



AKADEMIJA NAUKA I UMJETNOSTI BOSNE I HERCEGOVINE
АКАДЕМИЈА НАУКА И УМЈЕТНОСТИ БОСНЕ И ХЕРЦЕГОВИНЕ
ACADEMY OF SCIENCES AND ARTS OF BOSNIA AND HERZEGOVINA

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OPPORTUNITY FOR THE BALKANS"**

Dubrovnik, 21-23 September, 2011

Proceedings

Editor

Boris Tihi

Editorial Board

**Boris Tihi, Muris Čičić,
Jasmina Osmanković**

SARAJEVO 2011



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Jasmina Osmanković

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ABOUT ORGANIZERS

University of Bologna

The University of Bologna was probably the first University in the western world. Its history is one of great thinkers in science and the humanities, making it an indispensable point of reference in the panorama of European culture. The institution that we today call the University began to take shape in Bologna at the end of the eleventh century, when masters of Grammar, Rhetoric and Logic began to devote themselves to the law. In the nineteenth century a committee of historians, led by Giosuè Carducci, attributed the birth of the University to the year 1088. The first recorded scholars were Pepone and Irnerio, the latter of whom was defined by the former as “*lucerna iuris*”. With the advice of four doctores thought to be their pupils, in 1158 Federico I promulgated the *Constitutio Habita*, in which the University was legally declared a place where research could develop independently from any other power. The University’s fame had spread throughout Europe and it was a destination for many illustrious guests. Famous scholars and students included Pico della Mirandola and Leon Battista Alberti, who devoted themselves to canonical law. Nicolò Copernico began his astronomical observations while studying pontifical law. Paracelso, Raimundo de Pegñafort, Albrecht Dürer, St. Carlo Borromeo, Torquato Tasso and Carlo Goldoni all spent time at the University. With the Industrial Revolution in the 18th Century, the University promoted scientific and technological development. In this period came the studies of Luigi Galvani who, along with Alessandro Volta, Benjamin Franklin and Henry Cavendish, was one of the founders of modern electrotechnical studies. The University maintained its central position on the scene of global culture until the period between the two wars, when other countries came to the forefront in teaching and research. Bologna has thus been called upon to forge relationships with institutions in the most advanced countries to modernise and expand its activity. Among the many challenges which it has met with success, Bologna committed itself to the European dimension which has now led to adoption of the new university system.

<http://www.eng.unibo.it/PortaleEn/University/Our+History/default.htm>

Croatian Academy of Sciences and Arts (HAZU)

In 1860, Josip Juraj Strossmayer, bishop of Đakovo and Srijem, took action to found a South Slavic Academy in Zagreb. Although the first act concerning the founding of the Academy in Zagreb was passed by the Croatian Parliament as soon as in 1861, its establishment was actually ratified only when its rules, which had been proposed by the Croatian Parliament in changed form as required by the Austrian authorities, were confirmed by the Emperor in his

letter of 4 March 1866. After that, the Parliament proposed the first sixteen members of the Academy. In this way, the Academy was finally constituted, both actually and legally. Bishop Strossmayer was elected patron of the Academy, and Franjo Rački, a distinguished Croatian historian, its first president. Under Strossmayer and Rački, the Academy became an eminent institution of learning, which collaborated with well-established European academies. Strossmayer called the Academy Yugoslav (meaning ‘Southern Slav’) because he wanted to promote the development of sciences and culture of all the South Slavic nations, including the Bulgarians. The Academy in Zagreb, however, has always been Croatian in its membership and its activities. Besides, soon after the foundation of the Zagreb Academy, the Serbian and Bulgarian Academies were established, so that the idea that the Academy in Zagreb was an institution which could bring together all the South Slavic nations became impracticable. All the publishing activities of Zagreb’s Academy have been primarily and permanently focused on the study of Croatian history, culture, language, and natural heritage. The Croatian Academy of Sciences and Arts has organized over one hundred scientific meetings and conferences, evaluating works of important Croats throughout history. In addition, it has organized a number of symposia focusing on the history and economic development of Croatian regions, cities and towns, as well as on the problems of Croatia’s development.

http://info.hazu.hr/foundation_of_academy

London School of Economics and Political Science (LSE)

The London School of Economics and Political Science (LSE) is one of the foremost social science universities in the world. LSE is a specialist university with an international intake and a global reach. Its research and teaching span the full breadth of the social sciences, from economics, politics and law to sociology, anthropology, accounting and finance. Founded in 1895 by Beatrice and Sidney Webb, the School has an outstanding reputation for academic excellence. LSE has 16 Nobel prize winners. In 2008 LSE’s outstanding success in the Research Assessment Exercise confirmed it as a world leading research university. The School had the highest percentage of world leading research of any university in the UK, topping or coming close to the top of a number of rankings of research excellence. LSE offers a very wide range of undergraduate and postgraduate courses in the social sciences. Teaching is carried out through academic departments and interdisciplinary institutes, and in partnership with internationally renowned higher education institutions. Set up to improve society and to “understand the causes of things”, LSE has always put engagement with the wider world at the heart of its mission. From its location in the heart of London, the School links communities across the world, from formal academic partnerships to advisory work with governments and international organisations.

<http://www2.lse.ac.uk/aboutLSE/aboutHome.aspx>

Academy of Sciences and Arts of Bosnia and Herzegovina

The Academy of Sciences and Arts of Bosnia and Herzegovina arose out of the Scientific Society, founded in 1951, by the decision of the Assembly of the Republic of Bosnia and Herzegovina, the highest state authority in the country, on the formation of the Scientific Society of Bosnia and Herzegovina. The Scientific Society continued to operate as the highest-level institution concerned with science until the Assembly of Bosnia and Herzegovina

passed a Law on the Academy of Sciences and Arts of Bosnia and Herzegovina in 1966. The Academy of Sciences and Arts of Bosnia and Herzegovina is charged, pursuant to this Law, with responsibility for the overall development of science and the arts, with organizing scientific research and arts-related events, with publishing papers written by its members and associates, and in general with the state of science and the arts and their development in Bosnia and Herzegovina. The Academy is a wholly independent body, governed solely by the principles and interests of science and the independent convictions of its members.

http://www.anubih.ba/index.php?option=com_content&view=article&id=46&Itemid=132&lang=en

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FOREWORD

The Conference is organized by the Academy of Sciences and Arts of Bosnia and Herzegovina (ANUBiH), Croatian Academy of Sciences and Arts, London School of Economics LSE London, University of Bologna, within the Academic programme 2010/2011 of the Inter University Center (IUC), Dubrovnik.

The main conference topic is „Regional Cooperation in Europe: Opportunity for the Balkans“. This topic sublimates and reflects European and regional principles and concepts related to the significance of regional cooperation in the EU accession process. The Conference is open to all the issues of regional science, regional development theory and policy, cooperation, cohesion, institutions, financing, integration, and education.

Significance of the topic for candidate or potential candidate countries derives, among other things, from the task to determine statistical or NUTS regions in line with relevant provisions on establishing the common classification of theoretical units for statistics, to (re)define regional development strategy and regional development management, to ensure utilization of IPA funds, participation in trans-border programmes, to participate in EU strategies for the Danube region, to redefine strategies of the existing and potential Euro-regions in this area, to implement the Provision on European Grouping and Territorial Cooperation (EGTC), to implement European Convention on Trans-Border Cooperation, European Charter on Local and Regional Self-Management, declaration on regionalisms, on proper local and regional governance, European Charter on Border and Trans-Border Regions, provisions on financing regional development and achieving regional development goals (convergences, competitiveness, employment and territorial cooperation), to coordinate these processes.

Number of papers submitted is of great importance for this conference. Papers were subjected to a blind refereeing/reviewing process. The members of the Committee did the reviews thoroughly and timely, despite the tight schedules.

Conference topics are: Regional Science epistemology and pedagogy, Territorial cohesion and regional development, Cross-border cooperation and development, Globalization and regional competitiveness WB, Problems and prospects of European integration, EU Regional policies, Land use, real estate and housing markets, Infrastructure, transports and communications, Rural and local development, Tourism and regional development, Labor markets and demography, Clusters – actors, processes and performance, New economic geography, New regional structure, Institutions for regional development, and Creative municipalities, cities and regions.

Proceedings contains the following papers: Stanovnik Peter – Pillars of Competitiveness in Balkan Countries, Horváth Gyula – Regional Inequalities of Higher Intellectual Capacities

in the Balkan Countries; Vrbošić Josip – Political Parties and Constitutional Changes in Bosnia and Herzegovina, Pejanović Mirko – Regionalization in Bosnia and Herzegovina, Pálné Kovács Ilona – Europeanised Governance and Cohesion Policy, Domazet Anto – Regionalization, Regional Marketing and Regional Companies in Western Balkan Countries, Trifković Miloš – The Vienna Convention on International Sale of Goods: a Tool for Unification of Regional Regulations for Trade in Goods in Europe?, Redžić Sulejman – Ecologization of Economy as a Tool of Sustainable Development, Mitigation Consequences of Climate Changes and Precondition for Integration Process toward European Union, Domljan Vjekoslav – Neretva Valley Development Corridor: Model of Creating Export Forces on Regional Basis, Osmanković Jasmina, Đonlagić Dženan, Hošo Jasmin – The Impact of Different Currency Areas on Regional Trade, Hurtić Zlatko – Problems and Prospects of the EU Integration of Bosnia and Herzegovina: Major Macroeconomic Challenges for the Accession Process, Aralica Zoran – Researching National Innovation Infrastructure in the Western Balkan Region, Mezei Cecília – Local Economic Development Activity in Hungary, Vlahinić-Dizdarević Nela, Žiković Saša – Institutional Capacity and Regional Electricity Market in Southeast Europe, Páger Balázs – The Role of the Environmental Industry in the Development of the Regions: The Case of the German Region Saxony-Anhalt, Osmanković Jasmina, Kenjić Vanja, Zrnić Renato – Cooperation for European Integrations: Educational Institutions of Western Balkans, Jasmin Hošo, Jasmina Osmanković, Dženan Đonlagić – Transnational Companies and West Balkans, Athanasopoulou Eleni, Dragoumanos Pavlos, Giannakopoulos Nikolaos – The City Dipole as a Regional Development Tool: The Case of the Dipole Tripoli-Kalamata in Greece, Knežević Marija – Agrotourism as a Generator of Region Development, Fetahagić Maida – Position of Bosnia and Herzegovina in the Balkans in the Context of Human Development, Lacković Igor, Milojica Vedran, Zrnić Renato – Health Tourism of the Republic of Croatia and Bosnia and Herzegovina: Current State and Perspectives of Inclusion in the European Tourism Flows, Drpić Danijel, Kenjić Vanja, Milojica Vedran – Adaptation of Rural Tourism Offer of the Republic of Croatia and Bosnia and Herzegovina to the European Union Trends, Osmanković Jasmina, Resić Emina, Hošo Jasmin – Economic Development Model of the Western Balkans, Jašarspahić – Suri Mensur – Rural Development Digression on Area of Kakanj, etc.

Keynote speakers for the Conference „Regional Cooperation in Europe: Opportunity for the Balkans“ are: Academician Boris Tihi, Academy of Sciences and Arts of Bosnia and Herzegovina (ANUBiH), Sarajevo; Academician Zvonimir Baletić, Croatian Academy of Sciences and Arts (HAZU), Zagreb; Stefano Bianchini, University of Bologna, Bologna; Vesna Bojičić-Dželilović, The London School of Economics and Political Science (LSE), London; Ivan Jakovčić, Istria County Prefect, Istria, and Corresponding member of ANUBiH Muris Čičić, Academy of Sciences and Arts of Bosnia and Herzegovina (ANUBiH), Sarajevo.

We would like to thank the authors, the members of the Committees for their efforts toward making this Conference a success.

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PILLARS OF COMPETITIVENESS IN BALKAN COUNTRIES

*Stanovnik Peter**

The paper aims at analysing the competitiveness (dis)advantages of the 8 selected Balkan countries: Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania, Serbia, Slovenia.

In the case of basic requirements (functioning of institutions, developed infrastructure, macroeconomic performance, healthcare and primary education) the lags in all examined countries are not considerable (from 15 to 31 percent). Relatively worse competitive position has been assessed for efficiency enhancers pillars: higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness and market size (lags from 21 percent in Slovenia to 32 in Bosnia and Herzegovina). International benchmarking shows important impact of human resources on competitiveness of any analysed economy. The worst competitive position was found for innovation and sophistication pillars (capacity for innovation, company spending on R&D, value chain breadth, production process sophistication, university-industry collaboration) where the lags in some countries are approaching to 50% of the most competitive economies.

Keywords: Balkan countries, international pillars of competitiveness, economic development

Introduction

Economic and social crisis during 2008-2010 has caused deep changes in the global economy as well as in the Balkan region. In order to prepare and select appropriate exit strategies and to introduce structural reforms every nation has to examine and assess its competitive position in comparison with the most advanced countries. The paper aims at pointing competitiveness (dis)advantages of the 8 analysed Balkan countries: Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania, Serbia and Slovenia.

Competitiveness is a broad concept, which can be observed from different perspectives: through products, companies, branches of the economy or national economies, the short-run or the long-run. The most complex of these is the concept of the competitiveness of the national economy. Porter claims that national productivity is the only meaningful concept of competitiveness at the state level. States and companies should be viewed equally, as international trade is not a zero sum game and because countries cannot be competitive in all branches of economic activity (Porter, 1990).

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The competitive society, in sociological terms, is the society which can achieve a dynamic balance between wealth creation and social cohesion.

The international competitiveness of the economy is viewed in a broader way as the capability of achieving economic growth in the long run, and achieving an economic structure which easily adapts to changes in demand on world markets. The long-term capability of international economic competition is determined by many internal and external factors: human and natural resources, infrastructure, management, capital, government intervention and the technological capability of companies. The efficient allocation of these resources results in different levels of productivity, the scope and structure of the international trade in products/services, and the capability to generate, adapt and diffuse innovation. So the economy's capability to innovate at the beginning of the 21st century is characterised by:

- the increased level of innovation, the wider use of new generic technologies, such as information technology, biotechnology and advanced materials;
- shorter product life cycles and a faster reaction to the needs of consumers;
- the increased levels of flexible automatization and robotization with the use of computer supported product systems;
- the increased role of management, and a highly qualified and capable workforce;
- the changes in the use of new resources and materials;
- the changes in the organization of industrial production, networked open innovation systems, increased R&D internationalization and so on (OECD, 1999; Tschirky, 2011).

Countries with different infrastructures and economic policy measures are indirectly competing to attract the investments of multinational companies or the most interesting, prosperous industries. For the Balkan countries the internationalization at all levels is essential for long-term economic growth.

Most economists attribute an important role to the concept of a country's competitiveness, although there is no widely accepted definition or an agreement on the empirical measurement of competitiveness. Most definitions fuse the aspects of external balance and the domestic situation, and define competitiveness as the capability to produce internationally competitive goods and services, and the capability to ensure a satisfactory and growing standard of living (Krugman, 1994).

The methodology of measuring international competitiveness must, above all, consider four groups of factors, which influence the economic efficiency of a country and its companies (Garelli, 2006).

The attraction of each country's domestic market in comparison to the penetration of its companies into foreign markets

Some countries prosper with the constant and intensive presence of their goods, or foreign direct investments (FDI) on other markets. Typical examples of such countries are Germany, South Korea and Japan. On the other hand, there is the prosperity of countries which create an attractive environment for foreign investors and domestic companies, such as Taiwan and Great Britain.

The importance of the domestic market in comparison to globalization (proximity vs. globality)

This group considers differences in the way some countries pursue their internally oriented economic policy, where the producers of goods and services are close to the final consumer as in the case of government services, craft services or suppliers of social services on the domestic market; or the externally oriented economy, where the management function is carried out in terms of the international division of labour and world added-value is of prime importance (typical examples are to be found in the fields of telecommunications, computers and the car industry).

Real asset wealth in comparison to processes (assets vs. processes)

This group of factors deals with economic forces between countries whose production primarily rely on domestic raw materials (for example Russia and Brazil), and those which give more importance to the transformation processes to create high added-value, for example, the Scandinavian countries, Singapore, Switzerland and USA. These comparisons consider the differences brought about by leaning towards domestic resources and those from dynamic comparative advantages and international specialization (Krugman, 1998).

Individual company risks in comparison to social cohesion (risk taking vs. social responsibility)

The last group of economic forces tries to evaluate the extent of engendering competitiveness, through which a country, in the main, stimulates individual company risk-taking through deregulation and privatization (the Anglo-Saxon model) in comparison to a model of social cohesion (the model of Scandinavia), where the social partners (the state, the private sector, and the trade unions) harmoniously solve the essential problems.

The paper is organised in the following way. Second chapter explains the methodological approach in measuring international competitiveness by using the components and indicators of the Global competitiveness index prepared by World Economic Forum in the latest report (WEF 2010/2011). Third chapter analyses the competitive position of the examined Balkan countries by main pillars and corresponding indicators. Fourth chapter, based on survey results deals with the most problematic factors for doing business in the region. The last chapter draws some conclusions from the analysis and tries to offer some recommendations for main policy makers and stakeholders: governments, owners and managers of the enterprises, trade unions and civil society organisations.

Methodological approach to the measurement of competitiveness

Xavier Sala-I-Martin and Blanke (WEF 2010/2011) assume two criteria to allocate countries into different stages of development. The first is the level of GDP per capita at market exchange rates, the second measures the extent to which countries are factor driven. This is measured by the share of exports of mineral goods in total exports, assuming that countries that export more than 70 percent of mineral goods are to a large extent factor driven. According to these criteria the countries are classified into 3 different development stages

Table 1: Income thresholds for establishing three stages of development

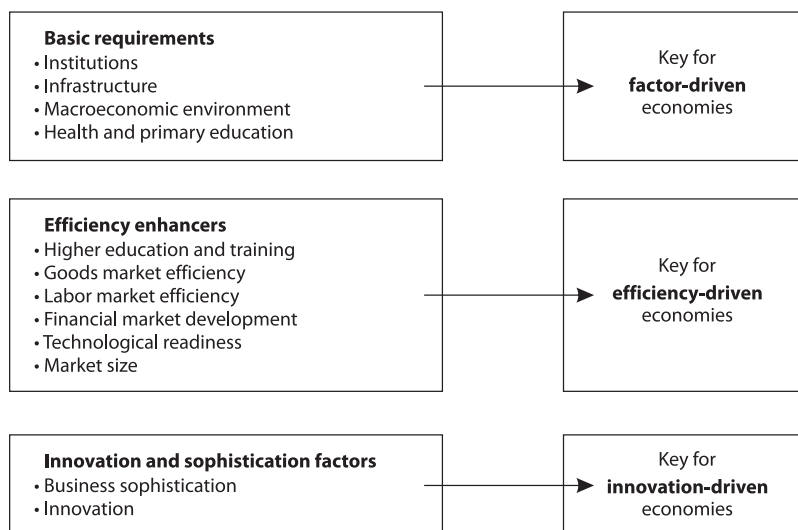
Stage of development	GDP per capita (in US\$)
Stage 1: Factor driven	<2000
Transition from stage 1 to stage 2	2000-3000
Stage 2: Efficiency driven	3000-9000
Transition from stage 2 to stage 3	9000-17000
Stage 3: Innovation driven	<17000

Source: WEF 2010-2011, 10. p.

Any countries falling in between two of the three stages are considered to be in transition. For these countries, the weights change smoothly as the country develops, reflecting the transition from one stage to another. This allows us to place increasingly more weight on those areas that are becoming more important for the country's competitiveness. The majority of the Balkan countries (with the exception of Croatia and Slovenia) are classified into development stage 2 based on efficiency driven components.

Global competitiveness index includes a weighted average of many different components, each measuring a different aspect of competitiveness. These components are grouped into 12 pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education (keys for support of factor driven economies), higher education and training, goods and labour market efficiency, financial market efficiency, technological readiness, market size (keys for efficiency driven economies) and business sophistication and innovation (keys for innovation driven economies). These components are collected by the combination of the latest official statistical data and by Executive opinion surveys conducted every year (in 2010 the survey was conducted in 139 countries, WEF, 2010/2011).

Figure 1: 12 pillars of competitiveness



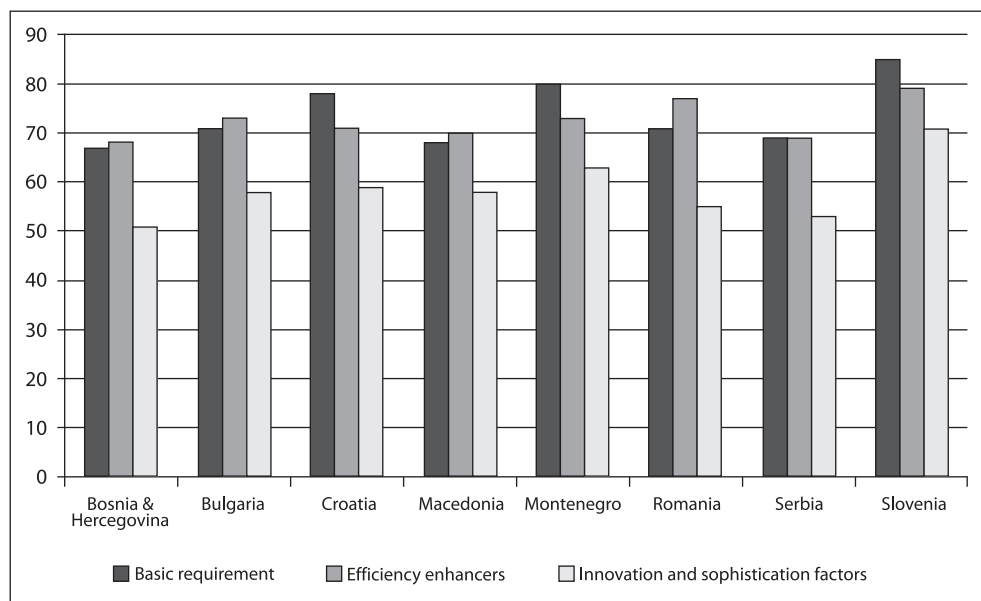
Source: WEF 2010/2011, 9. p.

Competitiveness of examined Balkan countries by main factors

The results derived from global competitiveness index and from 3 subindexes (basic requirements, efficiency enhancers, innovation and sophistication) should be considered as relative measures of competitiveness. The (sub) indexes reflect the measurement of hard statistical data on one side, and of individual perceptions of interviewees in the survey, on the other side. Nevertheless, the methodology is common for all included countries and represents quite good robustness of methodological approach.

Figure 2 shows the laggings of analysed countries behind the most competitive economies. In the case of basic requirements subindex (functioning of institutions, developed infrastructure, macroeconomic performance, healthcare and primary education) the lags in all examined countries are not very substantial (from 15 to 31 percent). Relatively worse competitive position has been assessed for efficiency enhancers pillars: higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness and market size (lags from 20 percent in Slovenia to 32 in Bosnia and Herzegovina). The worst competitive position was found for innovation and sophistication pillars where the lags are approaching even to 49% in some countries.

Figure 2: Lags of selected Balkan countries by 3 main subindexes of competitiveness (in % of most competitive economy)



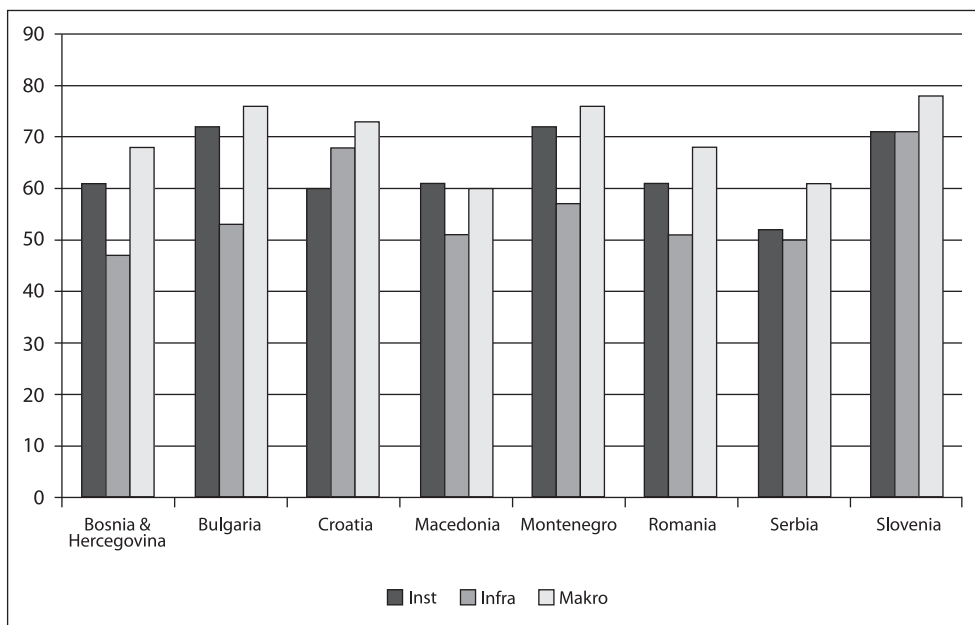
Source: WEF 2010/2011.

Due to the fact that primary education and health care systems in all Balkan countries do not pose any serious threat to the basic requirements we took into detailed consideration the functioning of institutions, assessment of overall infrastructure and macroeconomic performance in the observed period 2009-2010. Surprisingly, the smallest lags were found for the macroeconomic performance and the greatest in the indicators describing the development level of road, port, railway and air transport infrastructure. It is obvious that the functioning

of institutions (judicial system, public administration, corporate governance, political system, intellectual property rights) represent in all analysed countries considerable lags behind the most developed economies. The lessons from best practice countries (Singapore, Japan, Hongkong) show that changes of institutional systems are time and cost consuming operations and cannot be solved in a short period.

The majority of Balkan countries is by WEF methodology classified into second development stage called »efficiency driven«. For the purpose of our analysis we took into consideration the most important pillars in this stage: the quality of higher education and training, labour market efficiency and financial market development. The corresponding competitiveness subindex, on the other hand, does not neglect the impact of goods market efficiency, technological readiness and the size of domestic market. The small size of domestic market represents certain handicap for Macedonia, Montenegro and Slovenia.

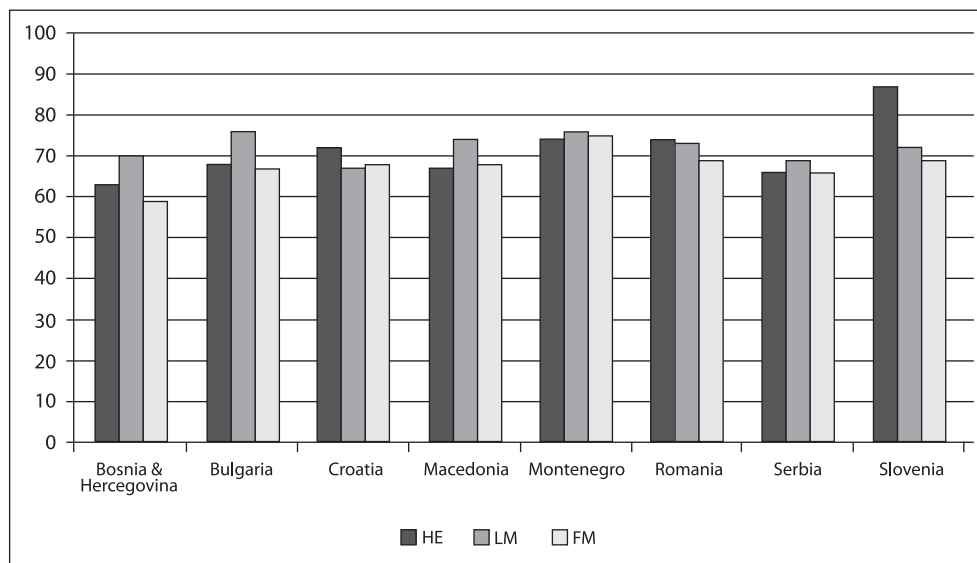
Figure 3: Competitiveness in basic requirements (in % of the most competitive economy)



Source: WEF 2010/2011; Legend: Inst – Institutions; Infra – Infrastructure; Makro – Macroeconomic performance

Figure 4 analyzing efficiency enhancers shows very small differentiation of competitiveness lags among the analysed countries. The average lag moves around 30 percent behind the first ranked countries: Finland regarding the quality of higher education and Singapore regarding labour and financial market efficiency.

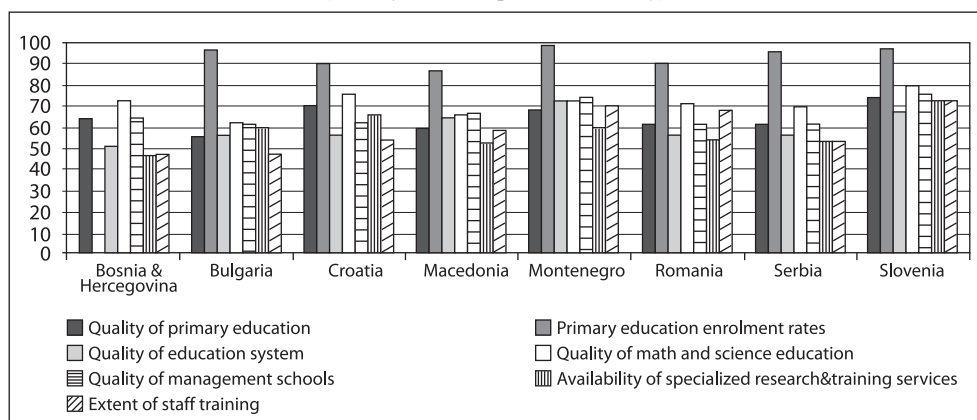
Figure 4: Competitiveness in efficiency enhancers (in % of the most competitive economy)



Source: WEF 2010/2011; Legend: HE – Higher education; LM – Labour marker efficiency; FM – Financial market development

The human resources indicators are shown in figure 5. It is quite clear that the quality of primary education and primary education enrolment rates meet more or less the international criteria. Even the quality of mathematics and science education is comparable to the most competitive nations. Much less competitive are Balkan nations when taking into consideration the quality of staff training in the enterprises, the quality of management schools and the availability of specialized research and training services.

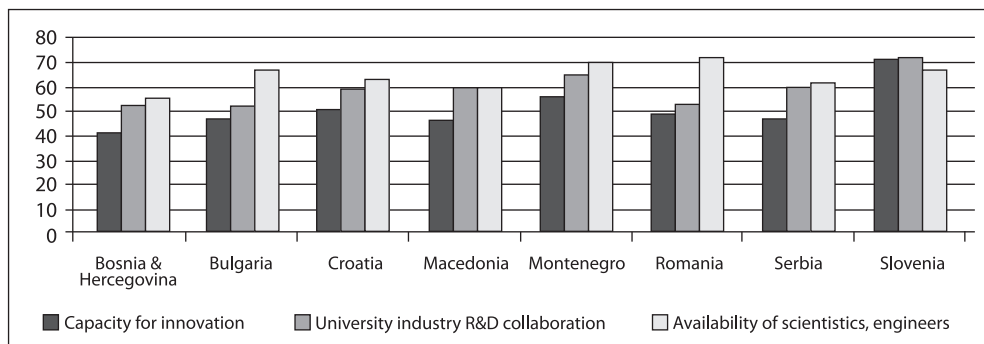
Figure 5: Competitiveness indicators for human resources in Balkan countries (in % of most competitive economy)



Source: UNESCO; WEF 2010/2011.

Within the innovation and business sophistication pillar there are several important indicators: capacity for innovation, quality of scientific research institutions, companies spending on R&D, university-industry collaboration in R&D, government procurement of advanced technology products, availability of scientists and engineers, quality and quantity of local suppliers, state of cluster development, value chain breadth, production process sophistication etc. In this analysis we took into account 3 indicators characterizing the innovation capabilities of the countries: capacity for innovation indicating how companies obtain technologies, assessment of the quality of scientific research organisations and to what extent do business and universities collaborate in R&D activities. Despite brain drain it can be admitted relatively sufficient availability of scientists and engineers in the region. The competitiveness induced by capacity for innovation and by the level of university – industry R&D collaboration is much lower (figure 6) and poses severe threats to future economic development.

Figure 6: Innovation indicators in selected Balkan countries (in % of most competitive economy)



Source: WEF 2010/2011.

The most problematic factors for doing business in the region

WEF has in the process of conducting competitiveness surveys in all examined Balkan countries collaborated with the partner institutes. The Institute for Economic Research focused on benchmarking evaluation of the most problematic factors for doing business: inefficient bureaucracy, access to financing, corruption, tax rates, tax regulations, inadequate supply of infrastructure, government instability, policy instability, criminality, restrictive labour regulations, poor work ethics, inadequately educated workforce, foreign currency regulations, inflation and poor public health.

From a list of these 15 factors the respondents (chief executive officers in the companies) were asked to select the five most problematic indicators for doing business in their country and to rank them from 1 (most problematic) to 5 (least problematic). The responses were weighted according to their ranking. The first two most problematic factors for doing business in 7 out of 8 Balkan countries were »access to financing« and »inefficient government bureaucracy«. Similar findings were confirmed also in other international comparative studies (World Bank, 2010, IMD WCY 2010). During the recession years the commercial banks were either not capable or reluctant to give loans to the business enterprise sector. Corruption, including irregular payments and bribes, is the third most problematic factor for doing business in the Balkan region. Tax rates and tax regulations obviously hindered business activities so that managers put these two indicators on 4th and 5th place. Inadequate infrastructure

(roads, ports, railways, air transport facilities, scientific laboratories etc.) is declared as the next hindering factor for doing business. Following this are policy instability and unpredictability including trade, fiscal and R&D policies. Restrictive labour regulations implying the practices of hiring and firing of labour contributed to the rigidity of the labour market in the analysed countries. Inadequately educated work force at the same time reflects the lower quality of educational systems in the region. Poor work ethics represents another problematic indicator in the relationship between the employers and employees. Last but not least important indicator is »organised crime and theft«.

This factor (practically negligible in the former socialist system) became during the crisis one of the most troublesome factors for doing business. Several listed factors (foreign currency regulations, inflation and poor public health) by the managers' opinions did not represent any serious problems during the observed period 2009 - 2010.

Conclusions

According to WEF competitiveness methodological approach 6 Balkan countries are classified into the second, efficiency driven stage of development, Croatia in the transition from stage 2 to stage 3 and Slovenia into innovation driven development stage. The analysis of main competitiveness indicators showed that the lags of Balkan countries behind the most competitive economies in basic requirements pillars are not considerable (15-32 percent). The lag is more problematic in efficiency enhancers (higher education, labour and financial market efficiency, technological readiness, goods market efficiency) where 20-32 percent straggles were found out. The main lags (between 30 and 50 percent) were identified in innovation and sophistication factors. These indicators are crucial for the advanced innovation driven development stage. At this stage companies must, on one side, compete by producing new and differentiated goods using the most sophisticated production processes and, on the other side, governments and regional authorities have to implement very demanding and comprehensive policy mixes.

The survey results regarding the most problematic factors for doing business in 2010 were quite similar for all examined countries. »Access to financing« and »inefficient government bureaucracy« are the main hindering factors followed by corruption, high tax rates and complicated tax regulations, inadequate infrastructure, policy instability, restrictive labour regulations etc.

The above results convey very strong messages to the governments, regional authorities and management boards in the private business sector in all Balkan countries. As regards basic requirement pillar it is necessary to improve the functioning of institutions (the rule of law) and increase the investments into road, air transport and railways infrastructure. It is obvious that the improvement of financial, labour and goods markets takes time and demands very strong synergy and commitment of key players: governments, owners, managers in the business enterprise sector and trade unions. It seems that the most difficult forthcoming task is to enhance the capacities for innovation: improve the quality of scientific research organisations, the quality of higher education system and training, strengthen university-industry R&D collaboration and pursue transparent government procurement of advanced technology products and services. This requires horizontal co-ordination across various ministries and policy areas (not only education, science, technology and innovation, but also macroeconomic, trade, fiscal, competition, development and employment policies). The main question

is how to improve the co-ordination through national initiatives, given that the internationalisation process increases the influence of both global and local factors.

Some of the above listed factors that impede business in these countries can be relatively quickly improved, others are much more resistant. For example, inefficient government administration and corruption, not to mention organized crime, are issues that will hinder for economic development for years because they are extremely difficult to cure. On the other side, political and legal environment and attitude toward business enterprise sector could be changed in a short time. However, all the mentioned issues are strongly interdependent and cannot be tackled separately or individually. It makes government decisions and intervention significantly more complex than in other European regions.

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REGIONAL INEQUALITIES OF HIGHER INTELLECTUAL CAPACITIES IN THE BALKAN COUNTRIES

*Horváth Gyula**

The change of régime at the beginning of the 1990s produced a significant restructuring of the scientific potential of the Balkan countries. One characteristic common to all was a considerable reduction in scientific capacity. Two fields of research capacity shrank dramatically, one of these being the sectoral research institute network. The majority of research institutes funded by national bodies (such as ministries) were closed and the number of employees in academic research institutes declined equally dramatically.

The reorganisation of the higher education system was the starting-point of a range of positive changes. In the new countries the number of undergraduates doubled or tripled, new colleges and universities were established and R&D was given an important role.

Due to the specific spatial development of countries in the Balkans, the location of intellectual activities shows significant disparities. As a characteristic feature of late development, these countries are lagging behind Western and Central Europe in terms of university education and research and development (R&D) activities.

The spatial structure of higher education at the beginning of the 21st century

The Balkan countries' system of higher education underwent a significant quantitative development simultaneously with the building of the market economy. Student numbers increased and university structures were transformed, leading to a growing number of faculties. New disciplines also appeared in higher education institutions. Nevertheless, despite a significant quantitative development, the region still lags behind the Eastern European average, and the quality and competitiveness of higher education are far from adequate. The low enrolment ratio, the large spatial concentration, the non-uniform system of higher education, the unfavourable disciplinary structure, the weak infrastructure and the lack of financial resources are among the most crucial problems in the higher education system of the Balkans (*Table 1*). The evolution of student numbers in the Balkan states was much more modest than in East European countries. Even though the Albanian system of higher education experienced the

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largest growth (200 percent), this country has the lowest proportion of students enrolled in higher education among the college-age population. The education structure of universities and colleges shows large disparities, and the number of students involved in education in the technical and natural sciences is low. Serbia is the one exception, the role of technical education being almost equal to the EU average.

Table 1: Some important indices of higher education in Balkan countries, 2007

Country	Student numbers, '000s			Distribution of student numbers between the main disciplines (%)				Weight of the capital, (%)	Students as % of college-age population
	1999	2007	Change, (%)	Arts	Social sciences	Natural sciences	Technical sciences		
Albania	38.5	80.7	209	5	29	2	4	65.8	19
Bosnia-Herzegovina	...	68.3	...	16	37	4	10	48.8	34
Croatia	95.9	140.0	146	8	38	7	12	52.7	47
Montenegro	...	...	...	...	...	...	...	100.0	...
Macedonia	...	...	...	11	32	7	11	67.0	36
Serbia	194.2	238.7	123	10	39	8	21	51.5	48

Source: Author's own estimations based on UNESCO Institute for Statistics. www.unesco.org/en/efa/resources/data/statistics [2010. 05.12.] and national statistical data sources.

The spatial structure of higher education is characterised by the dominance of the capital cities. More than 50 percent of students are concentrated in the largest cities - two-thirds in Albania and Macedonia. In Montenegro, a country with a small population, only the capital has a higher education institution (although the University of Podgorica established faculties in several cities). Such a great concentration in the development of human resources is seldom found in European countries. The concentration of higher education is twice or three times as high as the proportion of the national population living in the capital. (Zagreb is home to 17.4 percent of the population of Croatia, Belgrade to 21.5 percent of the population of Serbia, whilst 18.0 percent of Albania's population live in Tirana.)

The largest university centre of the Western Balkans is Belgrade, which established its strong role in higher education during the Yugoslavian era. The University of Belgrade, made up of 31 faculties, had 90,000 students and 7,000 lecturers in 2007. Several dozen public and private colleges have over 33 000 students. Zagreb is the second largest centre of higher education in the area with 77,000 students. The second largest group includes Tirana (54,000), Sarajevo (50,000), Skopje (40,000), Novi Sad (35,000), Priština (31,000) and Niš (27,000). The 10–15 faculties of the large universities in these cities offer a wide range of education programmes. There are nine higher education institutions with 10–20,000 students (Kragujevac in Serbia, Rijeka, Split, Osijek in Croatia, Tuzla, Banja Luka, Mostar in Bosnia-Herzegovina, Podgorica in Montenegro and Bitola in Macedonia) (*Figure 1*).

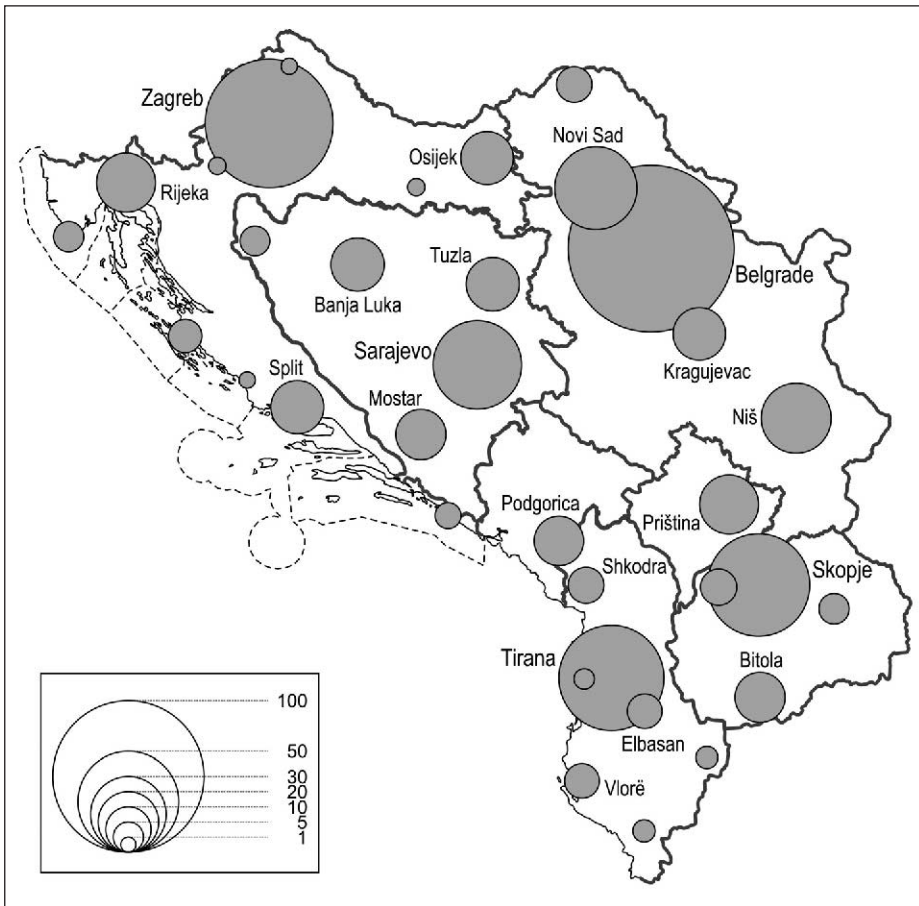
R&D under changing conditions

The dissolution of Yugoslavia, the collapse of the system of self-management and the transition to a market economy transformed the research and technological map of the Western Balkans. The weakening industrial and production linkages between former parts of the

country had a negative effect on research and development capacity. The Yugoslav system of innovation showed a higher level of development than in the East European communist countries, and the developed Yugoslav industry, accustomed to applying modern Western technologies, operated a large number of research units also. In Yugoslav member republics with developed industries, 2–3 percent of the GDP was allocated for R&D purposes. The institutional system of Yugoslav science was decentralised: the scientific academies of member republics established their own institutional networks, and sectoral research institutions were subordinated to the control of the republic. The federal government was responsible for the harmonisation of research and development.

Following the dissolution of Yugoslavia, the former bases of the system of research and development also collapsed. In contrast with higher education, the R&D sector lost most of its positions in the Balkan countries after the change of régime, a large number of institutions were dissolved, the number of researchers declined severely, and several thousand researchers left the newly formed countries to migrate to Western Europe and the United States.

Figure 1: Spatial location of the higher education institutions of Western Balkan countries student numbers ('000s)



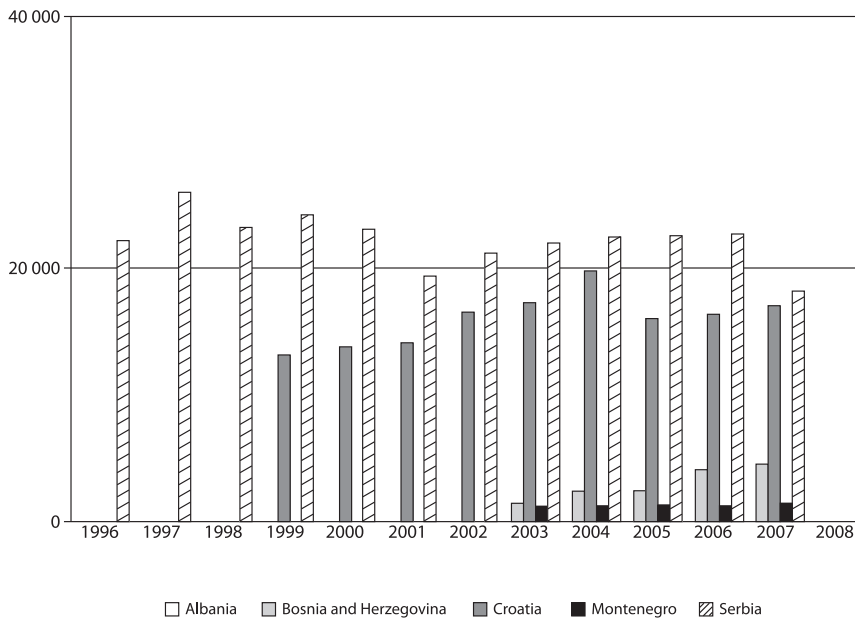
Source: Author's own work based on national statistical archives.

Large-scale industry and the innovation network with its developed Western European linkages collapsed and the financial resources of R&D were disrupted due to the emerging economic and political crisis. In the more developed republics (Serbia and Croatia), the decline was between 15–30 percent (Meske, 2004). Serbia’s network of research institutions diminished considerably. There were 375 research institutes in Serbia in 1980, but their number had fallen to 163 by 2005. The number of business research and development organisations fell by one-third. The number of researchers, 35,000 at the end of the 1980s, after continuous decline reached its lowest point in 2001 with a total of 19,000 employed in the whole country (Kutalača, 2006). Afterwards followed a phase of slow growth, but this merely preceded a new decline in 2007 (Figure 2).

Similar trends could be seen in the other countries. During the last years of the former Yugoslavia, the tendency of researchers to migrate abroad was already strong and further increased due to the war and the economic crisis. In Albania, the consequences of outward migration of professionals from the country were also severe. The University of Tirana lost 40 percent of its lecturers in the 1990s, the majority of whom were young professionals under the age of forty (Uvalić, 2006b).

The proportion of the national GDP devoted to R&D was reduced to a minimum in several republics. In Bosnia-Herzegovina, the figure fell to 0.03 percent in 2007 from the 1.5 percent of 1990. A major cause of the decline was the dissolution of Elektroinvest in Sarajevo, the flagship company of Yugoslav industry with large export capabilities and scientific potential. In 1990, 30 percent of Bosnia’s industrial exports consisted of products developed in research units of the republic; today this value is considerably lower (UNESCO Science Report, 2005).

Figure 2: Evolution of the number of R&D employees, 1996–2007



Source: UNESCO. Institute for Statistics.

<http://stats.uis.unesco.org/unesco/TableViewer/tableView.aspx> [2010. 05. 14.].

R&D indices of Western Balkan countries present an unfavourable picture, both in terms of research expenditure and research employment data compared with European average performances (*Table 2*). Despite lagging behind in several areas, Croatia's research system shows the strongest resemblance to development trends in the European research area.

Weak innovation potential is a major reason for the low indices of competitiveness in Western Balkan countries. Based on the analysis of pillars of global competitiveness (health care, primary education, macroeconomic stability, higher education, development of the business sector, market efficiency, institutions, infrastructure, technological readiness, performance in innovation), countries of the Balkans show a heterogeneous picture. The largest disproportions can be detected in the development level of the infrastructure. Albania and Macedonia perform badly in each sector of infrastructure, and infrastructural networks in the previously, relatively developed, Bosnia-Herzegovina were destroyed during the war. In terms of competitiveness, innovativity and technological receptiveness reveal the lowest values. Factors related to institutions of the market economy show a higher performance and continuous development and a tendency towards Europeanisation is visible. Even though this leads to the permanent amelioration of external conditions of research and development, no such favourable changes have occurred in the private sector that would enhance the demand for new technologies.

Table 2: Some important R&D indices in Western Balkan countries, 2007

	Albania	Bosnia-Herzegovina	Croatia	Macedonia	Montenegro	Serbia	EU27
Researchers per million inhabitants	609	197	1,384	...	1,143	1,190	2,728
R&D expenditure as % GDP	0.18	0.03	0.93	0.18	0.24	0.34	1.9
Distribution of R&D expenditure, %	100,0	...	100.0	100.0	100.0	100.0	100.0
Business sector	1.0	...	23.5	11.0	5.5	1.7	64.0
Government sector	25.1	...	32.9	24.0	15.7	39.8	13.4
Higher education	73.9	...	43.6	65.0	78.8	58.5	22.6

Source: UNESCO. Institute for Statistics.

<http://stats.uis.unesco.org/unesco/TableViewer/chartView.aspx> [2010. 05.14.].

Due to the weak absorption capacities of the economy, the great bulk of research is financed by public funds in all of the countries except Croatia. Higher education is regarded as the most prominent research sector in each country. Three-quarters of all research expenditure in Albania, and over 50 percent in Serbia is related to universities. Universities have always fulfilled an important role in different phases of economic development in the area. For this reason, technical, technological and engineering faculties operate with a large number of students in all of the important regional university centres. However, the necessary conditions for establishing strong linkages between industrial companies and universities are still lacking in Balkan countries.

To rebuild the Balkan economies, international community plans for the stabilisation of political conditions have highlighted the importance of the modernisation of education and higher education and the reorganisation of research and development. UNESCO provides permanent counselling in the area. Several large international companies have elaborated strategies to keep qualified workforce in the area and to organise innovative education programmes at

local universities. Every Balkan country has joined the research framework programme of the European Union, and European standards appear formally in the regulation of national institutions. In the mid 2000s, new laws on higher education, R&D and innovation were implemented in all of the countries. The development of the institutional system of research management has started. International counselling organisations have supported the elaboration of the first national scientific and research strategies (see Box on Balkan countries' R&D policy). In Albania, Croatia and Serbia, medium-term R&D plans were accepted by the governments, but, unfortunately, national documentation ignores the large disproportions in the spatial location of R&D units.

The presence of large spatial disparities hindering the development process characterises the organisational system of research also. As a result of the concentration of higher education in the capital and the implantation of research units in higher education institutions, the inner regions of the Balkan countries do not carry out R&D. Several links of the innovation chain are lacking and endogenous resources for the structural transformation of the economy are modest.

Research capacities in Macedonia and Montenegro show the highest level of concentration. With one exception, all the research units in Montenegro are located in the capital, where eighty-seven percent of Macedonia's researchers are found. The second most important research centre is Bitola, which – thanks to its university – provides 7 percent of the country's researchers. The remaining centres have no more than a 2–3 percent share.

In the more populous Balkan states, regional disparities in R&D are somewhat lower than in the former countries, yet, compared to EU standards, they are still considerable. In terms of the number of research units, the weight of capital cities is two to three times higher than their share of the country's population, exceeding 50 percent (*Table 3*). Croatia is the only exception and here the degree of concentration in the capital is below 50 percent. This is due to the existence of large universities outside the capital, to the technological and innovation centres implanted in the six provincial towns and to research institutes and regional centres of the Croatian Academy of Sciences and Arts.

Table 3: The spatial structure of research institutions, 2005

Country	In the capital		Rest of the country		Total	
	University research unit, research institute, research centre		University research units, research institute, research centre		Number	%
	Number	%	Number	%		
Albania	48	70.6	20	29.4	68	100.0
Bosnia-Herzegovina	81	76.6	29	23.4	110	100.0
Croatia	71	48.6	75	51.4	146	100.0
Macedonia	45	71.4	18	28.8	63	100.0
Montenegro	27	75.0	9	25.0	36	100.0
Serbia	105	64.4	58	35.6	163	100.0
Total	377	64.3	209	35.7	586	100.0

Source: Author's own table based on Accessing and Disseminating Scientific Information in South Eastern Europe.

Note: Faculties are regarded as university research units.

In the Balkan countries – as in Eastern European states – the academies of sciences founded by the state have played an important role in science and the organisation of research. The Yugoslav Academy of Sciences and Arts (whose legal successor is the Serbian Academy) established local-regional academies in the former member republics in 1972. The Albanian Academy of Sciences was established in the same period. At present, the legal successors to these organisations operate as a combination of scientific societies and institutions fulfilling scientific management functions. Several academies operate their own research institutes. They are few and the number of employees is low: 400 researchers are employed in 29 institutes and 9 regional centres of the Croatian Academy of Sciences and Arts. The Serbian Academy has ten research institutes and 250 researchers. The majority of academic institutions are engaged in social sciences (mostly the humanities) and their research activities focus on analysing national specificities. The spatial location of research units in the different countries is shown in *Figure 3*.

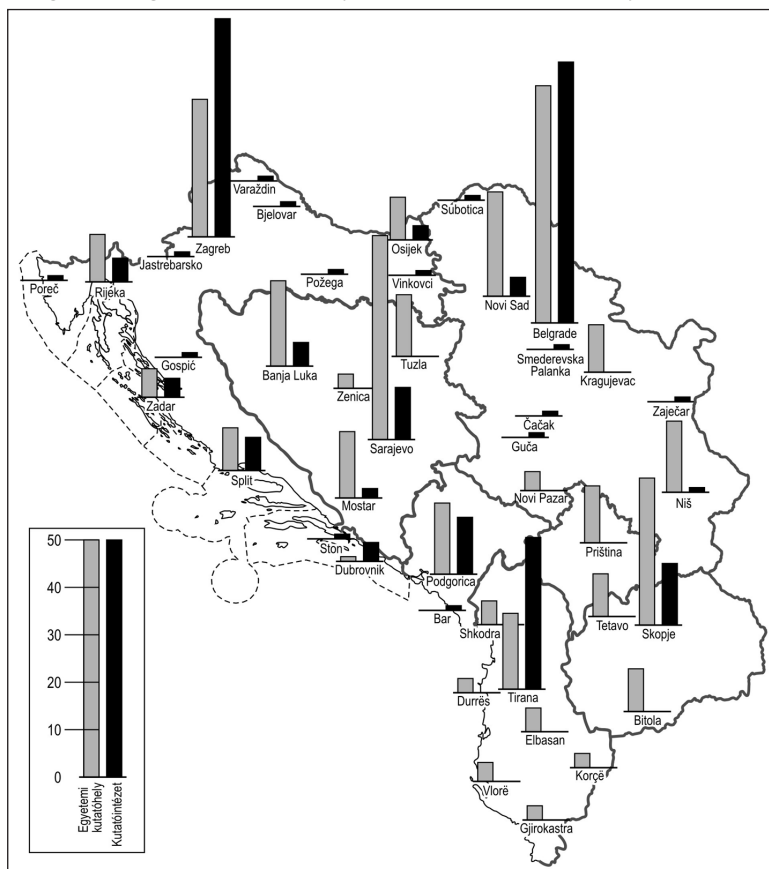
The spatial-scientific structure of the Balkan countries does not allow research to become a driving force in the development of a modern economy, society and scientific sector – and so fulfil an important role. There is a lack of basic research institutions in huge areas of the countries. Capital cities, despite their relatively high level of development, are unable to dynamise regional economies. According to international comparisons, the research capacities of capital cities are below average, and neither the institutional structure, nor the level of infrastructure and financing are sufficient to meet the standards of the European research area.

Cooperation with the EU: latest trends and issues

Most recently, the majority of Balkan countries have been active in obtaining research projects under the 7th EC Research Framework Programme (FP7). Serbia recently became associated with the Competition and Innovation Programme (CIP). Possibilities for increased cooperation between Serbia and the Joint Research Centre (JRC) are under discussion. Bosnia and Herzegovina signed the Memorandum of Understanding for the FP7 and in January 2009 became an associated country and eligible to participate fully in the programme. An FP7 national coordinator was appointed and the FP7 national contact points have improved their work and output. Albania has also been involved in FP7 projects in the areas of transport, infrastructure, health and international cooperation. In Macedonia the number of projects selected and funded under the seventh EC research framework programme increased compared to last year. In Kosovo research is now a priority sector. In April, the Ministry appointed a coordinator for the 7th Framework Programme. It is still the case that, in most parts of Southern and Eastern Europe (SEE) administrative and research capacities are persistently weak. The poor definition of responsibilities and a lack of funds hinders the implementation of the Scientific Research laws. Greater participation in the Framework Programmes is also hampered by the limited capacity of the research institutes and their poor links with industry. Overall, however, we can say that preparations in the area of science and research are on track.

In the Balkan countries the very low level of R&D spending is a matter of concern, but recent Government response has mainly consisted of designing better articulated policies and in improving the efficiency level of S&T policy measures. Croatia, which is the country most advanced in introducing the '*acquis communautaire*' and the one with the highest income among South and East Europe Countries (around 50 percent of that of the EU 25) has also been the most active in 2009 in modernising its S&T policy machinery. Amendments to the Act

Figure 3: Regional distribution of research units in countries of the Balkans



Source: Author's own work based on Accessing and Disseminating Scientific Information in South Eastern Europe and various internet sites and national sources.

on the National Foundation for Science, Higher Education and Technological Development have been adopted and an Act on Quality Assurance in Science and Higher Education has been passed, assigning the Agency for Science and Higher Education an independent quality Assurance role through the accreditation, evaluation and audit of public and private scientific and higher education institutions. In Croatia the share of the private sector in R&D investment is significantly higher than in the rest of the Balkans. In the mid 2000s, for example, the figure was 40 percent compared to 12 percent in Macedonia, although this is still significantly lower than in the EU 25. Measures have been taken to stimulate private R&D investment including tax relief. The Croatian Researchers Mobility Network “Euraxess” has been established as well as local contact points.

Other SEE country initiative have been substantive, although often more limited. Serbia proposed a draft strategy in August 2009 to increase R&D investment and ensure a sufficient number of scientists – aiming for integration into the European Research Area. (ERA). R&D spending was expected to reach 1.4 percent of GDP in 2010, but this target will probably not be met. In Macedonia, given the lack of a national research strategy and weak administrative

capacity, little progress can be reported on integration into the ERA. The Agency for European Educational Programmes and Mobility, designated as the main body responsible for establishing the national EURAXESS Jobs Portal, as well as the Euraxess Services Network, have not been realised within the contractual time frame. Preparations in this area are moderately advanced. The Kosovo Council for Science developed an Action plan for 2009, but its implementation seems hampered by resource constraints. The Bosnia State Framework Law on Scientific and Research Activities, which includes the establishment of a Science Council and a strategy for the development of science, has been adopted but the Law on Science and Technology is still pending. There is no integrated research policy and relevant budget allocations are very limited. Research policy is still designed and implemented at entity level, with no real coordination. In Montenegro a special department dealing with S&T was created within the Ministry of Education and Science, and Montenegro has also been very active in international cooperation in the steering platform for the Western Balkans countries.

Budgets dedicated to research have been under strong pressure following the financial crisis which impacted the OECD last year. In Macedonia the budget for the 2009 research and technological development programmes encountered a 27 percent reduction when the budget was revised in April 2009. Public and private funding for science and research did not exceed 0.5 percent of GDP and private sector participation remained very low. In Albania S&T spending increased but their share of the total budget is significantly below EU levels (0.22 percent). The government set up a Fund of Excellence in 2008 to stimulate the research studies of PhD candidate students. In Kosovo additional resources continue to be required for research purposes. As was underlined by the EC Commission, central and local capacities to teach and manage education need to be significantly enhanced, and a system to monitor the quality of education also needs to be introduced.

Human resources for science and technology remain a problem all over the Balkans. In Albania, from 1990, human resources in sciences and technology have drastically decreased. Various surveys show that, from 1990 to 1999, approximately 40 professors and research scientists of the universities and science institutions in the country emigrated. Ninety percent of the researchers who disappeared were below 40 years old. Driving forces for the brain drain are found in the poor economic living conditions, the lack of state-of-the-art infrastructure and funds – all of which constitute serious obstacles to research. A massive brain drain has also occurred in Bosnia and Herzegovina, Serbia, Kosovo and Macedonia. In March 2009, 61 Albanian nationals studying or working abroad were recruited to work in Universities as part of the Brain Gain programme. However, restrictive visa regulations in Albania hinder scientific exchange and temporary employment abroad. There is a total of 578 scientific workers in Albania: 274 in Academy of Sciences; 304 in R&D institutions of various Ministries. The numbers of personnel in R&D in Albania amount to some 0.2 per 1000 inhabitants.

In 2009 attention was focussed on institutional change to reduce the gap between the Balkan area and the EU. Some reform of the research institutes took place in Macedonia by integrating them into the universities. New equipment procured in September 2009 aimed to improve the capacity of universities and research institutes. However, the small budget, weak administrative capacity and lack of funding for the research facilities are detrimental to the development of research capacity in the country. Preparations in the area are moderately advanced. The Albanian government undertook in 2006 a deep reform of the scientific research system. The Academy of Sciences was re-organized following the model of many other European countries; it now operates through a selected community of scientists and

no longer administers research institutes, these having been integrated into the higher education system. Two new faculties have been set up: the Faculty of Information Technology at the Polytechnic University of Tirana and the Faculty of Biotechnology and Food at the Agricultural University of Tirana. The University of Tirana has also gained an Applied and Nuclear Physics Centre and Biotechnology Department. Twelve government agencies and centres for technology transfer have also been created. In Bosnia the HE infrastructure remains highly fragmented and decentralised. The universities are under the tutorship of the cantons in the Federation and of the Ministry of Culture and Education in the Republic of Srpska. The universities are funded by the cantons of the Federation. For various reasons (some of them political) the university system of BiH is organized into eight universities (Universities of Sarajevo, East Sarajevo, Banja Luka, Zenica, Bihać, Tuzla, Džemal Bijedić in Mostar and Mostar) spread over the country with no real coordination of investment for the development of their research activities. It does not appear that the Rectors' Conference of these universities has taken any initiative regarding research activities. One must also note that only the Sarajevo canton and the Republic of Srpska have passed legislation on the organization of scientific research, the latter also having published an official document defining an R&D strategy.

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POLITICAL PARTIES AND CONSTITUTIONAL CHANGES IN BOSNIA AND HERZEGOVINA

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Introduction

Forming of political parties in Europe is related to forming of civil and social norms as well as civil legal relations. Closely associated with the mentioned, the foundations of liberal democracy were set. Since the end of feudal relations did not occur at the same time on the territory of former Yugoslav countries, multiparty political organization of the society developed in different time periods.

This paper deals firstly with political and party life in Bosnia and Herzegovina from the beginning of the 20th century up to modern times. Social situation in the neighbourhood is also considered in the context of significant interdependency and affinity with political relations in Bosnia and Herzegovina. Irrespective of social and economical relations and social situation in which the political parties in Bosnia and Herzegovina arose, functioned and stopped working under certain name, they all had one mutual characteristic that might be determined as an attempt of national establishment and national identification (Bosniak, Croatian and Serbian identity) within multiethnic Bosnia and Herzegovina and their constitutional equality.

Beginnings of Political Life and Parties in Bosnia and Herzegovina

Political multiparty system in Bosnia and Herzegovina started in the first decade of the 20th century after formation of the first political parties on national/religious basis. The Muslim People's Organization (MNO) was founded on 3rd of December 1906, the Serbian People's Organization (SNO) was founded during assembly of three political groups held from 27th to 31st of October 1907, and on 21st of February 1908 the Croatian People's Community (HNZ) was established, and two years later the Archbishop of Sarajevo, Dr. Josip Štadler encouraged establishment of new Croatian party under the name Croatian Catholic Association for Bosnia and Herzegovina.

We should add that the Muslim Progressive Party (MNS) was founded by the Muslims on the assembly held from 24th to 26th of August 1908 in Tešanj. The party was in many aspects similar to the Muslim People's Organization (MNO), but in national context it was Croatian oriented. However, already after two years of its existence it changed its view towards national

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orientation and left its pro Croatian attitude and on 31st of October 1910 the party leadership changed the name of the party to Muslim Independent Party (MSS). On the Serbian side a doctor from Sarajevo, Dr. Lazar Dimitrijević, founded the Serbian People's Independent Party (SNSS) in May 1907. Apart from these six parties with clear national orientation, 2 plus 2 plus 2, at that time and before adoption of the State Constitution for Bosnia and Herzegovina, the Social Democratic Party for Bosnia and Herzegovina was founded on 28th to 29th of June 1909. (Imamović, 2006:103-107)

Is there any reason to put a question! Why did people wait for almost 20 years from the time of occupation and before annexation to establish political parties? Professor M. Imamović says: "Most of the Bosnian-Herzegovinian civil politicians, irrespective of their nationality, believed that in Bosnia and Herzegovina as a "provisory territory" (i.e. occupied land which constitutional status was not resolved), without "parliamentary background" there were no conditions for activity of classic political parties. According to that concept, which is typical for political mentality of low middle class, it was considered that every popular movement had to be unitary until accomplishment of its national-political, i.e. constitutional goals and only after that it would be possible for the parties and the Parliament to deal with different social-structural and political issues." (Imamović, 2006:103)

Furthermore, during the reign of Benjamin Kallay until 1903 there had been some attempts, congruently to the Kallay's Doctrine, to separate the area of Bosnia and Herzegovina as much as possible from Croatian and Serbian ideas and projects. His departure was followed by abolition of preventive press censorship and the folk/religious/national movements reached organizational level that demanded political unification. What is more, after annexation in 1908 the laws contributed to growth of multiparty system. The Emperor and King Franz Joseph imposed sanctions on the Constitution (Statute) of Bosnia and Herzegovina together with the elections order and parliamentary rules of procedure, as well as the Gatherings Act, the Companies Act and the District Committees Act. (Code for BiH, Part II, 1910) Earlier in 1907 the Act on Administration of Village Municipalities in Bosnia and Herzegovina (Code for BiH, Part III, 1907) and the Act on Administration of City Municipalities in Bosnia and Herzegovina with Elections Order (Code for BiH, Part VII, 1907) were passed. Hence, at the end of the first decade of the 20th century a formal legal framework for a political game was made, both on a higher (the Parliament) and a lower level for District, City and Village Councils.

Regular elections for parliamentary mandates were held in May, and additional elections in September 1910 and their result illustrated the political moment of Bosnia and Herzegovina very plastically as the Serbian People's Organization won 31 mandates, the Muslim People's Organization 24, the Croatian People's Community 12, the Croatian Catholic Association 4 and the Jewish community one mandate. All together there were 72 of them. We should not forget the fact that these elections were carried out on the basis of curial electoral system, so that there were actually 33.714 citizens per one Orthodox mandate, 33.373 citizens per one Catholic and 33.355 citizens per one Muslim mandate. (Imamović, 2007:31)

This data can be judged as positive in terms of proportion of the number of voters and given mandates. In my opinion it is very difficult to achieve such a balance today when the electoral units are set on the basis of territorial principle.

Finally, we may point out that forming of civil society in Bosnia and Herzegovina that had its beginnings in the Ottoman period, got stronger within changed political and constitutional

circumstances. Austro-Hungary inaugurated its ideological-political as well as social criteria and relations in Bosnia and Herzegovina. Religious diversity and progressive national awareness led to neglecting social difference and turning to choosing of people's representatives according to nationality, and in case of Serbs and Muslims this was unanimously, but among Croats divergent due to religious and later on political disputes of Franciscans and diocesan priests. The situation remained the same until the end of Austro-Hungary in Bosnia and Herzegovina.

Political Parties in Bosnia and Herzegovina During the Kingdom of Serbs, Croats and Slovenes-Yugoslavia

Significant constitutional and political turnover that happened in 1918 due to formation of the first South Slavic state under name the Kingdom of Serbs, Croats and Slovenes, had an impact on design of multiparty system in Bosnia and Herzegovina and made it formally different, but there was no discontinuity in basic orientation and already adopted principles concerning establishing political parties. According to population census in Bosnia and Herzegovina in 1921 there were 1.890.460 citizens, from which 829.360 were Orthodox, 588.173 Muslim, 444.309 Catholic, 12.051 Jewish and 16.567 of other religions. (Imamović, 2006:132)

Political parties that had been established at the beginning of the century disappeared in new Yugoslav circumstances, and new political, economic, constitutional, national and other characteristics led to establishment of parties with different names, but based on the principles of authenticity and distinguishing either by clear external national signs (*Nomen est omen*) or strong internal national content. To be more precise, shortly after formation of the new state the Yugoslav Muslim Organization (JMO) and Democratic Party were established in Sarajevo. The Croatian Peasant Party (HTZ) and Croatian Popular Party (HPZ) were formed from The Croatian People's Community (HNZ). We could say that Muslims and Croats continued their political life gathered within national political parties, only under new names, whereas the Serbs, thanks to their dominant political position in the new state circumstances, had the "luxury" to give their votes to Serbian parties due to their content and not the name. According to election results for the Constitutional Assembly held on 28th of November 1920 in Bosnia and Herzegovina, the following parties won mandates: the Yugoslav Muslim Organization (JMO) 24, the Union of Agrarians 12, the Radical Party 11, the Croatian Peasant Party 7, the Croatian Popular Party 3, the Democratic Party 2 and Communistic Party of Yugoslavia (KPJ) 4 parliamentary seats. (Imamović, 2006:133) If we analyze the election results, it can be concluded that the Muslims had achieved consistent political union under new circumstances (the name of the state was thus the Kingdom of Serbs, Croats and Slovenes) through giving their votes mostly to Yugoslav Muslim Organization (JMO). The Croats, however, voted for two parties, but also with national signs – the Popular and Peasant party.

After being internationally recognized in 1878, the Kingdom of Serbs started developing its internal political life based more on the contemporary European liberal-democratic terminology and less on the content. Until formation of Yugoslav state the most well known parties were: the Liberal Party, the Progressive Party, the Radical Party and the Social Democratic Party of Serbia. The Serbian national question was resolved through territorial frames and international recognition, and internal political life started dealing with classic civil and social issues. Foreign affairs are not being considered in this paper.

Due to the mentioned facts we believe that the Serbian People's Organization from the pre-Yugoslav period did not get an authentic and territorially determined political and partial heir in Bosnia and Herzegovina, as in case of Muslims and Croats, as the Serbian voters turned to programmes of parties coloured with national unitarism and state centralism. These were first of all the Democratic and the Radical Party, as well as the Union of Agrarians. Such disposition will mostly stay the same until the end of the royal Yugoslavia, whereby the Croatian election body will later on mostly support the Croatian Peasant Party.

To conclude, in the Yugoslav period political life in Bosnia and Herzegovina aligned with political circumstances and state relations that characterized Yugoslavia. The Muslims mostly voted for the Yugoslav Muslim Organization (JMO). On the first elections Croats were split in sense of voting for authentic Croatian parties in Bosnia and Herzegovina (Croatian Popular Party and Croatian Peasant Party), and a party with head office in Zagreb – Croatian Peasant Party. Later on they turned mostly to policy of the Croatian Peasant Party. The Serbs, though, showed their affection mostly to democrats, radicals and agrarians – parties with unitary national ideology.

It is interesting to add here that despite difficult social issue of workers and peasants in Bosnia and Herzegovina, the Communist Party of Yugoslavia, as the organic and natural protector of the mentioned masses, got only four mandates on the first elections in Bosnia and Herzegovina. This means that in the civil (Yugoslav) period political life in Bosnia and Herzegovina was determined by parties which for Muslims and Croats had a clear national sign, and in case of Serbs the parties were externally without any signs, but according to its internal structure and ideology supported national unitarism and state centralism.

Unlike Serbian, the Croatian parties were marked by federalism and the Muslim parties by Bosnian-Herzegovinian integralism.

So, Bosnian-Herzegovinian: Bosniak, Croatian and Serbian identity in political sense (cultural, religious, social and other aspects are not considered here) conducted its constitutional strategy through national parties whose name contained national prefix, but not always consistently and equally in case of all three nations.

For Croats it has been HNZ, HTS-HPS, HSS, HDZ since 1908.

For Serbs initially it was SNO, and after formation of the Kingdom of Serbs, Croats and Slovenes, Serbs did not establish their national party in Bosnia-Herzegovina by name, but in 1990 the party was formed again as the Serbian Democratic Party (SDS). Later on, with formal-legal foundation and strong political and economic life of entity Republic Srpska, in the mentioned entity the primacy was overtaken by a party without external national signs – the Union of Independent Social Democrats (SNSD), but with strong national rhetoric and internal national cohesion. The mentioned examples illustrate very clearly how inner structures of some political unions maximally determine not only the name, but also the content of activities of certain political parties.

Bosniak political life in civil period was marked by MNO and JMO. Political pluralism of the 90-s began with a party without national prefix in its name – the Party of Democratic Action (SDA), although this party was in its first phase entirely Bosniak party according to its inner structure and political goals. Such orientation of Bosniak politicians at that time is of course very interesting from political point and constitutional future of Bosnia and Herzegovina, at the time when Yugoslavia was already “mature”. Unlike the 90-s, today's political pluralism

in Bosnia and Herzegovina is, according to me, the most visible in Bosniak electorate, whereas the Croatian and Serbian usually has one favourite and the others are friends.

Political nomenclature is very important question, naturally not so much on the level of semantics, as on the level of realistic and desirable both concerning inner state structure and better understanding of specificity and diversity, but also cohesion of Bosniak, Croatian and Serbian identity within Bosnian-Herzegovinian society and state.

Political Pluralism in Bosnia and Herzegovina after Disintegration of the Socialist Federal Republic of Yugoslavia and Formation of Independent Bosnia and Herzegovina

With disintegration of the Kingdom of Yugoslavia multiparty system dissolved on the territory of Bosnia and Herzegovina. It was restored in 1990. On the territory of Bosnia and Herzegovina, as well as on the entire territory of former socialist Yugoslavia multiparty system experienced a “pause” for exactly fifty years. This is long period of time and this discontinuity of democratic political organizing surely could not give anything new in the beginning, but return to the situation before political monism.

The first multiparty elections in Bosnia-Herzegovina held on 18th of November 1990 together with the realised mandates very clearly illustrate victory of solely national parties. 43 representatives from the Party of Democratic Action (SDA) were elected to the Citizens’ Assembly of the Parliament in Bosnia and Herzegovina, whereas the Serbian Democratic Party (SDS) had 34 mandates and the Croatian Democratic Union (HDZ) 21 mandates. From the total number of 130 representatives the three mentioned parties had all together 98 mandates or 75.5%. If we add the Muslim Bosniak Organization (MBO) as distinctively national party to these numbers, the number of mandates is 100 and percentage 76.7%.

To the Assembly of Municipalities of the Parliament in Bosnia and Herzegovina were elected 43 representatives from the Party for Democratic Action (SDA), 38 representatives from the Serbian Democratic Party (SDS) and 23 representatives from the Croatian Democratic Union (HDZ). From the total number of 110 representatives the three mentioned parties got 104 mandates or 84.5%. (Kasapović, 2005:134)

If we correlate the population with the number of mandates, it looks approximately like this:

At that time there was around 44% of Muslims and SDA, a party of undoubtedly Muslim origin, together with MBO got around 33% of votes for the Citizens’ Assembly that would in certain nomenclature be the Lower House.

There was around 31% of Serbs and the Serbian Democratic Party (SDS) won 26% of votes. There was around 17% of Croats and the Croatian Democratic Union (HDZ) got 16% of votes.

National parties for the Citizens’ Assembly gained trust from 74.9% of electorate or 76.7% of the mandates in the Citizens’ Assembly.

For so to say the Upper House - the Assembly of Municipalities the three mentioned parties were supported by 70.2% of electorate and got 84.5 mandates. (Kasapović, 2005:135)

After the end of war and after signing Dayton agreement the conditions for a new round of parliamentary and other elections in the country were set. International Community expected

that political parties that had been involved in war actions and horrors of war would not be able to gain trust of citizens again after the war. However, despite that election results resembled the ones before the war.

Presidential and parliamentary elections were held on 14th of September 1996 where the race for Bosniak member of the Parliament of Bosnia and Herzegovina was won with majority by the SDA candidate, Alija Izetbegović, who got 730.592 out of total 913.227 votes. The Croatian member of the Parliament of Bosnia and Herzegovina, Krešimir Zubak, candidate from HDZ won 330.477 votes of total 372.566 voters. And the Serbian member of the Parliament of Bosnia and Herzegovina, Momčilo Krajišnik, candidate from SDS got 690.694 votes of total 1.026.157 voters.

The first post war House of Representatives in the Parliament was elected on the ground of 1.337.895 votes from the territory of Federation of Bosnia and Herzegovina and 1.061.979 voters from the territory of Republic Srpska. Accordingly, parties with most votes on the territory of Federation of Bosnia and Herzegovina were SDA-725.417, HDZ-338.440, and SDS on the territory of Republic Srpska-578.723 votes. If we talk about mandates, SDA got 19, SDS 9 and HDZ 8 mandates, that is altogether 36 mandates from 42 members in the House of Representatives. (<http://www.bhdani.com/arhiva/273/t27311.shtml>)

Main Features of Political Multiparty System from the Beginnings to Modern Times in Bosnia and Herzegovina, Croatia and Serbia

Political organization in Bosnia and Herzegovina concerning parties occurred half a century later than the one in the Kingdom of Croatia, Slavonia and Dalmatia, and the Kingdom of Serbia and neighbourhood countries. The reasons for that can be found in political relations and constitutional status of these countries which determined the beginnings of formation of interest groups that are in modern times called parties. On the territory of today's Republic of Croatia after abolition of feudalism in 1848 new conditions for civil pluralism were set, as well as segmented society that was much different from feudal pluralism (feudal landowner-peasant). But, despite the freed peasants' energy and already affirmed guild associations in Croatian cities, not social and class issues were in focus of the newly formed political groups (and later on parties), but national i.e. constitutional issues. I would like to point out that the first social democratic party in Croatia was established only in 1894, namely on foundations of the Second International, and the party that through its programme (political activation and cultural-educational transformation of village and peasantry) and name precisely defined its social-political strategy. It is the Croatian People's Peasant Party established in December 1904.

From 1848 to 1918 on the territory of today's Republic of Croatia and within the then ruling Habsburg Monarchy, the Kingdom of Croatia and Slavonia strengthened its constitutional position through autonomous systems and thanks to interceding of Croatian parties, but also the overall effort to transform the feudal Monarchy into a more modern and civil Monarchy. Dalmatia and Istria remained within the Austrian half of the Habsburg Monarchy. Therefore one would expect that Croatian national issue, i.e. the tendency to get unified into one constitutional body, would become the main political programme of the newly established parties.

At the beginning of 19th century a revolting and diplomatic fight for liberation from Ottoman rule started on the territory of today's Republic of Serbia. From 1815 until 1878 Serbia actually had dualistic power with Turkish and autonomous (principality) authorities. "In Sultan's

Edicts Serbia got the position of vassal principality within the Turkish Empire, with independent internal administration and judicial organization. Feudal relations disappeared, and on the basis of its autonomy Serbia moved further on starting a new period of its constitutional development. Already in 1834 Serbia had its own Ministry of the Interior with restricted right to maintain international relations and make certain international agreements.” (Sirotković, 1990:125) International recognition of Serbia, that was proclaimed at the Congress of Berlin, affirmed political parties that had been focused more on internal affairs and structural and reform issues in the society than on national issues, as in Serbia as well as in most parts of Europe a state-nation was formed.

On the contrary to that, the Great European Powers decided at the Congress of Berlin that Austria should overtake Bosnia and Herzegovina. Feudal relations in Croatia and Serbia were resolved, but in Bosnia and Herzegovina not. The tendency of Austro-Hungarian authority was to modernize the country and achieve the level of social and economic relations that would be close to the one in its neighbouring countries. It included investment cycles in road and railway building, mining and forestry as well as big efforts to establish cultural and educational institutions. Realistically, at the beginning of 20th century and after Kallay’s Era, that lasted for 20 years, Bosnia and Herzegovina caught up with Croatia and Serbia in many life segments. The mentioned economic and cultural-educational activities also induced positive atmosphere for beginning of political organization. In Kallay’s Era the authority did everything to establish a separate regional, not only administrative but also national and political identity, in Bosnia and Herzegovina that would be as distant as possible from Serbian, but also Croatian national projects.

However, the first forms of political organization cleared the Kallay’s doctrine in Bosnia and Herzegovina. Parties with national sign were established in the first decade of the 20th century and in changed political relations that were set by founding the first South Slavic state in 1918.

Very similar pattern occurred again in 1990, when after a 50-year-long one party system, the first multiparty elections were held. The winning parties on these elections, both in Bosnia and Herzegovina and Croatia, were parties from national incubator. In Serbia, on the contrary, the Social Party of Serbia (an amalgam of Communists and Socialistic Alliance) won. But, although this party’s name did not contain any national signs, in reality and according to its political philosophy it was more than national.

Projections of Political Life in Future of Bosnia and Herzegovina and Regional Cooperation

Today many analysts inside, but also outside Bosnia and Herzegovina, assign this to stagnation of the country towards Euro-Atlantic integrations, its weak economy, distrust among basic ethnical communities, slow forming of authorities on different levels, especially in the Federation of Bosnia and Herzegovina, and on state level. In entity of Republic Srpska, despite the fact that the winning parties have so far been nominally national or formally social democratic (in reality fully national, and even more national), the process of forming authorities after the mentioned elections has been done in usual due time.

It is not a sin to vote for your representatives on the basis of national preferences in multinational countries. There are justified and real political reasons for such behaviour, sometimes even a little bit of defiance and lack of trust in institutions. I have often heard the following

and I paraphrase: I would also vote for other national parties, but they don't want to vote for our parties, and then I also vote so. It is therefore nothing new if we say that the present constitutional system and inner state structure of Bosnia and Herzegovina cannot change the polling atmosphere and separate most voters from national parties. Moreover, even parties that with their name and programme promote multi-ethnicity in daily politics escape to national rhetoric or even mutual distrust.

“Ethnic picture of Bosnia and Herzegovina has been changed dramatically. First by aggressor and then by political engineering that directed every bird to fly towards its own flock. In lack of precise data our eyes can make us see that Bosnia and Herzegovina is being transformed from a multicoloured carpet into three uniform sheets, into physical sum of separated and encircled (mono)national communities.

Does the future have an answer to such reality?

Two opinions coming from the political circle that is in power of federal entity do not raise hope for better days. Whereas the President of the House of People of the Parliament of Federation of Bosnia and Herzegovina, Mrs Karolina Pavlović, points out that the true multi-ethnicity is “surely our wealth and advantage”, her coalition colleague from SDP, Mr. Zlatko Lagumdžija has completely different opinion. According to him “we are doomed to cohabitation in which the smartest thing is to leave others alone, in other words we should conclude a non-aggression pact.” (Mijović, 2011)

These sentences said by the President of the Social Democratic Party of Bosnia and Herzegovina, which is the only party that has not changed its name from the beginning of political pluralism in Bosnia and Herzegovina at the beginning of the 20th century, undoubtedly indicate that sometimes easily forgotten distinctions still exist in that country. This is the crucial issue that should be overcome. If Croats have been showing trust on elections to a national party (socially and economically they are in the same troubles as the other two nations and all citizens in the country), then we should refer to the sentences from the beginning of this text said by M. Imamović. Serbs also vote for national parties. Bosniaks are also represented by national parties, and if the president of one multiethnic party, the Social Democratic Party, says that “we are doomed to cohabitation”, it means that some freedom and rights issues have not been resolved in satisfactory and democratic way yet. We should deal with these problems trustworthy. Democratic countries use Constitutional Laws to resolve national rights of minorities. On the basis of its long history and territorial unity today Bosnia and Herzegovina as a modern country has the chance to agree on constitutional foundations of the country in consensus throughout good cooperation with neighbouring countries and higher level of mutual understanding. Tendency to join the European Union is the clearest sign for that.

Conclusion

History of Bosnia and Herzegovina testifies about its internal spiritual and physical disintegration (Catholics-Bosnian Christians, Muslims-Christians-Latins), but at the same time about different ways of living, in other words about “infiltrating” of the different into living space of other confessions. A well known saying used to describe population configuration in Bosnia and Herzegovina says that this country has always looked like “leopard's skin”.

We can expect this period of time to be one of the “switches” of the Bosnian-Herzegovinian history in which the presence of national parties (according to their name or real political

presentation) will remain for longer time in Bosnia and Herzegovina, due to the inner structure of the country which reproduces this. The real equality of nations and citizens of Bosnia and Herzegovina can be achieved by internal reorganization of the country, according to me and only as an example, the one done by the Bishop's Conference of Bosnia and Herzegovina known as: Bosnia and Herzegovina – source of instability and threat to peace, or future member of the EU, from 29th of October 2005. It deals with national and civil issues in comprehensive and pacific way.

And after that, under changed circumstances, a bigger step on the way to membership in the European Union would create space for undisturbed understanding and cooperation of parties in Bosnia and Herzegovina with their neighbourhood and vice versa, namely without mentioning frequently used expression – interfering in other people's affairs.

I believe that even a discussion about consociational model as one of the possible models of state organization would make a good start in Bosnia and Herzegovina, and that it might to certain extent, as once in the Netherlands, change separate life of single people into mutual life or cohabitation. This "story" was once promoted by certain Franciscans, but it was not supported by broader masses and was even eliminated in the start. But, this was in the past. It might be worth trying again. I repeat, this is only one of the ideas that might change the present status quo that is not inspiring for anyone in the country.

It is needless to say that new ideas and discussions in the present "riveted" situation would probably clear the way of Bosnia and Herzegovina to the European Union faster, which is supported by high percentage of citizens. This would also be to the satisfaction of outside observers.

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REGIONALIZATION IN BOSNIA AND HERZEGOVINA

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An Idea about Regionalization in Bosnia and Herzegovina

Bosnia and Herzegovina in the development of post socialistic transition strides through several significant social historic processes. Surely, the most important process is the process of integration in EU. In order to achieve this aim it is necessary to implement European standards to complete conditions for the EU membership. One of those standards is establishment of regional state structure. Within internal structure of all West European countries besides central and local units of government, there is developed region model.¹ Regions present important subjects of economical and social development of European Union and have important role in enlargement of European Union and its democratic development through the process of construction unique European market. Therefore, in the past decades, European Union pays special attention to the regional development and support to the interregional cooperation.

According to the European concept, regionalism, as the subject matter of political, cultural and economical development, provides surety of the region's citizens' autonomy respecting their cultural, language, religious, ethnical and any other identity. Regions are positioned as the link between the state and local communities and they hold a certain corpus of political system decentralization. Regionalization represents distribution of economical, legal, executive, financial and other responsibilities and introduces completely new form of relations among different government levels within one country. Regionalization process or establishment of regional government level within the political system represents complicated process, which must not jeopardize autonomy of local government and that process must be followed by measures, which protect interest and rights of local authorities. Regionalization should be understood not only in institutional context but as the organizational modus of one country and as the functional process of building the complexity society structure with different levels of decision making, with guaranteed autonomy of local and regional institutions and subjects.²

Bosnia and Herzegovina, in the process of EU integration, has meet many challenges of regionalization, interregional border cooperation with neighbouring countries, but also with

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¹ Models of regions in Great Britain, France, Germany, Belgium, Italy, Portugal, Spain, Slovenia, Ireland, Greece, Sweden, Luxemburg.

² Many different opinions exist on this matter whether it is about the regionalization in the function of dissolution or integration of one country, therefore, whether regionalization of country leads to centralization of the Union in Bruxelles.

possibilities of economical and social development through structural EU funds support. Regionalization is not only a precondition for access to the regional development funds, but even more a considerable factor in the EU integration of Bosnia and Herzegovina. Question, which targets this issue, is: what kind of regionalization of Bosnia and Herzegovina could provide and access to the structural regional development EU funds? There are several basic points on which the regionalization of Bosnia and Herzegovina could be accomplished. The first basic point is historical familiarity of Bosnia and Herzegovina regionalization process. The second basic point could be found in scientific and theoretical analyses of Bosnia and Herzegovina authors. The third basic point for the potential regionalization of Bosnia and Herzegovina could be sentenced within the concept of already formed regional development agencies (RRA), significant financial support provided by European Commission and partnership of Delegation of European Commission in Bosnia and Herzegovina. The fourth basic point could be sought within consensus of political parties represented in the Parliament Assembly of Bosnia and Herzegovina. Then, the fifth possibility would be within conceptions of NGOs in Bosnia and Herzegovina. Moreover, necessary potential of regionalization could be suggestions provided by international organizations and institutions. This includes suggestions by EUROSTAT, regionalization by statistical areas or NUTS regions, considering the fact that this suggestion still does not exist. Bosnia and Herzegovina has a possibility for access to funds, programmes and projects based upon participation in cross border regions (Euro regions). Approximately the fifth of Bosnia and Herzegovina's territory and more than a third of population is implicated to Euro regions. According to this, there are two basic possibilities for access to funds, programmes and projects. One of the possibilities is to define those "internal" statistical regions, which could have an attribute of European and as competitive and respectable would be recognized by European Union as the partner in implementation of regional development projects. The second possibility is to valorise an option of participation in already existing Euro regions Dunav-Drava-Sava, Drina-Sava-Majevisa, Adriatic Euro region, and to analyse options for forming new cross border regions towards Croatia, Serbia and Monte Negro.

Bosnian Question

Bosnia and Herzegovina is one of the countries in Europe AND Western Balkans, which passes through several social and historical processes. This is the process of post socialistic transition, and it is the process of post war reconstruction and finally, EU integration process, Council of Europe and NATO Partnership for Peace.

For the political future of Bosnia and Herzegovina, in assuring the stabile peace, democracy and economical development, the most important historical process is actually EU integration. In this context there is a question why is the integration of Bosnia and Herzegovina in the EU the biggest strategic aim? There are several aspects of answer to this question. As possible aspects, some answers are foreseen:

Bosnian question, which includes democratic institution building of Bosnia and Herzegovina and historical existence of Bosnia and Herzegovina within the European countries community, defined as the European Union. That is the question, which is internationalized in the period of SFRJ dissolution in 1991, in time when the Badinter's EU Commission expressed their opinion about resolution of constitutional and political position of Bosnia and Herzegovina throughout referendum of citizens about independent development of Bosnia and Herzegovina.

