

Modern Economic-Geographic Development of Bosnia and Herzegovina and Turkey

Bosna Hersek ve Türkiye'de modern ekonomik- coğrafi gelişimi

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Abstract: *The aim of this paper is modern economic-geographic development of Bosnia and Herzegovina and Turkey, in which processes of population concentration and economic activities are development. Geographic and economic basis of development, in the virtue of primary areal-functional development of connecting geo-areas of Bosnia and Herzegovina, has strongly emphasized centripetal and convergent characteristic in relation to its surroundings. It is potentiated also by the new rerouting of infrastructural corridors as pre-conditions of modern economic-geographical processes directed towards a higher level of geo-area, from a single and intra-territorial integration of areas of Bosnia and Herzegovina and Turkey.*

Keywords: *Economic-geographic development, infrastructure, Trade, Turkey, Bosnia and Herzegovina*

1. Introduction

Modern economic-geographic processes at the end of the twentieth century and the beginning of the twenty-first century have triggered great changes in economic and social life in Europe and wider, and understandably in the region of Bosnia and Herzegovina. Economy of all countries, especially the developed ones, is rapidly changing under the influence of numerous technological and ecological demands to improve operational outcomes and life standards of the population. This has been also contributed to political changes framed into the process of transition and privatization of then social/government assets. All changes have an intent to increase efficiency of the business and public sectors, as well as to improve life standard of population in countries founded on principles of democracy and management economy. Having that in mind, we may assume that the politics of direct foreign investments in Bosnia and Herzegovina will be greatly conditioned by political interests of various interest groups.

Market without borders, expanded by the number of participants and economic resources, attracts investors to countries with cheap labor force and raw resources. Business subjects must accept changes, introduce innovations and adapt work discipline and business culture to high standards and demands of the EU, which is also reflected in work and personal subjects and skills of employees. New needs for capable and enterprising managers demand entrepreneurial and courageous people, as well as continued innovation and redesign of the manufacture – service programmes that promise and bring solid income.(Lorber, L., 2010) What slows fast dynamics and development of business activities in countries in transition, including Bosnia and Herzegovina, is slow and often confusing legislative changes that do not follow the speed of changes in an economy. In Bosnia and Herzegovina, agreements and synchronization of economic –

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financial regulations are very slow and this directly affects the social sphere with series of unwanted implications. (Nurković, R., 2010)

At the same time, development economic processes, with an intensive structural changes and effects, are in a direct and indirect coupling with economic activities and its positioning in space, especially in the past twenty years in Bosnia and Herzegovina. As a carrier of transformational processes, cultural-historical heritage, population, industry, trade and infrastructure, regionally differentiate area of Bosnia and Herzegovina with Turkey. Familiarly, one of our priorities is to strongly connect root historical, cultural and extraordinary social relations between Turkey and Bosnia and Herzegovina through trade and economic collaboration and to lift it up to a much higher level than the existing one. Besides the direct investments, Turkey implements various projects with an aim to support investments that will create and impulse to manufacturing, and with that, increase the employment rate in Bosnia and Herzegovina.

2. Methods and Data Sources

The methodological approach is imperatively suited the purpose of work by modern economic development investment and Turkey in Bosnia and Herzegovina. Researches of economic development in Bosnia and Herzegovina are covered by the local and regional areas. In assessing the economic contribution of the development of new areas, quantitative methods are almost exclusively used ranging from deterministic to stochastic. Data for the production of the paper are based on the research of secondary publications of previous researches in this subject and previous research of economic geoFigurey by the author, statistical documentation of the Agency for Statistics of Bosnia and Herzegovina. The sample consisted of about 25 economic activities in Bosnia and Herzegovina. Rating of direct contribution of economic development on local and regional development is a good basis for the definition and application of the model. (Sarajčić, S, 2006)

