

# Situation in bosnia and herzegovina economics essay

[Economics](#)



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\n[/toc]\n \nFaculty of ????- The impact of globalization on the Bosnia and Herzegovina-Student: Božena bilićProfessor: Sarajevo, 13 April 2013

## **The situation in Bosnia and Herzegovina**

Seventeen years after the entry into force of the Dayton Peace Agreement, and contrary to all expectations, as the state of Bosnia and Herzegovina is still economically unviable, and it is dependent on international aid (aid-driven economy). Poverty is a phenomenon that threatens to Bosnia and Herzegovina. This "unexpectedly" situation in the country is determined by the mistakes they have made national and international political and economic experts and factors which decide. Development and efficiency of market institutions in Bosnia and Herzegovina is related to the complexity of the national legal system of Bosnia and Herzegovina, and thus the inequality of laws and regulations in different fields.[1]The absence of a single economic space, unequal legislation, insufficient determination of the ownership structure of enterprises, lack of efficiency of the judicial system,

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to big state apparatus, some of the elements, which, despite reforms, still represent a barrier to the development and efficiency of market institutions. Because of that the BiH society faces with the following characteristics with respect to the definition of economic development:[2]

- In BiH is 24% of the population with less than 300 KM monthly per household;
- The number of people with incomes insufficient to cover the market basket is 43. 2% in Bosnia as a whole, whereby the Republic Serbia this number exceeds 50%.
- 44. 75% of the monthly income is spent on food and the clothes and shoes to spend about 6% of income, which is below any standard consumption of developed countries;
- 59. 1% of the population would practice strikes to express their dissatisfaction with unemployment

In relation to the definition of economic development, as defined, for example, by M. Todaro (but not only him-like economic development, defining and H. Johnson, J. Meier, D. Seers, and others), economics and society in BiH away from one such definition. Economic development is as " a physical reality and a state of mind" (Todaro). Economic development in all societies must have, at a minimum, the following objectives:

- Increase in meeting basic needs,
- Increase of employment and education and awareness of self-satisfaction and expansion of choice to the individual and the nation felt independent.

Bearing in mind the reality in BiH expressed through:- A large balance of payments deficit;- Dangerously high external debt;- The unemployment rate of about 40% and- Significant role of international assistance

Circle productivity includes all relevant determinants of productivity of a country. The increase in productivity in the country most relevant factor that contributes to the growth of GDP per capita, as well as the macroeconomic

equivalent productivity of the country. The basic determinants of productivity are (C. Pitelis): 1. Human capital, 2. Technology and innovation 3. Infrastructure, 4. Economy of unit costs 5. Macroeconomic conditions, 6. Institutional environment, 7. Concept of economic growth and development, suggested and imposed by foreign international financial institutions " Washington consensus"[3]

## **Human capital**

As it is, unfortunately a well-known, war in Bosnia has forced about 1-1.5 million people to leave the country. Those others, refugees, they are often reluctant to return back instead populated mostly members of their own ethnic group. During the war and after, highly skilled (educated) people often successfully arranged exile status. Less educated are usually belonged to the group of displaced persons within the country. Today, the majority of young Bosnians (especially those who have returned from abroad) are working for an international organization. From the perspective of labor productivity of the economy as a whole and the role of " human capital" in this process, in particular, employment with an international organization pulls human capital from domestic firms. In addition, often working jobs for which they were educated young people diminish the value of our human capital. There is another specific factor in BiH, which affects the human capital and its potential - it is the lack of mobility of labor. Cause of the lack of mobility of human capital is: • Destruction of dwellings and housing, and lack of housing infrastructure; • High unemployment and a deficiency of demand for labor outside the place of residence where someone needed to work[4]

## **Technology**

Since the disintegration of the former Yugoslavia, the process of technology creation and technology transfer is largely stopped. Most of the international aids are provided by very generous donors, after Dayton are aimed to the reconstruction of infrastructure and the reconstruction itself. Extremely high domestic interest rates are forcing managers to form and have mainly short-term horizons in business, neglecting and least able to modernize their companies, because the fact that the level of obsolescence of technology business sector reached more than 85%.

## **Infrastructure**

The largest part of international aid went to infrastructure. Many homes have been reconstructed, the bridges were repaired, but:

- Lack of investment in basic research;
- Concentration of scientific workers missing;
- Inadequate protection of intellectual property rights;
- Venture capital is inadequate;

The level of demand is insufficient and poor in relation to its requisite sophistication.