In the frame of post Dayton process of reconstruction, stability and peace strengthening and democratic institution building in Bosnia and Herzegovina, the EU integration process was initiated.

By Bosnia and Herzegovina acceptance to the EU and NATO, historical process will be completed within the context of internationalization of Bosnian question, which started in 1991.

In order to achieve strategically aim concerning EU integration of Bosnia and Herzegovina, it is important to build up European standards, upon which the membership of each country could be achieved. One of those standards is related to regional structure of Bosnia and Herzegovina.

Starting from the three main assertions, all countries members of EU have already set up and developed regional organizational structure. European Union development is based upon interests of countries and regions. In the EU, there is a Region Committee in the form of structure, which shapes interests of regions in regional development policy.

How to build regional structure of Bosnia and Herzegovina, upon which historical experiences, on which implemented models and based upon which theoretical conceptions are questions analysed in this text.

From the social and political system (constitutional) point, region and regional structure of the country is viewed as internal territorial organization in governing. In this context, region is the territorial unit is, at the same time, the form of decentralization, but also the form of regional autonomy. Region autonomy means independence related to the central government, existence of regional representative bodies, which have authorities and financial base.

In political meaning, regionalism (regional institutional structure) expresses the system of values and political dynamic, which refers to the political system organization. Regionalism, in the historical context, appeared and developed in the shape of an answer to the state centralism during 19 and 20 century. Political analyses and political theories underline what people consider as the world of their lives in which they have objective existence, social development, cultural identity and social institutions interaction.

As important segment of it structuring and development, EU has an idea of European regions. Subjects of EU development are not only national states. Those subjects are also regions and cross regional cooperation. In the European concept of region, regions represents formed geographical constituent with inhabitants, characterized by certain mutual, cultural, historical, industrial, traffic and other elements.

Regions as political and economical subjects become more important in the process of EU enlargement and creation of unique European market. All ten countries, new EU members have founded regions and regional structure (Czech Republic, Slovakia, Poland, Hungary, Lithuania, Estonia, Latvia, Slovenia, Cypress and Malta). Slovenia performed its regional structure after its addition to EU (according to decision of Parliament of Slovenia -Slovenia is consisted out of two regions).

Euro region position within the EU has an institutional shape. There is a regional development policy, which is implemented by structural funds: Regional Development Fund (ERDF); European Social Fund (ESF); Guidelines for Agriculture (EAGGF); Fishing Fund (FGI); TERRA programme Defining Regional Problems and Possibilities; Solidarity Fund (SFEU) (offers help to regions stroked by heavy industrial catastrophes). Through these funds, in the period of 2000-2006, EU finances different regional projects with investment

around 213 billion of Euros, which is one third of EU budget. European regional policy is in general the policy of solidarity directed as priority towards regions in development needs. Direct benefit is of this policy have citizens through development of infrastructure, opening of new working places and expanding the living standards. Region Committee is the most important body for regional development planning and coordination at the EU level. The primary role of this Committee is the protection of local and regional governments' interests within the decision and legal making process of EU bodies. This Committee support cross regional cooperation, especially cross regional connection of regions into cross regional, over regional and Euro regions.

Relations between Bosnia and Herzegovina and EU are strongly increased for the last years. Since 1996, Bosnia and Herzegovina is a beneficiary from the programmes PHARE and OBNOVA. EU made clear its regional approach in 1997, and EU Council of Ministers defined political and economical conditions of bilateral union. Declaration of European Union on "Special agreement between EU and Bosnia and Herzegovina" has been adopted in 1998. Based upon this Declaration a Consulting Working Group for Bosnia and Herzegovina was formed. Opportunity for integration into the structures of EU is open in 1999 and the first steps were identified by the Road Map of EU in 2000. On the Summit in 2000 in Zagreb and in Thessaloniki in 2003, a membership candidature was confirmed. Therefore, Bosnia and Herzegovina is in the phase of strong structural and wide-ranging adjustments.

Bosnia and Herzegovina is a client of a CARDS programme. In 2006, CARDS was valued on 43.8 millions of Euros. Priorities for 2006 are strengthening of the state institutions in order for efficient functioning and acting as trustworthy partner to international community. It means also support to the public government reforms and strengthening of the institutions, economical and social development and participation of Bosnia and Herzegovina in the EU programmes. Since 1991, EU is the biggest donator in the Western Balkan's countries. From the period of CARDS programme implementation, EU has donated 419.1 million of Euros.

Historical Outline of Regions and Regional Centres

During historical development, since mid century, over four hundred years of Ottoman Empire governing, Austro-Hungarian governing and existence in Kingdom of Yugoslavia, after that in Socialistic Federative Republic of Yugoslavia, and in post Dayton period, Bosnia and Herzegovina have had formed regional urban centres. Those urban centres were developed in interactions with surrounding itself. This is the way how self-governing regional areas were formed.

In the middle age, as autonomous geographical wholes were following:

- Central part of Bosnia from Vranduk to Vrhbosna (Sarajevo)
- Soli-northeast part of Bosnia
- Usora-Posavina
- Donji Kraji-Valley of Vrbas and Sana
- West sides or Završje-Livno area
- Primorje, Humska-Herzegovina
- Gornje Podrinje and Polimlje

Arrival of Ottomans in Bosnia and Herzegovina signifies territorial organization, which respected geographical areas. According to Directive in 1864, Bosnia and Herzegovina was divided into seven counties. Those were the following counties:

- Banjaluka county- with Banja Luka as the centre
- Bihać county-Bihać centre
- Hercegovina county-Mostar centre
- Sarajevo county-Sarajevo centre
- Travnik county-Travnik centre
- Zvornik county-Zvornik centre
- Novi Pazar county-Sjenica centre

This Novi Pazar county will be incorporated in Kosovo County by Ottomans in 1878.

In 1878, in the period of Austria-Hungary governing, by the Decision of Ministry for Finance, following counties were formed:

- Banja Luka
- Bihać
- Mostar
- Sarajevo
- Travnik
- Zvornik

In 1906, Zvornik is no longer the county centre since the industrial development of Tuzla was rapidly growing. So, instead of Zvornik, the centre became Donja Tuzla.

According to this, in a longer historical period, from 15th until beginning of 20th century, Bosnia and Herzegovina was historically shaped in six areas, together with six regional urban centres:

- Bihać
- Banja Luka
- Mostar
- Travnik
- Tuzla
- Sarajevo

In the Kingdom of Yugoslavia until 1929, regional structure of Bosnia and Herzegovina that is designed in previous centuries was kept. With introduction of regions called *banovina* in 1929, Bosnia and Herzegovina lost its historical and territorial specificity and autonomy and altogether historically formed regional structure.

Cvetković-Maček Agreement from 1939 formed *banovina* of Croatia, and by that Agreement, Bosnia and Herzegovina was divided between Croatian and Serb national interests. This process was not completed because of the Second World War. After the Second World War, in the first two decades of socialistic government in Bosnia and Herzegovina, seven regions were formed:

- Bihać
- Banja Luka
- Tuzla
- Dobož
- Travnik
- Sarajevo
- Mostar

This territorial structure was kept from 1945 to 1949. After that, in 1949, Law on administrative and territorial structure of Bosnia and Herzegovina proclaimed four regions:

- Banja Luka (20 counties)
- Mostar (14 counties)
- Sarajevo (15 counties)
- Tuzla (18 counties)

Beside the fact that this structure lasted for short period, according to scientific criteria, this territorial structure could be an optimal solution for Bosnia and Herzegovina. These four regional areas have geographical, historical, cultural, economical, demographic and other stipulations for sustainability in economic, social and cultural development. This particular regional structure is ended in 1952.

Since 1955 there is an introduction of water supply system and new territorial organization-municipality. Smaller municipalities have been integrated into bigger territorial areas. 106 municipalities were formed and since 1978 there are 109 municipalities. With 109 municipalities in 1992, Bosnia and Herzegovina became independent and sovereign country. This was the territorial organization of Bosnia and Herzegovina until the war in 1992.

From the beginning of 1950 until 1992 there was a regional structure within Chamber of Trade of Bosnia and Herzegovina. There were seven basic chambers of trade:

- Bihac
- Banja Luka
- Tuzla
- Mostar
- Sarajevo

During the 1990, a plural political system was established in Bosnia and Herzegovina. Based upon this, there was a multiparty system and government. On the first political multiparty elections in 1990, Parliament majority was won by ethnic parties: SDA (Stranka demokratske akcije), HDZ (Hrvatska demokratska zajednica) and SDS (Srpska demokratska stranka). Within the plural government emerged new concepts of regional territorial organization of Bosnia and Herzegovina. The main criteria become an ethnic criteria and foundation of ethnic territories despite the fact that Bosnia and Herzegovina has a multiethnic structure of population.

SDS (Srpska demokratska stranka) during 1991 initiated Serb autonomy regions ethnically based: Hercegovina, Bosanska krajina, Romanija, Birač, Semberija, etc. All peace agreements that were shaped during the war in Bosnia and Herzegovina from 1992 to 1995 were dominated by ethnic criteria in shaping territorial organization of Bosnia and Herzegovina. It is about following peace plans: Vance-Owen Plan, Owen-Stoltenberg Plan, Washington Peace Agreement, Contact Group Plan and Dayton Peace Agreement.

Vance-Owen Plan (1993) was based on ten provinces in Bosnia and Herzegovina. Three provinces were with majority of Bosniac population (26.36% of BiH territory). Three provinces were Croatian citizens (25.87%). Other three provinces were with majority of Serb population (42.23%). Sarajevo would have a special status with 5.54% of BiH territory.

Owen-Stoltenberg Plan (1993) is based upon concept of three ethnic republics: Croatian (16.59% of territory), Serb (52.08%) and Bosniac (28.29%). Cities of Sarajevo and Mostar would have a special status.

Washington Peace Agreement (1994) is peace plan which creates Federation of Croatian and Bosniac people. Federation of Bosnia and Herzegovina is territorially formed with ten cantons: five with Bosniac majority and three with Croatian majority and two cantons with both populations.

Contact Group Plan (1994) is based on idea of dividing territory of Bosnia and Herzegovina on Federation of Bosnia and Herzegovina and territory with Serb people as majority (Federation 49% and territory with Serb people 48%) and 3% Sarajevo as the District).

Dayton Peace Agreement (1995) is based upon the concept of two entities: Federation of Bosnia and Herzegovina with ten cantons and Republika Srpska. Town of Brčko has got a district status after an arbitrage.

While European countries by the end of twentieth century reshape their territories upon subsidiary principle within the concept of Euro regions, Bosnia and Herzegovina is back on the ethnic principle. This deny historical, economical, communicational and cultural base for shaping regional areas in the past of Bosnia and Herzegovina.

An overview in historical cycle of regional and regional centres shaping in Bosnia and Herzegovina can provide the following hypothesis: During hundred years of shaping regional areas in Bosnia and Herzegovina a six geographical, historical and cultural regions were formed: Bihać region, Banja Luka region, Tuzla region, Mostar region, Sarajevo region and Zenica region. Therefore, towns Bihać, Banja Luka, Tuzla, Mostar, Sarajevo and Zenica became gravitation centres of their regions. During industrialization period in 19th and 20th century Zenica became gravitation centre and Travnik lost that position.

Historically shaped regions in Bosnia and Herzegovina create one of the fundamental points for regional structures programmes that will be adequate to the concept of Euro region contained by standards building for Bosnia and Herzegovina EU integration.

Theoretical Conception for Regionazation of Bosnia and Herzegovina

In the period of 1970 there was a research project “Regionalization and centres of social and economic development”. Theoretical basis for this research project were basic ideas of regionalization and development theory. The main principle of this regionalization is functionality and principle of gravitation. The aim was a functional regionalization of Bosnia and Herzegovina. Author of this conception is prof. dr. Ilijas Bošnjović. According to this conception, Bosnia and Herzegovina has four macro economical regions. Those regions are:

- Bosanska Krajina (Banja Luka)
- Northeast Bosnia (Tuzla)
- Sarajevo-Zenica area (Sarajevo)
- Herzegovina (Mostar)

These regions are multiethnic, and urban centres were the centres itself through long historical period. According to the population census in 1991, Mostar region had around 500.000 habitants, Banja Luka region over 1.000.000, Sarajevo 1.400.000 and Tuzla region 1.300.000 habitants.

Conclusion Remarks

During hundred years of historical existence of Bosnia and Herzegovina as authentic administrative and territorial entity, regional structure was formed with all its regional specificities. Natural, geographical, cultural, economical and communicational factors were dominant influential aspects for establishment of regional structure during 400 years of Ottomans government and later on. When the Ottoman Empire executed reforms in Bosnia and Herzegovina (the first half of 19th century), region of Bosnia and Herzegovina was structured into six regional structures: Bihać region with centre in Bihać, Banja Luka region with centre in Banja Luka, Herzegovina region with centre in Mostar, Travnik region with centre of Travnik, Zvornik region with centre of Zvornik and Sarajevo region with centre in Sarajevo.

Arrival of Austria-Hungarian Empire, after the Berlin Congress in 1878 meant the beginning of industrialization and urbanization process in Bosnia and Herzegovina. This meant arising of industrial centres such are: Tuzla, Zenica and Doboј. Based upon Tuzla's development and the fact that this tow became a centre, Austria-Hungarian government pronounced Tuzla as the centre of region, not Zvornik, which was the centre before.

In the period of Kingdom of Yugoslavia, Bosnia and Herzegovina will become the region of separations between Serb and Croat national interests. Great Serbian interest had a concept based upon nine *banovinas*, out of which, only one (Vrbaska with centre in Banja Luka) was on the territory of Bosnia and Herzegovina in its entire area.

Great Serbian interest between two world wars was emphasized by Cvetković-Maček Agreement in 1939. According to this agreement, significant part of Bosnia and Herzegovina was the part of Croatia *banovina*. Because of the Second World War the implementation of Cvetković-Maček Agreement was closed.

After the victory of liberation antifascism forces in the Second World War and formation of Bosnia and Herzegovina within SFRJ, socialistic government established regional structures with seven counties: Bihać, banja Luka, Tuzla, Doboј, Mostar, Travnik and Sarajevo county. In the period 1949-1952, Bosnia and Herzegovina was structured in four areas: Tuzla, Banja Luka, Sarajevo and Mostar.

In 1965 Bosnia and Herzegovina got regional structure in the form of municipalities (106 municipalities, and since 1978-109 municipalities). Beside this territorial structure there was a structure within Chamber of Trade with seven regional chambers: Bihać, Banja Luka, Doboј, Tuzla, Zenica, Sarajevo and Mostar. Observable fact is that Zenica instead of Travnik became industrial centre as the centre of metal industry.

Shaping of regions in Bosnia and Herzegovina through its economical, cultural and historical development created regional identity of Bosnia and Herzegovina. Citizens gained responsiveness about regional identity.

Challenges that followed up in the historical time of pluralisation of BiH society in 1990 brought to a certain phenomena that are not known in historical development of Bosnia and Herzegovina. This is related to the regional structure too. It is about phenomena of ethnic reshaping of Bosnia and Herzegovina territory. The election victory of nationalistic political parties in 1990 started this process. It had begun with Srpska demokratska stranka (SDS) with concept of Serb autonomy regions. This concept brought to forcefully relocation of people and ethnic cleansing.

The war period (1992-1995) was the lost period for historical development of Bosnia and Herzegovina and affirmation of regional component in the development. While European countries by the end of twentieth century reshape their territories upon subsidiary principle within the concept of Euro regions, Bosnia and Herzegovina is back on the ethnic principle. All peace agreements that were produced during the war in Bosnia and Herzegovina from 1992 to 1995 were dominated by ethnic criteria in shaping territorial organization of Bosnia and Herzegovina

Historical processes of integration of Bosnia and Herzegovina in EU suppose creation of regional structure, which would be adaptable and in accordance of EU regional development policy. Just as any other complex projects, this project of regional structuring depends on social and political consensus about this matter in Parliament Assembly of Bosnia and Herzegovina. The result also depends on the assistance of international community.

Beside the historical background of regions in Bosnia and Herzegovina, facts that stand beyond ethnic principles are theoretical and scientific concepts of regional structuring in Bosnia and Herzegovina? Published scientific research projects in 1970 and 1989 prefer concept of regional structuring in Bosnia and Herzegovina in four regions: Banja Luka-Bihać; Tuzla-Doboj; Sarajevo-Zenica and Mostar-Trebinje. These regions have preconditions to be economically sustainable and in accordance of Euro regions concept. They would be multiethnic regions and carriers of regional development and cross regional communication and cooperation in European Union.

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EUROPEANISED GOVERNANCE AND COHESION POLICY

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The rescaling/ or consolidation process at basic and meso-levels in Central and Eastern European countries has been going on under the label of Europeanisation adapting to the mainstream of West-European territorial governance and regionalism strongly influenced by the regime of the Structural Funds. The paper will show the process of territorial reforms in some Central and Eastern European and Western Balkan countries comparatively.

Keywords: Europeanisation, governance, regime of structural funds, rescaling, regionalism

Introduction

The new democracies in CEE and Western Balkan countries have implemented public administrative reforms in the last two decades in order to adapt to the European requirements. Not just the designation/delimitation of the new public administrative boundaries is interesting but also the shift of power among the levels and actors emerging in several public policy fields and especially in regional development. The rescaling process has been accompanied by new forms, techniques of governance bringing more horizontal elements into the traditionally vertical and bureaucratic administrative system of post communist countries. The changing boundaries, scales and actors could be an innovation contributing to the modernisation and decentralisation of the territorial governance however these could be also the driving forces of centralisation, client-networks as at least the Hungarian experience show.

The main message of the paper that the forced rescaling and Europeanisation, without establishment of consensus among stakeholders and fitting the new scales to the domestic context, can easily fail what the new EU member and candidate countries should avoid.

Europeanization of Territorial Governance

The public administrations in member states of the EU underwent a strong convergence process, since the implementation of common policies depends mainly on the performance of national administrations. The so called European administrative space became a rather informal project relying on the relationships between the different tiers of governance (multilevel governance, MLG), as well as on the elaboration of common procedural and professional standards (Cardona, 1998, Olsen 2003, Goetz, 2006).

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The European cohesion policy has had an intensive invasive effect on national administrations of Eastern-Central European countries explained by the strong motivation to acquire development resources eligible for less developed regions. The Europeanization and conditionalism was generated therefore directly by the management of the Structural Funds (Hughes et al 2004). As a result of European principles of subsidiarity and partnership, including the regions into the decision-making processes of the Union, the regions became the most virulent factors of multilevel governance (Bache, 1998). The delimitation of the so called NUTS 2 regions (Nomenclature of Units of Territorial Statistics) in compliance with the regulations by the European Union has become in several countries the basis of territorial reforms of public administration. The establishment of regional consultative bodies became wide spread also following the principle of partnership.

The selected countries apply different techniques in the reform of territorial public administration and in the management of Structural Funds. Nevertheless it is valid for all models, that the motivation of accessing and acquiring European resources takes a stronger effect on their ambitions concerning the regional tier than any other driving force. The analysis will point out the conflicts of the administrations' Europeanization and the barriers of adapting external models in a Central-Eastern European region lacking real traditions of decentralisation and similarly regional identity. The analysis of concrete examples will highlight also that the applied models and means of convergence between national administrations may be fairly varying, and that structural changes do not necessarily lead to an optimal outcome

Changing Picture at Meso-Level Administration in Europe

Public administrative diversity is a characteristic feature of European political circumstances, despite of the number of administrative reforms carried out alone in the 20th century. The 1980s and 1990s elapsed in the spirit of Europe of regions, implementing significant decentralisation and regionalisation reforms in many member states (Larsson et al, 1999, *Keating*, 2004). However, the driving force of regionalisation were not exclusively the structural funds, but they were often of cultural, ethnic and historical character (Spain, Belgium, Great Britain) or in other cases the aspects and motivation of modernisation, size efficiency or political decentralisation (France, Germany). Some reforms were classically top down (French, German), while in some other cases the ambitions of local political elites can also be detected (Italy, Belgium, Great Britain). Therefore literature distinguishes between bottom up and top down regionalisms (Keating, 2004).

However, strengthening the meso-level, not always means decentralisation in political sense. The central state often prefers the regionalisation of state provided services and public administration that is, the allocation of deconcentrated organs in the regions (England, Greece, Portugal, etc.). Therefore we may state that the phenomenon of regionalism and regionalisation is not identical with political decentralisation and not dependant on the physical scale of units, either. National characteristics strongly differentiate meso-tier administrations, despite some factors contributing to the strengthening of the sub-national tiers in general. No general schemes for territorial integration exist therefore Central-East European countries shall take their own way in order to achieve the desirable status of goodness of fit between the European regionalisation and the domestic regionalism (Cowles et al 2001).

We have to emphasise that there is a shift in Europe concerning regionalism at least in political sense. Michael Keating concluded in a thematic issue on regionalism of Federal and

Regional Studies as follows:” The Europe of the Regions thesis was always overblown, as the contributions to this Special Issue make clear. On the other hand, the old state order has experienced important transformations. Territorial politics was not invented by the EU, multilevel politics or nothing new and both will be with us for at least another quarter century.” (Keating, 2008:635). The region is no longer a miracle; it is time to investigate without illusions the processes and the consequences of regionalism in Europe in order to be able to envision the future.

The Specialities of Adaptation in the New Member States

The new East-Central-European democracies faced a twofold challenge in the 1990s:

- First, they had to establish a democratic state and political system on the basis of political plurality, not simply as a democratic principle, but also as a principle that is able to effectively tackle the problems raised by the systemic change. In order to achieve this task, not only the adaptation to the general model of Western democracies was required, but also and parallel the consideration of national characteristics and historical roots was necessary.
- The new democracies, on the other hand, hoping for accession to the European Union, were to find a state administrative, institutional model which is able to match the requirements of “*acquis communautaire*”. The adaptation to this twofold, internal and external system of requirements, and in addition, the time pressure concerning their implementation, was not, by any standards, easy and was not free from contradictions either.

The preparation for the EU accession and the reestablishment of the national power and administrative structures in the East-Central-European states were usually parallel processes, supporting each other and they were accompanied by several conflicts.

- In the spirit of conditionalism the adaptation process was controlled fairly strictly but in return financially supported by the EU Commission (Hughes, et al 2004). Since the accession countries had to design their own management system for the Structural Funds parallel to the setting up of their public administrative systems, these new, fragile national public administrations were not able to meet professional requirements set by the Community.
- A further difficulty of the adaptation process was that the new member states with completely different administrative culture and strong historical heritage of centralisation could hardly integrate the new, alien elements of governance. The logic of NPM flourishing in Europe in the last decades was completely strange for the fairly bureaucratic structures of ECE countries.
- And finally the time pressure also hindered the learning process but also pushed the “pupils” imitating to real performance.

Regional reforms carried out in the countries that accessed the EU in 2004 belong to the top down type of regionalisation. The generally unsuccessful responses to the challenges by the European governance imply that these countries would need internal driving forces and commitment in establishing modern and democratic territorial administrative systems.

Some Examples of Regional Reforms in CEE

Poland has regional traditions, since it already had during its history a regional public administrative arrangement in scale similar to the current system prior to the reform performed in 1975. However, as we will highlight later, Poland had no strong traditions in real

decentralisation of power. Further, in the course of the delimitation and naming of new regions the aspects of territorial identity and traditions were fully neglected (Sagan, 2007). Poland followed a fairly ambitious model of adaptation to European regional policy. As a result of hard efforts Poland implemented comprehensive territorial reforms and introduced new self-government units at regional and county levels in 1998 (Emilewicz and Wolek, 2002). Although during the preparation phase the hottest debates were on the number and the delimitation of regions, competencies became the key elements in assessing the success of decentralisation. The new regions were not equipped with competencies and funds, in other words region building was in fact not accompanied by the decentralisation of competencies and tasks (Regulsky, 2003).

The biggest contradiction is that the reallocation of tasks from the national to the regional level was not accompanied by the reallocation of sufficient resources. This limitation of the resources of the newly created self-governmental tier proved to be the major hindrance of the performance of an autonomous development policy. Notwithstanding, the trend has been improving considering resource concentration and competences in management of structural funds. Regionalisation has had a positive impact on development policy, and despite the fragmentation and relatively weak competencies, regions still offer a more efficient institutional framework for development policy. In Poland during the first programming period (2004-2006) 40% of EU funding was allocated to regional operative programs. As compared with the other new member states this was actually the highest proportion (Bachtler and McMaster, 2008). At the same time the management of the ROPs was centralised in the ministry responsible for regional policy. The situation slightly changed during the next programming period as a result of the stronger regional pressure. In Poland 16 ROPs were formulated and they are managed regionally by the self government and the voivod's office, although the central control remained unchanged (Bachtler and McMaster, 2008).

Concluding we wish to state that historical traditions in terms of geographical scale could have supported the Polish regionalisation, but filling the regions with autonomous power and resources was an even harder task. The relative success of the regional reforms is closely connected with the stronger civil traditions and the historical embeddedness of the scale, and also the capability of the new regional governments to exert pressure on the central government in the interest of continuation of decentralisation (Emilewicz, 2002, Sagan, 2007).

Slovakia became an independent state making explicit centralizing efforts, which is quite understandable in view of its nation building ambitions. After 1996 the territory of Slovakia was divided into 8 large state administrative regions. The seats and borders of the administrative regions were in some cases appointed and delimited on the basis of political considerations directed to the Hungarian minorities. Similar techniques were applied also in the course of delimitation of districts, ministries were powerful enough during the 1996 reforms to maintain the network of deconcentrated organs set up subsequent to the systemic change (Bucek, 2002).

The next reform of public administration was carried out in 1998 as the outcome of long lasting debates (Ficza, 2005). In 2001 decision was made on the direct election of county self governments in the former eight state administrative regions. However, the transformation of counties into self-governmental units was slowly progressing, especially in terms of allocation of competencies and financial resources, as it was usual in post-communist countries (Bryson and Cornia 2004). In 2004 more comprehensive territorial reforms were implemented, the former 79 districts were eliminated and their competencies were taken over

by the eight state administrative county offices, by 50 district offices and 221 special state administrative offices.

The NUTS division differs from the administrative division (there are 4 NUTS 2 regions), indicating that there was no stable vision on the territorial division of the country. The network of regional development agencies was set up by the government in the year 2000, to assist the government and the local actors in utilising the Structural Funds (Rehak, 2007). Slovakia established so-called regional managing and monitoring committees and their secretaries in the NUTS 2 regions, and their task is to participate in the management of the Structural Funds. Within the NUTS 3 counties, the management of development policy and the adaptation of development programmes are the responsibility of county assemblies. Following the European accession the management of programmes is a kind of alien body outside of the ordinary public administration, experiencing functional problems.

In the first programming period Slovakia had no regional operative programmes only one single programme managed by the ministry responsible for regional development demonstrating that the accelerated modernisation required centralised control. In the recent programming period regional issues got priority as project selection criteria (Batchler and McMaster, 2008). Finally 8 regional operative programmes were established (instead of the 4 in the NUTS 2 regions). However, this solution clearly implies that the number and borders of regions are still unstable.

The recent 19 Hungarian counties have been traditionally very strong units of the public administration ever since the foundation of the Hungarian state in the eleventh century. According to the Act on Local Governments, enacted in 1990, municipality became the key element of the local government system instead of the former county. Paradoxically this change led to the strong centralization of the entire public administrative system. The Hungarian state's shape is similar to a sand-glass, with a too strong (wide) top and a too strong (wide) bottom, causing many functional and democratic deficits, therefore Hungarian local governance suffers not only from efficiency problems but democratic deficit too.

In 2002 the government announced brave reforms within public administrative sector, planning the establishment of seven directly elected regional self-governments (in NUTS 2) by the year 2006. The objective of the reform was to finish the decade-long debate on the counties by transferring territorial power to the regions, eliminating in this way the self-governance status of the counties. This programme proved to be too ambitious. It was an extremely important question, whether a top-down initiated regionalisation, together with a weak and not integrated local society, could lead to an actually decentralised power structure? There was a danger that a forced regionalisation will become an instrument in the hands of not the local, but the central power. However the government in power in the cycle 2002–2006 did not prepare or submit any legal acts on the regional reform.

Preparing for the accession one chance to stabilize the 'meso' was the legislation on European type of regional policy. The act on regional development was passed in 1996 bringing basic changes in the territorial power structure (Pálné 2001). Development councils at national, regional, county and micro-regional level were created by delegation. This over-fragmented institutional system, the conglomeration of development councils operating at three territorial tiers contributed to the fragmentation of the development resources, the competition of the tiers among each other and conflicts evolving due to the lack of clear division of labour. However during the time the macro (NUTS 2) regions slowly became important actors in the regional policy.

The accession in 2004 caused shock and disappointment. Referring to the “weak regional capacity”, the European Commission insisted on the centralised management of Structural Funds, therefore the regional institutions (regional development councils) have almost completely lost their former influence on regional policy. The management authorities were integrated in the central government, the regional actors only received co-operative functions. Hungary had to realize that the EU does not insist on the active role of the regions, it does not want to take risks with decentralised structures. The adaptive pressure of accession pushed the country towards centralisation and neglecting the regions, whereas the previous decade was characterised by regionalism and decentralisation.

The government re-elected in 2006 made another attempt to carry out the reform of regional self-governance, although it was not very convincing and after the formal and failed attempt for the amendment of the act on local governments and the constitution the issue of regional self-governments has not been on the schedule any more.

During the preparation of second national development plan for the 2007–2013 period the government placed emphasis on the role of regions, therefore seven independent regional operative programmes were included in the plan. On the other hand the government created a fairly centralised management, and regional development agencies and councils were given an intermediary role again. Summarising we can conclude that Hungary attempted to adapt to the challenges of European regional policy. This adaptation process was successful in terms of institution building and adopting know how by technocrats, top officials of public administration. On the other hand the adaptation was only formal and did not contribute to the real decentralisation. So we are in the situation that we have several meso-tiers and several types of regionalised institutions, but the system as a whole remained centralised.

After the win of new rightwing government in 2010 regionalism has been almost disappeared. The announced reforms project that the old counties will remain the administrative frameworks of governance. However this development is not so promising from the view of self governance and decentralisation since not the directly elected county assemblies but the nominated government commissioner’s offices obtained the real meso-level power as a new wave of traditional centralisation

The Situation of Western Balkan Countries

This chapter will examine how the territorial public administration of the Balkan countries on their road to EU accession is able to adapt to the continuously changing European challenges and trends. Will Europe’s colourful map of public administration be enriched with a new group of countries constituting a specific case, or is there hope for convergence and a slow progress towards the idea of the “European Public Administrative Space”? This is a justifiable question to ask, not only because the public administration reforms of post-accession Eastern European countries were neither successful nor deep, but due to the pessimistic opinions regarding former Yugoslavian countries from the beginning, invoking the strong role of tradition, which could override European challenges (Rabrenovic–Verheijen, 2006). What makes the evaluation of the situation of territorial public administration even more difficult is that it is precisely the territorial structure, the location of national minorities and the geopolitical situation which are a source of conflict. In this respect, the successor states of the former Yugoslavia are in a special situation, further highlighting the unique character of the Eastern European region.

It is significant that the Constitutional structure of the former Yugoslavia preceding the change of regime differed in many aspects from other Eastern European countries who had applied the Soviet model more directly. Yugoslavia's "self-administering Socialism" was in opposition to Soviet-type Socialism trying to model a federal state and a workers' democracy (Sajti, 2000). The multi-level system of decision-making and the assertion of interests were constructed in a bottom-up way, with the Skupštinas of communes delegating members to the Skupštinas of districts, the autonomous province and the republic. Following the logic of the model, communes enjoyed the widest competences. This model of power authorised that the size of communes should be appropriate to the relevant services to be provided, so linking the elements of decentralisation and the economies of scale.

The reality of the constitutional model showed a quite different picture as a result of political and ideological obstacles, but yet, in a peculiar manner, certain elements of the model survived the change of regime. In this paper there is no place to introduce the reform processes occurred in the countries of Western Balkan, we just summarize some lessons drawn from the detailed country studies (Grünhut–Pálné, 2011). According to our analyses, territorial public administrations of countries of the Balkans share certain common specificities and distinctive features compared with those ex-communist countries which joined the EU earlier.

The role of the common past which these countries share is still being determined. The Yugoslavian model of local government implemented since the 1950s had distinctive features compared with the Central and Eastern European Soviet-type council system.

During the regime changes of the '90s, the political elite initially supporting Western values of self-government became less enthusiastic about promoting the process of decentralisation after rising to power (Navracsics, 1992), and consequently temporarily defied the traditions of decentralisation. The change of regime and the collapse of Yugoslavia produced strong centralisation in all the successor states, and the situation changed only gradually due to the presence of international peace-keeping forces and the hope of joining the European Union.

The implementation of decentralisation was gradual. Initially, public legal autonomy guaranteed by the Constitution was granted only to municipalities. While Central and Eastern European countries suffer from municipal fragmentation, the situation is not so severe in countries of the Balkans. The integrity of the former Yugoslavian model of local governance has been conserved in several areas, although to a very extreme degree. Due to the disappearance of earlier districts, the number of municipalities fell from 11,556 in 1946 to 518 in 1963 (Bihari, 1969), and municipalities were able to perform significant, meso-level functions as well (Juhász, 2001). It is understandable that, after the change of regime, efforts towards autonomy emerged almost everywhere, although countries of the Western Balkans escaped the so-called "first wave fragmentation" characteristic of the change of regime in Central and Eastern Europe; municipalities are identical with settlement districts in most cases (Table 1). Nevertheless, compared with most western models, the efficiency level of municipal governments lags far behind that expected (Pintar, 2001; Maslyukivska, 2006). According to the views of experts and the opinions of international expert groups, there are serious attempts to consolidate settlements, primarily through the promotion of associations. The progress of the decentralisation of competences and particularly of fiscal decentralisation has been quite slow, the absence of the latter being considered a further handicap for the region's public administration.

The meso-level government showed the strongest resistance to decentralisation, and we can observe a most colourful picture at this level. In most Central and Eastern European countries,

formal factors played the most important roles in the organisation of the meso-level and the imitation of the model of the size of the NUTS system was desirable. The geographical borders of new meso-level units are uncertain: sometimes several types of meso levels coexist and administrative borders often change due to a lack of internal cohesion (Pálné, 2007). In the Balkans, political, national and ethnic considerations determine the territorial division, often under the pressure of force or with the aim of co-operation. Autonomous territorial units divided on an ethnic basis often function within federal structures. The requirements of efficiency and professionalism are often neglected in the pursuit of harmonising the ethnic and territorial division of the country (Miličević, 2001). A basic contradictory element in regionalisation is that, in contrast to ethnic autonomies, in homogenous regions, national governments strive to maintain their positions at meso-level by exercising strict supervision or maintaining a dual structure of public administration. In a paradoxical way, traditional “federalism” and strong centralisation coexist in countries of the Western Balkans. Decentralisation constitutes, undoubtedly, an essential, but by no means exclusive, instrument for the political and economic stabilisation of the region.

Conclusions

As we concluded in the chapter on territorial reforms in CEE, apparently, regional policy in itself and EU membership in the broader sense have not provided sufficient motivation for the transformation of the territorial distribution of power.

Table 1: Territorial Organisation of the Western Balkan Countries, 2010

Country	Territorial authorities	Local authorities			Number of settlements	Per municipality	
		City status	District	Total		Number of settlements	Population
Albania	12	65	308	373	3,052	8.2	9,811
Bosnia and Herzegovina							
Federation	10	–	79	79	3,343	42.3	36,110
Republic of Serbia	7	2*	61*	63	2,721	43.2	23,220
Croatia	21	127	429	556	6,752	12.1	8,070
Kosovo	–	–	33	33	1,466	44.4	55,001
Macedonia	–	–	84	84	1,767	21.0	24,668
Montenegro	–	–	21	21	1,256	59.8	31,749
Serbia	1	23	122	145	4,720	32.6	50,654
Slovenia	–	11	199	210	6,028	28.7	9,539

* Banja Luka is a district type municipality with city status.

Source: CIA Factbook, 2010.

This is a useful lesson for countries of the Balkans facing public administrative reforms which must find the proper internal driving forces of modernisation and decentralisation if they wish to avoid the traps of the slavish imitation of patterns. This applies especially to countries whose EU accession date is still uncertain. Several factors influence the development of public administration systems in the countries of the Balkans and main trends can only be detected by studying long-term experience. Although requirements and impulses

coming from the EU do exert a great influence in the spirit of “third wave conditionalism” (Helmerich, 2008), countries must implement their public administrative reforms in an entirely different milieu. Whilst it is evident to all that decentralisation is the only effective instrument of modernisation (Miličević, 2001), the process of its implementation will, very likely, be neither simple nor quick.

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REGIONALIZATION, REGIONAL MARKETING AND REGIONAL COMPANIES IN WESTERN BALKAN COUNTRIES

*Domazet Anto**

Regionalization of the Western Balkans countries is presented as a process of integration of national economies in the region based on the liberalization of flows of goods, capital, labor, information and ideas. Regionalization is taking place on two levels: at the individual country level and at the level of companies. Effects of regionalization are reflected in economic growth and development through the fostering of mutual trade, foreign direct investment and competitiveness.

Regionalization creates a regional market, which is for the Western Balkan countries institutionally organized in the form of CEFTA. In the same time nearly all Western Balkan countries have a certain level of association and integration with European Union.

In the context of international marketing regionalization is a process of convergence of marketing environment. This leads to a convergence of consumer needs and consumers creating a “regional consumer” with homogenized needs and preferences in consumption. So it allows the standardization of marketing on a regional basis and products with the effects of economies of scale and fragmentation of the value chain in different locations within the region.

Regional marketing is a market concept exploiting market opportunities offered by regional markets and resources in the region. On the basis of a regional marketing approach a new type of regional companies that are oriented to market demand in the region is developed. Regional companies have primary focus to the similarities between the regional consumer segments and opportunities for regional resource use and investment in the region.

For each country in the Western Balkans, due to the small economic area, regional market is extremely important for generating economic growth. Applying regional marketing and creating competitive regional companies is a promising way to use the potential of regional markets as much as possible. This also creates the necessary conditions for the competitiveness of regional companies in the EU market.

Key words: regionalization, Western Balkan, convergence of environment, regional marketing, regional company.

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Introduction

From the economic viewpoint, regionalization is a process of economy convergence of a given region's countries in terms of combining their respective structures, increasing their competitiveness and efficiency, and the overall sustainability and development. Regionalization emerges as a result of integration of countries' economies within the region in its various forms: starting from bilateral free trade agreements to creating a single market and monetary union.

In case of Western Balkan countries¹ (WB), the integration process partly has the re-integration features, and partly the features of deepening and creating new forms of integration. In essence, the content of these countries' integration is related to the European Union (EU) and NATO membership, individual countries being in different development and progress stages. Besides, these countries' integration process also has its global dimension (WTO membership). Political and economic reforms undertaken by WB countries are aimed at increasing competitiveness, accelerating economic growth and increasing their citizens' living standard.

One can treat regionalization in two points of view: 1) as an original process of economic integration in the framework of one region, and 2) as a part of globalization process focused to one region. Initially, the first way of globalization was applied in developing regionalization. In this case regionalization is the first step in global integration. Regionalization is followed by bi-regionalization or multi-regionalization and then by globalization of the national economy. For European countries a mid-step could be Pan-Europeization as an approach focused to total Europe integration before go to total globalization.

By way of liberalization and removing barriers for the flow of goods, services, people and capital, regionalization provides stimuli to industries and companies in the region to internationalize. This, in turn, allows removing limitations for the growth of industries and companies that make up a small market of individual countries and limitations related to providing input for increasing industries and companies' competitiveness. Therefore the internationalization itself within the regionalization process can be viewed as internationalization in order to ensure new markets (market seeking internationalization), and to ensure new resource sources (resource seeking internationalization (Johanson, Vahlne, 2009, p. 1.427).

The goal of the paper is to point to effects that the WB regionalization through regional integrations achieves on the internationalization of companies in the region based on regional marketing (See the overview in Fig. 1).

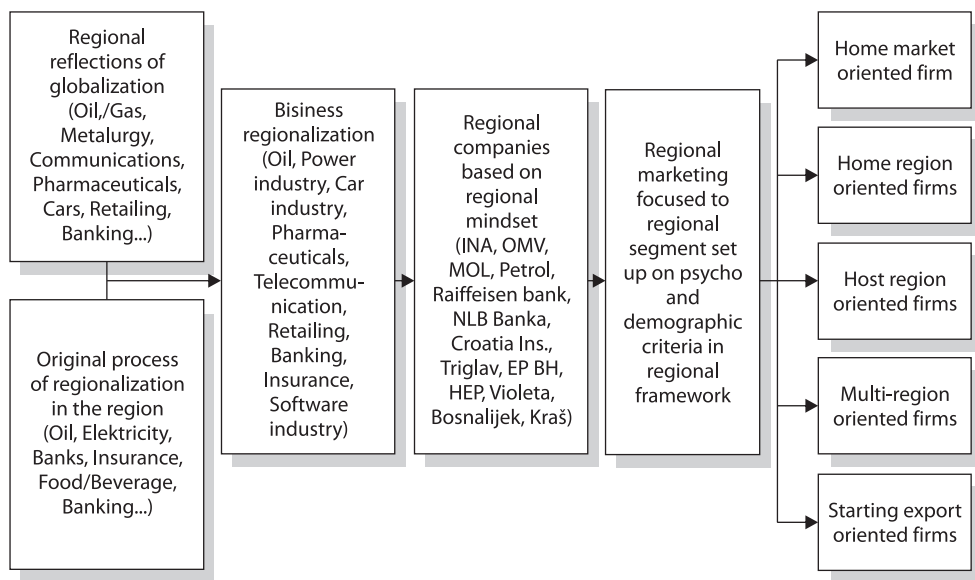
The main hypothesis of the paper is that the WB regionalization has reached such intensity that it prompts companies in the region countries to use the regional marketing concept and their transformation into regional companies, which is confirmed on the example of Bosnia and Herzegovina. Besides this one, the paper includes two auxiliary hypotheses. The first refers to the statement that regionalization effects are primarily expressed in the area of home region orientation of the companies in the B-H example. The second is that, in parallel with advance in reforms and coming closer to the European Union, and by attracting more foreign direct investment from the EU, an increasing number of B-H companies is adopting the

¹ In this paper, Western Balkans includes the following countries: Croatia, Bosnia and Herzegovina, Serbia, Kosovo, Albania Montenegro and Macedonia. The term 'Kosovo' in political sense implies UNMIK, due to the fact that B-H has not recognized Kosovo independence.

pan-European regional orientation, which is expressed in the local companies' host region orientation.

The paper includes the following limitations. First, there is the identification and differentiation between the WB region and CEFTA. This is due to the discussion of WB regionalization, while the main form of integration in the economic area is done through CEFTA group. Secondly, there are no reliable statistical data on companies and their operational structure, and empirical studies are therefore conducted on a sample of 100 largest B-H companies, and on the case study of B-H based Violeta company.

Figure 1: Process of regionalization and internationalization of companies in the WB region



The paper is organized in the following way. The first section provides the introduction and paper hypothesis. The second section discusses regionalization to the extent that is necessary to identify the framework for using regional marketing and forming regional companies. The third section deals with regional marketing and the fourth with regional companies. It also includes empirical analysis of company types in B-H. The fifth section presents the case study of B-H based Violeta company, while the final, sixth section provides conclusions and recommendations for further research.

Regionalization and its effects on company internationalization

The reason for discussing WB regionalization is that small open countries in the WB do not have large enough markets that could ensure economic growth. Using new technologies, new business processes and activities requires larger markets and opportunities for more massive use of scale economy. The export led growth concept has not been absolutized in the region and is normally treated in the context of simultaneous GDP and export growth. Empirical studies show that export as a growth driver cannot be viewed as an exogenous variable; rather, it is both export and productivity in the non-tradable sector that contribute to GDP

growth (Yil, 2008). In the conditions of searching for policies that might drive WB countries out of recession, the tradable sector development has priority, and it can be achieved through export orientation, together with technological development. Thus, the region needs economic growth, and growth necessarily requires export competitiveness and export markets (Landesmann, 2010).

At the microeconomic level, regionalization creates stimuli for companies to internationalize. It implies creation of the company value chain that transcends national borders. More accurately, it means that the volume of company's sales beyond the local market keeps increasing, which in turn creates opportunities for local companies to grow beyond local market borders.

Regionalization implies integration processes at the macroeconomic level. This process has its sectoral and micro economic consequences. Indeed, if viewed systemically, regionalization creates opportunities or threats for national industries and companies, which they want to use or neutralize respectively through their strategic adjustment to changes due to regionalization. On the other hand, the intensity of positive regionalization effects on national industries and companies will depend on their competitiveness. Therefore, in parallel with strengthening the regionalization process, it is necessary to strengthen industries and companies' competitiveness, since trade and investment liberalization leads to the creation of new business environment where national industries and enterprises are less protected and more exposed to regional competition.

Regionalization is also subject to global effects, although there are purely European convergence drivers, which can be categorized into three groups: 1) economic convergence drivers with three subgroups, as follows: a) drivers on the supply side (economy of scale in standardized marketing and lower-cost production, standardization of distribution channels, promotion, product prices, emergence of European brands, etc.), b) drivers of the demand side (convergence of consumer needs, tastes and preferences, increase in value for money, preference of European brands), 2) political and legal convergence drivers (adoption of common EU regulations, establishing common policies at the EU level), 3. cultural convergence drivers (building of the new identity for Europe and its citizens, approach to European tradition and values, sensitivity to nature and environment sustainability, etc.) (Halliburton and Hünérberg, 1993., pp. 77-93).

Regional integrations lead to static and dynamic effects for member countries (Nell, 2009, pp. 125-128). Static effects may include the effects of creating new and those of existing trade divergence, and effects of the terms of trade. Dynamic effects of regional integrations include economy of scale, increase in competitiveness, production specialization within a regional bloc, increase in negotiating power at the international level, and spurring technological progress.

Results of the analysis that follows indicate that WB countries are primarily oriented to the EU market, both in exports and in imports. However, the EU share in these countries' overall exports and imports decreased in the 2004-2010 period. In the same time, the share of CEFTA market in these countries' exports increases, as it is their second export market. Third markets make up 14.06% WB countries' export markets, while they are the second most important market for these countries when it comes to imports. This is due to high energy dependence on Russian gas and oil, and on the increasing orientation to Chinese market in supplying a series of consumer goods.

Table 1: Regional direction of export/import in WB countries (in % of total export/import)

Export/Import of Western Balkan countries		Export				Import			
		2004	2006	2008	2010	2004	2006	2008	2010
Albania:	EU	90,72	88,59	79,70	70,09	70,52	65,45	60,75	64,57
	CEFTA	6,19	6,97	13,46	15,42	3,24	4,85	8,35	9,81
	OTHERS	3,09	4,44	6,84	14,48	26,23	29,70	30,91	25,62
BH	EU	45,80	59,69	54,97	54,44	43,76	53,05	48,01	45,90
	CEFTA	31,82	32,94	37,03	35,28	25,89	27,99	28,91	27,02
	OTHERS	22,38	7,37	8,00	10,28	30,35	18,96	23,08	27,08
Croatia	EU	65,79	64,24	60,86	61,07	70,95	67,18	64,15	60,16
	CEFTA	19,39	19,12	23,59	18,70	3,69	4,81	5,04	5,36
	OTHERS	14,82	16,65	15,55	20,23	25,36	28,01	30,81	34,49
Serbia	EU	-	56,24	54,26	57,32	-	45,85	53,28	55,99
	CEFTA	-	34,12	35,94	31,58	-	8,10	8,01	8,70
	OTHERS	-	9,63	9,80	11,10	-	46,05	38,71	35,30
Montenegro	EU	-	65,46	60,84	55,93	-	47,34	42,74	37,74
	CEFTA	-	33,86	38,00	43,47	-	34,58	35,06	40,72
	OTHERS	-	0,68	1,17	0,61	-	18,08	22,20	21,55
Kosovo*	EU	-	-	-	43,03	-	-	-	39,00
	CEFTA	-	-	-	32,12	-	-	-	35,80
	OTHERS	-	-	-	24,85	-	-	-	25,21
Macedonia	EU	60,22	61,22	59,55	61,29	61,18	52,95	48,24	53,10
	CEFTA	39,41	35,79	35,52	30,86	11,78	10,95	11,54	11,56
	OTHERS	0,37	2,98	4,93	7,85	27,04	36,09	40,22	35,35
Total WB	EU	63,13	61,98	58,59	59,30	64,04	57,69	56,16	55,55
	CEFTA	23,43	26,72	30,40	26,64	9,28	10,64	11,57	12,01
	OTHERS	13,44	11,30	11,01	14,06	26,68	31,67	32,27	32,44

Source: www.itc.com, access July 1, 2011. *= Data available for 2009.

The greatest orientation to the EU, both in exports and in imports is registered in Albania, and it is followed by the other countries. Except for Kosovo, the EU market is very stable for most WB countries, with a share from 54.4% for B-H to 61.3% for Macedonia. EU as a resource base has a decreasing significance for all countries, except for Serbia and partly Albania.

Foreign trade exchange growth is also reflected in the WB countries' economic growth. In the 2002-2010 period, the Gross domestic product in the region increased 1.61 times. The greatest growth was registered in Montenegro, Albania, Macedonia, B-H and Serbia, followed by Croatia and Kosovo. The entire region registered the 46.1% growth of trade openness in the observed period, and only Croatia registered a decrease in the trade openness. Theoretically and empirically, it is proved that there is a positive correlation between the trade openness index and economic growth. It is particularly confirmed in small open economies, such as WB

region economies. This positive correlation can be attributed to the increasing diversification of an economy and its deepening international specialization in the course of development (Broadman, 2005, p. 22).

Table 2: GDP (Mil. Eur) and Trade Openness of the WB region

WB Countries		2003	2004	2005	2006	2007	2008	2009	2010	Index 2010/2003
Albania:	GDP	5.048	5.881	6.561	7.168	7.828	8.861	8.756	8.881	175,9
	TOI	0,40	0,40	0,40	0,43	0,49	0,51	0,46	0,52	129,0
BH	GDP	7.416	8.071	8.757	9.843	11.126	12.630	12.268	12.391	167,1
	TOI	0,74	0,79	0,87	0,89	0,91	0,93	0,72	0,85	115,0
Croatia	GDP	30.011	32.759	33.725	39.102	42.833	47.370	45.379	45.882	152,9
	TOI	0,60	0,60	0,65	0,65	0,65	0,64	0,50	0,52	87,1
Serbia:	GDP	17.306	19.026	20.306	23.305	28.468	32.668	28.883	28.815	166,5
	TOI	-	-	0,59	0,67	0,70	0,70	0,61	0,69	-
Montenegro	GDP	1.510	1.670	1.815	2.149	2.680	3.086	2.981	2.968	196,6
	TOI	-	-	-	0,89	0,95	0,96	0,65	0,66	-
Kosovo	GDP	2.967	2.928	3.005	3.118	3.411	3.849	3.868	4113	138,6
	TOI	-	-	-	-	-	-	0,54	-	-
Macedonia	GDP	4.104	4.323	4.676	5.081	5.966	6.720	6.746	7.015	170,9
	TOI	0,79	0,85	0,90	0,97	1,05	1,10	0,82	0,94	119,3
Total	GDP	68.365	74.660	78.847	89.770	102.315	115.188	108.885	110.068	161,0
	TOI	0,42	0,43	0,61	0,66	0,69	0,69	0,58	0,62	146,1

Source: National statistics; Trade openness index (TOI) = Export plus import value/GDP value

Regional integrations lead to emergence and growth of intra-industry trade (IIT). Recent division among a country's import and export goods has been transformed into intra-industry exchange, where within a single industry (furniture, household appliances, food processing, oil, chemical, textile industry, etc.) a country achieves both exports and imports owing to possibilities for goods differentiation by usability, raw material and psychological features (Domazet, 2008). This removes additional barriers for trade growth, even within the same sectors, though respecting differences in individual countries and companies' competitiveness.

Table 3 shows intra-industry exchange results expressed by means of Gruber-Lloyd index (GLI)².

² Formula for calculating GLI is following, where X= value of exports and m= value of imports

$$GL = 1 - \frac{x - m}{x + m}$$

GL index ranges from 0 to 1. A higher index value indicates a higher level of specialization in intra-regional trade. Specialization requires expansion of diversification areas within individual industries, and in the same time it ensures the scale economy as a source of competitiveness in intra-regional exchange. GL index can be increased by decreasing the numerator in the given formula. It is achieved by decreasing differences between exports and imports within WB exchange with other regions. GL is interpreted as showing the share of intra-regional exchange in a country or region's total exchange with another country or region.

Table 3: Elements for calculating GLI of intraregional trade WB region

Elements of calculation	WB to/from EU		WB to/from CEFTA		WB to/from TOTAL	
	2003	2010	2003	2010	2003	2010
1. WB Export – mil. Eur	5.295	14.160	1.732	6.326	8.305	23.879
2. WB Import – mil. Eur	13.275	24.374	1.303	5.268	20.496	43.878
3. WB Export – WB Import – mil. Eur	- 7.980	- 10.214	429	1.058	- 12.191	- 19.999
4. WB Export + WB Import – mil. Eur	18.570	38.534	3.035	11.594	28.801	67.757
5. GLI	0,57	0,73	0,86	0,91	0,58	0,70

Source: same as for Table 1.

It is obvious from Table 3 that intra-regional exchange in WB trade with the EU, CEFTA and overall trade increases and that it reaches figures that apply to traditionally integrated economies. This is empirical evidence of the contribution of regionalization and liberalization in the region to the increase of mutual trade, i.e. intra-regional trade. It is very important for WB, since due to small national markets countries of the region are not attractive for FDI. Increase in intra-regional trade and greater regional market integration help to gradually remove these limitations (Vlahinić-Dizdarević, 2004, p. 16).

Regional marketing and its influence on creating regional companies

Regional marketing is a result of powerful regionalization trend, which creates homogenous areas of marketing environment where it is possible to define target market groups of homogenous consumers with a high degree of consumer needs convergence. Regional marketing is an attempt to integrate marketing efforts at a regional level. Marketing strategies and marketing mix are standardized to a possible degree and integrated within regional frameworks together with the necessary localization level in each country of the region. A company can apply regional marketing within one or more regions, depending on the scope of resources and capabilities. Regional marketing can also be an adaptation strategy for companies practicing global marketing

In terms of evolution, regional marketing is a developed stage of international marketing, which marks companies' shift from adjusting to individual local markets' specifics and differences to the focus on similarities existing at a regional level. The assumption for adopting and implementing regional marketing is company management ability to understand the convergence of marketing environment and consumers at a regional level (region centric orientation of management), to perceive common traits of relevant marketing environment in a region, to ensure integration of all marketing resources and elements at the company level in order to implement regional marketing, to prepare marketing offer for target consumer groups in the regional market, and to provide appropriate organization of regional marketing.

Convergence and segmentation in regional marketing

It is indisputable that there is a convergence of regional marketing environment, both economic and political, legal and cultural ones. All convergence elements are ultimately reflected on consumer needs and lead to consumer homogenization and leveling of their behavior in the regional market. Consumer convergence marks a process of leveling consumers' needs and the way of their behavior in satisfying their needs. Consumer homogenization is

a result of destruction of specific consumer cultures in individual countries, together with mass convergence in the economic, political and legal area, which proceeds through reforms that are, in the WB region, implemented within European and own policies of achieving the criteria of convergence with the European Union. Homogenization creates opportunities for mass production of standardized products of optimized quality, low cost and higher value for consumers' money. Naturally, consumer convergence and homogenization are not absolute; there will always be consumers that want some specifics and look for products adjusted to their needs.

This spawns opposition in views on the way of marketing implementation in the conditions of marketing environment convergence: standardization (Levit, 1983), or adaptation (Kotler, 1984) of marketing for global or regional market, respectively.

Both theoretical and empirical results point to the need to find such a solution for these oppositions where global or regional companies adjust to unchanging conditions of local environment, actually to understand the need for localizing their global or regional marketing strategy. Or, in Cateora's words: "We believe things are actually simpler than that. As global markets continue to homogenize and diversify simultaneously, the best companies will avoid the trap of focusing on country as the primary segmentation variable. Other segmentation variables are often more important—for example, climate, language group, media habits, ages or income... In the 21st century, standardization versus adaptation is simply not the right question to ask. Rather, the crucial question facing international marketers is what the most efficient ways to segment markets are." (Cateora, 2009, pp. 308-309).

The described views can also be applied to the case of regional marketing in WB. The WB case can also use the results of studies into pan-European marketing. "Pan-European marketing means literally viewing Europe as a distinct geographic segment to be treated in a uniform way within Europe, but differently from other geographic regions. The central concept is therefore segmentation, using national borders as the criterion. Global marketing treats the world as one segment while multinational marketing sees the world as distinct country product/markets. Factors supporting the global view can be reduced to two complementary arguments—customer convergence ("the global (or Euro) consumer") and global product efficiencies ("the global (or Euro) product")". (Halliburton and Hünérberg, 2004). These authors point out three most important questions in the segmentation domain of the Pan-European approach: 1) is Europe as a segment more homogenous than segments that develop according to non-geographic criteria, providing a negative answer, 2) what is the trans-European character of the segments – what is a segment's specific, and what is the specific of the European environment (for example in case of global and European care industry: segments can be the same, but the European environment can require different security requirements for the car market), and 3) how is Europe defined – as the EU members or so as to also include the arriving countries – heterogeneity indicates that in segments there are elements of both pan-European and national, and that they should be optimized.

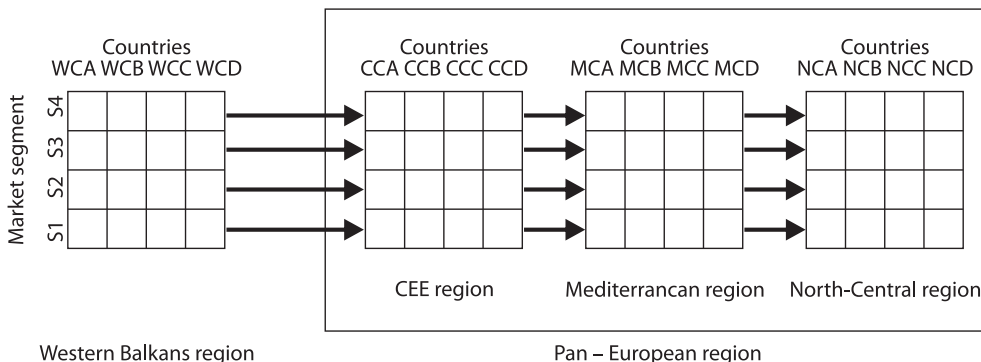
All the described segmentation aspects, present in the segmentation in WB, and in diversification to the Pan-European region are shown by Figure 2.

Segmentation can be treated as a way to create markets where it will be possible to standardize marketing mix, with the necessary adaptations in localizing their application in individual national markets. Western Balkans as a region is considerably more heterogeneous for a company that targets the region market than a single segment selected according to the

homogeneity criterion, its size and possibility to reveal the company's competitive advantages (e.g. segment 2). Instead of four programs for four countries, if the geographic segmentation criterion were used, one program for one segment is possible, though with the need for its adaptation to each of the four countries' specifics.

On the other hand, market segmentation is a way to achieve the shift to other regions' markets after the growth has achieved limits of WB market potentials. The degree of these markets' divergences will be lower if another region's market entry is achieved with the same segment.

Figure 2: National markets and market segments in WB and Pan-European region

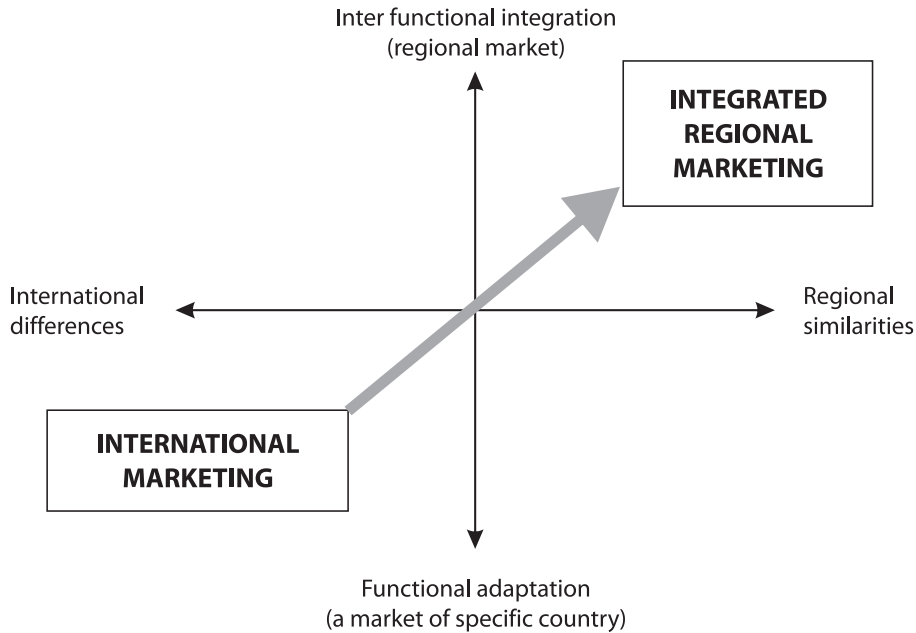


Regional marketing can be viewed from two aspects, as follows: 1) as marketing by a regional company that develops it in the regional environment, based on its own company strategy and for consumers in a selected regional market segment, 2) as regional marketing used by a global company to implement its global strategy in a given region. Differences between the first and second form of regional marketing implementation are in that in the first case it relies upon a regional company's resources and capabilities while in the second one, a global company's regional marketing rests upon the global company's resources and is integrated into its global marketing strategy.

Transformation to integrated regional marketing management

Company management that focuses on the converged environment in the region is faced with a twofold change in the way of management. The first transformation is reflected in the shift from international differences that accompanies geographical focus to regional similarities expressed by the selected market segment of regional meaning and scope (horizontal dimension in the figure 3). The second transformation is reflected in the shift from functional adaptation in specific countries' markets, mutually independent, to inter-functional integration in the regional market, whereby the product, brand, price, distribution and communication are positioned at the regional level and function in accord across the regional segment (vertical dimension in the Figure 3).

Figure 3: Transformation from international marketing toward integrated regional marketing



Adapted according to Sheth, Pavatiyar, 2001

As a result of all these changes, the international marketing concept focused on differences in individual national markets and functional adjustment to each national market transforms to integrated regional marketing focused on regional segment and inter-functional integration where marketing functions support marketing goals in the regional market segment.

Regional marketing and resource strategies

Same as Jeannet observed for global companies, in regional companies' business there is a need to differentiate and optimize market and investment strategies, i.e. assets distribution in the geographical dimension. Global marketing strategies do not always require global investment, i.e. company's assets distribution as well. Indeed, market can be supplied with production from the local base or from regional centers for supplying the global market. Investments mean production units and other large fixed assets, but not including office space, sales bases or other customer service units in that category (Jeannet, 2000, p. 114).

Regional marketing is focused on regional market segments where a company can achieve its competitive advantages. Competitive advantages can basically be oriented toward downstream activities in the value chain (product innovation, more favorable offer to consumers in terms of higher value for consumers, etc.) and up-stream activities toward supply sources (more favorable and greater availability of sources, lower prices, higher-quality human resources, etc.).

Marketing strategy implementation often requires appropriate investment strategies, i.e. assets distribution strategies in different markets. A company distributes its resources across the region so as to provide full support to marketing strategies (see Figure 3).

The central point in the cross-section of marketing strategies and investments strategies is the position of regional operator. It is the company's position where it is oriented to regional market, and resources are accordingly regionally distributed. The example from Violeta case study shows that the regionally oriented firm strives for the strategic position of regional operator. This position is significant for Violeta because the existence of its factory in Zagreb, Croatia provides a basis for competitive advantages in lower transport costs for Croatia and Slovenia markets. It is the up-stream orientation in creating a competitive advantage, while down-stream activities from Violeta's value chain relate to the resources of partner in the business network, such as distributive retail chains.

Figure 4: Marketing strategies and their combination with investment strategies

		Asset distribution (Investments) strategy		
		Local	Regional	Global
Marketing strategy	Global	Global exporter (Boeing, Amazon, Ferrari, Swatch Co, Armani, KIA, Lamborghini,	Regional operator on global market (Airbus)	Global operator (Ford, VW, Vodafone, Electrolux, IKEA, Shell, Arcelor Mittal)
	Regional	Regional exporter (EP BiH, Crvena Zastava, Aluminijski Mostar, FEAL Mostar)	Regional operator (Gorenje, Beko, Fructal, Mercator, Violeta, Argeta, Agrokor, INA, MOL)	Global operator for regional market (OMV)
	Local	Local operator (FDS, Klas, Banjolučka pivara, Sarajevska pivara)	Regional importer (HIFA OIL Tešanj)	Global importer (FIS Vitez, Economic Vitez, Schwinn Bicycle, USA)

Adopted by author based on Jeannot, 2000, p.114-116)

Companies in the WB region mainly have resources allocated in local environment, the local or regional marketing strategy. In this position, these companies' competitiveness as the so-called local operator or regional exporter depends on the competitiveness of local production base, which in many market segments should compete with companies of different profile and higher competitiveness, the so-called regional operators or global operators.

In the same time, one can observe the emergence of a certain number of regional operators that are gaining their market power and are based in Croatia, Serbia and B-H. It is a typical future WB company, which will be the holder of export competitiveness and holder of market transformation from home region to host region, including more developed forms of WB companies' transformation.

Regional companies

Regional companies emerge as a result of regionalization and using its stimuli for company internationalization at a regional level lead by regional marketing concept. It is a microeconomic reflection of regionalization as a macroeconomic process.

Firms' internationalization based on regional integrations is faced with effects of Liability of Foreignness (LoF) phenomenon. This phenomenon is defined as a competitive drawback felt by a foreign firm when it competes with a local firm in the latter's home market. It is expressed in a lack of information for the foreign firm on the market of the country it is entering, on the way of discriminating against foreign firms, and other business aspects. Barriers created by LoF within an integrated region are considerably smaller than the case

where a company wants to conquer a market in another region. Therefore, LoF effect stimulates firms' internationalization and expansion of their operations within the home region (Asmussen, 2009, p. 1.194).

The original Uppsala internationalization model of 1977 started from the fact that a company internationalization process moves in two-dimensional space. In the first dimension, internationalization is a commitment that it will continuously improve its methods of presence in the international market, from agent sales, through direct exports to investment and production transfer abroad. The second dimension implies geographic diversification whereby the company gains presence in an increasing number of countries accompanied by increasing market development. One of Uppsala model's features includes the fact that internationalization often starts in foreign markets that are close to the local market in terms of psychic distance, which is defined as the existence of factors that make it difficult to understand foreign environment (Hollensen, 1998, pp. 40-41).

The new internationalization model suggested by Johanson and Vahlne in 2009 consists of initial state elements and change elements. The first initial state element (knowledge opportunities) moves toward change by developing a relationship within a network that the company develops in a foreign market, and that grows into a commitment in terms of the company's long-term presence in the market and building its own competitive power. Changes from the second initial state element (network position) lead toward learning, creating and trust-building, which make the company desirable among consumers and other partners within the network it belongs to. In this way, the traditional approach to market entry aimed at overcoming various barriers in the foreign market, and removing risks and uncertainties due to psychic distance factors becomes less significant in the company orientation than internationalization undertaken in order to strengthen the company's position in the network (Johanson, Vahlne, 2009, p. 1.423).

Internationalization requires time and experience in acquiring specific knowledge for international market. However, in the conditions of globalization, fast technology development and use of the Internet, and the existence of developed company business networks, a special company type emerges – born global companies, or in the regionalization conditions – born regional companies. Born global companies are those that are in their very beginning expressly foreign market oriented, particularly toward market niches. Their founders frequently have international experience, and owe their international success to innovation, which ensure them a superior market position and shorter process of learning for foreign market entry (Oystein, 2002; Lopez, 2009).

Rugman and Verbeke classification of global/regional companies

While studying contemporary multinational companies' profiles, Rugman and Verbeke obtained results that indicate that these companies are primarily regionally oriented, while only a smaller number of them are globally oriented. Their research is based on a distinction of three global regions in the world (Triad), including: North America, Europe and Japan. According to this research findings, multinational companies are classified into four groups:

1. Home Triad region oriented are firms having at least 50% of their sales in their home region of the Triad. The threshold of 50% was chosen as it is assumed that a region representing more than 50% of total sales will systematically both shape and constrain most important decisions and actions taken by the MNE.

2. Bi-regionally oriented are firms with at least 20% of their sales in each of two regions, but less than 50% in any one region.
3. Host triad region oriented are firms having more than 50% of their sales in a Triad market other than the home Triad region;
4. Global firms are defined as having sales of 20% or more in each of the three parts of the Triad; the 20% figure is less than the one third required for an equal triad distribution, and so is biased downwards in favor of finding global MNEs (Rugman, Verbeke, 2003, str. 9-10).

In these Rugman and Verbeke findings, it can be observed that firms, in the initial period of their internationalization, use the home market or home region as their natural environment where they develop operations so as to know their consumers, have a small psychic distance and more bravely use forms of foreign market entry as production transfer or direct investment.

Classification of companies in the WB region and in Bosnia and Herzegovina

Compared to the classification by Rugman and Verbeke, who dealt with the issue of globalization and orientation to individual global regions from the Triad group, company classification suggested by us reflects a view of WB regionalization as the home region and relationship toward the Pan-European region. Thus, in our case, besides the WB region, we also have three regions within the Pan-Regional approach (CEE, Mediterranean, North/Central region), thus a total of four regions and possible company regional orientation based on combinations thereof.

Classification of companies in the WB region on these bases has the following structure:

1. 1. Classification according to internationalization degree:
 - 1.1. Segment of high internationalized companies (HIC) with share of export in total revenue (e) equal to or higher than 50% ($e > 50\%$)
 - 1.2. Segment medium internationalized companies (MIC) with share of export in total revenue (e) higher than 30%, but lower than 50% ($50\% > e > 30\%$)
 - 1.3. Segment of low internationalized companies (LIC) with share of export in total revenue (e) equal to or lower than 30% ($e < 30\%$).
2. Classification of segments shown above according to type of regional orientation looks as follows:
 - 2.1. Sub-segment Home region orientation (HRO): includes part of HIC with over 50% exports oriented to home region
 - 2.2. Sub-segment Host region orientation (HsRO): includes part of HIC with over 50% exports oriented to markets beyond home region
 - 2.3. Sub-segment Multi-regional orientation (MRO): includes part of HIC with export sales fairly evenly distributed in two or more regions
 - 2.4. Sub-segment Home transitional (in sense of transition from company type 2.6. and 2.7.) regional orientation (HTRO): includes part of MIC with over 50% exports oriented to home region
 - 2.5. Sub-segment Host transitional regional orientation (HsTRO): includes part of MIC with over 50% exports oriented to host region
 - 2.6. Sub-segment Home country orientation (HCO): includes part of LIC without export sales

2.7. Sub-segment Export starting orientation (ESO): includes part of LIC with initial export shares in sales.

Attribute “transitional” in companies’ types 2.4. and 2.5. refers to transition from low internationalized companies (LIC) to segment of high-internationalized companies (HIC).

Each of the listed sub-segments can be further classified according to whether the firms are based on FDI or not. The reason is related to the possibility that a company moves more easily within national markets to the home region, or between regions if it is in the network of transnational companies of regional or global type whose head office is in the home or host region.

Company classification according to the described criteria is given in the following table, and represents the structure quantification of companies from the list of 100 largest B-H firms published by Privredne novine Sarajevo.

Table 4: Internationalization and regional orientation of big companies in BH (in mil. KM)

Kind of companie	Number of firms	Employees		Total revenue		Exports		Income	
		2008	2009	2008	2009	2008	2009	2008	2009
1. HIC	42	17.784	16.237	2.791	2.006	1.798	1.323	86	-116
11 Home region orient.	19	9.624	9.127	2.240	1.476	1.339	897	49	-139
111 Home region FDI	8	5.881	5.292	1.498	951	1.002	572	38	-154
112 HR NON FDI	11	3.743	3.835	742	525	337	326	11	15
12 Host region orient.	20	6.776	6.219	343	389	324	344	25	21
121 Host region FDI	10	1.729	1.869	226	236	210	219	14	9
122 HR NON FDI	10	5.047	4.350	117	152	114	125	11	12
13 Multi-regional orient.	3	1.384	891	209	141	136	82	12	2
2. MIC	26	14.537	13.543	2.359	2.042	680	547	66	68
21 Home tranzitional regional orient. - HTRO	18	2.760	1.915	409	264	108	62	11	1
211 HTRO FDI	2	730	768	81	71	35	26	2	0
212 HTRO NON FDI	16	2.030	1.147	328	193	72	36	9	1
22 Host transitional regional orient. - HsTRO	8	11.777	11.628	1.950	1.777	572	485	55	67
221 HsTRO FDI	0	490	500	23	23	10	11	1	1
222 HsTRO NON FDI	8	11.287	11.128	1.926	1.754	562	474	54	66
3. LIC	99	25.317	39.875	3.886	6.817	351	330	444	417
31 Export starting orient.	54	24.106	24.329	3.713	4.848	350	329	454	321
32 Home country orient.	45	1.211	15.546	173	1.970	1	2	-10	96
TOTAL	167	57.638	69.655	9.036	10.865	2.829	2.201	595	369

Source: author’s classification based on data of Privredne novine Sarajevo, July, 2010. Legend: HIC = High internationalized companies, MIC = Medium internationalized companies, LIC = Low internationalized companies, FDI = Foreign direct investments

Despite any limitations that may be related to the list, it can be observed that 167 companies appeared in the list of 100 largest in 2009 and 2010, which points to high fluctuations of the companies in the list. More than 20% of the analyzed companies are strictly home oriented companies (Banks, insurance and trade companies, or subsidiary companies of many regional companies oriented to BH market). The greatest number of companies is in the LIC segment, with a share of 59.3%, followed by those in HIC group, which includes 25.1% companies, and finally MIC, which includes 15.6% companies. Company performance data refer to 2009. Export distribution shows the dominant position of HIC segment, with 60.1% share of total exports in the analyzed company sample. MIC segment has a 24.9% share, and LIC segment only 15% total exports. These data confirm the high concentration of exports in the HIC segment and its dominant significance for exports. Profit distribution is completely opposite. The largest exporters segment registers negative business result, which makes up 31.5% achieved profit of all the analyzed companies. It shows low efficiency of the HIC segment, which threatens the export sustainability in this segment in a long term. Somewhat higher efficiency is registered by the MIC segment, with profit that makes up 18.4% total profit, and LIC segment, with profit that is 1.13 times higher than the profit gained by the observed companies.

The prevailing companies in HIC and MIC are those with home region orientation toward the WB region. Such an orientation is affected by external stimuli of regionalization and internal orientation factors, with a particularly significant role of foreign direct investment (FDI). By means of FDI, companies enter business networks of transnational companies of regional or global profile.

On these companies' example, the significance of FDI profile and motives can be observed. There is a dominant influence of resource seeking FDI in manufacturing companies, and they are leaders in export orientation toward the home and host region. In this process, regional investors are primarily oriented to home region, while global investors to the host region.

Case study: Violeta Grude and its way of internationalization

Violeta company was based in Grude, Bosnia and Herzegovina in 2002 by founder Petar Ćorluka. The company's basic activity includes hygiene product business with the product range including wet tissue, bathroom tissue, paper towels, dry tissue, napkins, sanitary napkins and other forms of hygiene accessories. Violeta is present in the regional market and sporadically in some EU countries. Its market share in B-H, Croatia, Montenegro, Macedonia and Kosovo ranges from 20 to 70%, and in many of these countries it is a market leader in its product category. Violeta brand is one of the most recognizable brands in the Western Balkans. Violeta has plants in Grude and Sv. Helena near Zagreb, Croatia, which opened in 2011. They plan to invest in a new factory of prefabricated products for paper accessories in Livno.

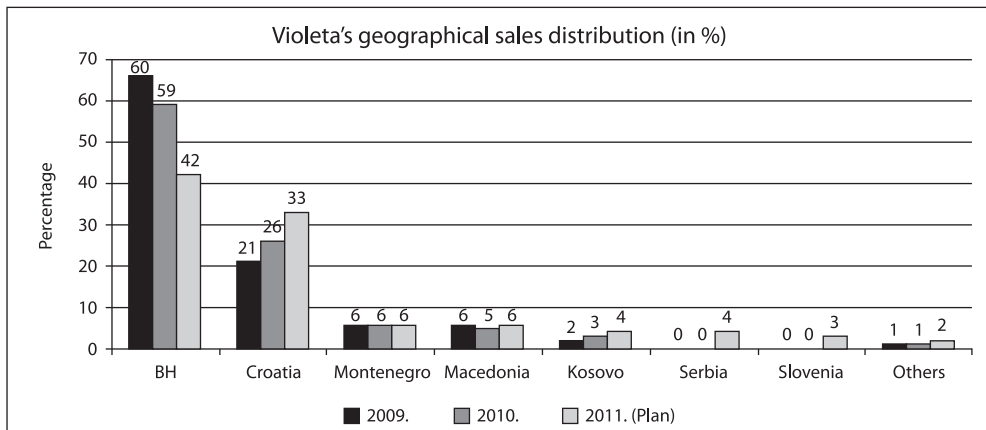
Geographical distribution of sales, shown in Figure 5, reveals that the company has adopted a strong regional focus, where it has achieved the so-called bi-country positioning with strong positions in B-H and Croatia markets, with 75% share of total sales in 2010, and planned 75% share planned for 2011. In such a situation, Croatian market shows as the second home market, with prospects of leveling sales in the home, B-H market with those in Croatian market.

The basis of Violeta's regional marketing is contained in the estimate that the region has achieved high homogeneity in the economic, political and cultural field with a clear

orientation toward the EU and NATO. In such an environment, despite each country's specifics, the emphasis is placed on similarities found through the segmentation process, which achieves horizontal segment homogeneity in the region. The strategic choice of Violeta's target segment in the regional market includes an urban family of medium income, where all the members have needs to keep their own hygiene, as well as the hygiene of household they live in, in an efficient and practical way. Violeta has developed a regional positioning strategy, whereby it wants to be perceived as the first choice in buying hygiene products for personal care and household. Competitive strategy is based on the focused differentiation with relationship development, and therefore they invest heavily in marketing promotion, which reaches 5% of sales value.

The individual countries' market entry strategy is direct imports, although for Croatian market, due to special goals and a low level of liabilities of foreignness, they chose the production transfer strategy with direct investment. Actually, entry into Croatia was motivated by two groups of motives. The first motive is to create a more favorable image of Violeta brand through secondary associations using the country of origin – Croatia instead of Bosnia and Herzegovina, and enjoy the status of European product origin with 'Made in European Union' sign starting from 2013. The second reason is getting the production of voluminous products from paper accessories category with a high share of transport costs closer to future markets.

Figure 5: Distribution of Violeta Grude sales in the WB markets in 2009-2011 (in %)



Source: company data from the interview with marketing director

Such a development of conditions in Croatia transforms Violeta into a micro multinational company (Dimitratos et al., 2003). Thus, internationalization and marketing strategy for Croatian market are supported by the investment strategy, whereby Violeta is transformed into a regional operator, a company with a regional marketing focus and regional investment strategy. The factory in Croatia becomes an export base with paper accessories range for Croatian and Slovenian markets.

Although Slovenia is part of the Pan-European region, Violeta sees small barriers created by the liability of foreignness in the relation WB region and CEE countries' region that Slovenia belongs to within Pan-European marketing. However, although the entry into the market of

Croatia as a future EU member country considerably removes the liability of foreignness in the access to markets of CEE countries which are EU members, Violeta has no ambitions to expand to the EU market further than Slovenia. It can be justified in a short term, though the entry to the EU market and its regional segment of CEE countries could, in the future, create synergy effects on Violeta growth in these markets.

It would mean Violeta's transformation into a regional company which, according to our classification is multi-regionally oriented, and according to Rugman and Verbeke classification, I into a bi-regional company with a high level of internationalization. Actually, with an increase in sales in Croatia and Slovenia, as early as from 2013 Violeta may have a share of sales in the Pan-European region, or CEE region equal to its share of sales in the WB market.

Conclusions and recommendations for further research

The paper proved that there are positive macroeconomic effects of regionalization in the WB region, which are revealed in the static and dynamic effects of foreign trade integration and liberalization and economic growth acceleration. In the same time, the microeconomic analysis at the level of large B-H companies and Violeta Grude case study showed that there are direct influences of regionalization on B-H companies' internationalization by using regional marketing as a tool of market positioning. Despite the strengthening of high internationalized companies, medium and low internationalized have the prevailing share in the analyzed companies' structure. Export starting companies and home-market oriented companies lead as sub-segments within these companies' structure, and they are followed by companies with home (transitional) orientation and host (transitional) region orientation.

The main hypothesis, that regionalization in Western Balkans is reaching such an intensity that it encourages companies in the region to use the regional marketing concept and their transformation into regional companies has been proved, and confirmed with findings of the empirical analysis for B-H. Besides, the first auxiliary hypothesis has been proved, according to which regionalization effects are primarily expressed in the area of home-region orientation of companies in the B-H example, which is normal having in mind the marketing orientation preference for home region market and lower barriers created by liability of foreignness in the process of internationalization of local WB companies. Furthermore, the second auxiliary hypothesis has also been proved, according to which,, in parallel with progress in reforms and coming closer to the European Union, and with attracting foreign direct investment from the EU, an increasing number of B-H companies are adopting the Pan-European regional orientation, which is expressed in local companies' host-region orientation. This hypothesis has particularly been proved in cases of B-H companies based on FDI from EU countries. By means of FDI, local companies are included into business networks of investors' regional or global companies, which make it easier for them to leapfrog from local to host region oriented companies, and in some cases even achieve a status of born regional company.

It would be significant for future studies to analyze the regionalization effect on company internationalization in other WB countries, and particularly to analyze the relationship between resource strategies and marketing strategies as essential elements of regional marketing that affects the internationalization and profile of regional companies in WB. Regionalization effects on internationalization and creation of regional profiles of WB companies would be even greater if companies had sufficient competitiveness and more favorable business

environment. Therefore, it would be very significant to research facts that prevent stronger regionalization stimuli on companies' microeconomic competitiveness in the WB region.

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THE VIENNA CONVENTION ON INTERNATIONAL SALE OF GOODS: A TOOL FOR UNIFICATION OF REGIONAL REGULATIONS FOR TRADE IN GOODS IN EUROPE?

*Trifković Miloš**

Research shows that the impact of the Convention on International Sale of Goods (CISG) on national legislators and legal practitioners in international trade of goods is not as significant as CISG's acceptance on global and European level. Overcoming that difficulty in the area of commercial sales is the central subject of this paper. Comparison of CISG with sale laws in EU, CEFTA 2006 and BH reveals that the CISG vertically influences these systems in two basic ways. The model of direct impact means solely the adoption of the Convention into national law as the source for international sales. Reception of CISG's norms into national general sale and contract law is the main feature of the second, indirect model. So far, the direct model of CISG's influence absolutely dominates in legal systems participating in European regional integrations. That dominance doesn't translate into CISG-driven unification of national domestic sale legislation and contract law in general. Thus, state legislators have room to create new, different solutions for substantially identical sale transactions at home and abroad. In order to avoid the crumbling of historically achieved horizontal unification level among national sale and contract laws, the implementation of the CISG indirect model is a necessity. Consequently, the CISG can really be a tool for unification of regional regulations of trade in goods in Europe only if the direct and indirect models are applied jointly and successfully. EU practice offers a useful pioneering experience for this process.

Keywords: CISG, EU, CEFTA 2006, BH, unification

Introduction

The CISG is praised as a global success story in unification of the law of international trade (Zeller, 2008, 94; Bergsten, 2007, ix). The same is true for its role in regulation of international sales in regional markets in Europe. However, research shows that the impact of CISG on national legislators and legal practitioners in regional trade in goods is not as significant as one might assume. Overcoming this contradiction is the main subject of this paper. The goal of the discussion is to determine the basic models by which the CISG achieves its unifying effect on the regulation of regional trade in goods in Europe.

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Hypothetically, the CISG influences national laws via two basic models. The direct model means adoption of the Convention into national legal systems as the source only for international sales. The indirect model involves a creative reception of CISG regulation into national private law legislation. The research of the impact of CISG on national and regional regulation of the trade in goods will be oriented towards commercial sales in two regional markets: EU and CEFTA 2006. Within CEFTA 2006 framework, the state of BH will be treated as a case study.

We emphasize two methodological approaches, comparative and *de lege ferenda*. The comparison between different kinds of sources of law, and between them and drafts of future enactments, is subject to various limitations. One methodological feature is common to all quantitative comparisons of CISG with other documents: they are based on virtually the same set of legal institutions derived from the CISG. Determination of the scope of each institution must be at least partially based on subjective criteria. In our research, identical or essentially similar norms regulating the same issue are gathered into broader groups than the enshrining different solutions. *De lege ferenda* approach is values-oriented and based on policy considerations. To compensate for the inherent subjectivity, we will corroborate our conclusions and proposals with economic research done with Dr. Muamer Halilbašić.

Unification of the Law of International Sale of Goods and the CISG

The Recent History of the Unification of the Law of Sale and the Status of the CISG

The history of bringing together national and international regulations of sales with the foreign element is cyclic (Goldštajn, 1972, 9; Trifković et al.; 2009, 41 - 44). The first partially successful attempt of vertical state unification in the 20th century were the Uniform Law on the Formation of Contracts for the International Sales of Goods (ULFIS) and the Uniform Law on the International sales of Goods (ULIS) prepared by UNIDROIT for The Hague Conference on July 1 1964. Only 12 states signed and nine ratified those conventions (<http://www.unidroit.org/>). Being a “radical move and departure from traditional model” (De Ly, 1995, 2), and due to “unfavorable political situation” (Zeller, 2008, 16), objections from less developed countries (Vilus, 1981, 142), and small number of members, The Hague Conventions did not reach their goals. The United Nations had to step in (Bergsten, 2009, 10 – 13). After almost ten years of preparations by UNCITRAL, the UN Conference was held in Vienna from March 10 to April 11 1980. 62 countries from five continents participated. The text adopted at the Convention was based on the “eclectic” model (De Ly, 2005, 3; Trifković et al., 2009, 177 - 293). Analysis founded on our formatting of legal institutions show the CISG, compared with ULFIS and ULIS, contains 51 identical or similar and 52 different solutions. Former SFRY was among the first states to ratify the Convention in 1984 (Off. Gaz. – Intl. Agreements 10/1). After the eleventh ratification the CISG entered into force on January 1, 1988.

Turkey signed the CISG as its 76th member on July 7, 2010, effective August 1, 2011 (<http://www.uncitral.org/>.../Local Settings/Temporary Internet Files/Content.IE5/AS7WXXJ1/www.uncitral.org/).../Local Settings/Temporary Internet Files/Content.IE5/AS7WXXJ1/www.uncitral.org/). Notwithstanding vast possibilities for reservations (De Ly, 2005, 9-11), 55 countries adopted the CISG as it was signed. Yet, adherence to the CISG is not unanimous. Not all countries and regional trade associations have embraced

the CISG. Among some 130 absentees, the most significant are the United Kingdom (Moss, 2005, 483-485; Zeller, 2008, 5-7), Brazil (Grebler, 2005, 467-475; Vieria, 2008, 7-33), Iran, India, Pakistan and South Africa, along with the majority of African countries (Ferrari, 2008, General Report, 414-415). Member states of the Nordic Council took a middle approach, excluding the CISG as a source of law for sales transactions between companies having places of businesses on their territories, while keeping the Convention in force for international sales executed between their subjects and partners from the rest of the world.

Economic status of the CISG is even stronger than its political and legal standing. Table 1 shows participation of member states in the world trade in goods falling within the ambit of the Convention (CISG Art. 2).

*Table 1: Participation of 76 CISG Member States in Overall World's Trade in Goods **

No	States	Total international trade in goods (in thousands of Euros)	
		Year 2008	Year 2009
1	76 CISG Member States	8,505,163,608	6,810,413,428
2	The world total	11,040,538,624	8,918,718,464
3	% of CISG Member States' participation	77.04%	76.36%

*Authors' calculations based on International Trade Center's data

The history and the overall status of the CISG are the first indication of its global character and impact. The CISG substantially fulfills other material requirements necessary for the status of a global legal act. As sale of goods is the driving force of globalization, the CISG is an optional source of hard law, and its inapplicability must be based on an opt-out system. Practically, within its ambit (Zeller, 2008, 64 – 65; Schlechtriem, Butler, 2009, 22 – 38), the CISG has the function analogous to that of national civil and commercial codes for transactions within states. That is why the creators of the Convention had to find legal solutions which bridge the gaps between national systems, and between common law and civil law concepts and techniques. The success in this endeavor contributed to the CISG's supranational character, as evidenced by: “(a) extension in *space*; (b) stability over *time* and (c) social *density* of the transnational networks, relationships ...” (Beck, 2003, 12). Thirty years after the birth of the Convention it is not premature to state that the CISG is a supranational phenomenon in the theoretical sense of the phrase (Levitt, 1999, 92 – 102; Scholte, 2000, 8; Baasch Andersen, (2009), 228 - 229))

The CISG as an Instrument of Unification

Unification of law is not always commonly understood a concept (Zeller, 2008, 11 – 13; Bergsten, 2007, x; Felemegas, 2007, 3, 5). In this author's opinion, unification is the process of adopting identical or essentially same norms in two or more legal systems or their parts, simultaneously providing for the most uniform possible implementation of those norms. Reasons for unification of law are: removal of legal barriers, uniformity, clarity and certainty of legal norms, effectiveness of their implementation and rationalization of costs. Semantically, unification is a narrower concept than globalization. Globalization always denotes a certain degree of unification, while unification can be performed even within a single complex state. The process of unification is usually considered to be one of the instruments and goals of globalization. Anecdotal evidence to the contrary is the unification of sales law

within the Nordic Council, and the reservations its countries have as to the territorial validity of the CISG.

There are different types and methods of unification, as exemplified by the unification of the law of international sale of goods generally, and the CISG in particular. In the light of theory of law, the unification by the Convention has the following traits: states- and international organizations-driven, official, organized, vertical – reinforced by opt-out system, partial, universal, transnational and performed by reception of law.

The connection between globalization and unification of law confronts both with the differences in social fabrics and legal systems they are reshaping. For the CISG as a unification tool, the most important are the differences in: social and historical origins of national legal systems, values imbedded in contracts in general and in sale in particular, institutional framework, level of economic and business development, economic goals, public policies and legal techniques developed in common law, civil law and traditional legal systems. The relative importance of these features determines the impact of the CISG on national systems.

