

Bosnia - An Economy in search of a State

By Sam Vaknin, Ph.D.

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Bosnia-Herzegovina (heretofore "Bosnia") is an artificial polity with four, tangentially interacting, economies. Serbs, Croats and their nominal allies, the Bosniaks each maintain their own economy. The bloated, fractured, turf conscious, inefficient, and often corrupt presence of the international community, in the form of the Office of the High Representative, among others, constitutes the fourth - and most dominant - parallel economy. The divergence of the economies of these components of Bosnia is so high that the inflation differential between them amounts to 13%. The Bosniak-Croat Federation experienced deflation in 1999 - while the Republika Srpska (RS) was in the throes of 14% inflation. The real effective exchange rate in RS appreciated by 13% and depreciated by 6% in the Federation between 1998-2000. Wages in the Federation are higher by 30% compared to the RS.

The International Crisis Group in its October 8, 2001 report about the Republika Srpska estimated that "the RS economy stands on the verge of collapse. Were it not for a continuing flow of direct international budget supports and soft loans, the RS government would be bankrupt." And the RS actually enjoyed a disproportionate part of the more than \$5 billion in aid that flooded Bosnia since 1996. The world Bank has disbursed c. \$690 million of the \$860 million it committed to Bosnia as a whole - twice its disbursements in Slovenia and Macedonia combined.

These jeremiahs may be overkill. Bosnia, its flourishing informal economy and all-pervasive smuggling notwithstanding, has come a long way since the Dayton accords. It has a functioning central bank with growing foreign exchange reserves and a stable and widely accepted currency-board backed currency, the marka. Its payment and banking systems are surprisingly modern. Its anti money laundering and anti corruption legislation is up to scratch and even enforced (especially in the Croat part of the Bosniak-Croat Federation). It is more advanced than all other successor republics to former Yugoslavia in pension, treasury system, and labour market reforms. Its inflation rate is moderate (c. 6% annually) - though reliable consolidated national figures are hard to come by. Bosnia gained tariff-free access to the EU and signed a free trade agreement with Croatia which calls for the abolition of all tariffs by 2004. Similar agreements have either been signed or are being negotiated with Macedonia, Slovenia, and Yugoslavia. WTO accession is slated for 2002. For all these goodnews, Bosnia has been rewarded with a steady trickle of foreign investors.

Still, Bosnia is quintessentially "Balkan" - stifled by red tape, capricious laws, rampant

corruption, venality, nepotism, and cronyism run amok. Its state enterprises are patronage machines and its banks coerced into political and unwise lending, propping up zombie enterprises. Credit to the private sector grows at less than nominal GDP which indicates a failure of financial intermediation by the banking system.

Trade among the ethnically cleansed parts of this country is minimal, privatization non-existent, corporate governance a distant dream, as are the rule of law and property rights. Bosnia's impressive average growth figures (5-8% in 2000, depending on the source) were skewed by the spurt of reconstruction (especially of the electricity and water supply infrastructure), which followed the devastation of its protracted and savage civil war. This phase over, and the victim of a severe drought, the economy is faltering now, stagnant at less than half the prewar output levels (though more than double the 1995 level, at the end of civil war).

Bosnia faces growing unemployment (officially at close to 40%) and social disintegration provoked by excruciating poverty. Poor tax collection, a minimal tax base, and the transition to a new payment and bank supervision systems - all led to diminishing tax and customs revenues (which created an addiction to the kindness of strangers in donor conferences). Bosnians flee their impromptu country and it suffers a massive brain drain.

Industrial actions are a daily matter - the latest staged by disgruntled teachers in in the canton of Central Bosnia. The government hasn't paid their salaries since August. Bosnia's trade (and budget) figures are notoriously irrelevant (defense spending is still off budget, for instance) but it trades mainly with Germany, Switzerland, and Croatia. It has gaping fiscal (6% of GDP, including arrears) and current account (22% of GDP excluding transfers!) deficits and heavy external debt (close to 80% of GDP) - though a lot of it is long term and concessionary. Had it not been for unilateral transfers of aid (c. \$1 billion a year), remittances from Bosnians abroad to their families, and the exploding drug trade (Bosnia is an important thoroughfare of illicit goods - including cigarettes and smuggled cars) - Bosnia would have been in dire straits.

It could have been different. Bosnia has rich agricultural endowments - soil and climate. Yet, its myriad tiny, family owned, farms are non-competitive and it is, thus, a net food importer. Its (mostly military, vehicular, heavy, and obsolete) industry is labour-intensive and ridden with obstructive hidden unemployment. It parasitically thrives on services (close to 60% of its economy) - mainly to expatriates and peacekeepers. And wages (especially in the Federation) are set at Hungarian levels, making both the public and private sectors woefully uncompetitive. Bosnia's economy teaches us two diametrically opposed lessons - that Man can put aside a brutal past and work on a better future and that such an effort is doomed if the result of external pressure to sustain a political fiction.

Sam Vaknin is the author of "Malignant Self Love - Narcissism Revisited" and "After the Rain - How the West Lost the East". He is a columnist in "Central Europe Review",

United Press International (UPI) and ebookweb.org and the editor of mental health and Central East Europe categories in The Open Directory, Suite101 and searcheurope.com. Until recently, he served as the Economic Advisor to the Government of Macedonia.

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