## **Macroeconomic management**

Washington Consensus is the cornerstone of macroeconomic policy in BiH. As normal and the only result, BiH enjoys stability of Nominal economic indicators. These are:

- KM, as the local currency, the convertible;
- KM is a stable currency;
- KM exchange rate is fixed and unchanging thanks to the application of the principles of the currency board as the only guide for monetary and exchange-rate of exchange policy;
- The inflation rate is low enough to be able to mark BiH as a country without inflation. (It is higher in

R. Srpska and just shows that the BiH economic space no uniform and non-integrated - does not work " law of one price" and trade arbitrage). External debt is unsustainably high. Balance of payments deficit is held with international aid and transfers from abroad. The unemployment rate is around 40%. The degree of capacity utilization is around 35%. Potentials of BiH economy are outlined as not used. To come into the zone on the wrong balance of manufacturing capabilities, BiH has been suggested (and other countries in transition) to rely solely on FDI. Domestic growth factors are forgotten. Industrial policy does not exist and should not exist. Development Funds does not exist and should not exist. Export / import banks there should not exist, etc.[5]

## **Institutions**

The Nobel Prize in economics, in his solemn lecture stressed particularly the importance of relationships between markets institutions (Coase). " The former communist countries are advised to move to a market economy, and their leaders have wanted to, but without the appropriate institutions, it is not possible to make a market of any meaning. It has very little sense for economists to discuss the process of exchange without specifying institutional environment within which the trade takes place, since it affects the stimulation of production and transaction costs. I think this has become crystal clear based on examples of what is happening in Eastern Europe today." [6] BiH is in the development stage before they nominate as aid-driven economy. Therefore, the lack of government intervention in the economy and the lack of appropriate market institutions is big mistake of transition which was applied so far.

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## Washington Consensus and Concept Development

From all the above it seems clear that the new concept of development required for BiH - the Washington consensus should leave. It only contributes to the stability of nominal indicators. In relation to the "real" economy, it can be considered of antidevelopment. Unfortunately there are a number of weaknesses in BiH, for the economic prosperity of the country:

- Political instability is still present;
- Fragmentation and lack of integration of BiH market;
- Deficiencies in the required market institutions;
- Inefficient state and bureaucracy;
- Corruption;
- Lack of development of economic institutions;
- The rule of law is insufficient for this stage of transition
- The country's dependence of international aid;
- The lack of economic development strategies (BiH relies on the free market and FDI, there is no industrial policy).

• A serious lack of capital as follows:- Human,- Financial,- SocialEconomic freedom has become the basis of the BiH economy. In addition, the rights of a market economy must be built so that the country's economic recovery can be realized. The main objective of the Strategy is to formulate a set of institutional changes and measures of economic and development policies that can contribute to the realization of the following:

- Development of market institutions, especially the introduction and strengthening of competitive forces in order to increase efficiency and productivity;
- creation of new legislative and legal framework that will allow existence of all forms of ownership on competitive basis, taking into account that having become a motivating factor for economic and business activities;
- Resuscitation (revitalization) economy. The war destroyed a decade of effort and economic performance, causing under-utilization of

capacity, relocation of resources, requiring the establishment of a vast restructuring of the economic and political foundations necessary for dynamic and sustainable economic development. In economic terms this means that market regulation by the state that is committed to the principles of accountability and transparency, keeping a coherent industrial policy, and establishing standards and regulations for the effective distribution of benefits of economic growth to all citizens; • Prevalence of current centrifugal tendencies and is gradually but decisively economic reintegration activities within a single economic space in BiH; • Integrating BiH economy into the global economy, • Creating an attractive economic climate for FDI. With foreign investors emphasized cautious, favorable economic conditions have to be real by the principles and the sooner the better, especially through the attainment and maintenance of high rates of economic growth Greatest economic resources of the country are its potential, however, after several years of economic gaps, widespread apathy must be changed in a positive expectation, if they want to make normal economic environment. To survive as a country, BiH must be built from the ashes and its economy must be more attractive than the economy of neighbors. Because of that, poverty is a threatening phenomenon in BiH. BiH about this problem previously did not know. Earth is in development stage, economically unviable. There is still a need for a strong international supervision of the transition process in BiH.[7] We need to add an important note concerning the impact of globalization on world economic trends. Globalization instrument is currently taking place in the absence of the global economic and development policies. Development of small countries



is faced with the total loss of economic sovereignty, and thus disarmed and all the instruments of economic and development policy. BiH's future is very dependent on a new and more realistic approach to the world of globalization.