The Impact of the CISG on National Laws

The status and functions of the CISG raise the question of its real impact on national legal systems. The answers must pay attention to the influence of the CISG on the structure, legislative content and implementation of sales law.

If international business law is an acknowledged branch of a national legal system, adoption of the CISG strengthens the structure of this branch. Furthermore, the adoption of the Convention substantially contributes to the unification of domestic law with global trends in hard law and in new law merchant. This unifying effect is also present in national systems in which the position of international business law as a separate branch is disputed. Finally, in legal systems based on a monistic concept of private law, the acceptance of the CISG is a strong argument in favor of separating commercial from civil law. In any case, adoption of the CISG makes it a source of law only for sales with a foreign element falling into the ambit of the Convention. Consequently, the vertical unifying influence of the CISG remains confined solely to domestic law of international sales. The impact of the Convention is direct and the CISG regime remains a *corpus separatum* within a national legal system (Felemegas, 2007, 11). This situation is called the direct model of CISG's influence. It amounts to the adoption of the CISG into national law.

The indirect model of the CISG's impact refers to the influence of the Convention on the content of national legislation. In this model the CISG is no longer an encapsulated regime for international sales, but an interacting part of each national legal system. That is why the indirect model of influence means the reception of the CISG. The indirect and the direct model usually go hand in hand. The great importance of the CISG makes even some non-member states examine the possibilities for reception of the Convention into their national laws (for Brazil: Vieira, 2008, 7 - 32).

There are two research projects dedicated to the effective impact of the CISG on domestic laws, i.e. to the real status of the second model of the Convention's influence. The first project, by the International Academy of Comparative Law (IACL), was presented at the 1st Intermediate Congress held in November 2008 in Mexico City and published in "The CISG and its Impact on National Legal Systems", Franco Ferrari (Ed). (Ferrari (ed), 2008). The

second research project was done under the auspices of GTZ – Open Regional Fund for SEE – Legal Reform, and published in conference proceedings “CISGICA – Country Reports” (CISGICA, 2008). The scope of the first project is considerably broader and its methodology is more detailed. For the purpose of this paper it is sufficient to note that the GTZ research focused only on the CISG’s implementation in CEFTA countries and omitted its impact on national legislation. That is why we must examine the latter issue separately.

Prof. Ferrari, in his synthesis of the IACL research (Ferrari, 2008, General Report, 413-479), divides the observed countries into three groups. The first one is composed of Member States in which the CISG had no impact on domestic legislation. The only EU members of this group are Denmark and Slovenia. The second group encompasses the CISG signatories whose legislation is only indirectly influenced by the Convention. All the states from this group are EU members: France, Italy, and the Scandinavian countries. Finally, countries whose domestic legislation is strongly influenced by the CISG form the third group. From economic, political and juridical standpoints, the last set of countries is heterogeneous. Germany unified its general obligation norms with the CISG (Mayer, 2002, 354 -380; Bikić, 2004, 27 – 32; Zeller, 2008, 86 - 89.), Greece modified its internal law on sales, while Estonia, the Czech Republic, Russia and China adjusted their general rules on obligations and special rules on sales contract to the CISG (Ferrari, General Report, 471 - 479). We draw three conclusions from this overview: first, notwithstanding difficulties, the implementation of the indirect model is feasible; second, adoption of the indirect model of the CISG’s influence on domestic legislation in practice depends on the simultaneous adoption of the direct impact model. Finally, the implementation of the indirect model predominates in transitional countries. The CEFTA states are an exception to this last conclusion, as pointed out in the CISGICA 2008 and our findings.

The CISG and the EU Sales Law

The History of the Unification of EU Sale Law

Eight out of ten European Community’s Member States at the time signed the CISG in 1981. Five other countries that subsequently joined were also among the signatories of the Convention. After the Maastricht Treaty in 1993, the membership in the European Union usually goes hand in hand with the membership in the CISG, with the exception of Great Britain, Portugal, Ireland and Malta. Thanks to this development, the CISG functions as the dominant uniform regime for the international sale between EU companies within the single market. The global significance of the Convention is augmented by its communitarian role and inclusion into the *Acquis communautaire*. In this way the direct model of the CISG’s impact is fully realized in the EU (Baasch Andersen, 2009, 247 – 249).

With a few exceptions, EU countries allowed themselves a period from five to 16 years after the signature for the ratification of the CISG (<http://www.uncitral.org/>). Delayed ratification and entry into the force are symptoms of problems posed to national legislators by aligning of domestic sales and obligations laws with the CISG. Huge difficulties in the unification of domestic law with the global and regional regime of international sales compelled the vast majority of EU countries to restrict the CISG to transactions with a foreign element, while retaining their traditional legislation for domestic trade. Obviously, the CISG’s indirect impact model has yet to take hold. This delay results in prolonged legal particularism, founded on great national codifications and defended by the principle of legal certainty. No matter how

great the degree of horizontal unification among national laws on sale might be (Sultanović et al, 1988), it can not overcome the inconsistency between the single market and the multiplicity of legal systems on its territory. The research conducted by the Institute of European and Comparative Law in Oxford and Clifford Chance found sufficient data confirming this conclusion (Vogenauer, Weatherill, 2005, 874 – 877). Such a situation seriously impairs the rule of law generally and the principle of legal certainty as its part. The EU as the regional and supranational organization had to intervene.

The first avenue of EU intervention in private law is the Union's own legislation. The result of the activity of the European Commission, and its predecessors, the European Parliament and the Council is the vast body of directives in the area of private law (Annex I to COM (2001) 398 final). The Commission in its Communication to the Council and European Parliament on European Contract Law (COM (2001) 398 final) criticizes the overall effects of this legislation. The first group of objections is to negative implications of the directives on the internal market, the second to uniform application of Community law (COM (2001) 398 final, 8 – 11). For the analysis of the CISG's impact on EU law the most important is the Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts. Though at a first glance it might look like a paradox, this directive took the CISG as its model (Troiano, 2008, 348 -382; Schlechtriem, Butler, (2009), 28 – 29). By transposing this directive into their national laws, EU Member States actually adopted the CISG approach to sale law. Thus "the Consumer Sale Directive is the living example of impact of the CISG on the legislation of the EU Member States" (Troiano, 2008, 350). However, this impact is limited to consumer contracts, and doesn't extend to national codifications of obligations law and contracts of sale.

The EEC Commission and its successors proceeded very carefully in the second direction of EU intervention in the unification process: the facilitation of non-regulatory measures. In the year the CISG was adopted, the Commission informally supported the formation of the Commission on European Contract Law (CECL) or Lando Commission (Petrić, 2008, 339 – 341). Three sub-commissions of the Lando Commission published The Principles of European Contract Law (PECL) in three parts, in 1995, 1999 and 2003. Different academic associations and groups joined the CECL in the further development of the Lando Principles: The Study Group on European Civil Code since 1999 (Joint Response, 2001, 1 – 4), Gandolfo Commission since 1995, and the European Research Group on Existing EU Private Law ("Acquis Group") since 2002. The work of these commissions and groups also took into account the Principles of International Commercial Contracts published by UNIDROIT in 1994 and 2004 (www.unidroit.org). These endeavors have had two main effects: establishing a common ground for Member States' national domestic private law legislation, and paving the way to a single private law in the EU (Grundmann, 2005, 867 – 869). Such an outcome raises the question of whether it is time to proclaim the birth of a new type of unification – the academic one.

The two lines of the European Commission's actions merged in the Communication on European Contract Law (COM (2001) 398 final). After the public discussion about that Communication (Joint Response, 2001; Petrić, 2008, 345 – 347), the Commission came up with another one containing an action plan for a more coherent European contract law (COM (2003)68 final or Action Plan). Among other goals, the Action Plan strives for a more coherent *Acquis* in contract law (COM (2003) 68 final, 15 – 21). The main means to this end is the establishment of the common frame of reference (CFR). It has three goals: unification

of terminology and rules in order to make the existing and future *Acquis* more coherent, “achieving a higher degree of convergence between the contract laws of the EU Member States” (COM (2003) 68 final, 16), and examination of possibilities for creating general optional rules for contract law based on common European foundations. The follow up activities of the Commission were exposed in the third Communication from the Commission on “European Contract Law and the revision of the *acquis*: the way forward” (COM (2004) 651 final). Though the Commission did not expressly state it (COM (2004) 651 final, 2 – 6), we agree with national-oriented “skeptics” (Vogenauer, Weatherill, 2005, 873): a full implementation of the CFR can’t mean anything but the creation of a EU regional and transnational system of private law. To achieve this goal, the Commission partially financed the research headed by the Study Group on European Civil Code and the “Acquis Group”. In 2007 the first part of the job was finished; “Principles, Definitions and Model Rules of European Private Law - Draft Common Frame of Reference (DCFR) – Interim Outline Edition” were published (DCFR, 2008). DCFR incorporates PECL “in a partly revised form” (DCFR, 2008, 7). The relation between the DCFR and the PECL is best visible in the Table of Destinations and the Table of Derivations (DCFR, 2008, 51 – 71).

Examination of relations of the CISG with the PECL and the DCFR is a necessary first step in assessing the indirect impact of the CISG on the nascent European private law. An analysis of material law similarities and differences between those acts has already been performed (Troiano, 2008, 385 – 411). Our comparative research will therefore focus on quantitative data.

The CISG and the PECL

From a legislative point of view, the CISG and the PECL are completely different documents. However, three crucial connecting factors make their parallel examination possible: the sale contract as the subject matter, the impact of the sale contract on the general part of the obligations law, and the optional character of the CISG and PECL rules. The comparative approach should take into account that those connections are not absolute. First, the CISG is concerned with norms regulating cross-border commercial sale, while PECL deals with principles valid for all kinds of sales, other contracts, and non-contractual obligations. Second, the validity of the CISG is based on an opt - out system; whereas PECL applies only if the parties to the contract have chosen so (opt – in system).

Legal policy considerations are fundamental to legislative differences between the two acts. The ultimate goal of the CISG is to create a supranational and global legal regime for cross-border commercial sales. The PECL has multiple proposes: defining a common denominator for private laws within the EU, facilitating their uniform interpretation and harmonization, and laying down the foundations for supranational European private law. Those differences are reflected in the bodies that adopted them, their relations to national legal systems, content of acts and their binding power, hard or soft law features. Their validity *ratione territoriae et matriae* is also different. These facts must be kept in mind when interpreting and comparing particular provisions.

The influence of the legislative differences is visible in the treatment of principles within each document. The CISG neither devotes a separate section to principles, nor enumerates or specifically defines them. The only exceptions are the principles of “autonomy of the parties” (Article 6), “good faith in international trade” (Article 7 (1)) and “reasonableness” (Article 8 (2) and (3)), the last two being mentioned only as an interpretation tool (Felemegas, 2007,

13 – 14). The key provision regarding principles is in Article 7 (2): questions not expressly settled by the Convention “are to be settled in conformity with general principles on which it is based or, in the absence of such principles, in conformity with the law applicable by virtue of the rules of private international law.” The first rule this formulation contains is that implied general principles should be extrapolated (DiMatteo et al, 2005, 21; Felemegas, 2007, 27) by interpretation of the whole text of the Convention. Applying this methodology some authors found five implied general principles (Janssen, Kiene, 2009, 279 – 281). Considering the elusiveness of the concept of legal principles, numerous factual circumstances of each case and the role of the subjective element in the interpretation, it is clear that a *numerus clausus* for CISG principles can’t be established. That is why this paper will deal only with principles unequivocally referred to in the text of the Convention. In pointing to competent national law in cases of external gap (*intra legem*) in the Convention, Article 7 (2) includes the principles of the applicable national system in the interpretation of the Convention. The problem of principles missing in the CISG is thus solved on the normative rather than the practical level. In any case, Article 7(2) deserves the support because it keeps the CISG open towards municipal law. It should be noted that the modern doctrine considers turning to national legal systems acceptable only as the last interpretative resort (Felemegas, 2007, 23, 28, 35, 38; DiMatteo et al, 2005, 21)

“General Provisions” of the PECL deal with principles in three ways. The most important principles are named “General Duties” and expressly regulated in Articles 1:201 and 1:202. To this group belong the principles of good faith, fair dealing, and parties’ cooperation in giving “full effect to the contract”. Another method of stating principles is the determination of their role in the interpretation of a contract. Besides good faith and fair dealing, the second method introduces certainty of contractual relations, uniform application of principles, and “reasonableness” (Article 1:302). The third way of introducing principle is implicit in Article 1: 106 (2), which requires outstanding issues to be settled in the same way as in the CISG.

The CISG and PECL have similar approaches to principles of contract law and apply the same methodology for their determination. However, the list of explicit principles they share is relatively small: autonomy of the parties, freedom of contract, observance of good faith (and fair dealing), reasonableness, informality of contract and its binding character. Among those principles, the principle of good faith and fair dealing has paramount social and legal value and therefore mandatory legal character. The number of implied principles in each act depends on the purpose of analysis and the criteria applied. The same goes for supplementary principles of relevant national law. The exploration of material solutions adopted in the two acts indicates a relatively small danger of conflict among the principles of the CISG, PECL and applicable national legislation.

The unique commercial logic behind sale transactions, a great deal of common juridical history, and the results of the unification process imposed a number of identical, essentially the same or “somewhat similar” (Felemegas, 2007, 32) legal solutions for the same issues in both acts. On the other hand, legislative differences between the acts led to a number of different material solutions for the same or similar matters. Article-by-article comparative analysis of the CISG and the PECL has already been performed (An International Approach, 2007, 261 – 524). In this paper we focus on the quantitative picture of corresponding and unequal provisions in two acts.

Table 2: Similarities and Dissimilarities between the CISG and PECL*

No	Broader legal institutions	Number	
		Similarities	Dissimilarities
1	Customs and interpretation of contract	2	6
2	Formation of contract	10	7
3	Price	/	3
4	Performance of contract	8	/
5	Termination of contract	4	/
6	Liability and damages	8	4
7	TOTAL	32	20

*Author's calculation

A ratio of 32 identical or similar institutions against 20 different institutions or provisions demonstrates the “relative” (DiMatteo et al, 2005, 10 – 11) unification power of the CISG. At the same time, this proportion justifies the inclusion of the CISG into the *Acquis*.

The CISG and the DCFR

The DCFR is actually the successor of the PECL. Hence, legislative differences and connections between the DCFR and the CISG are very similar to the ones between the CISG and the PECL. However, modified purposes (DCFR, 2008, 5 – 7), extended functions, and more comprehensive content of the DCFR brought some changes in its relations to the PECL and the CISG.

The DCFR developed its own composite concept of principles. They are understood “as a synonym for rules which do not have the force of law” or “rules which are of a more general nature” (DCFR, 2008, 8). If the adjective “underlying” or “fundamental” is attached, principles “essentially denote abstract basic values” (DCFR, 2008, 9) or “some core aims European private law, in particular contract law, should have.” Those goals may have general or EU-specific nature (DCFR, 2008, 12-13). The CISG is a transnational hard law source with global pretensions. These features require, first, its principles to be understood basically as “more general rules” developed and protected by the provisions of the act. Second, due to its nature, the CISG must be considerably less explicit and more restrictive regarding principles, especially “underlying” ones. Finally, except for good faith and reasonableness, the CISG’s principles have to be established by interpretation. Because the CISG regulates only one type of contract, no matter how important, while the DCFR pretends to be the first draft of the European private law code, the number of principles in the latter act is significantly bigger. This also causes perhaps the most salient difference between the two acts: the interpretative role of principles makes the CISG an open source of law, while the DCFR is a self-contained legal document (I. – 1:102 (4)).

How did differences in legal nature of the CISG and the DCFR, and in their approach to principles, influence the technical provisions of these acts? The analysis and the answer are based on the same methodology as in the previous case.

Table 3: Similarities and Dissimilarities in the CISG and the DCFR*

No	Broader legal institutions	Number	
		Similarities	Dissimilarities
1	Customs and interpretation of contract	1	7
2	Formation of contract	11	7
3	Price	/	2
4	Performance of contract	12	1
5	Termination of contract	3	/
6	Liability and damages	10	5
7	TOTAL	37	22

*Author's calculation

The high ratio of similarities to differences confirms the unification capacity of the CISG and its place in the *Acquis*. The similarities exist in issues which are of the utmost importance for the commercial and legal construction of sale contracts. In order to avoid the possibility of conflict between the two texts, the DCFR often took over exact formulations from the CISG (DCFR: IV.A – 3:102; IV.A – 3:302; IV.A – 4:203). The conceptual differences relate to fundamental systemic issues: interpretation of parties' declarations, separate regimes for pecuniary and non-pecuniary obligations, duty to compensate immaterial damages, possibility of compensating damages in kind etc. Technical differences are in provisions relevant mostly for certain commercial aspects of the sale contract: determination of price by third persons, optional rules on price, duty of the buyer to accept premature delivery, etc.

The CISG and the CEFTA 2006 Sales Laws

The CEFTA 2006 and the CISG

The Central European Free Trade Agreement, signed in Krakow on December 21, 1992, created a free trade area for Central European countries not belonging to the EU. Due to the accession of individual CEFTA states to the EU, the Agreement has been amended three times (<http://www.cefta2006.com/>) most recently on December 19, 2006, in Bucharest, when the Agreement on Amendment of and Accession to the Central European Free Trade Agreement was signed. Its Annex 1 is the Consolidated Version of the Central European Free Trade Agreement (CEFTA 2006). This Agreement entered into force on July 26, 2007. CEFTA 2006 member states are: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, and UNMIK Kosovo. The major effects of the CEFTA 2006 are: abolishing the net of bilateral trade treaties in South East Europe and creation of a regional free trade area (Komentar 2007, 12 – 14), preparation of countries in the region for EU integration, and validity of WTO rules among CEFTA 2006 states irrespective of their membership in the WTO.

After Albania acceded to the Convention on May 13, 2009 and the CISG entered into force on June 10, 2010, all CEFTA 2006 countries became members of the CISG (<http://www.uncitral.org/>) The Convention is thus not only the part of national laws which apply to cross-border transactions, but also the uniform sale law in the CEFTA 2006 regional market. The direct model of the CISG's influence is clearly visible in CEFTA 2006. As there is no move-

ment for the creation of transnational private law for the CEFTA 2006 region, including contract law, the status of the indirect model should be examined country by country.

The CISG and National Legislations in CEFTA 2006

From the standpoint of sale legislation, CEFTA 2006 countries can be divided in two groups: Albania and Moldova on one hand, the successor states to the former SFRY on the other.

Moldova promulgated its new Civil Code on June 6, 2002, and it entered into force on January 1, 2003 (<http://lex.iustice.md/>). The Code adopts a monistic concept of obligations and regulates all types of sale in articles 753 – 822. In the provisions of the Code, in particular those relating to price, concept of conformity and lack thereof, product liability and rescission of contract, we could not trace an influence of the CISG or EU consumer directives. Overcoming its isolation and heritage of administrative socialism (Stolker, 1996/97, 31-32), Albania adopted a new monistic Civil Code, Law No 7850/1994. The sale contract is regulated in Book Five, Title 2, Chapter I. The code follows the tradition of great codifications, Swiss, Italian, German and Dutch particularly (Stolker, 1996/97, 36). In the process applying for EU membership (Latifi, 2009, 21 – 23), Albania also adopted Law No 9135 on Consumer Protection, based on the relevant EU directives (<http://www.lexadin.n/>).

The former SFRY passed its Law on Obligations in 1978 (LO 1978 - Off.Gaz.SFRJ 29/78, 39/85, 57/89). At the time this act was the latest in the line of great national codifications. Though the former SFRY did not participate in the Hague Conference, the influence of ULFI/ULIS is visible in the way the LO 1978 regulates sale contract. Our comparison of the LO 1978 and Hague conventions revealed 58 identical or similar solutions and institutions. Among them, the optional provision on price determination was probably the most important single case of correspondence. At the same time, there were 47 different solutions for individual issues or groups of connected issues. According to the content of norms and their systemic importance, all the dissimilarities can be classified in 13 major groups. These solutions made the regulation of sale contracts by LO 1978 only partially unified with the regime of international conventions in force at the time.

All the new states emerging from the dissolution of the former SFRY took over the LO 1978. Recently acquired statehood, switch from partial to fully-fledged market economy, and changes in international business law and path to EU integration all required reconsideration of these acts. The adaptation of the LO was not identical in all of the new states. In the first phase all the successor states amended the LO. Later on, four of them passed completely new national laws on obligations. The former FRY amended the LO in 1993 (Off.Gaz. FRY 31/93) and Serbia kept those amendments after the dissolution of FRY. Bosnia and Herzegovina adopted the LO by a specific law (Off.Gaz. RBH 2/92, 13/94). In the post-Dayton phase, the Federation of BH (FBH) continued to apply RBH legislation as its own. The Republic of Srpska actually took over the LO, amending it in 1993 (Off. Gaz. RS 13/93). Both BH Entities continued to intervene into the LO, thus creating different legal regimes for the same obligations in the single economic space of the BH state (Article I.1.4. of the Annex IV to the GFAP). In order to start reforming obligations law, the Entities' Ministries of Justice and GTZ formed a working group headed by Professor Riesman. Domestic and foreign experts, including Professor Perović as the consultant, submitted the Draft Law on Obligations FBH/RS on June 16, 2003 (DLO). The bill is still in the parliamentary procedure. Macedonia (Off. Gaz. 35/01) and Slovenia (Off. Gaz. 83/01) passed their laws on obligations in 2001; Croatia did the same in 2005 (Off.

Gaz. 35/05) and Montenegro in 2008 (Off.Gaz. 47/08). After the year 2005 all the countries promulgated new consumer protection legislation in line with the relevant EU directives.

Amended or new national laws on obligations of the former SFRY successor states are strictly following their origin. In the area of sale contracts, there are no significant differences in principles, structure, majority of technical provisions, or even the language between LO 1978 and the new national laws. Consequences of such national legislative policies are manifold. First, in spite of new political boundaries, basic national legislations on sale contracts remained harmonized. Second, ULFIS/ULIS continued to influence new national legislation to the extent that these conventions were included in the LO 1978. Third, there was no reception of the CISG into the regimes for internal civil and commercial sales. Identical solutions and correspondences between the CISG and national regulations of sale contracts are caused, rather, by the adoption of ULFIS/ULIS provisions in the CISG and national codes. Hence, contrary to some doctrinal views (Baretić, Nikšić, 2008, 103 - 104), it seems to us that the CISG's impact remained solely the direct one. Fourth, the legislative approach of CEFTA 2006 countries closed the door for unification of national codifications with the CISG via EU consumers' directives. New national legislation on consumer protection made consumers sales yet another separate type of sales contract. Obviously, CEFTA 2006 countries were not inclined "to boldly 'push the boundaries' of unification of international sales laws at the expense of domestic laws" (Zeller, 2008, 1). And finally, it appears that the indirect impact of the CISG on national obligations laws will depend on several factors: joining the EU, success of the European private law codification, and ability of each CEFTA 2006 country to adopt the European private law code in its internal legislation.

Case Study: The CISG and BH Sale Law

Similarities between the CISG and the Law on Obligations/Draft Law on Obligations FBH/RS

Initial goals of the DLO are: making a comprehensive and monistic piece of legislation, including EU directives into domestic legislation, preserving legal tradition, harmonization with the PECL and with international conventions, especially those sponsored by the UN, including scientific results into the law, and providing for needs of "practical life" (Morait, Popović, 2002, 9). Provisions of the DLO serve its goals (Perović I, 33 – 51; Perović II, 72 - 95). The DLO achieves considerable harmonization with international conventions in many areas: agency (Trifković et al, 2009, 311 – 317), financial leasing (Art. 772 – 778), documentary credits (Trifković et al, 2009, 467; Art. 1320 – 1326) etc. However, the purpose of this paper requires closer examination of the relation between the CISG and the LO/DLO provisions on sale contracts only. Grounds for and the methodology of the comparison of documents are the same as in the previous cases.

The same set of principles governs the LO (Art. 1 – 25) and the DLO (Art. 1 – 17). Out of the eight principles enumerated in each BH act, only good faith is explicitly mentioned in the CISG. As in the CISG, the principle of good faith is of paramount societal and legal value; it is the only one the parties can't exclude or limit (Art. 12 LO; Art. 6 (2) DLO). If the CISG's implied principles are taken into consideration, the convergence between the domestic and international acts is much greater: equality of parties, freedom of contract, informality of contract, binding character of contract, and prohibition of inflicting damage. On the other hand, the LO and DLO only implicitly accept the principle of reasonableness, which is expressly stated in CISG's Article

8. It should be noted there are three principles which are not common to the CISG and the LO/DLO. Due to its goals, global reach, legislative character and methodology, the CISG does not enshrine the principles of exchange of equal values, abuse of rights and amicable solution of disputes. They might come into play only if BH law is applicable to the case.

The relatively small number of differences between the LO and the DLO in the regulation of civil and commercial sales allows us to compare them jointly with the CISG. The economic and business characteristics of sales transactions, the history of regulation, and a number of shared principles led to a considerable number of identical or essentially same technical provisions for individual issues or legal institutions (Appendix 1). These are condensed in Table 4.

*Table 4: Identical or Similar Solutions in the CISG and the LO/DLO**

No	Broader legal institutions	Number
1	Formation of contract	11
2	Performance of contract	13
3	Passing of risk – general rules	2
4	Liability and damages	16
5	Termination of contract	10
6	TOTAL	52

*Author's calculation

Differences between the CISG and the Law on Obligations/Draft Law on Obligations FBH/RS

New provisions in the DLO refer mostly to consumers sales (Art. 564 (2); 581 (2); 592 (2); 596 (1); 624 (3)). In the regulation of civil and commercial sale contracts there are at least five significant differences between the DLO and the LO: interpretation of contract (Art. 99 LO – Art. 35 DLO), duty of the seller to remove non-existent rights of a third person from public records (Art. 619 DLO), terms for serving notices for visible vices (Art. 481 LO – Art. 591 and 595 DLO), *aliud* as “material vice” (Art. 588 DLO), and valorization of price currency (Art. 496 DLO). None of new solutions brings the DLO closer to the CISG. That is why the LO and the DLO can be treated as one document in the comparison with the CISG.

From the standpoint of the legislative policy, not all (groups of) differences are equally important. Conceptual differences appear when two acts do not have the same provisions or legal institutions, or when they regulate the same issue or related set of issues on different, often contradictory grounds, for example different rules for duties of pecuniary and non-pecuniary debtors, fault or causing the damage as grounds for liability etc. Technical differences are present when two acts regulate the same issue on the same principles but in different manners: serving the notice within 6 months or two years, for instance. It is not always possible to draw a clear-cut boundary between the two groups, as for example in the regulation of an offer in the CISG and the LO/DLO. That is why we will treat both groups together. The detailed overview of differences between the CISG and the LO/DLO is in the Appendix 2. Table 5 shows summarized data on the differences between the acts.

Table 5: *Different Solutions in the CISG and the LO/DLO**

No	Broader legal institutions or single provisions	Number
1	Interpretation	2
2	Usages	2
3	Formation of contract	6
4	Optional provisions on price	2
5	Performance of contract	10
6	Eviction	3
7	Liability and damages	12
8	Termination of contract	3
9	Passing of risk – special situations	2
10	TOTAL	42

* Author's calculation

The ratio of 52 identical or similar solutions against 42 differences indicates the absence of the CISG's reception in the DLO. Nevertheless, the final answer depends more on the systemic impact and importance of the differences than on their number. This requires their qualitative analysis.

All the differences are juridical in nature. Some of them have a conceptual impact on the domestic legal system, while others are more important for the commercial side of sale transactions. To the first group belong especially: rules on interpretation, protection from eviction, concept of breach of contract, equal treatment of non-pecuniary and pecuniary debtors, penetration of liability without fault into the sphere of non-pecuniary duties, and rejection of restitution in kind, at least as the primary rule. The following differences are salient examples of commercial importance: formation of contract, types of customs recognized as source of law, optional price regime, enumeration of duties of the parties, and passing of risk in specific cases.

Arguments for Unification of the DLO with the CISG

Significant differences from legislations of individual states make the CISG an instrument which hardly fits in any national system, especially one in the civil law tradition. In other words, blanket reception of the CISG into any national legal system would require not only a complete revision of contract of sale regulations, but also of general rules on obligations. That is probably the practical reason for BH and other SFRY successor states avoiding the reception of the CISG into their sale contract regulation. The influence of the Convention again remained limited to its direct impact.

In such a situation it is justified to ask whether the respect for national juridical tradition, need for legal certainty, and drafting concerns offer plausible grounds for the complete absence of any vertical unification between the CISG and domestic sale law. In the case of DLO we believe the answer is negative. It suffices to name only a few examples in favor of our conclusion. Among conceptual differences, the CISG's modern provisions on protection from eviction based on intellectual property rights, breach of contract and liability without fault could have been introduced into our system without major turbulence. Commercially important differences suitable for unification are found especially in formation of contract, obsolete optional rules on price regime, examination of goods, and rescission of formal contracts. If those and other provisions suitable for unification had been re-drafted, the DLO would have achieved the balance between the principle of legal certainty and the need for unification of law.

That balance depends on the values underpinning a particular societal and legal system, and finding it is the duty of legislative policy. No matter on which social level values and policies are defined, they are always subjective and therefore subject to challenge. That is why we corroborate with objective economic data on trade in goods our claim of desirability of at least a partial reception of the CISG in future BH legislation. First, some methodological remarks: the calculation is based on the International Trade Center statistics, and we excluded from the overall trade exchange the figures for trade in vessels, electricity and other goods enumerated in CISG's Article 2.

*Table 6: BH Foreign Trade in Goods and the CISG**

No	Group of countries	BH foreign trade in goods (in thousands of Euros)			
		2008		2009	
		Amount	Percentage	Amount	Percentage
1	The world total	11,696,636.25	100.00	9,108,187.75	100.00
2	76 CISG Member States	11,267,378.81	96.33	8,651,289.05	94.98
3	EU total	5,811,745.08	100.00	4,583,484.85	100.00
4	EU – the CISG Member States	5,686,231.34	97.84	4,491,170.76	97.85
5	CEFTA	3,500,616.45	/	2,472,835.68	/

*Authors' calculation

Conclusions from the Table 6 are self-evident. The CISG is a hard law optional source of law for about 95% of BH foreign trade in goods with the world. The EU is BH's biggest single foreign partner for trade in goods. Within the EU, approximately 98% of the BH trade volume belongs to CISG Member States. Unless opted out of, the CISG is in force for all BH exchange in goods with CEFTA countries. In times of economic prosperity, the percentages of BH foreign trade in goods with the world and the EU covered by the CISG are even bigger than these. BH adoption of the CISG is not only a political but also an economic necessity.

The direct model of CISG's impact means that the validity of the Convention is limited to in the area of foreign trade in goods, while domestic commercial sales remain subject to LO regulation. The question is whether a dual legal regime for the same type of sale transaction is justified. Again, strictly political and legal answers are not sufficient. That is why we compared volumes of BH internal and foreign trade in goods, excluding sales falling into the ambit of CISG's Article 2.

*Table 7: BH Domestic vs. Foreign Trade in Goods**

No	Kind of trade in goods	2008		2009	
		Amount in thousands of KM	Percentage	Amount in thousand of KM	Percentage
		1	Foreign	22,866,923.86	100	17,806,507.17	82.5
2	Domestic	21,423,486.74	93.68	21,581,504.89	100

* Authors' calculation

In the last year before the recent global downturn, internal trade was 6.32% smaller than foreign trade in goods. The first year of the recession reversed the situation; internal trade in goods was 17.50% bigger than its foreign counterpart. Two years are too short a period to set economic trend, but they are indicative for legal policy in regulation of sale contracts. Two years' difference between sales volumes in internal and external markets within 10% of each

other opens the dilemma: are two different regimes for essentially the same commercial sale contract justified? Again, along with others (Zeller, 2008, 81) we believe the answer is negative. Reasons for accepting indirect impact of the CISG and unification of the DLO with the Convention are found not only in legal theory, but also in the practitioners' need for uniformity in business operations.

Conclusions

The CISG achieves its unifying impact on cross-border commercial sales regulation in EU and CEFTA via two models. The direct model means adoption of the Convention into national legal systems as the source for international sales only. Reception of CISG norms into national private law is the main feature of the indirect model. In both models the unification is vertical.

All EU countries bar four, and all CEFTA members, applied the direct model as the main vehicle for unification of their international sale laws. Thus the Convention became the uniform optional legal regime for sales in regional markets and the part of the *Acquis communautaire*.

In states belonging to two European regional markets, the indirect model of unification of national civil and commercial sales with the CISG is hardly present. In both regional markets the Convention has considerable influence on national regulation of consumer sales. In the EU the CISG has a visible impact on the emerging European private law.

The case study of BH confirms the general findings regarding the dominance of the direct impact model on the unification of national sale law with the CISG, and the absence of the indirect model of influence on domestic legislation on civil and commercial sales.

New economic and business forms of sales require a more diversified legal regime, for at least the main types of transactions. Nonetheless, the existing multiplication of legal regimes for the substantially same commercial sale transactions at home and abroad is hardly a commendable outcome. Consequently, the broader application of the indirect model of CISG's impact on national sales laws is a necessity. The case of BH confirms this general conclusion.

In order to prevent the destruction of historically achieved horizontal unification among private laws of different states, the implementation of the indirect model must be regionally coordinated and harmonized. The EU experience, crystallized in the PECL and the DCFR, offers useful guidelines in this respect. It is reasonable to expect CEFTA countries to join this process instead of starting their own.

The CISG can be a fully successful tool for unification of regional regulations for trade in goods in Europe only if both the direct and the indirect model are applied jointly and successfully.

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Appendix 1: Table of Identical or Similar Solutions in the CISG and LO/DLO

No.	Identical or similar provisions or legal institutions	CISG	LO	DLO
1	Sufficient agreement	14 (1), 23	26, 31(1)	18, 27 (1)
2	Content of offer	14 (1)	32 (1)	28
3	Withdrawal of offer	16 (1)	36 (2)	34 (2)
4	Acceptance	18(1)	39 (1) i (2)	37 (1) , (2)
5	Withdrawal of acceptance	22	39 (3)	37 (3)
6	Time for acceptance	18(2), (3)	37 40	35) 38
7	Acceptance within a certain period of time	20	37	35
8	Late acceptance	21	43 (2) i (3)	41 (2) i (3)
9	Silence or inactivity do not in itself amount to acceptance	18 (1) 18 (3)	42 (1)	40))
10	Counter-offer	19 (1)	41	39
11	Moment of conclusion of the contract	23	31	27
12	Enumeration of duties of - Seller - Buyer	30 53	467 – 515 516 - 519	576 – 627 628 - 633
13	Organization of carriage of goods as the part of delivery	32 (2)	473	473
14	Right to suspend the performance	71	122	157
15	Place for performance Non-pecuniary duties Pecuniary duties	31 57	467 471 -472 516	576 580 – 581 628
16	Time for performance -Non-pecuniary duties - Pecuniary duties	33, 58 59	467, 398, 469 – 470 475 – 477 516 (1)	576 578 - 579 628
17	Specification sale	65	539	656
18	Retention of delivery until goods are paid for	58 71 (2)	475, 477	585, 586
19	Delivery of documents or goods before the due date	34 , 37	315 (2)	387 (2)
20	Taking delivery	52 (1), 60	315 (1); 519 (1)	630
21	Taking delivery of greater quantity	52 (2)	493	603
22	Buyer's duty to examine the goods (including re-expedition)	38	481	591
23	Notice of non-conformity	39 (1)	481 482	591 592
24	Conformity of delivered with contracted goods	35	479	588 **
25	Exoneration of the seller for the lack of conformity in the buyer is unconscious	35 (3)	480	590
26	Unconscious seller can not be exonerated for the lack of conformity	40	485	595
27	Protection from eviction	41	508)	619 **

No.	Identical or similar provisions or legal institutions	CISG	LO	DLO
28	Preservation of goods	85 86	520 – 522	631 - 633
29	Rights of the party preserving goods for the other party	87 88	522 – 522-	633
30	System of remedies for non-performance	45 – 52 61 – 65:	262; (2478 – 500)	329
31	Buyer's right to reduce the price proportionally to non-conformity of goods	50	488	598 (1)
32	Additional period for performance of other party's duties	47(1) 64(1)	262 (3) 125, 126 (2) 489	329 (3) 160(3), 161 (2) 599
33	General effects of avoidance	81	132	167
34.	Anticipatory breach	72	128	163
35	Termination of contract by mere agreement	29 (1)	69 (1)	75 (1)
36	Unilateral termination by notice to the other party	26	130 268	165 168 337
37.	Buyer's right to declare the contract avoided if the seller does not deliver goods within the additional period fixed.	49(1), b) 49 (2)	489 -491	599 - 601
38	Buyer's right to declare the contract avoided if the seller delivers partially	51	492	602
39	Buyer's right to declare the contract avoided if the seller is late with the delivery of an installment	73	129	164
40	Seller's right to declare the contract avoided if the buyer refuses to take delivery	64 (2)	519 (2)	630 (2)
41	Effects of avoidance	81(1)	124, 132	167. 168 – 171 **
42	Restitution in the case of the contract rescission	81 (2)	132	167 (2) – (5)
43	The concept of the <i>force majeure</i> as exoneration ground	79(1)	177 (1)	224
44	Right to full compensation for material damages	74	124 269 526	159 338 637
45	Compensation only for foreseeable damages	74	266 (1)	335 (1)
46	Duty to mitigate damages	77	267	336
47	Compensation of the difference between the contract price and the price of the substitute transaction	75	525 198	635
48	Compensation of the difference between the contract price and the current price	76	525 526	636 637
49	Interest in arrears	78	132	167 397 . 400 410 **
50	Interest in case of restitution of money received	84	132 (5)	167 (5)

No.	Identical or similar provisions or legal institutions	CISG	LO	DLO
51	General rules on passing of risk	66 69	456 457	565 (1) i (2) 566
52	Passing of risk on non-conform goods	36	456	565 (2)

** The DLO solutions which are new compared to or different than in the LO

Appendix 2: Table of Different Solutions in the CISG and LO/DLO

No	Different provisions or legal institutions	CISG	LO	DLO
1	Interpretation of enactments	7	/	/
2	Usages agreed upon and mutually established business practice as the source of law	9 (1), 8 (3)	/	/
3	Usages in international trade as optional source of law	9(2)	21	8
4	Interpretation of declarations and of the contract	8 (3)	99	135
5	Public proposal for making contract	14 (2)	33)	29
6	Non-binding offers	/	36 (1)	34
7	Revocation of an offer	16	/	/
8	Termination of an offer by rejection	17	/	/
9.	Modified acceptance	19 (2)	41	39
10	Validity of late acceptance supported by notice on acceptance	(21 (1)	/	/
11	Amendments and rescission of formal contracts	29 (2)	69 (2)	75 (2)
12	Optional provision on determination of price	55	462 462	571
13	Price fixed by weight	56	/	/
14	Payment formalities as duties of the buyer	54	/	/
15	Handing over documents as sellers duty separated from delivery	30, 34	467 (2)	576 (2)
16	Seller's duty to send notice on consignment and on specification of goods delivered to the carrier	32	/ (Čl. 268	/ (Čl. 338
17	Seller's duty to insure goods in transit or to supply necessary data to the buyer	32 (3)	/	/
18	Packing and protection of goods as seller's duties separated from delivery	35 (1)	/	/
19	Place of the examination of goods in distance sales	38 (2)	481	591
20	The concept of re-expedition of goods	38(3) -	481(3)	591 (3)
21	Objective final term for serving the notice on lack of conformity to the seller	39 (2)	482 (2)	592 (2)
22.	General regime of rights and claims of third parties	41	508	619
23	Thirds party rights or claims based on intellectual property rights	42	/	/
24	Rights of the buyer if third party has right or claim on goods	45	510 – 515	619 (3)** 621 - 623
25	<i>Purgatio morae</i>	48(1)	126	161

No	Different provisions or legal institutions	CISG	LO	DLO
26	Fundamental breach of contract vs. vices	25 35 (2), d) 49(1), 64	121; 478 -479	588**
27.	Damages	74 78	269	338 242
28	Buyer's right to require delivery of substitute goods	46 (2 82	488 (1), 1)	598
29	Buyer's right to require repair of non-conform goods	46 (3) ; 82	488 (1)	598
30	Delivery after the date for delivery	48	491 –	601
31	Declaration of the buyer on the avoidance of the contract	49 (1)	491	601
32	Intention to declare contract avoided must be declared to the other party in order to enable it provision of security, if time allows	72 (2)	/ (129 - only for instalment delivery	/ (164 - only for instalment delivery)
33	System of rights and duties to the parties in the case of breach of contract	46 – 52 62 - 65 74 - 77	467 – 515 516 – 519 520 – 522 520 – 526	576 – 627 628 – 633 / 634 – 637
34	Grounds for liability for a failure to perform	79 (1)	154, 158	202, 206
35	Exceptions / Exoneration	79 (1)	154 (1) 177 (1)	202 (1) 224
36	Party who fails to perform must give notice to another party on impediments and their effects on performance	79 (4)	/	/
37	Scope of damages	74	155 266 (2)	201 335
38	Time of assessment of the price for goods in substitute transactions if the buyer took the delivery	76	525	636
39	Specific performance	28	132 (1) – (3) 185	167 242
40	Interest and damages	78 84	132 (5)	167 (5)
41	Passing of risk on goods sold in transit	68	/	/
42	Passing of risk on goods not identified at the time of contract making	69 (3)	/	/

** The DLO solutions which are new compared to or different than in the LO

ECOLOGIZATION OF ECONOMY AS A TOOL OF SUSTAINABLE DEVELOPMENT, MITIGATION CONSEQUENCES OF CLIMATE CHANGES AND PRECONDITION FOR INTEGRATION PROCESS TOWARD EUROPEAN UNION

*Redžić Sulejman**

Climate changes have been taking their share in last 30 years all over the world. Loss of soil caused by frequent flooding and soil erosion has resulted in increasing number of hungry people left without roof over their heads. Lack of fresh water is considered to be key issue nowadays. Conventional energetic resources are being lowered daily. All those facts were confirmed by the Millennium Ecosystem Assessment of our planet. Ecological crisis is getting worse every day without possibility to get out of it. This imposes emergent and effective ecologization of human society on global scale. First of all, it is necessary to conduct ecologization within economic sector, which is obligatory task to developed, less developed countries and especially to the countries going through socio-economic transition.

All investments should be planned and analyzed on ecological basis, taking into account rules and laws of the European Union (EU). The investment is considered to be ecologically acceptable if it applies waste-less technologies with low energy input and products that are environmental friendly, whereby the Pollution Prevention should be a dominant approach. This relates especially to forestry and wood-industry which is basic economy sector in Western Balkan countries. Major cost savings could be done within this sector, which would cut down our needs after woods and new sources of fresh water.

The most present questions in the Western Balkan countries, especially in BiH, questions that mainly correspond with serious environmental disturbances and climate changes, are those of hydro energetic sector. Without any kind of sever previous ecological study, there are being destroyed even last streams by construction of flow-through hydroelectric power plants, and building of high dams for large hydroelectric power plants. Some large and ecologically questionable investments are planned within Adriatic equator (territory of Bosnia and Herzegovina). Besides, there is yet to be solved route of Vc-corridor in its most delicate shares. Water is being re-directed from one watershed into another. Irreverence of both ecological laws and demands jeopardizes the biodiversity, specific habitats, especially endemic

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forms of life. This imposes need after more distinct stand of the EU toward all countries seeking to become its member on achieving and implementation of required ecological obligations in each aspect. In other words, there should not be new investment done unless there is a visible ecological base for it. Every single Euro has to be additionally „turned into green“. Likewise USAID (United States Agency for International Development) has done it through its after-war recovery programs in BiH achieving the outstanding results. As a first steps in achieving of sustainability is ecologization of educational system.

Keywords: economical transition, ecological crisis, natural resources, sustainable development, nature management, Western Balkan, European Union

Ecological Crisis Is Root of Global Economic State of the World

In a recent report on the state of the planet World Wide Fund in the latest edition of WWF's Living Planet Report, a leading magazine in the field of ecology and human health, has emphasized the following: "The world is still struggling with the consequences of over-estimation of its financial resources, but this crisis is actually based more on lack of valuation of environmental goods that are the basis of whole life and prosperity", said Director General of WWF, James Leap. "If our needs on the planet continue to increase at the same speed, in 2030 year we will need the equivalent of two planets to maintain such a lifestyle", said Leap (Redžić, 2009a).

Although the threshold of the third millennium bearing capacity of the Earth seemed a lot bigger (about 15 billion people by the patterns of sustainable consumption of natural resources) the latest assessments are based on the extremely serious scientific research of leading world countries indicating that their capacities are significantly smaller than anticipated and that in 20 years maximum complicated environmental problems of unpredictable extent should emerge (Redžić, 2008a, 1998). That goes in favor of the latest Millennium Ecosystems Assessment (Redžić, 2007a) for the entire world (which is so far the most comprehensive assessment in terms of natural resources and ecosystem's health on a global scale).

It is the Millennium Ecosystem Assessment that has indicated which natural resources were wasted in last 50 years, which on the other hand has significantly reduced the capacity of natural resources to mitigate climate changes caused by global warming. These happenings have taken their toll in increased number of hungry, thirsty and sick people every day. For more than 200 million people had to leave their homes on the islands of southeastern Asia because of rising sea level caused by melting of glaciers at the Earth's poles. The world, dealing with different socio-political and economic issues, has quietly entered into some kind of ecological crisis which will be time consuming and unpredictably expensive to get out of it (Redžić, 2007a, 2008b, 2003a, 2007b; Gore, 1992)

Economic situation in the world:

- The consumer basket for the 48 poorest nations, which is 1 / 4 countries in the world, amounts less than the one for the 3 richest men on Earth.
- Several hundred millionaires in the world own as much as 2.5 billion of the poorest people.
- 51% of the richest world bodies are big corporations. 49% of equity is state owned.
- In 1960 there were 20% of rich people whose income was 30 times bigger than the one of poor people, while in 1997 this ratio increased up to 74 times.
- About 20% of developed countries population consumes around 86% of all goods in the world.

Source: <http://www.globalissues.org/>.

The environmental issues have some time ago ceased to be a problem only in the domain of nature and environment. These issues are nowadays the most important mean for global investment management and strategy development, as well as for the industrial development and globalization that has already divided the world. Therefore, many research teams all over the world associate the existing collapse of economy that reflects through a recession with global ecological crisis. In order to either resolve or mitigate the ongoing recession it will be necessary to reveal such patterns of social development which would result in decreased environmental crisis. Based on that experience, there should be a seek after new and optimal forms of socio-economic development under conditions of new world order which should incorporate the environmental components in its foundation, bearing in mind that by doing this the ecological conditions of certain Earth's region (so-called "ecological footprint") should be respected. Furthermore, in order to make a projection for future development the assessment of carrying capacity has to be completed.

We shall see if the sustainable development has been discussed for more than 30 years. The ways by which the sustainable development paradigm has been understood today, the Rio 1992 and Rio +10, have not given the expected result. It is obvious that new variants or new forms of development have to be discovered, forms that would put forward the availability of natural resources and ability of Earth's ecosystems in order to buffer the additional human pressure. In favor of this goes the fact that after newly published assessment of the Department for Demography of the United Nations and the U.S. Environmental Agency (EPA) that enormous population growth in next 50 years is to be expected, especially in the Southeast Asia and Africa. In spite of decline in population growth which is expected in Europe there are some serious problems that will arise due to massive environmental migrations of people caused by floods, drought, lack of drinking water, chronic hunger and new kind of (environmental) diseases.

The extent of existing environmental conditions is highly sever which is why these issues were addressed in the inaugural speech of newly established US President, Mr. Barack Obama who has emphasized the necessity of pattern changes in terms of consumption of natural resources at both national and global scale. Apart from that, President Obama has appointed highly skilled personal in the National Agency for the Environment and Energy departments making it clear that the backbone of his global policy will be the environmental issues, such as climate changes and energy consumption, for these are preconditions for world peace and development of more tolerant relationships between countries.

This kind of newly announced commitments of the American administration have received positive feedback from Albert Gore, former democratic vice president of the United States, the first laureate of the Nobel Prize for his contribution in respect to environment at the beginning of the 21st century. Al Gore said the United States should as soon as possible join global projects regarding reduced emissions of gasses that are responsible for climate changes and create possibilities for decline of poverty which are the issues that different funds of the World Bank have been struggling for decades with. In other words, the United States will be one of the first countries to reduce the environmental and economic crisis through specific forms of ecologization in society, economy and politics.

World statistics:

The analysis shows that the difference between the richest and poorest countries was:

- 3 to 1 1820.year
- 11 to 1 1913.year
- 35 to 1 1950. year
- 44 to 1 1973.year
- 72 to 1 in 1992.year

World statistics:

- Half of humanity on earth (about 3 billion) survives with less than \$2 of income per day.
- Of the roughly 6 billion people on the planet, 1.3 billion people survives with less than \$ 1 a day, 3 billion people with less than \$ 2 per day, while 1.3 billion do not have access to drinking water, 3 billion have not sewage, 2 billion do not have access to streaming.

Source: <http://www.globalissues.org/>.

According to the above mentioned report, America has the highest consumption and China, however, and countries in our region significantly exceed the exploitation of natural resources. For example, if all of humanity use the resources at the level at which they now use, we would need another half of the planet that we hold for the Croats, more than 2 planets for the Slovenes, and 1.3 planets to meet the needs of the citizens of Bosnia and Herzegovina. The rate of “ecological footprint” and consumption of non-renewable resources is increasing on daily basis, while the negative influences upon generating of renewable resources are arising. Every day there is less environmentally suitable ground to meet the needs of urbanization and agricultural production all over the world. This is the case in Bosnia and Herzegovina, too.

What Is the Situation in BiH?

Although it has not reached socio-economic development in the past, BiH has already spent significant quantity of its natural resources. Hence, its “ecological footprint” rate is severely bad. In ex-Yugoslavia BiH was some kind of ecological colony. Its natural resources were over-exploited, while entire environmentally obtained profit ended within the center of political and economic power in former state. In other words, “clean kilowatt-hours” were sent from Bosnia whereby Bosnia itself was left with high air pollution, millions of tons of slag, submerged arable ground, settlements replaced by hydro-accumulation, polluted water, contaminated agricultural land and sick children.

These environmentally unacceptable forms of, so called, central concept of economic development, along with war destruction, have resulted in extremely adverse economic conditions, which are one of the major causes for deep both political and social crisis in BiH. This state is being contributed by, not only optional but also in some segments obliged, energy dependence (the disposal of natural gas), which makes the political and economic stability even worse and leads to the arising of previous environmental problems such as high air pollution in major urban centers caused by use of fossil fuels.

BiH is a typical example of a country in which un-ecological development patterns have resulted in the catastrophic economic and social crisis that tends to get more complex. However, BiH is one of the few countries in the region and Europe which still has a chance to overcome both ecological and economic crisis thanks to a number of its comparative advantages contained in its remained natural resources. But it seems as if the political establishment in power is not aware of that. Instead to reveal new development patterns that would ensure rising of social and individual gain by means of rational and sustainable use of natural resources (drinking water supplies, natural forests, mineral resources, biodiversity), there are political turmoils in place that aim at the acquisition of most dominant position in domain of hydro-resources management and the engagement in newly established hydro-accumulations.

There are new hydro-power plants that are not public goods as it used to be before and as it is presented nowadays by “energetic-political” centers. These will be generators for gain of enormous economic profit whose owners are far from the Bosnia-Herzegovina territory (Redžić 2006-07, 2008c).

Bosnia and Herzegovina is in need for energy. There is a strong necessity for new investments in this regard, but not at any price. We do not need energy that would leave a wasteland behind and flooded property of future generations, a kind of energy that would ruin our holy ground comprising the most unique endemic gene pool, which is to be found right in the canyons of our rivers (upper stream Neretva, Una, Vrbas, Sana and their tributaries), the energy that would be soled out at low prices on the market abroad. There is a need after much higher rate of energy efficiency in BiH. The eco-energetic experts have been warning for years that BiH scatters up to 30% of its electric power.

The Ecologization as a Precondition for the Integration Process

Bosnia and Herzegovina at present time is facing some serious challenges. The integration processes is being inhibited by highly inefficient and insufficiently oriented domestic politics toward Bosnian wealth. One of the fundamental determinants for this process to take place is environmental issue. Let us remember two years ago, when it was announced that BiH is going to be the last one in line to join the European family because of environmental problems that have accumulated over years. Of course, here were not addressed problems of communal hygiene, but a long, serious and multidisciplinary process that would result in ecologization of BiH society in all of its segments - nature, economy, education, health, agriculture, forestry, etc (Redžić, 1995a, 1995b, 1999, 2006).

Yet, we are almost at the beginning. BiH is a sole country in the region, and probably beyond, that during this complex and hard transition process did not have relevant institutions engaged in nature management. The Institute for Nature Protection of Bosnia and Herzegovina, latest institution at federal level, ceased to exist after 60 years. There is no institute in this domain, and issues of ecology and sustainable development have not been sufficiently addressed in reformed education system. In this way, the last administrative and technical “obstacle” to plundering of nature and its resources without legal consequence has been removed. In front of cruel capitalization the biggest natural resources of this country are vanishing, sources of drinking water are getting extinguished, forests disappear, agricultural land is being converted into buildings without a special evaluation.

Mountain karst complex of Igman and Bjelasnica has not been yet placed under the aegis of sustainable protection. Vlasica is an example of “negative ecology”, unbalanced planning, and it used to be a natural good of priceless economic and ecological value. Small power plants take their share on many rivers and torrents. Their construction does not include all necessary documents including the environmental impact assessment and real consequences to humans and the environment. There are similar intentions by the construction of large dams for hydro-electric power plants in the upper streams of river Neretva, where it is being aimed to convert still remained part of this hydrological resource into the lake, which is placed right in the middle of endemic center on global scale. In this respect one should be very careful and serious. At first, all documents in accordance to the international criteria have to be submitted, while the final decision itself has to be made based on democratic principles far from party leaders and ruling parties, which quite often forget about the national interest. Therefore, the integration

processes have to be intensified and international actions undertaken which includes lobbying in all institutions and centers of both Europe and the United Nations (Redžić, 2003b; Redžić, Barudanović, Radević, 2008, Redžić, 1994a, 2004a, 2004b, 2007c).

A key factor in these activities is that within the Euro-Atlantic integrations, approaching of BiH toward the European family and fulfillment of the criteria to join the EU. In this regard, BiH is an attractive medium from geopolitical, market and socio-economic point of view in the widest sense. Besides, BiH has got a number of comparative advantages such as environmental ones, which play a key role within the federal EU relationships. In order to meet the Copenhagen criteria, which are some kind of precondition for further evaluation of potential accession countries to the EU, it is required to achieve much higher political responsibility and orderliness of society based on the principles of law rule and respect of human rights. Natural resources and environmental issues are the key indicator for these processes.

The EU itself if it truly desires to preserve the unique natural values at the European and planetary level has to open its door to Bosnia and Herzegovina as soon as possible, for in BiH still exists unique gene pool of flora and fauna and biological resources that are important for universal wealth.

Climate Changes – Reality or Fiction?

There is no doubt that the global climate changes are real and that they take their share today in many segments of both nature and human society. Galloping growing poverty in almost all regions of the world is directly leading to climate changes. The Millennium ecosystem assessment shows that since 2005 the raising of sea level resulted in loss of large land area and has caused ecological exodus like migrations in which more than 200 million people had to leave their homes in the area of Southeast Asia. There are some indications that these movements have become even more intense in the decade thereafter. In similar way global climate changes have stricken the North Pole and high-mountainous areas worldwide. There is almost no mountain peak which is covered with snow as it used to be till recently (Redžić, 2009b).

Although climate changes and natural phenomena have occurred in the past in various stages of Earth's development or geogenesis, which is undoubtedly confirmed by specific episodes of rapid evolution on Earth followed by cooling and warming (many ice ages) and the recently discovered climate changes on Mars, current changes are estimated as the most intense ones so far with global character. The international community says that the situation is more serious or even dramatic in some segments and expresses its concern through continuous activity, making specific applications, protocols, conventions, launching a mega-science research projects in this field (such as for example, NASA research ventures).

The main drivers of climate changes in terms of global warming are considered to be enormous increase in carbon dioxide and methane concentration, including other similar gases in the atmosphere, which lead to evolving of the famous greenhouse effect. The main culprit for this unwanted emissions are industrial mega-facilities in developed countries. However, the price of climate changes must be pay by everyone. The poor countries will become even poorer, while the rich ones will be impoverished a little and will undertake everything to protect them.

Is there a limit to poverty?

The richest world nations have the highest gap between rich and poor people. The poorer the country, the greater the chance to debt of the state returns at the expense of the poor ones. Undeveloped countries are now giving \$ 13 on debt repayment for every \$ 1 borrowed. Every sixth men on the planet do not know how to read and write.

Source: <http://www.globalissues.org/>.

Biological diversity or biodiversity at all levels of organization is already a very good indicator of the intensity and nature of climate changes at the global scale. According to the assessments, a large number of species of plants and animals that can not withstand the coming wave of warming will remain on our planet. Dozens, even hundreds of others become more endangered every day, for it reduces the number and decreases their reproductive ability.

It is difficult to make realistic estimation on the economic effects of climate changes in terms of biodiversity. However, the price of possible damages to entire humanity is unforeseeable.

Bosnia and Herzegovina Is Ecologically Very Heterogenous

Bosnia and Herzegovina (BiH) occupies an area of 51,129 km². In geographic terms it belongs to the Western Balkans (Fig. 1). Hydrologic system is very rich and it is divided into two large river basins: Black Sea and the Adriatic (Fig. 2). Relief is very dynamic. In the north the country is dominated by plains. In the middle of the mountains as high as 2387 m (Mount Maglić), the climate is very diverse. The south of the Mediterranean and sub-Mediterranean is with hot and long summers and mild rainy winters. In the central part there are moderate-continental and mountain climate, north of the country has a continental climate (Redžić, 2003b; Redžić, Barudanović, Radević, 2008).

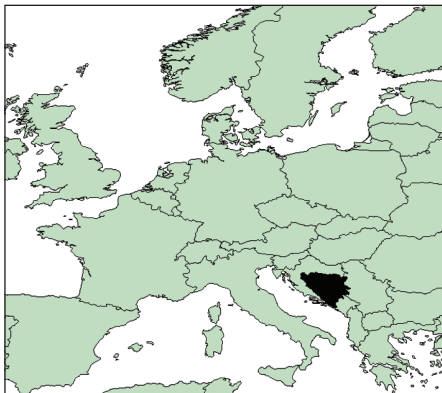


Figure 1: Bosnia and Herzegovina is W Balkan county with the highest level of ecological diversity and very intensive industrial past

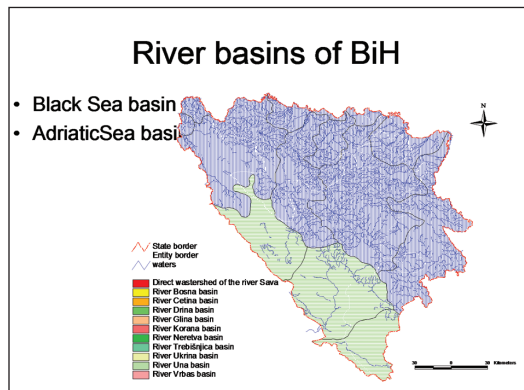


Figure 2: Hydrology of BiH is one the richest in W Balkan
Source: <http://www.wikipedia.org/>

In terms of geological rocks there dominate different geographical age: Paleozoic, Mesozoic and Cenozoic (Fig. 3). A special form has been built against the carbonate rocks. In the central part of the country there are old volcanic rocks, and lesser siliceous rocks. The soils are very diverse. In the Mediterranean there is red soil, and middle part is dominated by shallow

and medium deep soil carbonate. In the lowland areas there is deep soil, and about 12% of wetland soils.

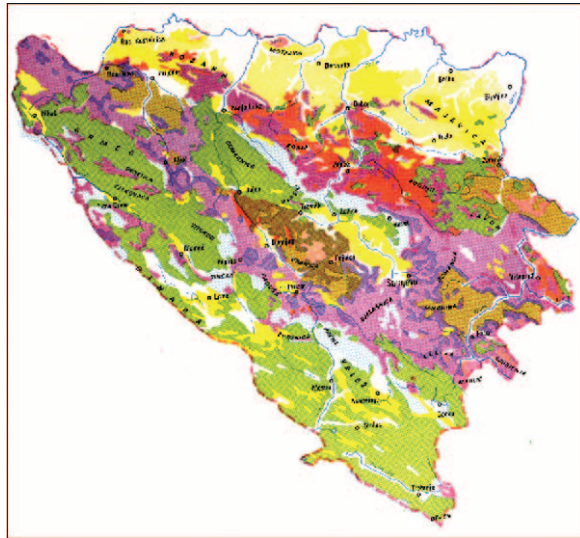


Figure 3: Geology of BiH is very diverse and causes high level of biological and geo-morphological diversity and endemism of living world
 Source: <http://www.globalissues.org/>.

Biodiversity is very rich. There exists flora of more than 7000 species, 600 species of chordata and an extremely large number of achordata. Fungi and lichen has about 1600 species. In terms of biogeography there are three regions: Mediterranean, Euro-Siberian-Boreoamerican and Alpes-High-Nordic. Deciduous forests dominate, but in mountainous areas there are coniferous forests. High mountain tundra is above the timberline (Fig. 4).

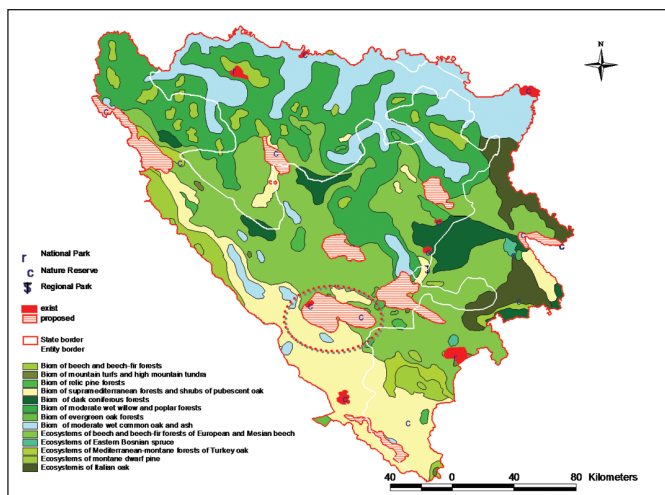


Figure 4: Biogeography of BiH is the richest in the Europe
 Source: <http://www.globalissues.org/>

Forests and forest land occupy about 50% of the area, and the rest of the agricultural and development land (Fig. 5). BiH has about 4.200.000 inhabitants. Main demographic centers are Sarajevo, Zenica, Tuzla, Mostar, Banja Luka and Bihać. During the war the majority of the village was moved to large cities. In the period before the war, BiH was the industrial and agricultural state. Today in the intensive phase of transition in which the place has a negative environment, another problem is the hydro-energy sector, where the last oasis biodiversity is being converted to artificial reservoirs.

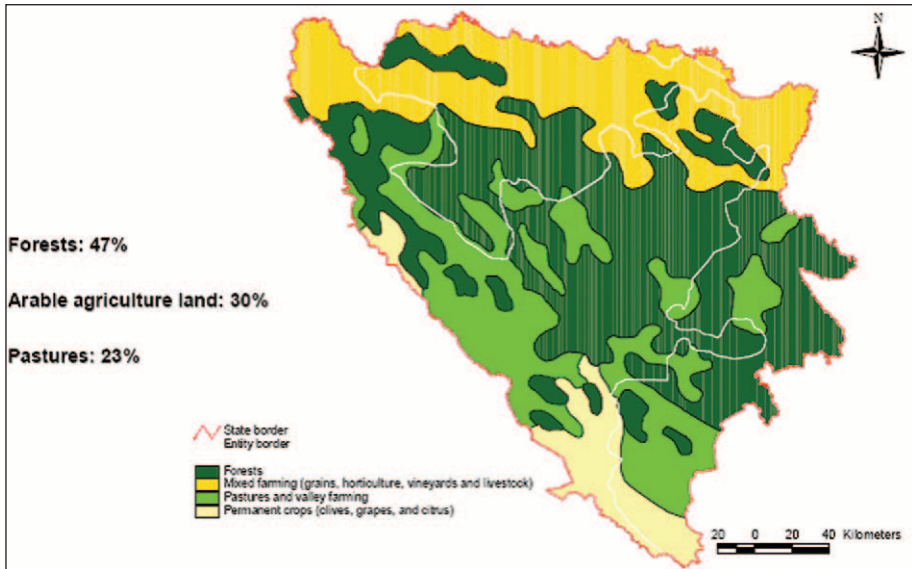


Figure 5: Main types of land use in BiH (more than 50% already is converted to anthropogenic Habitats)
 Source: <http://www.globalissues.org/>

Bosnia and Herzegovina Needs a Very Urgent Ecologization!

In this situation the position of the environment in the political system of Bosnia and Herzegovina is specific. It is mainly the responsibility of the entities. International politics is at the state level. Mitigating circumstance is the existence of legislation. However, it should synchronize with the EU documents. BiH is the signatory of many international conventions, protocols and agreements. In the past period of post Dayton, Bosnia and Herzegovina has NEAP at the state level, and the Strategy of biodiversity protection intensively involved in the climate change.

Countries in transition, like BiH, require urgent „ecologization of policy and politisation of ecology“ (Nijaz Abadžić, 2000) in order to approach the development programmes and predominant projects in current economy to idea of ecologically conscious business. Situation in other countries in the region is similar.

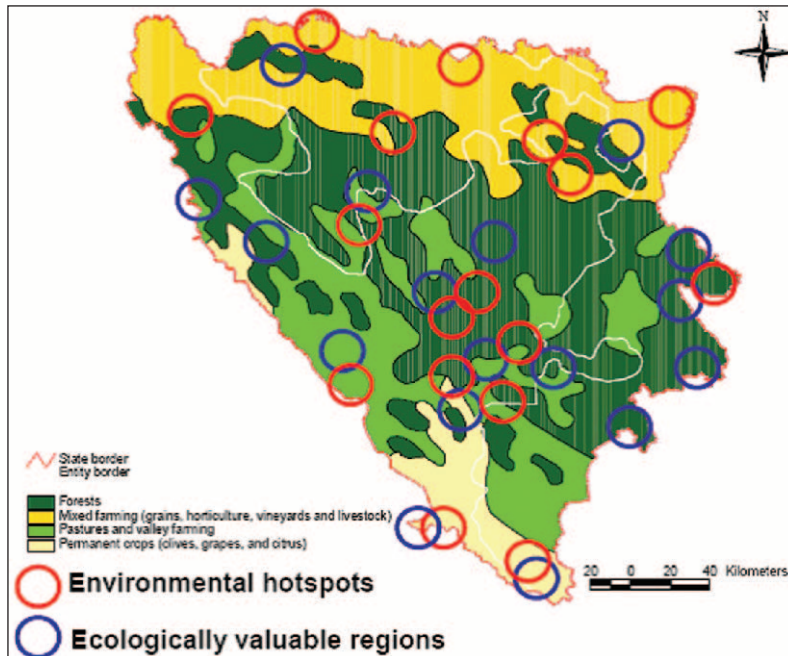


Figure 6: Bosnia and Herzegovina as a past “ecological colony” has urgent needs for ecologization of identified environmental hotspots and sustainable conservation of ecologically valuable regions
 Source: Redžić, S. 2009

Bosnia and Herzegovina needs urgent environmentalization of economy and society. BiH needs a strategy for sustainable development. Therefore rapid integration into the EU programs is necessary. The establishment of protected areas is a particular priority. The intention is to protect about 20% of national territory (now less than 3% is protected). Due to the complex socio-economic and political conditions many databases do not exist on the basis that they may appreciate the situation and trends in environment. Research projects in the capacity of the environment are low. Therefore, the establishment of national environmental programs, strengthening of the scientific and research infrastructure and increasing quality of skilled personal is very important. We still have a number of comparative values of importance not only for BiH but also for Europe as a whole.

The Ecology in the Environmental Management in Contemporary Mankind

Today, many are trying to find a way out of the grave crisis in which humanity is made in the first decade of the XXI century. Trying to find the most effective instruments to mitigate climate changes that greatly alter Yesterday’s picture of the world, global economic crisis is in the most direct connection to chronic environmental crisis. In addition, social problems are numerous. Poverty is constantly growing. The gap between rich and poor is deeper every day. Many believe that emphasized ecologization of modern society is still one of the possible exits from the current crisis. Ecologization in all spheres of human society is an elementary precondition for the successful concept of sustainable development which is largely trying to inaugurate the modern trends of development of society (Gore, 1992; Sitarz & Simon, 1993).

An adequate understanding of ecology as a science and a new philosophy of 21st century is necessary for the successful ecologization in any sector of modern human society (Redžić, Bašić, Barudanović, 2008).

The Contemporary Understanding of Ecology

Ecology (from Greek oikos = home, a place to live, logos = science, thought) is the basic natural sciences. Ecology studies the relationships among living organisms, relationships of organisms and their environment, as well as environmental impacts on (environmental, environment, engl. Environment) organisms. It estimate the type and intensity of ecological relationships based on biological forms of reactivity, which manifests the body, through various forms of adjustment (adaptation). The term ecology was officially first used, by German biologist Ernest Haeckel Heinrich, who inaugurated the world natural sciences, in 1866 (Odum, 1953, Allaby, 1998, Freeland, 2005).

Basic Understanding of Ecological Systems

As a major study of contemporary ecology is the interaction - the shape and intensity of the relationship between non-living environment (abiocene) and live components (biocene). Interaction in this context is the mutual effect of certain factors (hereditary, environmental, individual) in shaping the individual, interaction of organism and the physical and social environment, including the interdependence of psychological phenomena (if it is the human species).

Although created in the womb of biology and although its framework has reached an unexpected development in the 20th century, ecology long ago assumed the character of multidisciplinary and interdisciplinary science, which largely corresponds with many other sciences (chemistry, physics, mathematics, physical geography and various humanities and social sciences, as well as philosophy, sociology, economics) and tries to exact a meaningful way and provide satisfactory answers to many other issues in the domain of the environment or the environment. Therefore, today, many environmentalists believe that it considerably exceeds the teaching framework of classical biology. The reasons for this perception must be sought in the fact that the first roots of science on environmental issues are exactly in the ecology. Today, at the beginning of the third millennium, classical ecology remains a central component of environmental science and all the problems and complex issues that are imposed on mankind in this area.

Recently completed Millennium Ecosystems Assessment (Millennium Ecosystem Assessment, 2005) certainly shows all the power of ecology as a science, but also as a powerful means of complex instruments in natural resources management and development at the global level. Therefore, none should be surprised at the historic decision of the Nobel Foundation to ensure the highest recognition for world peace (Nobel Peace Prize) for 2007 to Albert Gore, former vice president of the United States, one of the global environmentalists whose parts of the country's balance (Earth in the Balance, An Inconvenient Truth), severely shook the international public and forced the international community to meaningful action to change existing patterns of development, thinking and understanding of the environment with the aim of mitigating serious environmental crisis.

The environmental crisis has largely taken its toll - natural resources are disappearing, the climate is changing, poverty is growing, the gap between rich and poor is deepening. Only in these short reviews imposes, as never before, the need for devoting significant attention to environmental

issues. The environmental laws and patterns of organization of the world can support finding the right product of the world that will not make you happier, but at least bearable for the future of life on this heated planet. Therefore, it is necessary to highlight the ecological principles and laws from different sides and try to identify methods that will enable such intentions.

In contemporary practice, the term ecology is often inadequately used. The concept of ecology is identified with the problems in the environment or the environment. In addition, the term ecology is used in everyday communication for expression, even subjective feelings to the environment or part of nature. It should make a serious distinction between the concept of ecology (which indicates a precise natural society) and the concept “ecologica” (which includes a variety of approaches and actions in their efforts to the environment to make it more acceptable for human society).

What is System’s Ecology?

System Ecology is an interdisciplinary field of ecology, which is based on a holistic approach in research of ecological systems, in particular ecosystems. System ecology involves the application of general system theory in ecology. The central idea is that the ecosystem approach is a complex system capable of reacting to change the key quality. System ecology is based on the interactions and transactions, both within and between the structure of biological and ecological systems. Special attention to the forms of functioning ecosystems are anthropogenic character, or the influence of various human activities. The key concept of ecology system is based on respect for the principles of energy, at all levels and all scales. The concept of ecosystem based on the principles of energy was first scientifically elaborated by ecologist Odum (Odum, 1953).

Ecology is Science of the Ecological Systems

Contemporary ecology can be understood as the science of ecological systems in which they are contained, and different systems of physical, chemical and biological nature. Natural systems, including all ecological systems are open systems as opposed to technical and technological systems that are isolated from living environment, and the closed type. Disclosure of natural systems is provided through the permanent flow of energy, which in some form and amount of the maturing sun on the planet Earth, where it accepted the green plants as biological systems. Part of the energy embedded in the energy of chemical bonds (ATP, NADPH +) - egzergy, a part of the unused pass through systems and permanently left and lost in the expanses of space (energy). In this way, continuity and survival of the ecological system is carried out through a new inflow of solar energy and its flow through the biological/ecological systems.

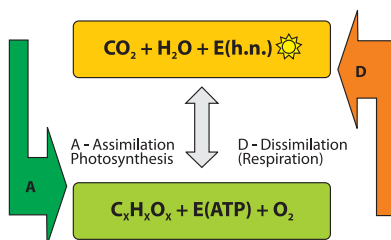


Figure 7: Two key processes in each ecosystem (production of biomass in the photosynthesis and its conversion of organic matter to energy in the respiration)

Source: Redžić, S. 2009

In spite of expected perfection or natural systems such as complex ecosystems, are able to achieve complete energy efficiency (efficiency) in the flow of energy. Thus, significant energy losses occur in the processes of biosynthesis of organic matter through photosynthesis, which are expressed through the concept of entropy, or energy state of disorder. This experiment shows the fundamental difference between natural and artificial systems. While the power of technical-technological system, certain amount of skill and a man entered the driving power, the power of natural systems is determined by a number, as exogenous and endogenous factors. Thus, in any natural system, “Nature” seeks first to satisfy “its own” needs (Redžić, Bašić, Barudanović, 2008).

That can be clearly seen through the example of the relationship of gross primary production (quantity of organic matter that occurs in photosynthesis) and net primary production (biomass production, which represents the difference between gross primary production and respiration, and their own need for power plants to successfully place the process of photosynthesis). Even though about 50% of the energy is spent for their own use of biological systems, the other half is available for conducting metabolic processes of organisms - consumers, as well as parts of ecological systems (Fig. 8).

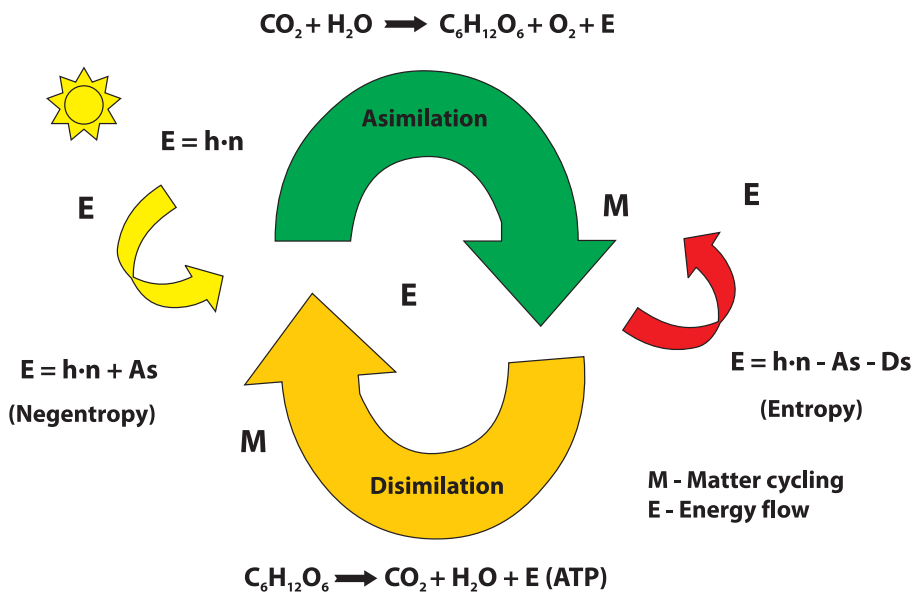


Figure 8: The flow of energy and cycling of matter in ecosystem as an opened natural system
Source: Redžić, S. 2009

This is a beta version on the other hand; production in artificial (indoor) systems is usually proportional to the input of raw materials and energy. In general, two key determinants of natural systems are: organic mass production through the photosynthesis process and transformation of organic mass into energy in the process of respiration or biological breathing.

While energy through ecological systems, permanently flowing, material that occurs in the ecosystem exhibits a tendency of the permanent revolution and the transformation from one form to another. For example, all the necessary minerals, dissolved in water, the plant (usually

through root system) adopts the same land. These materials are in various biochemical processes built into new compounds, which are included in the construction of certain parts of plants. Plant parts (leaf, fruit) eventually die and are gradually broken down to substances from which they are incurred. Material again reaches the land in an acceptable form of the chemical that can be absorbed by plants.

Group of organisms that produce organic matter (usually green plants) are the producers (manufacturers). a group of organisms that use dead parts of plants, as substrate for obtaining energy, and are thus broken down into simpler compounds, or the scanner destruenters (most bacteria, fungi, etc.). In nature, there is a third group of organisms, which in its role significantly differs from the previous two. These are the consumers or the consumers of organic matter, mostly animals and parasitic plants, fungi, etc. (Redžić, Bašić, Barudanović, 2008).

Unlike other natural systems, since its creation until today the planet Earth is a closed system when it is viewed from the aspect of the present matter. In terms of energy, Planet Earth is an open system, like all other natural systems.

The Concept of Ecosystem and Applying in Technological Systems

Typical examples of the system are regulated ecosystems. Ecosystems are made of two subsystems (abiotic and biotic), each of which contains subsystems second, third and n-th order. Although some of the subsystems can exist independently (parent material, climate, etc.) a high degree of interactivity is always achieved between them. As a result of individual elements of interactivity between the subsystems, as well as various sub-systems, created new quality-quantitative values, which contribute inexhaustibility shape and appearance of ecological systems themselves.

Consequently environment itself is one of the most complex systems created through secular processes of evolution and different forms of interaction between physical, chemical, biological and ecological systems of the planet earth in different stages of its geogenesis. The unity of ecosystems is based on the interaction of biological systems and abiotic environment (physical and chemical system). The basic processes that provide the functionality of ecosystems are photosynthesis (production of organic matter), consumption (consumption of organic matter), degradation and transformation (transformation of complex organic mass to the simpler forms).

On the basis of these processes, we differentiate the basic functional (trophic) groups of organisms in the ecosystem: producers, consumers (herbivores, carnivores, omnivores) destruenters and transformers. The production process of organic matter in the ecosystem, differentiate primary productivity (productivity level producers - green plants) and secondary productivity (productivity at the level of consumers and decomposers).

During the production of organic matter, of total manufactured materials (gross primary production), one part is spent on maintaining the functionality of tissues and whole organisms (respiration), while the remainder (net primary production) is available to consumers and decomposer. Approximately 50% of the gross production is spent for the settlement of the producer's own needs. Gross and net production decreases towards higher trophic levels, which clearly expresses the abundance and biomass pyramids (Fig. 9).

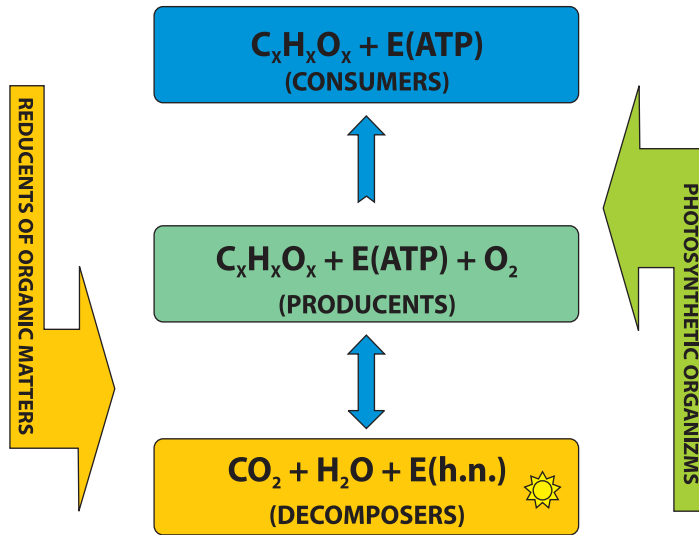


Figure 9: The cycling of matter in ecosystem from primary producers to decomposers
 Source: Redžić, S. 2009

Percentage of energy that is transferred from one level to another is an environmental efficiency. Ecological efficiency is dependent on the number of trophic levels. The more trophic levels, ecological efficiency is higher. The highest eco-efficiency is that in the ecosystem of tropical rain forests (the richest in the number of species). Ecological efficiency is the percentage of energy that is transferred from one trophic level to another (Redžić, Bašić, Barudanović, 2008).

Functionality of ecosystems is based on the number of connections within the living community (biogenic), and the relationships between elements of community life and biotopes (abiocene). Under the action include effects on the biotope and biological/ecological systems that inhabit it. In contrast, the reactions are the impacts of living systems on the biotope. The balance relations of actions, reactions and co-actions may be required and forms of ecological balance between the living and non-living nature and ecological balance (ecological balance in its entirety).

Industrial Ecology in the Management and Solving Environmental Issues

Industrial ecology is one of the youngest ecological and environmental disciplines. The main aim of industrial ecology is to find technological solutions that will result in the highest economic profit, and to be environmentally acceptable. Basic indicators of environmental acceptability are: energy efficiency and tendency towards production without waste. Industrial ecology is a basic principle of the use of pollution prevention (PP) in all phases of industrial processes (Graedel, Allenby, 2002; Hendrickson, Lave, Matthews, 2006). Only in this way it is possible to reconcile the three “contradictions” - technology, ecology and economy and to reach sustainability, and achieve sustainable development objectives. (Fig. 10).

To implement the principles of industrial ecology in the concept of pollution prevention is necessary in the application of basic ecological processes in the ecosystem (energy flow,

circulation of matter, especially decomposition of dead organic matter). The processes of decomposition of dead organic matter are based on decomposition and neutralization of waste organic and inorganic materials that appear in industrial processes. In other words, the success of industrial ecology is reflected in the ability to “imitate” the fundamental ecological processes. Industrial ecology is in close connection with the environmentally friendly development, and business.

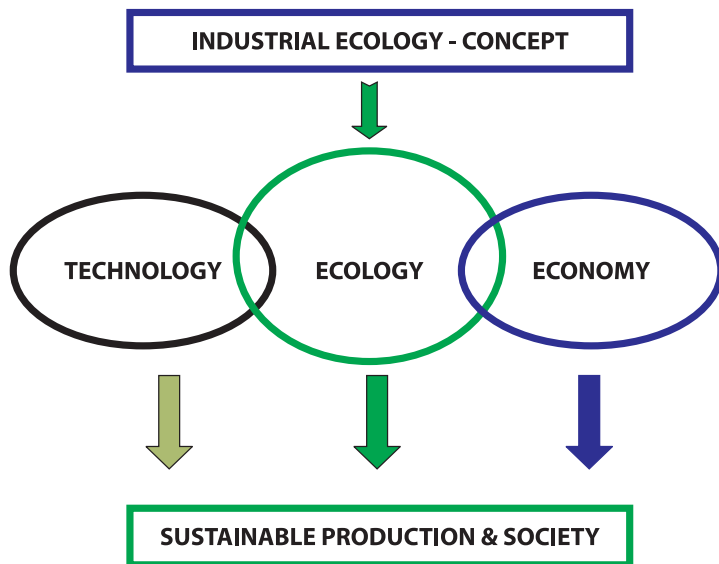


Figure 10: The concept of industrial ecology and achieving of sustainability
 Source: Redžić, S. 2009

What Is Ecologically Acceptable Business?

Environmentally acceptable industrial process is such process which “mimics” environmental flows in the ecosystem, which consumes a small amount of energy and generates small amounts of waste. Environmentally acceptable business market is a sustainable business. In order for the product to be acceptable to the modern market, it must be produced in an environmentally friendly way. It must be built of matter that is environmentally acceptable, or matter that is not harmful to human health and ecosystem health, and that the waste in the form of options to involve in natural bio-geochemical cycles. The modern business must be ecologically conscious business. It includes: (i) That is every action that generates certain ecologically based profit (ii) In general, that is ecologically profitable business (iii) Which means that given action stands in function of human life, as well as in function of development and survival of the society (iv) In terms of ecology this means that by its nature, intensity and duration given action is adjusted to carrying capacity of ecosystem, that is environment (v) In other words, this is action which neither disturbs in significant extent current state nor contributes to further environment’s degradation and (vi) Each ecosystem on the planet has its own carrying capacity. Moreover, the Earth does, too. After calculations of some ecologist-demographers it is around 15 billion of inhabitants (Redžić, 2008a).

What Is Modern Comprehension of Ecologically Conscious Business?

In the recent time the Renesch identifies three aspects of conscious business:

- (i) Environmental sustainability
- (ii) Social justice
- (iii) Spiritual fulfillment

Environmental sustainability includes: (i) Use local suppliers who can deliver (to cut down on paint miles) (ii) Re-use/recycling as much as possible – paint cans, old wallpaper etc. (iii) Avoid doing unnecessary work (iv) Minimal vehicle use (v) Keeping it local – jobs, sub-contractors, suppliers (vi) Use Eco paint and (vii) Work van – run it on diesel, or biofuel? (We decided to keep running it on diesel, but try to work locally and use it less).

If we want to save the planet, we need a five-year freeze on biofuels.

Social justice includes: (i) My intention – profit vs. social good. Getting the balance! (ii) Use the Co-op bank for the business account (iii) Quality guarantees – what's a fair guarantee – peace of mind for clients (working on this at the moment) (iv) Policy and responsibility to sub contractors (v) Fair price - fair rates for workers (no-one exploited for profit) (vii) Business plan in the medium term to become a workers cooperative – joint decision-making, joint funds sharing.

Spiritual fulfillment includes: (i) Work practices aligned with beliefs (ii) Doing the work with love, care and attention to detail. Creating beauty! (iii) Working efficiently without rushing or stress – so not bringing these energies into your home (that may sometimes make us a bit more expensive than I used to be!) (iv) Honesty, trust and transparency in all we do (v) Work as part of deeper life-purpose (vi) Working with clients to transform space into nurturing home and (vii) Distribution of abundance creation to support others. (From September 2007 a percentage of all profits will be donated to charities supporting those in developing countries)

Ecologization implies:

- Adequate education
- Changes in individual awareness
- Changes in responsibility chain
- Directed ecological education of politicians and planners
- Implementation of law rules according to the EU
- Set up of new patterns of development and forms of business
- Changes in decision making system
- Ecological tools such as Environmental Impact Assessment
- Environmental permission and realistic implementation of them
- Reduction of corruption in state management

Source: Redžić S. 2008., Bled Strategic Forum, Bled

Is the Environment Destruction Precondition for Development?

- It is not, of course.
- Although it is very difficult to find answer to this question which would be satisfactory for representatives of governmental sector.

- Indeed, if we should analyze the history of human society in realistic spirit, we would come to a conclusion that development was accompanied with environment destruction.
- New question emerges: Is it possible to achieve ECOLOGICALLY PROFITABLE BUSINESS AND TOTAL DEVELOPMENT AND WELL-BEING OF MANKIND, in recently arrived century?
- Is the ecologically conscious business balanced kind of business? How and is it possible to implement it in the world, are some of frequently emerging questions.
- However, it is for sure that there is no way back. World has to move forward and to invent new forms of consumption, as well as new forms of development.
- Besides, old habits have to be rejected and world has to become obliged to rationalize and save. This is something that everybody finds hard to cope with, of course, especially developed countries.

Ecologically Conscious Business in Developing Countries?

Many developing countries are considered to be true oasis for biodiversity and gene pool of tremendous value on local, regional and global scale. Hence, there should be actions undertaken from general level whereby the unique gene-pool should be protected by concrete actions including new patterns of biotechnology and both genetic and ecologic engineering.

Ecologically Conscious Industry

To achieve environmentally conscious business in the industrial sector the following measures are important: (i) Any industrial production based on “PP” principles, respectively *Pollution Prevention* (ii) Industry using raw materials that are ecologically acceptable (high level of efficiency and ecological suitability – recyclables) (iii) Technology striving to waste-free technology (which consumes small amounts of energy and emits small quantity of pollutants, and is highly efficient regarding raw materials) (iv) Industry in which waste is understood as a resources, not as actual waste that should be disposed in adequate way (v) Due to old and inadequate technology in wood industry, the efficiency in cutted wood production is between 50 and 30%, depending on sort of tree (vi) What saving could be achieved if the efficiency should be increased by only 10% , for in BiH (for instance) annual feeling in natural woods amounts over 2 million trees and (vii) Huge amount of potential money ends up on illegal dump sites, while poverty continues to grow, workers have low wages, etc.

Ecologically Conscious Energetics

This is one of the hot issues in the region of the Western Balkans and in Bosnia and Herzegovina.

This is the sector that changes the world. That is in developing countries and countries in transition. Nobody wants to give up on attained “*energetic comfort*” or steady customs of extremely high energy consumption. Eco-energeticians estimate that it is feasible to consume 30% less electric energy with almost the same outcomes. It is the case with fossil fuel consumption, too. This sector is the best indicator for attained development level, ecological awareness, political power of individual, as well as of political parties and political lobbies. In spite of current efforts of international community to radically ecologize this sector, in developing countries, instead of rationalisation programmes, decisions are being made and

pressures administered on both public opinion and academic community, in order to get „green“ light for new hydro-power plants on remained streams, while all smaller water-courses are destroyed by construction of, so called, small flow-through electric power plants. In that campaign different kinds of methods are being used, avoiding of fundamental legal obligations of investors when it comes to ecological evaluation of new power plants and hydro-accumulation lakes. Apart from that, large quantities of water are being re-directed from one watershed to another one causing in that way permanent ecological consequences that are very harmful to future generations. Funds coming from the EU countries prevail among these investments. Is the wind power our chance for future? (Redžić, 2008a).

Ecologically Conscious Forestry

This includes the following elements: (i) Implies care for each tree, each plant and each animal. Without forest ecosystems there is neither water nor biomass meaning paper, fuel, heating, medicines, fibres (ii) Nevertheless, pressures onto woods in transition countries are the strongest (iii).

Apart from ecological problems on global and regional scale, major problem represents illegal logging which leads to desertification, and to new emerged poverty bigger than before.

