institutions	2.Infrastructure	3.Macroeconomic Environment	4.Health and Primary Education
Macedonia	71	78	81	47	77
Bosnia and Herzegovina	81	85	94	97	48
Montenegro	74	44	66	118	73
Slovenia	39	58	35	50	24
Croatia	60	98	44	60	60
Albania	87	84	91	98	79
Serbia	95	130	77	115	66

Source: WEF, GCR, 2012-2013

The table shows that among the seven compared countries the overall ranking of Bosnia and Herzegovina is 88th, meaning that it is far behind Slovenia (56), Montenegro (71), Macedonia (80) and Croatia (81). Its overall competitiveness is better than the one of Albania (89) and Serbia (95). Looking at the Basic Requirements Pillars, Bosnia and Herzegovina (81) is again ranking behind Slovenia, Croatia, Macedonia and Montenegro, as shown in the table above.

Regarding the Efficiency Enhancers that include pillars such as the higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness and market size. Bosnia and Herzegovina ranks the worst among all the compared countries and it needs to pay more attention to those factors for improvement of its competitiveness in future, especially in the issues of goods market efficiency (ranking 109/144) and financial market development (119/144). The details are given in the Table 3:

Table 3

WEF GCI 2012-2013, Efficiency Enhancing Pillars (ranking)

COUNTRIES	RANK	EFFICIENCY ENHANCERS					
		PILLARS					
		5.Higher Education and Training	6.Goods Market Efficiency	7.Labor Market Efficiency	8.Financial Market Development	9.Tehnological Readiness	10.Market Size
Macedonia	84	81	68	94	79	71	104
BH	97	72	109	99	119	68	93
Montenegro	74	51	48	93	40	56	130
Slovenia	55	23	49	91	128	34	78
Croatia	72	56	114	106	92	50	71
Albania	92	76	58	68	120	77	98
Serbia	88	85	136	100	100	58	67

Source: WEF, GCR, 2012-2013

The table below shows the innovation and sophistication pillars that include business sophistication and innovation, and in this regard rank of BH is 99, it is better than Macedonia (110), Albania (113) and Serbia (124), but still obviously behind Slovenia (36), Montenegro (69) and Croatia (83). Bosnia and Herzegovina needs to pay attention especially on improving its business sophistication.

Table 4

WEF, GCI 2012-2013, Innovation and Sophistication Factors (ranking)

COUNTRIES	RANK	INNOVATION AND SOPHISTICATION FACTORS	
		PILLARS	
		11.Business Sophistication	12.Innovation
Macedonia	110	111	110
Bosnia and Herzegovina	99	109	80
Montenegro	69	76	60
Slovenia	36	53	32
Croatia	83	96	74
Albania	113	98	111
Serbia	124	132	77

Source: WEF, GCR, 2012-2013

The data sheet below gives a good general overview on the weak and strong sides of Bosnia and Herzegovina, and it clearly points out the things that need revision and improvement. For the competitiveness rank regarding basic requirements, Bosnia and Herzegovina needs to work on the improvement of its macroeconomic environment, infrastructure and institutions, while it is in an advantageous position regarding health and primary education. Similarly, it is in a weak position regarding the efficiency enhancing factors and it needs to improve its ranking for especially financial market development, goods market efficiency and labor market efficiency pillars.

Figure 4. Data on the competitiveness of BH economy: GCI 2012-2013

The Global Competitiveness Index

	Rank (out of 144)	Score (1-7)
GCI 2012-2013	88	3.9
GCI 2011-2012 (out of 142).....	100	3.8
GCI 2010-2011 (out of 139).....	102	3.7
Basic requirements (40.0%).....	81	4.3
Institutions	85	3.6
Infrastructure	94	3.4
Macroeconomic environment	97	4.3
Health and primary education.....	48	5.9
Efficiency enhancers (50.0%).....	97	3.7
Higher education and training.....	72	4.2
Goods market efficiency	109	3.9
Labor market efficiency	99	4.1
Financial market development	119	3.4
Technological readiness.....	68	3.8
Market size.....	93	3.1
Innovation and sophistication factors (10.0%).....	99	3.3
Business sophistication	109	3.5
Innovation.....	80	3.1