Certainly, it is necessary to point out that we were, while writing this paper, warned by the experts on political and economic situation in Bosnia and Herzegovina of the problems that may arise due to non-compliance of statistical data of various state agencies. By analyzing available data, we have grouped the investor countries according to the criteria of similarity, which allows more vivid display and easier monitoring of any focus-group differences of investors towards certain national communities. Namely, on the basis of statistical data it can quite clearly be ascertained the orientation of certain international geopolitical entities towards exponents of their interests in Bosnia and Herzegovina. Therefore, the investor countries are put into three groups - the neighboring countries, EU member states and Turkey, Islamic countries and others. On the contrary, due to easier comparisons of height of invested capital, we considered more appropriate in the description and interpretation to use relative values. Similarly, we created a series of parallel Figureic drawings using different geographic printing methods. (Vukušić, J, 2007)

3. Economic Goods Trade Between Bosnia and Herzegovina and Turkey

Another person who is emphasizing social-historic characteristic of the natural potential is (P. Haget (1975), who believes that natural resources are a part of the basic fund that may be used in adequate technical, economic and social conditions. When making such a definition, resources depend on human performance in using them, and therefore we may rightfully expect that these reserves of resources will change along with the development of technics and socio-economic conditions. From this aspect, reserves are a part of resources that are available for exploitation at current levels considering the given socio-economic conditions. Through this, impact on natural environments on production is seen in three fundamental aspects: geographic – areal, economic and ecological. Natural environment understood I in this way, in economic-geographic and economic resources, is presented trough manufacturing and trade of goods (R.Nurković 2006).

In the past several years, it has come to significant changes in the regional development of foreign trade between Bosnia and Herzegovina and the Republic of Turkey. Bosnia and Herzegovina, in 2017, exported 221.04 million Euros worth of goods to Turkey, which is 4% more than in the past year. Import from Turkey in the observed 2017 amounted to 334.24 million Euros and it is greater by 6% comparing to the amount of import in the previous year. Foreign trade deficit in trade of goods with Turkey amounted to 115.24 million Euros, and it is greater by 17 % comparing to the previous year. Coverage of import with Turkey in 2017 amounted to 56.24%. Export to Turkey in 2017 participates in total export of Bosnia and Herzegovina with 3.90%, while import from the Republic of Turkey participates with 4.23% in the total import of Bosnia and Herzegovina. In 2017, comparing to the previous year, there has been an increase in export of industrial products (37%), and increase in import of industrial products (12%), and an increase in deficit in trade of industrial products in the amount of (7%). In 2017, there has been a decrease in export of agricultural products to Turkey in the amount of 3%, an increase of import of agricultural products from Turkey by 9%, and a drop of surplus in trade of agricultural products with Turkey in the amount of 6%.

Agricultural product that were exported the most to Turkey in 2017 were: sunflower oil, saffron or cotton, and other products valued at 34.13 million EUR. Sunflower oil and its fraction – raw oil in the amount of 33.41 million EUR; beef, raw or cooled – without bones in the amount of 22.14 million EUR; wheat flower in the amount of 22.32 million EUR. Industrial product that were exported the most in 2017 were: iron or steel scrap, scrap ingots made of iron or steel in the amount of 16.04 million EUR; car seats and their parts in the amount of 14.195 million EUR: bombs, grenades, torpedoes, mines, rockets, and similar military ammunition and their parts in the amount of 9.14 million EUR; craft paper and cardboard – unvarnished – in rolls or papers, except the ones from tariff numbers in the amount of 44.2 million EUR; and other salts of non-organic acids or peroxide acids (including aluminum silicates, chemically determined or undetermined) in the amount of 4.5 million EUR (Table 1, Figure 1).