An elementary measure to achieve that is to chop down 30% of annual biomass gain, but under special conditions required by sustainable forestry.

Ecologically Conscious Agriculture

For achieving that, it is necessary to imply a food production according to acceptance capacity of ecosystems, use of indigenous genetic resources which are best adapted to ecological conditions and require less chemical protection measures to be undertaken.

Ecologically Conscious Land Use

Main environmental problems in this area are: (i) Inadequate soil use. Large proportion of arable land is being converted into construction sites (ii) Naturally valuable areas are being destroyed, including biodiversity centres (iii) Landscapes within marine aquatory are being changed (iv) By construction of traffic infrastructure, fundamental ecological laws are being ignored and (v) Illegitimate concession awarding frequently occurs.

How Can a Higher Level of Ecologization Be Achieved in These Sectors?

In small countries such as Bosnia, for example may be the existing conditions do little, is still insufficient. Expressed familiarity and business and political ties between the parties in power, government bodies and centers of power are the main problem. Chains of economic and political linkages to the principles of their own interests are very strong and good „work.“ Except that, it reflects negatively on the ecological picture of the environment, and weakens the national budget.

The therapy is difficult to find in particular the middle just as the environmental awareness of individual still does not exist or it is not sufficient in the domain of the aesthetic issues, and not development and futuristic.

Basic effective instruments that could provide serious results in a constructive and effective political pressure from the EU leaders and their political parties. No way the state. beyond that and they just hide. Environmental suitability of each of politicians and decision makers must be modern instrument in the ecological awareness gaining and individuals ecologization production, development, and regionalization and globalization in a balanced basis.

Then it is possible to apply standard ecological measures. This is one of the preconditions for environmentally conscious business.

Is Ecological Conscious Business Possible and Under What Conditions?

Developed countries, for example, EU countries may think about the ecological conscious business because they are sufficiently developed economically and have the money to think of their environment. “When we reach the level of economic development and achieve financial gain as the EU countries ecologisation. We start with the production and ecologisation economy”, the words that are often heard in government circles. And in response to emerging requirements and all individuals and NGOs to bring forth the programmes on environmental base. Also, it often adds to the some of the most developed EU countries first destroyed their environment and developed.

Is Destruction of the Environment a Prerequisite for a Development?

Of course not. Although it is very difficult to find a satisfactory response to the government sector representatives on this issue. And indeed, if you really analyze the state of the environment through the history of human society, you will see that development is accompanied by environmental degradation. The question is, whether it is possible and profitable ECOLOGICAL AND BUSINESS DEVELOPMENT AND WELFARE, in the century that has recently started? Is awakened ecologically balanced business fundamental determinant of business? (Redžić, 2008a).

How it is truly possible to implement in the world, questions are often asked. But, surely, can not be back. The world must go forward. And finding new forms of consumption and new forms of development. In addition, it must discard the old habits; it must be to compel the rationalization and moaning. Of course, it is very difficult to fall all. In particular, the developed part of the world.

Conclusion

To implement the principles of industrial ecology in the concept of pollution prevention is necessary in the application of basic ecological processes in the ecosystem (energy flow, circulation of matter, especially decomposition of dead organic matter). The processes of decomposition of dead organic matter are based on decomposition and neutralization of waste organic and inorganic materials that appear in industrial processes. In other words, the success of industrial ecology is reflected in the ability to “imitate” the fundamental ecological processes. Industrial ecology is in close connection with the environmentally friendly development, and business.

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“NERETVA VALLEY DEVELOPMENT CORRIDOR” MODEL OF CREATING EXPORT FORCES ON REGIONAL BASIS

*Domljan Vjekoslav**

In this paper we examine possible key ingredients of a regional development policy in Herzegovina and explain them through a model called the Neretva Valley Development Corridor.

The BiH companies are not competitive even in the local, not to mention in international markets. The region of Herzegovina can speed up the internationalization of companies by developing export incubators. The export incubator is a driver that permeates business processes from the idea of starting up internationally oriented enterprise, its establishment as a member of cluster initiative, establishing business relationships with domestic and/or foreign companies (from subcontracting operations to export via a joint venture company) to the provision of package of support through the established business infrastructure. These incubators, economically located within the cluster initiatives, and physically placed in premises of business infrastructure or elsewhere, can contribute to development of export forces of the Region i.e. help transformation of regional companies into small and medium transnational companies of Region. A set of export incubators may contribute to the development of industrial zones, which can form part of the development corridor such as Konjic-Ploče.

The paper proposes connecting primarily domestic, small, export-oriented firms with foreign, experienced companies interested in delivering firm-to-firm tutorials to domestic firms in order to, together with the regional firms, acquire new markets and increase their income and exports through joint ventures with these domestic firms.

Keywords: Herzegovina, development corridor, technological park

Introduction

It is important to move in a faster pace in development of clusterpreneurship or, even better, in the development of small and medium-sized transnational corporations so called gazelles. Clusterpreneurs should form a key engine of economic development of Herzegovina region (hereafter: Region). Without their action, it is difficult to improve foreign trade balance i.e. to eliminate foreign trade imbalance of the region in a middle term. Small and medium-sized transnational corporations should become a key export force of the Region's economy.

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The establishment of export incubators (hereafter: EIs) is advocated in order to establish closer relationships of domestic and foreign companies, and large-sized and micro and small domestic companies to create a stronger value chains of creating value and export. With the help of those EIs scarce resources can be concentrated and provide efficient and relatively cheap foreign trade infrastructure.

The introduction of cluster policies and business infrastructure into the development policy of the Region should contribute to

- strengthening of competitiveness of the companies in the Region, which would give contribution to the fulfilling of Copenhagen economic criteria,
- strengthening of economic stability (through decrease of foreign trade deficit), job creation in the internationally competitive businesses, and
- better fitting of the Region's economy into the economy of European Union and global economy.

Hardly can small and medium enterprises (hereafter: SMEs) independently, due to lack of capital, time, organizational and managerial skills, etc, organize their networking and establishing research and development centres. Hence designers of the development policies should encourage clusterpreneurship and building of the business infrastructure.

Small private companies are young and inexperienced in many aspects of entrepreneurial activity, and as such, without a number of good business reports behind. There are too many barriers to their internationalization: the lack of information, personnel, knowledge and financial resources. Therefore, in helping small companies to grow, it is important to recognize those that have the potential to become small and medium size transnational companies.

There is a lack of trained managers in the Region in general, particularly those trained in international businesses. Therefore, even if the SME was in a position to hire i.e. foreign trade companies to make the exporting activities for them, it would not be able to do it easily, because of a very small number of such foreign trade companies. Furthermore, they cannot rely even on the poor export information, which are for small companies in developed countries available in abundance. Sources of secondary information, which provides cheap or free information for companies in developed market economies, are not developed in the Region due to insufficiently qualified public administration, poor disposal of information technology, small and not updated databases, and the lack of specialized units for market research, etc. Therefore, there is little "global scan" of export opportunities and great difficulties in evaluating them.

In an increasingly interdependent, globalized and technologically advanced world, business companies are increasingly linking to create a competitive advantage. Accordingly, clusterpreneurship can be observed worldwide as one of the key directions of development of entrepreneurship.

The whole Region, even the space wider than it, should be developed on the principles of free economic zone, but not in making special economic zones within it. The Region is too small, administratively fragmented, geographically distant from the sea routes, etc. There remains, therefore, to encourage strong economic development based on clusters, which development should be encouraged by the clusters policy.

Marshallian clusters could be, in terms of the Region, micro clusters, which include a group of interconnected companies at the municipality level, while leader clusters represent gathering more powerful companies - leaders of development at the regional/county level around which small companies from the area of the Region/county are gathered.

When implementing cluster policies aimed at the Marshallian type of clusters efforts should be focused on entrepreneurs with large expectations, i.e. emerging and existing entrepreneurs who expect in the next five years to have over 20 employees. Cluster policy focused on the leader type of cluster needs to focus on strongly growing companies, i.e. those that increase the number of employees by 20% during the period of at least three years, while in the initial year have at least 10 (more stricter criteria: at least 20) employees.

It is challenging for the regional economy, consisting of isolated companies - which sail as separate boats and not as fleet – to improve competitiveness. A key objective of internationalisation of the companies in the Region should be to achieve high quality results: the acquisition of foreign markets and foreign exchange revenues from a limited number of SMEs. It takes a lot of start-up companies, which need to be supported, among other things, by support packages, based primarily on the appropriately organized learning, learning-by-doing.

The Non-Competitiveness and Unemployment of the BiH Economy

BiH has to deal with these urgent medium-term economic tasks: job creation, savings mobilisation, build up of a highly attractive investment environment, setting up thousands of micro firms, build up of 10-odd supply chains and industrial clusters, development of regionally strong export forces, strong increase in tax collecting and decreasing public expenditures from 48 to 33 per cent of GDP, and, activation of three to five mega investment projects improvement of utilities (water and sewage systems and waste disposal) etc.

Table 1 below provides a simplified characterisation of development policies in BiH for the time period 1995 to 2019. It is divided in two parts: past (1996-2010) and future (2012-2019), demonstrating what kind of change is needed.

The post-war ruling elites in BiH - as well as their predecessors in the former Yugoslavia - are not capable of resource mobilisation. There is a great number of the unemployed, a vast amount of non-invested money, idle land, other natural resources unutilised, and innovations without commercial implementation. Moreover, the ethnocartels do not have ideas, strategies or programmes on how to change this situation, or even worse, they do not have interest in changing status quo. The consequences of such policies are very high foreign trade and fiscal deficits that has obliged the Government to turn to the IMF for standby credits.

It is necessary to commence deep structural reforms aiming at enhancing the overall productivity of the economy. As manoeuvring space at the demand side of the economy is very limited due to the currency board regime and inflexible exchange rate, the supply side of the economy calls even more strongly for this type of reforms. There are no other ways of improving productivity, competitiveness and export performances.

A key challenge for the BiH economy is supply side failure i.e. low production levels, particularly for exports. Low exports to GDP ratios and high merchandise trade deficits in excess of 20 percent of GDP are indicators of the lack of competitiveness. Export structures are only moving slowly toward more skill- and capital-intensive products.

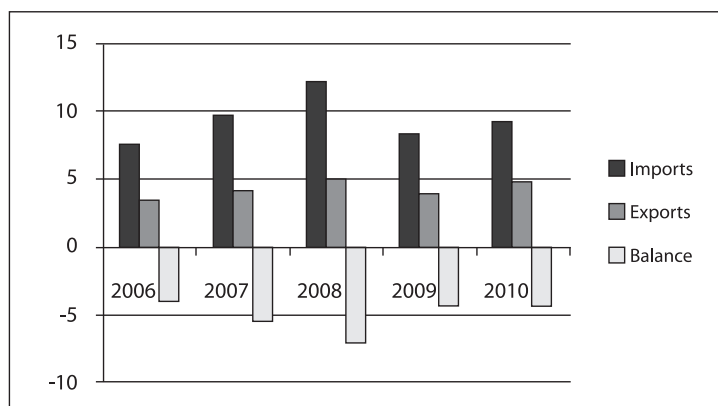
Given the low level of GDP per capita of BiH, its pre-crisis 5-6 % growth rates are very disappointing. The economy suffers from inefficiency - both static inefficiency (poor allocation of existing resources, especially labour) and dynamic inefficiency (low accumulation of capital of all kinds, primarily infrastructure).

Table 1: The economic policies in BiH, 1995-2019

	1996 – 2010	2012 – 2019
Policy type	non-existing hand policy	policy of invisible hand policy
Policy appraisal	2 x “seven mean years”	“seven good years”
Policy indicators	none	employment
Key economic resource	physical capital	knowledge
Type of development	import-oriented	export-oriented
Economic sector	intermediation (trade)	production (of ideas)
Internationalisation	Import-led	Export-led
Firms’ orientation	profiteering	profitability
Economic turbulence	– cartels – privatisation – no bankruptcy	– mass entrepreneurship – strong clusterpreneurship – fast bankruptcy
Pillars of the economic system	– public sector – tycoons (rent-seeking entrepreneurs) – foreign banks	– private sector – productive entrepreneurs – research institutes
Economic drivers	– public expenditure – remittances – foreign donations	– private investment – export – foreign direct investment
Legal orientation	lawlessness	rule of law
Resources mobilisation	low	full

Obstacles to economic and exports growth and trade deficits reductions are many but they primarily originate from very small private sector, low competitiveness of the economy and consequently its low profitability and investment activities. As a result, exports and GDP per capita are very low.

Graph 1: Exports, Imports and Trade Balance, BiH, 2006-10, (in billion US\$)

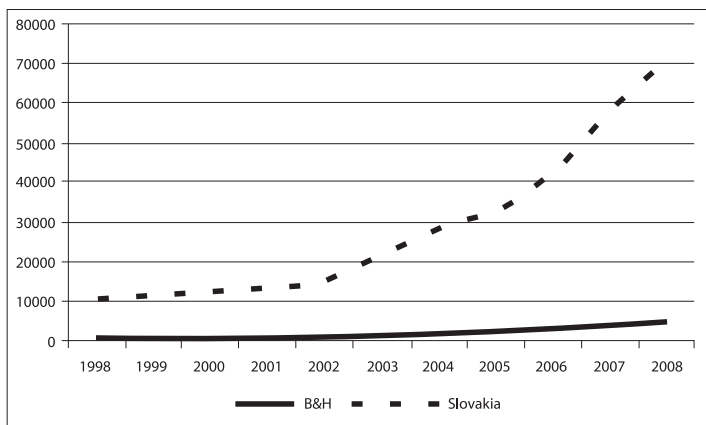


Source: UN COMTRADE (2011)

When liberal trade policy trade reform is being implemented in unstable macro economical surrounding, or without sufficient efforts directed at strengthening of trade relationships – domestic with trade of related institution, it usually tends to be a let down, either by quitting or the growth of trade and income is not achieved.

It is clear that the export strength of BIH economy is decreasing. Related to the group of comparators (Macedonia, Croatia, Slovakia, Slovenia, Greece, Portugal, Austria and Switzerland BIH demonstrates poor results. On the other hand, as a middle income country, BiH undoubtedly has, in order to reach the countries with high income, increase the size and strength of export sector.

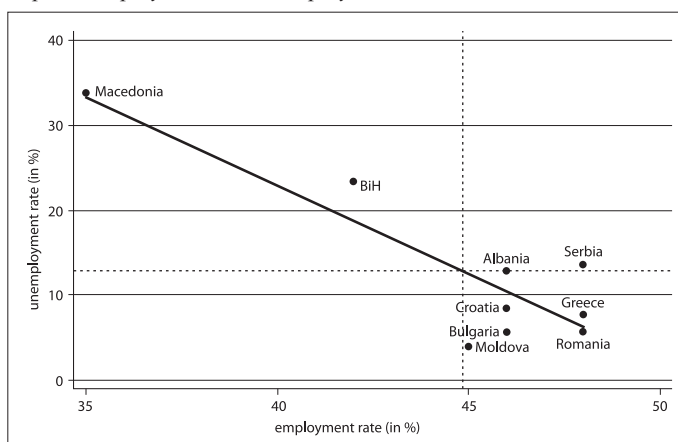
Graph 2: Export of BIH and Slovakia, 1998-2008 (bn US\$)



Source: UN COMTRADE (2011)

Graph 3 clearly shows that BIH, together with Macedonia is at the worst position at Balkans, and especially in Europe regarding employment and unemployment levels. Unemployment ratio of BIH is double the size of Balkan average. Simply said, BIH needs to cut the unemployment ratio in half, to reach the other Balkan countries.

Graph 3: Employment and unemployment rate in Balkan countries, 2006



Source: World Bank Development Indicators (2011)

In order for Region to come out from “middle income trap” - squeezed in by regions/countries which cost competitive and regions/countries which are technological competitive - a new strategy for the business sector development are needed.

Respective strategies need to state clearly in which areas the regional companies should be globally specialized i.e. achieve economy of scale and technological leadership.

Low competitiveness of the economy of the Region can explain the low applicative competitiveness that is, low coverage of secondary and tertiary education and training of employees of companies, low investment in equipment and low governance quality of the Region (and of the society and the economy levels).

Table 2: Types of competitiveness relevant for the Region

Technological competitiveness	Applicative competitiveness	Cost competitiveness
2000's	1980's and 1990's	1960's and 1970's
“Making better things”	“Making things better”	“Making things cheaper”
Investments in research and development	High and higher education and training	Unit labour costs
Patents	Investments in equipment	
Quality of scientific base	Quality of economy management	

Technological competitiveness refers to the ability to successfully compete in markets with new products and services. Therefore, it is closely associated with the innovation economy. If the position of the Region in technological competitiveness is undoubtedly low, it doesn't necessarily have to be low in the exploitation of new technological resources.

Cost competitiveness (or price competitiveness) is based on natural resources and cheap labour. As a source of differentiation is not sustainable, cost level is gradually increasing in a variety of sectors, adversely affecting the profit rate and potentially reducing the market share.

To enhance its competitiveness, the Region should move upwards in the value chain of creation of goods/services. First of all, it should stand up by increasing applicative competitiveness.

Export Forces Creation

The idea of export incubators (EIs) is based on the view that there are SMEs in the Region and abroad interested in the international evaluation of their business ideas and internationalization of their businesses, but for very scarce resources, face barriers that prevent them from that. Mission of EIs is to assist these companies in eliminating the underlying barriers.

EI is a group of manufacturing SMEs that operate in particular, the best organized space, specifically directed to the development of production for export, provided with the common physical and business infrastructure and supported by the provision of common services packages (from laboratory research through joint procurement of inputs, funding and placement of outputs).

Entering the markets of other countries, especially those with high-income is a very interesting issue. Organizing marketing abroad is always a difficult task, especially when entering company must operate in a new environment, facing a new legal and new business systems and unfamiliar business practices.

EI can help local and foreign entrepreneurs to understand the business environments of their countries, to improve their communication and develop mutual trust. It is even more important, as the research of internationalization of industrial companies shows, that socio-cultural distance significantly affects the decision on entry. When the distance increases, the companies preferably chose contracting than investment way to enter. EI can thus help in crossing the geographical and cultural differences of entrepreneurs in the Regions and those from other countries, using the method of “learning-by-doing”.

Studies of intercultural relationships practiced among those who enter into foreign business ventures show that entrepreneurs interested in external entrepreneurial venture pay more attention to personal characteristics and experience than on product, market or financial criteria. They appreciate more of an undertaking personality and experience rather than production, market or financial performance.

EI should act as a bridge between domestic and foreign SMEs. The initiatives to act on the EI don't have to be undertaken only by domestic but also foreign companies. Ideally, companies would start their work on the EI as a joint venture (hereafter JV) with foreign companies, through which business idea based on profitable innovation or the use of national quality resources would be exploited.

Advantage of EI is that all the above mentioned supports provide to EI as a comprehensive support package, in the early years of the company, when small companies that want to be exporting need the most support.

Potential advantages for EI in the Region are:

- Closeness of CEFTA/EU/Mediterranean market as sales market and as a source of supply
- Relatively cheap and educated workforce and other available resources (e.g., certain unique natural resources)
- Existence of leaders of development i.e. several large export companies, a number of strong-growing companies
- Existence of innovators and non-commercialized innovations.
- The possibilities of building a completely missing or underdeveloped industry in the Region / BIH / CEFTA.

Preconditions for the successful establishment of EI are:

- The existence or possible existence of a chain of value creation
- Convenient access to foreign markets (water, road, rail and air)
- Available infrastructure (land, water, sewage, electricity, telecommunications, banks and funds, the existing built factory halls, etc.)
- Available resources
- Efficient, “one stop” administration.

Clusters – Economic Locations of Export Incubators

There is no universal model of CIs because each CI has its own peculiarities and is facing various barriers of the competitiveness. Still some picture of CI in transition economies could be developed, which looks like this (Ketels, Kindquist and Sölvell, 2006):

- A small number of cluster members (only 40% of cluster initiatives have more than 20 companies, while the median is 18 companies)¹
- Founded office (62% of cluster initiatives)²
- Nine performance indicators³.

The challenge for the Region is to develop the economy composed of isolated companies in the set of CI and then increase the scope companies and sophistication of CI by widely supported cluster policy, because in essence the competitiveness of the Region depends on competitiveness of its clusters. Regarding this, it is particularly important to promote proper growth of CI.

The main activities to be addressed by the CI are research (market, technology) and development, joint procurement, production and / or sale, the business environment (infrastructure development, lobbying for changes in policies and regulations) and developing institutions for joint training of staff. In high-income economies an emphasis is on innovative work, and in the transition economies on sales in foreign markets and the development of regional competence.

Critical success factors of CI competitiveness are (OECD, 2005):

- carry out economic development strategies, consistent with the strategy of economic development of the Region/Counties /Entities/BIH
- create a broad partnership of actors on specific projects
- focus on technologies for markets with high growth potential
- achieving a critical mass to acquire and maintain international recognition
- development of dialogue with civil society to include all key interested sides.

Cantonal government and municipal councils must create an environment that attracts international companies, promoting learning / training, technology transfer, stimulates the formation of SMEs, encourages the formation and development of supply chains, develops institutions that enable the realization of exports, encourage action of VCF, and supports the development of distribution channels on EU market.

In the period from 2011-2014 key actors in the competitiveness of clusters in the Region should be (Sölvell, 2009):

- Companies (ascending / descending up / down the production chain, the companies that have a common interest such as similar types of labour and / or technologies, etc.; companies that provide shared services: consulting, legal, business, etc.)
- Financial organizations (banks, VCF, business angels, etc.)

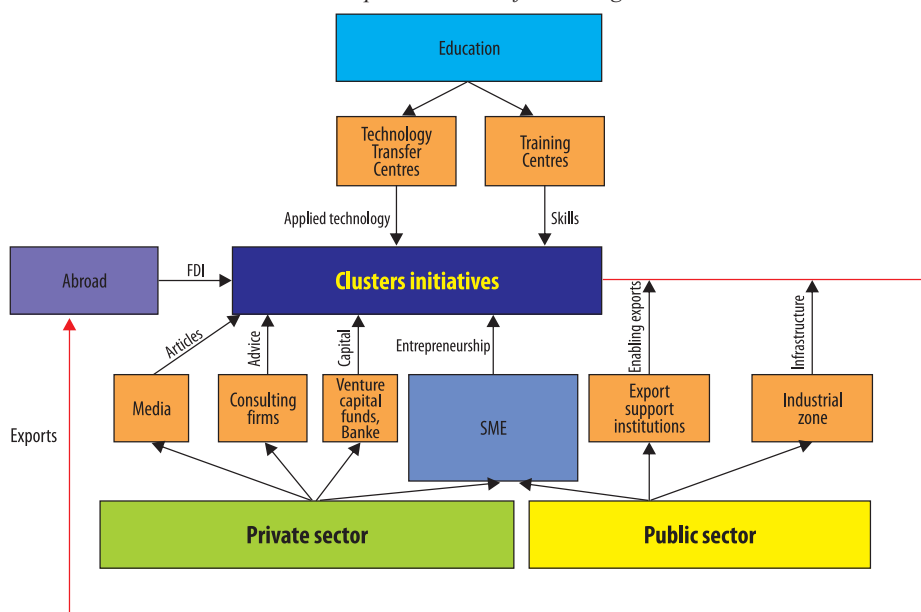
¹ Some CIs have a handful of companies, and some over a hundred. In countries with high income largest CI are those with over 50 companies, while the transition CI are “teenager” (the largest cluster initiatives have 10-19 firms).

² Most of CIs in the transition economies has an office and many the website also. The office employs 2-3 persons. Basically it is a manager, more operational than strategic (formulate the strategy and questions for the agenda), which runs the office or steering committee.

³ Effect of CI can be measured by the following indicators: employment, production, export, number of companies, the business environment, import, FDI, wages, innovation, price / added value, funding / grants from public sources. Indicators should provide policy makers with insight, were the measures taken produce the intended result or not. Also, in case there are no real results, they want to know why the measures were not successful. Measuring success can be in an absolute sense, i.e. whether the measures achieve the set goals, and in relative terms, i.e. in relation to their other actions or similar actions in other locations.

- Public institutions (government of municipalities / Cantons, the agencies related to the economy and politics of economic development, science and technology policy, etc.)
- Universities (faculties, research centres, technology transfer centres, training centres, laboratories, incubators, technology parks, etc.)
- Organizations for cooperation (cluster organizations, trade organizations, NGOs, formal and informal networks, development agencies)
- The media (with reports on CI and brands).

Graph 4: CI model for the Region



Cluster policy should be taken at the regional, cantonal and local level. Based on the experiences of EU countries, it can be said that cluster policies in unitary regulated countries (e.g. Italy), let alone in federally regulated countries (Switzerland, Belgium) is developed at the regional level (Sölvell, 2009). Having in mind the high fragmentation of political-institutional space of BIH, it turns out that there is no obstacle to the conduct of cluster policies at regional level but, in contrast, that there is no comprehensive policy at the national level. Simply stated, cluster policies should be implemented because there is no alternative.

Aspects of cluster policy should be:

- The policy of attracting FDI (through investment certification of cantons)
- Politics of business connections
- Sector-oriented economic policy
- Scientific-educational policy and workforce training
- Competition policy and market integration.

It would be good if CI were based on the FDI, as in many small European transition economies (Slovenia, Slovakia, etc.). In doing so, the small and medium-sized domestic companies cluster around the few foreign strategic investors. It is therefore crucial that the cantonal / municipal government enhance influx of FDI by its policies as much as possible (OECD, 2005).

The region should focus on and support a minimum two leader CI (aluminium products, and cheese) at the Regional/County level and more Marshall, micro CI at the level of municipality.

Industrial Zone – Physical Location of Export Incubators

The following table provides an overview of the business infrastructure of the Region by type of business infrastructure and cantons.

Table 3: Business infrastructure of the Region, 2010

Type of business infrastructure	The Region	Sub regions			
		Hercegovina-Neretva Canton	Western Hercegovina Canton	Herceg – Bosnia Canton	Municipalities of RS
Center for entrepreneurship	2	0	1	0	1
Business incubator	3	2	0		1
Business zone	15	6	2	5	2
Technology park	1	1	0	0	0
Cluster initiative	0	0	0	0	0

Source: REDAH (2010)

With regard to business zones should be considered that the degree of development of their business is 43% and that the range of construction ranges from 30 to 59% (REDAH, 2010).

It should have in mind that there is no universal model of financing IZs, and that each is a specific case, depending on availability of resources, strategies / policies canton / municipality, the degree of interest in the private sector, etc. The formation and development of IZ is medium-term process that requires years of effort. To achieve results, it is essential to base the development of IZ on clusters and cluster initiatives.

Two transition economies, the Czech Republic and Hungary have successfully enhance industrial development by establishing industrial zones. In the Czech Republic there are state and private industrial zones. It is estimated that for each koruna (CZK) which countries invest in the establishment and development of industrial zones, the private sector invests 36 koruna (CZK) in production equipment used in this zone. According to the Hungarian experience, industrial zones provide 40% of manufacturing exports and 25% of the total manufacturing industry. Productivity in industrial zone is 70% higher than the industry average and only 15% lower than the EU average (OSCE, 2006).

International Joint Venture – Learning-by-Doing

The skills of performing the export, as well as managerial, technical and organizational skills are encapsulated in individuals. The exchange of skills among entrepreneurs depends on their close contacts. It is widely present in JV among small firms, where there is more cooperation among entrepreneurs than companies. Accordingly, there is a very strong possibility that small companies from the region improve their marketing and management and technology through a subcontract with small companies from developed countries. For entrepreneurs in undeveloped country, the JV is an injection of capital, technology and management

(Donckels and Lambrecht, 1995). Accordingly, for this reason JV is the most efficient means of learning for SMEs of the Region.

There's also on the side of companies in developed market economies a potential interest for cooperation, especially in manufacturing and exporting industrial products, where foreign direct investment (FDI) primarily occur.

Experience in high-income countries shows that small companies in relation to the dimensions of the competitors and the market size tend to use alliances to achieve economies of scale and width, and when they are big they tend to avoid these alliances. Accordingly, when small, are interested in cooperating with small companies from other countries. When you want to internationalize, CI / EI / IZ could be such an opportunity, because the costs of the internationalization can be shared with local companies (of the Region).

Formation of supply chain involves an element of technology transfer downward, down the chain, since larger companies are trying to fix a chain performance by raising the technological level of the chain elements. That can stimulate the development of innovative activities in the Region and help small businesses understand that the adoption of new technology and product innovation may become important to them. This is particularly important because small business makes a significant contribution to innovative activities in developed market economies, while in the traditional society was not important, nor was the environment that develops innovations fostered and developed. It is very unlikely that stronger innovative activities will be developed by themselves, at least in the short term.

The experience of transition countries shows that almost all of their most successful businesses have benefited from learning from a variety of contacts with companies from developed market economies, and that many of these successful companies succeeded by developing strategic relationships with companies from developed countries, often organized as JV. Accordingly, transfer of knowledge should be encouraged through the creation of JV, primarily between foreign investors and domestic producers. Such transfers should be aimed at those industrial activities which are considered as important for the Region.

Five conditions for establishing a successful ZU in underdeveloped countries are:

- Engagement before the wedding (since the partners do not know each other, they first need to get familiar to another culture, improve communication, develop trust; domestic company can take lessons only gradually)
- Preparations should be carefully carried out (first to carefully study the local company from the inside, then the environment of the company, and then to be patient because the fruits of JV will be picked up for several years)
- Develop a draft of JV (from the mission of JV: "we are ...," we want to do ... ", over budget, financial plans, cases of termination of JV)
- Enthusiasm (that the most valuable assets are shared: Independence)
- Employees on both sides should be well informed.

"Neretva Valley" as BIH Replica of the Silicone Valley

The Neretva Valley Development Corridor (NVDC) would link political, economic, scientific, etc. organisations along the Neretva River from the town of Konjic to the town of Ploče. Regional companies in Herzegovina and Dalmatia are interested in its internationalization,

while non-regional companies (companies outside Herzegovina and Dalmatia) are interested in gaining new markets and increasing revenues, which could achieve by acting at the BiH market and a joint performance with the BiH companies in third markets.

Advantages of the “Neretva Valley” is a geographical closeness to the EU, Southern European and Mediterranean countries, well-established transportation network (in particular, corridor Vc in the near future), a collection of excellent BH companies, industrial tradition with skilled and relatively cheap labour, large and educated diaspora, relatively rich natural resources and the possibility of development of many services (tourism, transport, financial, etc.). “Neretva valley” provides an excellent opportunity for much-needed reindustrialization of the Region, which will, by products with higher technological content, return the Region to the global map. The Region has been on the global map for non-economic matters long enough.

Results and lessons learned in NVDC could serve as an example for other areas and other countries in the region. Businesses will be able to develop cross-border economic linkages, operate regionally and internationally within the natural geographical entity of the Neretva Valley, thus linking the southern part of Bosnia and Herzegovina with the Dalmatian coast of Croatia. This result would mean accepting new political reality, overcoming the negative factors of fragmentation of the 1990’s, and preparing ground for new opportunities of a prosperous, united Europe knocking at the Hercegovinian door in 2013.

In addition, the cross-border linkage could contribute to strengthening the negotiating position with the EU. It could also be useful for requesting better conditions from the EU: it would be less expensive for the EU to absorb existing, albeit unstable and uncertain, cross-border entities and revitalise links and co-operation between them, than to send its soldiers and aid to fix existing borders, or maybe establish new ones.

At this stage it might be useful to clarify spatial terminology:

- Development corridor covers the whole region (the whole region is considered as an development corridor)
- IZ is located within the development corridor
- Export incubator is located within the IZ.

Thus, the key objective of the Neretva Valley Project would be to develop some export incubators within industrial zones in the valley of the Neretva River that would serve as an development corridor, i.e., in the region spanning parts of southern Bosnia, northern and southern Herzegovina and central Dalmatia (Croatia) along the river valley, all the way down to the Adriatic Sea.

Project partners in setting up export incubators could be:

- BiH business companies
- BiH commercial banks
- municipalities of BiH, namely Konjic, Jablanica, Mostar, Citluk and Capljina, and of Croatia, Metkovic, Opuzen and Ploce
- foreign business firms
- foreign financial institutions
- IFC (International Finance Corporation)
- foreign development agencies
- venture capital funds.

Complementary to the EIs could be a seed capital fund. It would be set up in order to facilitate financial efforts of the export incubator firms' operations. It is not enough only to establish joint ventures between domestic and foreign companies. For the success of export incubators it is important to involve a financial institution providing capital to the export incubator's firms and a local bank providing a working capital and export financing.

The technology park, as a specialised part of NVDC, would be established to help start-up and existing manufacturing and technology based firms with wide range of consulting services, acquiring technologies and adapting them, providing management and production training, and finding markets for new products or services.

The Technology Park in Mostar

The first step and test in setting up the development corridor could be establishing a technology park (TP) in the field of environmental technology. This can be an area of a close co-operation of foreign and domestic industries and institutions in an area, that is politically neutral, is part of a necessary institutional and regulatory base for a sound economic development and is easily and positively accepted by the public. The task of the TP would be to help the region by the acquisition and use of proper environmental management skills, regulations and technologies.

Partners in setting up the TP could be:

- regional companies (Aluminij, Feal, Presal, Weltplast)
- companies outside of Region (ASA Auto Sarajevo etc.)
- regional universities (University of Mostar, University of "Džemal Bijedic", University of Hercegovina and University of Split)
- municipalities and cantons constituting the Region
- international development agencies

Objectives of Aluminij could be:

- the possibility to develop the aluminium cluster („the aluminium valley“) by clustering a aluminium producer and several aluminium manufactures (car parts for which BiH was famous and competitive before the war) with various centres (e.g. energy efficiency centre)
- almost absolutely reliable and low supply costs for aluminium manufacturers (no transport, insurance etc. costs) and the possibility to develop JIT production system
- the premises for manufactures at the port of Ploce (at the Adriatic sea) to a great extent available for manufactures (as Aluminium would be using them only for its inputs but not for its outputs)
- more productive use of land property (currently under a factory not in use, vineyards and orchards)

Companies outside of the Region would be interested in establishing and developing the TP due to many reasons, including

- potential for co-location of high tech international companies next to Aluminij facilities – identification and documentation of the opportunities – identification and discussions with potential investors to review needs in terms of workforce skills, infrastructure, cost base etc
- potential to co-locate small domestic customers or suppliers of Aluminij in the site – identification and justification of the opportunities

- potential to locate R&D/Innovation centres at the site – identification of interest (national and international), the potential synergies with future park tenants and funding sources.

Conclusions

The transformation from the aid-driven economy into the export-driven one is fundamental to a BIH economic policy reform. This goal can be reached most quickly and sustainably by building up the sector of exportable high sophisticated manufactured goods. That process may be accelerated through setting up the development corridor that would include industrial zones and exports incubators.

We propose connecting domestic export-oriented firms with foreign experienced companies interested in delivering firm-to-firm tutorials and know-how. This would enable both domestic and foreign firms to acquire new markets and increase their income and export through these joint ventures. Establishing these joint ventures could be facilitated by financing them through a seed capital fund operating as a regional capital provider.

A key objective in internationalization of companies in the Region should be to achieve high quality results: the acquisition of foreign markets and foreign exchange revenues from a limited number of small and medium enterprises. It necessitates many start-up companies, which need to be supported, among other things, by support packages, based primarily on the aptly-organized learning, learning-by-doing.

Through the activities of export incubators small companies can be offered export development services such as market research, long-term advisory services, training, funding, rapid access to authorities, information technology, information and export partners - all of which they greatly need. Incubators can act as a normal export-friendly environment.

Export incubators can serve in incubating small and medium-sized transnational corporations in the Region, BIH and other countries, foreign trade companies, staff for export companies, transportation companies and other organizations and the nucleus of future international trade networks. This can be achieved through strategic partnerships and joint ventures of domestic and foreign companies.

Export activities of incubators can be used as a means of providing guidance to the authorities of the Region in the detection of economic potential of the Region, the business community preferences, the direction of development of the industrial portfolio of the Region, acquisition of certain ideas about economic development in the Region, etc.

Evaluating the effectiveness of this type of foreign trade benefit is easy to determine. Test of the success is the export performance - specifically, increased international competitiveness and value added, and ultimately, sales in foreign markets.

Acknowledgment

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THE IMPACT OF DIFERENT CURRENCY AREAS ON REGIONAL TRADE

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The paper analyzes the effects of different currencies on regional cooperation and doing business for TNC's. Today independent countries Slovenia, Croatia, Bosnia and Herzegovine, Serbia, FYR Macedonia, Montenegro, have had common currency (dinar). Dissolution of Ex-Yugoslavia led to the fall of common monetary area and formation of new states as well as new monetary area. Bosnia and Herzegovina established Convertible Mark (BAM), Croatia Kuna (HRK), FYR Macedonia dinar (MKD), Serbia dinar (RSD) and Monte Negro euro (EUR). We research how different currencies areas influence on the Tondach. We focus on Company Tondach in Serbia and Croatia and Macedonia. We test the main hypothesis: different currency areas have negative impact on income and trade (export and import) company. We data take from Tondach documentations and from other relevant statistics. Paper is part of our researches during last four years. Some of the result this research we published on the book and different papers.

Keywords: regional cooperation, business, currency, TNC.

Introduction

The theory of optimum currency areas gives us a useful framework for thinking about benefit from national a currency area for transnational companies. (Krugman&Obsrtfeld, 2006; Bernet&Muller, 1975; Hošo, 2010; Korten, 2001; Lall, 1974; Pelević, 2006; Todaro &Smith, 2006; Bayoumi, 1994; Kenan, 1995; Lane & Honohan, 2003; Levin, 2000) Primary research pertains to the research of Tondach Company documentation, while secondary one involves the use of official statistical and other publications. The hypothesis is tested by means of relevant statistical methods. The testing procedure uses the following data set exchange rate Croatia Kuna HRK per 1 EUR and Serbia Dinars RSD per 1 EUR and FYR Macedonia dinar (MKD) last ten years, income, exports and imports for the period 1996-2008. We have three tests. Paper is part of our researches and lectures during last four years. Some of the result this research we published on the book and different papers.

Test 1

National currency in Croatia is Croatia Kuna HRK. Figure shows exchange rates Croatia Kuna HRK per 1 EUR. Tondach Company has been present in Croatia since 1996.

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Figure Croatia Kuna HRK per 1 EUR 2001-2011

Source: <http://www.xe.com/currencycharts/?from=EUR&to=HRK&view=10Y>

In 1996, its income was 4 million Euros, while in 2008 it amounted to 32.2 million Euros. Next figure shows the trend of total income growth. The total income increased more than eight times.

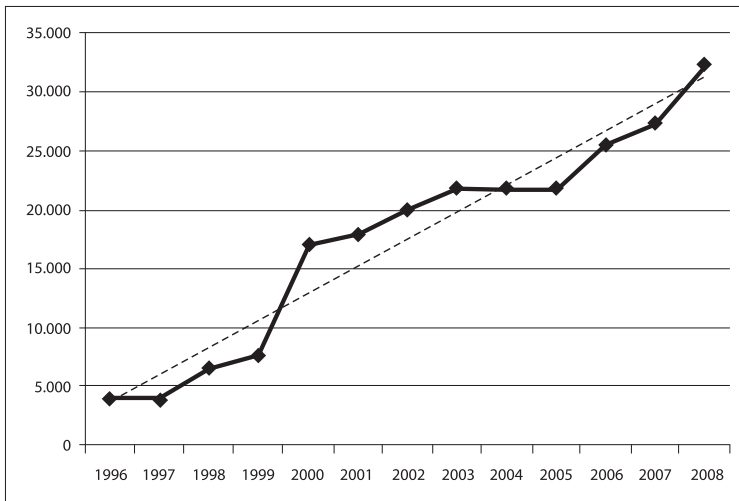


Figure income in Croatia, 1996-2008 (EUR, thousands)

Total income growth is due to expansion through acquisitions, modernization of existing manufacturing capacities, green field investment at Đakovo site, and inter-company exchange.

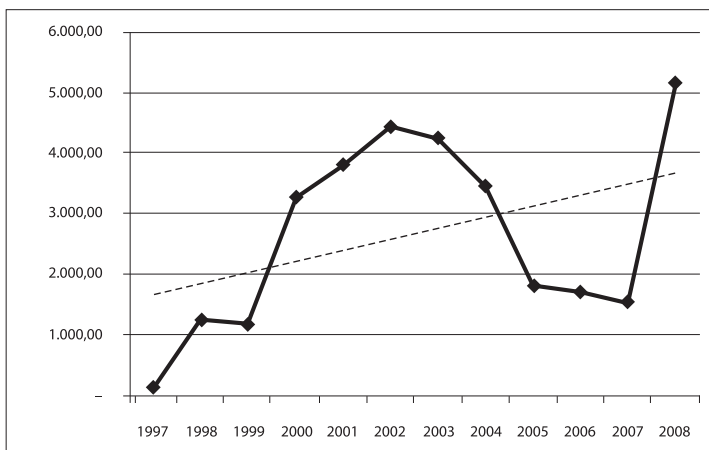


Figure exports from Croatia, 1996-2008 (EUR, thousands)

In the 1997-2008 periods, products in the value of over 8 million Euros were imported to Croatia. Out of this amount, more than 50% was imported from Hungary, about 40% from Slovenia, and the rest from Serbia, Czech Republic and Romania.

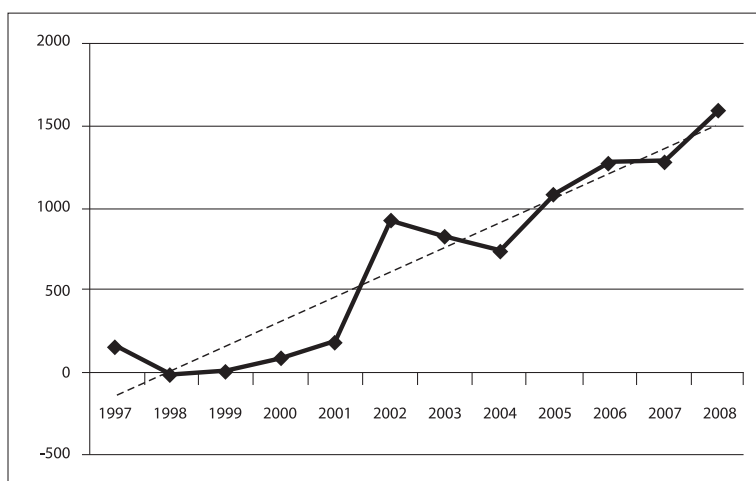


Figure imports to Croatia, 1999-2008 (EUR, thousands)

Figure shows the increase in the value of imports to Croatia. The key years are 2002, 2004, and 2007. In 2008, Tondach achieved a record result in Croatia. Market acceptance of large-sized roof tiles from Đakovo plant was excellent. Thus Đakovo II contributed to the significant growth of total income in its second year already. It was the first time in Tondach history that such a fast success was registered. The success of this investment also shows that Tondach's strategy was correct. Products at the latest and highest technology level, manufactured in state-of-the-art, highly-productive plants are the basis for the company's long-term successful and progressive development. Dispute between Russia and Ukraine early in the year had an adverse effect, which indicates the significance and gravity of global crisis.

Test 2

National currency in Serbia is Serbia Dinars RSD. Figure shows exchange rates Serbia Dinars RSD per 1 EUR. In October 2003, upon obtaining about 93% shares of Kanjiža-based Potisje Kanjiža enterprise at Belgrade Stock Exchange, Tondach Company entered the Serbian market.



Figure Serbia Dinars RSD per 1 EUR 2001-2011

Source: <http://www.xe.com/currencycharts/?from=EUR&to=RSD&view=10Y>

After 2006, the company registered a significant income increase. Income growth in Serbia is due to investment in new technologies and increase in production capacities. Tondach Company manufactures 65 million pieces of clay tiles.

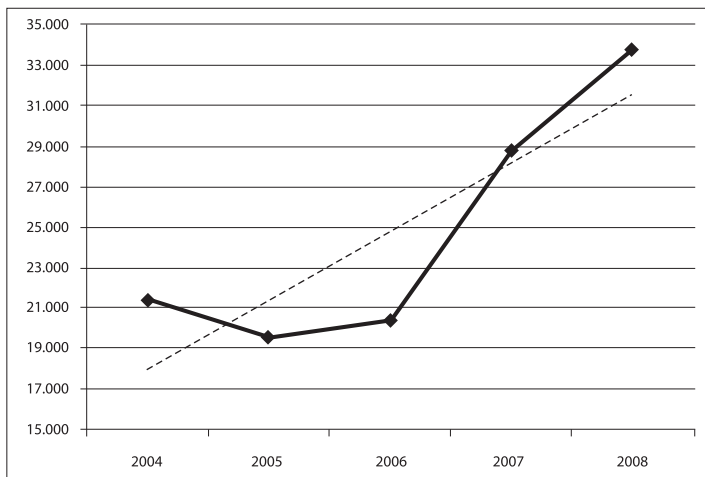


Figure income in Serbia, 2004-2008 (EUR, thousands)

From 2004 to 2008, products in the value of 15.1 million Euros were exported from Serbia. Bosnia and Herzegovina was the main export market for Serbia-made products. About 90% of the mentioned amount or about 15 million Euros ended up on the roofs of B-H houses, 10% in Romania, and the rest in other countries of the region. Figure shows the increase in the value of exports, with a particularly significant growth in 2005.

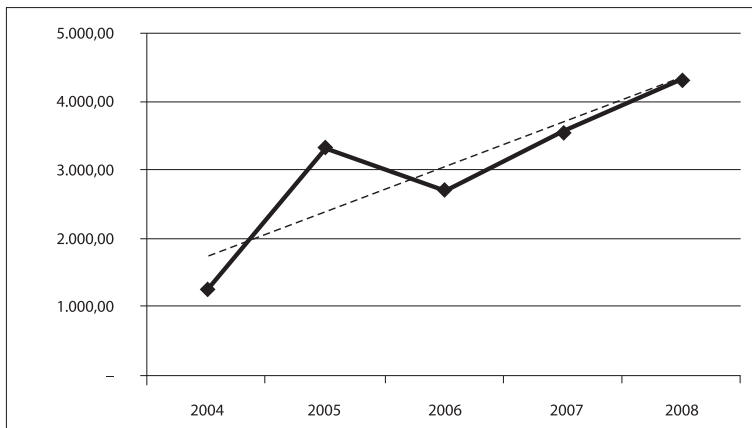


Figure exports from Serbia, 2004-2008 (EUR, thousands)

In the observed period, products in the value about one million Euros were imported to Serbia. Out of this amount, 40% was exported from Croatia, about 30% from Hungary, about 30% from Slovenia, and the rest from Romania and Macedonia. Figure shows the linear increase in imports to Serbia from 2004 to 2008.

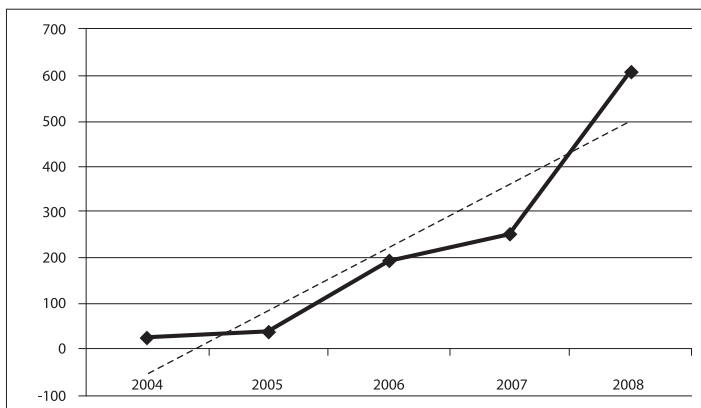


Figure Import in Serbia, 2004-2008 (EUR, thousands)

Imports were significantly higher in 2008 than in 2004. The most part of imports includes products from Đakovo-based plant in Croatia. Trade increased by about 20% compared to the previous year. The positive trend was, however, decreased by the increase in energy sources. For instance, average cost of gas in Serbia is higher than average cost of gas in Austria. In the moment of acquisition, in October 2003, the gas price amounted to about 50% of Austrian

level. Due to the Euro-based financing, unstable dinar contributed to great losses as a result of exchange rate differences.

Test 3

National currency in Macedonia is Macedonia Denars MKK. Figure shows exchange rates MKK per 1 EUR. Tondach Company has been present in Macedonia since 2000.



Figure Macedonia Denars MKD per 1 EUR

Source: <http://www.xe.com/currencycharts/?from=EUR&to=MKD&view=10Y>

In the period to 2008, the company income increased by about three times from 3 million Euros in 2001 to 9 million Euros in 2008. Figure clearly shows increase in income from 2001.

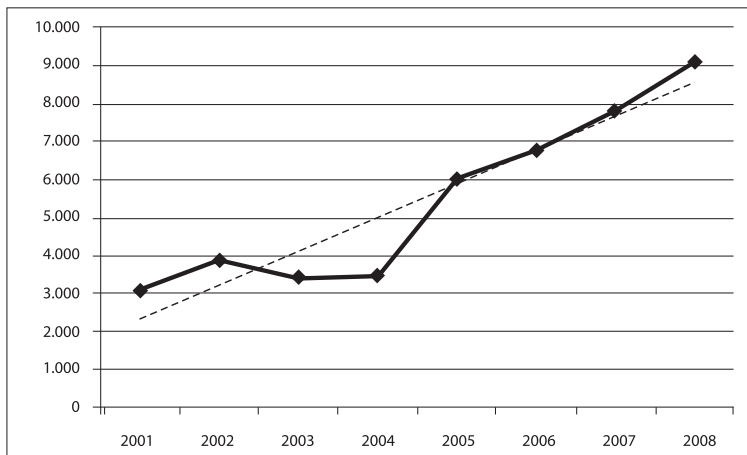


Figure income in Macedonia, 2001-2008 (EUR, thousands)

The value of exported products amounts to 18 thousand Euros, out of which about 90% was exported to Bosnia and Herzegovina and the rest to Serbia. In the 2001-2008 periods, products of the value of about 468 thousand Euros were imported to Macedonia. Out of this amount 60% was imported from Hungary, about 20% from Slovenia, and the rest from Czech Republic, Croatia, Serbia and Bosnia and Herzegovina. Figure reveals the significant increase in imports in 2003, and decline from 2005.

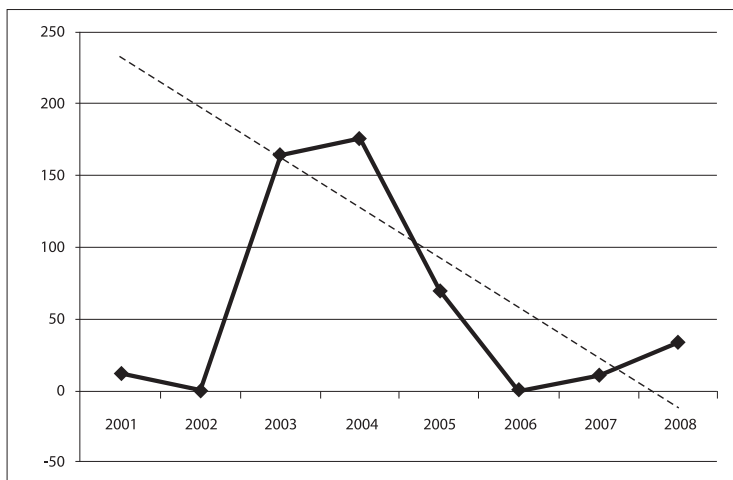


Figure imports to Macedonia, 2001-2008 (EUR, thousands)

The increase in imports in the observed period is due to reconstruction and demand for certain products (tiles for roof tops and wedges). Tondach plant in Macedonia achieved excellent results four years in a row. Product sales increased significantly both in the local and international markets.

Conclusion

We provided the creation of national currencies areas had impact on business transnational companies in the Western Balkans on the case Tnodach Company. We research of exchange rate national currencies Croatia, Serbia, and Macedonia during the last ten years per EUR, and we research income, import and export on the example of Tondach Company in Croatia, Serbia and Macedonia. In the future when all new countries come to EMU we could see that trade and after that income has grown. But there are several problems will EMU. First, Europe is not an optimum currency area, and EUR had and have many problems with stability.

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PROBLEMS AND PROSPECTS OF THE EU INTEGRATION OF BOSNIA AND HERZEGOVINA: MAJOR MACROECONOMIC CHALLENGES FOR THE ACCESSION PROCESS

*Hurtić Zlatko**

The Council of Ministers of Bosnia and Herzegovina has adopted full integration of the country into the European Union (EU) as its major goal. This objective is supported by the large majority of population in Bosnia and Herzegovina. However, the EU membership requires from all governments to meet a number of so called socio-economic conditions to ensure harmonization with the EU regulations and procedures. These policies were adopted by the European Council in 1993 in Copenhagen and which are known as the “Copenhagen criteria”. The fulfilment of them requires from each candidate country to implement a number of sub-criteria to enable to its economy to endure all competitive pressures from the EU common markets once full membership is achieved.

Accession process also requires from the candidate countries to combat poverty and social exclusion, and to reform their social protection systems on the basis of policy exchanges and mutual learning. Finally, candidate countries have to improve capacity for implementation of the EU cohesion policy (2007-2013) which has been designed to bring social cohesion and to reduce gap between the levels of development of various regions across the EU.

Bosnia and Herzegovina has made significant progress in years after the 1992-1995 war. However, implementation of the key structural reforms has lagged behind, notably those related to privatization, building export base and improving competitiveness. As result, Bosnia and Herzegovina has reached the pre-war GDP per capita just three years ago. Despite all shortfalls, Bosnia and Herzegovina has substantial potentials for a continued economic growth. However, the slowness in implementation of key reforms, in particular the structural reforms, is placing significant limitations and posing risks for meeting key socio-economic criteria for the EU integration. Ongoing political crisis has hindered economic recovery. As result, the international agency Moody's has lowered credit rating of the country from stable to risky citing the political crisis as the main cause of economic difficulties.

There are no doubts that majority of population of BiH supports the EU aspirations as much there are no doubts that all member states of the EU support full integration of BiH into the EU. However, the road to EU does not come without cost. Serious institutional and legislative adjustments are required to be carried out by all accession countries and Bosnia and Herzegovina is no exception to this process. Nevertheless, while the process of institutional

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strengthening and legislative adjustments have taken place, strengthening of the macroeconomic and structural policies to support EU integration has not received proper attention neither by the public or governments.

The economic agenda for the EU accession is well known and unavoidable. It will have to be tackled by all governments if further progress is to be made. Meeting Copenhagen criteria has been for all other accession countries a serious test of their preparedness for the full membership. These criteria are designed to strengthen competitiveness of the accession country's economy to make it able to endure competitive pressures of the EU common market once full EU membership is achieved. In the case of Bosnia and Herzegovina meeting of the socio-economic criteria will require highest possible commitment on the Government but also on the public side to implement difficult and painful reforms, first and foremost to complete unfinished transition agenda and to build export-led economy fully integrated into the EU common market.

Otherwise, rising foreign debt due to borrowing from the IMF (close to commercial terms), growing budget deficits, unemployment and current account deficit together with weak mobility and flexibility of the labour market are serious threats to macroeconomic stability. Under these circumstances, reaching the accession targets related to meeting the Copenhagen criteria and preparing the Bosnian economy for the membership at the EU common market will become highly challenging if not unrealistic.

Introduction

Socio-economic Criteria for EU Membership

The Council of Ministers of Bosnia and Herzegovina has adopted full integration of the country into the European Union (EU) as its major goal. This objective is supported by the large majority of population in Bosnia and Herzegovina. However, the EU membership requires from all governments to meet a number of conditions to ensure harmonization with the EU regulations and procedures. With respect to this, important conditions are related to meeting so-called socio-economic criteria. In essence, the accession countries are required to formulate and implement economic policies in order to build functional market economy as well as to strengthen competitiveness of domestic economy to be able to successfully cope with competitive pressures and market forces within the EU (once the full membership is achieved). These policies were adopted by the European Council in 1993 in Copenhagen and which are known as the "Copenhagen criteria". The fulfilment of them requires from each candidate country to implement a number of sub-criteria such as to achieve:

- Broad consensus about essentials of economic policy;
- Macroeconomic stability which includes price stability, sustainable public finance and external accounts;
- Adequate sector and enterprise structures;
- Existence of functioning market economy;
- Limited state influence on competitiveness;
- Sufficient trade and investment integration with the EU.

Accession process also requires from the candidate countries to combat poverty and social exclusion, and to reform their social protection systems on the basis of policy exchanges and mutual learning. In line with this, the candidate countries are required to improve social

protection process as well as implementation and monitoring mechanisms to achieve the EU strategic goals of sustained economic growth and greater social cohesion.

Finally, candidate countries have to improve capacity for implementation of the EU cohesion policy (2007-2013) which has been designed to bring social cohesion and to reduce gap between the levels of development of various regions across the EU. This policy is aimed at helping regions (even towns) to create potentials for higher growth and competitiveness but also for exchanging ideas and best practices.

In the process of meeting these accession's socio-economic criteria, each country is subject to monitoring and the European Commission issues regular reports assessing the degree of preparedness of each candidate countries. These assessments are conducted by the Directorate-General for Economic and Financial Affairs and in most of the cases include:

- Compliance with the economic accession criteria adopted by the European Council in Copenhagen;
- Medium-term economic and fiscal outlook, primarily by means of an annual economic and fiscal surveillance procedure intended to prepare the candidate countries for potential membership at Economic and Monetary Union.

Major Achievements (1995-2010)

From Donor Dependency to Self-sustainability

Bosnia and Herzegovina has made significant progress in years after the 1992-1995 war. However, implementation of the key structural reforms has lagged behind, notably those related to privatization, building export base and improving competitiveness. As result, Bosnia and Herzegovina has reached the pre-war GDP per capita just three years ago. In short, large unemployment, slow growth of exports, excessive internal debt and increased budget deficits are major challenges that Bosnia and Herzegovina faces on the road to meet major socio-economic criteria for the EU integration.

Over the first years of the post-war period, Bosnia and Herzegovina recorded a strong economic growth. Wartime destructions caused a dramatic decline in the gross social revenue per capita from around USD 2500 in 1990 to approximately USD 400 in 1995. Supported by substantial donor aid, the governments in Bosnia and Herzegovina have managed to reconstruct the core infrastructure within a relatively short period of time. Over the first five years of the post-war period, the share of the donor aid in the capital investments financing at all levels amounted to as high as 80 %. However, over the past fifteen years Bosnia and Herzegovina has made a considerable progress towards self-sustainability.

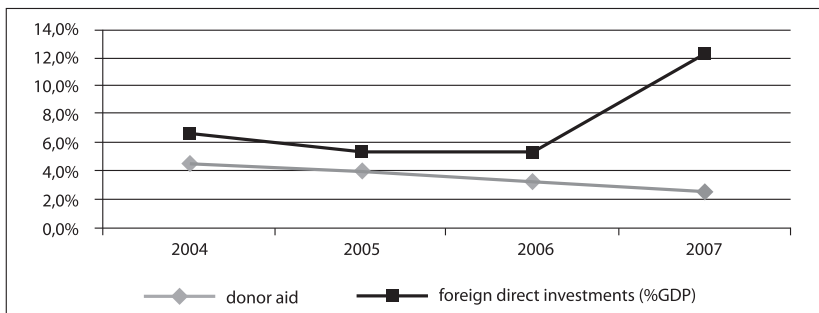
Donor support to BiH

Shortly after the Dayton Peace Accord was signed, the international community, led by the World Bank and the European Commission, organized 6 donor conferences where around USD 6 billion were donated for the priority reconstruction program in Bosnia and Herzegovina. At that time this was the most extensive program of aid to a country measured per capita.

Stable security, increased European integration perspectives, macroeconomic stability, gradual improvement of the business climate and successful privatization of the banking sector led to development of the banking sector and ever increasing inflow of foreign investments which

pushed aside donations as a predominant source of development financing. As a result, in 2010 the participation of donations in the Gross Domestic Product (GDP), fell well below 2 percent.

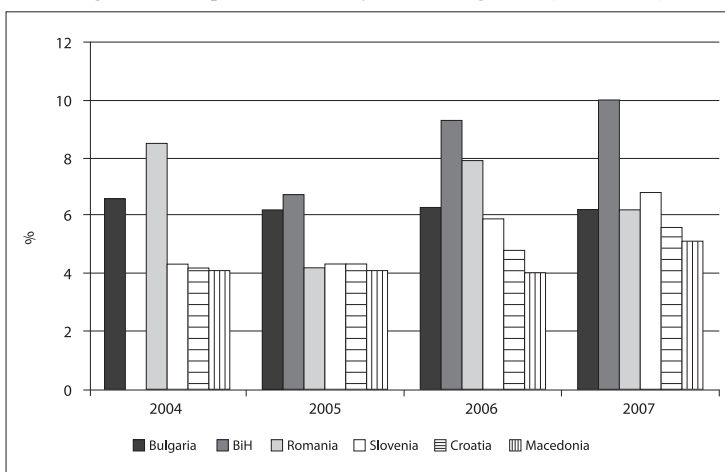
Figure 1: Development of donor support and inflow of foreign direct investments 2004.-2007. (DEP Research)



Economic Growth

Over the last ten years the average rate of economic growth amounted to approximately 8 percent of the GDP. As it is indicated above, the growth was for the most part supported through crediting the enterprise sector and households by an increasingly strong banking sector, as well as by growing foreign investments ensured mostly through privatization. Successful privatization of the banking sector has reinforced the competition and led to a considerable decline in interest rates for the enterprise sector from around 28 percent in 1997 to around 7 percent in 2010. In addition to that, disproportionately higher household credit financing in the period by 2000 was replaced by the increased corporate credit financing. Confidence in the banking sector was growing stronger gradually: as opposed to 2000, when there was a domination of short-term deposits, at the end of 2008 long-term deposits made more than 70 percent of the total saving at the commercial banks.¹

Figure 2: Comparative rates of economic growth (2004-2007)



Sources: EUROSTAT and DEP

¹ Bulletin for IV quarter of 2008, CB BiH, 2009

The highest contribution to the economic growth within the last five years was made by services and production sectors (around 60 percent of the GDP). However, the share of agriculture in the GDP is recording a continuous decrease mainly due to low level of support from the budgets.

Employment and Poverty

High rates of economic growth did not generate the expected results in the area of employment. By 2010 unemployment has reached 23 percent of the working age population and is one of the highest of all EU accession countries. Despite, wages and pensions have grown steadily, mainly due to excessive rise in the public wage bill. Only in 2008 the average wage at the country level has grown by 17 percent, highest nominal increase ever recorded in the post-war period. However, wages in the public sector grew much faster compared with the private sector. Moreover, the gap between the average wages and pensions in the Federation BiH (FBiH) and the Republika Srpska (RS) has been reduced significantly. Regardless of the high rates of economic growth, the poverty rates have remained at a high level. According to the most recent measurements (in the period 2003–2007), the headcount poverty rate at the country level has dropped by only 1 percent and in 2007 it stood at around 18.5 percent of the total population.²

Features of poverty in BiH

Poverty is most widespread in suburban settlements and rural areas. There are less cases of poverty in the families where providers are women than where they are men. In FBiH the poorest group of population is among younger persons, whereas in the RS it is among persons older than 64. Families with more children run a higher risk of falling into poverty. The major causes of poverty are unemployment, work inability and lower degrees of education. Persons with university education are at the lowest level of poverty. (Household Budget Survey in BiH: Poverty and Living Conditions“, the Agency for Statistics of BiH, 2007).

Price Stability and Public Finance

Alongside with the economic growth, BiH has recorded stable price stability. Supported with the currency board arrangement, the average inflation within the last 10 years was around 3 % and was at the lowest level compared with all countries in the South Eastern Europe (SEE).

VAT introduction in BiH

VAT was introduced in BiH in 2006, with a tremendous success. As a result of its introduction, collection of the indirect taxes closing with 2008 was higher by about 60 % compared with 2005. In addition to strengthening the efficiency in collecting the public revenues, the VAT introduction resulted in the reinforcement of tax discipline: instead of the expected 20,000 registered VAT taxpayers, their number was doubled closing with 2008. Around 99 % of registered VAT payers pay their taxes timely, which is a considerably higher % compared with the period when the turnover tax was applicable. Finally, the VAT reduced the grey economy to a great extent in the area of payment of public revenues by strengthening competitiveness and business climate of BiH economy. („Situation Analysis: Public Finances“, DEP 2008.)

The area of public finances makes a part that has recorded the highest development in the period since the Dayton Accord was signed, in particular in the section of public revenue collection. The share of public finance in the GDP has risen from around 10 % of GDP in 1997 to around

² Household Budget Survey in BiH: Poverty and Living Conditions“, the Agency for Statistics of BiH, 2007

34 % in 2007. The indirect taxation reform was completed in 2006 by introduction of the Value Added Tax (VAT), while in 2007 and 2008 the stages of reform of the direct taxation system were completed by introduction of new personal and corporate income taxes.

The indirect taxes collection system was substantially improved by VAT introduction. Alongside with that, the system of collection of direct taxes and contributions was reinforced considerably within the last 6 years. As a result of these reforms, collection of direct taxes and contributions in 2007 and 2008 in both entities has risen by an average annual growth rate of around 18%, which is around three times as much as in the preceding period. Thus, the share of direct taxes and contributions in the total public revenues of the country was increased considerably and in 2008 was around 44 percent.³

As opposed to the solid results accomplished in the collection of public revenues, the area of public expenditures recorded substantial budget imbalances which were for the most part related to high amounts of allocation for public wage bill and social transfers to the detriment of higher amounts of allocation for capital investments and reductions of tax burdens for the economy. After many years of budget surplus, due to economic crisis and failure of the Governments to decrease public expenditures, the budget deficit has tripled, making it the biggest challenge for meeting the socio-economic criteria for the EU integration.

The country has already concluded a Stand-by Arrangement with the IMF in hope to balance the budget. However, the general structure of the budgets on the expenditure sides has not been significantly changed yet. It is expected that the recently established Fiscal Council of Bosnia and Herzegovina will contribute to reinforcement of budgetary balance and promotion of fiscal coordination policies that in the conditions of an extremely high fiscal decentralization in Bosnia and Herzegovina will still be very complex.

Foreign Trade

Strengthening of the private sector led to the growing trade with foreign countries. Compared with 2004, the exports of goods and services increased by more than 100 percent, whereas the imports were increasing by lower rates. Regardless of this, the trade deficit has recorded a continuous growth and in 2008 reached the all-time high 9.5 billion KM. Nevertheless, export-import coverage ratio increased from around 30 percent in 2004 to around 53 percent by 2011.

Trade liberalization in the South Eastern Europe: CEFTA

For the purpose of further liberalization of trade in the Southeastern Europe, and with the support of the European Union, Bosnia and Herzegovina, together with Albania, Bulgaria, Croatia, Macedonia, Moldova, Monte Negro, Serbia and Kosovo, signed in 2006 the Agreement on Amendment of and Accession to the Central European Free Trade Agreement (CEFTA).

The structure of exports has recorded certain variations: in 2008 most goods were exported in the category of base metals, electric energy and auto industry spare parts and furniture. On the other hand, the imports of crude oil and crude oil derivatives have recorded the highest growth rates together with machines, appliances, mechanical devices and base metals. The export of goods and services from Croatia, Germany, Serbia and Italy is still predominant. At the same time these countries are the largest export markets for Bosnia and Herzegovina. After signing the SAA, the scope of trade exchange with the countries signatories of CEFTA

³ Public finances: Situation and SWOT Analysis, DEP, 2008.

has dropped in favour of the increase of trade exchange with European Union member countries. The export structure in terms of sectors and markets has not been particularly favourable for preparing the country for the EU integration. Only around 48 percent is accounted for the export within the EU. On the other hand, the export base is narrow, mainly involving raw materials and similar products.

Balance of Payment

Despite high trade deficit, the country has recorded a stable decline of the current account deficit (from around 30 percent of GDP in 2000 to around 11 percent in 2010). As opposed to the earlier period, when the deficit was for the most part financed from the donors, over the past up to 10 years it has been financed mostly from foreign direct investments, remittances from BiH citizens living abroad and capital received on account of bank borrowings at the international capital markets.

Bosnia and Herzegovina's Creditworthiness

Due to rising political and prolonged economic crisis the international agency Moody's has lowered the credit rating for Bosnia and Herzegovina from stable to risky. This will negatively affect efforts of the country to attract FDIs in the near to medium-term period and might increase the risks for macroeconomic instabilities.

Foreign Exchange Reserves

Stability of the currency board arrangement, as an instrument of monetary policy in Bosnia and Herzegovina requires stable amounts of foreign currency reserves, which in the period after 2000 grew even up to 6 months of the total import of goods and services. Like in the case of financing the current account deficit, a steady inflow of capital from foreign direct investments, a stable inflow of foreign remittances as well as the foreign bank debits/liabilities (borrowings from foreign commercial banks) all gave the highest contribution to reinforcement of foreign reserves. This large scope of foreign reserves has strengthened the confidence in KM, which is recording a continuous growth in circulation against EURO. On the other hand, stability of the currency board has significantly reinforced the banking sector by enabling a steady influx of capital from foreign countries, which is for the most part used for credit financing of the private sector in Bosnia and Herzegovina. Due to prolonged economic crisis in 2010 and 2011, the national reserves have fallen rising the concerns around stability of the currency board and convertibility of the domestic currency in the medium term.

Public Debt

Regardless of the steady growth, the amount of foreign debt has remained at a satisfactory level reaching around 4.1 billion KM in 2010 (its largest share was related to favourable loan arrangement-IDA concluded with the World Bank). Accordingly, the foreign debt servicing did not represent a huge obstacle and in average it was around 2 percent of the total exports. The Council of Ministers of Bosnia and Herzegovina, together with the entity governments, adopted the strategy and legislation for settling the internal public debt, currently dominated by payments on account of war damages and frozen foreign currency bank deposits (estimated at around 5.3 billion KM).

Macroeconomic Challenges

Economic Opportunities and Limitations for the EU integration

Bosnia and Herzegovina has substantial potentials for a continued economic growth. However, the slowness in implementation of key reforms, in particular the structural reforms, is placing significant limitations and posing risks for meeting key socio-economic criteria for the EU integration. Ongoing political crisis has hindered economic recovery. Rising foreign debt due to borrowing from the IMF (close to commercial terms), growing budget deficits, unemployment and current account deficit are serious threats to macroeconomic stability. Under these circumstances, reaching the accession targets related to meeting the Copenhagen criteria and preparing the Bosnian economy for the membership at the EU market will become highly challenging if not unrealistic.

Potentials and advantages for economic growth

Provided political stability and implementation of key economic reforms, Bosnia and Herzegovina could utilize a number of potentials for meeting Copenhagen criteria and reaching the EU membership in the medium term period.

Unfinished privatization, in particular the one in the Federation of BiH, provides an opportunity for a considerable growth of private investments in the next medium-term period. The inflow of foreign investments on account of privatization has contributed considerably to the economic growth in the preceding period and to the growth of employment and exports. The Governments would be able to secure a significant fiscal stimulus that would support economic recovery, lead to job creation and to balancing of budget deficits. In addition to this, new investors would increase export base as well as competitiveness of the domestic economy, key to strengthening of macroeconomic stability and prospects for successful integration into the joint market of the EU.

According to various research studies⁴ BiH is using only around 38 percent of hydrological resources it has available for production of electric energy. Due to the outdated ways of production in a considerable number of the thermoelectric power plants, there is a need for capital investments for purposes of modernization of the existing and construction of new capacities for production of electric energy that could be secured through concession agreements. This would not only create jobs but also increase the country's export (given big demand in Europe) and strengthen the macroeconomic stability.

Despite some recent borrowings from the IMF, the country's external debt is still one of the lowest in the region. However, further foreign borrowing will have to be limited to credit arrangements that would be used for infrastructure and not for financing the budget deficits.

Despite the global financial crisis the banking sector in Bosnia and Herzegovina has maintained stability. Banks from Bosnia and Herzegovina have not made any substantial investments in the high-risk transactions at the international financial markets. A renewed rise in deposits during the 2008 and 2009 provides evidence that confidence in the country's banking system among population and companies has been restored.

The tax reforms, both in the area of indirect and direct taxation, have reduced the unfair competition and tax evasion improving the overall competitiveness of the domestic economy.

⁴ Energy Strategy of the Federation BiH, Federation Government, 2008

Introduction of a single-rate Value Added Tax and thereafter of single-rate corporate and personal income taxes (in both entities), have simplified the tax system considerably following the example of „flat tax” rate applicable in a number of countries in the region.

The share of revenues arising from the direct taxation of only around 10 percent out of the total revenues in 2009 is much below the average of the OECD countries signalling a significant potential of their future growth, particularly in the case of property tax revenues.

It can be expected that the recently established Fiscal Council of BiH will reinforce the fiscal coordination in order to preserve the country’s macroeconomic stability but also to provide a mechanism for harmonization of fiscal policies at the level of Bosnia and Herzegovina, key to future accession discussions related to meeting socio-economic criteria.

Fiscal Council of BiH

The main responsibility of the Fiscal Council of BiH is to coordinate fiscal policies at the BiH level, primarily through adoption of the Global Framework of the Fiscal Balance and Policies. Members of the Fiscal Council are state and entity prime ministers and finance ministers, whereas the Central Bank representative is there in his capacity as observer.

CEFTA opens a possibility of having access to the markets of over 100 million consumers for BiH export and reinforces the need for accelerated implementation of economic and institutional reforms to support exports.

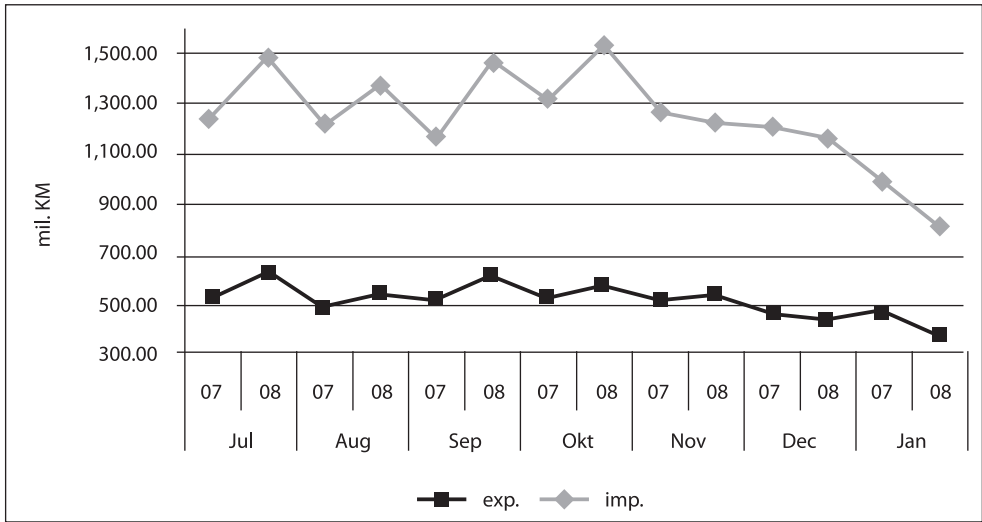
A traditionally low inflation and stability of the national currency, as a result of the monetary policy based on the currency board arrangement, present a significant advantage in the future accession discussions related to the meeting of key socio-economic criteria.

Constraints and weaknesses for economic growth

Ongoing political and economic crisis

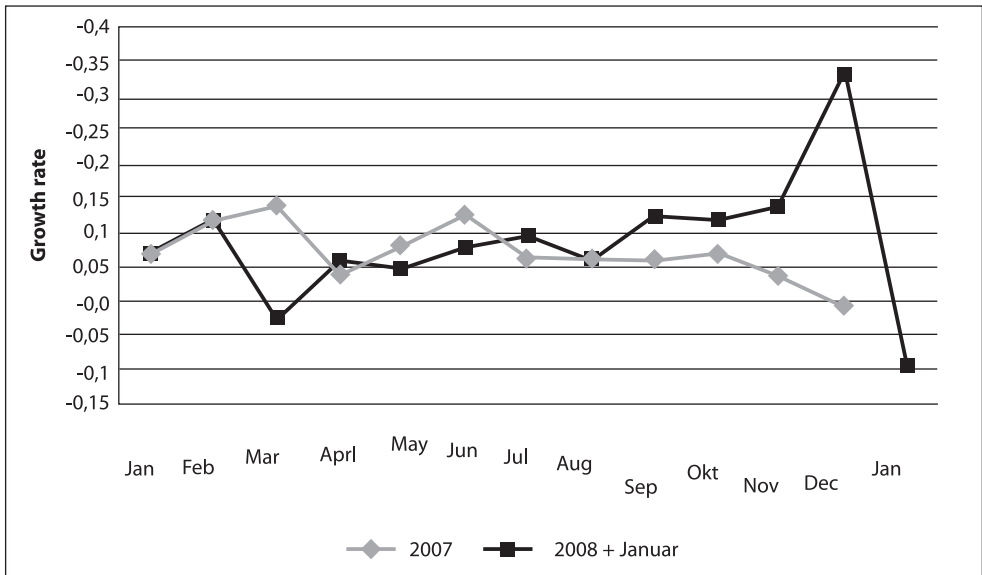
The global economic crisis has severely damaged economic development of Bosnia and Herzegovina. The unemployment grew as well as budget deficits. The prospect for economic recovery has been worsened with ongoing political crisis and constant threats from RS to weaken state institutions. This, together with slow structural reforms is additionally discouraging foreign but more and more domestic investments delaying the process of re-gaining macroeconomic stability and economic recovery.

Figure 3: Imports and exports Jul 2008 - Jan 2009



Source: Agency for Statistics BiH

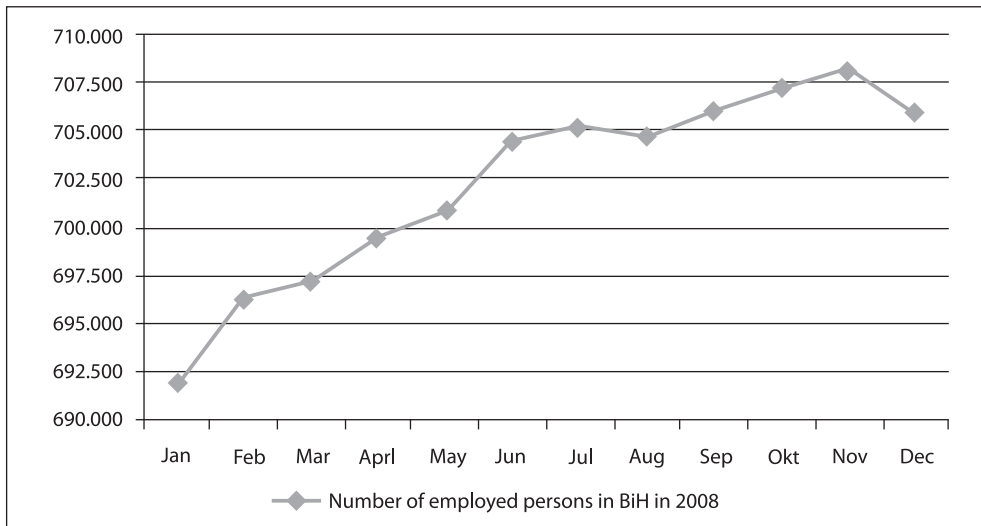
Figure 4: Industrial production in BiH 2007/Jan 2009



Sources: Entity-level statistics institutes

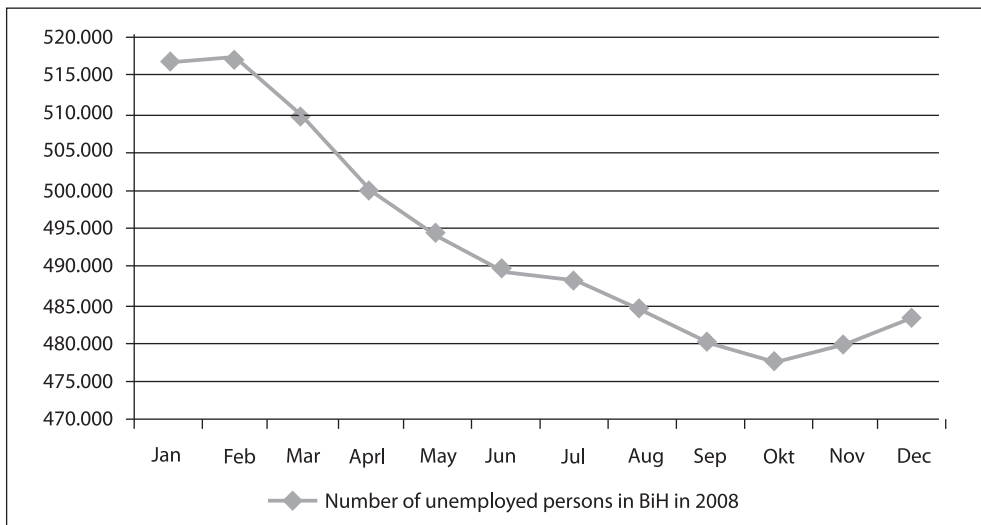
The economic crisis led to rising unemployment. On the other hand, employment growth has come to a halt. As result, the number of persons reporting to the employment bureaus in order to obtain unemployment benefits has reached its maximum in 2010 questioning ability of the governments to sustain payments of these benefits.

Figure 5: Employment in 2008 at BiH level



Source: Agency for Statistics BiH

Figure 6: Unemployment in 2008 at BiH level

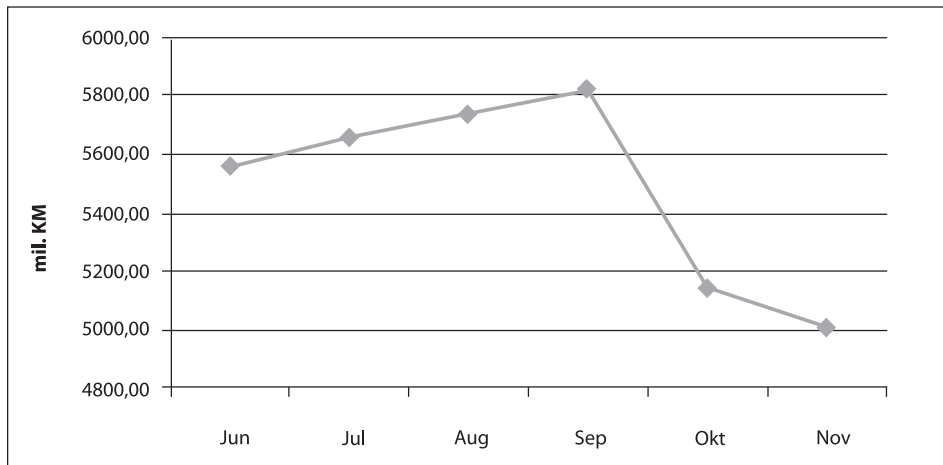


Source: Agency for Statistics BiH

After long time, the Central Bank of Bosnia and Herzegovina recorded a negative balance between KM sales and purchases in the amount of 628 mil KM, as a result of an abrupt withdrawal of deposits from the banking sector, particularly during the month of October 2008. The negative KM sale and purchase balance leveraged a downfall in the amount of gross foreign currency reserves by 538 mil KM, which is the highest downfall ever recorded

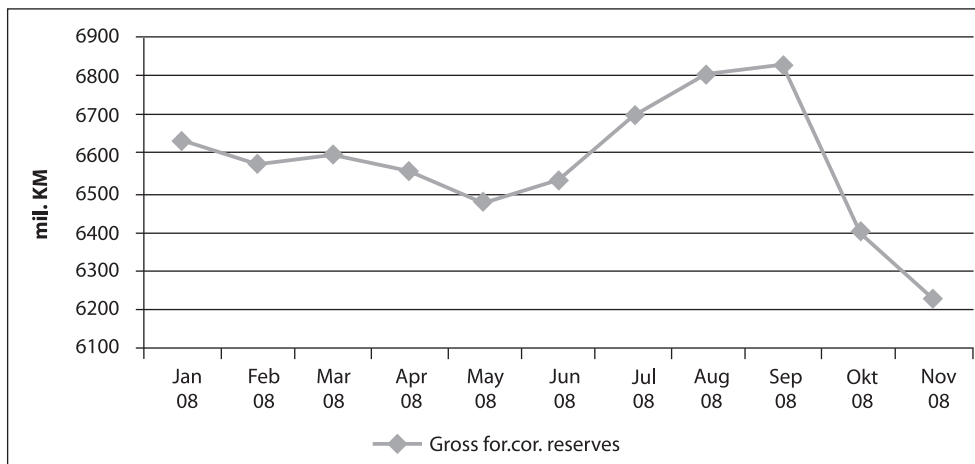
in a single quarter.⁵ The downfall in the amount of foreign currency reserves continued also in 2009. Foreign exchange reserves in January 2009 recorded a downfall of 2.3 % compared with December 2008.⁶ The CB BiH data from the first quarter of 2011 continue to show similar trends.

Figure 7: Population deposits Jun-Nov 2008



Source: Central Bank of BiH 2008

Figure 8: Gross foreign currency reserves in 2008



Source: Central Bank of BiH 2008

The credit activity has slowed down. The increase has been recorded exclusively thanks to a significant growth of credit financing in the government sector. The credit financing of companies and households has recorded a downturn, which will cause a further slowdown of economic growth. This indicates that the decline in the rate of mandatory reserves from 2008 by the Central Bank of Bosnia and Herzegovina in order to encourage higher crediting of the

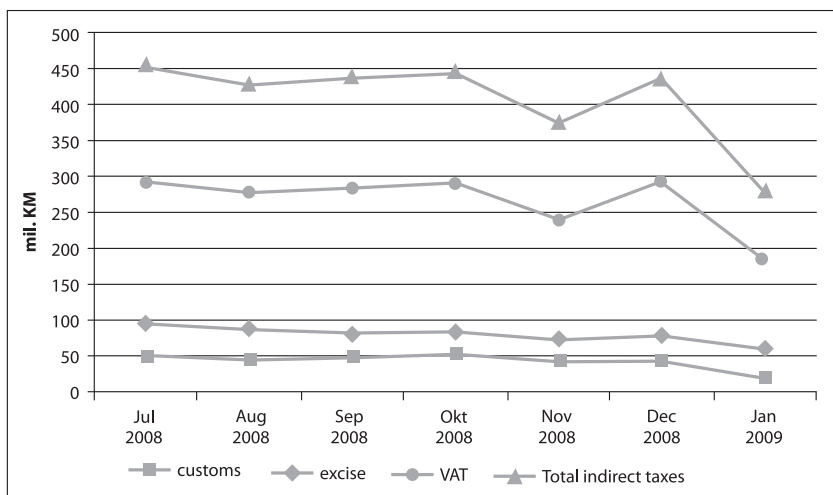
⁵ Bulletin CB BiH for IV quarter 2008, CB BiH, March 2009.

⁶ Data are used from the Central Bank website as published in March 2009.

corporate sector has not accomplished the anticipated results, since the banks have opted for less risky placements towards the government sector.

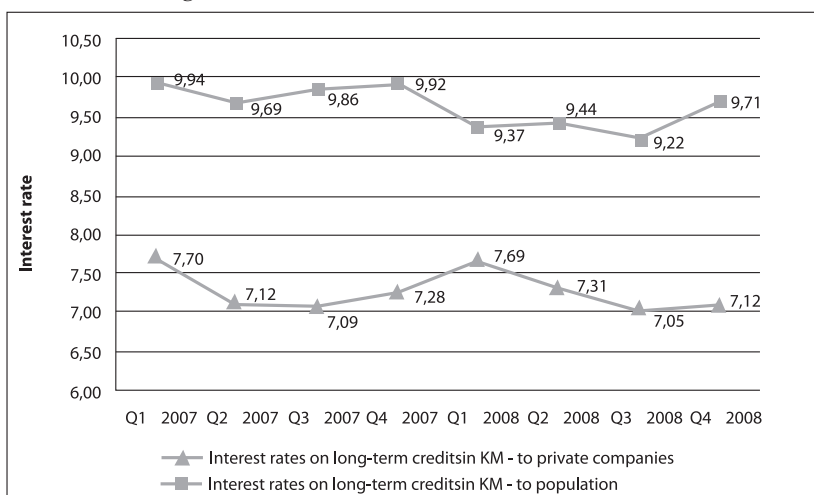
In addition to this, data published by the Central Bank of Bosnia and Herzegovina in January 2009 suggest that the commercial banks still keep with the Central Bank of Bosnia and Herzegovina a considerable share of funds above the mandatory reserves and so in the amount of around 1.1 billion KM, which again supports the idea that the banks have become extremely cautious about crediting the private sector, which will, if it lasts longer, undoubtedly lead to further deterioration of the economic crisis. Finally, interest rates increased crowding out corporate borrowing and private investments.

Figure 9: Collection of indirect taxes Jul 2008 - Jan 2009



Source: Indirect Taxation Authority BiH

Figure 10: Interest rate on credits in KM 2007/2008



Source: Central Bank BiH 2008

Instead recovery the economic crisis has even worsened during 2010 and 2011. Inability of the Central Bank to provide monetary stimulus (due to currency board arrangement) and complete absence of the Governments to secure fiscal stimulus have indicated a serious lack of commitment on the Government's side to formulate and implement economic policies to support economic recovery, employment and to strengthen macroeconomic stability. This inability will be a serious impediment for meeting key socio-economic criteria for the EU integration. Instead, the country has faced most serious political crisis since 1995. Establishment of the effective Governments focused on solving economic problems has been delayed at the entity but also state level. Despite, strong public demands to improve economy and speed up EU process, the authorities of Bosnia and Herzegovina have demonstrated low level of ability to deal with economic and political agenda required by the accession process.

Budget deficit

Total government expenditures in BiH, which in 2007 amounted to around 40 percent of GDP, are extremely high and in comparison with other countries that are at the similar level of development they were substantially higher like the public spending which in the same period made around 22 percent of GDP.

Table 2: Share of total government expenditures in percentage of GDP

BiH	40.5
Slovakia	38.9
Lithuania	33.6
Latvia	35.9
Romania	30.7
Macedonia	37.1
Albania	28.5

Source: BiH: Addressing Fiscal Challenges and Enhancing Growth Prospects, World Bank, September 2006

Table 3: Allocations for salaries in % GDP for 2004

BiH	10.0
Albania	6.3
Croatia	10.8
Macedonia	8.5
Estonia	7.6
Lithuania	6.7
Slovenia	11.1
Slovakia	6.5

BiH: Addressing Fiscal Challenges and Enhancing Growth Prospects, World Bank, September 2006

The public wage bill and social transfers (including the transfers for war veterans' benefits) has been increased at the unsustainable levels. In 2009, around 35 percent of public revenues

were used to finance these needs. In the same year expenditures based on transfers for social and war veteran welfare in the Federation BiH were increased by around 42 percent whereas for public wages by around 19 percent. In addition to this, RS Government has increased its public wage bill by enormously 40 percent compared to 2006.⁷ High allocations for salaries and in particular war veteran benefits are the main cause for high budget deficits, low level of public investments and increased foreign borrowings. Together with current account deficit, this is the main risk for macroeconomic stability which will have to be addressed during the accession negotiations with the EC.