Source: WEF, GCR, 2012-2013

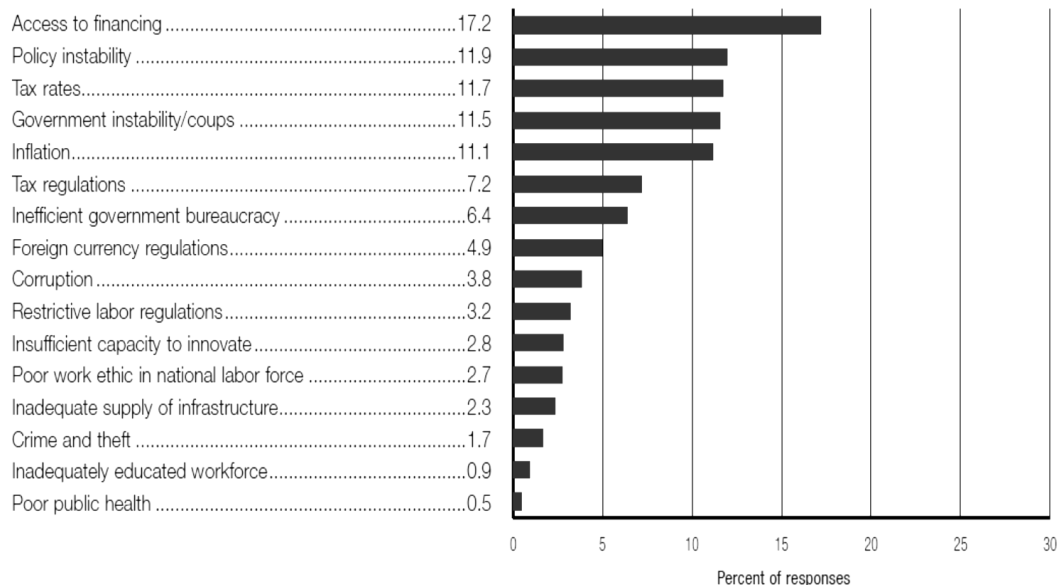
Stage of development



BH is in an advantageous position regarding the pillars of technological readiness and higher education and training, which can be seen from the information above. Furthermore, BH needs to work on improvement of its ranking regarding the Innovation and sophistication, especially in the pillar of business sophistication, while it is still in an advantageous position regarding innovation pillar. The most problematic factors that influence doing business in Bosnia and Herzegovina are given in the Figure 5:

Figure 5. The most problematic factors for doing business in Bosnia and Herzegovina

The most problematic factors for doing business



Source: WEF, GCR, 2012-2013

World Economic Forum performed the survey giving the list of factors above, and asking the respondents to select the five most problematic factors for doing business in BH, ranking them between 1 (most problematic) and 5 (least problematic). The responses are weighted according to their rankings shown in the bars.

It is hard to predict the objectivity of the data provided and the health and reliability of the data collected. However, there is the fact that certain factors given as the priorities for improvement reflect the reality of Bosnia and Herzegovina, and need to be taken into consideration while working on creation of the nation branding strategy for Bosnia and Herzegovina, because the better competitiveness of the country will surely make it more attractive.

Conclusions

Bosnia and Herzegovina is a potential EU candidate country that tends to apply EU *acquis* requirements. According to the Copenhagen criteria, EU candidate countries must be able to prove their capacity to cope with the market forces and competitive pressure within the EU. Unfortunately, the existing surveys show that the competitiveness of BH economy is at much lower level than the rest of EU countries and some candidate countries as well.

According to the WEF Report, general indicators regarding Bosnia and Herzegovina can be summarized as follows: BH is ranked 88th among 144 countries, it is in the second league, i.e. Efficiency driven economy and the data regarding GDP per capita shows that BH is below the average of Central and Eastern European Countries as can be seen from the table below.

For the competitiveness rank regarding basic requirements, Bosnia and Herzegovina needs to work on the improvement of its macroeconomic environment, infrastructure and institutions, while it is in an advantageous position regarding health and primary education. Moreover, it is in a weak position regarding the efficiency enhancing factors and it needs to improve its ranking for especially financial market development, goods market efficiency and labor market efficiency pillars.

References

- Anholt, S. (2007), *“Competitive Identity: A new model for the brand management of nations, cities and regions”* in Policy & Practice: A Development Education Review, Volume 4, pp. 3-13. Available at: <http://www.developmenteducationreview.com/issue4-focus1>
- Central Bank of Bosnia and Herzegovina. (2012), *“Annual Report 2012”*. Available at: http://www.cbbh.ba/files/godisnji_izvjestaji/2012/GI_2012_en.pdf
- EBRD. (2010), *“The Transition Report 2010: Recovery and Reform”*, *The Private Sector Share in GDP*, p. 4.
- European Commission. (2012), *“Bosnia and Herzegovina 2012 Progress Report”*, pp. 24-25.
- Foreign Trade Chamber of Bosnia and Herzegovina. (2012), *“Export Growth Strategy of Bosnia and Herzegovina 2012-2015”*, available from: <http://komorabih.ba/wp-content/uploads/2013/06/bhepa-nacrt-strategija-rasta-izvoza-bih.pdf>
- IMF. (2012), *“World Economic Outlook Database”*.
- Kathuria, S. (2008), *“Western Balkan Integration and the EU: An Agenda for Trade and Growth”*, p.8, Washington: World Bank.
- OECD. (2002), Strategic Investment Promotion, *“Successful Practice in Building Competitive Strategies”*, p.40.
- USAID. (2012), Bosnia and Herzegovina Office, *“Young People in Bosnia Drive Economic and Social Development”*, posted by David Barth.
- World Bank. (2012) *“Bosnia and Herzegovina Country Overview”*. Available from; <http://www.worldbank.org/en/country/bosniaandherzegovina/overview>
- World Economic Forum. (2013) *“Global Competitiveness Report 2012-13”*, available from: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf
- World Trade Organization. (2010), *“Export per Capita, Compared Countries 2005-2009”*, Report.