Table 1. Goods trade between Bosnia and Herzegovina and the Republic of Turkey by types of products in million EUR, 2013 – 2017

Year	Branches	Import	%	Export	%
2013	Industry	61,25	68,3	222,42	87,9
	Agriculture	28,33	31,7	30,55	13,1
	Total	89,58	100	252,96	100
2014	Industry	59,68	49,7	267,43	89,5
	Agriculture	60,52	50,3	31,14	10,4
	Total	120,20	100	298,56	100
2015	Industry	63,45	34,8	301,07	91,6
	Agriculture	118,41	65,2	29,54	8,9
	Total	181,86	100	330,62	100
2016	Industry	53,60	26,0	321,94	96,8
	Agriculture	152,07	73,9	30,54	8,6
	Total	205,67	100	352,49	100
2017	Industry	73,63	33,3	359,94	91,5
	Agriculture	147,44	66,7	33,17	8,5
	Total	221,07	100	393,12	100

Source: Agency for statistics of Bosnia and Herzegovina, 2017

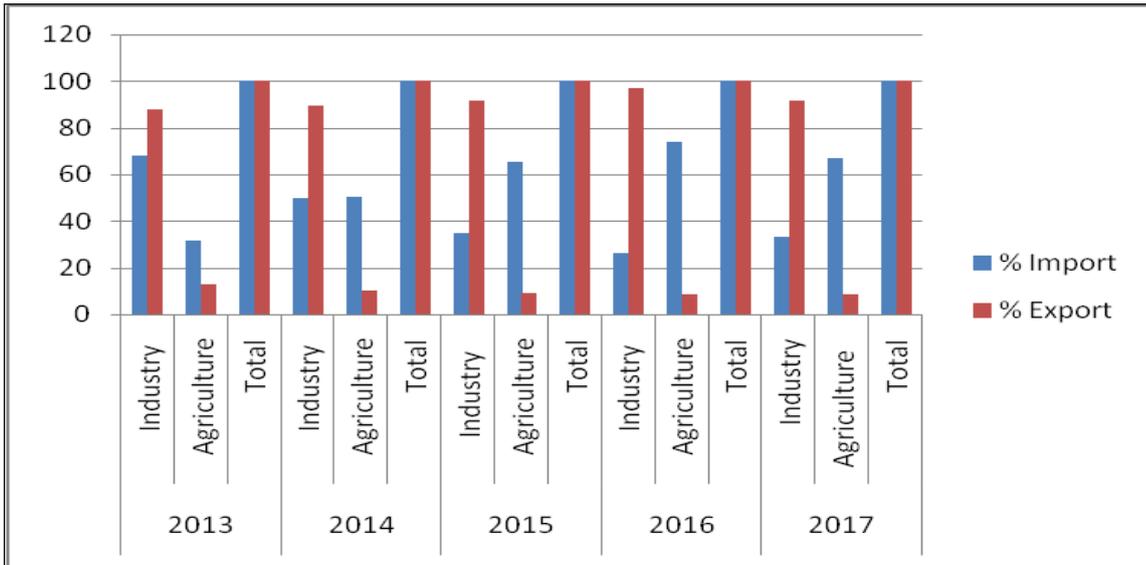


Figure 1: Goods trade between Bosnia and Herzegovina and the Republic of Turkey by types of products in million EUR, 2013 – 2017