Current account deficit

Regardless export growth, the foreign trade deficit is constantly increasing which is reflected to a large extent in the high current account deficit. In the few years immediately after the war the balance of payment deficit was financed mostly through inflow of donor assistance, whereas after 2000 this role was being gradually assumed by foreign direct investments, inflow of funds from commercial bank's borrowing at the international capital markets and remittances from BiH citizens living abroad. Having in mind ongoing economic crisis it can be expected reductions of the current account deficit, but also that its financing will become much more difficult. The authorities will have to improve business climate to attract FDIs and increase exports if the current account is to be brought at more sustainable levels, which will also have to be addressed during the process of negotiations with the EC.

Unfavourable structure of GDP and exports

Economic growth in Bosnia and Herzegovina was not followed by any considerable growth of employment which is among other things also due to the GDP structure dominated by services (55% GDP) that are not labour intensive compared with the labour intensive production activities, which in 2009 made a little as 29 percent of GDP.

Regardless of the high growth rates, the current structure of exports and export markets is unsatisfactory. Base raw materials (metals), more sensitive to price fluctuations at the world markets, have become a predominant part of Bosnia and Herzegovina's exports, making it at the same time highly vulnerable to global changes in prices of common raw materials. On the other hand, exports have become dependent on imports to a greater extent.

Generally speaking, over the past six years the structure of the export has even worsened. Bosnia and Herzegovina's exports have experienced a transformation from the majority exports of manufacturing industry products to the majority exports of raw materials, i.e. from exports that require a more educated labour force towards the exports employing a less educated labour force. Along with this, there was a change of export markets. Exports into advanced EU member countries, even though it is still the highest, have been reduced in favour of exports into less developed EU and CEFTA member countries.

Insufficiently developed business climate

According to the World Bank research (Doing Business 2009), the business climate in BiH is most unfavourable when compared with all South-eastern countries. Among 181 countries in which this research was conducted, BiH occupies 119th place, which is by two places worse compared with the previous year.

⁷ Public finances: Situation and SWOT Analysis, DEP, 2008.

Table 4: Comparison of business climates in Sarajevo and Banja Luka in 2008

Sarajevo		Banja Luka	
Starting a business		Starting a business	
Procedures (number)	12	Procedures (number)	11
Time (days)	60	Time (days)	51
Costs (% income per capita)	30,8	Costs (% income per capita)	33
Min. capital (% income per capita)	36	Min. capital (% income per capita)	36
Dealing with construction permits		Dealing with construction permits	
Procedures (number)	16	Procedures (number)	16
Time (days)	296	Time (days)	306
Costs (% income per capita)	669	Costs (% income per capita)	750
Registering property		Registering property	
Procedures (number)	7	Procedures (number)	11
Time (days)	128	Time (days)	190
Costs (% income per capita)	5,2	Costs (% income per capita)	3,4
Enforcing contracts		Enforcing contracts	
Procedures (number)	38	Procedures (number)	38
Time (days)	595	Time (days)	1480
Costs (% income per capita)	38,4	Costs (% income per capita)	41,1

Source: Doing Business 2009, World Bank 2008.

It is still taking around 60 days in the Federation BiH and around 50 days in the Republika Srpska to register a company. The property registration process in the Republika Srpska takes 190 days, while in the Federation BiH it takes 128 days, whereas the enforcement of a contract in the Republika Srpska takes 1480 days and in the Federation BiH it takes 595 days.⁸

Insufficient mobility of the labour market

Unequal legislation and allocations on grounds of social welfare and pension insurance led to low mobility and high fragmentation of the labour market in BiH. The trend of decreasing a number of working age population continues. There is a large number of inactive persons⁹ (around 1.4 million in 2008), which can be brought into relation with a great number of social transfer beneficiaries. Particularly disconcerting is the phenomenon of an „aging labour force“: the number of the most productive part of the working age population between 25 and 49 years of age has seen a continuing decline over the last few years. Recruitment of the young labour force has been limited due to an inadequate educational profile, which is to a great extent mismatching the labour market demands and also encouraging „unregistered work“ and growth of grey economy.

⁸ Doing Business in Bosnia and Herzegovina, Memorandum, World Bank, December 2008

⁹ According to ILO methodology inactive population is made of „all persons who are 15 or over and who did not work in the referential week, and who during four weeks did not take any action aimed at job-seeking, as well as those persons who are unwilling to start working in the next two weeks if a job is offered to them. (Labour Market Survey, BiH Agency for Statistics, 2008.)

Relation between implementation of transition reforms and economic growth

2008 EBRD Transition Report has confirmed the positive connection between implementation of transition reforms and economic growth. Countries that completed transition recorded a larger influx of investments and higher rates of economic growth. At the same time, these countries maintained faster pace of progress towards EU integration compared with the countries that implemented their transitional reforms more slowly.

Slow transition and lack of competitiveness

Bosnia and Herzegovina is still at the transition stage. The share of private sector in the GDP has been kept to around 55 percent of GDP, which is the lowest share compared with all other countries in the region.¹⁰ According to the most recent EBRD research, BiH was ranked amongst the group of countries in which the transitional reforms, required for promotion of competitiveness, are being implemented at an insufficiently fast rate.¹¹ Slow privatization and hesitation with regard to corporate restructuring of both the state-owned companies and the companies privatized through vouchers hinders, rising gray economy hinders private sector growth and strengthening of the country's competitiveness.

The private sector is facing problems with ensuring adequate professions at the labour market due to inefficiency of the educational system. An ever-widening gap between the salaries in favor of the public sector compared with the private sector constitutes a long-standing pressure on employers forcing them to increase salaries beyond the productivity growth, which is an additional threat to improvement of competitiveness of Bosnia and Herzegovina's economy, growth of export and preservation of low inflation rates. The low level of introduction of new technologies into the public and private sectors and almost nonexistent support to research activities have an additional effect causing the slow progress in reinforcing the country's competitiveness.

Insufficiently developed infrastructure

Due to donor assistance, Bosnia and Herzegovina has reconstructed the basic war-damaged infrastructure. However, after 2000 and sharp decline of donations, the public investments have not grown sufficiently to continue rehabilitation of the infrastructure. As result, the road network and water and sanitation facilities have suffered from lack of maintenance and new investments. Around 40 percent of regional and local roads require urgent repair works, whereas the railway traffic speed is considerably reduced due to the poor quality of infrastructure. Production capacities for generation of electric energy are outdated and require urgent modernization. Around 30 percent of BiH population is not connected to sewerage system and has difficult access to clean water.¹² To make progress toward EU integration, the country will have to allocate more of its resources for infrastructure investments but also to be able to utilize the EU funds for infrastructure rehabilitation once it reaches candidate status.

Lack of coherent national planning mechanism

Currently, the national planning process in Bosnia and Herzegovina is based more on ad-hoc than on systematic approach. The participation of entities in preparation of national level strategies has not been made mandatory. At the same time a number of strategies have been

¹⁰ Country Partnership Strategy for BiH (2008-2011), The World Bank, November 2007

¹¹ Transition Report 2008, made by EBRD awarded BiH grade 2.78 for success in implementing transitional reforms, which is half of the most successful grade that equals 4.33.

¹² Country Partnership Strategy for BiH (2008-2011), The World Bank, November 2007

prepared at each administrative level in isolation from each other without minimum coordination. Different methodologies have been applied making the entire planning process inconsistent. Finally, the implementation and monitoring mechanism suffers from huge decentralization and lack of political will on the side of RS to strengthen national planning at the state level. Without this, the process of EU integration will also suffer as a number of state level strategies will require be developing, implementing and monitoring as part of meeting socio-economic criteria for the EU accession.

Conclusions

Bosnia and Herzegovina has already embarked on the road to EU membership. A number of institutions have been established and strengthened to support the country's EU process. The strategy for the EU integration has been developed. A Stabilization and Association Agreement has been approved by the BiH's institutions and signed with the EC. The custom tariff adjustments have also taken place.

There are no doubts that majority of population of BiH supports the EU aspirations as much there are no doubts that all member states of the EU support full integration of BiH into the EU. However, the road to EU does not come without cost. Serious institutional and legislative adjustments are required to be carried out by all accession countries and Bosnia and Herzegovina is no exception to this process. Nevertheless, while the process of institutional strengthening and legislative adjustments have taken place strengthening of the macroeconomic and structural policies to support EU integration has not received proper attention neither by the public or governments.

The economic agenda for the EU accession is well known and unavoidable. It will have to be tackled by all governments if further progress is to be made. Meeting Copenhagen criteria has been for all other accession countries a serious test of their preparedness for the full membership. It will also be for the Government of Bosnia and Herzegovina. It is designed to significantly strengthen competitiveness of the accession country to be able to endure competitive pressures of the EU common market once full EU membership is achieved. In the case of Bosnia and Herzegovina meeting of the socio-economic criteria will require highest possible commitment on the Government but also on the public side to implement difficult and painful reforms, first and foremost to complete unfinished transition agenda and to build export-led economy fully integrated into the EU common market.

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RESEARCHING NATIONAL INNOVATION INFRASTRUCTURE IN THE WESTERN BALKAN REGION

*Aralica Zoran**

The existing economic model among the Western Balkan (WB) countries with strong reliance on external financing cause macroeconomic instability within these countries, where stagnant growth rate and high rate of unemployment appear parallel with external imbalance i.e. growing external debt. The current financial crisis which characterizes denial of financing to private and public sectors in developing countries and regions like WB causes new challenges to the national innovation systems. That is requirement for increase of efficiency of use of available resources within the national innovation system. Therefore development of the innovation infrastructure in the national economies presents an important medium where innovative and inventive activities appear as indispensable elements. Acceptance of new moment (i.e. the financial crisis) on the national level requires competitive human resources within the government and the business sectors, where regional cooperation has potential to build an adequate human capacity, primarily in the government sector which may positively affect development of the national economies.

Therefore the main focus of the paper to answer on two interrelated questions, first examine relation between macroeconomic performance and national innovation infrastructure among the WB countries and second explore on which way regional cooperation related to innovation economies influence innovation capacity on the national level? This is exploratory paper with the aim to contribute to the discussions on potential of regional cooperation among the WB countries in the field of innovation economics by explaining the interrelationship between institutional conditions related to innovations and macroeconomic performance that affect capacity of the regional cooperation.

Introduction

The Western Balkans (WB) region includes Albania and successor countries of the former Yugoslavia, excluding Slovenia. Among them, differences in development levels are observed. However similarities exist, such as unemployment rates. What is more, investments rates exceed saving rates in these countries, causing problems in international trade and current account deficits. A strong reliance on capital inflows and external knowledge form presents crucial elements of their economic models. The regional economies suffered from

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the financial crisis, making the current growth models the first casualty of the downturn. Fragile macroeconomic performance is accompanied by weak institutional development. In Croatia's case, weak development of the national innovation system runs parallel with slow development of corporate governance (Račić, Cvijanović, Aralica, 2007) as well as an unfavourable position in terms of international competitiveness (e.g. Jošić 2009). The Financial Crisis and the existing economic model which relies on external financing has shaped innovation performance in the WB countries. Therefore, during a financial crisis, an increase of efficiency of use of available resources through various mechanisms, such as the inventive and innovation cooperation within the region seems to be an useful mechanism for developing national economies where the innovation infrastructure (where capital intensive investments are required on the national level) presents a critical element of the national innovation system. Moreover, the development of the national innovation system depends on learning mechanism where the existence of appropriate absorptive capacities is a prerequisite for developing an innovation policy in the national economy. Fostering regional cooperation in case of appropriate absorptive capacity may present a mechanism where critical knowledge could be developed within the countries. Therefore, the main objective of the paper is to analyze national innovation infrastructure among the WB countries and examine ways in which regional cooperation relating to innovation economies may enhance innovation capacity on the national level. Finally, the remainder of the paper is organized as follows. The following chapter outlines macroeconomic performance, followed by a comparative analysis of the science and technology infrastructure within the WB region (chapter three). Chapter four describes briefly regional cooperation current initiatives in the field of innovation economics. Conclusions are presented in the last chapter.

Macroeconomic Overview

The Western Balkan economies are greatly dependent on the EU economy. According to Koyama (2011: 3) between 60 and 80 percent of their exports are directed towards the EU markets, with a similar percentage of imports from the EU. There are however, differences within the group in terms of basic economic indicators; Croatia is a leading country in terms of GDP per capita (10100 EUR) followed by Montenegro (4700 EUR) and Serbia (4300 EUR)¹ in 2009. Moreover, the region suffers from high unemployment rates - Croatia has the lowest unemployment rate (9.1%) followed by Albania (13.1%) and Serbia (16.1%) in 2009². The high unemployment rates can be linked to the large size of informal economies. That implies low levels of export competitiveness and low levels of value of different technological indicators e.g. inventive activities and business expenditure on research and development (Aralica, 2010).

The noted economic developments in the Western Balkan countries have relied heavily on capital inflows through FDI. Croatia is a leading country in FDI per capita stock (4930 million EUR) in comparison to other countries, while Montenegro's value (4846 million EUR) is slightly lower than Croatia (Hunya, 2010). Since 2009, FDI inflow has dramatically declined in the region (for example in Croatia FDI fell to 439.9 million EUR in 2010)³, with a

¹ Bosnia and Herzegovina (3200), Macedonia (3300), Albania (2700) and Kosovo (1726) are lagging behind the leading Western Balkan countries in GDP per capita.

² In terms of unemployment, Montenegro (19.3%), Bosnia and Herzegovina (24.0%), Macedonia (32.2%) and Kosovo (42.2% in 2008) have unfavourable position in comparison to other countries in the WB region

³ This is dramatic decline 79% in comparison to previous year, when FDI amounted to 2095, 6 mil. EUR (CNB).

worsening economic perspective in terms of potential for overcoming the financial crisis in the future⁴.

According to Bartlett and Monastiriotis (2010) the financial crisis was transmitted to the region indirectly through four visible channels: First, contraction of their foreign trade mainly with European countries. Second, decline of credit growth. Third, a rapid fall in inflow of FDI as well decline in remittances from migrant workers for other Western Balkan countries except Croatia.

Reliance on capital inflows creates a troubling position for WB economies. Downsizing available external funds implies a decrease of imports as well as decline in consumption and investments. Unfortunately domestic business entities (within manufacturing and service sector) are not capable of substituting previously imported products and services, as a result of low knowledge levels and innovation capacities. Furthermore, this negative scenario implies a decline in government expenditure on vital resources such as education, research and development activities and innovation and finally a reduction in the living standard. Therefore developing Science and Technology infrastructure aimed at stimulating inventive and innovative activities are critical elements for future development of the countries in the Western Balkan region.

Comparative Analysis of Innovation Infrastructure in the WB region

Today, describing innovation activities within the national economy is impossible without a systemic approach to analyzing innovation activities, with the national innovation system as the most recognized concept. It is defined as an interaction of a network of institutions and public and private organizations, where the interaction within these institutions (cf. Freeman, 1987) creates, or modifies innovative activities with the aim of diffuse these activities within the borders of a nation state and abroad (cf. Lundvall, 1992). There are several implications to such a definition. First, we assume an existence of a system where responsibility of the actors and stakeholder regarding developing inventive and innovation activities in the national economy should be known. Secondly, the national innovation system strongly affects innovation performance in national economy (cf. Nelson, 1993) therefore understanding the learning process (that is tightly connected with development of the national innovation system) is a vital interest of stakeholders involved in the innovation process (Patel and Pavitt, 1994). The interactions between various stakeholders create opportunities for developing and implementing policies to influence the innovation process (Metcalf, 1995). As a consequence, Lundvall and Johnson (1994) suggest that economic theory and policy should pay more attention to processes which, through different kinds of knowledge are created and used in the process of innovation, i.e. 'the learning economy'. Thus, the main implication of researching innovation and inventive activities requires permanent understanding and a close link between various stakeholders such as civil experts, researchers and politicians, various stakeholders responsible for development and implementing policies and program where the inventive and innovation activities are crucial.

⁴ In terms of innovation performance measured by European Innovation Scoreboard data exists for Croatia and Serbia. Croatia belongs to group of moderate innovators whereas Serbia belongs to innovative countries with value far below the EU average i.e. modest innovators. For more detail please see EIS (2009). Unfortunately for other WB countries the values are still missing so for these countries data should be retrieved.

Over the last twenty years, the innovation policy development in the Western Balkan region can be analysed using the classification developed by Švarc (2006); in Croatia's case she described three development phases of the national innovation system; the first phase is characterised by a change of the social economic system, the introduction of the neoliberal type of capitalism recognised in the public through the privatisation process. On average, privatization has been connected with a reduction in the importance of manufacturing but strengthening of the financial sector that has been facilitated by capital inflows in Croatia. As a consequence the importance of innovation activities reduced. In terms of innovation performance, the most visible part of the new trend is the disappearance of industrial laboratories where majority of research and development activities had taken place during socialism. Unfortunately the negative effects of privatization relating to innovation capacity were exaggerated by the war in Croatia during the period 1991-1995, as traditional markets in other ex Yugoslavian republics disappeared overnight⁵. Consequently, the importance of inventive and innovation capacities and mechanisms of systematic planning and implementing innovation policy programmes were reduced to Ministry of Science Education and Sports. The main programmes became technical support programmes financed by German and Italian governments⁶. The second phase, during the period 1994-2001, was characterised by the development of science and business infrastructure aimed at improving the commercialization of inventive and innovation activities. Over that period the transfer and technological centres were established in the largest cities here in Croatia (Zagreb, Rijeka and Split). Third phase, lasting from the year 2001 until now, is characterised by the strengthening of institutional capacities within the national innovation system. In the last ten years, two important institutional changes were planned and implemented: HITRA and Science and Technology Policy 2006-2010, enabling the establishment of agencies such as BICRO, specialized for developing innovation programmes as well as the Croatian Institute of Technology in 2004. Moreover, this phase is characterised by further strengthening of science and technological infrastructure, e.g. in 2007, Science Technology Park in Rijeka was founded and TERA in Osijek, and further development of technological infrastructure such as technology transfer offices in universities, such as the technology transfer office at the Ruder Bošković Institute in Zagreb called Ruder Innovation. Moreover, Ministry of Economy Labour and Economy appeared as an important institution for developing and implementing programmes of strengthening R&D investments, promotion of science and business infrastructure and entrepreneurial education (ERAWATCH, 2009: 10).

It seems that the development of the national innovation system required improvements in mechanism of planning and implementation of the innovation programmes, where concrete results are still missing. Weak coordination between agencies and the ministries is observed, parallel with the lack of a strategic plan⁷ on the national level. Therefore, increase of efficiency of innovation policy is not possible without improvements in innovation policy planning and implementing mechanisms. So, the current situation in Croatia mainly requires policy efforts aimed at increasing the functioning of existing programmes. As a consequence,

⁵ On the national economy level the government priority after the war dispute were investments into building and transport infrastructure, with low level of economic effects in the short run. Unfortunately similar efforts had not been observed in the field of strengthening international competitiveness.

⁶ The programmes were oriented towards commercialization of inventive activities via patent registration.

⁷ For example, Science and Technology Policy as main programme finished in 2010 and unfortunately there is no any similar strategic plan at the moment.

small efforts at the government level could be mobilized towards monitoring and evaluating existing programmes and instruments within the national innovation systems.

Since Croatia is the most developed country in terms of innovation programmes, a similar approach could be taken to generate comparisons with other WB countries. Currently, all WB countries except Kosovo UN Res.1244 have comprehensive documentation relating to the promotion of research activities produced in last a few years. Moreover, three countries introduced an institutional framework essential for their science and research developments. In Bosnia and Herzegovina (BiH), law established an appropriate scientific and research practice in the country. Since BiH has two constituent entities - Federation of Bosnia and Herzegovina and Republic of Srpska research and technology polices are operationally and legally in their jurisdiction. The Republic of Srpska has its own 'Law on the Research and Scientific activities' while in Federation of Bosnia and Herzegovina each of the ten cantons has its own legislative regulating this issue. Kosovo UN Res.1244 made an initial step in institutional building by establishing a Department of Science and Technology within Ministry of Education, Science and Technology (MEST) in charge for science and innovation policy. Serbia made progress in the field of strategic planning of innovation activities by introducing an Innovation Law in 2005, presenting an important prerequisite for the formation of organizations supporting innovation activities and technology transfer centres, the definition of intellectual property rights, and the establishment of a Serbian Innovation Fund (Kutlača, 2010).

Interestingly, only Macedonia adopted a National Industry Policy 2009-2020, developed by the inter-ministerial working group with several important areas of intervention: applied research and development and innovation, sustainable development, collaborative approaches for competitiveness enhancement (business research, government collaboration, networks, clusters, alliances), SME development and entrepreneurship, human resource development and knowledge creation, Internationalization and investment enhancement (Švarc, 2011). In 2008, the Montenegro government adopted the Strategy for scientific research activities (SRA) for the period 2008-2016.

The main similarity between all countries is the fact that mainly ministries in higher education and science are responsible for the development of innovation programmes. In case of larger countries i.e. Croatia and Serbia the responsibility is shared between the leading ministries responsible⁸ for science and education on one hand and the ministries responsible for economy on the other. In Serbia's case there is an additional organisation, the Secretariat of Science and Technological Development of the Autonomous Province of Vojvodina responsible for implementing innovation programmes in territory of Vojvodina.

In terms of economy ministries in WB countries, these are planning and implementing programmes relating to development of SME sectors. This could be explained by the fact that these countries are small, with up to 10 million inhabitants (Serbia is the largest with 7.3 million inhabitants) hence the SME sector is the most important. Large enterprises in these countries found a new (mainly foreign) owner in the last fifteen years, thus the development of innovation activities is result of their competitive position in the national and international markets. Moreover, there is no observed programme aimed at promoting international innovation cooperation financed by the national government in these countries. It seems that

⁸ Differences between the ministries lays in approach, the ministries of science and education stress attention on science push approach of stimulating innovation activities whereas, the ministries of economy try develop demand side of innovation financing these activities within the manufacturing and service sector.

Serbia is only exception, as an initiative called the Innovation Fund is currently under consideration with a view to promote entrepreneurship and research and development of market oriented technologies and establish partnerships with domestic and foreign corporations (Kutlača, 2010).

All WB countries promote clusters as an important instrument of technology development. Numbers and activities differ between countries. According to available reports from WBC-INCO.NET, Croatia (13) and Serbia (18) have the formed the most clusters, whereas Montenegro (1) and Albania (2) lag behind. The clusters in the WB region include different economic activities, ranging from agriculture (e.g. Macedonia and Serbia) to high tech sector; i.e. ICT clusters are present in all countries except Kosovo UN Res.1244 and Montenegro. Since organisations of clusters stimulate resource concentration, further development of clusters is crucially important for science and technological development in the future for all WB countries.

In terms of the technological infrastructure in comparison to other countries, in Serbia there are four technological/innovation centers, twenty research and development centers, thirty nine research and production centers, four science and technological parks and three technological incubators (WBC-INCO.NET 2011g). In Bosnia and Herzegovina, a similar organization structure is found, with a smaller number of organization i.e. four technological/innovation centers, two science and technological parks and no technological incubators (WBC-INCO.NET 2011b). Smaller countries, like Macedonia, only established technology and innovation centers (6), more than Albania with two centers, and finally Montenegro and Kosovo UN Res.1244 only formed one centre each.

In regard to institutional development, it is interesting that Croatia and Albania are only countries with specialized agencies in the field of innovation policy. BICRO is a leading innovation programmes agency responsible for conducting key programmes in the field of innovation⁹. Agency for Research, Technology and Innovation (ARTI) in Albania established in 2010 by Council of Ministries is a coordinating and guiding structure for sustainable development of the country and cooperates with institutions in the field of science and technology in programs of national priorities (WBC-INCO.NET 2011a: 18-19). In comparison to Croatia, where BICRO is responsible for conducting innovation programmes, the agency in Albania is oriented towards strengthening innovation policy capacities.

The classification of countries in groups, in terms of innovation performance, shows that Croatia and Serbia have the most developed innovation infrastructure in the WB region and can be classified in the first group. A comprehensive scientific and research infrastructure is observed in these countries (e.g. science and technological park), with an institutional framework which includes qualified human resources. Differences exist, as in Serbia the institutional capacity is concentrated within the Ministry of Education and Science and Ministry of Economy and Regional Development whereas in Croatia there are two agencies implementing innovation programmes - BICRO and HIT. However, in Serbia academic institutions are perceived as primary source of new knowledge production and innovation (Tekic, Cosic and Penezic, 2010)¹⁰, a good foundation for development innovation capacity¹¹ based on own inventive activities in the future. The second group includes BiH and Macedonia. These

⁹ BICRO runs five programmes relating to R&D in Croatia, named RAZUM, TEHCRO, VENCRO, IRCRO, and KONCRO (for more detail please see ERAWATCH, 2009).

¹⁰ Unfortunately this perception is still missing in Croatia.

¹¹ Innovative capacity means the ability of conducting innovation activities aimed at gain and sustain the firm's competitive advantage.

countries lag behind the first group in terms of development levels, science and technology infrastructure and institutional framework organization. The positive factor in BiH is tradition and relatively complex scientific and technology infrastructure found in the largest city in BiH. However, a particularity of the BiH is a complex constitutional organization which complicates the development of an efficient system on the national and local levels, and therefore majority of efforts in the field of science and research development need to be invested into improving the efficiency of existing structures on different levels i.e. entities and cantons. The third group includes small countries such as Montenegro, Albania and Kosovo UN Res.1244, with small capacities in science and technology infrastructure based on a few technologies innovation centers in each country.

Perspective of the regional cooperation – current initiatives related to innovation economy

Regional cooperation is the outcome of interplay between external/international factors and internal dynamics (c.f. Anastasakis Bojicic-Dzelilovic, 2002:5) where main objective is to achieve benefits which could not be attained by the national states. Cooperation with similar countries is needed to catch up with the more advanced economies. It should be emphasized that importance of developing countries has been growing in last twenty years. According to UNCTAD (2011), developing and transition economies, for the first time, attracted more than half of global FDI in 2010¹². At the current stage of globalization where the accession of the WB countries to the EU is definitely the most important political process, regional cooperation in the WB region stems from the fact this cooperation serves to enhance socio – economic relation between WB countries and at the same time facilitates their the EU approach. After the war disputes (during the nineties) within the Western Balkan region the importance of regional cooperation has definitely increased. Over the past fifteen years, economic integration in the region has been characterized primarily in terms of international trade and foreign direct investments to a small extent, with the private sector as a driver of cooperation. In last a few years new moment of the regional cooperation in the South and Eastern Europe (where WB countries are core countries) characterizes appearance of the new initiatives in the field of environment, education, research, innovation and good governance¹³.

In terms of the current regional initiatives relating to innovation activities in the WB region there are five initiatives that cover majority or all countries. Among them WBC.INCO-NET is an essential EC policy tool for the integration of the region into the European Research Area and the contribution to the Innovation Union. Regional Competitiveness Initiative is a capacity building project with the aim to provide high quality services in the field of human resources and innovation activities¹⁴ to the beneficiary countries where projects activities take place. Regional Strategy Research and Development for Innovation for WB Countries is strategic project, with the aim to enhance regional cooperation in field of R&D activities. Among the expected results related to regional cooperation two are crucial to define regional priorities in R&D activities as well as to create system of monitoring of cooperation development and criteria of assessment of the results of cooperation (RSRDfWB 2010:

¹² Within the group of developing countries, Eastern Asia countries considerably differ from Latin America and Eastern European (CEE) countries, in terms of economic performance, (see Padoan, 2010) and China belongs to countries that make up the bulk of the world's surplus

¹³ For more information please see web site of Regional Cooperation Council (www.rec.int).

¹⁴ OECD is an implementing agency within the project.

7)¹⁵. Among the analyzed projects, Western Balkan 2020 presents the most ambitious project (at the moment in initialized phase) initialized by Regional Cooperation Council (RCC) aimed at building a shared common vision for growth and development of the region in the fields of Institutional Strengthening and Good Governance; Competitiveness; Integrated and Cross-section Infrastructural Development and Knowledge Based Societies; (RCC, 2010). WBinNO is developed by consortium of four institutes and the faculty¹⁶. The main objective of the project is to assist policy makers in the Western Balkan countries to develop and implement innovation policies by way of identifying appropriate ‘good’ practices in other countries and through the analysis of their emerging innovation system (WBinNO, 2010).

Table 1: Regional Initiatives related to innovation economics in the WB region and their main objectives

WBC-INCO.NET	Support the bi-regional S&T dialogue; Identify RTD priorities in the region; Enhance the participation in European projects;
Regional Competitiveness Initiatives	Enhancing Innovation Absorption Capacity for Firms; Reducing Skill Gaps for Firms
Regional Strategy Research and Development for Innovation for WB Countries (RSRDFWB)	To develop a comprehensive regional research strategy with emphasis on identifying existing research capacities;
Western Balkan 2020	To development of Knowledge Society in the Region Identify Priority Areas for Social and Economic Development;
Innovation policy learning from Norway in the Western Balkans (WBinNO)	The overall objective of WBinNO is to help policy makers in the Western Balkan countries to develop a system for innovation policy. This involves the development and implementation of new institutions and policy instruments in support of sustainable economic development.

For future development of regional cooperation, it seems that the crucial area for enhancing cooperation will be sectoral strategies on the regional level, where infrastructure projects will be a priority. Here, regional innovation cooperation between governments and the business sector level could provide an example of the sectoral strategies on the national level. Moreover, a great opportunity for further development is cross sectoral infrastructure development i.e. investments in innovative infrastructure where development of BIO Centar Zagreb, Croatia presents a good example of the manner in which international financial funds could be used for enhancing national innovation capacity.

Therefore, regional cooperation presents an excellent opportunity for the introduction of new practices and the enhancement of proven good practices in other regional countries¹⁷. Moreover, increasing socio-economic regionalization requires the adaption of innovation system to accelerate learning mechanism, resulting in the development of new specialization patterns, enabling competition on the global markets (cf. Kuhlman, 2001). In terms of regional cooperation, it should be noted that regional cooperation requires a shared ideology, where stronger involvement of human resources on the regional level requires the culture of

¹⁵ The project will be implemented during the period 2011 (November) – 2013.

¹⁶ The consortium consists of following institutions: NIFU from Oslo Norway; The Institute of Economics, Zagreb; Institute Mihailo Pupin, Belgrade; The Institute of Economics, Sarajevo and The Faculty of Economics, Prilep. The project have been implementing from April 2011 to March 2012.

¹⁷ An example of good practice is the Serbian example, where inventive knowledge developed within the Universities has been transferred to socio economic practice via start up companies, called Competition for the Best Technological Innovation. Since 2005, 65 new technology based companies have been established have been established as a result of the project. The founders are mainly recruited from the students of the Technical University of Novi Sad in Vojvodina (Šenk, 2010).

trust, where authorities and political leaders have to believe that their experts, businessman and communities know how to provide the best possible solutions¹⁸.

Concluding Remarks

The common feature of innovation governance in WBC is the low recognition of science and R&D by policy makers as key strategic factors essential for long term economic development. However three groups of countries can be distinguished in terms of innovation performance in the WB region. Croatia and Serbia belong to first group and their role and activities will be crucial for development regional cooperation within the WB region. BiH and Macedonia form the second group of countries that are lagging behind the leading innovation performance countries in terms of innovation performance. Here, a similar innovation infrastructure is present, but to smaller extent in comparison to Croatia and Serbia. Third group of countries are small economies (Albania, Kosovo UN Res.1244, Montenegro), geographically isolated in comparison to other WB countries. These countries contain examples of technological innovation centers and clusters, therefore a more complex infrastructure is likely to develop with time.

Of the projects related to development of the innovation economy, RCI and WBinNO are capacity building projects whereas RSRDfWB and WB 2020 are comprehensive and strategic projects on the regional level oriented towards planning new socio economic processes and activities in the WB region. WBC-INCO.NET should be analysed in the context of the EU accession of WB countries, and presents an important tool of integration of the WB region in the European Research Area.

Regional cooperation is to be used as a mechanism of promotion of the best world practices fostering human capacities on the national and regional level. The Western Balkan countries definitely suffer from a lack of appropriate human resources that could recognise global trends affecting prosperity of their national countries. Therefore, regional cooperation needs to be a mechanism for promotion of globally recognised social activities in the WB region, where the use of globally relevant knowledge in any form requires two prerequisites: it must be learned by the relevant actor and on the local level it requires skilled human resources.

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¹⁸ For example in Finland, transition from bureaucratic central administration to the decentralized culture of trust happened at a time of deep economic crisis and public budget cuts in the 1990s (Aho et al., 2006).

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LOCAL ECONOMIC DEVELOPMENT ACTIVITY IN HUNGARY

*Mezei Cecilia**

The study deals with the practice of local economic development in Hungary and pays special attention to the role of local authorities.

According to our interpretation, local economic development (LED) involves deliberate intervention in the local economy, in the course of which both internal and external resources may be used. This intervention may be initiated by external actors (e.g. central government, the European Union, foreign investment), but the key element of the process is the involvement of local actors who fulfil this role: those entities who accept, support or manipulate the conception of external development.

The purpose of the article is to offer a brief review of the roles played by particular actors (e.g. central government, county authorities, Regional Development Associations and Councils [RDAs & RDCs]) – but principally by municipal authorities – in economic development in Hungary.

The study highlights the problems of financing and planning LED and also looks at networking practices of local actors. The tools and strategies of local authorities pursuing development are reviewed and we attempt to analyse the level of success of local economic development in Hungary.

Keywords: Local Economic Development, Regional Development, development tools, local actors, partnerships

Introduction

Firstly, we need to define clearly what is meant by “Local Economic Development” (LED), since the literature offers a wide variety of definitions.

In our interpretation, local economic development involves deliberate intervention in the local economy, in the course of which both internal and external resources may be used. This intervention may be initiated by external actors (e.g. central government, the European Union, foreign investment), but the key element of the process is the involvement of local actors, who fulfil this role: those who accept, support or manipulate the conception of external development.

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We use the term “local economic development” in a broad sense in that intervention in the local economy includes development of the infrastructure, of public utilities, human resources and business together with the creation of internal economies and the development of individual communities.

In Hungary the major economic re-structuring resulting from globalisation and the change of regime has created new tasks for local authorities. However, neither the extent of participation in economic development by domestic local authorities, nor surveys of local policies nor the changes to the tool-system used at local level have been adequately investigated in the past 20 years. Therefore, in our questionnaire, which was sent to all of the 3,134 local authorities and metropolitan districts in 2003, (to which we received 288 valid responses) we focused on issues which have only an indirect connection with local economic development. In the focus of our research, however, we put the economic development tools and practices of the local authorities of the settlements, as a result of which we can see the typical methods and intensity of local authority participation in local economic development. In fact, since 2003, there has been no further representative empirical survey on local economic development, and so for the period since then we can use only case studies.

Hungarian Local Authorities

The current Hungarian local government system was established under the Local Government Act of 1990. This Act classifies local authorities as: villages, towns, the capital city, together with its metropolitan districts, and counties (19 in number). The Act defines county authorities (County Councils) as territorial (or area) authorities, which, on the basis of their functions, are distinct from those of settlements.

For the purpose of our research, our questionnaire was sent only to local authorities of settlements. In 2003 there were 2,883 villages, 229 towns, and the capital, together with its metropolitan districts (23). Within this group, “towns” can be further categorised as towns (207) and county-rank towns (22) (Mezei 2008)

Currently, Hungary has 3,152 settlements; the capital, 23 county-rank towns, 304 other towns and 2,824 villages (HCSO 2009).

The importance of local authority initiatives

Despite all the debate among theoretical experts on the justification of external intervention in market processes and the success and effectiveness of such interventions, *Hungarian municipal authorities – in accordance with international trends – have clearly been taking the initiative in local economic development* since the political changes (Mezei 2008; Péteri 1996).

This fact is also shown in the opinions of mayors and citizens concerning the duties of local authorities in the survey of 1991. Heading the list based on the survey, we find non-obligatory local government functions, including local economic development. Further, the majority of the duties deemed most important are to do with the local economy (Péteri 1994).

Ten years later (in 2003) we also found that *the municipal authorities showed active participation to achieve their goals*. This is shown in the opinions of mayors on the role of local authorities in local economic development. The majority of the mayors (85%) voted in favour of the need for intervention. Eleven per cent said that local authorities should not be involved

with economic development (only village-leaders opted for this). Two per cent thought that settlement authorities should only play a small part in local economic development (larger settlements might play such a role, and the priority of the market and the extreme importance of basic supply should be kept in mind), whilst 2% of the mayors gave no response to the question.

The reasons for local authorities intervening in local economic development are (in the order of frequency of mention):

- It is the local authority which has to ensure the right conditions and support the processes based on needs analysis.
- It is essential for the solution of employment problems.
- It has an interest in revenue (local taxes).
- It has significant information, its position is satisfactory and it can coordinate processes.
- There is no better local agent since businesses themselves are too weak, lack capital and so are inadequate to help development. The main target is to improve the citizens' standard of living.
- It is closely connected to settlement development.
- It is in the interest of the community.
- It has the opportunity to play an influential role by providing the background for regulation and by its planning experience.

Local authorities cannot play a role in local economic development due to:

- the lack of necessary local government resources;
- the lack of an adequate legislative background,
- since determining the scope of authority required is problematic.

To make a decision on the question of “to intervene or not to intervene” in favour of the active side does not automatically produce “success” for the wholly or partially government initiatives as there are numerous solutions applying to method, target and achievement – which is why we shall look at the success of intervention in local economic development, the core operation supporting local initiatives and the tools of local economic development.

The success of local economic development

From the 1991 survey of LED it emerged that the majority of mayors were basically increase-orientated – that is, they wished to improve the conditions of the local community primarily by local investment (*Horváth–Péteri* 1993). However, a 1993 survey showed that, in respect of voluntary tasks, local authorities were involved in telephone supply, public security, the environment, gas and power supply and the fire service. The support of small and medium-sized enterprises (SMEs), the creation of jobs and the support of local economic organisations merely followed these (*Péteri* 1994).

In the light of this, to evaluate local authorities' local economic development initiatives, during our research in 2003, we collected, from mayors, accounts of success and failure which had had key importance in the recent history of the settlement. A total of 101 mayors reported successes and 88 failures (although these two categories were not mutually exclusive).

The categories of success stories – ranked according to frequency – were:

- Location of new enterprises, growing number of entrepreneurs, creation of new jobs;
- Realisation of infrastructure development projects;

- Realisation of successful tenders and programmes;
- Establishment of industrial parks, industrial districts or enterprise zones;
- Realisation of tourism development projects and an increasing number of visitors;
- Improvement of the local image.

The major categories of failure stories – again ranked according to frequency – were:

- A lack of new enterprises, a decreasing number of local businesses, a rise in unemployment;
- Cancelled local government projects (residents' opposition, official decision or unused resources);
- Cancelled infrastructure investments;
- Problems with the establishment of industrial parks, industrial districts or enterprise zones;
- Ageing population, decreasing number of inhabitants;
- Lack of tourism development projects;
- Poor local government funding;
- Agricultural crisis.

The *supply-side dominance of local economic development strategies in local government programmes* may be verified here – in an earlier part of this paper we mentioned the general trend in applying supply-side strategies – as in both categories (success and failure stories) the external, incoming enterprises had key importance.

It was similar during the 1994 survey, where the most important economic development targets were to introduce working capital and ease unemployment problems in both towns and villages. Here, however, as the local economic situation determines the direction of economic development, in villages, the burning question was unemployment, whilst in towns, introducing working capital was considered the primary aim (Péteri 1996).

Creating partnerships

One key of the success of local economic development is creating partnerships (Bennett–Krebs 1991; Felbinger–Robey 2001; Pálné Kovács 2004; Syrett 1997). *This practice, however, is a country-specific factor*, a world trend motivated partly by international aid, whose adoption definitely depends on the social, cultural, economic, institutional and political background of the given country (Mezei 2008).

Hungary is a centralised, unitary state, its laws basically permitting the *government and the bank of issue* to intervene in the economy (Finta 2004). *Ministries and their de-concentrated organisations* also have a central role, as they distribute resources, and so make decisions determining the direction of development in areas and settlements (Mezei 2004).

Regional Development Councils designed for planning-statistical regions practically played a money-distributing function, although, according to the law, they should also coordinate economic development agents – which they cannot achieve in practice. The departments of these Councils, the *Regional Development Agencies* played an active, initiating role in regional development. As opposed to classic development agencies, the characteristics of Hungarian regional development agencies were not only of economic-developmental nature (Somlyódyné Pfeil 2004). Currently, in the absence of decentralised development funds, the role of Councils has decreased.

County authorities are legally powerless. *County Development Councils*, as Regional Development Councils, primarily distributed money (relatively minor sums) gained from project application. Due to a paucity of resources for allocation and to county authorities functioning in parallel, county councils have become totally powerless.

Chambers (of Commerce etc.) legally play a significantly minor role in economic development than is the case internationally, since there is no compulsory chamber membership, and since they are gradually being excluded from decision-making over the distribution of money dedicated to development purposes.

The system of economic development is strengthened by a number of business development funds and firms, such as the *Hungarian Foundation for Enterprise Promotion* (with a national network with local business centres) and the *Hungarian Investment and Trade Development Agency* (since 2011 the *National Foreign Economy Office*) operating with regional (and foreign) offices.

Regional Development Holdings Ltd. and its subsidiaries – also operating through a national network – provide innovative SMEs, local authorities and their associations with assistance (e.g. consulting, education, information). There are also diaries of RDH which deal with venture capital and development credits supporting innovative SMEs.

International practice showed that we should also focus on *banks and financial institutions*. No special economic development rules apply to these, and so their contribution depends only on their own business policy and value system. The national banking system, being capital-centred in Hungary, is disadvantageous. This significantly reduces the sensitivity of banks towards rural problems and local initiatives. *Savings cooperatives* are an exception, but these have a lack of capital to support local initiatives, although, with appropriate policy (supporting product development and recapitalisation) they could be made suitable to play a role as a “community bank”.

Venture capital companies are not widespread in Hungary. Local councils do not have the necessary resources to be able to establish such institutions (as in Sweden or the USA). Regional venture companies integrated in the Regional Development Holding Ltd. cannot totally substitute for this.

Universities, Higher Education institutions and research centres could be the keystones of innovation-oriented regional development. It was not at all typical of Higher Education (and research) institutions to take part in regional development before the late ‘90s (Horváth 2004). Currently the situation is changing as the New Hungary Development Plan is promoting the leading role of Higher Educational institutions and research centres in programmes primarily targeting the renewal of society by developing regional centres and creating the innovative, knowledge-based economy with the help of the improvement of human resources (NFÜ 2007). The New Széchenyi Plan, which is the new government’s programme for European Structural Funds, also places great emphasis on innovation and science.

Focusing on *businesses and business (strategic) associations*, their role in economic development is very varied. Whilst multinational firms generally do not participate in local initiatives (there are a few exceptions) the lack of a strong Hungarian SME network and the major national firms create a special situation. According to *János Rechnitzer* (2007) there is a slow but positive change in this since currently several Hungarian entrepreneurs have strength-

ened to the extent that they can take part in financing PPP constructions. Local initiatives may well be able to count on these two strong pillars.

Employee integration into local initiatives is limited; *Labour Councils* cannot fully represent them and *trade unions* (with few exceptions) are powerless and do not normally contribute to local initiatives.

At international level *non-governmental organisations* (NGOs) play a key role in local initiatives; in Hungary, however, they show rather modest activity. Institutionalised civil society was practically left out of institutionalised regional development, and their dependence on central and local subsidies means a further burden.

We plan to continue examining the development of local governmental cooperation based on local businesses, since these are considered the most important partner organisations.

Our research also aims to show that the majority of local authorities ask the opinion of local business before formulating local development targets, but 92% of settlements do not have frequent and formalised partnerships. *It seems that the likelihood of close and active relationships with the business sphere grows in proportion to the size of the settlement.*

The owners and the size of local businesses do not precisely determine local economic development activity, since the mayors of the participating settlements referred to the location of multinational businesses which influenced local development targets with their own activity, and there were cases when local firms remained outsiders and did not co-operate with local authorities. The answers of SMEs totally depend on the characteristics of local society, but there are other factors also and so the categories of local businesses do not produce very precise criteria when we talk about the intensity and strength of co-operation between local authorities and local business.

To sum up, *without taking the larger towns into account, the framework for frequent, formal partnerships has not yet been established within local government in general.* Ad hoc opportunities for expressing opinions cannot adequately guarantee the full support and acceptance of local development initiatives by the local business sphere and their integration into the local economy. The practice of creating partnerships between local business and local authorities demonstrates that, in Hungary there are serious deficiencies in the area of bottom-up partnerships.

Local economic development tools

Having reviewed the local economic development concepts of certain countries, we can see that, despite different economic development regulations and institutions, local authorities and development organisations use very similar tools (Mezei 2008).

Our survey showed that Hungarian settlements have different opportunities in local economic development depending on many factors, such as size and population. In consequence, *large and small settlements use different tools. It can be shown that larger towns can intervene most in the local economy (despite their critical financial position, thanks to their favourable liability portfolio and capacity). In the case of smaller settlements, regional networking and partnership may be a solution.* Since there are no model strategies, each settlement has to find its own unique solution to its particular problems (Mezei 2008).

Local economic development tools include:

- Improving local public services,
- Infrastructure development,
- Disclosure of information,
- ‘One stop’ business administration,
- Promotion materials,
- Tax abatement,
- Site provision, site-management,
- Setting up industrial parks and/or industrial areas,
- Business incubators, incubator houses,
- Supporting R&D,
- Establishing innovation centres,
- Business consulting,
- Promoting local products,
- Supporting local businesses’ trade and marketing activity,
- Employee training/retraining,
- Subsidising local SMEs,
- Own investment (invested capital),
- Credit brokerage, loan and bank guarantees,
- Encouraging associations.

We would offer some thoughts on a few, but widely used, elements of this complex system of tools: planning, infrastructure development and tax allowances.

Planning

There are several types of plan, strategy, concept and programme which must be prepared by local authorities, a number of which are recommended or required for applications for different supporting funds and a number of plans are prepared on a voluntary basis. We postulated that, in the case of all larger and smaller towns, we would find at least one type of planning document establishing settlement development, or a minimum of one programme orienting the economic management of the authority. We also presumed that, in the case of smaller settlements, the planning activity rate would be lower.

Since the legislator has not laid down the formal, technical and professional requirements even in the case of compulsory planning documents, it is possible that those filling in our questionnaire applied the same name to different documents with completely different content or completely different quality. We cannot, therefore, determine from the number and type of documents prepared how far these are able to orient local decision-makers in reality and to what extent the frequent revision of those plans is carried out – and, respectively, the proportion of plans prepared for the desk drawer.

While a settlement development concept is available in most settlements (in 54.5%) only 40% have prepared the so-called economic programmes which are also specified by the law. Twenty-eight per cent of the settlements sampled have both types of compulsory plan, i.e., the settlement development concept and the economic programmes.

The most frequent type of economic development plan is the tourism concept (17%) and the housing concept (18%). These were also the most important tasks of central development

policy. The local authorities have also listed complex economic development plans (16%), employment concepts (10%), business development plans (7%) and marketing concepts (4%) among their economic development plans.

It is also remarkable that, among those settlements which had prepared several different plans, we find both tiny settlements and larger towns, whilst settlements with no plans at all are solely those with municipal status, the majority being tiny villages.

In future, appropriate planning will be vital to obtain EU resources, and so the solution may be to prepare complex local, economic and business development plans and job-creation programmes – to promote local support for such programmes as well to encourage the evolution of partnership.

Development of local infrastructure

Improving and extending the quality of the local infrastructure is a central issue in the obligatory tasks of local authorities and the expectations of the population. This is shown by the 1991 survey where mayors named the provision of infrastructure as the main reason for differences between settlements (*Horváth–Péteri* 1993), and, based on the 2003 survey, 94% of local authorities have been involved in – at least one – infrastructure development project since the political changes in 1990.

Fifty per cent of the settlements (57% of small villages and 46% of larger) could not indicate any investment activity targeted at economic development, but the majority of completed investments were connected to infrastructure development.

Forty per cent mentioned infrastructure investment projects connected with the development of public institutions, the renovation or building of roads, the supply or handling of potable water, waste-water or rain, or providing public lighting. There had been a gas pipeline development in 13% of the settlements. Increasing the development of telecommunications and IT and the building of sewage plants were each mentioned by 3.5%. Waste deposit sites and incinerators were established in 2% of the settlements.

During the period examined a popular, local state-supported initiative was establishing an industrial park. 13.5% mentioned the starting of a project to establish an industrial park or industrial area.

Tourism development, which was mentioned by 9% of the local authorities examined was also an area stimulated by central support. The majority of these investments belong to infrastructure developments.

Tax abatements for local businesses

Local authorities can influence the tax burden of local enterprises and undertakings by a combination of different eligible tax categories and the application of allowances. However, it is clear that the key element of the local taxation system is the so-called *trade and industry tax* which yields the most significant proportion of local revenue and so we have selected this tax category for investigation also.

At the time of the 2003 survey, 80% of settlements took advantage of levying the trade and industry tax, and some 72% of settlements issuing the local trade and industry tax, which

makes up 58% of the sample settlements, indicated that they used different types of tax allowance.

The majority of settlements obviously chose the supply-side strategy in the course of their economic development activities. This means that their primary target is to increase the attractiveness of their settlement for external investors, and so it is not accidental that the tax exemption (fiscal immunity) and the different tax allowances provided for “new arrival” businesses are generally preferred solutions. The tax allowance provided for SMEs in second place and the so-called capital investment tax allowances in third place are targeting, besides attracting new businesses and enterprises, the maintenance of existing businesses and the support of their developments. In fourth place are the different tax allowances targeting designated industrial areas, which are applied in the first place by larger and smaller towns, mainly by those already having industrial parks with infrastructure.

However, the above proportions are influenced by the requirements of the EU which permits investment and development tax allowances – focusing on SMEs.

A local, national law, in accordance with EU requirements, limits the use of an earlier, widely used economic development tool, the allowance of local trade and industry tax. In consequence, local decision-makers were forced to give up the most widespread, but at the same time the least effective, form of business attraction (Mezei 2008). This means that the adjustment of trade and industry taxes had to be completed by 2008 at the latest.

Summary

We examined several aspects of economic development practices in Hungarian local authorities. *Settlements use the opportunities deriving from the legal background and connected with the municipal conditions to a different extent depending on their size, potential and management.* We have seen that different factors may be emphasised in the development strategy of different settlements and they may use different tools in order to achieve their targets. Some local authorities are more active in the initiation of economic development intervention and in the creation of partnerships connected to these, and these local governments achieve fairly spectacular results. Some other local authorities, on the other hand, cannot demonstrate any progress since the political changes. While settlements of the former category are mainly larger towns, we can state that, in every size category, we can find local authorities participating actively in local economic development. The lack of initiatives connected with local economic development is rather characteristic of settlements with lower populations.

Finally, our research verified our hypothesis that *mainly the larger settlements and towns had available the tools for facilitating classical economic development investments, and smaller settlements could participate in special economic development initiatives within the limits of their opportunities.* In their case, regional networking and partnership may be a solution – starting at planning and finishing with the implementation.

We consider it important for local economic development to become universal in the future in order to create a local system of conditions adapted to international practice, both regarding the needed community resources and the freedom and opportunities of vital local economic development actors.

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INSTITUTIONAL CAPACITY AND REGIONAL ELECTRICITY MARKET IN SOUTHEAST EUROPE

Vlahinić-Dizdarević Nela, Žiković Saša**

The implementation and benefits of regional electricity market (REM) in Southeast strongly depend on institutional capacity in these economies. At the same time, the appropriate level of institutional resources is crucial for SEE countries in order to benefit from the REM. The first step of institutional reforms is the establishment of national regulatory agency in the field of energy. All SEECs have adopted the EU reform model and established formally independent regulatory agencies, but the same model copied on those implemented in developed economies obviously is not a guarantee for an effective regulatory process. The failure of regulation in many less developed countries is the result of underestimation of the importance of the institutional capacity and institutional differences across countries, while the process of unbundling has made the regulatory task even more complex. The barriers for the regulator's independency can be related to a shortage in human and administrative resources, a lack of political support for the reforms and regulator's close connections to regulated industry.

The second step of institutional reforms necessary for building REM considers regional cooperation and regional institutional activities. SEE countries have implemented the harmonized, uniform approach influenced by EU Directives in the energy sector and this approach requires extensive subordination of national interests. Harmonization is especially important in order to attract private investors because they will invest only if there is a high degree of certainty about transmission network access, regulatory transparency and predictability. Therefore the common regulatory framework within the region with the coordination of regional planning would create benefits for all the SEE countries.

Key words: institutional capacity, Southeast Europe, regional electricity market, regulation

Introduction

In the context of actual economic and energy crises when energy issues have become crucial development topic, the paper focuses the issue of regional electricity market in Southeast Europe. The electricity sector in Southeast Europe has gone through extensive economic reforms and the establishment of the regional electricity market has been an important step. In October 2005 the Treaty establishing the Energy Community was signed as the only legally

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binding document for all SEE countries. Although the Treaty is still in its implementation phase, the electricity trade among SEE countries grows significantly and it now reaches 25% of final electricity consumption. The experience of some other regional energy markets shows that moving from no integration to full integration can take decades, but moving from intermediate to higher levels of integration (as in the case of SEE) can be relatively rapid. The rate at which progress is made towards full power sector integration depends on many factors, including the institutional capacity of participating countries.

The goal of the Energy Community is to improve the reliability and security of supply, achieve economies of scale and enhance complementarities between systems. It is expected to promote use of the most cost-effective capacities and reduce overcapacity of the existing base load, thereby reducing generation costs by around 10%. The regional market is an effective way to achieve a diversified energy mix and to optimize use of regional supply and production capacities. Besides short-term benefits, the final economic goal of Energy Community is to overcome the limited size of SEE national markets and to create large and more stable regional market that will be more competitive and more interesting for private investors.

The process and outcomes of the Energy Community implementation strongly depends on the institutional capacity of SEE countries and, on the other hand, the appropriate level of institutional environment is crucial in order to benefit from the reforms. These institutional resources are still missing and therefore the institutional capacity has become the biggest obstacle in the process of full implementation of electricity reforms. Therefore the aim of the paper is to analyse the economic effects of regional electricity market in Southeast Europe within the wider institutional context and to investigate the importance of institutions in the process of the Energy Community establishment.

The role of institutions in the reform process

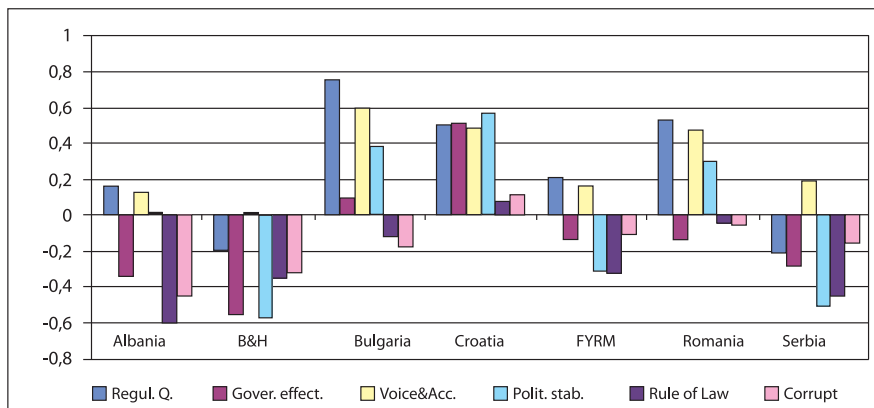
During the last years there has been a considerable growth in research on “good governance” and the quality of government institutions and their impact on economic growth. This development has been induced by empirical findings among economists that such institutions can be considered as the key to understanding economic growth in developing countries (Acemoglu et al.; 2001, Acemoglu et al.; 2002, Easterly; 2001, Easterly and Levine; 2003, Rodrik et al.; 2004). Consequently, the neoclassical economic thought has been expanded and incorporated such new ideas. New institutional economics has been developed and provided with new evidence of the role of institutions in market economies. Overall institutional environment and especially economic institutions, influence the structure of economic incentives in an economy. Without property rights economic agents will not have the incentives to invest in human or physical capital or adopt more efficient technologies. Economic institutions are also important because they help to allocate resources to their most efficient uses, they determine who gets profits, revenues and residual rights of control (Acemoglu et al.; 2004). Rodrik argues that there is a requirement for a “cumulative process of institution building to ensure that growth does not run out of steam and that the economy remains resilient to shocks” (Rodrik; 2003, 25). The laws and political and social rules and conventions are also included in this institution building. In particular, relevant modes of conduct in the context of the regulatory state might include probity in public administration, independence of the courts, low corruption and cronyism and traditions of civic responsibility (Jalilian et al.; 2006, 89).

This perspective has shifted the focus away from variables such as physical capital, natural resources and human capital to matters directly related to the sphere of government and politics. Kaufmann and associates at the World Bank, responsible for providing the most widely used governance indicators, define governance as “the traditions and institutions by which authority in a country is exercised”. More specifically, this includes: (1) the process by which government are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann et al.; 2004, 3). Other economists have tried to be more specific by defining “good governance” as “good-for-economic-development” (La Porta et al.; 1999, 223). But this view excludes other non-economic consequences of the quality of government referred to above, such as interpersonal trust and subjective well-being.

The importance of institutional framework is crucial for sustainable growth in output and efficiency in utility service industries like electricity. The institutional environment via its effect on regulatory quality influences investment rates, particularly in industries such as electricity (especially distribution) where assets are long-lived and investments are generally irreversible to some degree. The regulatory quality is of crucial importance in electricity sector and is a function not only of regulatory institutions, but also of the wider institutional environment. The standard institutional solution to handle these infrastructure industry issues is to introduce an independent regulatory agency, instead of direct regulation by a government ministry/department, operating within a clearly defined legal framework. The independent regulator is intended to provide the high-quality institution that permits and fosters sustained growth in capacity and efficiency in the utility service industries, particularly the network elements (Cubbin and Stern; 2006, 115). The major expected outcome of the implementation of independent regulatory agency was the switch from service providers, whether public or private, being self-regulated or obviously politically regulated to them being monitored and controlled by agencies without direct interference from the elected government or without the conflicts of interests that self-regulation implies (Estache and Wren-Lewis; 2010, 374).

However, the introduction of independent regulatory agencies in transition (and developing) countries copied on those adopted by developed economies is not a guarantee for effective regulatory process and protection of consumers, taxpayers or investors from conflicts. The failure of regulation in many less developed countries is the result of designers’ underestimation of the importance of the institutional limitations and differences in institutional capacities across countries. The “father” of the modern theoretical research on the regulation of network industries in developing countries is Jean-Jacques Laffont (2005). Transition countries are generally small economies that are faced with the lack of regulatory resources. In many cases, the economic and political institutions necessary for well functioning of regulatory authorities are weak. Many countries also face a shortage of qualified human resources to staff the new regulatory bodies. The lack of economic resources, regulatory experience and skills lead to asymmetry of resources in relation to those of major international investors (Stern; 2000). In most transition countries the full independence of regulatory agencies is dubious because governments still have a formal degree of influence in those activities of electricity regulators that are concerning prices due to the political sensitivity of tariff increases. Figure 1 shows the scores for overall institutional quality measured by governance indicators published by the World Bank.

Figure 1: Governance indicators in SEE countries in 2008



Source: World Bank database; 2010

On average, SEE countries have recorded highest scores in regulatory quality and voice and accountability, while the rule of law is estimated with the lowest scores. Croatia and Bulgaria have been graded with highest scores and together with Romania and Montenegro, their achievements are above regional average. On the other hand, Kosovo and Bosnia and Herzegovina have the lowest overall score, especially in government effectiveness, political stability and rule of law. The control of corruption is still not adequate and represents a big problem in all SEE countries.

SEE Regional Electricity market

Preconditions of SEE Regional Electricity Market

Although the creation of the Energy Community in SEE is the outcome of the “Athens Process” that was launched by the European Commission, SEE countries have realized that regional cooperation within the electricity sector would be a way to avoid “prisoner’s dilemma”. It means if countries deal with regional public goods individually, without internalizing the effect on other countries in the region, it may result in what has been called “the tragedy of the commons” or “prisoner’s dilemma” (Schiff; 2002, 11). Everyone loses due to a lack of cooperation because costs of providing public goods individually can be much larger.

Cross-border trade in Southeast Europe has been common for many years, although it was generally trade between utilities. Trade based on differences in natural production costs between countries are economically efficient and fluctuations in load can be balanced by exchanges with neighbouring countries with different load profiles. Regional cooperation in the power sector generally commences with the building of transmission interconnectors and the negotiation of long-term bilateral power purchase agreements. As interconnection increases, more countries join the regional trade. As confidence grows, there may be progressive development of more comprehensive competitive markets for energy and capacity. Over time, countries develop common technical and economic rules, paving the way for regional electricity markets (ESMAP; 2010). The following analysis considers the preconditions for the electricity trade in the Southeast Europe in the context of economic circumstances and technical requirements:

- SEE national markets are diverse in terms of their size, development level and efficiency of the energy systems. Croatia is the most developed with highest GDP p/c and highest energy efficiency according to the ratio of total final energy consumption to total primary energy supply. These differences along with differences in prices represent a broad basis for the mutual trade. Electricity production prices and final electricity prices differ among SEE countries and, additionally, they are generally lower than in EU countries, mostly due to strong state price regulation. Additional scope for trade in electricity occurs when fuel costs for power generation are lower in one country than in another one, which justifies the construction of power plants dedicated to exports that use this fuel.
- Power trade can reach benefits when resource endowments differ across countries. Data show that there are different resource endowments across SEE region regarding installed capacities, which generate potentials for trade. Many countries were left with unbalanced generation mixes following the breakup of ex Yugoslavia and its integrated grid. For example, Kosovo's generating capacity is almost entirely comprised of inflexible baseload lignite generators making load-following very difficult. On the other hand, Albania's capacity is largely comprised of hydropower plants with large seasonal differences in output. Therefore interconnection of a largely thermal power system with a largely hydropower system allows energy banking and provides power during off-peak periods. Since coal, mostly lignite, dominates the primary energy supply in the Western Balkan accounting for 38% of TPES in 2005, and is the element for the low overall fuel efficiency, it is an important priority for future investments. To conclude, different production facilities and endowments exist in the SEE region that makes the appropriate basis for electricity trade.
- Regional trade has potentials to increase if there are fulfilled technical requirements. Power systems in the region are quite different because they were constructed in different economic and technical environment. Electricity systems of Bosnia and Herzegovina, Croatia, Serbia, Macedonia, Montenegro and UNMIK were developed within ex Yugoslavia, systems of Bulgaria and Romania were connected with ex USSR, while Albania power system was made independently of others. Until 1992 the electricity network of ex Yugoslavia was interconnected with the Union for the Coordination and Transmission of Electricity (UCTE), i.e. Western European grid. As the consequence of the war, in 1992 the grid was separated. Croatia and one part of Bosnia and Herzegovina (Federation of B&H) were working synchronously with ECTE, while the other part of B&H (Republika Srpska), Serbia and Montenegro, Macedonia, Albania, Romania and Bulgaria were working isolated from UCTE. Still, after 14 years of different work, in October 2004 their power systems finally operate according to shared technical standards through membership of the UCTE. This has improved security of supply, diversified supply and export options and enabled further trade within the region and beyond its borders.
- Regional markets require adequate cross-border transmission capacity. The Energy Community noted that the transmission network in SEE is now in a position to handle a significant increase in trading volume. This increase, however, is conditional on two factors: first, the development of a reliable regulatory framework and unbundling of power companies, and second, ensuring an appropriate market design and establishing trading mechanisms that optimise the use of available capacity and provide reliable signals for building new capacity (OECD/IEA; 2008, 38). Studies differ in their conclusions regarding interconnection capacity and its impact on regional electricity trade. For example, SECI (SECI; 2002) showed that transmission system in the region is capable of serving projected 2005 demands plus all long term contracted exchanges. According to Bajs et

al. (Bajs et.al.; 2006), currently the system limitations are not so much related with inter-connections, but more with internal networks. Therefore, transmission system is capable of supporting market opening in SEE countries and establishment of regional electricity market. The study on energy sector in Western Balkan (OECD/IEA; 2008) argues that available high-voltage electricity grid capacity for electricity trade within the region is in the order of around 35% of total peak demand. This low level of interconnection constrains capacity and flows between countries.

- Important precondition for the electricity trade occurs when utilities face different system load shapes or experience peak loads at different times of the day or year. Therefore the output of peaking plant may be shared between countries. This factor doesn't seem to induce electricity trade between SEE countries because there is no scope for a rolling peak within the region. The reason is that peak loads occur at the same time during cold winter months and there is a maximum one hour time difference between countries. These demand surges usually occur when use of electricity for space and water heating becomes widespread as a means to supplement other sources of energy. Heavy reliance on electricity is due largely to the lack of alternative heating options for households, the low efficiency of energy end-use and low payment discipline in some SEE countries. However, last years there may be scope for exploiting non-coincidental seasonal peak in some countries. For example, Croatia has become a summer peaking system due to tourism season, so it seems a better solution to meet summer demand growth with increased imports rather than additions to domestic capacity.

However, the benefits deriving from the regional cooperation and the establishment of regional electricity market are burden with certain challenges and obstacles. These obstacles are mostly connected to national priorities over the regional strategy because most countries prefer developing their own energy resources rather than rely on a region. Another barrier to regional planning is the intention of countries to maximize their exports of electricity or to minimize domestic supply costs by retaining the benefits of lower cost domestic energy resources for themselves. (ESMAP, 2010). Therefore countries need to be sure that all contracting parties will benefit from regional projects.

Current trade patterns and benefits of electricity trade

Neighbouring countries that have been connected within transmission network usually trade a considerable share of their electricity consumption. Data relating to SEE electricity trade are presented in Table 1.

Table 1: Electricity trade in Southeast Europe in 2006 (in TWh)

Importer:	Exporter:						Total imports
	Albania	B&H	Croatia	Serbia& Kosovo	Macedonia	Montenegro	
Albania	-	-	-	0.3	-	-	0.3
B&H	-	-	0.7	2.3	-	-	3.0
Croatia	-	3.6	-	3.0	-	-	6.6
Serbia& Kosovo	0.4	0.7	-	-	-	1.0	2.1
Macedonia	-	-	-	2.1	-	-	2.1
Montenegro	0.2	0.3	-	1.2	-	-	1.7
Total exports	0.6	4.6	0.7	8.9	0.0	1.0	15.8

Source: IEA; 2009

In 2006 electricity trade within the Western Balkan countries was 15.8 TWh or 23% of final electricity consumption. According to the data, Bosnia and Herzegovina, Serbia and Kosovo are the main electricity exporters in the region while Croatia accounts for 42% of total imports. Macedonia is the only country not trading with the region because it exports and imports mainly from Greece. The closure of several generation plants, notably Bulgaria's Kozloduy nuclear power plant, has reduced regionally traded volumes, as well as exports outside the region. As a result, trading prices have increased from EUR 0.02 to 0.05/kWh over 2000/2004 to EUR 0.08 to 0.11/kWh in 2007. Going forward, there would seem to be scope for ongoing export of power from Bosnia and Herzegovina and Kosovo with supplying peak power to the regional market.

The goals of the regional market are to improve the reliability and security of supply, achieve economies of scale and enhance complementarities between systems. According to the IEA projections (OECD/IEA; 2008), the regional market is expected to promote use of the most cost-effective capacities and reduce overcapacity of the existing base load, thereby reducing generation costs by around 10%. The improvement in security of electricity supply becomes a crucial need in times of energy crisis and uncertain energy supply, especially in the context of Russian-Ukraine gas disputes.

Besides the short-term benefits of the SEE regional market, final economic goal of such regional electricity market is its impact on creation of larger and more stable regional market, which will be more cost-effective, competitive and therefore more interesting for investors. More developed and reliable electricity and overall energy market will enhance the region's capacity to attract investments in infrastructure. As we have already stated, there is a need for new investments in many electric systems of SEE countries, especially in generation capacity that would be capable to meet environmental standards set by the EU and in upgrading transmission and distribution networks. New investments would be crucial in increasing technology and operational efficiency. Well-functioning competitive markets should provide the right signals for investment and therefore promoting secure and reliable energy supply in the most cost-effective way. Investment support mechanisms (often called "capacity schemes") can play an important role in Southeast Europe by providing incentives for investment in generation capacity. According to the Council of European Energy Regulators (CEER, 2006), there is still no harmonized mechanism in place in SEE. In Kosovo and Romania a capacity support mechanism was in the planning stage, in Macedonia it was provided via power purchase agreements, which is insufficient, in Bosnia and Herzegovina, Montenegro and Serbia the capacity expansion decisions were still being made centrally. In other countries, according to CEER study, it was felt that a liberalized market will be sufficient to generate investment incentives. It can be concluded that insufficient cross-border capacity hampers market integration and therefore it is important to ensure adequate investment incentives in order to foster investments.

According to ESMAP (2010), the optimization of generation and transmission investment on a regional rather than a national basis can offer substantial cost reductions. These cost reductions often go unrealized when countries follow national priorities and sovereignty concerns, although it is understandable that countries prefer to develop their own resources rather than rely on a region. Having in mind considerable economic benefits of regional projects, the potential solution could be the introduction of explicit mechanisms to share benefits, for example allocation of shares in cross-border projects, which would help overcome reluctance in implementing regional plans.

Electricity reform results in SEE countries

The Energy Community Treaty that was signed in Athens on 25 October 2005 represents the achievement of the largest internal market for electricity and gas in the world, with effectively 34 participating countries: the 25 European Union Member States and Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Albania, the Former Yugoslav Republic of Macedonia, Romania, Bulgaria, and UNMIK Kosovo. (Figure 2) The Energy Community Treaty is a key element of the EU strategy in Southeast Europe that aims to extend the benefits of the Internal Energy market before the states of the region may become members of the European Union.

Figure 2: Energy Community

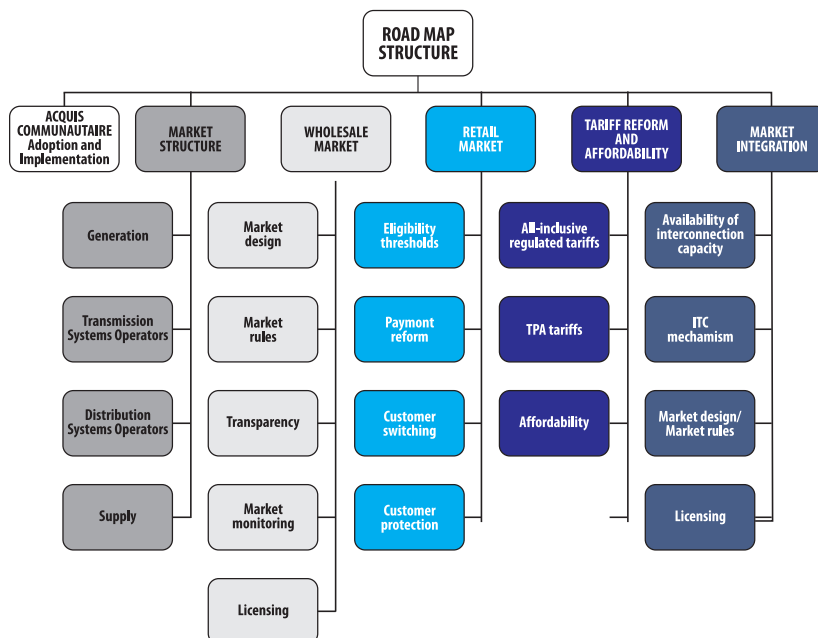


Source: <http://www.energy-community.org>

There are several reasons why the European Commission spearheads this process of energy restructuring and integration into EU internal energy market. Firstly, improving the balance between energy supply and demand is crucial to improve and sustain economic development in Southeast Europe. It requires a strong legal commitment by the countries of the region towards market oriented reforms, regional integration and investment security. Secondly, the security of supply of the European Union is based on diversifying supply of electricity and gas and is being politically able to counter threats to energy disruption in the European Union.

The legally binding obligations of the Treaty establishing the Energy Community in the area of electricity are far-reaching and complex. Figure 3 shows the common framework programme that has to be done in all SEE countries.

Figure 3: Road map of SEE obligations towards the Energy Community



Source: <http://www.energy-community.org>

The Treaty imposes that the national electricity markets should be opened for all non-household customers as of 1st January 2008 and for all customers as of 1st January 2015. However, three years after the deadline for implementing the electricity *Acquis* and almost two year after the deadline for market opening for non-household customers, de facto degree of market opening has not reached an acceptable level offering customers an adequate choice. One of the main reasons for this is general persistence of regulated electricity supply tariffs significantly lower than the market level prices available also to the eligible customers, which still include elements of public service obligation, cross-subsidised and various kinds of state support aimed at protection of the household customers (except for Croatia).

According to the 2009 Progress report on electricity (EC; 2009), not all national regulatory authorities have approved non-discriminatory transmission and distribution tariffs, or more often such tariffs are not treated in a transparent manner by responsible network operators. This further restrains the new entrants to access the market. Similarly, the market rules are either missing or pending for further improvement in most of Contracting Parties.

In general, the unbundling and access to accounts of transmission system operators (TSOs) is more advanced than that of distribution system operators (DSOs). TSOs are established as state-owned network companies legally unbundled from commercial electricity activities in all Contracting Parties. In all cases except Croatia the TSO also performs as market operator – in Croatia a separate entity acts as an independent Energy Market Operator. In Albania, Bosnia and Herzegovina, Montenegro, FYR of Macedonia and Serbia the TSOs are ownership unbundled from other electricity undertakings. In Montenegro the TSO was recently spun-off from the integrated utility as a separate company and set to perform the same activities as in the other systems.

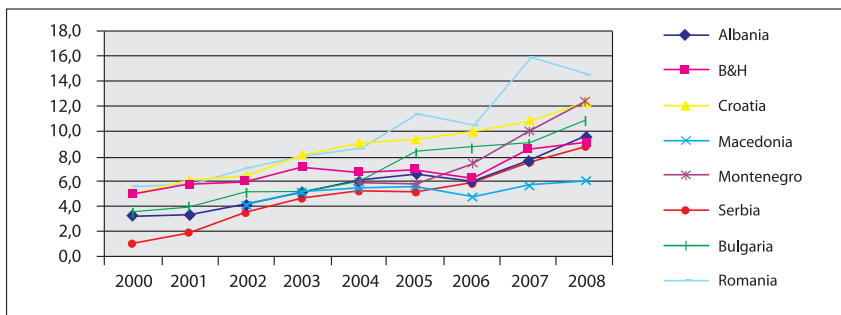
In all Contracting Parties DSOs network activities are still legally bundled with the supply of electricity for captive customers connected to the distribution network. In all cases there is financial/accounting unbundling. In B&H (in two out of three electricity companies), Montenegro and UNMIK DSOs are still legally (but not in financial/accounting aspects) bundled with the regulated generation. Assets of the DSO are unbundled in the FYR of Macedonia and in Albania, and these DSOs (together with the corresponding supply activities) are privatized.

Considering market opening, all non-household customers are legally eligible to switch their suppliers in Albania, B&H, Croatia, Montenegro and Serbia, which brings these Contracting Parties in compliance with the Treaty in this respect. In Croatia the market is legally open 100 % - for all customers including households. On the other hand, in the FYR of Macedonia the electricity market is legally available only for the customers directly connected to the high-voltage (110 kV) network, and in UNMIK only those customers connected to the network of 10 kV or above are allowed to switch their supplier. Still, in practical terms, the implementation of eligibility is less effective. The only exception is Croatia where a large number of commercial customers has switched from tariff supply and close to 40 % of the consumed electricity is sold to eligible customers by the only supplier active on the free market – all high and medium-voltage customers are compelled to exercise their eligibility. In the FYR of Macedonia the switching is mandatory for all (nine large industry customers directly connected to high voltage network) eligible customers which results in an average of 30 % of the consumed electricity to be purchased on the market. In Albania, B&H, Montenegro and UNMIK there are only few eligible customers (usually one of two large industry companies) who are purchasing whole of part of consumed electricity on the market. In Albania the only eligible customer from 2006 has currently reiterated to a supply under tariff conditions which are more favourable.

The price convergence is usually an independent indicator of market integration reflecting effectiveness of measures, rules and practices to integrate particular markets into functioning regional market. The level of regulated prices for final customers and the tendency in price convergence in Contracting Parties showed continuous increase over the last three years by narrowing the gap over the period from 1:2 in 2005 to 1:1,6 in 2008. However, under the current circumstances when regional wholesale market institutions do not exist or do not yet function well, the regulated retail price convergence can be observed only as an indication of enhanced cost-reflectivity and better chances for smooth implementation of other policy measures for integration of regional markets. (EC; 2009)

Still, the process of convergence for residential electricity tariffs has not been reached (Figure 4)

Figure 4: Residential electricity tariffs in SEE countries, 2000-2008 (in US\$/kWh)



Source: <http://www.ebrd.com/country/sector/econo/stats/tis.xls>

Most Southeast European countries with low wages like Macedonia, Bosnia and Herzegovina, Serbia and Albania still have very low tariffs that are not cost-based. Prices in Croatia, Montenegro and especially Romania have been increasing substantially, reaching a level comparable or higher with those found in the new EU Member States. The existence of tariffs that are not cost reflective in some Southeast European countries have become more acute by the payments arrears and low collection rates. The newest data show that Albania and Macedonia still have difficulties with the low level of collection rates, while Bulgaria, Bosnia and Herzegovina and Serbia succeeded to solve these problems in the past couple of years.

Institutional framework of SEE regional electricity market

The institutions promoting power sector integration are crucial, but different regional markets that consist of countries with different historical and political framework should find their own institutional design. SEE countries have implemented the harmonized, uniform approach that is influenced by EU Directives in the energy sector. This approach requires extensive subordination of national interests to regional requirements. The harmonization process refers to establishment of norms and rules in different aspects of regional electricity market:

- Economic – rules for the operation of markets or for the adjustment of tariffs in case of regulated prices.
- Technical – rules and procedures necessary to assure access to and stable operation of interconnected transmission systems.
- Legal – agreed common procedures and mechanisms for the resolution of disputes.

Harmonization is especially important for attracting private investors because they will invest only if there is a high degree of certainty about transmission network access, regulatory transparency and predictability etc. Of course, transparent and stable legal and economic framework is also crucial for public investments because all market participants benefit from it.

As we have already stated, the first step of institutional reforms is the establishment of national regulatory agencies in the field of energy. They are in charge to ensure proper implementation of new laws and reforms in conformity with the EC Law. We have already discussed the importance of their independence towards governments and regulated industry and in SEECs most of them are financed not by state budget, but from own sources.¹ Although formally independent, most national regulators are still dependent on the government/ministry, at least with the respect to prices.

The second step of institutional reforms considers regional cooperation and regional institutional activities. One of the institutions on the regional level is the Energy Community Regulatory Board which is composed of one representative of each national regulatory agency. Its main power is to advise other institutions of the Energy Community on statutory, technical and regulatory rules. Another institution important for the cooperation of national regulators is the Energy Regulators Regional Association which shares information, experience and best practices from the energy field in the broader region. Finally, cooperation with the Council of European Energy Regulators is also very important (Karova; 2009). A regional Energy Community Secretariat exists to oversee and manage the integration process and has the power to rule on disputes related to regional market. Participating countries are also

¹ These sources are provided through collection of the license fees and through collection of a fee from the total income of the license holders for pursuing energy activities.

required to conform to relevant EU legislation on electricity and gas markets, state aid and competition. The experience from other energy markets shows that the strongest institutions are those that grow from local initiatives rather than imposed from outside. In the light of this knowledge, it can be concluded that the slow implementation of Energy Community in Southeast Europe is related to outside (EU) initiatives on forming regional electricity market without strong national commitments. After the phase of regional coordination, it is important to move on to the next stage that involves harmonization, which refers to establishment of common norms and rules in economic, technical and legal matters.

Conclusion

Transition countries have implemented electricity reforms as a part of much wider structural adjustment programmes and regulatory reforms represent a crucial reform step. The results of regulatory reforms in these economies show that the creation of effective regulatory structures in electricity sector strongly depends on the regulatory quality and institutional capacity, while unbundling has made the regulatory task even more complex. At the same time, the appropriate level of institutional resources is crucial for transition countries in order to benefit from the reforms in electricity sector. The implementation of regional electricity market within Southeast Europe has been an important element of overall electricity reforms and it also strongly depends on the national and regional institutional capacity.

The first step of institutional reforms is the establishment of national regulatory agency in the field of energy and it has been done in all SEECs. Instead of direct regulation by government/ministry, the regulatory agency should be independent towards government and regulated industry. Still, a uniform (EU) regulation model of energy markets that has been implemented in all SEE countries has not guaranteed effective regulatory processes and the adequate protection of consumers, taxpayers and investors from conflicts. The failure of regulation in all observed countries reflects the institutional failures and underdeveloped institutional capacity. The barriers for complete independency of an regulator are connected to understaffed regulatory offices and most transition countries face a shortage of qualified human resources in order to optimally staff new regulatory agencies. Other barriers are related to lack of political support for independent regulator, closely connected regulator with the state electricity industry or ad hoc regulatory processes based on political interests. Therefore the independence of regulatory agencies is dubious and governments still have a formal or informal influence in many regulatory activities, especially those concerning electricity prices.

The second step of institutional reforms necessary for building regional energy market considers regional cooperation and regional institutional activities. SEE countries have implemented the harmonized, uniform approach that is influenced by EU Directives in the energy sector and this approach requires extensive subordination of national interests. Harmonization is especially important for attracting private investors because they will invest only if there is a high degree of certainty about transmission network access, regulatory transparency and predictability. The transparent and stable legal and economic framework is also crucial for public investments because all market participants benefit from it. Therefore the common regulatory framework within the region with the coordination of regional planning would create benefits for all the SEE countries.

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COOPERATION FOR EUROPEAN INTEGRATIONS: EDUCATIONAL INSTITUTIONS OF WESTERN BALKANS

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Introducing the democratic parliamentary system in '90-es of the twentieth century, Western Balkans countries started transition processes. Some of the countries passed the war destruction challenges, as well as the post-war reconstruction experiences. Post-war experiences coincide with transitional effects, which make strong impact on socio-economic status of countries. Global recession impact and requirements of the EU pre-accession process represent the great challenges for countries of the region, which will unavoidably make influence on the higher education area, as well as on its role in the society.

In the republics of former Yugoslavia, public educational institutions have had a central role in educational process, which led to inherited strong public orientation on public universities in newly formed countries. In the same time, higher education sector have unusual growth and strong diversification of educational programmes and institutions. *Growth* of the university system sometimes really meant division of some universities into smaller units, which came as consequence of war and fragmentation of territories and educational systems. Crisis of trust in faculties and universities also exists, and public authorities who finance higher education question the readiness of the higher education institutions to respond to the needs of students and other stakeholders in higher education field.

The need to improve the regional cooperation, in order to strengthen the position of the public educational institution in the region, becomes the important question. Preserving the important societal role of the public educational institution, reaching the high quality standards and contributing to integrations of countries in EU represent the imperative of future activities. Initiative for continuous cooperation in South-East Europe region, started by the International offices of the public faculties/schools of economics in the region may be a step in the concrete progress of regional cooperation.

The focus of this paper is the assessment of the possibilities for closer collaboration of public faculties/schools in Western Balkans region, and defining the possible advantages of joint activities. The assumption is that the collaboration will contribute to increase of competitiveness of the region, increase of know-how and experiences transfers, but also the increase in the attractiveness for the foreign students through the organization of joint study and research

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programmes. Additionally, paper will include possible effects on improving the image and relations with international accreditation bodies and faculties/schools, as well as the impact on costs of international presentations and study programmes organization.

Keywords: education, regional cooperation, South-East Europe, development, competitiveness

Introduction

Introducing the democratic parliamentary system in '90-es of the twentieth century, Western Balkans countries started transition processes. This paper will assess four South East European (hereinafter SEE) countries (Croatia, Bosnia and Herzegovina, Montenegro and Serbia), as well as the European Union (hereinafter EU) member state - Slovenia, all of them once being the part of the federal Yugoslavia and the same socioeconomic system. Most of these countries passed the war destruction challenges (obviously in different extent and level of destruction), as well as the post-war reconstruction experiences. Post-war experiences coincide with transitional effects, which make strong impact on socio-economic status of the countries.

Global recession impact and requirements of the EU pre-accession process represent the great challenges for countries of the region, which will unavoidably make influence on the higher education area, as well as on its role in the society. In this sense, public educational institutions often find themselves “under the attack” of the free market forces and corresponding practices. World market trends encourage more and more organizations to revise their organizational design, management styles and employment policies, all with the final aim: to reach higher level of “use of the resources”, more flexibility, quality and reliability (Kenjić; 2008, p.131). This paper will assess the status of the chosen countries in SEE (plus Slovenia), some of their public institutions (Faculties/Schools of Economics), as well as identify some of the areas for possible collaboration between the faculties. Regional cooperation and development programmes and initiatives will be used as a framework for review of existing practices and suggesting possible improvements.

South East Europe Today

Slovenia, Croatia, Bosnia and Herzegovina (hereinafter B-H), Montenegro and Serbia, today independent states, used to be the parts of the same countries since the 1918 (Kingdom of Serbs, Croats and Slovenes, Kingdom of Yugoslavia) until the 1990. After 1945 was Federal People's Republic of Yugoslavia and after that Socialist Federal Republic of Yugoslavia. Yugoslavia separated after 1990. Following the dissolution of the Yugoslavia and different wars, all of these countries were trying to find their own path to development, mainly having European Union accession as one of the key goals of the foreign policies. Slovenia joined EU in 2004, while the others are still in the accession process, having the status of candidates (Croatia and Montenegro) or potential candidate status (B-H and Serbia). However, these countries share the common experiences of being the part of the socioeconomic system of Yugoslavia, hence inherited the similar structural basis, problems and imperfections. Some of these aspects include the later phases in economic policy, balancing between the free markets, centrally planned economy and self-management state regulations (Ekonomski; 2010, p.34). One of the elements which shall be taken into consideration is the high level of the interdependence between the countries' industries, having the material base in one of the

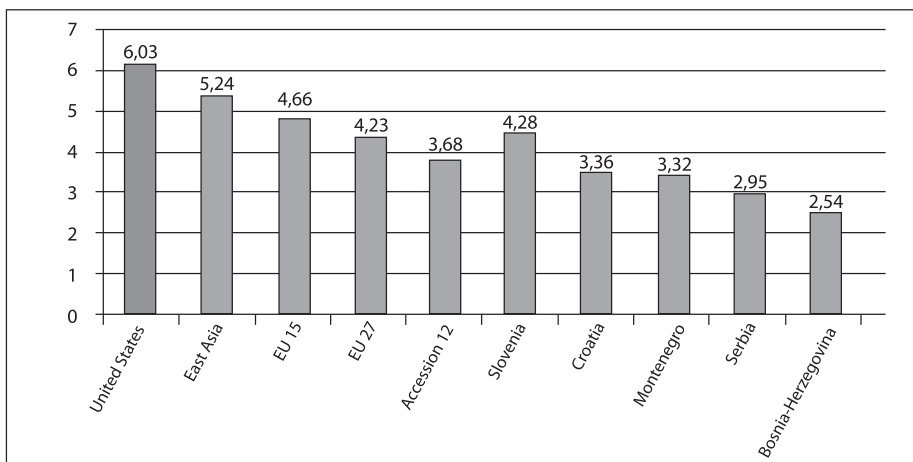
republics, and the production facilities in the other. This represented the elements of the centrally planned economy, which prescribed products, supply and customers and quantity of the products. Re-establishing these connections of once internal market often was not possible, since the new market trends and corresponding trends made the offer of those companies not competitive and obsolete. Similar situation could be observed in the area of public services, such as education. Introducing the new system – capitalism often included the questioning of the state role in many areas and introduction of the private initiative in the areas traditionally served by the state (health, education etc.). Numerous privately-owned faculties/schools/universities emerged, competing with the public ones. Unconditional glorification of free market and open economies, coupled with the universal underestimate of the public sector leadership in promotion of the growth and equity in countries in development; have been exposed to serious challenge (Osmanković & Pejanović; 2009, p.35). Capitalism is trying to reinvent itself, recognising that societal needs, not just conventional economic needs, define markets. In attempt to reinvent the capitalism, Porter propose the concept of shared value - policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates (Porter; 2011, p.66). In the republics of former Yugoslavia, public educational institutions have had a central role in educational process, which led to inherited strong public orientation on public universities in newly formed countries. The question is whether the public universities and faculties will keep that position and succeed in adjusting to new circumstances and conditions, and what changes are needed in order to overcome these challenges.

The World Economic Forum Lisbon review 2010 analysed how well the existing 27 EU members and 11 other countries are meeting the Lisbon goals (improvement of Europe's productivity and competitiveness through various policy initiative), highlighting the challenges which remain in a variety of areas. Slovenia was ranked 14th among the 27 EU members and marked as one of the top performers, since it outperformed even many of the European longer-standing members: Portugal, Spain, Greece, Italy (WEF Lisbon; 2010, p.10). Montenegro was ranked 1st, and Croatia was ranked 2nd best performer among the 11 other (non-EU) countries, while Serbia was ranked 8th, and B-H was ranked as the worst, 11th performer. (WEF Lisbon; 2010, pp.12-13)

The Lisbon review includes eight dimensions: Information society, Innovation and R&D, Liberalization, Network Industries, Financial Services, Enterprise Environment, Social Inclusion, Sustainable Development. Comparison of the countries in sub index *Innovation and R&D* can be useful in overview of the situation of countries in question (graph 1.). Slovenia outperforms the EU 27 average, while the Croatia and Montenegro are getting closer to Accession 12 average. Serbia and B-H are lagging behind the others. The graph gives interesting comparison between the EU 27 and USA or East Asia, which shows that Innovation and R&D of Europe have to be reinforced in order to compete with USA and East Asia.

Sub index *Innovation and R&D* includes: business investment in research and development (the EU has set a goal of 3% of GDP for R&D spending), the quality of scientific research institutions, the extent of collaboration in research between the universities and industry, patenting per capita, and the protection of intellectual property and innovation stimulation through government procurement (WEF Lisbon; 2010, p.4).

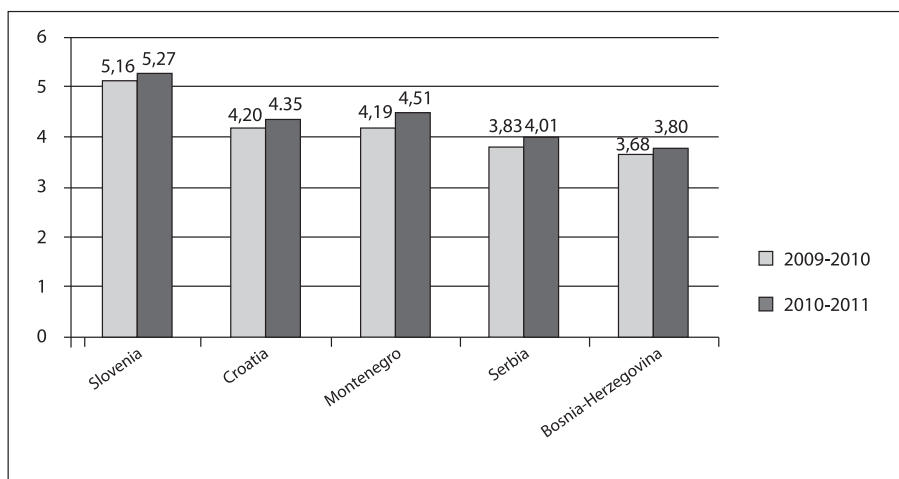
Graph 1: Comparing scores of United States, East Asia, EU 27, EU 15, Accession 12 and chosen SEE countries: sub index Innovation and R&D



Source: Authors' graph with data available (WEF Lisbon; 2010, 11-13. pp.)

WEF Global Competitiveness Index (WEF; 2010, pp.4-10) includes 12 pillars of economic competitiveness, among which is the *Higher education and training* pillar. Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products.

Graph 2: Higher education and training pillar: review of SEE (plus Slovenia) countries scores



Sources: WEF; 2010, 4-10. pp.; Lagumdžija; 2009, 36. p.

It may be observed that all the countries show the progress in comparison with the last year's report, with Montenegro having the biggest progress. Bosnia and Herzegovina, Montenegro and Serbia belong to the efficiency-driven economies (stage 2 of development) according to WEF, Croatia is in transition from stage 2 to stage 3, while Slovenia belongs to group of innovation-driven economies - stage 3 of development (Lagumdžija; 2009, p.11).

Public Faculties/Schools of Economics

In the republics of former Yugoslavia, higher education sector have unusual growth and strong diversification of educational programmes and institutions. *Growth* of the university system sometimes really meant division of some universities into smaller units, which came as consequence of war and fragmentation of territories and educational systems.

Private faculties mainly started their programs in economics, management, administration, communication, IT etc., meaning the programmes which require less investment in laboratories. Hanjalić stress the limitations of such faculties and programmes, such as part-time engagement of teaching staff (reflecting the lack of direct contact to students), as well as the problem of reaching the balance between the needed and wished income on one hand, and quality and of education and success rate, on the other hand (Hanjalić; 2011, pp.30-31).

Crisis of trust in public faculties and universities also exists, and public authorities who finance higher education question the readiness of the higher education institutions to respond to the needs of students and other stakeholders in higher education field. Additionally, securing the financing from the own resources (income generation) became a problem for many institutions. Capacities for securing additional funds differs between different faculties due to: recidivism of the financing system from the previous state and political system, which is not clearly and officially transformed; delayed and insufficient education and training of the management of faculties and university in this area (Šain; 2008, p.173)

Comparative Analysis of Educational Processes

Reviewing the elements of the educational processes in referred countries can provide good basis for analysis of the trends. Comparisons of the number of students, as well as the review of the processes taking place in the last decades are described in this chapter.

Comparisons of the numbers of students clearly show the drastic increase in number of students. Also, number of the institutions increase drastically in comparison with 1990, when only the public institutions existed, while now many private institutions exist. However, it seems that the numbers of teaching staff did not follow these patterns, at least not in the case of Bosnia and Herzegovina. This led to a paradox in the ratio of students and teachers. While the number of students increased drastically from 39.273 (1998-1999) to 62.546 (2005-2006), the number of teachers decreased in the same period from 1.701 to 1.09, which indicates a serious drawback with lack of teaching staff in B-H's higher education system (Tiplić; 2008, p. 116).

Table 1: Number of students 1990 and 2009

Country (ex-SFRJ republic)	Bosnia and Herzegovina	Croatia	Montenegro	Serbia	Slovenia
Number of Students					
1990-1991	37.541	70.677	6.360	150.916*	33.574
2008-2009	105.358	170.500	25.400	235.940	95.933

* including two provinces: Vojvodina with 24.920 students and Kosovo with 33.704 students

Source: Statistički godišnjak SFRJ 1991, 596-602. pp.; Eurydice (2010;) Focus on Higher Education in Europe: The Impact of the Bologna Process; TEMPUS B-H Review, 2. p.; TEMPUS Croatia review 2-3. pp.

Example of inter-influence between the number of ministries of education and educational institutions (university) in B-H is very illustrative, proving the continuous trend of system fragmentation, which is being in place for almost four decades. Chronological overview of the fragmentation process in the educational sector and parallel fragmentation of the public education (whether by start-up of the new universities or by dividing the existing ones) is given in the table 2.

Numerous private educational institutions shall be added to this number of public universities. It may be concluded that the negative consequence of the fragmentation processes resulted only in great increase of number of different institutions. These consequences, coupled with unsatisfactory student-teacher ratio eventually influence the competitiveness of the country in a negative way.

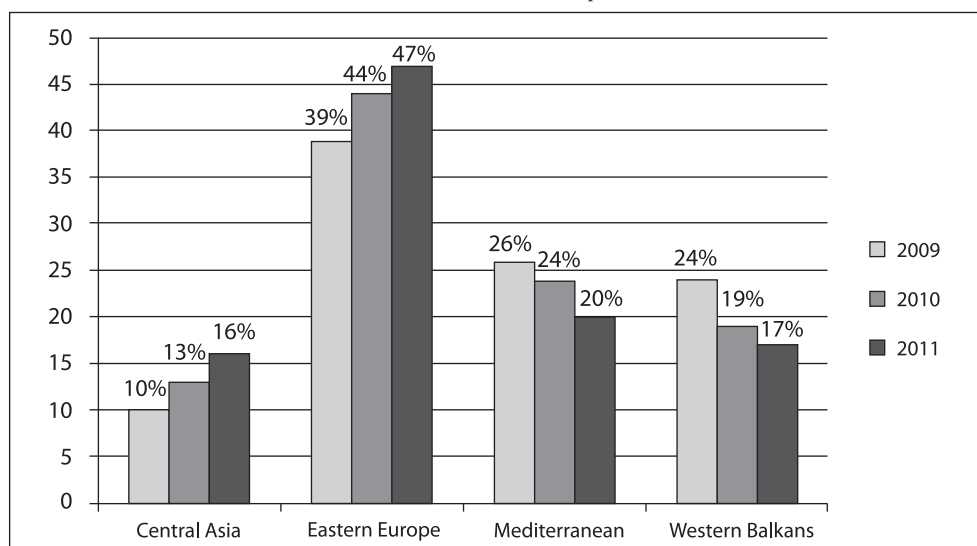
Table 2: Ministries and public universities in SFRJ and BiH

Year	Ministries of Education (SFRJ and B-H)	Public Universities in B-H
Before 1974.	1 Federal Ministry (SFRJ)	1 University (Sarajevo)
1974.	8 Ministries: 6 Ministries in republics and 2 Ministries in provinces	
1976.	6 Ministries in republics and 2 Ministries in provinces	4 Universities: 1 (Sarajevo) + 3 (Djuro Pucar University Banja Luka, Dzemal Bijedic University Mostar, Tuzla)
1992.	Bosnia and Herzegovina declared independence; War (1992 – 1995)	
1995.	Dayton Peace Accord: B-H consist of two entities (Republika Srpska and Federation of B-H) and Brcko District	
2010.	13 Ministries: 1 state Ministry (in charge of education among other sectors); 2 entity ministry (Republika Srpska and Federation of B-H); 10 cantonal ministries (in Federation of B-H)	8 Universities: University of Sarajevo, University of East Sarajevo, Dzemal Bijedic University of Mostar; University of Mostar; University of Banja Luka, University of Tuzla, University of Zenica, University of Bihac)

International Partnerships, Programmes and Accreditations

Problem of the regional development is not simple. Lagging behind of the certain regions is the result of the long-term historical process of faster progress of one and stagnation or slow progress of the other areas, which lost their comparative advantages from the economic or other reasons. Therefore, it is not possible to expect revolutionary changes. If there is a wish to start the development of the regions which are lagging behind, the joint efforts of the EU and concrete region in question is needed (Osmanković; 2009, pp. 66-67). Major part of the SEE region is lagging behind the Europe. Different options stand at disposal to institutions from the SEE to participate in programmes and initiatives implemented in Europe, but it seems that these opportunities are not used enough. Framework programmes such as FP6 and FP7, then SEE-ERA.NET, TEMPUS and other EU programmes involve institutions in joint programmes with their counterparts in EU and other countries. Comparison of received applications between the Western Balkans region and other (non-EU) regions for last three Calls for Proposals of TEMPUS IV program: Central Asia, Eastern Europe, Mediterranean are given in the graph 3.

Graph 3: Percentage of applications in which the region is involved as coordinator/partner



Source: TEMPUS IV

Data presented in the graph clearly show negative trends for the Mediterranean and Western Balkans regions, whose share in overall number of application have been steadily decreasing in the last three years. In the same time, share of Central Asia and Eastern Europe regions are increasing for some 6-8%, making the share of Eastern Europe almost a half of the applications submitted by all four partners regions in TEMPUS programme. These trends may serve as a warning to Western Balkans countries to start more intensive cooperation among themselves and with the other, in order to improve the position of the region in wider competition.

Students exchange programmes, joint study programmes are being developed between the SEE and EU countries, attracting students' attention. Review of the participation of the SEE countries in TEMPUS programme is given in the table 3.

Table 3: Number of projects in which one or several institutions in the country are or have been involved (as coordinator, contractor or partner)

Country	TEMPUS I and II	TEMPUS III	TEMPUS IV			TEMPUS IV – 4 th CALL (submitted applications)
	1990-1999	2000-2006	2008	2009	2010	2011
B-H	25	76	9	7	6	50
Croatia (until 2009)	-	85	9	6	0	-
Montenegro	-	25	7	4	4	39
Serbia	-	103	17	13	12	74

Sources: (TEMPUS: Country profiles B-H, CRO, MNE, SER; TEMPUS IV)

Table 4: Number of projects per country – one or several institutions involved (1990-2006) & structure of higher education institutions with the highest participation

TEMPUS I - III (1990.-2006.)		No. of projects	% of projects	University
Bosnia and Herzegovina	101	77	76.2	Sarajevo
		56	55.4	Banja Luka
		50	49.5	Tuzla
Croatia (until 2009)	85	72	84.7	Zagreb
		39	45.9	Split
		37	43.5	Rijeka
Montenegro	25	23	92.0	Montenegro (Podgorica)
Serbia	103	53	51.5	Belgrade
		53	51.5	Novi Sad
		38	36.7	Niš

Source: Authors' calculation based on data available
(TEMPUS: Country profiles B-H, CRO, MNE, SER; TEMPUS IV)

Trends in two last decades have shown the tendency of dispersion from the centres (capitals) towards the other parts of the countries. Key question is whether these processes contributed to increase of quality and competitiveness of the countries. Data from the table 4 suggest that the institutions from the capitals are, at least in case of the approach to European funds, still much more successful than the other cities. In case of Serbia, it may be noticed that the two cities' institutions (Belgrade and Novi Sad) have equal number of projects in which they participate, which still proves the trend, taken the fact that Novi Sad is province capital. In any case, actual financial income from the projects may be additional and even more important indicators. The purpose of this comparison was to assess the extent of the present skills and experiences in access to European funds and therefore the numbers of projects were compared. One of the conclusions of such analysis could be that the dispersion of the educational systems in the countries did not significantly contributed to overall competitiveness of countries. As it was shown in graph 1, countries from the region are lagging behind the Europe and other continents in Innovation and R&D, while in the same time the results of the higher education and training sector are not encouraging for most of these countries. It seems that the fragmentation of the educational systems did not bring expected benefits (if any were planned seriously) and even endangered/decreased the impact of the reforms, due to huge investments needed only for systems to function.

Influence of the Faculties/Schools of Economics is discussed further. They are often seen as responsible for economic development of the countries. Their professors and associates are almost regularly the decision-makers in their respective countries, which confirms very important role of the appropriate educational process. In imposed market competition with private faculties, and with limited state funds support, public faculties of economics have to adjust and prioritize their functioning in a way which simultaneously bring financial benefits and ensures maintenance of the important social role of the educational institutions (support to development of critical mind and development of society). In order to compete in the market, they have to ensure that all the processes are in place and that *quality* of the educational process is at the high level. Participation in international networks enhances:

relations, recognition, internationalization of the institution, mobility of students and teaching staff; hence contributing to process of international accreditation by the Quality Agencies. Faculties/Schools of Economics are seen as the leaders of the educational systems, which have been confirmed through the international accreditations EFMD - EQUIS, AACSB (Faculty of Economics in Ljubljana), EFMD - EPAS (Faculty of Economics in Zagreb), AQA or ISO (School of Economics and Business in Sarajevo). It is useful to notice that the variety of different accreditations is present at the faculties/schools of Economics. This provide great opportunity for regional know-how transfer, taking the advantage of lack of the language barriers and again, good knowledge of the socioeconomic status, as well as the background on the educational systems in countries.

Besides quality, the other important element for proper functioning is the *financing*. With limited state funds financial support, faculties have to find additional funding opportunities to increase their work quality. Review in the programmes which are primarily oriented to education was described earlier. Assessment of the access to other funding sources represents the additional indicator of success of the institutions and their contribution to increase of competitiveness. Cooperation of the educational institutions may strengthen the position of the SEE region in European context. For that purpose, educational institutions can access other funds under the Instrument for Pre-Accession (IPA), depending on their countries' accession status (candidate or potential candidate). It is important to also include in this type of cooperation the institutes, centres and others, profit-oriented parts of institutions. Unfortunately, the cooperation between the market-oriented parts of the institutions (institutes, centres etc.) does not follow the cooperation pattern, leaving institutions non-competitive in other types of international tenders (for example EU external services - service contracts).

Other funding opportunities are available through different cross-border (bilateral between SEE countries or multilateral – IPA Adriatic programme) or ERDF trans-national programmes which include some or all SEE countries (programmes *South East Europe* and *Mediterranean*). Lack of the cooperation between the institutions in the countries of region may be seen in the results of different Calls for Proposals, resulting in minor percent of the supported project led by SEE institutions. In the 1st Call for proposals for ordinary projects – Priority 2 of the IPA Adriatic programme, distribution of the 10 supported projects by the country of the Lead partners was as follows: 6 from Italy, 1 from Greece, 2 from Croatia and 1 from Bosnia and Herzegovina (IPA Adriatic; 2011, web). The latter one is the project led by the School of Economics and Business in Sarajevo, which represents very good example of access of educational institution to additional funding sources.

Such distribution of the projects, as well as the data on competitiveness reveals limited capacities of the regional institutions to access these funds. Lack of active involvement in the programming phase of bilateral programmes represents additional obstacles, since the institutions are missing opportunities to contribute to realistic problem analysis and definition of possible measures.

Recommendations: Possible Fields of Cooperation

The focus of this paper is the assessment of the possibilities for closer collaboration of public faculties / schools in some of the countries in SEE region, and defining the possible advantages of joint activities. The assumption is that the collaboration will contribute to increase of competitiveness of the region, increase of know-how and experiences transfers, but also the

increase in the attractiveness for the foreign students through the organization of joint study and research programmes. Suggested areas of cooperation could include:

1. Joint study programmes: at Masters level programmes can be structured in a way which allows to students to spend some period of studies in different countries. This type of programmes could be attractive to students from abroad interested in SEE culture and life.
2. Strengthening the student exchange programmes as a mean for trust building in the region, as well as the laying the foundation for cooperation of future professionals. Types of the events which can serve this purpose are: organization of summer schools, enabling students to spend semesters in other country etc.; bilateral agreements on recognition of the exams passed in summer schools contributes to increased exchange. For instance, over hundred students from Montenegro applied to participate in summer school in Sarajevo in 2011.
3. Cooperation in the accreditation processes, enabling transfer of experiences and know-how from one institution to other. Support to other institutions in case that they are interested in any of the accreditation processes, as well as the advisory support by the teams' members can ease the process for partners' institution.
4. Stronger cooperation instead of the competition is needed at the regional level. Even though the faculties/schools are to some extent competition to each other, it is of utmost importance to build the cooperation relations in international tenders (such as IPA programmes). Experts of institutions are usually contracted in different projects run by international consortiums, but the institutions building and ownership effects are rarely achieved in this case. Strong international consortia win most of the tenders, mainly thanks to rigorous tender requirements and the lack of experience of local institutions in implementation of similar projects. For examples Provisions of EU tenders for services allows to applicant to rely on experience of another economic operator, which can be useful to faculties in creating partnerships for these tenders. Joint application to the tenders and prospective implementation of the projects by the regional consortiums could strengthen the advocacy for the real needs of the region, in contrast to the projects which are tailored mainly to the needs of the more developed countries in EU from which the Lead partners usually come.
5. Joint organization of the regional and international activities, such as Annual conventions with different topics: SEE competitiveness; SEE education; SEE development; SEE tourism; SEE entrepreneurship etc., whose location can be different (rotating location) each year. In case of bringing the international speakers to the region, joint approach in negotiating the terms of visit can enhance the prospects for better positioning and decrease the costs of such arrangements.
6. Advocating for the interests of the other SEE partners in the associations to which they currently do not belong can support the inclusion of the other partner faculties in those associations, as well as strengthen the regional voice.

Possible effects of these activities could be seen in improving the image and relations with international accreditation bodies and faculties/schools. International offices of the Faculties/Schools of Economics from capitals of Slovenia, Croatia, Serbia, Montenegro and Bosnia and Herzegovina have launched the initiatives of building partnership, through the development of joint magazine, summer school cooperation, development of the manual for guest lecturers etc. Extent of the cooperation can be much wider, taking into consideration some of the suggestions explained above.

Conclusion

In advocating for the creation of regional partnership, the crucial element which differentiates this form of the partnership from the others is the intensive in-depth knowledge of the structure of local economy. Hence, it is needed to apply local solutions while adapting them with European trends and requirements, without unconditional obeying to all solutions transferred from the other countries. Critical mind in science is therefore much needed in the processes of the new redistribution of the resources and power in the region and Europe. Good connections and joint presence of regional institutions, based on the common history of living in the same socioeconomic system, will strengthen the positions of the region in negotiating those processes.

Suggestions given are to be understood as a mean to reach better position of the faculties and academia. However, they shall be implemented in a way which strengthens the critical mind, and which avoid hidden transformation of free science into non-free service (Liessmann; 2009, p.58). Better cooperation between the faculties/schools which were established and have grown under the similar conditions in the same societal framework can enable adequate rethinking of the future of the countries and region. Experiences of Slovenia, which is the EU member since 2004, can be very useful for other SEE countries, in order to choose the best path in accession processes. The same could be applied to educational institutions in the region.

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Abbreviations

AACSB	The Association to Advance Collegiate Schools of Business
AQA	Austrian Association for Quality Assurance
EFMD	European Foundation for Management Development
ERDF	European Regional Development Fund
EU	European Union
FP6	Framework Programme 6
FP7	Framework Programme 7
IPA	Instrument for Pre-Accession Assistance
SEE	South East Europe
SEE-ERA NET	South East Europe Era.Net
WB	Western Balkans

THE CITY DIPOLE AS A REGIONAL DEVELOPMENT TOOL: THE CASE OF THE DIPOLE TRIPOLI-KALAMATA IN GREECE

*Athanasopoulou Eleni**, *Dragoumanos Pavlos***, *Giannakopoulos Nikolaos****

The voting of the National Plan for Regional and Sustainable Development in 2008, led to the creation of a holistic development planning in Greece. The scope of the Plan is to contribute to the development of Greece, depending on regional development and the best possible use of the natural resources.

Upon setting the basic priorities and strategic directions for the holistic landscape development, the landscape organization of the national poles are of specific interest. The Plan puts the dipole Tripoli-Kalamata amongst the Secondary National Poles, which means that the dipole is on the third level, after the metropolitan centers and the primary national poles. Tripoli (~30.000 inhabitants) is the capital of the Peloponnese Region, situated at the center, whereas Kalamata (~55.000 inhabitants) is situated at the southern part of the Region. This dipole is setting a new regional structure for southern Greece, as this is the first time that these 90-km-apart middle sized Peloponnesian cities are bound together in this way, in any regional development plan. Until recently these two cities have been rather competitive.

In «Kallicrates», a programme of wide transformation regarding Local Governance (municipalities and prefectures) starting on January 2011, Tripoli and Kalamata will be called upon playing their own development role in Peloponnese. Therefore, the function of the dipole can be a challenge and a regional development tool.

This Paper examines the possible cooperation fields among the two cities, Tripoli and Kalamata, and searches the possibilities of the development of the two cities and the Region.

Keywords: regional development, city dipole, Tripoli, Kalamata, Peloponnese.

Introduction

Tripolis and Kalamata are two small sized cities in Southern Greece, at the Peloponnese Region. Kalamata is the biggest city of the Region (~55.000 inhabitants) but Tripolis (~30.000 inhabitants) is the Capital of the Region. Tripoli is situated at the center, whereas Kalamata is situated at the southern part of the Region. The distance between them is about 90 Klm. They

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are both searching for their role in the development of the Area but it looks like something is missing. Neither is Big enough to move things around, at this distant, mainly agricultural region. The Peloponnese Region is among the poorest Regions in the EU.

The voting of the National Plan for Regional and Sustainable Development in 2008, led to the creation of a holistic development planning in Greece. The scope of the Plan is to contribute to the development of Greece, depending on regional development and the best possible use of the natural resources.

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This paper suggests that the two cities could cooperate as a city network and join forces, in an attempt to reverse the negative financial environment for the Peloponnese Region. The two cities joined together could establish a city-dipole. This city dipole could be the actual new Capital of the Peloponnese Region. Synergy and cooperation between the two cities could be the success key to the Development of the Region.

The second chapter of this paper presents an overview of the Peloponnese Region and explains the basic outlines of the Kallicrates administrative Reform.

The third chapter sets the theoretical background for the polynuclear urban structure and the formation of city- dipoles. Also, it is clearly stated that there has been a swift from polycenter cities to polynuclear regions. This new trend in Regional Planning, towards polynuclear regional structure, can lead to the city-dipole

The forth chapter presents the role of the Tripoli-Kalamata dipole as stated in the General Plan for Regional and Sustainable Development. The role of the two cities is also investigated, as stated in the Spatial Plan for the Regional and Sustainable Development of the Peloponnese Region.

The fifth chapter demonstrates a proposal on the fields where cooperation and synergy among the two cities can be successful. It is a discussion that explores the possibility of the success of such a city-dipole and its potential of being a development tool for the whole Region.

The conclusions of the analyses are demonstrated in the sixth chapter.

The Peloponnese Region Overview

External asymmetries in the EU context are closely linked to internal disparities at the regional level. Greece is divided into 13 NUTS II regions (periphery) and 51 NUTS III regions

(Prefecture/nomos)¹. The metropolitan region of Attica, with 3.7 million inhabitants, contains over one-third of the national population (of just fewer than 11 million). The prefecture of Thessaloniki (belonging in the NUTS II region of Central Macedonia) comes next, with about one million people, followed by six or seven NUTS III regions with populations between 200.000 and 300.000. The rest of the spatial system comprises small NUTS III regions with populations in the range of 20.000 to 200.000. The dominance of Athens (and Thessaloniki) has been consolidated – if not increased – over the last two decades, through the fast growth of their suburbs and satellite cities or regions.

Table 1: Regional Population, GDP per Capita and Composite Index of Welfare and Development (CID) for the NUTS II Regions of Greece

Regional level	Regional Population	Regional share of population	Regional share of GDP	GDP per capita in PPS	GDP per capita in PPS EU-15=100	Composite Index of Welfare and Development (CIWD)			
<i>Regions (NUTS II)</i>	<i>2001</i>	<i>2001</i>	<i>2000</i>	<i>2000</i>		<i>Max = 100</i>			
European Union EU-15				22576		100			
Greece		10964020	100.00		15098	67			
Attica	3761810	34.31	36.96	1	17046	3	76	74.5	1
Central Macedonia	1874214	17.09	17.18	2	15139	5	67	39.2	3
Continental Greece	605329	5.52	7.28	3	17474	2	77	29.4	7
Thessaly	753888	6.88	6.46	4	13832	8	61	27.4	8
Peloponnese	638942	5.83	5.48	5	13010	9	58	26.0	10
W. Greece	740506	6.75	5.29	6	11379	12	50	18.9	13
Crete	601131	5.48	5.25	7	14781	6	66	38.8	4
E.Macedonia-Thrace	611067	5.57	4.34	8	12250	11	54	26.1	9
S. Aegean	302686	2.76	3.05	9	17790	1	79	52.6	2
W.Macedonia	301522	2.75	2.91	10	15226	4	67	23.4	11
Epirus	353820	3.23	2.47	11	10474	13	46	22.2	12
N. Aegean	206121	1.88	1.67	12	14563	7	65	35.0	5
Ionian Islands	212984	1.94	1.67	13	12956	10	57	33.9	6
<i>Max/min</i>					<i>1.70</i>			<i>3.98</i>	
<i>CVw</i>					<i>0.16</i>			<i>0.71</i>	

Source: Petrakos and Psycharis (2006)

¹ The NUTS III Regions (Prefectures/Nomos) are a now defunct administrative unit of Greece. They have been approximately replaced by peripheral units.

The problem of regional inequality in Greece is an issue that strongly concerns both the country's public administration, at national and local level, and broader public opinion, since large concentrations of population and economic activities are clearly observed in the metropolitan areas of Athens (the capital city) and Thessaloniki (Petraikos & Psycharis, 2006). As demonstrated in Table 1, Peloponnese ranks 9th among the thirteen Regions as far as the GPD Per Capita and has the 10th Composite Index of Welfare and Development (CIWD).

Picture 1: Greece in Europe



Source: www.easypedia.gr

Among the goals of the recently passed «Kallikrates» bill for local government reform, was the attempt to sharply reduce the number of local administrations, entities, and elected and appointed officials. The government will tightly implement the bill, in particular the targeted employment reduction and efficiency-enhancing reforms to secure improved budgetary results of €500 million subsequently in each of the three years during 2011-13 (Greece, 2010, 5).

The programme is named after the famous ancient Architect, active in the middle of the fifth century BC. He and Ictinus were architects of the Parthenon, (also Callicrates). The “Kallikrates” local administration reform and merger plan led to a new structure. Since 01.01.2011, Greece consists of 13 Regions and 325 Municipalities.

Picture 2: The Peloponnese administrative Region in southern Greece



Source: www.easypedia.gr

Picture 3: Peloponnese with the seven Peripheral Units
(with prefecture boundaries superimposed)



Source: www.holidays-greece.gr/peloponnese.htm

The administrative Peloponnese Region covers an area of some 15.490 km² (639.000 inh) and constitutes the southernmost part of mainland Greece. Peloponnese consists of 5 *peripheral units* (called prefectures, until recently)². In table 2 are shown the five peripheral Units and their Capital cities, which are the principal modern cities of the Region as well. Also the population of each Unit and each Capital City is stated (2001 census). Other major cities of southern Greece are Patras (169.242 inhabitants), Aigion (21.966 inhabitants) and Pyrgos (24.765 inhabitants).

Table 2: The Peripheral Units of the Peloponnese Region, their population, the Capitals of each Unit and the city's Population

Peloponnese Region				
	Peripheral Units	Inhabitants	Capital city	Inhabitants
1	Messinia	180.264	Kalamata	54.065
2	Corinthia	144.527	Corinth	30.434
3	Arcadia	100.611	Tripoli	28.976
4	Argolis	108.636	Nafplio	14.000
5	Laconia	100.871	Sparta	16.473

Source: site <http://en.wikipedia.org/wiki/Peloponnese>

The Peloponnese possesses many important archaeological sites dating from the Bronze Age through to the Middle Ages. Among the most notable are: Bassae (ancient town and the temple of Epikourios Apollo), Corinth (ancient city), Epidaurus (ancient religious and healing centre), Messene (ancient city), Mistra (medieval fortress-town near Sparta), Monemvasia (medieval fortress-town), Mycenae (fortress-town of the eponymous civilization), Sparta, Pylos (the palace of Nestor), Tegea (ancient religious centre), Tiryns (ancient fortified settlement). Easily accessed (about 110 km from Tripoli and 100 km from Kalamata to the west) is the world famous Olympia (site of the Ancient Olympic Games).

² The administrative Region «Peloponnese» should not be mistaken for the geographical Unit «Peloponnese», which consists of the five peripheral units stated above and the peripheral units of Achaia and Eleia in addition.

With the Kallikrates reform, which entered into force on 1 January 2011, the prefectures (or Prefectural Self- Governments) were abolished and only some were retained as geographical designations or in the form of peripheral units within the empowered peripheries, which largely took over the prefectures' administrative role.

The City Dipole as a Development Tool

Much of what has been said, written, examined and analyzed about cities in a globalized world has been about large Metropolitan Regions or Giant Cities of the developing world. Their role is widely accepted. In the recent literature, medium sized cities world wide have attracted special attention. Nowadays, there seems to be research in this field and it is becoming obvious that intermediate cities have adopted an important role. They offer rural populations better living conditions, jobs, a less polluted environment and act as local markets for their products. On the other hand, these cities face a certain number of obstacles they must deal with, if they wish to strengthen their position. They must be made more attractive for investors, more competent in their municipal administration, more stable thanks to sound financial management (Bolay and Rabinovitch, 2004, 408). The role of the peripheral cities has also been examined by Anders Löfgren who stated that the focus on global competitiveness is not enough when dealing with how small and/or peripheral cities in Norway (such as Trondheim) respond to globalization (Löfgren 2000, 501). Kalamata and Tripoli, two small sized cities in southern Europe are seeking their place and role on the National and International Map.

The idea of strategic planning for networks of cities and towns, encapsulated in the concept of the polynuclear urban region (PUR), has attracted growing interest in many European nations and regions. It is part of a more general revival of interest in larger scale, more collaborative approaches to spatial planning and economic development. Part of the stimulus has come from the European Spatial Development Perspective's (ESDP's) linked concerns for promoting regional competitiveness, cohesion and sustainability. Key themes include encouraging increased cooperation to develop complementary relationships and connections between cities and regions, and fostering greater coordination between economic, land use and transport policies within regions.

The economic arguments for PURs and the mechanisms by which they might evolve are not well developed, either in the academic literature or in policy documents. Part of the concept's attractiveness seems to stem from the idea that spatial planning may be able to reduce congestion and over-heating in fast-growing cities and boost development in settlements with spare capacity by redirecting investment to the benefit of all. Another idea appears to relate to networking among institutions. By working together and sharing their knowledge and resources, cities and firms may develop new sources of competitive advantage and raise their external profile, vital in an increasingly market-driven, globalized economy (Turok and Bailey 2004, 371).

Networking as inter-urban cooperation, has also been approached by Pompili, assuming the cities as economic actors, competing but also cooperating in the global arena where locations of internationally mobile factors (professionals, corporations, institutions) are decided and negotiated. The paradigm of city-networks, complementary to the traditional one of urban hierarchy, initially proposed by the Southern European tradition of spatial analysis, has gained interest and support in other scientific and policy contexts (Pompili, 2006).

It was also supported by the EU spatial strategy document, the ESDP (Glasgow and Potsdam drafts) in the specification of complementarity and synergy city-networks. The content of the

Potsdam ESDP (EU 1999) could be considered a prediction for the cooperation between cities. It is also stated that Global cities and metropolitan regions will continue to maintain their pre-eminent positions. New functions and networks may, however, in future have a major impact on the development of individual cities and regions. Cities are increasingly co-operating and pooling their resources, for example by developing complementary functions or sharing facilities and services. Such co-operation can be advantageous for regional development because it improves the range of services offered and the economic conditions of the region and thereby increasing its competitiveness. Another factor which makes co-operation between cities and the achievement of synergy effects necessary but difficult is the great distances in sparsely populated areas. Sweden, for example, has had positive experience of linking medium-sized cities by high-speed trains in order to concentrate their economic potential and capacity in the area of training. (EU, 1999).

The basic idea of a PUR implies physically separate but interrelated settlements. It is often interpreted as a region with two or more distinct cities or towns in reasonable proximity and well-connected, none of which is dominant. There has been insufficient consideration of two related aspects of this: the maximum distance between centres within the same PUR and the strength or nature of the interactions involved. An hour's journey time is a rule of thumb sometimes employed, although the speed of some forms of contemporary travel (such as rail) may mean that the resulting distances are quite long and so the real or perceived interdependencies are rather weak. Consequently, the benefits of introducing a PUR framework in a fairly dispersed urban region may be more modest than in a compact region.

The PUR idea has proved popular within planning practice in two distinct situations. The first and most common relates to medium-sized cities and towns typically beyond the economic heartland of Europe where the priority is to accelerate the rate of economic growth. The hope is that by acting together and sharing their assets these urbanized regions will gain benefits of scale to enable them to compete more effectively for jobs and investment. The second relates to places typically in and around Europe's core cities, where the challenge is to sustain existing growth trends without damaging the natural environment and built heritage. The aim here is to control sprawl and congestion by guiding growth pressures away from major cities and historic towns towards a network of satellite centres.

Another useful distinction is between positive and normative arguments for adopting the PUR idea in planning. Positive arguments relate to the merits of the concept in helping to improve the way an urban region that is already reasonably integrated functions as a place. It suggests a way of accommodating development pressures and overcoming communication difficulties using fairly conventional land use and transport policies. Spatial planning has traditionally been best suited to responding to physical concerns such as traffic congestion, containment of sprawl and coordination of basic infrastructure. The PUR idea implies distributing growth pressures across the urban region and facilitating efficient commuting and other interactions between its settlements. It is most relevant to already existing functional urban regions with established internal connections between places. The geographic scale and conceptual framework of a PUR should assist organizations in different places to recognize their interdependence (Turok and Bailey 2004, 372).

The cost, in terms both of learning and of organisational change and above all of transaction cost, of joining an inter-city policy network is high, starting from a smaller common ground of values and trust. Therefore, the public subsidy needed to set up the network may

be significant and permanent: a costly way to signal a credible commitment by the upper-tier government that may not be worth the benefit of lesser wasteful competition and/or more timely decision-making. Moreover, since the number of cities is not limited a priori, inter-city governance networks quickly run a risk of congestion.

Moreover, partners may have joined for different reasons and expect different outcomes from the network: plurality of goals may result in coordination failures, especially if the number of instruments or actions is too low to accommodate all of them (Pompili 2006).

Once more, the bottom line is the typical liberal call for general rules and transparent actions (e.g. explicit strategic planning) and against specific privileges. This call may be in the general interest of cities, but each city may have an incentive in seeing it heeded by other cities while remaining unbound by it. Therefore, this condition should be set at the “constitutional” level, or by an upper-tier public authority, such as the nation state or the European Union.

Additionally, in the face of short run waste of resources and of purely diversionary (redistributive) effects, cooperation is a superior mode of organisation. The normative conclusion may then be a call for inter-urban diplomacy and commitments, namely inter-city networks, in a bid to avoid “unfair” competition and to support the spatial division of labour. In other words, following the market form analogy, the normative conclusion is to substitute bilateral monopoly for monopsony.

This goal may be achieved either through building complementarity networks or through building synergy networks. In the former case specific mobile decision-makers face only one or very few territories willing to host them, in the latter mobile decision-makers face one unified network of territories. The system, as a regional complementarity network or as a super-regional synergy network, shall supply localised resources to mobile decision-makers. Both these strategies provide additional benefits to cities, in that they work also in favour of the competitiveness of existing, already localised firms and individuals. (Pompili 2006)

Since the market for global locational choices is a risky allocation venture, and inter-city competition may subject it to monopsony by mobile decision-makers, cities do have an incentive to cooperate in the form of regional complementarity or super-regional synergy networks in order to:

- reduce costs associated with competition to attract mobile decision makers (positional externality);
- increase their own share of non-local resources, as a group (w.r.t. other cities);
- increase their share of the rewards associated with hosting mobile decision-makers (w.r.t. them);
- free resources to be devoted to local decision-makers (as well as to mobile incomers);
- reduce inter-jurisdictional conflicts, by distributing growth and its rewards ex ante more equitably
- (within the group).

An additional economic justification for the rise of inter-city policy networks is related to the fixity of administrative boundaries and of competence assignments. Over time, the economic boundaries of a city are mobile, responding to changes in transport and communication technologies and infrastructures: the resident population (voters) and city users (stakeholders) do not necessarily coincide (Pompili, 2006).

Apart from the growth of the polynuclear urban structure, another option can be a city dipole. In other words two small/medium sized cities could form a bound and seek mutual Financial Development through a mutual Strategic Plan. The city dipole could join not only the two cities but also the two areas around the two cities and form a new region that could act as new market for products and labor. Under specific financial and geographical circumstances, three small or medium sized cities could also form a city-tripole.

The purpose of dipoles/tripoles is on a primary level the creation of economies of scale and urbanization. This way the internal market is increased which gives the possibility of common use of certain categories of infrastructure and economic units addressing the local market while being of a high caliber. These mentioned categories may either be non viable in one of the original cities (especially regarding infrastructure working with private sector criteria) or could be working at an inadequate level of efficiency (common in public infrastructure). The internal labor/ job market is also increased. The elements mentioned before may lead to both a rise of efficiency and external competitiveness of the companies placed on the network, especially if the size of the network is regarded to be high at the urban networks hierarchy (Lalenis, 2008).

The Case of the Kalamata/Tripolis Dipole

The natural (physical) environment of the Peloponnese Region has been for years an obstacle for the cooperation and communication of the two cities. Central Arcadia is mountainous, whereas the eastern part of the Arcadia peripheral Unit is by the sea. Messinia is mainly plain. As demonstrated in picture 2, both Units have many kilometres of beaches and sea-side. The countryside is beautiful and very well preserved. In addition, there are no signs of environmental pollution. The areas are mainly rural and the inhabitants used to be farmers. Nowadays, young people tend to leave the countryside in order to seek a better future in the cities. The two cities have traditionally been Capitals of the Messinia and Arcadia Areas.

Tripoli lies at the center of the geographical region Peloponnese and is close to Athens (~195 km), via national road. Tripoli has always been in close connection to Athens, the Capital. On the other hand, Kalamata is situated far south and because of this peculiar isolation, Kalamata has always worked as an independent pole and has mainly led an autonomous way. Kalamata has been an important local pole for the whole area (~200.000 inhabitants). One should bear in mind that Athens-Kalamata used to be a 7-hour-drive, until the late '90s.

Over the last decade, long parts of new highways among the cities of the Peloponnese Region were completed. The new roads have turned things around. The new infrastructure is an important asset and is adding to the Development of the Region. Today, Tripoli and Kalamata are 90 kilometres apart, which are about a 70 minutes drive.

The new highway which is expected to be completed in 2011/2012 will bring the two cities closer and will make the cooperation of the two regions a realistic goal. People and products will travel quicker, easier and with safety among the two cities and around the Region.

Over the years, the two cities have been rather competitive.

The main infrastructure of Kalamata includes an international airport and a port. In addition, there was train connection until recently February 2011, but at the time the Railway network is being revised. In the Higher Education field, Kalamata has a Technological

Educational Institute (TEI) with 5000 students. The main Schools include Business & Finance and Agricultural Technology Studies. There is also the Archaeology & Greek Literature School of the University of Peloponnese, with 700 students. The TEI hosts the Peloponnese Centre for Technological Research. Tripoli has the University of Peloponnese with two Schools (Faculty of Science & Technology and Faculty of Finance) with 1400 students. The other major cities of Peloponnese (Corinth, Nafplio, Sparta) host Faculties of the University, as well.

In the Health Field Kalamata has a new Hospital with 311 beds and 13 Clinics and five special units (μονάδες χημιοθεραπείας εμφραγμάτων, μεσογειακής αναιμίας και εντατικής θεραπείας και τεχνητού νεφρού). Tripoli has a newly renovated Hospital with 180 beds, 16 clinics with two special units.

This paper suggests that the two small sized cities can form a city-dipole and as such they can work along complimentary, setting new boundaries and exploring new fields for cooperation and synergy. Such fields can be Administration, education, tourism, labour and health.

Another small sized city worth mentioning is Megalopoli, which lies between the two cities, about 35 km away from Tripoli and 50 km from Kalamata. Megalopoli is a small sized city of 5.000 inhabitants which plays an important role in the growth of the Region. The area is mainly agricultural, but it is considered to be a productive area of national importance. Megalopoli is one of the most important energy centers in Greece. The subsoil of the area is rich in lignite and provides lignite for power generation, which is the most important energy source for the Greek economy. The Power Plant owned by the Public Power Corporation SA (PPC SA) is the second biggest Plant in Greece and dominates the Area. In 2008, a total of 13.207 million tons were mined. The lignite mines and plant employ around 1000 people today. Most of the people/employees (workers and scientific staff) who work at the lignite mines and the Power Plant live in Kalamata and at the Messinia Region and travel every day to Megalopoli. According to the Spatial Plan for Regional and Sustainable Development in the Peloponnese Region, Megalopoli is an important Energy Center, a Pole with special super-regional role.

The Spatial Plan for Regional and Sustainable Development of the Peloponnese Region was established in 2003 (Law 25294/10.10.2003, FEK 1485/B/2003)

It is clearly set that the Peloponnese Region as far as it's physical and geographical position resources are concerned lies at the corner, which puts the Peloponnese Region at a disadvantageous position. Another characteristic that contributes to the bad Positioning of the Region is the established contrast between the rich North and the poor South of the Country, which describes the current Development Project (FEK 1485/B/03, p. 20784). As a result, it is clearly stated that the growth of a powerful National and International Pole in the Peloponnese Region is out of the question mid-term speaking. According to the Plan, Tripoli, the capital, Kalamata and Corinthos were Primary poles, with cross-regional range. The Plan failed to reach the expectations. Nowadays it is being revised, and will be ready in 2014, so that the new revised Spatial Plan of the Peloponnese Region can work along the General Plan and contribute to Regional Development of the Peloponnese Region.

Among the scopes set by the Spatial Plan is the *strengthening of the Regional Cohesion*. The possibility of the success of this Scope will be thoroughly looked into in the next paragraphs.

In 2008, the Ministry of Planning, Environment and Public Works has launched a series of sectoral spatial plans for tourism, industry, coastal regions, etc. These plans deal with

important issues related to the location of activities, land use policy, protected areas and types of restriction and are very important for investment location and housing. The National Plan for Regional and Sustainable Development was also voted in 2008.

The Tripoli- Kalamata dipole was first suggested by the Prefectural Council of Messinia³ in 2008, as a contribution to the deliberation before the National Plan for Regional and Sustainable Development was submitted to the Parliament. In fact, the actual proposal suggested that the Tripolis- Kalamata dipole should be a Primary National Pole. The National Plan for Regional and Sustainable Development placed the dipole among the Secondary National Poles, along with Kerkyra (Corfu), Kozani, Lamia, Kavala Serres and Chalkida.

According to the Plan, these Poles should aim to upgrade the technical infrastructure and social services along with innovation, so that the Growth and competitiveness of the productive forces will be accomplished. According to the National Plan, the current infrastructure will be upgraded and the human resources will be empowered, in the direction of creation and innovation. Tripoli and Kalamata will be connected via Suburban Rail in the future. One could be skeptic, though, keeping in mind that from February 2011 the train connections stop (and are being reconsidered along with the national/ general plan for the transportation).

Discussion

The National Plan for the Regional and Sustainable Development is in the right direction. It gives the basic outlines for the Financial Growth of the Periphery and the balanced Development among major cities and countryside. On the other hand, under the current financial situation for Greece and Europe, perhaps the goals set by the Plan are very optimistic and should be revised.

Over the past decades, the two metropolitan areas of Athens-Attica (in central Greece) and Thessaloniki in northern Greece are the centres of every entrepreneurial activity, resources and infrastructure that took place in Greece. Moreover the Strategic planning for the 2004 Olympic Games failed to deal investments and resources among the Periphery. Today, it is widely accepted that the Country's development should not be based only on the development of the two metropolitan areas mentioned above. The mid 80's motto «Greece is not only Athens» is definitely update.

The Tripoli-Kalamata dipole can be an opportunity and a development tool for regional development. It can contribute to the Growth of the area and it can even become the New Capital City of the Peloponnese Region. Having analysed the advantages of the Messinia and Arcadia regions, one can come to the conclusion that these two small sized cities can work along (complimentary).

In the field of tourism, Peloponnese has friendly and generous people, eager to offer their service to tourists. Many small hotels are run by family members with love for the Greek countryside and a feeling of devotion to what they do. Greek hospitality and unique landscape can be a combination that can satisfy every demanding tourist. The Arcadia Area and the Messinia Area, with the wonderful beaches, the picturesque villages, the ideal climate and the traditional architecture can attract visitors with different interests and needs to be fulfilled. The lack of old- fashioned 5-star hotels is not considered a drawback, as the newly

³ The authors N. Giannakopoulos and El. Athanasopoulou were members of the committee that recommended the dipole to the Prefectural Council.

built facilities are modern and totally adjusted to the human scale. Very often tourists can easily consider themselves as native village dwellers. Tripoli and Arcadia can also function as a pole for alternative tourism and extreme sports, as close to Tripoli can be found traditional stone houses in small villages in the mountains, almost untouched by the modern civilization. Furthermore, Kalamata is already a city that can attract urban tourism and the current facilities can support conference tourism and sport tourism Kalamata already hosts sport events of international importance. The best known are the Papaflesseia Venue and the Kalamata international Cup (Gymnastics).

As stated in the second section, at the Peloponnese Region can be found world-famous archaeological sites. Tourists can easily combine Cultural and educational tours (Epidaurous, Ancient Olympia, Sparta etc), with swimming in crystal clear sea, relaxation and top quality food.

In the field of Higher education, in order to achieve economies of scale, a cooperation between the University of Peloponnese and the Technological Educational Institution would be worthwhile. This advanced University could make the best use of the available academic staff and facilities and provide students with top quality knowledge. It could also save resources to be invested in innovation. In this way, this peripheral University could use its development tools and invest in extraversion and international cooperation, in order to broaden the horizons.

In the field of Public Health, the Hospitals of Kalamata and Tripoli could also cooperate, in order to achieve their goals and provide the patients with the best service possible.

On the other hand, the distance between the two cities can be a disadvantage. It takes about 1 hour to drive the 90 km that separate the two cities. Megalopolis, though can be a bridge between the two cities, keeping in mind that many people who work at the Megalopolis lignite mines and energy plant, live in the Messinia Region and in the Arcadia region and travel every day back and forth. In fact, Megalopolis is included in the three important employment centres in the Messinia-Arcadia Area. This would be easy to explain, as every area in the Peloponnese Region is allocated to a city-region (with the exception of Megalopolis, which is super-regional pole). Megalopolis, as a smaller Pole shows that people of the Area choose to commute in order to work and the journey-to-work travel is not a disadvantage they cannot overlook.

It should also be mentioned once again that the success of the dipole lies mainly upon the people of the Region, the market and the Local administration. The dipole cannot be enforced by the Law. Local Government and stakeholders should make it happen, and everybody should join forces in this direction.

As a successful example of a city-dipole in Greece one could mention the Larissa- Volos dipole. The two medium sized cities of Central Greece (Thessaly Region) have managed to cooperate and overcome the obstacles with the strong support of the people and the local government.

Finally, trust is needed for the repeated exchanges occurring within a network, which calls for a common ground and reciprocal knowledge among partners. In this respect, complementary networks are geographically local and synergy networks are topologically local, although in both cases shared values and trust are smaller than for urban networks.

Therefore, the diplomacy of agreements to take and not to take actions suffers from a credibility problem due to the appeal of time incoherence, especially with restraint agreements.

Fully voluntary inter-city networks may then prove unsustainable over time. In fact, in the real world we may find:

- implicit agreements, when both final net benefits and initial comparative advantages are obvious to all parties;
- voluntary agreements, when final net benefits are obvious but initial comparative advantages are not;
- enforced or statutory agreements, when no agreement would be reached because neither benefits nor advantages are obvious – in this case an upper-tier government may want to force an agreement – but “picking the winners” is an impossible task (Pompili, 2006).

Conclusion

This paper presents the basic outlines of the General Plan for Regional and Sustainable Development, with emphasis in the Tripoli- Kalamata dipole. As the Plan sets the basic priorities and strategic directions for the holistic landscape development, the landscape organization of the national poles are of specific interest. The Plan puts the dipole Tripoli-Kalamata amongst the Secondary National Poles, which means that the dipole is on the third level, after the metropolitan centers and the primary national poles.

The suggestion of the dipole is based on the polynuclear urban structure, which is popular over Europe and it is considered to be a development tool for the urban areas. The perspective of the dipole leads the strategic Planning of the Peloponnese administrative Region towards a new direction. The local government should focus on encouraging cooperation and synergy among the cities. This new structure, the dipole, should be widely accepted by the productive forces of the Region in order to lead the Area to Extraversion and financial growth. The enforcement of such drastic change has low chances of success.

Important for the success of the dipole is that it should be embraced by people, local market and the local government. Trust in the dipole structure can be gained through specific mechanisms for promoting Region-wide Planning, such as the voluntary cooperation on practical projects, the formation of issue-based Networks and also Strategic leadership from the Centre, as collaboration across territorial and functional boundaries can be difficult for public authorities obliged to operate within the limits of their mandate. (Turok and Bailey 2004, 384-385).

The dipole Tripoli- Kalamata can be a development tool for the Messinia and Arcadia Areas, and can also be a powerful tool for the Growth of the Peloponnese Region. The fields available for cooperation are mainly health, tourism, labor, administration and education. A critical decision would be for the collaboration to begin with two or three of these fields, so that the results would be obvious and could be easily appreciated. In this way, it would be easier for the people to understand the new structure in order to work along. These fields provide many opportunities for collaboration and can show immediate results.

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TRANSNATIONAL COMPANIES AND WEST BALKANS

*Hošo Jasmin***, Osmanković Jasmina**, Donlagić Dženan***

The paper focuses on testing the hypothesis that transnational companies contribute to regional integration and development of West Balkan countries. The testing procedure uses relevant methods (comparison, time series, panel analysis, interviewing method). The test is based on primary research, i.e. the prevalent use of primary sources. The analysis pertains to the 2004-2008 period. The area under research includes Serbia, Croatia, Bosnia and Herzegovina and Macedonia. The focus is on the Tondach company experiences. Results of the research can be used in the context of considering the need and possibility for the establishment of the third macro-region in Europe, particularly within the framework of developing its development strategy.

Keywords: West Balkans, TNC, regional integration, EU macro-region, development

Acknowledgements

This paper has not been possible without the enormous help Tondach Company and Dean of School of Economics and Business..

Introduction

In this context West Balkans (EU macroregion) included Serbia, Montenegro, Croatia, Bosnia and Herzegovina, and ex Yugoslav republic Macedonia. Time framework is period 2004-2008. Main hypothesis is: transnational or regional company like Tondach Company help new Balkans countries. Main questions are: income flows from Tondach Company to countries; import and export or balance of payment after Tondach Company incoming, technology transfer; consumption, impact on social structure, employment, income distribution and dualistic development. (Todaro&Smith, 2006; Krugman, 2010)

Basic methods are cases, B&H case, Croatia case, Serbia case, Macedonia case.

We used data from Tondach Company or we used primary research documentation of Tondach Company. This paper is part our long time research during last eight years. Some of specific aspects we published on papers and international conferences. But, this approach we first time presented.

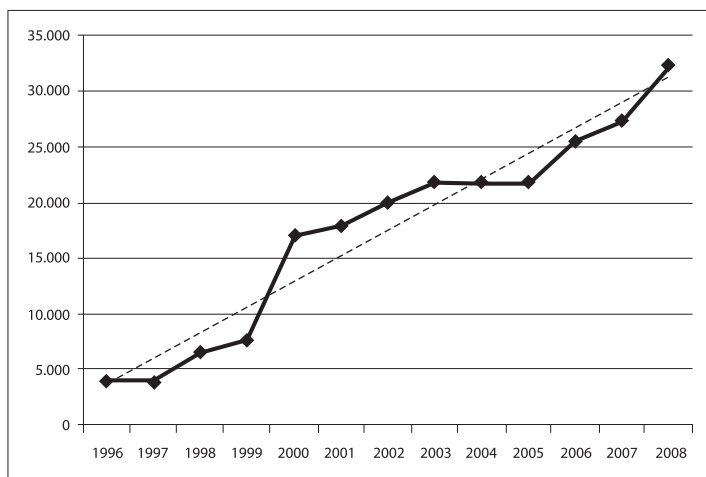
* Tondach BH, CEO and Coordinator for South-East Europe

** School of Economics and Business, University of Sarajevo, 71000 Sarajevo, Bosnia and Herzegovina

Republic Croatia

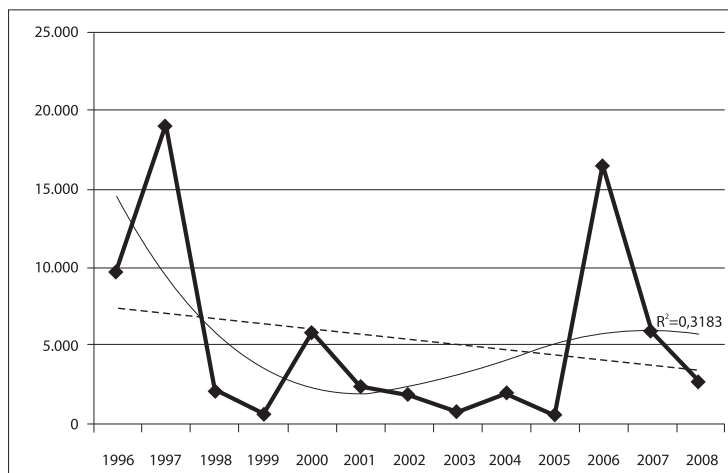
The total income Tondach Company increased eight times. In 1996, its income was 4 million Euros, while in 2008 it amounted to 32.2 million Euros. Figure 1 shows the trend of total income growth.

Figure: Tondach Company income in Croatia, 1996-2008 (EUR, thousands)



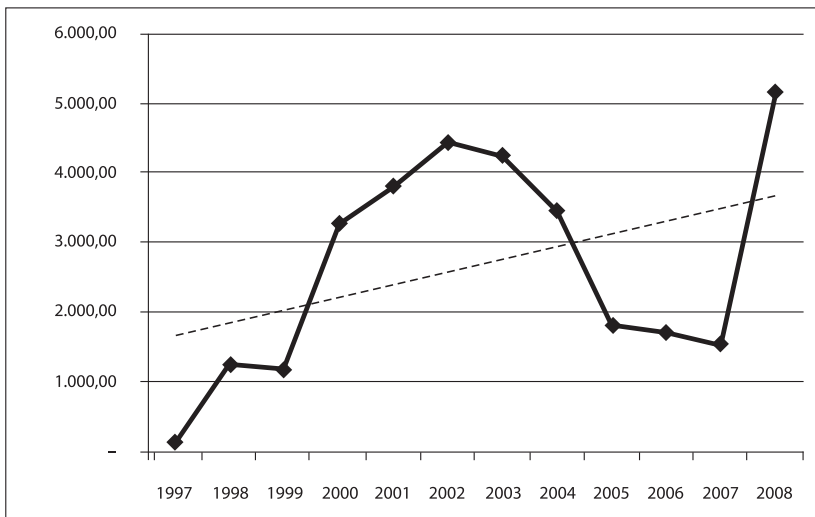
Total income growth is due to expansion through acquisitions, modernization of existing manufacturing capacities, green field investment at Đakovo site, and inter-company exchange. Total investment of Tondach Company in Croatia for the 1996-2008 period amounted to about 70 million Euros. The largest investment was made in 1997, in the amount of ca 19 million Euros. The investment of almost the same amount was also made in 2006.

Figure: Tondach Company investment in Croatia, 1996-2008 (EUR, thousands)



Tondach Compny from 1996 to 2008, products in the value of 32 million Euros was exported from Croatia. The biggest part of this amount, 52%, was exported to Hungary and 32% to Bosnia and Herzegovina, while the remaining part was exported to other countries. Figure 3 shows the increase in the value of exports for the 1996-2002 periods, followed by the stagnation over the following couple of years. In 2008, though, a significant increase in exports was registered.

Figure: Tondach Company exports from Croatia, 1996-2008 (EUR, thousands)



In the 1997-2008 periods, Tondach Company products in the value of over 8 million Euros were imported to Croatia. Out of this amount, 54% was imported from Hungary, 38% from Slovenia, and the rest from Serbia, Czech Republic and Romania.

Figure: Tondach Company imports to Croatia, 1999-2008 (EUR, thousands)

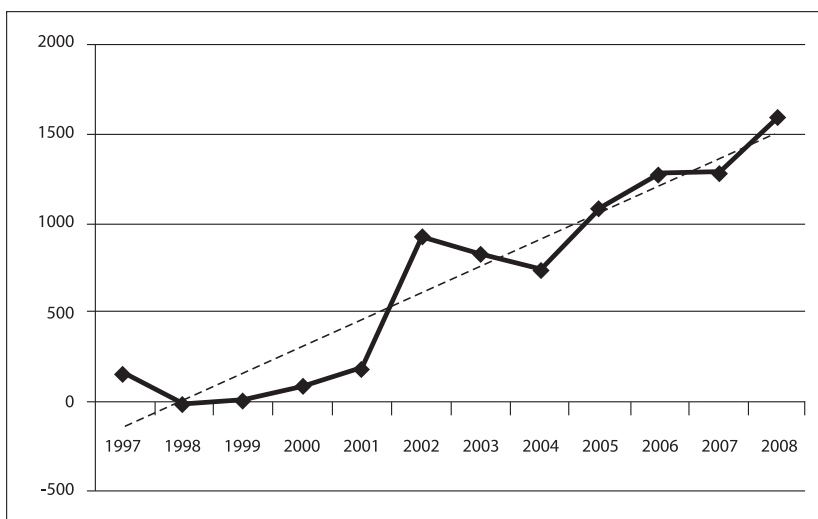
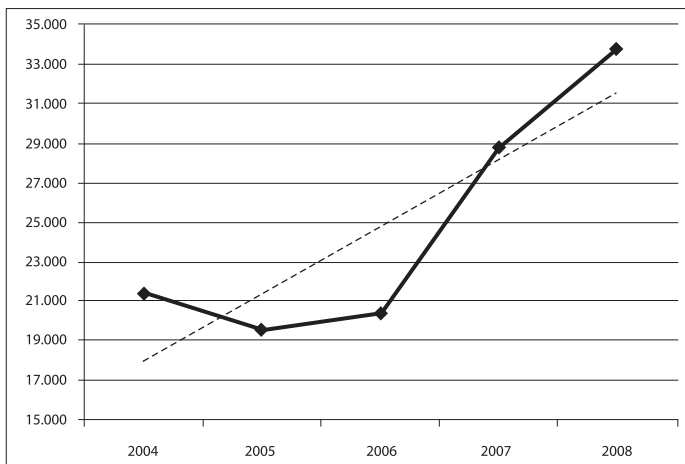


Figure shows the increase in the value of imports Tondach Company to Croatia. The key years are 2002, 2004, and 2007. In 2008, Tondach achieved a record result in Croatia. Market acceptance of large-sized roof tiles from Đakovo plant was excellent. As early as after the second year, more than the amount of annual production was sold. Thus Đakovo II contributed to the significant growth of total income in its second year already. It was the first time in Tondach history that such a fast success was registered. The success of this investment also shows that Tondach's strategy was correct. Products at the latest and highest technology level, manufactured in state-of-the-art, highly-productive plants are the basis for the company's long-term successful and progressive development. Dispute between Russia and Ukraine early in the year had an adverse effect, which indicates the significance and gravity of global crisis.

Republic Serbia

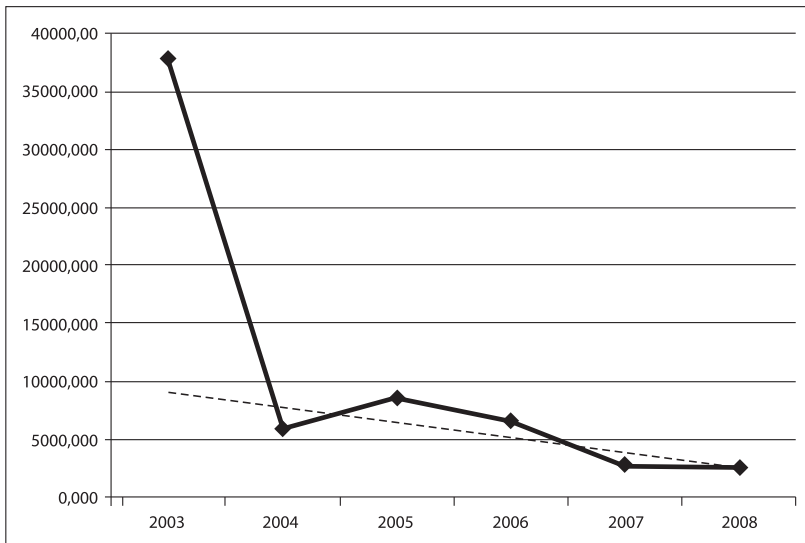
In October 2003, upon obtaining 92.7% shares of Kanjiža-based Potisje Kanjiža enterprise at Belgrade Stock Exchange, Tondach Company entered the very promising Serbian market. In 2004, company income amounted to 21.3 million Euros. In 2008, it grew 1.6 times. After 2006, the company registered a significant income increase. Income growth in Serbia is due to investment in new technologies and increase in production capacities. Tondach Company manufactures 65 million pieces of clay tiles.

Figure: Tondach Company income in Serbia, 2004-2008 (EUR, thousands)



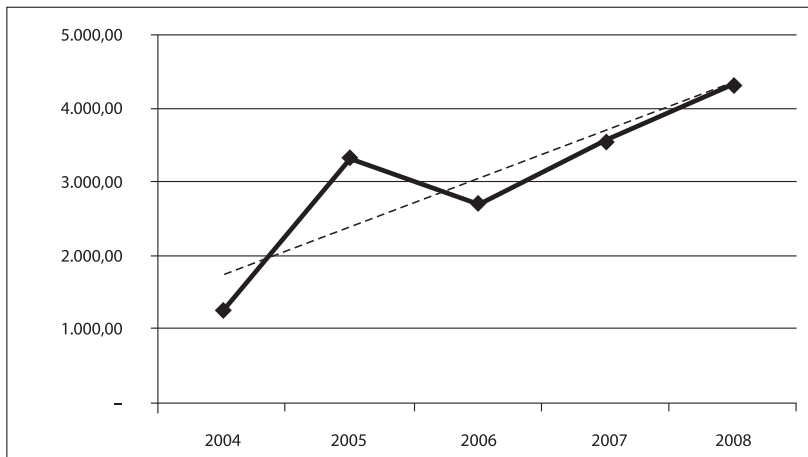
Tondach Company started to modernize manufacturing plants (Potisje Kanjiža). The total value of investment in 2003 was 38 million Euros. Figure shows the trend of change in investment value from 2003 to 2008.

Figure: Tondach Company investments in Serbia, 2003-2008 (EUR, thousands)



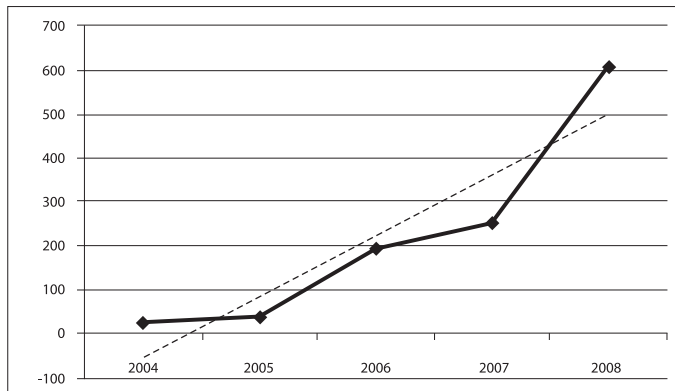
From 2004 to 2008, products in the value of 15.1 million Euros were exported from Serbia. Bosnia and Herzegovina was the main export market for Serbia-made products. About 86% of the mentioned amount (of 15.1 million Euros) ended up on the roofs of B-H houses, 9% in Romania, and the rest in other countries of the region. Figure shows the increase in the value of exports, with a particularly significant growth in 2005.

Figure: Tondach Company exports from Serbia, 2004-2008 (EUR, thousands)



In the observed period, products in the value of 1.1 million Euros were imported to Serbia. Out of this amount, 40% was exported from Croatia, 32% from Hungary, 27% from Slovenia, and the rest from Romania and Macedonia. Figure shows the linear increase in imports to Serbia from 2004 to 2008.

Figure: Imports to Tondach Company in Serbia, 2004-2008 (EUR, thousands)

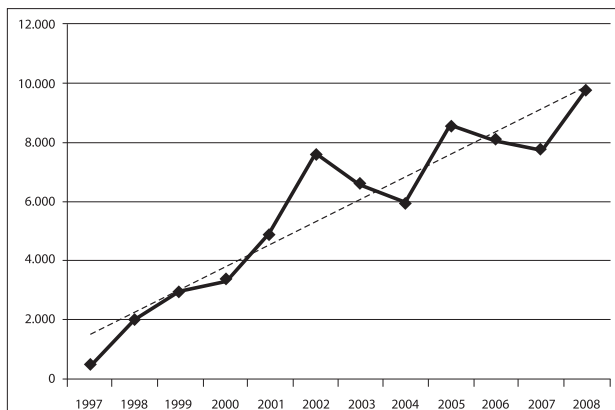


In 2008, imports were significantly higher than in 2004. The most part of imports includes products from Đakovo-based plant in Croatia. This plant manufactures large-size roof tiles in different colours, which are not manufactured in Serbia. In Serbia, the investment in Potisje Kanjiža valued at 65 million Euros was successfully completed in 2008. Trade increased by 18% compared to the previous year. The positive trend was, however, decreased by the increase in energy sources. For instance, average cost of gas in Serbia is higher than average cost of gas in Austria. In the moment of acquisition, in October 2003, the gas price amounted to about 50% of Austrian level. Due to the Euro-based financing, unstable dinar contributed to great losses as a result of exchange rate differences.

Bosnia and Herzegovina

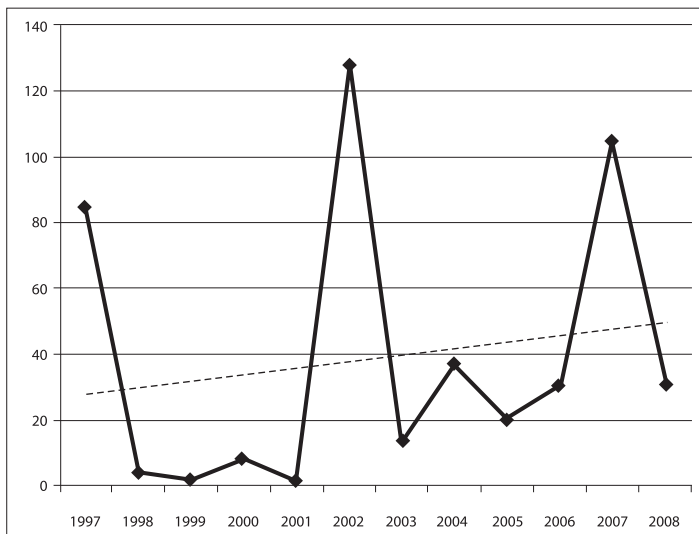
Tondach Company has been present in Bosnia and Herzegovina since 1997. In the period to 1998, the total company income increased almost 20 times (from 0.5 million Euros in 1997 to 9.8 million Euros in 2008). Figure shows the linear trend of total income growth, with a significant income increase in 2002, 2005, and 2008 respectively. In the 1997-2008 period 469 thousand Euros were invested in the company.

Figure: Tondach Company income in BiH, 1997-2008 (EUR, thousands)



Tondach Company does not have a plant in Bosnia and Herzegovina, and therefore the value of investment is exceptionally high compared to the other observed countries.

Figure: Tondach Company investment in BiH, 1997-2008 (EUR, thousands)



Investment was mainly related to the acquisition of fixed assets (cars, computing equipment). In the 1997-2008 periods, products in the value of 21 thousand Euros were exported from Bosnia and Herzegovina to Macedonia (2005). This amount is the only Tondach Company's exports from Bosnia and Herzegovina to another country in the 1997-2008 periods. In the 1997-2008 periods, products in the value of about 32 million Euros were imported to Bosnia and Herzegovina. Out of this amount, 40% was imported from Serbia, 32% from Croatia, 26% from Hungary, and the rest from Slovenia and Hungary.

Figure: Imports to Tondach Company in BiH, 1997-2008 (EUR, thousands)

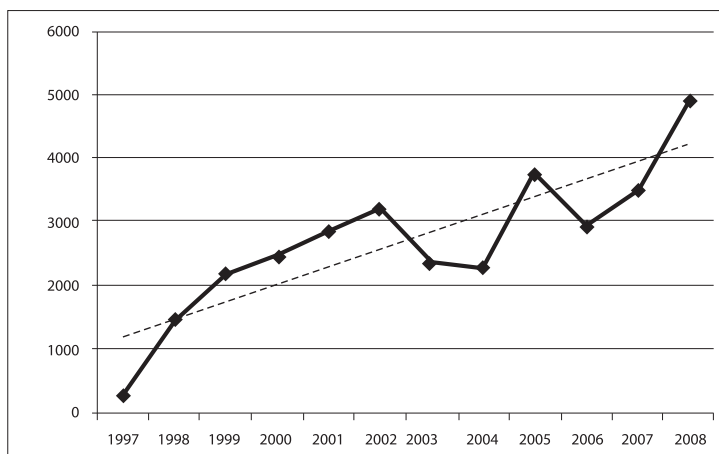
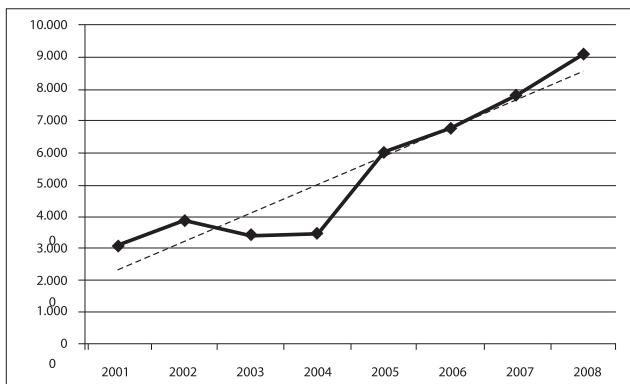


Figure shows the linear trend of the increase in the value of imports to Bosnia and Herzegovina. The key years are 2002, 2005, and 2008 respectively. Tondach significantly increased the total income compared to the previous year. Products from Đakovo II plant are now particularly well-established in the market, and thus the product portfolio as well.

Ex Yugoslav Republic Macedonia

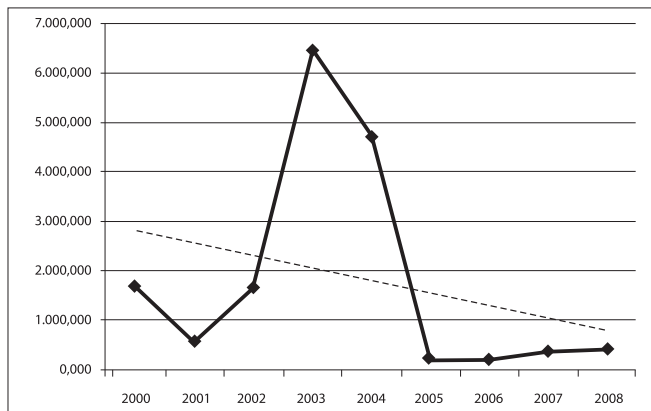
Tondach Company has been present in Macedonia since 2000. In the period to 2008, the company income increased by about three times (from 3 million Euros in 2001 to 9 million Euros in 2008). Figure clearly shows the linear increase in income from 2001.

Figure: Tondach Company income in Macedonia, 2001-2008 (EUR, thousands)



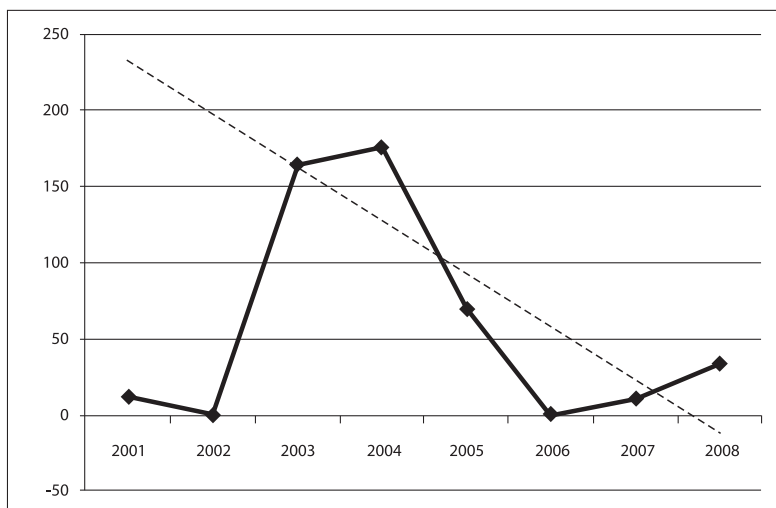
The income growth is due to the reconstruction and modernization of manufacturing plant on Vinice site, capacity increase from 12 to 20 million pieces of roof tile, and increase in sales both in the local and international markets. After the initial investment in improving the dated machinery, more significant investment started in 2003 and ended in 2004. In the observed period, the company invested about 16 million Euros. Figure shows the changing trend in the investment value in the 2000-2008 periods.

Figure: Tondach Company investment in Macedonia, 2001-2008 (EUR, thousands)



The value of exported products amounts to 18 thousand Euros, out of which 89% was exported to Bosnia and Herzegovina and the rest to Serbia. In the 2001-2008 periods, products of the value of about 468 thousand Euros were imported to Macedonia. Out of this amount, 59% was imported from Hungary, 22% from Slovenia, 10% from the Czech Republic, and the rest from Croatia, Serbia and Bosnia and Herzegovina. Figure reveals the significant increase in imports in 2003, and decline from 2005.

Figure: Tondach Company imports to Macedonia, 2001-2008 (EUR, thousands)



The increase in imports in the observed period is due to reconstruction and demand for certain products (tiles for roof tops and wedges). Tondach plant in Macedonia achieved excellent results four years in a row. Product sales increased significantly both in the local and international markets.

Conclusion

We on the primary data concluded that international or regional company, for example Tondach Company, increase income flows, and helps balance of payments, increase export, development new or/and improvement old technology, development new jobs. Other goals we could not accomplished, but we hope next time.

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www.nbs.rs

www.tondach.com

AGROTOURISM AS A GENERATOR OF REGION DEVELOPMENT

*Knežević Marija**

Agrotourism is a part of contemporary tourism and presents an essential factor of rural tourism in a rural environment, including all activities that occur with respect to tourism. It is based on the competitive advantage of the area, tradition, specificity of agriculture and people. The totality of these elements makes a complete tourist product, which provides the following services to the tourists: accommodation, rest on the farm, also various specific agricultural contents: getting the children acquainted with the farm animals, the presence during agricultural works, food production: bread, wine, brandy, food for winter, collecting medicinal herbs, tea, mushrooms, snails, as well as adventurous contents: riding, driving in horse-drawn carriages, teaching traditional crafts: production of cloth (weaving), crochet, embroidery, production of tools and similar. What is essential for an agricultural destination is its uniqueness and distinctiveness with regard to the competition. Bosnia and Herzegovina is very specific for it offers many different contents on a geographically narrow area which can be combined into a tourist product. As it becomes more attractive tourist destination, neglected agriculture is a factor that can significantly support the development of tourism in the entire region.

Keywords: tourism, agrotourism, rural tourism, agriculture

Actuality of Bosnia and Herzegovina for Tourism in the Region

The geographical location of Bosnia and Herzegovina (and the Republic of Srpska) in the region is very favorable for the development of tourism, especially the rural one. As the agrotourism is a generator for rural tourism development, the image of BiH¹ is determined by its elements, in particular the following ones: a healthy environment and still untouched nature, unexhausted land that is able to provide a source of healthy food for a longer period of time, diversity of climate, terrain, demographics, historical factors in a small space, as well as the gastronomy and the genuine hospitality of the people². All these factors are the key factors of the interest for a modern tourist, which provide perspective and increased interest of tourists

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¹ In further work, we will use usual abbreviations: BiH-Bosnia and Herzegovina and RS-Republic of Srpska.

² Even famous Bosnian writers Mesa Selimovic and Ivo Andric wrote about the specificities of a man from this area, who receives guests with pleasure, who has in its soul the things that a guest needs and that are why he comes to these regions.

to the region. The data show an increasing movement of tourists towards the Balkan region, and predictions of global tourism trends fully support this tendency

Table 1: Arrivals of tourists per years to RS (domestic and foreign)

Tourists	2003	2004	2005	2006	2007	2008	2009
Domestic %	67%	65%	63%	62%	66%	69%	69%
Foreign %	33%	35%	37%	38%	34%	31%	31%
Total:	154.441	151.280	150.526	191.934	222.729	255.332	278.123

Source: Republic Institute for Statistics RS, <http://www.rzs.rs.ba/Notices>

Table 2: Overnight stays of tourists per years in RS (domestic and foreign)

Tourists	2003	2004	2005	2006	2007	2008	2009
Domestic %	69%	66%	69%	66%	67%	70%	68%
Foreign %	31%	34%	31%	34%	33%	30%	32%
Total:	391.995	407.749	397.976	489.441	561.995	598.777	599.902

Source: Republic Institute for Statistics RS, <http://www.rzs.rs.ba/Notices>

The advantages of global trends and global changes are evident and positive when it comes to tourism and agrotourism: the economy is becoming “world category”, so we, like it or not, become a part thereof. The high degree of development of information technologies and their applications in agriculture, agribusiness and tourism, the transition processes in the region where we belong, breaking the barriers that previously separated some countries, are the processes that lead to the opening of our region to the world. Tourist market has become a “world one” in all respects and for all kinds of activities, namely tourism has become the largest factor in breaking the limits: historical, ethnic, cultural, religious, demographic ones. Such an orientation is confirmed by the datum that since 1950 until the end of 20th century (ie. for 50 years!), the number of international travel increased by 20 times, while the income from tourism increased by about 140 times. These changes are also visible in Tables 1 and 2.

Review 1: Flow of spatial distribution of international tourist turnover

Region	% share in tourist arrivals				Difference 1990/2005
	1990	1995	2000	2005	
World (totally)	100	100	100	100	
Europe	61.8	58.6	57.8	52.6	-9.2
America	20.3	19.5	18.6	15.8	-4.5
Eastern Asia and Pacific	11.9	14.5	15.7	16.3	+4.4
Africa	3.3	3.6	3.9	3.7	+0.4
Australia and rest of the world	0.2	3.8	6.9	11.5	+11.3

Source: Maric, R. (2007), *Menadžment turizma i ugostiteljstva*, „Beogradska poslovna škola, Visoka škola poslovnih studija“, Belgrade, 81. p.

The review confirms movement of tourists toward underdeveloped countries of Asia and Australia, as well as loss of interest for the tourist offer in Europe and America in the last

century. Designers of the management processes need to see this causes of the shift, and the reason why these countries attract the modern tourist: Cuba, Sri Lanka, the Balkans and on the basis of this research to create a future tourist policy and tourism development of their countries. Comparison with these countries, discovering our competitive advantages and converting them into attractive tourist products is the main task of local managers and all other stakeholders of tourism. In this process, very important is that many benefits of globalization do not reflect negatively on tourism in developing regions, as noted in Milocer Economic Forum, 2008.

“Putting on global uniforms is not the only chance for small countries”³.

Internationalization and Globalization as the Factors of Development of Agrotourism in BiH

„It is better to be prepared for an opportunity and that it does not appear, but to have a chance and not to be ready“ V. Jang

Internationalization is the model, method, goal, necessity, and a fad in the business of modern economy. Tourism in these processes is leading due to several obvious indicators of internationalism: today's citizens and tourists are very well-informed, broadly educated, highly mobile, work less and have more free time. Modern tourists go on holiday more often, stay on holiday for a shorter period of time, are more concerned about health and require more contents during the holidays. Average citizen – tourist in BiH also “suffers” from these characteristics, which makes him a part of the global tourism system and internationalism, which facilitates understanding of the changed interests of tourists, according to which tourist policy in the region should be directed. The economy of Bosnia and Herzegovina cannot survive or develop in isolation and without linkage to the region and international organizations that offer a range of benefits and advantages, such as the OECD, UNWTO, the European Union. In them there is business security, which is crucial on otherwise uncertain tourist market. Security is one of the most important determinants of tourism and agrotourism and includes primarily a political and territorial security, safety of movement, expression of thoughts, beliefs and feelings and the like. These organizations offer a range of other benefits and aid in business: the maximum economic growth in a sustainable manner, creating opportunities to increase employment in member countries, a variety of other ways to raise the living standards of each member country, promoting and encouraging economic development of new members, improvement of working conditions in tourist industry. Other advantages of internationalization are essential as well: a unique information system, the monopoly of English language for communication, the concept of sustainable development, the unique infrastructure of the system on a national basis, or on the basis of individual tourist enterprises. However, we live in a space and time of limiting factors of internationalization, which means that we cannot just wait for its advantages, but we must look for other mitigating and accessible elements of international business. Cross-border cooperation with neighboring

³ Milocerski ekonomski forum 2008, Kuća štampe plus, Zemun, p. 343-353.

countries in the Balkan region, linking of complementary economies and tourist potential and creation of a unique tourist product in the region, are the ways that the countries of the region become a system, destination, location or tourist product that appears on the global tourist market. Creation of unique and entire tourist product ie. destination, is the cheapest way that small countries in the region sell their attractiveness, distinctiveness and diversity. It is wrong to wait for the effects of globalization and internationalization, because tourism is an area where much can be done independently of the major countries and systems, just insisting on the diversity, uniqueness and isolation. Globalization, like any other process, brings someone a benefit and someone a detriment. Users of tourist offer enjoy in it: they have a wide range of offer, lowest prices, best service. Capable producers also enjoy: they have access to world consumers have easier access to foreign funds, effectively allocate their products on global markets. States easier perform on the world market, globalization does not diminish their power, only leaves them less room for error, which, often, smaller countries do not understand. Besides mentioned advantages, it is necessary to point to several negative consequences of internationalization and globalization, to which attention should be paid by designers of management processes in tourism of our region: the polarization of the rich and the poor, the prevalence of large international companies, the loss of individuality and fitting into the broader code of conduct from the economy to politics. Technological revolution has become a continuous process and the level of involvement of countries in these processes tells about their level of development, and their economies are ranked according to their success. However, small and underdeveloped countries in transition can create their own tourism policy by insisting on the separation and isolation, ie. a diversity which has become a huge competitive advantage in modern tourism. Along with a sound and unused nature, agricultural resources, the gifts of nature such as spas, beautiful rivers, mountains, villages and towns rich in history and culture, and special people, they can be fully competitive in the global market. Problem in this process is that the eyes of most small countries in the world are focused on the magic attraction of the small number of highly developed and technologically advanced countries and because the strategy of their politicians is only one: "We want to go with you, accept us."

Agrotourism as the Generator of Tourism Development

Agrotourism is a part of tourism which is closely related to agriculture and agricultural production. Therefore it is a necessary part of rural tourism in which agrotourist offer is fundamental: food on the farm estate, attending various events around the food production, accommodation in traditional buildings, and all of this in every village or rural setting is original, authentic, unique. In this environment, the customer is not just a number, or a room key, but part of family communication, friendship, he goes hunting, participates in the production of food and drinks, gets acquainted with domestic and wild animals and becomes a player in a variety of religious and folk events. Guest participate in making various items of work in the traditional way or in the works that represent each area: the old crafts, garment manufacturing, weaving, crochet, sewing, knitting, canning production, brandy, wine, and the like. The guests on the farm have the opportunity to learn, to socialize, to feed on the original product, also to buy them and carry them home. In addition to explore the surrounding destinations, rich cultural and historical contents, use of religious sites, health, sports tourism, the customer has the opportunity to experience the full atmosphere of travel, to take it with him and to remember it, and to recommend it. And this is the point in rural tourism and agrotourism as its basic part.

Bosnia and Herzegovina, for this type of tourism has all the resources: fertile lowlands (Lijevece and Popovo Polje), a plateau for all types of cattle-breeding (Livno, Glamocko, Nevesinjsko polje), the world-known tourist recognized rivers (Una, Vrbas⁴, Bosna, Drina, Neretva, Tara, and Trebisnjica), famous spas (Laktasi Kulasi, Seher, Mljecanica Teslic, Slatina, Kiseljak, and Rogatica). If we add to these gifts of nature the world-famous center of sports tourism (Jahorina⁵, Bjelasnica, Kupres, Vlasic, Kozara), famous centers of religious tourism (Medjugorje, St. Ivo, birthplace of St. Vasilije Ostroski), we can conclude that we live in a region of great tourist potential of agrotourist and tourist potentials.

However, agriculture and rural tourism are low productive areas, from the standpoint of capital, and it is necessary to find less expensive options for inclusion in the processes of regional tourism and the wider tourism offer. The path to integration leads through networking with the similar or completely different, in order the offer to be packed into one complete system of offer at a certain location, where the clusters are one of the possible and very acceptable models⁶. The advantages of linking or networking are: cheaper creation of target groups, improvement of productivity and lower costs of promotion, advertising, brand. Further benefits of linking are better division of labor among organizations dealing with rural tourism and better allocation of human resources in terms of expertise and competence. Clusters are able to facilitate: lobbying in the authorities at the local and state level, in international organizations and financial institutions, can facilitate the access to modern knowledge and experience without investigating what has already been investigated but to use experiences from the environment. Competition is, in a system of clusters, specific and represents a delicate mix of rivalry and cooperation, and basic values of collaboration are: trust, team spirit, transparency and cooperation in the interest of greater profit, regardless of the competition. High-quality enterprises cooperation within the cluster reduces transaction costs and further increases the competitiveness of each enterprise, villages, agricultural sites and tourist destinations.

For small, transitional and underdeveloped countries, such as the Balkans region countries, important is also social capital, or social entrepreneurship, which has been emphasized by Drucker (1992), giving it a number of advantages over traditional entrepreneurship. The need for social businesses arises from the inability and the incapacity of many governments to, through the humanitarian activities, meet social expectations and improve the standard of the majority of population. Social entrepreneurship is a combination of best-practices of profit and non-profit sectors, where very important is the role of entrepreneurs whose characteristics are creativity, innovation and willingness to risk, and not profit. Unlike other forms of entrepreneurship (traditional or corporate), social entrepreneurship seeks to simultaneously achieve social and financial goals.

Holders of the social economy are: enterprises (which are not only guided by interests of capital) and representatives of civil society that join together to create companies that will meet the needs of target social groups and the wider community. This is important for countries in transition in which the states either have no legal provisions for the protection of certain social categories, or have them but they have not yet been implemented because they

⁴ In May 2009, on the Vrbas, the World Championship in rafting on Wild Waters was held.

⁵ On Jahorina and Bjelasnica, Winter Olympic Games were held in 1984.

⁶ In the R. of Croatia there are the clusters but also other forms of networking supported by the Ministry of Agriculture, Fishing Industry and Rural development, providing the funds from IPARD program for accomplishment of the rural development plan 2007-2013. <http://www.hgk/wps/portal/15.04.2010>. In R. Of Serbia, there are positive experiences in cluster formation in wood industry which should be used in BiH.

have no funds for it. Therefore, the aim of this entrepreneurship is creating new social values, and if they accomplish more or less profit no one takes it but it is used to achieve the mission of social entrepreneurship which is opening of new work places and employment of disadvantaged groups. In order to accomplish this mission, very important is a key figure - the entrepreneur, who must have the positive personality traits: a passion for business, focus on product and consumer, perseverance despite failure, executive intelligence and innovation, creativity and willingness to take risks, along with a rich and modern management practices.

So, in order that BiH tourism (and tourism in our region) is being developed in these directions and to follow mentioned (favorable) global and international trends, it is necessary to create a new tourism policy that will cover some important novelties such as:

1. To develop a strategy for tourism development and rural tourism at the level of the States⁷,
2. State action in terms of networking, training of tourist managers, lending, promotions and branding, strengthening rural infrastructure and social entrepreneurship,
3. Using positive experiences from neighbouring countries (Slovenia, Croatia, Serbia).

By these measures of the state, rural tourism would be tied to agrotourism and would become not only complementary but the main activity, which would change the entire ambience of village life and thereby the village would become a new tourist destination. Some improvements in the functioning of the state are on the horizon, which is supported by the data on increasing agricultural production in RS, return to the village, reviving agriculture and arranging of old traditional houses for accommodation. Ethno villages, resorts, sports facilities, hiking and biking trails, rafting and other forms of tourism are being developed and have the perspective to network tourist offer and create sustainable development for a longer period. There are some incentives for the development of agriculture and opening of access to EU funds, and keeping the favorable policies in terms of breaking the political barriers (visa regimes, customs, etc.). With these measures of the state, along with other complementary forms of tourism: health, religious, adventure, sports, the agrotourism becomes a generator of growth in all forms, because no matter what the future tourists will put to the forefront: holiday, fun, adventure, entertainment, recreation, sport he must first meet the basic material needs (food, drink, accommodation), and there is a chance of agrotourism. Additionally, it is necessary to recognize the importance of training of staff for the needs of tourism that will recognize these global trends in tourism and agro-tourism and direct all the actors of tourism in this direction.

Conclusion

Since the development of information and other technologies has created unexpected communication opportunities for expansion of knowledge, which quickly becomes obsolete, it is necessary to work on its modernization, and in particular to work on the concept of constant life-long education. It is therefore necessary to change the cultural environment of education, in order to reach an educational system that can respond to the demands of modern tourist trends, which are much more dynamic than in other areas. Knowledge management in the tourist sector should fight that knowledge is put in the necessary place that it becomes a key resource and the evaluation criterion, because only in this way we will have safer future and

⁷ Republic of Srpska in 2010 completed the Tourism Development Strategy. New Act on Tourism was passed, Strategy of Rural Tourism Development was made.

more open world. It is possible to go along this path only if educational institutions come closer to organizations that educate the staff, if a close and fruitful collaboration between them is created⁸. Therefore, it is necessary to redesign the education system, which needs to adapt to modern trends and demands of tourism, which apparently is going to strengthen rural tourism, agrotourism and complementary forms of tourism, or in the direction of the return of a man to “mother-nature” and natural unity with it.