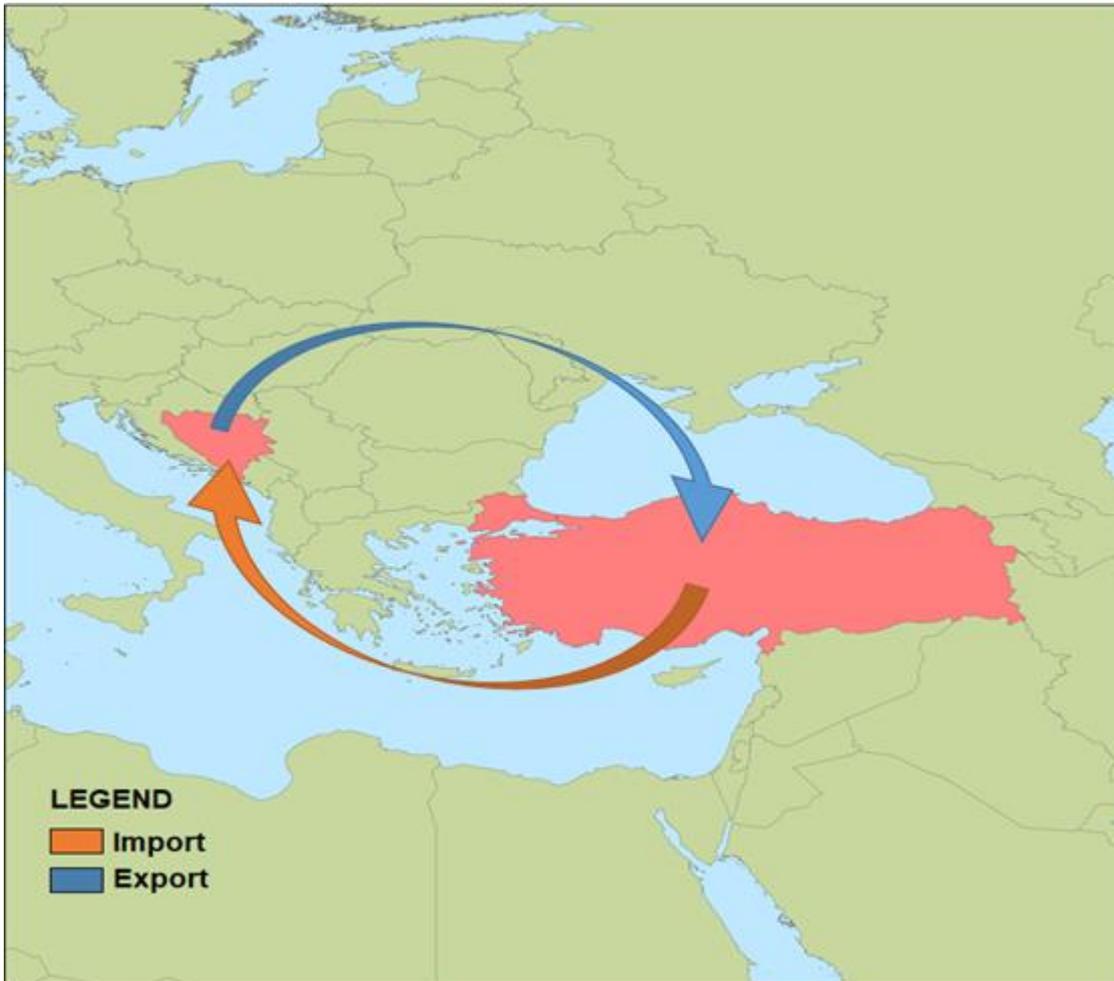


Figure 2: Goods trade between Bosnia and Herzegovina and the Republic of Turkey, 2018
 Source: Author R.,Nurković

4. Economic Goods Trade with Countries of European Union

On the other hand, foreign investors from countries members of the European Union to Bosnia and Herzegovina should be led exclusively by the profit principle, where they should be less focused on nationality of population of the region where they plan to invest. Named authors that discuss direct foreign investments into Bosnia and Herzegovina in their papers, agree that their level in that country is generally unsatisfactory. Even though, this is not a topic of this paper, it does not hurt to mention the fact that most authors states that the amount of direct foreign investments into Bosnia and Herzegovina is significantly behind other countries in transition. Deichmann especially emphasizes that the disproportion of actual and potential levels of direct foreign investments into Bosnia and Herzegovina is the greatest of all countries in transition (Nurković, R., 2012)