As mass tourism has not been accepted in the third world countries, it is considered to be destructive and a new form of colonialism which destroyed their culture and values, rural tourism can be only real alternative. Along with it, there is agrotourism as its integral part, as a generator and connection of all other forms of tourism. It is important that people realize that the small-scale rural tourism has smaller and limited benefits. For longer time it will be an additional source of income, and only with time it can become the dominant economic activity, which will, perhaps, keep it from the superpowers that turn everything into “mass” and “global”. Agrotourism is the area of originality, authenticity and diversity of each locality, region or destination and it should be insisted on that in the fight against the negative elements of globalization.

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POSITION OF BOSNIA AND HERZEGOVINA IN THE BALKANS IN THE CONTEXT OF HUMAN DEVELOPMENT

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What position does B&H take in relation to the surrounding countries in terms of human development indicators? What kind of human development trends have been present in relation to the Balkan countries? What position does B&H take in the world? An effort to answer these questions will be made by analysis of B&H's position in terms of human development indicators: Human Development Index, Inequality-adjusted Human Development Index, Gender Inequality Index and Multidimensional Poverty Index for 2010. The context of human development is getting increasingly important, as the concept of human development is becoming a developmental paradigm of the 21st century.

In the first Human Development Report that was published in 1990, the UN introduced the concept of human development, with holistic vision of development that puts people in the center of all developmental processes.

After over 20 years of practice and academic papers on human development and capability approach, the latest HDR 2010 defines human development as a process of the expansion of people's freedom to live long, healthy and creative life; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on shared planet. (HDR 2010, p. 12)

The report involved 169 countries, the classification of which was carried out in accordance with the achieved human development indicators.

Bosnia and Herzegovina takes the 68th position, with the achieved HDI of 0.710, and belongs to the group of countries with high human development.

Keywords: human development, human development indicators, inequality distribution, multidimensional poverty, Bosnia and Herzegovina.

Introduction remarks

Bosnia and Herzegovina is observed within several regional initiatives, including the Stability Pact for South-Eastern Europe, Central European Initiative - CEI, South-East European Cooperation Process – SEECP, South-East Europe Cooperation Initiative – SECI,

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Adriatic-Ion Initiative – AII and Central European Free Trade Agreement – CEFTA 2006. In the process of accession to the EU, in regional context, Bosnia and Herzegovina is observed among the West Balkan countries that include Albania, Bosnia and Herzegovina, Montenegro, Croatia, Kosovo, Macedonia and Serbia.

However, the context of the Balkans is much broader than the West Balkan. The Balkans is a peninsula and geographic region located on the south-east of Europe, surrounded by the Adriatic, Ionian, Mediterranean, Aegean, Black Sea and the Sea of Marmara. There are a number of different approaches to the context of the Balkans, i.e. the Balkan Peninsula in literature: from narrow to a broader context that involves a part of Italy on the very west and Cyprus on the very east, as well as Romania and Moldova on the north. Consideration of the Balkans also depends on political context.

Figure 1: Map of the Balkan countries



Source: <http://www.znanje.org/i/i26/06iv11/06iv1109/BALKAN.htm>

For the purpose of consideration of the position of B&H in the Balkans, the countries located on the Balkan Peninsula, entirely or with a major part of their territory (Albania, B&H, Bulgaria, Kosovo, Macedonia, Montenegro, Greece, Serbia), and the countries located on the Balkan Peninsula with a minor part of the territory (Croatia, Slovenia, Romania and Turkey) were taken into account (Figure 1). The choice of these territories for this paper was guided by consideration of a broader context of regional aspect of Bosnia and Herzegovina. In this way, B&H is also considered in relation to the countries that belong to the EU: Slovenia, as well as the former Yugoslavian countries, Bulgaria and Romania, as a part of South-East Europe, and in relation to the country located on the very east of the Balkans, candidate for the EU membership – Turkey.

Therefore, the context of the Balkans considered in this paper involves the following countries:

- EU member states: Slovenia, Bulgaria, Romania and Greece
- candidates for the EU: Croatia, Macedonia, Montenegro and Turkey
- potential candidates: Albania, Bosnia and Herzegovina, Kosovo and Serbia.

These countries¹ cover the surface of over 1.5 million km², with over 143 million inhabitants. B&H takes 3.2% of the entire area and BH population makes 3% of the population of these countries.

Position of B&H in this paper is thus observed in the context that is broader than usual political considerations for accession to the EU imply.

Consideration of a country's position in the surrounding, certain region or area, requires a series of indicators that refer to development level, economic, political and social issues in the country.

A set of topics and indicators is considered for countries in the process of accession to the EU. For the progress of B&H and the West Balkan countries in this process, relations between B&H and the EU are analyzed and observed, as well as the situation in terms of political and economic criteria for membership, B&H's capacity to implement EU standards in legislation and acquis.²

In the first decade of this century, in the period of financial and economic crisis, social issues and poverty and significant climate changes, the International Community continuously appeals for measuring the progress of well-being and quality of life at global level.³

By introducing human development concept, the UN has also developed measuring indicators of human development. Human Development Index (HDI) is the fundamental indicator, combining indicators of health and education with GDP in a special way. Human development indicators have provided the possibility of innovative thinking about the progress in society, by introducing a simple, but powerful idea that development is much more than economic growth. Using human development indicators is a step towards measuring the overall socio-economic progress.

The first Human Development Report was published in 1990 and all reports tend to articulate the perspective of human development in one set of issues⁴. Besides the annual global report, some 100 countries make their own state and regional human development reports nowadays. Over 650 national regional reports have been published so far. The goal of these reports is to evaluate quality of the life of populations and to be a tool for its improvement, as well as political purpose of raising awareness and initiation of public debate on the issues that are usually not on the political agenda.

¹ All countries as a whole, parts of the territories that partially belong to the Balkans were not separated.

² For more details, see: Bosnia and Herzegovina 2010 Progress Report, European Commission, EC Staff Working Document, Brussels 11/09/2010 SEC (2010) 1331, pg 2. Available at http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/ba_rapport_2010_en.pdf

³ OECD organized several world's forums on statistics, knowledge and policies (Palermo 2004, Istanbul 2007 and Busan 2009). European Commission, along with other partners, organized the conference entitled "Beyond GDP" in 2007, as well as in 2009, entitled "GDP and beyond: Measuring progress in a changing world". Within the global project "Measuring progress of society", a special commission was established. According to its report, the time has come for significance of measuring economic performances to be replaced by measuring human well-being. Report is available at <http://www.stiglitz-sen-fitoussi.fr/en/index.htm>

⁴ Human development reports, beside the concept and measurement of human development, deal with the issues of financing human development, global dimension of human development, people's security and participation, relation between economic growth and human development, poverty in the context of human development, globalization, consumption, millennium development goals, democracy, fight against climate changes, international cooperation, etc.

The Notion and Concept of Human Development

The notion of human development originates from the visions of Mahbub ul-Hag⁵, Pakistani economist who wanted the world's economic and social progress to be evaluated in a way that is different than usual analyses of incomes and economic growth. The approach to human development has been deeply inspired by Amartya Sen's⁶ pioneer works on welfare economics, social choice, poverty and famines, as well as developmental economy. Sen's "capability approach" and conception of "development as freedom" has provided a basis for new paradigm in economy and social sciences in general.

The first HDR 1990 affirms human development as a process of expansion of human choices and levels of the achieved well-being. This is a core of the idea of human development. In general, these choices are not final and they change over time. Regardless of the level of a country's development, people find the three essential choices the most important: to achieve a long and healthy life, to acquire education and to have access to resources necessary for a decent living standard. Unless these choices are available, many other possibilities remain inaccessible.

After over 20 years of practice and academic papers on human development and capability-based approach, the latest HDR 2010 redefines human development: "Human development is the expansion of people's freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet.⁷ People are both the beneficiaries and the drivers of human development, as individuals and in groups."

The concept of human development is holistic and puts people in the center of all aspects of developmental processes. The goal of human development is to create environment in which people will be able to live a healthy and creative, long life.⁸ Human development involves every aspect of development, including the issues of economic growth, social investments, human empowerment, provision of basic needs and social security networks, political and cultural freedom and all other aspects of human lives. All aspects of life – economic, social, political, cultural and environmental are viewed from the perspective of expansion of the freedoms of choice and capabilities and improvement of human lives.

Human development framework is used in all countries, wealthy or poor, and for all people. Human development is open, strong and vital enough to ensure development paradigm for the 21st century.

Human Development Indicators

By introducing the approach and concept of human development, the UN has also developed the measuring indicators of human development. Broad definition of human development concept, in general, imposes the issue of the possibility of its measurement, quantification, planning, management and control. The concept itself is much broader than the ways of its measurement.

The most important human development indicator is Human Development Index – HDI. Other indicators are either derived from or obtained by analysis of this indicator. Gender-Related Development index – GDI, Gender Empowerment Index – GEM, Human Poverty Index

⁵ Mahbub ul Hag (1937-1998)

⁶ Amartya Sen got the Nobel Memorial Prize in Economic Sciences in 1998, for his contribution to welfare economics.

⁷ HDR 2010 pg. 2.

⁸ Mahbub ul Hug, Human Development Paradigm pg. 17, Readings in Human Development, 2004.

– HPI were thus developed. Besides these indices, the possibilities for calculation of other indices were studied, such as Human Freedom Index – HFI, Technology Achievement Index – TAI, etc.

The latest Human Development Report⁹ marks 20 years of human development concept and promotes new indicators, introducing new aspects of inequality adjustments, gender inequality and multidimensional measurement of poverty. Report involves 169 countries, classification of which was carried out according to human development index (HDI) achieved, using new methodology.

The Human Development Index

Human Development Index is a result of looking for a common measure for economic and social development. This is a contribution to quantification of the entire socio-economic aspect of the progress, referring to achievements of a country in fundamental human development dimensions.

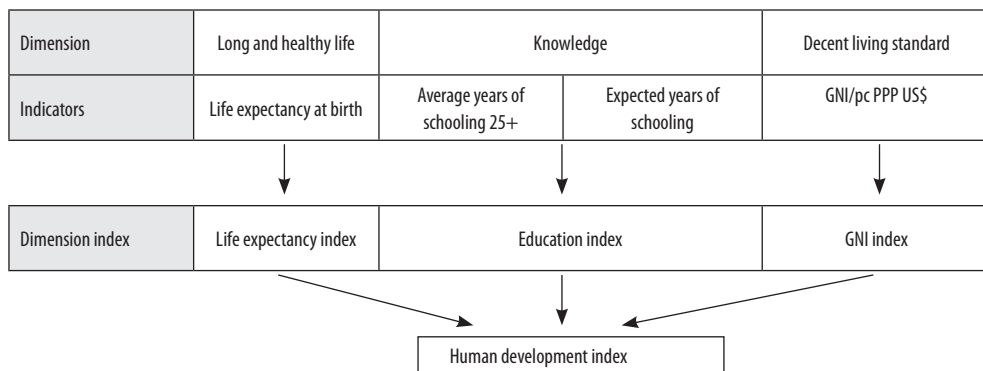
Human Development Index includes three fundamental human development dimensions, which refer to the capabilities that people expect to achieve. Those are the following:

- life expectancy is achieved by the capability to live a long and healthy life,
- the achieved education is realized by the capability to acquire knowledge.
- the achieved living standard is realized by the capability to provide decent incomes for life.

For calculation of HDI, as well as other human development indicators, it is necessary to calculate the index for each dimension. Each dimension is measured by one or more variables, combined into the index on the basis of the determined minimum and maximum value of the given variable.

Use of the index of variables enables their combined application in a single indicator, which would be usually impossible, since the variables are expressed in different units of measurement (years, percentages, dollars). Dimension index refers to position of each country in relation to other countries, expressed in the values of 0 to 1. It is calculated by simple geometric mean of the index of fundamental dimensions.

Figure 2: Steps in calculation of human development index



Source: adapted on the basis of HDR 2010, 215. p.

⁹ UNDP (2010): Human Development Report 2010, *The Real Wealth of Nations: Pathways to Human Development*, Palgrave Macmillan, New York

Changes introduced in HDR 2010 refer to the choice of dimension indicators, transformation in the calculation of dimension index, as well as aggregation method; GNI/pc is used instead of GDP/pc.

HDR 2010 uses the data of the world's leading institutions and a special study was conducted for evaluation of average years of education.¹⁰ Indicators were calculated using new methodology for 2010, as well as the one from 1980. This ensured comparison of data between the countries, as well as observation of trends. HDI calculation for B&H was carried out for the period 2005 – 2010.

According to HDR 2010, Norway is the most developed country and takes the 1st position, with the achieved HDI in the value of 0.938. Considering HDI, Norway is 1.5 times as developed as the world's average and 6.7 times as Zimbabwe, which takes the last HDI position, with HDI of 0.140.

The Inequality-adjusted Human Development Index

The Inequality-adjusted Human Development Index - IHDI is a new composite index promoted in HDR 2010. IHDI actually takes into account the inequalities in all three HDI dimensions, thus reducing the value of human development index by the “loss”, i.e. the value of inequality. It can be concluded that HDI refers to potential level of human development, while IHDI refers to real level of human development. HDI refers to capabilities, choices, and IHDI to functionalities used in distribution of choices and capabilities within the population. Ideal situation is for these two indices to be equal; however, taking into account the losses in distribution of HDI components (income, education, health), IHDI is lower than HDI. The difference, the loss in human development due to inequality, between HDI and IHDI is expressed in percentage.

IHDI was calculated for 139 countries. According to results of the calculation of IHDI, the average of losses in HDI at global level due to inequality is about 22%. Global HDI of 0.624 was reduced to 0.489 in 2010. The highest loss was registered in the countries with low development, where the loss due to multidimensional inequality of basic human development dimensions was estimated to 32%. Countries with very high development lose 10.2% of development due to inequality.

The Gender Inequality Index

Human development has been dealing with inequalities in the capabilities of women and men since the very beginning. Today, there is a need for a broader study of gender inequalities in economic, political and social arrangement in contemporary world.

HDR 2010¹¹ introduces a new index, Gender Inequality Index – GII. It was calculated for 138 countries (not for B&H). It reflects the position of women in terms of reproductive health, empowerment and economic activity and refers to a “loss” in human development, due to gender inequality in all three dimensions. Indicators used for calculation of GII are presented in the table.

¹⁰ Sources of data: Life expectancy at birth: UNDESA (2009d); Average years of schooling: special study by Barro and Lee (2010) available on: <http://www.nber.org/papers/w15902>; Expected years of schooling: UNESCO Institute for Statistics (2010a); GNP/pc: World Bank (2010g) and IMF (2010a).

¹¹ HDR 1995 introduced Gender Related Development Index – GDI, as a measure of gender inequality; Gender Empowerment Index was introduced later on, for evaluation of the progress of women in economic and political life.

Table 1: Indicators for calculation of GII

Dimension	Indicators
Health	maternal mortality rate, adolescent fertility rate (age of 15 - 19)
Empowerment	female and male inhabitants with high-school education at least, participation of women and men in allocation of seats at the parliament
Labor market	rate of men and women participating in labor force

Source: adapted, HDR 2010, 215. p.

GII is expressed as 0 to 1, with 0 referring to equality of women and men in the access to choices and capabilities, while higher values refer to reduced capabilities of women in given dimensions.

GII was calculated for 128 countries and shows great variations between the countries. Losses in human development due to gender inequality in reproductive health, empowerment and participation in labor market vary from 17% (the Netherlands) to 85% (Yemen), with the highest losses in Arab countries and South Asia. The countries with the lowest gender inequality include the Netherlands (GII 0.174), Denmark (GII 0.209), Sweden (GII 0.212) and Switzerland (GII 0.228).

The Multidimensional Poverty Index

In the context of human development, poverty is more than deprivation; poverty implies deprivation from the capabilities and choices of human development: long, healthy, creative life, certain standard of living, freedom, dignity, self-respect and respect towards others, etc. Poverty is much more than what is needed for material well-being.

HDR 2010 promotes a new composite index - the Multidimensional Poverty Index – MPI, which replaces the previous HPI indices. MPI identifies multiple deprivations of households in all three dimensions of human development – in the field of education, health and living standard. All data necessary for calculation of MPI are taken from the same study. Ten indicators are used for calculation of MPI, and deprivation is calculated for given dimensions.¹²

Table 2: Indicators for calculation of MPI

Dimension	Indicators
Education	years of schooling, enrollment of children to school
Health	nutrition, mortality of children
Standard of living	electricity, sanitary conditions, drinking water, residence, cooking means, property

Source: adapted, HDR 2010, 215. p.

HDR 2010 calculated MPI for 104 countries in development, with the population of about 5.30 billion inhabitants. Over one third of the population or 1.75 billion people live in multi-dimensional poverty, according to MPI. Over a half of the population lives in South Asia and the highest poverty rates were registered in Sub-Saharan Africa.

¹² HDR 1997 introduced two types of poverty indices: HPI-1 for the countries in development and HPI-2 for developed countries (OECD). HPI-1 refers to the same dimensions as HDI, with the approach to deprivation of dimensions, while HPI-1 includes social exclusion as well, which is measured by degree of long-term unemployment

At the same time, about 25% (1.34 billion) of this population lives with less than 1.25 \$ a day, while the overall number of inhabitants living with less than 2\$ a day is about 2.5 billion or 48%.¹³

Use of Human Development Indicators

As an Indicator of Development

Human development indicators provide simple methods for users to analyze development, refer to the condition of development, trends, gaps, etc. These indicators use simple statistical data and mathematics knowledge, they are clear, understandable and provide a basis for development planners and development policy and strategy creators to set priorities and define human development policy.

At global level, the indicators are a basis of comparison between the countries and regions of the world. The values of indicators – indices obtained can vary from 0 to 1 in theory; classification of the countries with low, medium, high and very high development levels. Human Development Report 2010, taking into account the changes in methodology, classifies the countries by the value of the index obtained through quarterly distribution of all countries (presented in Table 6).

Table 3: Classification of countries in relation to Human Development Index (HDI)

Countries in the context of human development	HDI value		Average HDI achieved in 2010
	until 2010	since 2010	
Very high development	≥ 0.900	≥ 0.785	0.878
High development	0.800 – 0.899	0.675 – 0.784	0.717
Medium development	0.500 – 0.799	0.475 – 0.674	0.592
Low development	< 0.500	< 0.475	0.393

Source: the author, adapted from HDR 2010 and HDR 2009.

Analysis of Indicators

HDI analysis into components is one of important possibilities for the use of HDI. HDI can be analyzed in relation to regions, as well as given structure of population. Depending on the purpose and goals of the study, as well as availability of data, it is possible to carry out a number of analyses of the index dimensions. Analysis can be carried out in relation to spatial dimension, income, sector employment, demographic characteristics, education, etc.

HDI is, therefore, a valuable instrument, not only for the need of international comparison, but also for analysis of the levels of developmental capabilities in different regions within a country with various socio-economic conditions. Value of the index at national level indicates the position of a country in terms of human development, in relation to other countries in the world. Disaggregated HDI, i.e. its value at the level of given parts of the country, or at the level of given social groups, can suggest which position (and why) different administrative units or groups within a country take in relation to others, as well as advantages and

¹³ Source: Sabina Alkire and Maria Emma Santos (2010): Acute Multidimensional Poverty: A New Index for Developing Countries, Human Development Research Paper 2010/11, UNDP, pg. 29.

disadvantages and, therefore, what priorities should be set at the level of central and local authorities.

The use of analyzed indices at national and sub-national levels helps in clarification of significant disparities and gaps between the regions, genders, between urban and rural areas, etc. Analyses help in leading the policy and undertaking the actions towards the gaps and inequalities. Analyzed HDI have been used for analyses in many countries, including Brazil, China, Colombia, Egypt, Greece, Germany, India, Malaysia, Mexico, Turkey, Ukraine, USA, South Africa, Peru, Bulgaria, etc.

Specific Human Development Indicators

In order to address specific priorities and issues of the areas and in order to better respond to development level of the areas, basic HDI components expressed at global level of human development can be modified or replaced by other significant components specific for the research area. Each country should choose the HDI components that refer to priorities.

Many national reports, starting from specific context of the country, developed new indices, such as the Human Government Index (HDR South Asia 1999), Health Index (HDR China 2002), Expanded Human Development Index (Argentina 2002), Service Deprivation Index (HDR South Africa 2003), Cantonal Security Index, Insecurity Perception Index and Individual Freedom Index (HDR Costa Rica, 2005) etc.

“Human Development Report 2007 – Social Inclusion in Bosnia and Herzegovina” developed the methodology for calculation of social exclusion index for the first time. General social exclusion index, ultimate social exclusion index and long-term social exclusion index were evaluated. This Report on B&H got two eminent world’s awards: UNDP award for expertise in measuring human development, New York, 2009 (60 countries competed) and the award for innovations in measurement, at the OECD World Forum “Statistics, Knowledge and Policy”, Busan, Korea, October 2009.¹⁴ Besides, NHDR B&H 2007 was referred to in HDR 2010, as an example of a broader multidimensional concept of social exclusion at the national level. (HDR, 2010:86)

Experiences of B&H – National Reports on Human Development

Seven human development reports have been published in Bosnia and Herzegovina, and Regional Human Development Report made in 2002/2003 was not published. Calculation of HDI was first officially made in the Report of 2002 by local experts. Of course, the calculation of human development indicators crucially depends on the quality of indicators that are required for calculation. In the absence of population census (for nearly two decades), data sources - domestic and international ones - are often methodologically and quantitatively different. Possibility of obtaining the indicators diverse by gender, entities, etc., is provided to a large extent by numerous statistical surveys¹⁵. These surveys are the basis for numerous studies and analyses of various aspects of life and work in B&H.

¹⁴ The Report was created by a group of local experts: Zarko Pacic, team leader, and the authors (alphabetical order): Maida Fetahagic, Boris Hrabac, Fahrudin Memić, Ranka Ninković, Adila Pasalic-Kreso, Lejla Somun-Krupalija and Miodrag Zivanovic. The Report is available on the webpage: www.undp.ba.

¹⁵ These are: Living Standard Measurement Survey in B&H, 2001; Survey - Living in B&H – series of panel surveys in 2001, 2002, 2003, 2004; Households Expenditures Survey in 2004 and 2007, Labor Force Survey - 2006, 2007,

Table 4: Overview of Human Development Report for Bosnia and Herzegovina

Year	Subject	Calculation of indicators		
		Level of B&H	Level of entities	Regional and municipal levels
2000	Youth	..	..	..
2002	Measuring human development	HDI		..
2003	Millennium Development Goals	HDI, GDI, GEM, HPI indicators MRC	HDI, GDI, GEM, HPI	..
2003	Regional Human Development Report (unpublished)	HDI, HPI	..	HDI, HPI
2005	Better local governance in B&H	HDI, GDI, GEM, HPI	HDI, GDI, GEM, HPI	..
2007	Social inclusion in B&H	HDI, GDI, GEM, HPI Indices of social exclusion (urban / rural) Laeken indicators	HDI, GDI, GEM, HPI Indices of social inclusion (urban / rural)	..
2009	Social capital	HDI	..	..

Source: The Author, based on B&H's report on Human Development

Position of Bosnia and Herzegovina in Terms of Human Development

Position of B&H in Relation to HDI at Global Level

According to the achieved HDI in the value of 0.710, Bosnia and Herzegovina takes the 68th position in the world and belongs to a group of countries with high human development. At the same time, it is above the average HDI in the world by 13.8%.

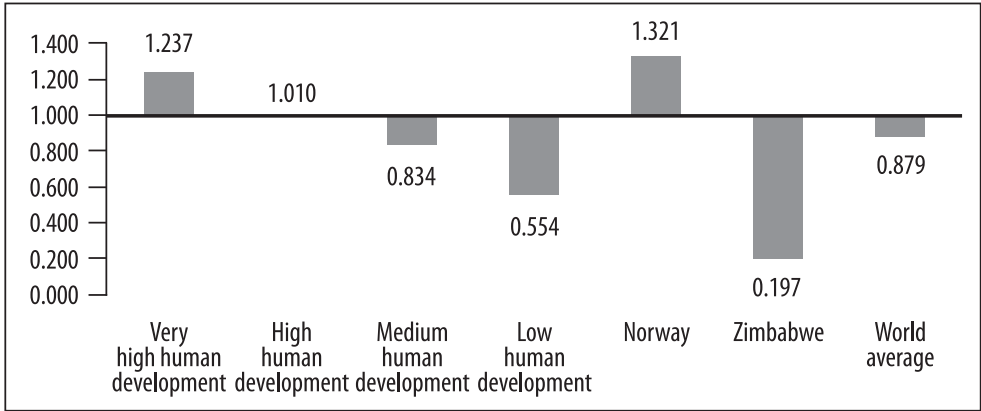
Table 5: Position of Bosnia and Herzegovina globally in terms of human development, 2010

Countries grouping, country	HDI value	Life expectancy at birth	Mean years of schooling	Expected years of schooling	GNI/pc (PPP 2008 \$)	No income HDI value
Very high human development	0.878	80.3	11.3	15.9	37,225	0.902
High human development	0.717	72.6	8.3	13.8	12,286	0.749
Medium human development	0.592	69.3	6.3	11.0	5,134	0.634
Low human development	0.393	56.0	4.1	8.2	1,490	0.445
Norway	0.938	81.0	12.6	17.3	58,810	0.954
Zimbabwe	0.140	47.0	7.2	9.2	176	0.472
World - average	0.624	69.3	7.4	12.3	10,631	0.663
Bosnia and Herzegovina	0.710	75.5	8.7	13.0	8,222	0.771
Relative level of Bosnia and Herzegovina, B&H = 1.00						
Very high human development	1.237	1.06	1.30	1.22	4.53	1.170
High human development	1.010	0.96	0.95	1.06	1.49	0.971
Medium human development	0.834	0.92	0.72	0.85	0.62	0.822
Low human development	0.554	0.74	0.47	0.63	0.18	0.577
Norway	1.321	1.07	1.45	1.33	7.15	1.237
Zimbabwe	0.197	0.62	0.83	0.71	0.02	0.612
World - average	0.879	0.92	0.85	0.95	1.29	0.860

Source: HDR, 2010

2008, 2009, 2010, carried out by the Agency for Statistics of B&H, Federal Office of Statistics and Republika Srpska Institute of Statistics.

Figure 3: HDI level of B&H in relation to the world. B&H = 1.00

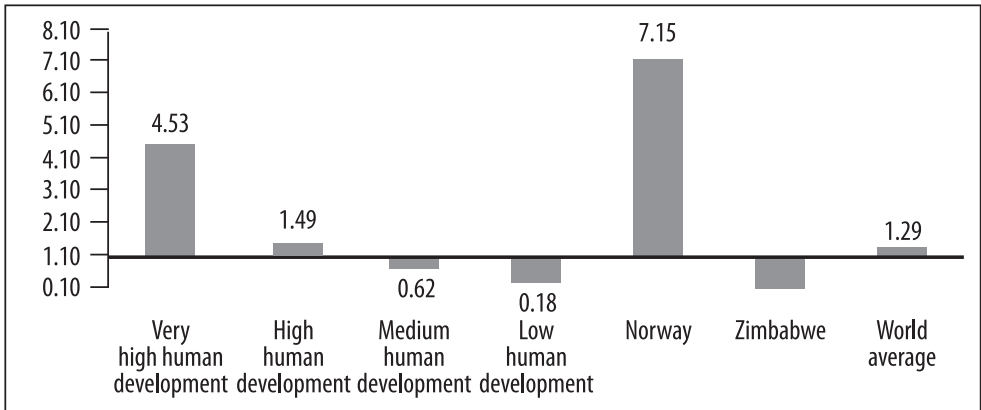


Source Table 5

Norway, with the highest achieved HDI, is above B&H by 32.1%, and the group of countries with very high human development is above B&H by 23.7%. The averagely achieved HDI in the world is lower than B&H's HDI by 12.1%. The most undeveloped, Zimbabwe is below the development of B&H by 80%.

Life expectancy, average years of education and expected of years of education in B&H are expectedly higher than the average achieved in the world.

Figure 4: GNI/pc level of B&H in relation to the world. B&H = 1.00



Source Table 5

However, the average GNP/pc in the world is higher by 29%, and in over seven times higher Norway than the average GNP/pc in B&H. Countries with high human development, which include B&H, have achieved GNI/pc higher than the one achieved in B&H by 49%.

Position of B&H by HDI in the Balkans

According to the achieved HDI, Greece and Slovenia are the countries with very high development; Greece takes the 22nd position and Slovenia the 29th, in relation to HDI rank. Other Balkan countries belong to the countries with high development in the context of human development.

Table 6: Position of B&H in the Balkan countries according to HDI, 2010

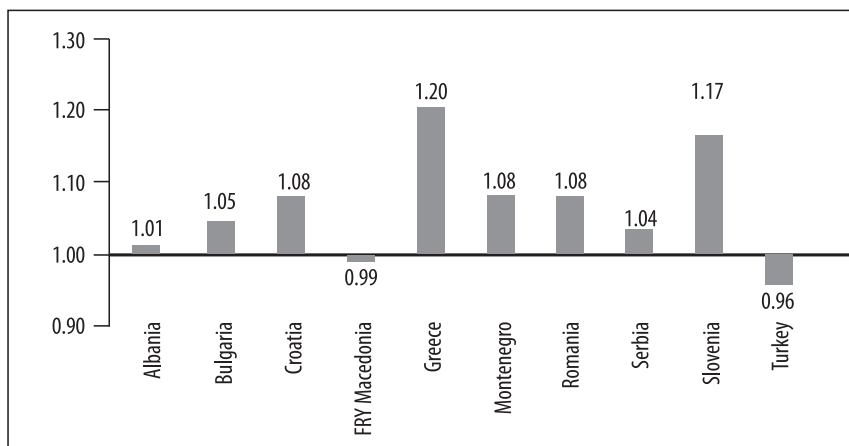
HDI rank	Country*	HDI value	Life expectancy at birth	Mean years of schooling	Expected years of schooling	GNI/pc (PPP 2008 \$)	No income HDI value
64	Albania	0.719	76.9	10.4	11.3	7,976	0.787
68	B&H	0.710	75.5	8.7	13.0	8,222	0.771
58	Bulgaria	0.743	73.7	9.9	13.7	11,139	0.795
51	Croatia	0.767	76.7	9.0	13.8	16,389	0.798
71	FYR Macedonia	0.701	74.5	8.2	12.3	9,487	0.742
22	Greece	0.855	79.7	10.5	16.5	27,580	0.890
49	Montenegro	0.769	74.6	10.6	14.4	12,491	0.825
50	Romania	0.767	73.2	10.6	14.8	12,844	0.820
60	Serbia	0.735	74.4	9.5	13.5	10,449	0.788
29	Slovenia	0.828	78.8	9.0	16.7	25,857	0.853
83	Turkey	0.679	72.2	6.5	11.8	13,359	0.679
Relative level of Bosnia and Herzegovina, B&H = 1.00							
64	Albania	1.01	1.02	1.20	0.87	0.97	1.02
58	Bulgaria	1.05	0.98	1.14	1.05	1.35	1.03
51	Croatia	1.08	1.02	1.03	1.06	1.99	1.04
71	FYR Macedonia	0.99	0.99	0.94	0.95	1.15	0.96
22	Greece	1.20	1.06	1.21	1.27	3.35	1.15
49	Montenegro	1.08	0.99	1.22	1.11	1.52	1.07
50	Romania	1.08	0.97	1.22	1.14	1.56	1.06
60	Serbia	1.04	0.99	1.09	1.04	1.27	1.02
29	Slovenia	1.17	1.04	1.03	1.28	3.14	1.11
83	Turkey	0.96	0.96	0.75	0.91	1.62	0.88

Source: HDR, 2010; *HDR 2010 does not include the data for Kosovo

Among the Balkan countries, Greece is the most developed in the context of human development, while Turkey achieved the lowest HDI of 0.679 and it takes the 83rd position in the world, in relation to the HDI rank.

Bosnia and Herzegovina is more developed than Turkey and Macedonia, according to the HDI. All other countries exceed the development of B&H in the context of human development (Greece by 20%, Slovenia by 17%, Montenegro, Croatia and Romania by 8%). HDI structure indicates a critical point of B&H. All countries except Albania have achieved GNI/pc higher than the one achieved in B&H (Slovenia and Greece more than 3 times).

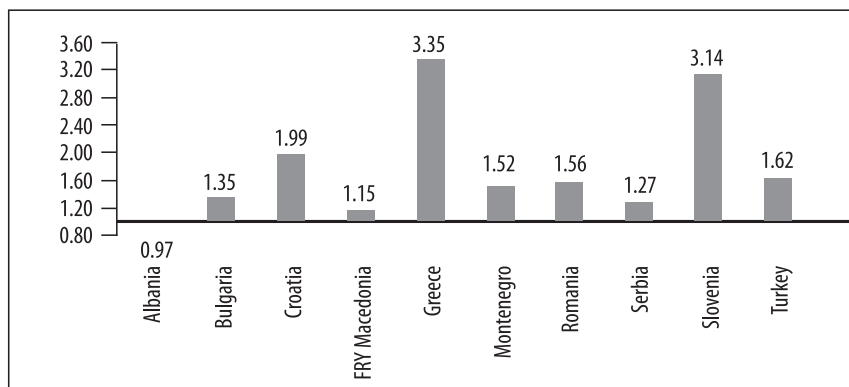
Figure 5: HDI level of B&H in relation to the Balkans. B&H = 1.00



Source Table 6

Expected years of education in B&H is higher than in Albania, Turkey and Macedonia. Slovenia and Greece have the highest values of this indicator. According to average years of education, B&H is at the bottom of the list, only Macedonia and Turkey are lower.

Figure 6: GNI/pc level of B&H in relation to the Balkans. B&H = 1.00



Source Table 6

According to the foreseen life expectancy at birth, B&H is located somewhere in the middle of the list and it seems that, according to this indicator, the population of the Balkans does not differ much mutually. Greece and Slovenia can be selected with the highest life expectancy of their inhabitants.

Position of B&H by IHDI at the Global Level

B&H loses 20.4% of the development, due to inequalities in distribution of the basic dimensions of human development. That is more than double in relation to losses registered in the countries with very high development. Countries with middle and low development have higher losses in human development than B&H (those with medium development registered 24.3% and low development 32% of losses in the development process).

Table 7: Position of B&H globally according to the Inequality-adjusted Human Development Index (IHDI), 2010

Countries grouping, country	HDI		IHDI		Inequality-adjusted life expectancy at birth index		Inequality-adjusted education index		Inequality-adjusted income index		Gini coefficient
	Value	Value	Overall loss (%)	Change in rank	Value	Loss (%)	Value	Loss (%)	Value	Loss (%)	2000-2011
Very high human development	0.878	0.789	10.2	..	0.907	5.0	0.810	5.7	0.668	19.5	..
High human development	0.717	0.575	19.8	..	0.718	13.8	0.561	17.6	0.472	28.1	..
Medium human development	0.592	0.449	24.3	..	0.611	22.4	0.369	29.3	0.401	21.9	..
Low human development	0.393	0.267	32.0	..	0.348	40.8	0.227	38.2	0.242	23.2	..
Norway	0.938	0.876	6.6	0	0.927	4.0	0.919	2.4	0.788	13.1	25.8
Zimbabwe	0.140	0.098	29.9	0	0.281	34.2	0.416	20.1	0.008	34.5	50.1
World - average	0.624	0.489	21.7	..	0.630	21.3	0.436	28.2	0.425	22.7	..
Bosnia and Herzegovina	0.710	0.565	20.4	-2	0.798	9.2	0.545	19.4	0.416	31.1	36.3
Relative level of Bosnia and Herzegovina, B&H = 1.00											
Very high human development	1.24	1.40	0.50	..	1.14	0.54	1.49	0.29	1.61	0.63	..
High human development	1.01	1.02	0.97	..	0.90	1.50	1.03	0.91	1.13	0.90	..
Medium human development	0.83	0.79	1.19	..	0.77	2.43	0.68	1.51	0.96	0.70	..
Low human development	0.55	0.47	1.57	..	0.44	4.43	0.42	1.97	0.58	0.75	..
Norway	1.32	1.55	0.32	0.00	1.16	0.43	1.69	0.12	1.89	0.42	0.71
Zimbabwe	0.20	0.17	1.47	0.00	0.35	3.72	0.76	1.04	0.02	1.11	1.38
World - average	0.88	0.87	1.06	..	0.79	2.32	0.80	1.45	1.02	0.73	..

Source: HDR, 2010

According to the structure of IHDI, the largest losses are present in the distribution of incomes (31.1%), as indicated by relatively high Gini coefficient (36.3). Inequality-adjusted life expectancy at birth index shows that B&H has twice as higher losses as the countries with very high development. Losses in education in B&H are 3.4 times as higher as the ones registered in the countries with very high development.

Position of B&H by IHDI in the Balkans

In relation to the Balkan countries, B&H has the largest losses in development, due to inequality of distribution of the basic dimensions of human development. Only Turkey registered a higher loss (16%). The highest IHDI was registered in Slovenia and Montenegro, which also indicates the minimum multidimensional losses (6.9% and 9.9%).

The highest losses in the distribution of incomes were registered in B&H. All Balkan countries registered lower losses than B&H due to inequality of distribution of incomes. Turkey registered the highest losses, due to inequalities in education.

Table 8: Position of B&H in the Balkans according to the Inequality-adjusted Human Development Index (IHDI), 2010

rank HDI	Country	HDI		IHDI		Inequality-adjusted life expectancy at birth index		Inequality-adjusted education index		Inequality-adjusted income index		Gini coefficient 2000-2011
		Value	Value	Overall loss (%)	Change in rank	Value	Loss (%)	Value	Loss (%)	Value	Loss (%)	
64	Albania	0.719	0.627	12.7	4	0.802	10.9	0.601	12.7	0.512	14.4	33.0
68	B&H	0.710	0.565	20.4	-2	0.798	9.2	0.545	19.4	0.416	31.1	36.3
58	Bulgaria	0.743	0.659	11.3	5	0.771	9.4	0.682	8.1	0.545	16.1	29.2
51	Croatia	0.767	0.650	15.3	-2	0.844	6.0	0.636	10.4	0.512	27.8	29.0
71	FYR Macedonia	0.701	0.584	16.7	4	0.773	10.4	0.527	17.5	0.489	21.8	42.8
22	Greece	0.855	0.768	10.2	-2	0.907	4.0	0.788	5.8	0.633	19.9	34.3
49	Montenegro	0.769	0.693	9.9	4	0.801	7.3	0.711	9.6	0.584	12.6	36.9
50	Romania	0.767	0.675	12.1	3	0.751	10.9	0.693	13.1	0.590	12.2	32.1
60	Serbia	0.735	0.656	10.8	6	0.783	9.0	0.640	11.1	0.562	12.2	28.2
29	Slovenia	0.828	0.771	6.9	5	0.891	4.3	0.750	4.0	0.685	12.2	31.2
83	Turkey	0.679	0.518	23.6	1	0.690	16.5	0.405	27.4	0.498	26.5	41.2
Relative level of Bosnia and Herzegovina, B&H = 1.00												
64	Albania	1.01	1.11	0.62	.	1.01	1.18	1.10	0.65	1.23	0.46	0.91
58	Bulgaria	1.05	1.17	0.55	.	0.97	1.02	1.25	0.42	1.31	0.52	0.80
51	Croatia	1.08	1.15	0.75	.	1.06	0.65	1.17	0.54	1.23	0.89	0.80
71	FYR Macedonia	0.99	1.03	0.82	.	0.97	1.13	0.97	0.90	1.18	0.70	1.18
22	Greece	1.20	1.36	0.50	.	0.91	0.43	1.45	0.30	1.52	0.64	0.94
49	Montenegro	1.08	1.23	0.49	.	1.00	0.79	1.30	0.49	1.40	0.41	1.02
50	Romania	1.08	1.19	0.59	.	0.94	1.18	1.27	0.68	1.42	0.39	0.88
60	Serbia	1.04	1.16	0.53	.	0.98	0.98	1.17	0.57	1.35	0.39	0.78
29	Slovenia	1.17	1.36	0.34	.	1.12	0.47	1.38	0.21	1.65	0.39	0.86
83	Turkey	0.96	0.92	1.16	.	0.86	1.79	0.74	1.41	1.20	0.85	1.13

Source: HDR, 2010

According to the inequality-adjusted life expectancy at birth index, losses in the health dimension vary from the lowest 4.0% in Greece to 16.5% in Turkey. According to this dimension, Turkey, Romania, Albania, Macedonia and Bulgaria registered higher losses than B&H.

Position of B&H by Multidimensional Poverty in the Balkans

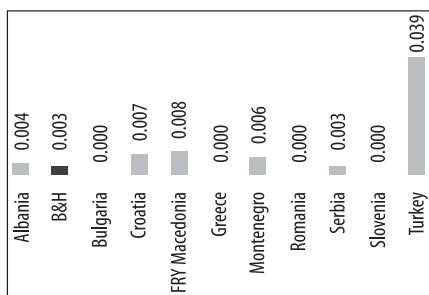
According to multidimensional poverty index, B&H belongs to the group of countries with low MPI (Figure 7), along with Serbia. Albania, Croatia, Montenegro and Macedonia have higher indices of MPI. Turkey is a country with the highest multi-dimensional poverty in the Balkans.

Table 9: Position of B&H in the Balkans according to the Multidimensional Poverty Index (MPI), 2006

Rank HDI	Rank MPI	Country	MPI	Population in multidimensional poverty		Population at risk of multidimensional poverty (%)	Population with at list one severe deprivation in			Population below income poverty line	
				Headcount (%)	Intensity of deprivation (%)		Education (%)	Health (%)	Living standard (%)	PPP \$ 1.25 a day (%)	National poverty line (%)
64	13	Albania	0.004	1.0	38.1	9.4	6.6	7.2	0.9	<2	18.5
68	11	B&H	0.003	0.8	37.2	7.0	11.1	0.4	0.8	<2	19.5
58	..	Bulgaria	..	..	..	..	..	..	..	<2	12.8
51	18	Croatia	0.007	1.6	41.6	..	2.3	2.4	0.4	<2	11.1
71	20	FRY Macedonia	0.008	1.9	40.9	6.7	5.9	7.2	0.9	<2	21.7
22	..	Greece	...	..	..	..	..	..	..	..	..
49	17	Montenegro	0.006	1.5	41.6	1.9	4.2	0.8	0.7	<2	..
50	..	Romania	..	..	..	2.8	..	..	..	<2	28.9
60	12	Serbia	0.003	0.8	40.0	3.6	5.2	0.4	0.8	<2	..
29	1	Slovenia	0.000	0.0	0.0	0.4	0.0	3.1	0.0	<2	..
83	38	Turkey	0.039	8.3	45.9	19.0	15.4	16.0	7.3	2.6	27.0

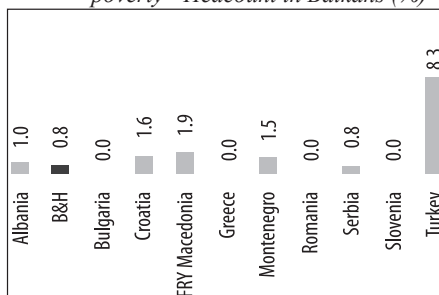
Source: HDR, 2010. Calculation of indicators of multidimensional poverty was made based on MICS and refers to 2006.¹⁶

Figure 7: MPI in Balkans (%)



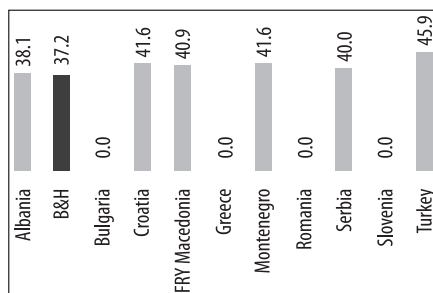
Source Table 7

Figure 8: Population in multidimensional poverty - Hedcount in Balkans (%)



Source Table 7

Figure 9: Intensity of deprivation in Balkans (%)



Source Table 7

¹⁶ UNICEF B&H, Bosnia and Herzegovina: Multiple Indicator Cluster Survey 2006. Sarajevo, 2007.

In Bosnia and Herzegovina, 0.8% of population is affected by multiple deprivations, as well as more than 1.5% of the population of Macedonia, Montenegro and Croatia. In Turkey, there is more than 8.3% of the population living in multi-poverty (Figure 8). The average intensity of deprivation in B&H amounts to 37.2% (average share of poverty indicators that deprives the population) and it is lower in relation to other Balkan countries, except Slovenia. (Figure 9).

Structure of MPI indicates that the population is mostly deprived in the dimension of education (11.1%), which is mostly present in the Balkans, along with Turkey. In its structure and in relation to other countries, B&H has the least poverty rate in the health dimension.

Comparison includes the population exposed to multidimensional poverty and common measurements of population, based on incomes.

Table 9: Comparative measurement of poverty, 2006

Measuring methods	Population	
	%	Number
Multiple poverty index MPI (H)	0.8	31.000
Poverty line 1.25 US \$ per day	2.0	76.000
Poverty line 2 US \$ per day	2.0	76.000
National poverty line	19.5	741.000

Source: calculated by author, based on the HDR, 2010;
Number of population in B&H is 3.8 million

Therefore, according to the national poverty line, there is 24 times more poverty population than by MPI, and according to the poverty line of 1.25 \$ or 2 \$ a day, there is 2.5 times more poverty population than the poverty population by multidimensional deprivation.

Position of B&H by Gender Inequality Index Globally and in the Balkans

No calculation of GII in HDR was made for Bosnia and Herzegovina. This provides illustrative elements of GII, which are given for B&H and, based on them, the position of B&H in the world and in relation to the countries in the region.

Bosnia and Herzegovina has the lowest maternal mortality rate in the Balkans (including Greece), even lower than the rates registered in Norway and in the countries with very high development. According to the position of women in the parliament, women in B&H are more active than women in Albania, Montenegro, Romania, Slovenia and Turkey.

Table 10: Position of Bosnia and Herzegovina globally and in the Balkans according to GII

Countries grouping, country		Maternal mortality ratio (per 100.000 live births)	Adolescent fertility rate (15-19 years, per 1.000 women)	Seats in parliament - female (%)	Labor force participation rate (%)	
					Female	Male
		2003-2008	1990-2008	2008	2008	2008
Globally						
Very high human development		8	19.1	20.5	65.3	80.2
High human development		82	47.7	13.3	52.7	79.5
Medium human development		242	41.8	16.0	54.7	84.1
Low human development		822	108.9	14.4	61.3	83.4
Norway		7	8.6	36.1	77.3	82.6
Zimbabwe		880	64.6	18.2	60.8	74.5
World - average		273	53.7	16.2	56.8	82.6
Balkans						
64	Albania	92	14.2	7.1	55.5	76.4
68	B&H	3	15.9	12.3	65.4	78.1
58	Bulgaria	11	42.2	21.7	63.4	73.8
51	Croatia	7	14.1	20.9	58.9	71.7
71	FYR Macedonia	10	21.7	31.7	50.4	74.8
22	Greece	3	8.9	14.7	55.4	79.0
49	Montenegro	14	14.7	11.1	..	..
50	Romania	24	31.2	9.8	55.3	70.7
60	Serbia	14	22.1	21.6	..	..
29	Slovenia	6	4.9	10.0	67.5	75.4
83	Turkey	44	38.8	9.1	26.9	74.6

Source: HDR, 2010.

Conclusion remarks

The context of human development is becoming a developing paradigm that characterizes the 21st century. According to HDR 2010, among 169 countries, B&H is ranked at the 68th place and belongs to the countries with high human development. However, can B&H be satisfied with this position? Analysis of human development indicators of B&H in relation to the Balkan countries suggests the following:

- In relation to the EU member states - Greece, Slovenia, Bulgaria and Romania, B&H is below the development in these countries, by all indicators. According to economic indicators and indicators of education, these countries are significantly above the development of B&H (especially Greece and Slovenia). Bulgaria and Romania differ in the health dimension; with life expectancy shorter than in B&H. Losses in the development due to unequal distribution in these countries are significantly lower than those registered in B&H.
- In relation to the EU candidate countries - Croatia, Macedonia, Montenegro and Turkey, B&H is more developed in the context of human development than Macedonia and

Turkey, while Croatia and Montenegro are above the average development of B&H by 8%. All candidate countries, according to the achieved GNI/pc, are above the averagely achieved GNI/pc in B&H; Croatia by 99%, Turkey by 62%, Montenegro by 52% and Macedonia by 15%. According to the indicators of education and health, Croatia is above B&H by all elements, but B&H is above the development of Turkey, according to these elements of human development. Among these countries, Turkey registered higher losses in development than B&H, due to distribution inequality.

- Potential candidate countries for accession to the EU are above the development of B&H; Albania by 1% and Serbia by 4%. According to the GNI/pc, Serbia is above B&H by 27%, as well as according to the indicators of education. According to health indicators, Albania is above B&H as well as according to average years of education. Due to inequalities in distribution of basic human development dimensions, B&H registered more losses than Albania by more than 66%, and more than Serbia by 88%.
- Indicators of multidimensional poverty classify B&H among the countries with lower coverage of population affected by multidimensional deprivation. However, one should take into account that these data refer to 2006 and that many changes have occurred in the world and B&H.

Therefore, human development indicators are used to illuminate the position of B&H in relation to the Balkan countries. In the EU accession process, the analysis of human development indicators can be used in analysis of socio-economic situation, creators of policy and development strategy focusing on development priorities. General conclusion is that Bosnia and Herzegovina needs rapid economic growth that will strongly support education. Complexity of economic, social and the overall situation in B&H requires much stronger and more consistent use of human development concept than before.

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THE ROLE OF THE ENVIRONMENTAL INDUSTRY IN THE DEVELOPMENT OF THE REGIONS: THE CASE OF THE GERMAN REGION SAXONY-ANHALT

*Páger Balázs**

In the 21st century, the environment and the sustainability have gained more relevant role in the regional development. The old East German region and the Central-Eastern European regions are in similar position in this aspect. All of the East German regions had almost the same problems as the central and eastern European regions, because of the planned economy system between 1950 and 1990. They had an old industrial structure with big inequalities in the economy and it caused structural problems in the economy of this regions. The examined region, Saxony-Anhalt fell in deep economical depression after the political transition and the reunion of Germany, so it was necessary to work out some development strategies which can help the region to transform its economy. One of these development strategies is the re-industrialization with new innovative industries. The goal of this paper is to introduce a new knowledge- and innovation-based industry, which is built on the environment protection, and to analyze its developing effects on an East German region's economy. I suppose it is important to analyze, how such a sustainable industry can grow up in an old industrial region. This research is based on the arrangements and initiations of the European Union, Germany and Saxony-Anhalt which are in connection with the environmental industry. It is the other important question of the paper, how these decisions and arrangements could support the development of the environmental industry, how this industry could take effect on the economical and social development of the region. The results are significant, the region could show the biggest development in the German environmental industry between 2005 and 2010 and the future of that industry seems to be really stable due to the infrastructural, educational and scientific backgrounds.

Keywords: sustainability, re-industrialization, environmental industry, regional development

Introduction

More and more old industrial European regions needed a complex economical regenerative strategy in the 1980s. (Lux, 2007) One of the basic elements in these strategies was the re-industrialization. Because of the re-industrialization came up industries in a region, which were based on innovations or knowledge. These industries developed once on the old industrial fields (brownfield investments), twice on new fields (greenfields investment) and they

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helped for this region to transform their industrial and economical structure. (Horváth, 1998) The re-industrialization brought changes not only in the economy, but in the society too. The number of people with college graduation have been risen, and the old „typical” industrial jobs have been replaced some new jobs. (Barta et al.; 2008, 4) These changes can be followed in the national and European statistical yearbooks. But the most of the European countries couldn't be able to realize such regenerative strategies on their own potency. The subsidies of the Structural Funds of European Union helped them to realize these strategies; they accelerated the paradigm change in the old industrial region to take over modern initiations and innovative technologies. Furthermore they supported the economical regeneration with preparing the precondition for this economical transformation at these districts.

The idea, what the sustainable development should infiltrate in the development strategies, became more and more important early in the 21st century. The relevance of sustainable development is explained mostly by the destruction of the quality of environment. Additionally it explains the replacement of the old not environment-friendly, unsustainable development strategies. The European Union secured in the Treaty of Lisbon (signed in 2007, valid since 2009) the resolution that the European Union „shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, (...) and a high level of protection and improvement of the quality of the environment”. (Treaty of Lisbon; 2007, 11) This way of development turns up in the economic reform package „Europe 2020”. The final version of this package hasn't come out yet, but the main priorities have already become public: the smart growth, the sustainable growth and the inclusive growth and the strategy of exiting the crisis. These priorities shall improve the following fields:

- Employment (raise the employment rate)
- Research & Development (raise the amount of R&D expenditures)
- Climate change and energy (renewable energy, energy efficiency, reducing greenhouse gas emission)
- Education (reducing school drop-out rates, strengthen the third level education)
- Poverty and social exclusion (20 million fewer people in or at risk of poverty)

It can be seen from the fields of priorities, that this reform package is based first of all on the knowledge and it is favourable for industries dispose of high added value for example nanotechnological industry, biotechnological industry or the environmental industry. These industries can raise the number of jobs and they can help to react to the climate change by means of the efficient education and the last results of scientific researches and innovations. The environmental industry could have an important role between these industries, because its effective operation can contribute to achievement the more and more hard environmental regulations. That's why the environmental industry may become a significant industry in the European countries (but not only in the member of the EU).

The environmental industry

The structure of the environmental industry

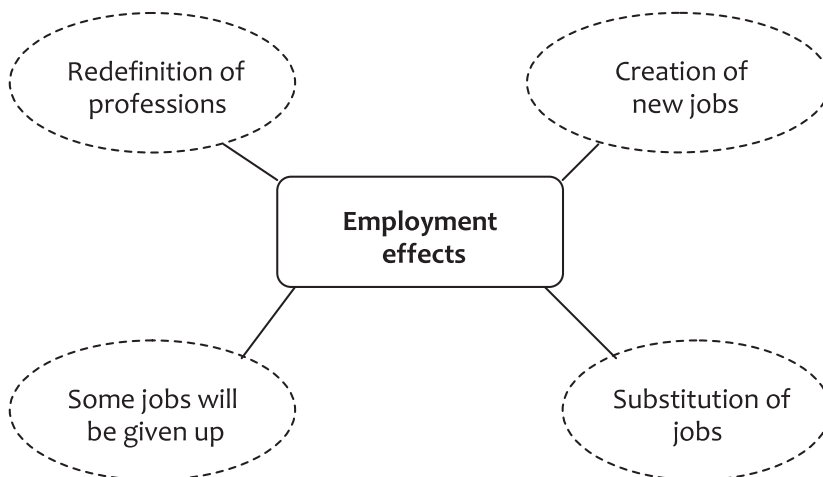
Some phrase as the environmental industry is called: the green industry, “the invisible industry” (Jänicke–Zieschank; 2008, 5), “the background industry of the environmental protection” (Kollányi–Liska; 2007, 14). The environmental industry includes all of that products and services, which help to measure, to overtake or to repair the environmental injuries.

Furthermore they conduce to decrease the waste- and noise-emission and to improve the protection of the land and nature (Hajdú; 2005). “It is completed with two more elements: the integrated resource-management and the environmentally efficient production” (Jänicke–Zieschank; 2008, 6). It can be seen from this definition, that the environmental industry goes not only about the pollution-management, but it goes among other things about sustainable resource-management, environmentally efficient architecture and sustainable methods in production. This industry can be defined as an interdisciplinary or complex industry because of these things, and this complexity appears in the structure of the environmental industry and in the other factors, which are in connection with it (universities, knowledge-centres, research laboratories, scientific institutions etc.). The environmental industry gives a frame for these factors, which are deal with the production of environment-friendly products.

The environmental industry can get additional important functions in the most developed countries (USA, Japan, Germany) for example the improvement of the environmental condition at the living quarters. Furthermore the growth of environmental friendly consumption can influence the growth of environmental industry, because it can be noticed that the environment-friendly thinking is coming up in ever wider range of society and they require a healthier environment. The leading countries give heed to the environmental investments and innovations because of growing demand for the environmental-friendly and environment protected products. The state has an important role to stimulate environmental innovations, because the market processes can’t recognize temporarily the long-term environmental damages, so they can’t stimulate the actors to generate innovations (Jänicke–Zieschank; 2008). That’s why it is important to be supported such investments by the state. Furthermore these innovations are stimulated by the more and more stricter national and international environmental regulations. So we can assume that the environmental policy plays an important role in the creation of environmental innovations. The other speciality of these innovations is that the environmental goods are public goods, so if an innovation can decrease the environmental load, it is good for the society too because of its external effects.

The shift for the more sustainable economy has more different effects on the employment.

Figure 1: The effects of the green economical development on employment



Source: own construction based on Worldwatch Institute (2008)

According to these effects, some new jobs will be created and some professions will be substituted by the sustainable green industry. For example the old energy sources will be substituted by the new sustainable energy sources. Some of the works will be given up without any substitution and some jobs will be redefined. It is a bit similar as the substitution of jobs. This redefinition is occurred by the application of sustainable methods in production. The education has a really important role to train the adequate specialists, which can provide a relevant supply for the firms on the labour market of environmental industry (ECORYS; 2008). These requirements of the environmental firms can indicate that the tertiary education in environmental topics will come up in a region. It can make some changes in the secondary education too. New subjects and skills are coming up which are in connection with the jobs of environmental industry.

The economical significance of the environmental industry

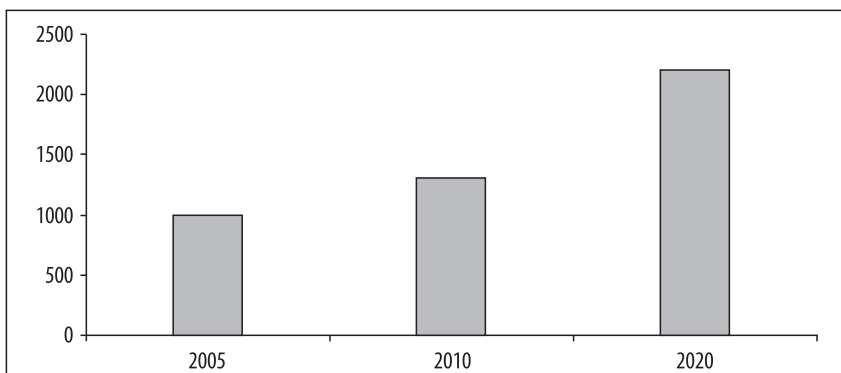
The yearly average turnover growth of the environmental industry was estimated by a research to 5.4% in 2005. This result shows that the environment can play an important role in the economical growth and creation of jobs.

There are three factors which can account for the significant growth of environmental industry in the next years (Roland Berger; 2009):

- The growth of the population; it makes indispensable the more efficient use of resources, because the amount of resources can't follow the speed of population growth.
- The growing degree of globalization; the degree of urbanization and the economical growth are rising. It can cause environmental problems.
- The countries aspire to the best welfare worldwide.

The turnover of the environmental industry can rise to 3100 billion Euros till 2020 according to the experts (it means almost 2000 billion Euros growth in 15 years). This dynamic growing trend between 2007 an 2020 can be seen on the graph.

Figure 2: The amount of the turnover of environmental industry in the world market between 2005 and 2020 (in billion Euros)



Source: DIW Berlin et al. (2007), 2. p

The turnover of the environmental industry came to approximately 227 billion Euros in the European Union in 2006, it is a bit more than 20% share of the world market. The

environmental industry has two parts: the traditional environmental industry and the environment efficient resource management. The traditional environment industry totalled up to 146 billion Euros, the other part of this industry made a turnover of 82 billion in 2006 (Ernst&Young; 2006). 2.3 million people (1% of the employments of the EU) are employed directly by the environment industry according to the definition. If we count with them, who are concerned indirectly in environment industry, 4.6 million people are employed by this industry. Germany and France have together 49% share of the turnover of the environmental industry in the EU (Ernst&Young; 2006).

The German environmental industry produced about 8% of the German GDP in 2007, it will be raise up to 14% till 2020 in some experts opinion. Germany has a leading role in the world market of environmental industry. The German environmental industry leans on four important industries: electro-technology, machine industry, building industry and the services in connection environment. Six parts of environmental industry were signed as the main components of German environmental industry: the environment-friendly energy, the recycling of the waste, the sustainable mobility, the energy-efficiency, the sustainable management of water and the raw-material efficiency (Roland Berger; 2009). The German environment industry is the strongest in environment-friendly energy and in energy-efficiency, the German firms have 30% share in the world market in these two activities. Furthermore, the German firms play a big role in the recycling of the waste. The development of the German firms in environmental industry can be seen in trend of the turnover: between 2005 and 2007; these firms realized 10% growth in turnover. The German environmental industry is prevailed by small and medium enterprises (SMEs). These enterprises have around 75% share in the German environmental industry market. These firms realize under 10 million Euros turnover in a year. The share of the firms, which turnover is over 50 million Euros per year, is rising. They had 9% in 2006, and 12% in 2008. The developing firms created new jobs (in environment-friendly energy the number of workplaces rose by 20% between 2005 and 2007). The value of the firms in environmental industry rose from 3 billion Euros (2006) to 7 billion Euros (2007). Other firms from other industries (for example machine industry, building industry and energy-producing industry) observed the potential in the environment industry: the value of the firms rose by mergers and acquisitions. R&D is a really important point in the development of the environmental industry: the German firms in environmental industry spend 4.5% share of them turnover in average for the R&D expenditure. About 65% of the firms consider the national (domestic) market as a main target market. The rest 35% consider the international (world) market as a main target market. The German firms have better and better leading role in the world market of the environmental industry (as it could be seen from the previous figures). The development of the environmental industry could open up new potentials for the European countries in the future. The Asian (Chinese, Japanese, Indian), American, Australian and even the African markets would be important target markets for the European products, services, technologies and know-hows of environmental industry and the environmental industry can become a significant industry in the European export.

The case of environmental industry in Saxony-Anhalt

The analyzed region

Saxony-Anhalt is one of the five „new” German states. Its capital is Magdeburg, and it has two other regional centres: Halle and Dessau. The road, railway and water accessibility of the regional centres is good. The GDP per capita is 22 582 Euros, it is abundantly under the

German average value (30 390 Euros). The growth of GDP was 2.6% yearly between 2001 and 2008, it is the second best result between the German states. The GDP of the state rose by 22% in this period (2001-2008).

Table 1: The main data of the analyzed region

Denomination	Saxony-Anhalt (1995)	Saxony-Anhalt (2007)	German avg. (2007)
Population (in thousands)	2 739	2 412	
Structure of employment (%)			
primary	3.4	2.85	2.14
secondary	35.6	23.75	25.48
tertiary	61 ²	73.4	72.38
Unemployment rate (%)	16.5	17.5	9
GDP in share of EU27 (EU27=100%)	61 ¹	83	112.90
Index of industrial added value ² (producer industry and building industry together) (%)	32.30	30.73	30.17
Share of building industry in gross value added (%)	17	5.78	4.06
Share of producer industry in gross value added (%)	15.30	24.95	26.11
The volume of environmental investments, million Euros	142	57.3	

Source: own construction based on data of Federal Statistical Office of Germany, Statistical Office of Saxony-Anhalt and operational programmes of Saxony-Anhalt

As it can be seen from the data the state is considerably under the German average in the value of GDP and in unemployment. The share of the tertiary employment has risen and the share of the secondary employment has fallen according to the trends. The share of the secondary sector in the gross value added is about 30%, it is a bit more than the German average. One district of the state was called as „one of the most polluted area in Europe”. After the reunion the environmental regulations became stricter than before. It was a really good chance for the entrepreneurs to found firms, which were engaged in producing products in connection with protection of the environment. This effect can be seen in the change of the volume of environmental investments. The renovating of the environmental happened mostly in 1990s years, after that the volume of the environmental investment has decreased.

Subsidizations related to the environment industry

The different subsidizations significantly contribute to the development of the environment industry. The subsidizations cannot be sharply separated from each other because in some cases a local initiation or a regional cluster can only formed if they are supplied with suitable financial or other (e. g. institutional) support from a higher, in this situation by a federal state (national) or by the EU (supranational). The summary according to the different levels is important because it will show with what kind of regional measures the province can contribute to the proliferation of the environment industry besides the EU and the state. Three levels can be differentiated according to the source of the subsidizations:

¹ In that year was it compared with the GDP of EU-15.

² The share of industrial added value in the gross value added (Bruttowertschöpfung).

- sources from the European Union,
- subsidizations of the German Federal State and
- the opportunities ensured by the province.

The subsidizations provided by the EU are pretty varied, although it is more difficult to be familiar with them because their target area is specifically wide. This means not only the subsidizations related to the operational programmes, but the different projects of the European Union (e.g. LEADER, URBAN, INTERREG, etc.), which are formed with one determined support target. It is recommended to examine the last three programme periods (1994-99, 2000-2006 and 2007-2013), in order to be able to see the alteration of the targets of the subsidizations.

Table 2: Environment Industry related targets of the EU's operational programmes

Period	Environment Industry related Direct and Indirect targets	Expenditures (ECU/Euros) ⁴
1994-1999	Transformation of the economic structure, support of the entrepreneurship	790 million
	Support of the R&D, creating technological centres and infrastructure	460 million
	Environment protection	90 million
2000-2006	Environmental technologies: support of the renewing energy sources and environment related researches	2.45 million
	Increase of the Research and Development Potential	269 million
	Improving the environment	200 million
2007-2013	Support of clustering	69.1 million
	The use of environment friendly investment, renewable energy sources (wind, sun, biomass, geothermal energy), environment friendly techniques in case of SMEs	A total of 790 million Euros of subsidization

Source: own construction based on the operational programmes of Saxony-Anhalt.³

There are some within the so called community initiatives, which supported the development of the economically lagging regions (e. g. Saxony-Anhalt) besides the operational programmes in the period of 1994-99. There are four such initiatives related to the renewal of the economic structure, so indirectly to the environment industry, from which the province has got subsidization within this planning period: the RECHAR II, the RESIDER II, the KONVER II and the SME.

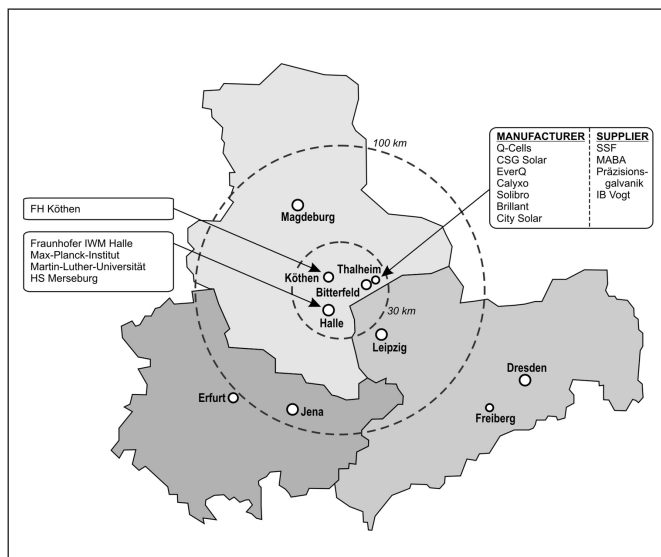
The German federal state tried to recover the East German economy with pretty varied and comprehensive programme package, in which it tried to give an important role to the knowledge based industries, which have high levels of added value, like the environmental industry, compared to the old, traditional industries. The programmes was not specialised to provinces, they regarded to the whole East German area. The measurement package should be highlighted from the economy reinforcing related programmes, which targeted the improvement of the regional economic structure. This package supported the industrial and local infrastructural investments, and the regional and cluster management projects. The education – within

³ In the period of 1994-99 the subsidizations were counted in ECU, after 1999 in Euros.

primarily the professional education – is important from the environmental industry’s point of view; the German national professional education and expert supply programme, which operated between 2004 and 2010. One of the priority targets was the general reinforcement of the East German innovation potential, and the creation of the innovation opportunities of the smaller companies, supporting their R&D, and the working out of the region specific innovation programme. In relation with this it was important to support the Eastern German higher education and research institutions, to create the suitable researcher environment, and the creation of the competitive higher education. The federal ministries (in case of the environmental industry the environment, the regional, and the economic) continuously publish results from the researches they support, and the tender opportunities, which could be used by the environment industry too (support of environment and energy efficiency, creation of environment innovations). It is highlighted in the tenders that they will prefer the SMEs during the evaluation. Further indicators of the environmental industry are the federal laws, the huge environment renewal programme in the 1990s and the German National Strategic Reference Framework, which functions as a guideline for the regional operational programmes.

There are the province’s own development programmes in the field of the regional economy development, which should be interpreted with the already mentioned EU funds because the two relies on each other. Two – closely environmental industry related – programmes should be highlighted: the first one is the *climate protection strategy*, which lasts until 2020, and the other one is the *provincial innovation strategy*, which lasts until 2013. The provincial government denominates those goals in the climate protection strategy, with which the already started environment protection and maintain programme should be continued. One of the most important goals is the improvement of the renewable energy production’s proportion with the addition of new resources, the environment friendly education, and the environment related professional training. The renewable energy sources play an important role in province’s energy production (primarily wind energy and biomass). Producing products and service, which are related to this is a purely environment industry activity. One of the biggest employers of Magdeburg is the Enercon company, which produces elements for wind power plants and puts these power plants into operation. It is recommended to highlight the solar energy branch, which will have an important future in the province: the government would like to form it to a competitive energy producing industry and a significant economic factor in the next 15 years by the investment of one billion Euros. For this development they provided the suitable environment near Bitterfeld and Thalheim. There is a goal in the province’s innovation strategy, within the support of the renewable energy sources, to create a sun energy cluster („Spitzencluster Solarvalley Mitteldeutschland”). The two neighbouring provinces, Saxony and Thuringia are included to this project too. The most important member of the cluster is the Q-Cells solar cell producing company, which is the world’s biggest solar cell producing company, and employs approximately 2500 people. Of course this is a complex system not only the co-operation of companies, but a considerable research and development background. As the figure shows the most important producers, suppliers, and other relevant higher education (Martin-Luther Universität) and research institutions (Max-Planck Institut) are within the 30-km zone around the cluster’s centre

Figure 3: Sun energy cluster with a centre in Saxony-Anhalt



Source: VDI Technologiezentrum GmbH–Technopolis GmbH (2008), 49. p.

Trainings, courses, scholarships and professions appear at more and more places in the last couple of years in Saxony-Anhalt. A good example for this is the initiation of the higher education institutions to the mentioned cluster (solar cell related research at the Martin-Luther University of Halle), or the wind energy related teacher scholarship at the University of Magdeburg, wherewith they would like to entice the eminent scientists of the renewable wind energy (Regenerative Windenergien). Not all parts of the environmental industry have the same importance in the province, but it is important for them that the background of the activities, they are specialized in, should be available. This means primarily the relevant background of the higher education and research institution, as this industry can remain and develop, and the economical background with the suitable infrastructure.

Table 3: Summary of the environmental industry related subsidizations

Regional level	Measures
European Union	Provincial Operational Programmes for the periods of 1994-99, 2000-2006, and 2007-13 The community initiatives between 1994 and 1999 (REACH II, RESIDER II, KONVER II, SME)
Germany	Different parts of the economic stimulus and environment bailout programmes after the reunification (for example increasing of the innovation potential, subsidization of the SMEs) Available subsidizations for tender through the ministries of the certain special fields (for example environment protection, economy, etc.)
Saxony-Anhalt	The province's own instructions (environment protection laws, determined development directions) and standards (environment protection regulations) The province's own climate protection strategy, which lasts until 2020, and its innovation strategy, which lasts until 2013 (in harmony with the EU's ERDF subsidizations) The continuous development of the province's higher education (in harmony with the EU's ESF subsidizations) To note particularly: the Solar valley Mitteldeutschland cluster, which company centre and research centre is in the province and it has a big influence on the economy and employment of the province

Source: own construction

Results of the environmental industry in the province

The three main activities of the environmental industry in Saxony-Anhalt are the environment friendly energy producing, the efficient energy consumption, and the waste recycling. For a clearer view it is worth to investigate how the province performs compared to the German average in case of environmental industry.

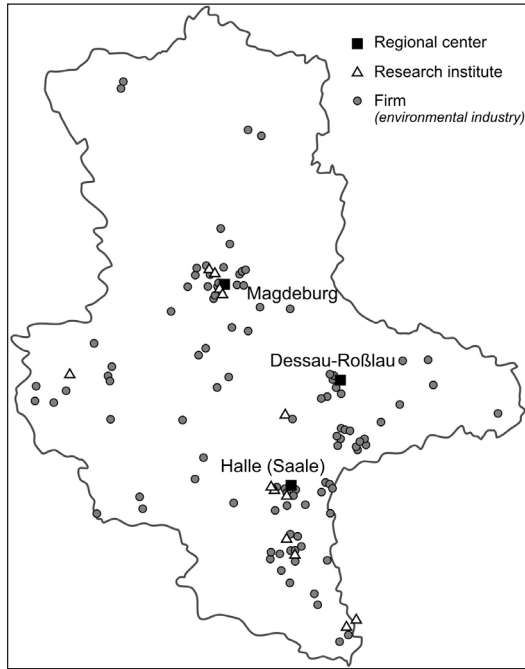
Table 4: Compare of the Environment Industry of Saxony-Anhalt and Germany

Denomination	German Environment Industry (2007)	Environment Industry of Saxony-Anhalt (2007)
Increase in revenue (%)	19.67	26
The proportion of firms according to turnover ratio (%):		
• Under 10 million Euros	74	79
• Between 10-50 million Euros	14	6
• Above 50 million Euros	12	15
Relative increase in employment generated by the environment industry (average, %)	11.3	7
The proportion of the company's turnover spent for R&D (average, %)	4.5	5
The proportion of companies according to the primary target segment of the market (%):		
• International (European and World Market)	35	12
• Domestic, Regional market (German and Province market)	65	88

Source: own construction based on Roland Berger (2009).

The environmental industry related companies of the province had the second highest growth potential (26%) on a federal level between 2005 and 2007. This growth rate will continue to increase (28%) between 2008 and 2010 as it is expected. Almost four-fifths of the companies of Saxony-Anhalt, which operate in environmental industry, have an annual turnover under 10 million Euros, that is there is a lot of small companies in the region's environmental industry. The conclusion is that the big companies are important for the province's economy, but the local environmental industry contains mainly small companies. If we examine the data, we will find that the environmental industry participants in which market, in what weight sell their products from geographical point of view, we will see that 69% of the companies mainly prefer the domestic, regional market. Those companies, which have their turnover under 10 million Euros, take a big proportion from this 69%. This means that their products remain within the region, and the compensation remains within the region too, so it can booster the region's economy from within. The European and world market is targeted by 12% of the province's environmental industry related companies. The German market is preferred by 19%. The most important settling factors for the companies based in Saxony-Anhalt are the high demand of the market, the available labour, which is a result of the suitable education structure, and the subsidization policy of the province, which plays an important role for the environmental industry related companies.

Figure 4: The locations of the environmental industry related companies in Saxony-Anhalt



Source: Roland Berger (2009), 292. p.

The figure shows the three regional centres, environment industry related research institutions, and companies, which operate in the environmental industry. Most of the research institutions are very close to the region centres, therefore the concentration of environmental industry related companies is higher. Other location affecting factors are the well established infrastructure (motorway) in one hand, and in the other hand the old and current industrial districts, which can be the base of the prosperity of the new industries, that is we can estimate the reuse of the old factories (brownfield investments). In summary, the basic requirements are available for the environmental industry (university education, research institutions, infrastructure, etc.). However, in order to grow continuously, it is important to take the appropriate steps considering the future. The first step, organising a solar-cluster has already been happened. It is expected that there will be a cluster in the near future for producing and developing the units for wind power plants because the province proposed the aim for the next period, which is producing renewable energy, and developing energy-saving technologies.

Summary

The environmental industry has many identifying marks of the so called knowledge industries. The development of environmental industry depends on the arrangements, which could develop the local and regional economy. These are the next:

- One of the arrangements is to give the SMEs with the development. The environmental industry in Saxony-Anhalt leans on SMEs, which merchandise in the inside (regional) market.

- It is important to have the adequate R&D potential. It means at least one research institute in the region with a relevant scientific researcher team. It could be seen from the case of Saxony-Anhalt, that it has a significant role, and it is an important factor to concentrate the manufacturers of the environmental industry.
- Another important arrangement is to train the adequate specialists. This point is really important, because these specialists can help to carry out the producing of the product and services of environmental industry. Some of the specialists are important labour for the research institutes.
- It is substantial for the environmental industry to have the relevant infrastructure. It could be seen on the map, that the firms are concentrated close to motorways or regional centres because of the better accessibility.
- The next point is the development strategy of the region. It is important at this point, that the local and regional actors and institutes should play significant role in working up of the regional development strategy. It could be called efficient if it induces the economic and social development (economic growth, new workplaces, better quality of life) for the region.

The most of these points are valid all of the so called knowledge-based industries. If some of these conditions are missing, it makes the situation difficult. These industries need these terms to come up and develop. The environmental industry is in close connection with the vision of the sustainable development, because it makes products and services for the protection of environment. The environmental innovations and the management activities are in connection with the environmental industry, so they are indirectly parts of the sustainable development. Because of the linking to the sustainable development the environmental industry can play important role in the regional development in the next years (decade).

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HEALTH TOURISM OF THE REPUBLIC OF CROATIA AND BOSNIA AND HERZEGOVINA-CURRENT STATE AND PERSPECTIVES OF INCLUSION IN THE EUROPEAN TOURISM FLOWS

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Trends in the modern world tourist market are continuously changing, and the competitive game is getting tougher by the day. Tourist demand is becoming more demanding, and is looking for new experiences, quality vacations with the aim of relaxing and rejuvenating the mind and body overstrained by stresses of modern-day busy life. Health tourism has an important role in improving and preserving health. Recent researches have shown that the demand for this type of offer is growing by the day. The Republics of Croatia and Bosnia and Herzegovina have all the preconditions for the development of a top quality offer of this form of tourism, which would attract a great number of visitors, resulting in numerous advantages for both countries (awareness of the population about the benefits of health tourism, getting foreign currency revenue, increasing the number of work places, high positioning of both countries on the tourist market). Both countries possess all the necessary natural resources key for creating top quality tourist offer in the area of health tourism. However, these resources are as yet inadequately exploited. Local population hasn't shown a big interest for this type of services until recently, which resulted in poor research and development of this form of tourism. European Union has placed a big challenge in front of the Republic of Croatia and Bosnia and Herzegovina regarding the development of tourist offer. In order to create the identity of a world famous tourist destination, and become a payer in European and world tourism flows, Croatia and Bosnia and Herzegovina must develop adequate guidelines of development in order to upgrade current obsolete tourist offer, and through adjustment of the offer to world and European quality standards achieve competitive advantages on the international tourist market.

Keywords: health tourism, tourist offer of the Republic of Croatia, tourist offer of Bosnia and Herzegovina, competitive advantages, European Union tourism

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Introduction

On today's tourist market, competition has been getting tougher on daily basis, because of increasingly demanding tourist demand, which places a difficult task before tourist offer providers: to create a tourist offer unique for their country, which will provide tourists a unique experience in the visited tourist destination. Today's health tourism offer in the Republic of Croatia and Bosnia and Herzegovina has been insufficiently developed in terms of European and world tourist trends. In order to create a recognisable identity of the tourist destination in the sense of a tourist brand, both countries need to design new development directions and strategies, and valorise their natural resources with the goal to improve the current offer, achieve competitive advantages, increase the number of tourist overnights, number of tourists and tourist consumption, while fulfilling sustainable development requirements. The objective of the paper is to present the current state of health tourism in Croatia and Bosnia and Herzegovina and point to the possibilities and perspectives of health tourism development in Croatia and Bosnia and Herzegovina, with the goal to achieve competitive advantages.

The Role of Health Tourism in the Function of Development of the Total Tourist Offer of the Republic of Croatia and Bosnia and Herzegovina

Health tourism is characterised by many qualities, which include relaxation, rest, preservation of psychological and physical health of tourists who are constantly exposed to great job-related, family-related and many other strains, as well as satisfaction of their needs for sports, recreation, and rest. The offer of this form of tourism is based on the use of services provided in health facilities such as spas and thalassotherapy facilities (based on the use of natural healing resources), in the form of carefully and contemporary designed programmes of passive or active vacation (in accordance with tourists' preferences and health state), while upholding the rules of healthy diet, all under expert supervision of highly trained staff (doctors, physiotherapists, nutritionists, instructors, tourist animators, etc.), in order for the provided services to fulfill their ultimate goal – a holistic approach to vacation and improvement of health, while providing the tourists with maximum pleasure. A satisfied tourist will recommend the place in which he experienced fulfillment of his wishes and got value for money to his friends, acquaintances and relatives. A satisfied guest represents a free and quality promotion. Numerous research conducted lately at the European and global level have indicated greater development of health tourism, which places an important task before Croatia and Bosnia and Herzegovina: repositioning of non-competitive and underdeveloped tourist offer of health tourism, which will result in the enrichment of the total offer of tourist destinations, avoidance of the seasonal character, increase in the number of tourists and tourist overnights, greater satisfaction of tourists, and achievement of competitiveness and recognisability of the destination as a renowned world brand.

Current State of Health Tourism Tourist Offer of the Republic of Croatia and Bosnia and Herzegovina

Croatia and Bosnia and Herzegovina are countries rich in natural healing resources necessary for health tourism development. These resources are classified into climatic, sea- and spa, and are presented in the Table 1 below.

Table 1: Natural Healing Factors of Health Tourism

Climate	Sea	Spa (balneotherapy)
Climate change	Climate	Thermomineral waters
Climatic elements and factors	Cleanness of air	Muds
Climate procedures	Sea water	Naphthalane
Cleanness of air	Algae	Climate
Solar radiation	Vegetation	Cleanness of air
Sea factors	Walkways and trails	Vegetation
Karstic caves	Solar radiation	Walkways and trails
Salt mines	Sand	Solar radiation
	Salt pan mud	
	Marine mud (liman)	

Source: Ivanišević, G. (2001), 34. p.

Regardless of rich natural resources, they are not used sufficiently, mostly because of the lack of qualitative valorisation of resources, which has resulted in insufficient awareness of realistic potentials of possible and realistic health tourism development in Croatia.

Concrete competitiveness of Croatia is rated through three units (Kušen; 2006, p 219-220):

1. Continental health tourism offer of traditional Croatian health resorts, with a few exceptions, lags behind the offer of the analysed competitive countries/destinations in terms of quality. Croatian health tourism destinations, although cheaper, are not in line with the flows on competitive markets despite the quality of the natural healing factors and available medical staff, for reasons of unclear institutional status of the offered manufacturing mix, equipment and design. Taking into consideration the fact that the existing offer also uses the greatest part of available resources, any significant shift Croatia can make in terms of increasing international competitiveness in continental health tourism necessarily implies changes.
2. The wellness offer in hotels in seaside destinations is competitive both according to the criteria of quality and the prices, in international terms. However, it is currently scarce and unrecognisable on the market. Except in Opatija, where the process of clear market profiling of the basic tourist destination towards health tourism undoubtedly began, in other hotel resorts or individual hotels, wellness offer is an important, but not the only offer. This does not ensure recognisability of health tourism facilities.
3. On the one hand, the offer in the most significant continental health tourism destinations is not in line with international trends, and on the other hand, the offer in seaside tourist destinations is of quality, but remains unrecognisable. This fact imposes the conclusion that Croatian health tourism product is currently undeveloped.

Tourist destination profiling is a difficult and demanding task, taking into consideration frequent changes to which it must constantly adapt. Health tourism offer implies synergy of top quality of the total offer and knowledge of the staff, taking into consideration the fact that working with tourists is founded on group- and individual approach.

Factors of business success and tourist offer development are:

- Market research: tourist demand has become more demanding, and this is why the latest preferences must be analysed and future wishes predicted, in order to improve the outdated tourist offer intended for all age groups, and introduce new, more innovative contents. It is necessary to improve total quality management system, and to conduct a benchmarking analysis with the goal to adopt the best practice of the competition, and at the same time, create a more innovative and competitive product.

- Designing of successful strategies of tourist offer development: spas need to design a successful concept, strategy, develop business system and business policy, in order for the company to achieve competitive advantages and secure its position on the turbulent tourist market.
- Expertise and capability of the staff: intellectual capital represents the key factor for creating a successful strategy of market performance, and achieving success in modern business activities. In accordance with the requirements prescribed by the European Union, employees must be sent to professional trainings, seminars and practical work abroad in the framework of lifelong learning. They also have to possess communication skills in order to adapt to each guest individually, and to be able to recognise their needs and wishes. Guests must feel special, and taken care of.
- Investments: investments in development are necessary, as well as increase in accommodation capacities, while acquiring the latest and most modern equipment with the goal of providing top services; environment of health tourism facilities needs to be arranged (in order for the guests to be able to relax in silence, calm down and enjoy the peace and quiet).

Croatia needs to undertake maximum efforts in order to develop this selective tourist offer. The tourist offer is mostly based on the standard offer of sports recreation (swimming, rowing, table tennis, tennis, cycling...) and insufficiently developed wellness offer (hotel facilities most frequently offer certain kinds of massages, or just the possibility to use the swimming pool, sauna, fitness). European Union's standards have clearly prescribed the standards and conditions of development of this kind of offer: it must unfold in an ecologically preserved environment (clean sea, lakes, rivers, thermal springs, forests, mountains, etc.), open air sports facilities (the most adequate in the summer), and closed sports facilities (intended for colder time periods), as well as arranged walkways and clearly marked routes for safe stay in nature). The next important requirement is investing in more top accommodation capacities, and arrangement of facilities. Latest investments in Croatian tourism are evident (enrichment of tourist programmes in the destination, investments in the increase of accommodation capacities, etc.). However, it is insufficient, which has resulted in poorer results than possible. Comparative advantages have not been used enough, and Croatia is perceived as a destination characterised by an outdated offer (the „sun and sea“ offer). The global crisis has had a significant negative impact on tourism and the hotel industry. Nevertheless, positive shifts have been recorded. Croatia needs to perceive economic crisis as a challenge for development of the total tourist offer as well as selective forms of tourism (in this paper, emphasis is placed on health tourism), with the goal to strengthen the market position, realise an increase in tourist overnights, achieve greater foreign exchange earnings, etc.

Table 2: Realised Overnights in Croatia in the Period Between 2005 and 2010

	Accommodation capacities		Tourist arrivals (000)			Tourist overnights		
	Rooms	Beds	Domestic	Foreign	Total	Domestic	Foreign	Total
2005	312.751	909.210	1.528	8.467	9.995	5.434	45.987	51.421
2006	319.716	925.882	1.726	8.659	10.385	5.985	47.022	53.007
2007	326.792	944.076	1.856	9.306	11.162	6.431	49.574	56.005
2009	332.060	968.610	1.846	9.415	11.261	6.478	50.625	57.103
2010	333.237	969.726	1.600	9.335	10.935	5.799	50.501	56.300

Source: Croatia in Numbers 2010 (Državni zavod za statistiku, 2011, web)

The data in the table above indicate a continuous trend of increase in accommodation capacities, rooms and beds alike. The number of tourist arrivals records continuous growth, except in 2010, when deviation was recorded. The realised tourist overnights follow the same trend.

The following table shows the number of realised overnights in Croatian health tourism facilities in the period between 2004 and 2010.

Table 3: Realised Overnights in Croatian Health Tourism Facilities in the Period Between 2004 and 2010

	2004	2005	2006	2007	2008	2009	2010
Istarske Spa	63 247	68 083	69 318	72 283	67 841	58 206	54 112
Daruvarske Spa*	88 655	82 454	83 428	83 503	-	-	-
Bizovačke Spa	37 431	37 579	30 887	31 442	32 095	27 360	23 980
Varaždinske Spa	12 370	12 988	61 566	55 591	40 888	39 218	57 378
Thalassoht. Crikvenica*	26 267	26 301	28 725	27 864	21 970	21 408	19 749
Tuheljske Spa	23 852	30 998	44 917	54 069	58 111	56 299	55 476
Krapinske Spa	25 351	25 955	29 422	38 869	44 322	36 902	30 783
Topusko Spa	48 507	42 262	40 413	49 574	49 939	48 729	49 220
Sveti Martin Spa**	-	8 211	28 330	37 104	37 446	34 815	50 107
Kalos*	18 121	17 279	19 588	20 831	-	-	-

Source: Author's interpretation according to data collected from the spas and thalassotherapy facilities

*Daruvarske spa and Kalos were contacted, but did not provide clear and precise statistical data.

** St.Martin Spa were not open in the year 2004, which is the reason for the absence of the statistical data.

The data presented in the table above indicate continuous mild growth of realised tourist overnights in Croatian spas until 2009, when a decline in realised overnights was recorded because of the impact of the economic crisis. In 2010, Varaždinske Spa, Topusko Spa, and Sv. Martin Spa realised greater number of overnights in relation to the preceding year.

The following table shows the number of realised overnights and the number of guests in selected EU Member States.

Table 3: Number of Overnights and Guests in European Spas of Selected EU-27 Members

	Number of spas	Number of overnights			Number of guests		
		2006	2007	2008	2006	2007	2008
Germany	241	63.269.499	65.131.586	66.136.765	12.020.003	12.606.485	12.826.847
Germany (only seaside spas)	50	34.476.478	36.193.493	36.395.097	6.044.625	6.347.201	6.504.031
Estonia	16	1.050.399	965.238	875.187	286.742	275.320	258.322
France (thermal)	96	...	8.965.322	8.805.571	...	495.146	492.331
France (thalasso)	30	...	...	...	...	...	...
Greece	50	...	...	...	...	...	...
Latvia (only Jurmala)	11	390.757	413.312	347.913	124.638	128.184	128.010
Lithuania (only Palanga)	6	2.181.892	2.455.017	...	416.180	545.781	...

	Number of spas	Number of overnights			Number of guests		
		2006	2007	2008	2006	2007	2008
Luxembourg	1	68.740	89.545	...	5.192	4.888	...
Netherlands	4	...	54.000	...	...	...	...
Portugal	34	855.000	860.000	...	99.057	99.000	94.431
Romania	...	...	...	...	...	783.294	785.164
Slovakia	21	...	...	...	...	...	...
Spain	128	7.295.000	5.200.000	...	1.105.000	1.200.000	...
Czech Republic	34	5.669.938	...	...	327.078	...	...
Hungary (only Danubius Hotels)	32	3.836.000	...	...	426.000	...	...