When observing Bosnia and Herzegovina as a potential member of the European Union, we must assume that it would be of interest of that association to have a steady economic development of the whole country due to a decrease of regional differences in the degree of economic development as a potential disintegrating factor, regardless of fact that Bosnia and Herzegovina is deeply divided in the national and entity sense. Still, when talking about the European Union, we should keep in mind the specific political interests of some of member countries, which complicates the possibility to create a unique European foreign politics. Through qualitative and quantitative analysis of available data about direct foreign investments into Bosnia and Herzegovina, the named thesis will be confirmed or refuted. In 2017, the total export of finished products from Bosnia and Herzegovina into the European Union amounted to 3,5 billion Euros, which is 1.6 billion more than it was in 2016, and this represent a growth of 8.2%. In the total export into the European Union, Germany has he greatest share (20.29%), then Croatia (16.31%), Italy (15.37%), Slovenia (12.37%), and Austria (11.43%). (Agency for Statistics of Bosnia and Herzegovina, Sarajevo, 2008-2017)

In 2017, the amount of import from the European Union was about 5.4 billion Euros. (Deichmann, 2012). The greatest participation in total import from the European Union has Germany (approximately 18.9%), then Italy (18.6%), and Croatia (16.5%). In 2017, the value of deficit with countries of the European Union amounted to approximately 1.5 billion Euros, were the deficit has been decreased by approximately 32.1 billion Euros or by 1% in comparison with 2016. The greatest participation in deficit of Bosnia and Herzegovina in trade with the European Union has Italy with approximately 12.4%, Croatia with approximately 8.2%, Germany with approximately 7.4%, and Poland with approximately 6.1%. Coverage import with export with countries of the European Union in 2017 amounted to approximately 32.1%. The named groups of products that Bosnia and Herzegovina exports to the European Union mostly had participation of 12.2% in the total export of Bosnia and Herzegovina to the European Union in 2017, and all of those are industrial product. In 2017, the greatest contribution to the growth of export of Bosnia and Herzegovina into the European Union had the products exported to: Croatia – electric power 132.41 million EUR, raw aluminum 42.31 million EUR; Austria – raw aluminum 30.8 million EUR; Netherlands – biodiesel and its mixture 25.43 million EUR. (Jurica Botić, J, 2013) The named groups of products that Bosnia and Herzegovina imports from the European Union had participation of approximately 20% in the total import of Bosnia and Herzegovina from the European Union in 2017 (Table 2, Figure 3).

Direct foreign investments into Bosnia and Herzegovina amounted to 5.9 million EUR in 2014, according to the data from the Central Bank of Bosnia and Herzegovina. The greatest amount of direct foreign investments in 2014 is invested into the manufacturing sector 36%, banking sector 20%, telecommunication 14%, and trade 11%. The remaining 19% was invested in real-estate, services and finances, tourism transport, and other activities. According to the official data of the Central Bank of Bosnia and Herzegovina, direct foreign investments in 2015 amounted to 161 million EUR. According to total

investments from 1994 to 2016, the country who invested the most is the Republic of Austria with 1,4 billion EUR.

Direct foreign investments into Bosnia and Herzegovina in 2016 amounted to approximately 274 million Euros, 148.0 million EUR in equity shares, 98.9 million EUR in retained earnings, while the rest of the capital amounted to 27.3 million EUR. Countries that invested the most into Bosnia and Herzegovina in 2016 are as follows: Croatia with 61 million EUR, Austria 38 million EUR and United Arab Emirates with 34 million EUR. The following countries have registered significant increase in capital (over 10 million EUR): Great Britain (27 million EUR), Netherlands (26), Luxemburg (23), Slovenia (22), Saudi Arabia (17), Turkey (15), Kuwait (14) and Italy (13 million EUR). (Agency for Statistics of Bosnia and Herzegovina, Sarajevo, 2008-2017)

Table 2. Comparative overview of goods trade of Bosnia and Herzegovina in million Euros 2013-2017

Year	Import	%	Export	%
2013	3.165	22,8	4.671	18,4
2014	3.213	23,1	4.894	19,3
2015	3.308	23,8	4.946	19,5
2016	3.454	24,9	5.131	20,2
2017	4.033	29,0	5.680	22,4
Total	13.865	100	25.322	100

Source: Agency for statistics of Bosnia and Herzegovina, 2017

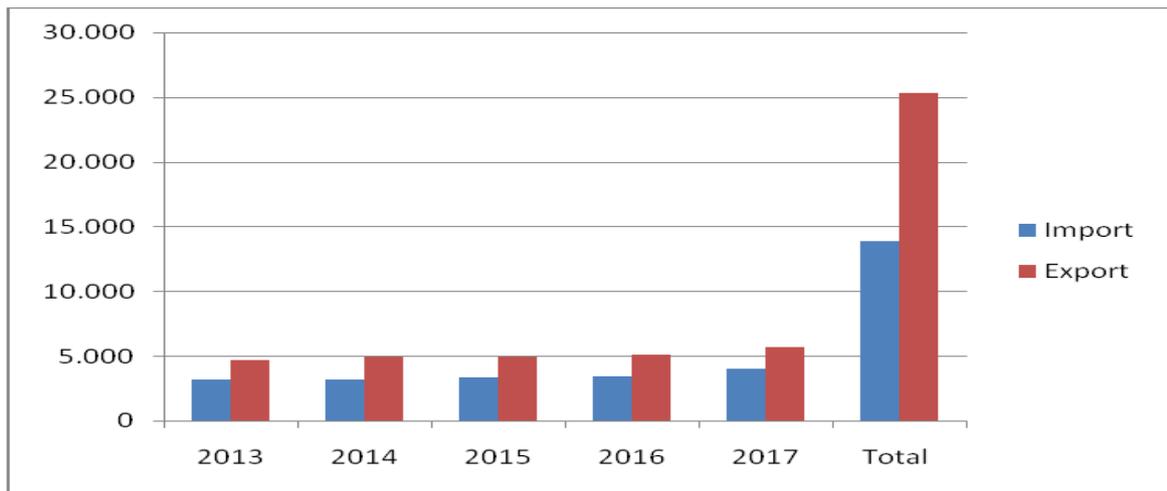


Figure 3: Comparative overview of goods trade of Bosnia and Herzegovina in Euros 2013-2017

In 2016, activities that registered the most foreign investments (over 10 million EUR) are: Wholesale, except for trade of motor vehicles and motorcycles 77 million EUR, Financial services, except for insurance and pension funds with 71 million EUR, Manufacturing of tobacco products 35 million EUR, Manufacturing of chemical and chemical products 25 million EUR, Telecommunications 17 million EUR, Manufacturing and supplying electric power, gas, steam and climatization 14 million EUR and Manufacturing of beverages 12 million EUR.

Through observation of direct foreign investment into Bosnia and Herzegovina by activity sectors, we may notice that approximately half of invested foreign capital is in manufacturing 47%, and remaining investments are in various forms of service activities (post office and telecommunications, twenty percent, financial sector, thirteen percent, trade, nine percent, and other services about eleven percent). From 1884 to 2010, immediate neighbors invested most in telecommunication system, about 55%. In the named period, investors from the European Union have invested 53% of their capital into the manufacturing sector, and within the remaining investments, financial sector 21% and trade are dominant. However, when we observe

individual investments made by countries members of the European Union, we may notice great differences in their investment politics, which may be most seen in the example of the greatest investors from the European Union – Austria and Slovenia. Namely, while Slovenia, according to the trend of the most European investors, invests approximately half of its invested capital into manufacturing, Austrians invest 59% of their invested capital into Bosnian and Herzegovinian financial sector. In the banking sector, we may also find brownfield and greenfield investments, where we emphasize the Austrian Volksbank in which this country has a great equity share.

(http://en.volksbank.com/investor_relations/group_information/ownership_structure /14. 01. 2013./).

Investors from Islamic countries have the similar ratio of invested capital by sectors to the one we found with European investors (51% manufacturing, 18% financial sector). However, special attention is drawn to the special category within the service sector, which its source is vaguely named ‘services’ in which 18% of invested capital is invested. In cases of investors from Islamic countries, this usually refers to different agencies for real estate, but also cultural institutions. However, even with these investors, there are great differences by economic activities in which they invest in. As the largest investor in this group of countries, Turkey directs 78% of invested capital into manufacturing. On the other side, Saudi Arabia invests 44% of capital into unspecified category of services and 36% into financial sector.

Namely, members of the European Union hold 73% of capital invested into the financial system of Bosnia and Herzegovina, and individually, most investments were made by Austria 58%. This confirms the image that Bosnia and Herzegovina is a favorable destination for foreign investments, and that we should be optimistic regarding inflow of foreign direct investments in the upcoming period. According to the preliminary data of the Central Bank of Bosnia and Herzegovina for 2017, direct foreign investments with estimated retained earnings were 387.6 million Euros. Source: Central Bank BiH 2010-2016. Flows DSU, 2010-2017. Balance of payments, Net financial liabilities (with estimated retained earnings);

Within the members of the European Union, Austria and Slovenia and especially emphasized regarding their investments, which we may observe as countries from broader neighborhood, and the significance of Slovenian capital may be explained also with recent historic connection. High level of investments from countries of the European Union undoubtedly confirms the strategy of future inclusion of Bosnia and Herzegovina into European integration processes, and this is why the economic presence of countries members of the EU, especially the closest ones, is absolutely understood. (Pejaković, G, 2011)

However, global recession that has left a visible mark on the height of European investments in the past years, has opened up a space for an increase of Turkish investments share in the total investment into Bosnia and Herzegovina, because Turkey is successfully resisting world crisis and it recording economic growth. Turkish investments in the total observed period amount to sixty percent of direct foreign investments from Islamic countries, which clearly shows that relatively small geographic proximity between Turkey and Bosnia and Herzegovina, historic relations between these countries, Turkish geo-political interests on the Balkan, and finally power of Turkish economy, give preference to Turkish investments over ones from other countries of the Islamic world. However, regardless of the fact that they are significantly smaller than Turkish investments, other investments from other Islamic countries are not neglected at all, especially having in mind that their presence in Bosnia and Herzegovina is a clear indicator of interest of the Islamic world for that country, and also for the whole South-East region of Europe. Considering everything stated thus far, we may conclude that Bosnia and Herzegovina is mostly located within the economic sphere of European countries, where the greatest roles in that were played by countries of the European Union and Turkey.

4. Conclusion

This paper is intended to present and evaluate the foundation of critical analysis of development in the economy of Bosnia and Herzegovina, past trends and conditions and studies of possible directions of change. The first part analyses development of economies in the period from 1990 to 2006, which is, due to its characteristic, evaluated as a crisis period for the Croatian economy. The other part dissects some of the possible directions after the crisis of Croatian Economy, and it pays special attention to the analysis of the need for turnaround of the economic politics and needs for clear definition of development strategies, as well as for possibilities and challenges that come from the documents of the EU and politics. Also, it predicts a possibility of events in the EU in the following decades.

The analysis of the macroeconomic movement in the economy of Bosnia and Herzegovina, in the period from 1990 to 2017, has showed that, despite positive shifts in the past two years regarding employment, Bosnian and Herzegovinian economy is found in the long term crisis that has actually started in 1980, that is, for more than quarter of a century. Such a conclusion is founded on collected data.

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ABBREVIATIONS

BH - Bosnia and Herzegovina

EU - European Union

FBiH - Federation of Bosnia and Herzegovina

FDI - Foreign Direct Investment

KM - Convertible mark

IMF - International Monetary Fund

RS - Republic of Serbian

UNCTAD - United Nations Conference on Trade and Development

WTO - World Trade Organisation