Source: adapted according to (European Spas Association, 2011, web)

The data presented in the table above show the state in the selected EU Member States. Deviations in the number of guests and realised overnights were recorded, and it is probable that it is a consequence of economic crisis.

Natural resources must be valorised in the process of repositioning of the outdated tourist offer and designing of a new, successful competitive tourist offer. Likewise, there is a need for a SWOT analysis which will provide guidelines for possible directions of future tourist destinations development. We must provide an answer to questions: What do we hope for in the future and where do we want to be?

Analysis of Croatian health tourism may be presented by the following SWOT matrix:

Table 4: SWOT Analysis of Croatian Health Tourism

ADVANTAGES	DEFECTS
<ul style="list-style-type: none"> - natural attractions - climate - hospitality of inhabitants - tendencies in development of selective forms of tourism - proximity of the emissive markets - long-lasting traditions of particular tourist places - preservation of natural resources - possibility of foreign currency inflow - introduction of international quality standards 	<ul style="list-style-type: none"> - vaguely defined development strategy - shortage of informative materials as a means of offer promotion and of quality tourist resources - insufficient promotion investments - outworn tourist infrastructure - insufficient outpansion offer and consumption - poor investments into surroundings settlement - insufficient investments into traffic infrastructure - value for money - insufficiently defined produce quality - insufficient investment into personnel education - seasonal offer type
CHANCES	RISKS
<ul style="list-style-type: none"> - repositioning of sports-recreational and health tourism - further offer development - quality service development, positioning in a world market - competition achievement - upholding sustainability principle - possibility to achieve year-round business activities - accession to the European Union 	<ul style="list-style-type: none"> - consequences of Croatian War of Independence - tough competition - slow adjustment to the variable tourist needs - slow building of tourist infrastructure because of lack of financial resources - decline of tourists' purchasing power in crisis conditions - not using EU financing possibilities for development and improvement of the offer - legislation covering provision of services has not been clearly defined - not upholding sustainability principle

Source: adapted according to: Gračan, D., Milojica, V., Zubović, V.: Benchmarking in Sports Recreational and Health Tourism in Croatia and Slovenia, The 6th International Scientific Conference Management in the Function of Increasing the Tourism Consumption-Tourism Destination Attractions in the Increased Tourist Expenditure, 8th May, 2008, Opatija

Realisation of all Croatian comparative advantages stated in the above SWOT analysis will be possible in case of realisation of the new investment cycle in health tourism, while taking into account the most contemporary achievements and experiences of EU Member States previously mentioned in the paper. Croatia is one of the closest destinations to emitive countries of Europe and the world, all because of its favourable geographic, strategic and traffic position, preserved nature and natural resources, and it may thus become one of the most significant health tourism destinations of the united Europe. This fact is also validated by historical sources, which state that development of health tourism started on the Croatian coast and that today's renowned seaside destinations Opatija, Mali Lošinj, Rab, Malinska etc. were recognised as desirable health tourism destinations as early as in the 19th century. Thus, health tourism may also serve to prolong the tourist season outside of summer months, contributing to an increase in employment, well-being of the local community, and strengthening recognisability of Croatia as an all-year tourist destination based on top- and competitive offer.

The tradition of using thermomineral waters in Bosnia and Herzegovina dates back to far history. The first chemical analyses and recommendations for using spring waters in healing and treatment were conducted by renowned experts from European spas of Wiesbaden and Baden Baden. Soon began the building of modern spa centres for treatment and rehabilitation, where psychologically and physically worn out guests, but also guests in full health, spent their vacation and free time (Kerla et al.; 2010.,p 11). Numerous natural springs have been processed in the geological, hydro-geological and physically-chemical sense, and are located by stationary facilities to fulfill health tourism requirements.

Health and hygiene are also essential for T&T competitiveness. Access to improved drinking water and sanitation is important for the comfort and health of travellers. And in case tourists do become ill, the country's health sector must be able to ensure they are properly cared for, as measured by the availability of physicians and hospital beds. Position of B-H in health and hygiene may be seen as relatively good, since WEF T&T Competitiveness Report ranks it as 61st in Health and hygiene pillar of T&T regulatory framework subindex. Country still has developmental prospects, since two out of four indicators of this pillar (access to improved sanitation; access to improved drinking water are marked as notable competitive advantages. (WEF 2011, pp 5-137). However, in comparison with the last report (2009), when B-H was ranked 56th, this result can not be satisfactory. Lack of systematic investments in health sector may be the reason of the weakened position. The Lisbon Review 2010 analysed how well the existing 27 EU members and 11 other countries are meeting the Lisbon goals (improvement of Europe's productivity and competitiveness through various policy initiative) and highlighted the challenges that remain to be addressed in a variety of areas. Croatia was ranked as the 2nd best performer among the 11 other countries, while B-H was ranked as the worst, 11th performer. In subindex *sustainable development* Croatia even outperformed *Accession 12* group of countries. (Lisbon Review 2010, pp. 12-13)

B-H was ranked very low (10th or 11th) and well below the various EU averages in all eight dimensions (Information society, Innovation and R&D, Liberalisation, Network Industries, Financial Services, Enterprise Environment, Social Inclusion, Sustainable Development), which shows that significant efforts shall be made to improve its position.

The potentials for B-H development in health tourism sector undoubtedly exist, but have to be used in a better way, and provide space for domestic and foreign investments. Bosnia and Herzegovina has numerous spa centres founded on thermal or mineral springs, on various

developmental levels and of tourist reputation. The most renowned are Aquaterm (Olovo), Reumal (Fojnica), Dvorovi (Bijeljina), Guber (Srebrenica), Kiseljak, Laktaši, Gata (Bihać), Vrućica (Teslić), Slatina (Banja Luka), Kulaši (Prnjavor), Slana Banja (Tuzla), Ilidža (Sarajevo), and Vilina Vlas in Višegrad (Turizam Plus, 2010, web).

The Statistics' Office defines health spas as „places where the healing effect of thermal or mineral waters and other geological-mineral components has been scientifically or empirically proven, and whose facilities are oriented to healing and rehabilitation of visitors.“ (FBiH statistics definition). Current use of available resources and accommodation capacities, with this purpose in mind, is not on the satisfactory level. Some of the spas (for example, Vrućica), have diversified their offer and have been attracting organisers and participants in various congresses, seminars and events for years. In the analysis of the statistics of overnights and arrivals, it is important to emphasise that the structure of guests in most spas mostly consists of patients on rehabilitation, whose stay is financed from health insurance funds, which produces poorer financial effects on spa business activities. (MINISTRY RS, 2010, pp.53-54).

Multifunctional character of the offer may significantly contribute the increase in the number of arrivals and overnights. At the same time, approach to development of the new elements in the offer (congress tourism) may lead spas in a different direction than their original purpose and social role (health- and spa elements of the offer). The decision on the direction of development of certain capacities is primarily the one the management and owners of the facilities have to make, and they need to have at their disposal all the necessary indicators of tourist trends and flows in the decision-making process.

Table 5: Realised Overnights in B-H Spas in the Period Between 2004 and 2010

	2004	2005	2006	2007	2008	2009	2010
Republika Srpska	163.666	169.189	199.245	220.740	237.400	189.080	-
Domestic tourists	141.640	150.294	169.177	184.527	195.611	161.250	-
Foreign tourists	22.026	18.895	30.068	36.213	41.789	27.830	-
Federation of B-H	7.000	8.000	8.000	7.000	5.000	3.000	-
Domestic tourists	6.000	7.000	7.000	6.000	4.000	2.000	-
Foreign tourists	1.000	1.000	1.000	1.000	1.000	1.000	-
Bosnia and Herzegovina	170.666	177.189	207.245	227.740	242.400	192.080	-
Domestic tourists	147.640	157.294	176.177	190.527	199.611	163.250	-
Foreign tourists	23.026	19.895	31.068	37.213	42.789	28.830	-

Authors' adaptation according to data from: Statistical Yearbook of the Republika Srpska 2010. 259. p.; Strategy of Tourism Development of the Republika Srpska 2010-2020; Strategy of Tourism of the Federation B-H 2008-2018, 55-56. pp.; Statistical Yearbook/Yearbook of the FB-H 2010, 331. p.

The internal share of spa tourism in the structure of realised overnights is much greater in the Republika Srpska entity than in the Federation of B-H entity. It is thus logical that the strategy of tourism of the SR recognises spa tourism as the basic type of tourism, taking into consideration that it has expanded the most and has the tendency of growth.(ibidem; 53-54). The key factors of spa tourism success include: the tradition and brand of healing spas;

modern facilities; a series of specific thermal services; richness and diversity of recreational activities in the vicinity; ecological environment. (Vanjskotrgovinska, 2008, p.8).

Tourism strategy of the Federation of B-H also defines development potentials of spa tourism in certain cantons. Thermal waters of Gata and springs in the Sanski Most area have been presented as preconditions for the development of spa, health- and recreational tourism in the Una-Sana Canton. The Tuzla region is renowned for its spas with natural thermal and mineral waters which cure inflammations, rheumatic, neurovascular, neurological, and gynecological illnesses, as well as various post-traumatic conditions, and provide the possibility of rehabilitation. The existence of mineral-thermal springs is defined as the key strength of the Tuzla Canton, and health (spa) tourism has been estimated in the product portfolio as an element of great attraction and great competitiveness. The offer of Fojnica has been similarly positioned in the product portfolio of the Mid-Bosnian Canton, while health-spa centre Olovo has been defined as the key project of the Zenica-Doboj Canton (Ministry FB-H, 2008, pp. 109-147). However, the participation of spa tourism in the total tourism of the Federation of Bosnia and Herzegovina is on a significantly lower level than the level of participation in the structure of the total tourism of the Republika Srpska.

The example of the Vrućica Spa, one of the most developed spa facilities in B-H, indicates the possible development path of spa tourism. Accommodation capacities in all the Republika Srpska spas, except for Vrućica, are very modest, and this represents an obstacle for a more significant tourist turnover (MINISTRY RS, 2010, p. 53-54).

Vrućica Spa comprises 4 hotels with about 1000 beds. Guests have at their disposal numerous contents and services, which makes Vrućica Spa a renowned natural health resort, conference, sports-recreational and tourist event centre. Through its own tourist office, Vrućica provides accommodation in over 500 categorised beds in private accommodation. The range of services includes: medical services, rehabilitation, organisation of conferences, recreational activities. The hotel disposes of a conference room and six parlours for plenary and group work. Wellness offer is comprised of: spa wellness (water world, sauna world, massage world, space for fitness and relaxation); medical wellness (thermomineral water and healing muds), spa beauty: facial and body care (Zdravstveni, 2010, web). According to the volume of the turnover, Vrućica Spa has the best results in B-H, realising over 120,000 overnights from 2006 to 2008 (MINISTRY RS, 2010, p.55) Of course, in the interpretation of these data, it is necessary to take into consideration positioning of this spa as a conference and tourist event centre, parts of the offer which participate in the total number of realised arrivals and overnights. Exclusion of this part of the achieved results from the total results would present a more realistic image of actual arrivals motivated exclusively by health/spa elements of the offer.

SWOT analysis of the Vrućica Spa from the point of view of possible investments provides an improved insight in the possible further positioning of the spa. The defined strengths are the following: renovated location, with healing spas and clinics, and strong mineral water of 38°C; non-existence of a similar facility in the northern part of the country; park of the surface of 70 acres, 6 hotels out of which 4 are open, with great capacities; potential for development of land/assets; developed network between the management and marketing sectors of the destination. The defined weaknesses and threats refer to relative limitation of the tourist demand for the region, and competition with the neighbouring countries which have numerous renovated thermal centres on the European level (Vanjskotrgovinska, 2008, p.8).

Health Tourism Characteristics in the Selected EU Member States

According to all analytical indicators, Europe is at the very peak of world tourist development. It represents the strongest emitive tourist area, and is also the most visited tourist destination. From the foundation of the European Union, tourism has been one of the most significant industries in the total economic system of the European Union. It is expected that tourism will retain its leading economic part in the European Union; it should assist the development of underdeveloped regions, and provide the possibility of employment for the local population. In order to realise such prognoses, many old customs and habits in the EU have been changed over the years with the intention to perfect the old and introduce new kinds of services to tourists. These new institutions, among other things, operate in both small and large tourist resorts, develop regional tourist destinations, take care of a wide spectrum of modern tourists' needs, from their personal problems and health, to travelling, crossing the border and owning the necessary documents. (Alkier Radnić et al.; 2009, p.2)

Richness of natural resources owned by the EU represents the key success factor for creation of adequate tourist offer of services and products, while upholding sustainable development principles. It is evident that the neighbouring countries (EU Member States) Slovenia, Austria, and Hungary, have been recording significant shifts and success in profiling of the competitive offer of health tourism, while Croatia and Bosnia and Herzegovina are in the stage of development. The question is posed: How to become more competitive and more successful? Competitiveness on the tourist market depends on several factors; primarily, the provided service must be of quality, provided as quickly as possible, and with the price adjusted to the provided quality (realisation of value for money). Likewise, great emphasis needs to be placed on obtaining the best intellectual capital (which represents the most important factor of achieving competitiveness in business activities), and implementation of lifelong learning with the goal to gain the latest business insights, conduct continuous benchmarking analysis with the goal to adopt the latest practical trends.

Application of the CRM (Customer Relationship Management) is also significant in the intention to position spa offer in the awareness of potential consumers. A precondition (Stipanović; 2006, p. 221) is improved knowledge of tourists' demands and preferences, especially in terms of highly aware and informed tourists who have a great possibility to communicate with agents of the offer and the possibility to realise the offer according to their demands. The basic goals are to attract tourists, provide them maximum satisfaction (ensure their return and achieve the most effective promotion), increase the number of tourists and gain their loyalty. Numerous European countries have achieved significant success in this segment; however, the subject of analysis in this paper are characteristics of the offer of the selected Member States, the neighbouring countries Slovenia, Austria, and Hungary.

Austria is characterised by a developed health tourism offer throughout the country, with emphasis on Tirol, Salzburg, etc. Its tourist offer is based on small family hotels which offer basic wellness services, large hotels equipped by top wellness equipment, which enables high quality treatments under supervision of medical staff (depending on the needs), health tourism resorts offer a full, integrated service at a single location (sports recreation, wellness, medical therapy with the goal to recover from locomotor, respiratory, cardiovascular, and similar illnesses, etc.). The offer is adapted to all age groups. By observing and analysing the Austrian offer, the conclusion is derived that its excellence and quality make it one of the top European health tourism destinations, registered as a brand, with clearly defined development

strategies, whose offer has continuously been perfected and in which total quality management is clearly defined, which is crucial for achieving success in tourism and hotel industry. Analysis of the data recorded by the Austrian Tourist Board (Austrian Tourist Board, T-Mona 2008/2009), 46% of tourists participate in active holidays, 32% in recreational holidays, and 11% in wellness- and beauty-based holidays. According to data stated in Austria-Invest in World-Class Tourism and Wellness (Austria-Invest, 2010, p. 13), about 170 new hotels were opened in the past two years, with an increase in the number of wellness oases to 989 in 2010. The annual income amounts 1,15 billion of euros and is on the rise. 33 spas attract annually 8 million tourists, as well as 200 private clinics and rehabilitation centres. 11% of tourists in Austria use health-oriented vacations. Quality of health tourism is guaranteed by the Best Health Austria platform which integrates 36 partners which include clinics, rehabilitation centres, spas and wellness facilities. As a public-private partnership, Best Health Austria ensures excellent offer of health tourism services while upholding all top quality standards.

Hungary is rich in thermal springs. According to data available, Hungary has over 400 registered thermal springs: Bares, Harkány, Kaposvár, Tamási, etc. (Spas Hungary, 2011, web). Spas are built at the very location of the thermal springs, or water is led to the spa directly from a natural source. It has numerous natural attractions, such as the largest European thermal lake in Heviz. Hotels offer their own health tourism treatments, exclusively on the commercial basis. Hungary has recognised numerous advantages of health tourism a long time ago, and continuously promotes its constantly developing health tourism offer, while upholding sustainable development principle.

Republic of Slovenia is a country rich in numerous natural healing factors necessary for health tourism development, with special emphasis placed on numerous thermal springs. Taking into consideration these advantages, numerous spas have been opened offering top services and accommodation capacities (Dolenjske, Šmarješke, Čatež, Laško, Olimia, Zreče, Rogaška Slatina, Dobrna, Radenci, Lendava, etc.). Health tourism services offer is exceptionally rich, and includes, among other things, sports recreation and entertainment based on using mineral water swimming pools. Primary services are continuously complemented by additional contents and services (walkways and trails, golf). Theme resorts were created, whose offer has been tailored to meet the needs and wishes of tourists of all age groups (the elderly come to rest and relax, younger employed people use the combination of active and passive vacation in order to recover and improve their health, by which they increase their working ability, etc.). Great emphasis is placed on creating a unique offer and service, with the goal to create a tourist brand, and it is certain that this is what Slovenia has achieved thanks to its timely market re-orientation towards new market segments, with the goal to satisfy their needs.

Recent experiences and conducted research in terms of quality and offer development have indicated, with good reason, that domestic tourists tend to go for a vacation to the neighbouring countries Slovenia, Austria, and Hungary, primarily for their high quality and rich offer of services, greater number of accommodation capacities, etc. The fact that domestic population goes for a vacation to neighbouring countries results in reduction of real option of tourism development, financial outflow of significant resources which could be invested in development and enrichment of one's own tourist offer, while tourist industry retains its seasonal character (emphasis on summer vacations in the seaside destinations).

Studies have indicated that Croatian tourism has reached its peak within the current structure and that it has been turning to structural changes. (Roland, 2010, web). Quality and portfolio of services are not on the level which would justify high prices. (Družić; 2002; p. 411). The above-mentioned indicates that it is necessary to make additional investments in knowledge and development of intellectual capital of all participants in the process of health tourism offer development, as well as to introduce innovations in business activities.

Developmental Guidelines of Health Tourism in Croatia and Bosnia and Herzegovina for Inclusion in European Tourist Flows

Taking into consideration their potentials and resources, Croatia and Bosnia and Herzegovina are countries which have the possibility to successfully develop health tourism. They are facing a difficult and demanding task: to fully develop the tourist offer in accordance with the EU trends. Tourist market has been getting more demanding; thus, it is necessary to continuously conduct market research with the goal to learn the latest tourist wishes, to measure their purchasing power in order to create a service that would be affordable also to those of lower purchasing power, and thus enable whole-year-long occupancy of accommodation capacities; to disseminate information of the tourist offer, to conduct a benchmarking analysis with the intention to adopt the best practice and create a richer, more imaginative and more competitive offer; education and lifelong learning of human resources with the intention to provide top service, etc. Pre-Accession Funds will also help in the realisation of the above-mentioned development guidelines, which will be of great significance for financing tourist projects in both countries. Accession to the European Union will have multiple positive effects (single market, freedom of movement of people, capital, goods, and services), because of the fact that much greater cohesion funds will become available, and that full synchronisation of legislation with the legislation of the united Europe will be achieved, which will help reach high quality level of health tourism in Croatia and Bosnia and Herzegovina.

Conclusion

Health tourism in numerous (primarily European) countries represents an increasingly significant segment of the contemporary tourist offer. Tourist demand has become more demanding and more strict on daily basis in terms of realising value for money. In order to achieve competitive advantages and to equally participate in the European tourist flows, Croatia and Bosnia and Herzegovina need to continuously explore the tourist market and, in accordance with its changes, reposition the outdated health tourism offer. It is necessary to make significant investments in the quality of the tourist services offer and increase in the number of accommodation capacities, and clearly define the legislation for providing services on the EU level. In this manner, both countries will achieve year-round business activities, i.e. outgrow the seasonal character, increase the number of overnights and guests, and achieve a significant foreign exchange earnings. The overview of health tourism development practice in the selected EU Member States presented in the paper (Austria, Hungary, Slovenia), served as a basis for establishing the baseline for further benchmarking and defining the guidelines for further development of health tourism offer of Croatia and Bosnia and Herzegovina.

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ADAPTATION OF RURAL TOURISM OFFER OF THE REPUBLIC OF CROATIA AND BOSNIA AND HERZEGOVINA TO THE EUROPEAN UNION TRENDS

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Tourism represents a mass movement of people which makes strong impact on many destinations, traditional or emerging ones. Traditional destinations are influenced in a different way than emerging ones, when introducing new types of tourism. They need to change the structure and content of the offer, use additional point of access to markets, and basically influence the very nature of its tourism. Emerging destinations are in position to review the best practices and adopt the most appropriate strategies for tourism development, having regard to sustainable types of tourism, such as rural tourism.

Contemporary trends on today's tourist market are characterised by daily drastic shifts in tourist offer development. Modern tourists are inclined towards traditional vacationing in seaside destinations. However, there is greater demand for quality and specific rural tourism services. Specific rural tourism offer bases its specific quality on rich tradition of the country, rich gastronomic-enological offer specific for the country, acquiring new knowledge through learning about old customs, traditions, specific qualities of the country and the region visited, etc.

The focus of this paper is to assess the need for expansion of rural tourism in Republic of Croatia, as traditional (mainly „sun and sea“) destination and Bosnia and Herzegovina, as emerging tourism destination. Review of the best practices in EU member states and assessing the structure of the tourism in Croatia and Bosnia and Herzegovina will result in recommendations and practical guidance for quality improvement, ways to use the EU financial instruments (funds and framework programmes) for (rural) tourism development.

Keywords: rural tourism, tourism offer, Republic of Croatia, Bosnia and Herzegovina, EU financial instruments

Introduction

Contemporary trends on today's tourist market are characterised by daily drastic shifts in tourist offer development. Modern tourists are inclined towards traditional vacationing in seaside destinations. However, there is greater demand for quality and specific rural tourism services. The satisfaction level of tourists by services provided in a tourist destination

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depends on their experiences during the stay, but also inevitable factors such as quality of service, accommodation, gastronomic offer, environmental cleanliness, safety, possibility to experience a unique offer during the stay (going to events, staying in intact nature, sports recreation, care for animals, participation in farm work, such as preparing home-made products like wine, juices) etc. Specific rural tourism offer bases its specific quality on rich tradition of the country, rich gastronomic-enological offer specific for the country, acquiring new knowledge through learning about old customs, traditions, specific qualities of the country and the region visited, etc.

According to all analytical data, Europe forms the peak of the world tourism development. It represents the strongest emissive tourism area and is, at the same time, the peak outbound tourism destination. From the foundation of the European Union, tourism forms one of the strongest economic segments within the EU economic system. (Alkier Radnić et al.; 2009, p.2). European countries try to gain tourism prosperity by stressing their own comparative preferences, by developing specific tourism forms in line with their attractions. Potential tourists are attracted by their enriched innovative offers and oriented towards new destinations rather than onto their traditional Mediterranean summer resorts. Furthermore, the need for holidays motivated by health, education, religion, and various other reasons is becoming greater. (Alkier Radnić et al.; 2009, p.8) The above-mentioned facts point to the necessity of development of a specific tourist offer of Republic of Croatia (hereinafter: RH) and Bosnia and Herzegovina (hereinafter: B-H) with the goal to develop a competitive tourist offer on the European and world market. RH and B-H have a rich base regarding natural resources, tradition, gastronomic offer, which is an important precondition for creation of a competitive tourist offer. With this in mind, it is necessary to analyse the current situation and take adequate actions with the goal to adapt to European tourist trends.

Definition of the Term “Rural Tourism” and Its Impact on Total Tourist Offer Development

Rural tourism development is marked by the necessity to raise awareness of modern tourists that it is necessary to preserve nature and uphold the sustainable development principle, spend vacation away from stressful everyday life, as well as the need to go back to their roots. Determination of the term „rural tourism“ is very complex and this is why one should be very careful in its defining. In the process of defining the complexity of the term „rural tourism“, authors Cetinski, Kušen and Katica point out an example from the seminar „Strategy of Rural Tourism Development in South Europe“ which took place in 1991 in Bilbao, where it was stated that outside of cities and maritime centres, a special kind of tourism was on the rise in open environment and villages, called **rural tourism** (Fr: *tourisme rural*, It: *turismo rurale*, Ger: *Ferien auf dem Land*, Slov: *turizem na podeželju*). Croatian language lacks the adequate word which would denote total space outside of the city limits. In professional, predominantly geographic literature, the syntagm „rural space“ is used for the space outside of the city limits, from which is derived the only acceptable name for this kind of tourism - rural tourism. (Cetinski et al.; 1995, p.6). The concept of rural tourism includes many forms (for example, peasant, residential, county-, health-, cultural-, gastronomic-, wine tourism, etc.), out of which peasant tourism is the most significant component. This term is also marked by the syntagm farmtourism (Fr: *tourisme a la ferme*; It: *agroturismo*; Ger: *Urlaub (Ferien) auf dem Bauernhof*, Slov: *kmečki turizem*). The etymology of the term is the word ‘farmer’, which denotes the agent of

development of this form of tourism (Cetinski et al.; 1995, 10-11). Rural tourism is a specific form of tourism which enables a person to return to nature and experience new activities. It is based on the following essential elements, stated in the table below:

Table 1: Essential Elements of Rural Tourism

ESSENTIAL ELEMENTS OF RURAL TOURISM
Located in rural areas
Functional and rural, based on small-sized enterprises, on open environment in the direct contact with the nature, based on heritage and traditional activities
It allows participation in traditional activities and in life of local population
It ensures contact between householder and guest
Villages and buildings are small
High participation in profit

Source: Roberts, L., Hall, D. (2001) *Rural Tourism and Recreation Principles to Practice*, CABI, London, 32. p.

Rural tourist destinations may be determined as areas especially identified and promoted as places to visit, for which the primary motive is enjoying the countryside and the corresponding activities. In order to reach a higher quality level and to standardise the offer among different European countries, the Eurogites has proven especially significant. Eurogites is a respectable association which enables quality exchange of knowledge and experiences referring to rural tourism with the other members, mostly European Union Member States. The RH is already a member of the Eurogites system (rural tourism agencies in Istria – Ruralis, and members of the association Hrvatsko selo, owned by a company for rural development and marketing Hrvatski farmer), while regions in B-H, upon organisation, should definitely become a part of this important international organisation for rural tourism development, because membership will enable joint applications for various projects and competitions intended for development and rural tourism promotion, which has not been the case in the recent rural tourism development in RH and B-H.

The Eurogites has developed standardisation in a section of rural tourism, and thus makes a distinction between (RURALIS; 2010, web): *general standards*, *obligatory standards*, and *additional standards*. A certain farm gains a certain category by fulfilling these standards. General and obligatory standards are not awarded points, while additional standards are awarded points. A list of positive and negative points has been established. Everything that deviates from the traditional way of building and traditional culture brings negative points (plastic carpentry, air-conditioning, artificial floors, walls, etc.). Every homestead must meet obligatory standards, and they prescribe minimum requirements for accommodation and services, as well as the norm referring to registration, synchronisation with sanitary-hygienic norms and insurance of guests and facilities. Obligatory standards are adapted to specific features of all types of homesteads. Minimum standards in furnishing of accommodation units (rooms, apartments and houses) are identical for each homestead type. Additional standards are standards related to typical features and characteristics of all homestead types which provide tourist services. By fulfilling these conditions, a homestead is of greater quality in terms of the offered activities, as well as additional equipment and convenience. These conditions relate to the position of the homestead, interior furnishing and decoration, external decoration of the facility and the immediate environment, skillfulness of the host and his family members significant for quality organisation and business activities of the homestead,

activities organised for guests, as well as additional specific conditions and parameters. The above statements indicate the importance of rural tourism and the prescribed requirements for rural tourist offer development. RH and B-H have all the natural resources for development of a competitive tourist offer, which will ensure an increase in total profit, opening of new workplaces, crafts and family farms, which is an important factor of development in the crisis affecting the economy of RH and B-H.

Rural tourism development in the European Union Member States started from the beginning of the 20th century, and the first organised approach to rural tourism development was recorded in France in 1955 - Gites de France. Development of agrotourism as a complementary activity to agriculture and agricultural production was significant in the period from 1960 to 1970. The period between 1980 and 1990 was marked by the LEADER programme in the EU Member States – rural tourism became a part of developmental policy of rural areas in the European Union. In the new century, rural tourism has become a part of the developmental policy of rural areas in the European Union. In this century, rural tourism has become an international tourist product. Presently, there are more than 200.000 accommodation units in the EU-27 (20% B&B, 80% self-service accommodation). Direct daily consumption per person amounts from 45 to 80 € (accommodation costs amount from EUR 15-30, and the rest remains for the local economy – per EUR 1 for accommodation, EUR 2 is gained by the local economy) (Demonja & Ružić; 2010, p.253). In an agrotourism, for example in Austria, one of five farmers provides agrotourism services. In reality, according to data by Klaus Ehrlich, chairman of the Eurogites in the EU-27, the number of accommodation units in rural tourism amounts from 600.000 to 1.000.000 facilities, with 6 to 12 million beds and 1.5 to 3 million of workplaces (Ehrlich; 2010, pp. 477-483).

Characteristics of Rural Areas and Tourism

Rural tourism development in the RH provides many possibilities. Rural tourism development is desirable and possible, among other reasons, because the RH is predominantly a rural country. The difference between rural and urban areas in RH is based on territorial division, where smaller administrative units, districts, are considered rural, while towns are considered urban areas. Based on this administrative criterion, out of the total population of 4.437.460, 44.4 % (1.971.005) inhabitants deem themselves rural population, and 55.6 % (2.466.455) deem themselves urban population (STATISTICS; 2001, web: www.mps.hr/UserDocsImages/.../STRATEGIJA_RR_19-05-081.doc). However, in order to conduct rural development policy, definition of the OECD is used as the most common internationally acknowledged and used criterion for distinguishing between rural and urban areas, and this definition is based on population density. On the local level (LAU 1/2 – districts, towns in the RH), areas are classified as rural or urban on the basis of a threshold of 150 inhabitants per km (NUTS 3 – counties in the RH). On the regional level, the OECD defines three area groups, depending on the share of the population living in local rural areas, predominantly in rural regions (more than 50% of the population of the region live in local rural areas), significantly rural regions (15 – 50% of the population of the region live in local rural areas) and predominantly urban regions (less than 15% of the population of the region live in local rural areas). When the OECD criteria of 150 inhabitants per km² is applied in local administrative units, i.e. counties, with the purpose of defining rural areas in the RH, the following conclusions are derived: as much as 91.6% of the total Croatian territory is classified as rural area,

and only 8.4% as urban area. The following table shows the classification of rural and urban areas, and population and settlements according to the OECD criterion.

Table 2: Rural and Urban Areas, Population and Settlements According to the OECD Criterion

Classification	OECD criterion					
	km ²	%	Number of settlements	%	Number of inhabitants	%
Rural areas*	51.872	9,6	6.001	88,7	2.110.988	47,6
Urban areas	4.731	8,4	763	11,3	2.326.472	52,4
Total		100	6.751	100	4.437.460	100

Source: CBS, 2001. *Includes predominantly rural and significantly rural areas

As much as 88.7% of the settlements are located in rural areas, and 11.3% in urban areas, with 35% of the population in 14 towns with over 30.000 inhabitants. From the total number of the population, 47.6% lives in rural areas, and 52.4% in urban areas (MINISTARSTVO; 2008, p.7). Rural tourism in RH started its more intensive development in the mid-1990's, after the Croatian War of Independence, and it represented a new, yet undiscovered phenomenon in our tourist offer.

Analysis of Rural Tourism Development in the Republic of Croatia

In the past period, and especially over the past two centuries, Croatian rural areas have changed significantly. Primarily, a change of the way of life of the local population occurred (moving of the inhabitants into towns), and Croatian rural areas started lagging behind urban areas. Rural tourism development is yet to serve a more adequate valorisation of the Croatian rural area, as well as its revitalisation, in both economic and demographic-sociological sense.

There are seven rural units in RH: Slavonija-Baranja-Srijem, Hrvatsko zagorje-Prigorje-Međimurje-Podravina, Posavina – Pokuplje – Moslavina, Gorski kotar –Žumberak, Lika-Kordun, Istra-Hrvatsko primorje, and Dalmatia (Ministry RH; 2003, 13). Authors Demonja and Ružić state their opinion that it is possible to develop numerous forms of the selective tourist offer (nineteen) in this area, out of which we will only name a few: agrotourism – farmtourism, residential tourism, county tourism, adventure tourism, wine tourism, rural tourism, etc. (Demonja & Ružić, 2010; p.46). RH has many natural and sociocultural resource bases for tourism development in all its areas. Rural tourism has not been represented fairly in the total tourist offer. Its development can be divided in two parts: from 1995-1999, when the Croatian government adopted the national programme of „Development of Small and Medium-Sized Entrepreneurship in Tourism with Emphasis on Sustainable Tourism Development in the Rural Space“, and the second period, which began by the end of 2003, when greater care was devoted to rural tourism development in the RH by the Ministry of Tourism and the authorised bodies (Demonja & Ružić 2010; p.49). This fact is substantiated by the existence of the Croatian Rural Tourism Congress, held in 2007 and 2010, which provided an insight in the new trends in Europe and the world, and provided new insights to the interested public based on professional and scientific theses which provide new possibilities for further rural tourism development in RH. The share of rural tourism in total Croatian

tourism amounts 5%, while this share amounts 25% in global terms, with annual growth of rural tourism of 11% in global terms, which points to great potential of this kind of the tourist offer. RH is characterised by a relatively small number of registered country farms from the resource base aspect, and is also marked by the restricting legislation (5 different inspectorates are authorised for the rural tourism sector; , non-existence of the Rural Tourism Act (there is only a book of rules), non-existence of clear developmental strategies for rural tourism sector). Although there is great interest on the global scale for this special type of the tourist offer, RH is characterised by poor recognisability as a rural tourism destination (Hrستیć; 2010, web). The following table shows the number of tourist country family farms registered in the RH.

Table 3: Tourist Country Family Farms (TSOG) in the RH (1998 - 2008)

Year	1998.	1999.	2000.	2001.	2002.	2003.	2004.	2005.	2006.	2007.	2008.
Nr of farms	32	65	151	175	269	269	254	310	330	352	360

Sources: Current state of tourism in Croatian rural areas in 2008, Tourism Department of the Croatian Chamber of Economy Zagreb, 2008, Ruralis – data for 2008.

The data presented in the previous table indicate continuous growth and development of tourist country family farms, with minor oscillations in 2004. Trends regarding the number of family farms and the number of beds on family farms during 2007 and 2008 per counties are listed below.

Table 4: The Number of Tourist Country Family Farms (TCFF) and Beds in the RH 2007- 2008

COUNTY	2008.		2007.		2008/2007		2008.		2007.		2008/2007	
	TCFF/BEDS		TCFF		INDEX		COUNTRY SHARE IN RH		COUNTRY SHARE IN RH		INDEX	
	TCFF	BEDS	TCFF	BEDS	TCFF	BEDS	TCFF	BEDS	TCFF	BEDS	TCFF	BEDS
Zagrebačka	30	41	30	41	-	-	8,33	4,69	8,52	4,63	-2,22	1,26
Krapina-Zagorje	7	20	7	20	-	-	1,94	2,29	1,99	2,26	-2,22	1,26
Sisak-Moslavina	11	33	8	27	37,50	22,22	3,06	3,77	2,27	3,05	34,44	23,76
Varaždin	6	6	6	6	-	-	1,67	0,69	1,70	0,68	-2,22	1,26
Koprivnica-Križevci	6	22	6	22	-	-	1,67	2,51	1,70	2,48	-2,22	1,26
Bjelovar-Bilogora	2	12	2	16	-	-25,00	0,56	1,37	0,57	1,81	-2,22	-24,06
Osijek-Baranja	56	192	56	192	-	-	15,56	21,94	15,91	21,67	-2,22	1,26
Vukovar-Srijem	2	-	2	-	-	-	0,56	-	0,57	-	-2,22	-
Međimurje	8	10	8	10	-	-	2,22	1,14	2,27	1,13	-2,22	1,26
Zadar	42	248	41	248	2,44	-	11,67	28,34	11,65	27,99	0,16	1,26
Šibenik-Knin	21	16	21	16	-	-	5,83	1,83	5,97	1,81	-2,22	1,26
Split-Dalmatija	31	12	31	12	-	-	8,61	1,37	8,81	1,35	-2,22	1,26
Istra	64	253	64	253	-	-	17,78	28,91	18,18	28,56	-2,22	1,26
Dubrovnik-Neretva	70	10	70	23	-	-56,52	19,44	1,14	19,89	2,6	-2,22	-55,98
Primorje-Goranska	1	-	-	-	-	-	0,28	-	-	-	-	-
Zagreb	2	-	-	-	-	-	0,56	-	-	-	-	-
Karlovačka	1	-	-	-	-	-	0,28	-	-	-	-	-
TOTAL	360	875	352	886	2,27	-1,24	100	100	100	100	0	0

Source: CCE and RURALIS (2009) (Authors interpretation according to data collected from Ruralis-Consortium of Agrotourism of Istria January year 2011.)

In 2008, there were a total of 360 country farms registered in the RH, with a total of 857 beds. There were 352 country farms and beds registered in 2007. Registered family farms in the RH increased by 8 (or 2.27%) in 2008 in relation to 2007, while the number of beds decreased by 11, or by 1.24%. Most family farms were registered in the Dubrovnik-Neretva County (19.44%), and Istra County (17.78%). The greatest number of beds was recorded in the Istra County (28.91%), Zadar County (28.34%), and Osijek-Baranja County (21.94%).

Dubrovnik-Neretva County recorded a growth of country farms in 2008, but a decrease in the number of beds (from 23 to 10, or by as much as 56.52%). Except for Istra County and Dubrovnik-Neretva County, the most significant increase in the number of registered country farms was recorded in Osijek-Baranja County, Šibenik-Knin County, Zadar County, Split-Dalmatia County, Zagreb County and Sisak-Moslavina County. Other continental counties with a smaller number of registered tourist country family farms are: Međimurje County, Krapina-Zagorje County, Koprivnica-Križevci County, Varaždin County, Bjelovar-Bilogora County, and Vukovar-Srijem County. Developmental possibilities of this segment of the Croatian rural tourist offer are based on attractive natural tourist areas of continental and coastal RH, with constant development of selective forms of the tourist offer, as the most contemporary trend desired by modern tourists. Unfortunately, these forms of tourism have been underdeveloped in RH, and the present resources have not been used enough.

Since Istra County has been the most developed region of Croatian rural tourism, listed below are indicators of rural tourism in the Istra County. According to Ruralis' data, 81.6% of the Istra County territory is rural area, where 81.9% of the settlements are located, inhabited by 36.3% of the Istra County inhabitants. According to data for 2010, rural tourism makes 1.6% of the total tourism in Istra. Average stay of guests in the rural tourism of Istra is 6.2 days, while average occupancy is 91 days. As for national structure of the guests, 65% come from Germany, 10% from Great Britain, 10% from Austria, 7% from the Netherlands, 5% from Slovenia, 4% from France, and only 1% from Italy and other countries. Istrian rural offer is sold through agencies and tour operators with as much as 80% share, followed by the Internet with 10%, brochures and catalogues with 3% and other forms of promotion (stories, advertising, specialised guides) with 7%.

Table 5: The Number of Tourists, Realised Overnights and Realised Income from Rural Tourism in the Istra County from 2007 to 2010

YEAR	2007.	2008.	2009.	2010.	INDEX					
					2008/2007	2009/2008	2009/2007	2010/2007	2010/2008	2010/2009
NUMBER OF TOURISTS	14.000	15.627	17.502	18.727	11,62	12,00	25,01	33,76	19,84	7,00
NUMBER OF OVERNIGHTS	100.000	111.350	124.712	133.441	11,35	12,00	24,71	33,44	19,84	7,00
INCOME (mil. €)	4,10	5,10	6,20	6,70	24,39	21,57	51,22	63,41	31,37	8,06

Source: CCE and RURALIS (2009) (Authors interpretation according to data collected from Ruralis-Consortium of Agrotourism of Istria January year 2011.)

In 2007, Istrian rural tourism recorded 14.000 of tourist arrivals, i.e. 100.000 overnights, and the total income from accommodation of EUR 2.5 million, i.e. 1.6 EUR million of income from catering services. In the following year, 2008, the number of tourists in Istrian rural tourism amounted 15.627 tourists, who realised a total of 111.350 overnights and recorded the income of EUR 51 million. In 2009, the number of tourists and the number of overnights was increased by 12%, i.e. 17.502 tourists and 124.712 overnights, while the income was almost two times greater than the increase in the number of tourists, i.e. the realised number of overnights, and amounted EUR 62 million, an increase of 21.57%. In 2010, rural tourism in Istra accommodated 18.727 tourists who realised 133.441 overnights and EUR 67 mill. The increase in the number of tourists and the number of overnights in relation to 2009 amounted 7%, and 8.06% in relation to income.

According to the Ruralis' data – the consortium of agrotourism and rural tourism in Istra for 2008, 81% of the registered tourist country farms offers catering services, and 59% offer

wine tasting. From the total realised number of overnights in country farms, as much as 85% of the total number of overnights and tourist arrivals in rural tourism facilities are located in the Istra County. From the total number of rural tourism guests in RH, 89% are foreign visitors, and 11% domestic visitors. In contemporary European rural tourist destinations, the situation is reversed. In other countries, domestic visitors make over 90% of the total number of visitors/overnights. Total rural tourism incomes in RH amount over EUR 4 million. In order for Croatian rural development to be successful, the priority is to stimulate family farms so they would participate in the tourist offer.

The goal must be creating and offering unique products and services of their respective areas, by using all the advantages and resources which represent a comparative advantage of their area. This is reflected in direct participation in various activities on a family farm (care for animals, working on land, learning how to prepare traditional food and beverages, gaining knowledge of folk customs and skills, possibility of sports recreation in the fresh air, etc.) This type of tourism enables development of yet unfairly underdeveloped regions, which is based on healthy lifestyle, manufacturing, offering and tasting of healthy local food and active vacation in a clean and unpolluted environment of the rural area rich in cultural-historical heritage, as well as traditional non-material heritage. According to the legally defined criteria, the basic form in rural tourism are tourist country farms, while other forms of facilities appear in practice as well, but are not registered on the national level, nor is it possible to effectively monitor their development. Accordingly, the above data on the number of facilities in rural tourism significantly change, which is evident on the example of Istra, which records registration of a total of 263 farms which offer 2.221 beds. From the total number of rural facilities, rural holiday homes are the most numerous and constitute about 75% of total facilities. The leading European rural tourism association is Eurogites, which consists of regions from 27 countries, among which also the Croatian Istria. According to all indicators, it is evident that the RH is just at the beginning of its rural tourism development. Namely, there are over 400.000 accommodation units registered in Europe with over 3.600.000 beds, and rural tourism creates about 900.000 workplaces, while tourist incomes in rural areas amount more than EUR 41 million. The largest receptive and emittive rural tourist markets are France, Germany, Austria, Great Britain and Italy, which together make about 80% of the total rural tourism market in Europe. The Istra County has developed the most in terms of rural tourism in RH, and integrated its rural tourist offer in the Ruralis association. Categorisation of facilities has been conducted (asparagus), special teams of experts who conduct the categorisation were formed, and special standardised templates were created, which the tenderers have to fulfill in order to gain a certain category (all is in accordance with the Eurogites' instructions).

Legislation in the Republic of Croatia

There is no separate Act on Rural Tourism in the RH, but there are the following books of rules: Regulation on the Provision of Catering Services in a Rural Household, and Regulation on the Registers of Catering Establishments and Registers on the Provision of Catering Services in a Homestead and Rural Household. The types of facilities in a country farm are defined depending on the provided services, and are conditioned by the Regulation. The country farm facilities are: tasting room, resort, room, suite and a camp which have to, depending on the type, fulfill minimum requirements for realisation of the category. During the categorisation process, tourist country family farms must meet the given requirements regarding the quality and the scope of providing services, equipment level and arrangement

of the country farm, and the prescribed ecological standards. The facilities on a country farm are categorised on the basis of the prescribed obligatory conditions relating to services, arrangement, equipment, devices, maintenance, etc. The type and category of the facility are marked by a board (mark). The board contains the information on the facility type for: rooms, suite and the camp, marking the corresponding category by a sun or other symbol typical for the region. Except for the categories stipulated by the Regulation, Ruralis has formed additional marketing groups of country farms for Istria area, which are: agrotourism, rural holiday homes, rural B&B, rural family hotel, vacation on a wine road and in tasting rooms (RURALIS, 2006, web). A common feature of all marketing typologies is that they refer to rural space with the offer of characteristic products and services of the region, in traditionally built houses, and provide a possibility for the guests to participate and experience the traditional way of life of the local population.

SWOT Analysis of Rural Tourism in the RH

According to the The Travel & Tourism Competitiveness Report 2011 published by the World Economic Forum, RH is ranked 34th in comparison with 133 world countries. Although this rank on the competitiveness scale may be satisfactory, tourist offer nevertheless needs to be advanced in all segments, because tourism represents a significant developmental component of the Croatian economy.

Information on Croatian rural tourism and the results of previous research in this field shown in this paper have enabled creation of the list of main advantages or strengths, as well as weaknesses of Croatian rural areas (SWOT analysis). Likewise, opportunities which might serve for development planning, as well as threats which might disable it or slow it down, are also listed. The most important strengths and weaknesses, as „internal“ factors, and opportunities and threats, as external possibilities and developmental limitations, are listed in SWOT table (table 6.)

In order for Croatian rural tourism development to become more successful, it is necessary to provide additional measures in addition to the former measures. It is, above all, necessary to enable the citizens to use the HBOR (Croatian Bank for Reconstruction and Development) to obtain cheaper funds for financing family farms. Likewise, it is necessary to ensure marketing promotion for rural tourism on the national level. Also, it is necessary to ensure direct placement of products from family farms on the markets and in large shopping malls, which enables permanent employment of people on the family farm, and reduces possible depending on seasonality. Rural tourism represents a great possibility for the development of the so far neglected tourist regions (of Slavonia, Baranja, Lika). Rural tourism provides numerous economic and non-economic effects. Economic effects are visible, among other things, in the boost of production and income in rural areas (through the development of agriculture, expansion of markets, new workplaces, etc.), while non-economic effects are visible in the preservation of natural resources, sustainable development of rural areas, preservation of traditional architecture (Demonja & Ružić; 2010, pp.194-203).

Table 6: SWOT Analysis of Rural Tourism in the RH

<p style="text-align: center;">Strengths</p> <p>Preserved resources (water, forests, heritage) Natural attractions Pleasant climate Hospitable hosts Destination nearby Trends of development of selective offer forms</p>	<p style="text-align: center;">Weaknesses</p> <p>Insufficient care for protection of resources Non-existence of constant developmental strategy Insufficient investment in promotion Non-existence of the Rural Tourism Act (there is a Regulation) Insufficiently trained staff Seasonal business activities Value for money Insufficiently developed tourist infrastructure Tax policy</p>
<p>SWOT</p>	
<p>Repositioning of rural tourism Creation of new added value New workplaces Sustainable development of rural space Improvement of the offer Higher standard of human resources education for rural tourism Accessing EU – a new repositioning of the country as a safe destination Co-operation with other countries in the region in border-areas Use of the EU cohesion funds</p> <p style="text-align: center;">Opportunities</p>	<p>Consequences of the Croatian War of Independence Slow adjustment to the needs and desires of tourists Insufficient legislation Lack of understanding by the local community Delay in accessing the EU Corruption</p> <p style="text-align: center;">Threats</p>

Source: Authors' adaptation

Characteristics of Rural Areas and Analysis of Rural Tourism Development in Bosnia and Herzegovina

The current state of rural tourism in B-H cannot be analysed separately from the history of the development of the country. Industrialisation has had a significant impact on the structure of economic activities in the period when B-H was a part of Yugoslavia (SFRJ). This process is characterised by the transition from a predominantly agricultural structure towards industrial society. However, 60.5% of the total population lived in non-urban settlements, which means that B-H predominantly showed rural sociological character (MINISTRY FB-H; 2006, p.39). According to data from the last Census, held in 1991, before the war in B-H, about 9.3% of the population (407.000 persons) grouped into the category of agriculturists. The surface of B-H is 5.113 thousand acres of the total surface, within which is about 49% (2.531 thousands of acres) of agricultural land. Agriculture in B-H has primarily a social, not developmental role. About 81% of the country's territory is rural, i.e. inhabited by less than 150 people per km², according to the OECD criteria. Over 61% of the population of B-H is traditionally oriented to rural areas (Markuš & Demir; 2010, p.3).

The process of industrialisation in the period until the 1990s, as well as war during the 1990s contributed to migrations and declining in the number of inhabitants in rural areas. Possible rural tourism development might provide a new stimulation to development of rural areas, but it is all too often unnecessarily burdened by too great expectations. Rural tourism may not be the agent of total tourism development, but regardless of its low productivity, it may represent a good source of income in local terms. Overly developed rural tourism facilities lead

to counter-effects, and a certain area may lose its attraction because of uncontrolled building. In principle, the OECD criteria for distinguishing between rural and urban areas based on the population density correspond to rural tourism characteristics. Quality of rural tourist experience from a specific standpoint or tourist trends, i.e. daily visitors is the criterion for a more subtle approach to distinguishing rural from urban space (Kušen; 2010, p.15).

Key problems in rural tourism development are: underdevelopment and lack of population in rural areas, underdeveloped infrastructure, disrupted functions and aesthetics of rural territory dimensions, non-existence of a tourist product, insufficient awareness of the population. The basic problems of rural tourism development are the following: different development levels, tourism on country farms is in its initial stage, lack of tradition, low level of infrastructural and suprastructural facilities, low awareness level of the place and role of tourism in sustainable development, humble and unrecognisable tourist product, low marketing level (UNIVERSITY; 2010, pp.68-70). The problems listed above show that rural tourism in B-H is in its initial stage and that great investments will be necessary for proper implementation of strategies and tourism plans, in order for rural tourism to be profiled as an attractive and competitive product. The share of rural tourism in total tourist trends is on a very low level and bureaus of statistics do not recognise these facilities as a separate category (they are comprised in the framework of basic division on hotels, motels, and private rooms).

The first initiatives for rural tourism development started through projects by international organisations and bilateral donors who work in the country. The projects by the Japanese International Cooperation Agency (JICA) included numerous agents on the local level, with the ultimate goal to create a rural tourism offer at the local level. Developmental Agency of the Herzegovina Region – REDAH – continuously conducts activities of branding and promoting the gastronomic offer of Herzegovina, in which Istria may serve as a good example. The REDAH has elaborated on the project of development of Heritage Trails on the Trebižat River which includes the principles of integral tourist product development, by combining the public sector as agent and the private sector as an active participant of product development. The project of the Zenica-Doboj Canton's Tourist Board implemented in the area of the Tajan Park was also financed from the same EU call (EU DELEGATION; 2011, web). In the context of rural tourism infrastructure development, it is necessary to point out the support of these projects to opening, training, networking and promoting local B&Bs, modelled on Eurogites. The support of ministries of both B-H entities in charge of tourism and agriculture includes, in accordance with the budget, also support to rural development facilities and rural tourism. For example, the Federal Ministry of Agriculture has allocated KM 4.414 million (EUR 2.257 million) for the segment of rural development, and the measures included subsidies for young agriculturalists, investment in infrastructure and assistance in professional training. Although it recorded progress of 10 places in the 2011 report in relation to the preceding report from 2009, B-H is still found at the place before last in Europe, which may be considered a failure (WEF; 2011, p.16). Possible investors analyse different elements in their decision-making on investing in certain economies, and this result is discouraging for investments. Contrary to such data, positive information on an area may have an encouraging effect and change the perception of a certain region.

Taking into consideration the achieved progress and the current initiatives, the Herzegovina region is taken as an example on which challenges of rural tourism development will be clarified. Herzegovina is a historical and geographical region in southern B-H, i.e. the Mediterranean part of B-H. Thanks to its natural diversity, pleasant climate with much sun

and water, it is counted among one of the most desirable regions of South-East Europe. It is located in the hinterland of the Adriatic Sea, «embracing» south Dalmatia, which it intersects in Neum, with open access to the sea. Until recently fairly unknown in global terms, its specific characteristics, beauty, tradition and economic possibilities started attracting the attention of tourists and investors world wide in the past few years (Skoko; 2007, p.5). Specialised renowned magazine for direct foreign investments, the FDI Magazin, started by the Financial Times Group in 2001, ranked Herzegovina among the top 10 south European regions in the category of the promotional strategy of foreign investments within the scope of tenders for the European Town and Region of the Future for 2010/2011, along with Andalusia and Catalonia, Piemont, or Međimurje (REDAH; 2010, p.7). There are several active organisations and initiatives for rural tourism development: REDAH, the Herzegovian STAP, the Oxfam (ex-Ucodep), Tastes of Herzegovina and others. Among others, these organisations' interests are also oriented on the development of the gastronomic offer as a part of the internal tourist product, and as an inevitable part of the rural tourism offer. Research data on viewpoints and behaviour of tourists indicate great level of tourist satisfaction by the elements of the gastro offer, as well as hospitality of employees in tourism (INSTITUT; 2010, pp.71-88). Herzegovina-Neretva Canton's Tourist Board was supported by the EU a few years ago on the project of development of the Wine Road Herzegovina tourist product, which has included numerous wine-makers and restaurants from the Herzegovina area. Unused resources of Herzegovina represent potentials for further tourist development. Complex administrative structure of B-H, low vertical and horizontal co-ordination and insufficient cooperation between various levels of authority represent a threat to rural tourism development. Administrative fragmentation of the Herzegovina region is an example for this, taking into consideration that the administrative region includes districts from the three cantons of the FB-H, as well as a part of East Herzegovina in Republika Srpska (hereinafter: RS). Improved co-ordination of efforts invested in building of a destination and tourist products represents the key challenge for further development of Herzegovina as a tourist region.

Although the country is burdened by the consequences of war and lack of understanding of tourist development trends, the predominant opinion is that the main opportunities for tourism in B-H in cultural tourism are: heritage, historical localities, history, religions, cultural events, and in the open-air tourism offer: wild nature, rivers, karst forms, rafting, hiking (Osmanković et al.; 2010, p.79). The characteristics of rural tourism completely correspond to potentials of these two types of tourism and it is likely that the rural tourism offer will also have good chances to participate in the total tourist offer of Herzegovina. Quality of the natural environment is recognised as a notable competitive advantage of B-H (ranked 45th of 139 countries), which is a great basis for further development of the offer (WEF; 2011, p.137). There are various possibilities for the participation of tourists: picking grapes; participation on annual traditional events (fruit picking, harvesting, etc.); working in the field or working with animals; tasting of home-made specialties, etc. Future support measures for rural tourism development should include several key elements: branding of products and the region; development of theme tours; support for initiating, connecting and promotion of B&B accommodation facilities; joint promotional activities on the web and specialised fairs and events; trainings by service providers in accordance with the rules and practice of successful associations, such as Eurogites, RTI-TN, Accueil Paysan, etc.; synchronisation of accommodation facilities' categorisation with the systems recognised on the international level, etc. Initiatives on the local level promote activities on the branding process of the Herzegovina destination. Promotion of renewable energies can also support the development of tourism in

rural areas and also lead to diversification of rural economies: different economic branches which support activities for tourism e.g. small scale processing, souvenirs production, traditional products (Nikolić et al.; 2009, p.30).

Legislation in Bosnia and Herzegovina

Competitive position of B-H tourism is currently not good and improving the situation will take great efforts. Travel & Tourism regulatory framework of B-H is ranked 92nd out of 139 countries. However, the assessment of the structure of T&T regulatory framework subindex, which includes five pillars, shows that the ranks are very low: 129th on pillar Policy rules and regulations and 128th on Prioritization of T&T (WEF; 2011, 136). Rural tourism has not been regulated by legislation for years, and, for this reason, available resources were not placed in the function of the tourist offer and development. An overview of the tourist industry framework in B-H is listed below.

Table 7: An Overview of Acts and Regulations Referring to Rural Tourism in B-H

Act On Tourism of the Brčko District
Act on Amendments to Law on Tourism of the Brčko District
Act of Catering Industry of the RS
Act of Tourist-Catering Industry of the Federation of B-H
Act on Amendments to Law of Tourist-Catering Industry of the Federation of B-H
Regulations on Classification, Min Requirements and Categorisation of Catering Facilities in Rural Homesteads
Regulations on Requirements for Providing Services in Rural Homesteads in the RS
Act on Tourist Boards and Tourism Promotion in the Federation of B-H
Act on Amendments to Law on Tourist Boards and Tourism Promotion in the Federation of B-H

Source: Authors' research

Among other things, the above-mentioned laws regulate performance of activities, types of services, requirements and manner of doing business, and the entities which may conduct tourist industry in rural and other forms of tourism. Additionally, various strategies define the developmental guidelines which have a direct or indirect influence on conducting rural tourism activities. Strategies of tourism development have been adopted in both entities and are used to prescribe the key determinants and plans of tourism development. Stimulation for agriculture, entrepreneurship, decoration of country family farms, infrastructural arrangement, etc. make the basis for rural tourism improvement and, at the same time, a basis for integral regional development (MINISTRY of Agriculture RS; 2010, p.67). Taking into consideration high interdependence of rural development and rural tourism, and the integral approach to rural development which places agriculture first, the laws on agriculture and the strategy of agricultural development of both entities may be considered a source of indirect influence on rural tourism.

Perspectives of Rural Tourism Development in RH & B-H through Participation in the EU Pre-Accession Funds

Pre-Accession Funds of the EU are open and increasingly more accessible to Croatian projects (since RH is a candidate country), and B-H is also a potential candidate. Since development of rural and sustainable tourism is one of the bases of EU development, more and

more local and regional authorities, as well as tourist boards, see the possibilities in financing of developmental projects from the Pre-Accession Funds. Since one of the components of Pre-Accession Funds is cross-border co-operation, an increasing number of districts in the border area have realised the advantages of networking with cross-border partners and applying joint projects. Some projects were conducted individually by local authorities in border areas and tourist organisations, and were also applied for funds. From 2007, Instrument for Pre-Accession Assistance is available in RH - the IPA Program, which consists of five constituents: the support for transition and institution-building, (35%), cross-border co-operation (7%), regional development (32%), human resources development (8%), and rural development (IPARD) (18%). All the acquired experiences may be an excellent base for achieving successful, or better results in the same segment for B-H. Rural tourism is also financed from the constituents „cross-border co-operation“ and „rural development“ (IPARD). From the total amount of financial resources allocated for RH through this programme, EUR 129.40 million was allocated for rural tourism development. The Croatian IPARD plan was adopted by the European Commission by the end of 2007. Priorities of the Component V for Rural Development are the following: 1. Improvement of market effectiveness and implementation of the Community's standards (investing in farms with the purpose of restructuring and reaching EU standards, investing in the processing and marketing of agricultural and fish products for restructuring and reaching the EU standards); 2. Preparatory activities for the implementation of agricultural-ecological measures in local rural development strategies (activities with the purpose of improving the environment and landscape, preparation and implementation of local rural development strategies); 3. Rural economy development: improvement and development of rural structure, development and diversification of rural economic activities (MINISTARSTVO; 2007, p.23). The third priority is significant for rural tourism. The goal of implementation of the IPARD programme is increased income for the population of rural areas through development and diversification of agricultural and non-agricultural activities, and it enables preservation of the existing workplaces and increase in the number of services available to rural population, as well as their quality. One of the most significant goals is improvement of the social structure in rural areas. B-H, as a potential candidate, may use only two components of this programme, which are: I *Institution building* and II *Cross-border co-operation*.

The IPARD (GOSPODARSKA RH; 2007, web) programme, in the part which covers the rural tourism sector, implies building and/or reconstruction and/or equipping of tourist facilities, such as rooms, toilets, facilities for keeping animals for tourist purposes, recreational facilities, tourist camps, landscaping (riding trails, sports fishing, cycling, eco-trails, etc.). In the RH, users could have been only tenderers of rural tourism services registered pursuant to the Law on Catering Industry (OG 138/06), and all investments must be in accordance with the (Programme of whole development of a community or a town, or Programme of a total development of a community. The maximum number of beds per user has also been determined, 20 beds. Criteria which must be fulfilled by rural tourism tenderer: the investment at final realisation must be in accordance with the EU standards in terms of environmental protection at the moment of grant approval. Furthermore, the user must prove economic sustainability of the project by providing a business plan in the final stage of the investment (for investments of up to HRK 200.000-Croatian Kunas, simplified form, and for investments of over 200.000 a complete plan), and must not have outstanding debts to the state, and must own a proof of competence for the job. If a local developmental strategy was adopted pursuant to the third (b) paragraph of Article 171 of the Regulations 718/2007, investment must

be made in accordance with the above-mentioned strategy (GOSPODARSKA RH; 2007, web). Operational programmes between neighbouring countries are significant, and they also foresee investments in rural tourism development. Certain UNDP programmes, and Office of the permanent UNDP representative in RH, are related to development of smaller local communities located in the Croatian rural area.

The LEADER+ EU programme is also important; it enables application of projects whose purpose is improvement of countrylife. Many Croatian districts have applied projects of cross-border co-operation. These districts have realised the advantages of networking with cross-border partners and of applying joint projects. Some projects were applied for the funds and conducted independently by local authorities and tourist organisations in border areas (Vidaković; 2010, web). Rural tourism, which has fulfilled the tourist offer of both neighbouring countries, has an excellent perspective, which is also validated by the existence of cross-border co-operation in Dalmatia. The project is called DUST “Rural Tourism Development in South Dalmatia and Border Areas of B-H“, the first approved EU project from the CARDS programme in 2004 (Hrstić; 2010, web). In the framework of the first call for project delivery for the IPA programme of RH-B-H 2007-2013 cross-border cooperation, support was announced for a total of 13 cross-border projects, out of which some partly include rural areas and tourism (DEI; 2011, web). Co-operation in rural tourism development, especially in border areas, will enable better understanding between the two countries, development of border areas, elimination of mistrust, improved use of the EU funds for cross-border co-operation, employment will be increased and sustainable development of both countries ensured. In addition to bilateral programmes, additional options for cross-border cooperation are found in the multilateral programme *IPA Adriatic*, and in two transnational programmes of the European Regional Development Fund: *South-East Europe and the Mediterranean*. B-H and RH, as users of Pre-Accession Assistance, have the right to participate in these two programmes, along with EU Member States. The „Key Q“ project is one of the proposals that has been accepted for financing under the first call for proposals for the IPA Adriatic programme. Leading beneficiary of the project is the AZZRI – Agency for Rural Development of Istria Ltd., while the West-Herzegovina Canton’s Tourist Board is one of the partners in this project (AZZRI; 2011, web). Projects similar to this one, which would include partners from both countries, might contribute to faster growth and development of rural tourism.

Conclusion

RH and B-H are countries of great tourist potential. They both possess key comparative advantages for rural tourism development. By eliminating weaknesses and using competitive advantages, RH and B-H will be able to develop an excellent rural tourist offer and thus be ranked among leading European destinations on the rural tourism market. It is necessary to conduct research on the international tourist market, to monitor modern tourist trends, and adjust our own special and unique tourism offer accordingly, based on sustainable development principles. RH has recognised the significance of sustainable development in general, especially in tourism and the hotel industry, which is advocated by implementation of the science project Renewable Energy Sources for Eco-Hotel and Eco-Tourist Destination, conducted by the Faculty of Tourism and Hospitality Management in Opatija, University of Rijeka. Rural tourism development needs to become one of the main pillars of ensurance of sustainable development in the RH and B-H and of preservation of our natural resources through promotion of advantages of using renewable energy resources, as well as creating

and implementing green developmental strategies of rural tourist destinations. Valorisation and protection of tourist potentials, and creation of an integral tourist product are connected with realisation of the rural area revitalisation programme. This is achieved by conducting full renewal through the programme of development and branding of a tourist rural destination (Demonja & Mišćin; 2010, p.16). The quality and quantity of joint initiative of the two neighbouring countries, and creation of mutual or individual tourist products, will determine directions and intensity of further development and market recognition of RH and B-H as desirable rural tourism destinations on the European and global tourist market.

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ECONOMIC DEVELOPMENT MODEL OF THE WESTERN BALKANS

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The paper analyzes models of economic development of the Western Balkans including: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo and Macedonia in the period 1952-1984 and first decade of the 21st century. The primary goal is to identify common elements and similarities, which could be the basis for considering the justification of profiling a joint regional strategy. The paper proves the hypothesis that the models of economic development in these countries are similar, or that have the necessary and sufficient number of common elements that seem worth profiling the common regional strategy.

Keywords: model, economic development, regional strategies, Western Balkans

Introduction

Croatia, Bosnia-Herzegovina, Serbia, Montenegro, Kosovo, Slovenia, and Macedonia developed like path oven country Yugoslavia. They were republics in Public Federal Republic Yugoslavia, and after that republics in Socialistic Federal Republic Yugoslavia. After 1990 Yugoslavia desolated on seven new states. Political, economic and social system completely changed. In this paper we analyze models of economic development before and after 1990. Main goals identified old and new moment in model of economic development. Time framework is 1952-1984 and 2000-2010. Paper has for part. First and forth par are introduction and conclude. Second part is model of economic development before 1990th. Third part is elements of new models of economic development.

Model of Economic Development Before 1990th

In the case of republics ex Yugoslavia came into being from parts former Austro-Hungarian Monarchy and Ottoman Empire. After Wordl War II, common economic development and regional equity came immediately into prominence. The high degree of disparity between northern areas and southern areas were increased further by the fact that the country was liberated primarily by the less developed regions (Demko, 2001: 143)

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Next table shows basic situation at 1950th in Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, and Slovenia.

Table: Economic and social situation of republics 1950th

	Population 000 1953	Employment 1952 000	High education % total population 1953	Unemployment 000 1953	Domestic product pc din (price 1972) 1952
B&H	2848	268	0.3	4	28394
Croatia	3919	477	0.7	14	29350
Kosovo	808	38	0.1	1	26178
Macedonia	1305	90	0.3	6	31310
Montenegro	420	30	0.5	1	41091
Serbia	6171	397	0.8	15	31818
Slovenia	1466	266	0.8	5	31292

Source: Anon (1986). Material and social development SR Bosnia and Herzegovina 1947-1984
Bosnia and Herzegovina, Sarajevo, 227-247. pp.

Theories of the 1950s and 1960s viewed development as a series of stages of economic growth. Answer was right quantity and mix of saving and investment. (Todaro&Obstfeld, 2006: 103; Todaro&Obstfeld, 2009). Rostow and others defined the takeoff stage in precisely this way. Countries that were able to save 15% to 20% of GDP could grow (develop) at a much faster rate than that saved less. The mechanisms of economic growth and development are simply a matter of increasing national savings and investment. (Todaro&Obstfeld, 2006: 107)

Table: Investment 1952-1983.

	Investment in DP % 1952-1983	Investment pc per year 1952-1983 din
B&H	19.1	2699
Croatia	27.8	3644
Kosovo	58.1	1749
Macedonia	40	2662
Montenegro	56.2	3973
Serbia	31.3	3005
Slovenia	25.4	5313

Source: Anon (1986). Material and social development SR Bosnia and Herzegovina 1947-1984
Bosnia and Herzegovina, Sarajevo, 233. p. Note: DP domestic product, pc per capita

Bosnia and Herzegovina invested about 19% of domestic product, Croatia about 28%, Slovenia about 25%, Serbia about 31%, Macedonia 40%, Montenegro about 56% and Kosovo about 58% in periods 1952-1983.

Structural-change theory focuses on the mechanism by which underdevelopment economies transform their domestic economic structures to more modern, more urbanized, more industrially, and more education employment. (Todaro&Obstfeld, 2006 and 2009) It was situation in these states. Education was part of structural change employment.

Table: High education 1953-1981.

	High education % total population 1953	High education % total population 1981	Change of high of education 1981-1953 (%)	Industry in DP % 1952	Industry in DP % 1984	Change Industry participation in DP 1952-1984 (%)	Urban population in total population % 1953*	Urban population in total population % 1981*	Change urban population 1953-1981*(%)
B&H	0.3	4.3	143	17.6	47.2	268	15.0	36.2	241
Croatia	0.7	6.4	914	23.6	36.4	154	24.3	50.8	209
Kosovo	0.1	3.3	3300	20.8	42.0	202	14.6	32.5	223
Macedonia	0.3	5.1	1700	18.2	47.5	261	26.1	53.9	207
Montenegro	0.5	6.2	1240	7.4	36.2	489	14.2	50.7	357
Serbia	0.8	6.4	800	16.4	42.8	261	21.2	47.8	225
Slovenia	0.8	5.9	738	34.2	47.0	137	22.0	48.9	222

Source: Anon (1986). Material and social development SR Bosnia and Herzegovina 1947-1984 Bosnia and Herzegovina, Sarajevo, 227-247. pp. *Anon. (1991): Statistical Year of Yugoslavia 1991. Years 38 SFRJ Statistical office of Yugoslavia, Belgrade, 445. p.

Main characteristics of model economic development of Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, and Slovenia in research period are urbanization, industrialization and education. There are data for that in the last table.

Table: Economic situation at 1984

	Population 000 1984	Employment 000 1984	High education % total population 1981	Unemployment 000 1984	Domestic product pc din price 1972 1984
B&H	4264	971	4.3	220	52233
Croatia	4641	1519	6.4	114	69253
Kosovo	1719	206	3.3	101	40596
Macedonia	1991	488	5.1	128	48354
Montenegro	607	150	6.2	35	59325
Serbia	7812	1589	6.4	238	63704
Slovenia	1921	829	5.9	15	87416

Source: Anon (1986). Material and social development SR Bosnia and Herzegovina 1947-1984 Bosnia and Herzegovina, Sarajevo, 227-247. pp.

This situation was result application structural-change models or structural transformation economy and population. (Fei, J. & Ranis, G. from Stern, 1991; Barro, R. & Sala-i-Martin, X., 2003)

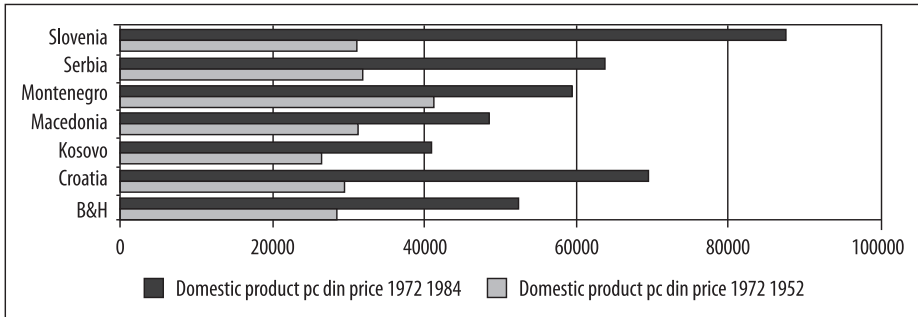
Table: Change od domestic product per capita 1984-1952

	Domestic product pc din (price 1972) 1952	Domestic product pc din (price 1972) 1984	Change 1984-1952 (%)
B&H	28394	52233	184
Croatia	29350	69253	236
Kosovo	26178	40596	155
Macedonia	31310	48354	155
Montenegro	41091	59325	144
Serbia	31818	63704	200
Slovenia	31292	87416	279

Source: Anon (1986). Material and social development SR Bosnia and Herzegovina 1947-1984 Bosnia and Herzegovina, Sarajevo, 227-247. pp.

Domestic product per capita increased in all states from 144% (Montenegro) till 279% (Slovenia).

Domestic product 1952-1984



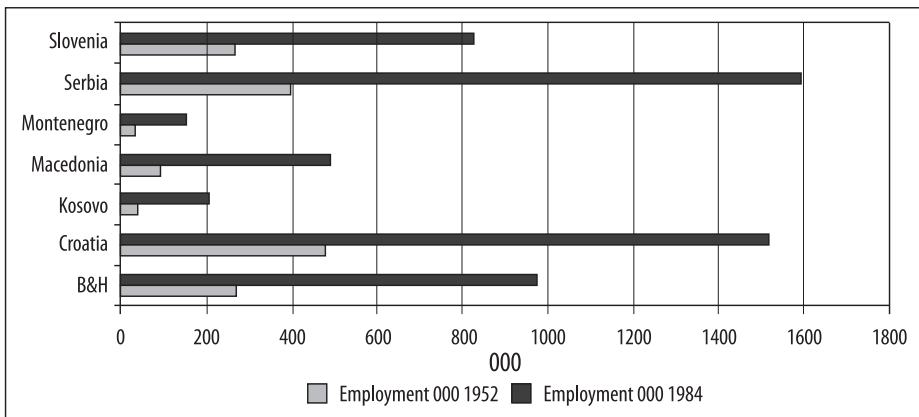
Next table and graph shows change of employment in all sates.

Table: Change of employment 1984-1952

	Employment 000 1952	Employment 000 1984	Change 1984-1952 (%)
B&H	268	971	362
Croatia	477	1519	318
Kosovo	38	206	542
Macedonia	90	488	542
Montenegro	30	150	500
Serbia	397	1589	400
Slovenia	266	829	312

Source: Anon (1986). Material and social development SR Bosnia and Herzegovina 1947-1984 Bosnia and Herzegovina, Sarajevo, 227-247. pp.

Change of employment 1952-1984



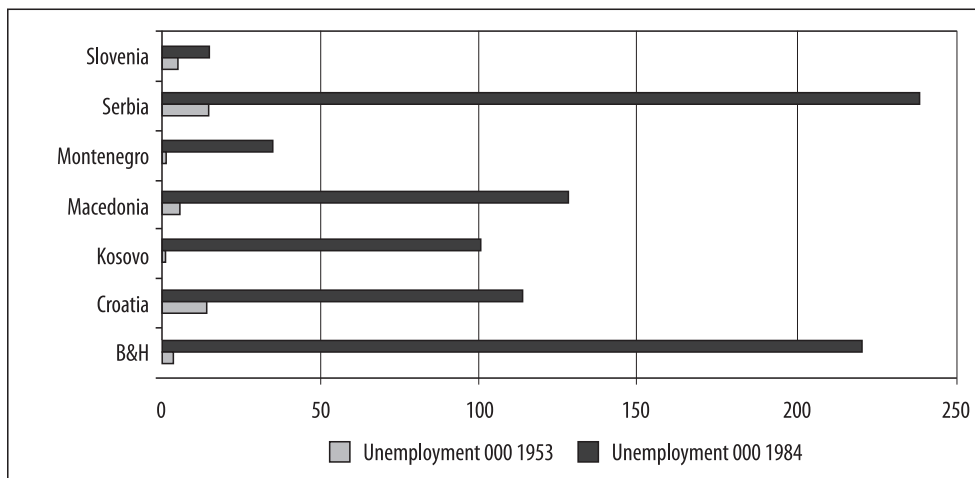
If we analyzed change of unemployment, we could conclude that structural-change models could not give good result in these states.

Table: Change of unemployment 1984-1953

	Unemployment 000 1953	Unemployment 000 1984	Change 1984-1953 (%)
B&H	4	220	5500
Croatia	14	114	814
Kosovo	1	101	10100
Macedonia	6	128	2133
Montenegro	1	35	3500
Serbia	15	238	1587
Slovenia	5	15	300

Source: Anon (1986). Material and social development SR Bosnia and Herzegovina 1947-1984 Bosnia and Herzegovina, Sarajevo, 227-247. pp.

Change of employment 1953-1984



Structural-change models or urbanization and industrialization before 1990s was main components of model economic development Bosnia and Herzegovina, Croatia, Serbia, Macedonia, Kosovo, Montenegro, Slovenia.

Elements of New Models of Economic Development

In the 1990s, political situation completely and complexly change in this republics or states. Republic established like new independent states: Bosnia and Herzegovina, Republic Croatia, Republic Macedonia, Republic Serbia, Republic Montenegro, and in the last, Republic Kosovo.

All states take the neoclassical model like main models of economic development. Shortly, states took free markets, public choice, and market-friendly approach. States took orientation from small open economy on the Washington and NewConsensus elements about state role. (Todaro&Smith, 2006) The main components of economic development in Washington consensus where: fiscal discipline, tax reform, deregulation, trade liberalization, privatization, elimination of barriers to direct foreign investment (FDI), financial liberalization. The main components of economic development in New consensus where: development must be market-based, government should not be in the business of direct production, as a general rule, but government could be have role in the following areas: providing stable macro environment, infrastructure, public health, education and training, technology transfer, ensuring environmentally sustainable development and ecological protection, providing export incentives, helping the private sector, ensuring “shared growth” by acting to reduce poverty and inequality, continued more moderate regulation and support in financial sectors and provision of fundamental public goods. (Todaro&Smith, 2006: 538-540)

In this paper we focus only on direct foreign investment FDI.

Table: FDI net inflow 1995-2008

	FDI net inflow current USD 000				
	1995	1998	2000	2005	2008
B&H		67	146	808	1058
Croatia	108	940	1108	1788	4798
Kosovo					
Macedonia	95	128	174	97	599
Montenegro					939
Serbia		113	25	1608	2998
Slovenia	150	216	136	540	1918

Source: Data Visualizer World Bank on 15 04 2011

FDI net inflow USD 000

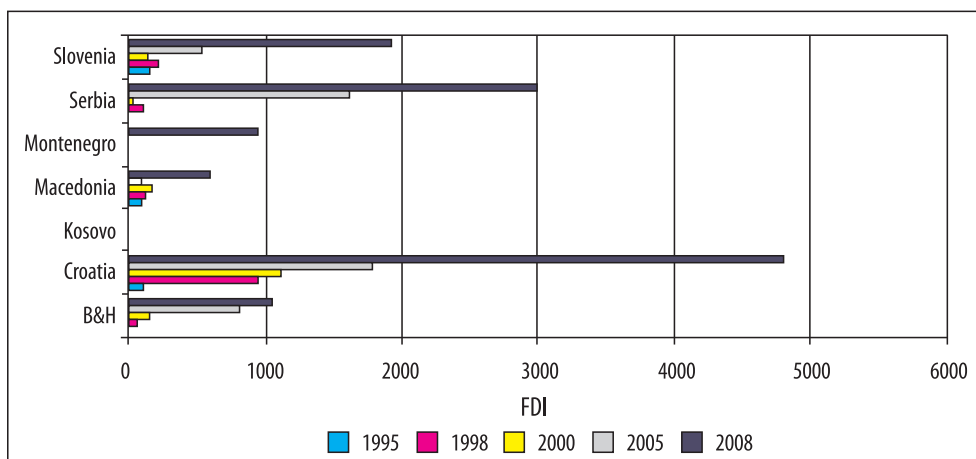


Table shows that net inflow direct foreign investment increase from 1995 till 2008 in this states.

Table: GDP 1995-2008

	GDP current USD 000				
	1995	1998	2000	2005	2008
B&H		4118	5338	10768	18518
Croatia	22128	25248	21348	44438	69338
Kosovo					
Macedonia	4448	3578	3588	5818	8528
Montenegro					4898
Serbia		16098	8968	26198	50068
Slovenia	20818	21588	19888	35698	54618

Source: Data Visualizer World Bank on 15 04 2011

Gross domestic product increased in same time.

GDP current USD 000

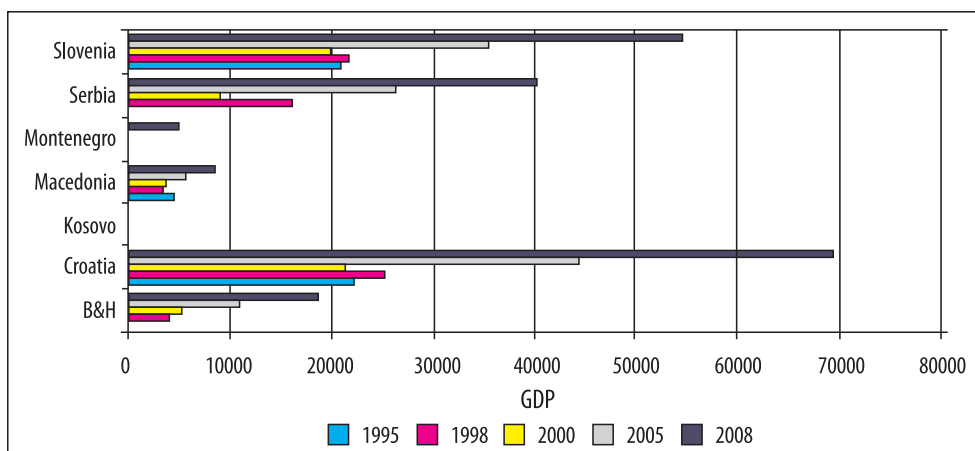
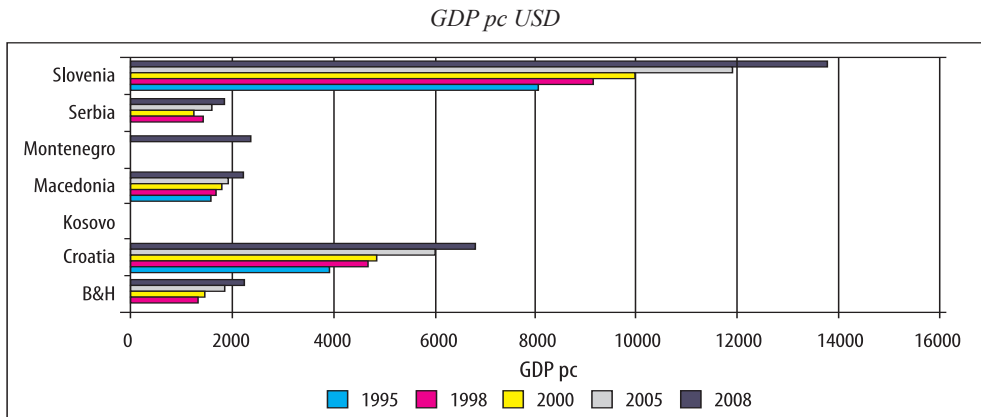


Table: GDP pc USD 1995-2008

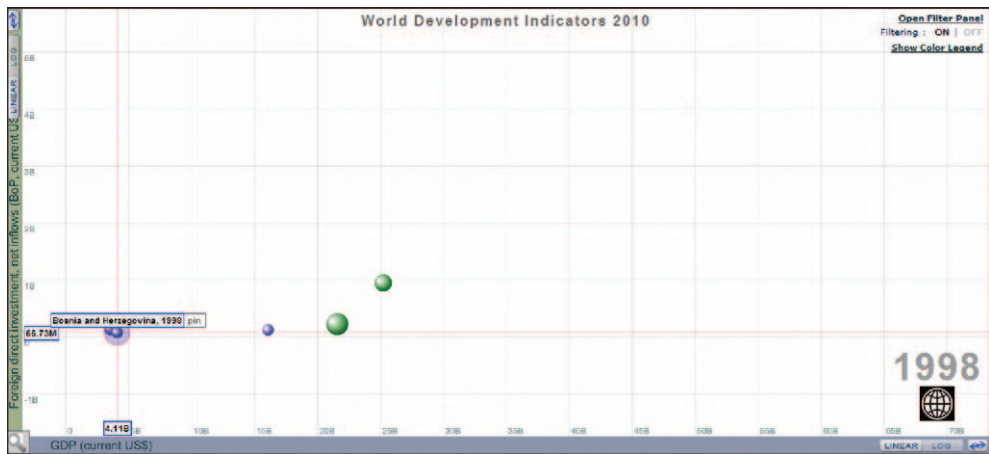
	GDP pc USD				
	1995	1998	2000	2005	2008
B&H		1320	1440	1790	2150
Croatia	3900	4670	4820	5994	6790
Kosovo					
Macedonia	1570	1640	1780	1890	2170
Montenegro					2350
Serbia		1380	1190	1550	1800
Slovenia	8070	9120	9990	11890	13780

Source: Anon (2011). Data Visualizer World Bank on 15 04 2011

Gross domestic product per capita increased in all states.

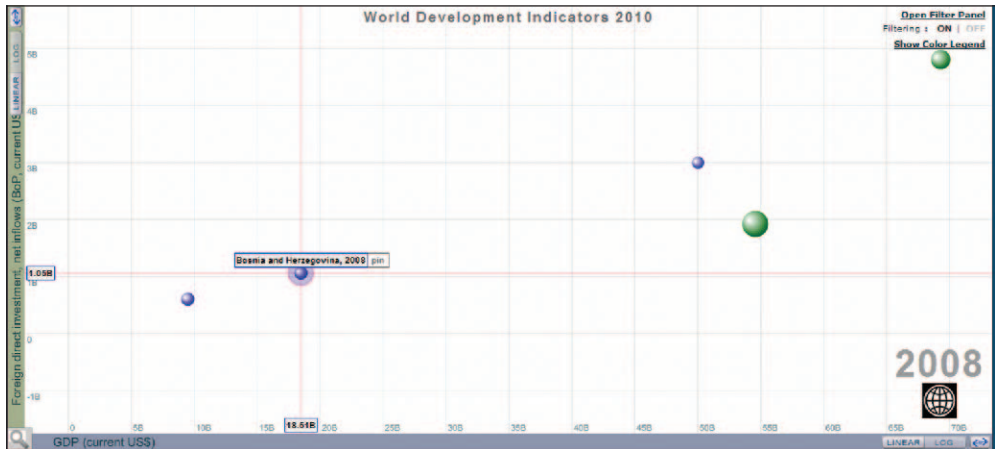


On the next graphs we could see interaction FDI, GDP and GDP pc 1998 for Bosnia and Herzegovina, Croatia, Serbia, Montenegro and Macedonia.



Source: World Development Indicators 2010. Data Visualizer World Banke

On the next graphs we could see interaction FDI, GDP and GDP pc 2008 for Bosnia and Herzegovina, Croatia, Serbia, Montenegro and Macedonia.



Source: World Development Indicators 2010. Data Visualizer World Bank

If we compared these values for Bosnia and Herzegovina, Croatia, Serbia, Macedonia, Montenegro, Slovenia at 1998 with values for these states at 2008 we could see progress and interactions.

Conclusion

Structural-change models of urbanization and industrialization before 1990s were main components of model economic development in Bosnia and Herzegovina, Croatia, Serbia, Macedonia, Kosovo, Montenegro, Slovenia. In the 1990s, political situation changed in these republics or states. Republics established like new independent states: Bosnia and Herzegovina, Republic Croatia, Republic Macedonia, Republic Serbia, Republic Montenegro, and in the last, Republic Kosovo. All states take the neoclassical model like main models of economic development. States took orientation from small open economy on the Washington and New Consensus elements about state role. (Todaro&Smith, 2006) The main components of economic development in Washington consensus were: fiscal discipline, tax reform, deregulation, trade liberalization, privatization, elimination of barriers to direct foreign investment (FDI), financial liberalization.

We could conclude that states were friendly to direct foreign investment and that direct foreign investment participated in increasing gross domestic product. Other components of the neoclassical model and contemporary models of development could be tested in a new paper.

The paper analyzed models of economic development of the Western Balkans including: Croatia, Bosnia and Herzegovina, Serbia, and Montenegro, Kosovo and Macedonia in the period 1952-1984 and the first decade of the 21st century. We identified common elements and similarities, which could be the basis for considering the justification of profiling a joint regional strategy. The paper proved the hypothesis that the models of economic development in these countries are similar, or that they have the necessary and sufficient number of common elements that seem worth profiling the common regional strategy.

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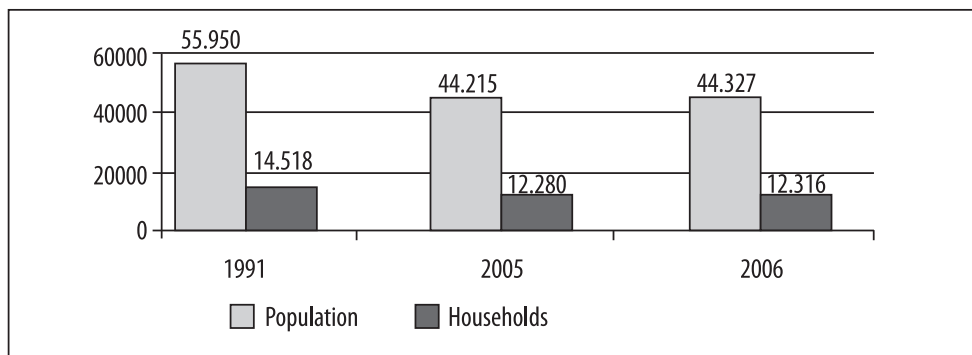
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RURAL DEVELOPMENT DIGRESSION ON AREA OF KAKANJ

*Jašarspahić - Suri Mensur**

To explain the importance of rural development for Kakanj, we provide some introductory information. Municipality Kakanj occupies a central position in the the Sarajevo-Zenica valley, economically the most important and most densely populated region of BiH. The municipality has 46,000 inhabitants and covers an area of 377 km². By railway Doboј-Sarajevo-Ploče, the main road and the M17 motorway - Corridor VC it is associated with all centers in the BiH, and through them, with Europe and the world. In 1991 in the municipality of Kakanj there were 106 inhabited locations, and according to estimates of the Federal Bureau of Statistics, that number has remained the same in 2006. In the segment of the urban and rural population in 2006 there have been significant changes in relation to 1991. (Anon., 2006:6)

Picture 1: Population and households of municipality Kakanj in 1991. 2005 and 2006

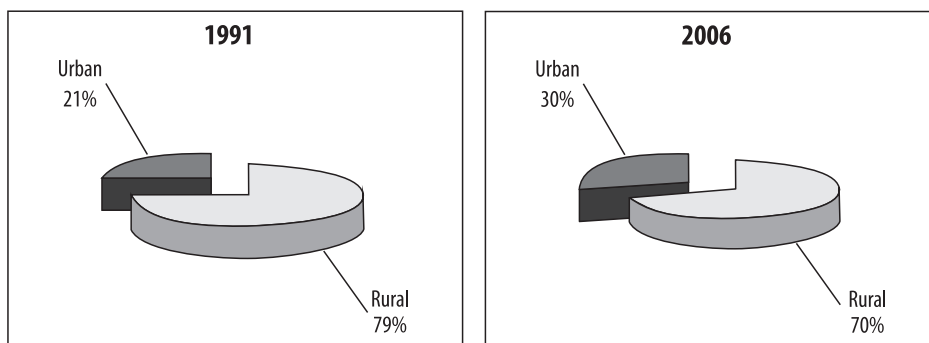


Source: Anon., 2006:6

Specifically, in 1991 in the municipality of Kakanj there were approximately 12 000 inhabitants who lived in the city and inner city area, and approximately 43 950 inhabitants lived in the country side, while in 2006 in the country side there were about 30 815 and in the city about 13 512 inhabitants. (Anon., 2006:8) Percentage of urban population increased for nine percent in 2006 compared to 1991, as shown in the charts:

* Mayor of Municipality Kakanj, Kakanj, Bosnia and Herzegovina

Picture 2: Ratio of urban and rural populations in 1991 and ratio of urban and rural populations in 2006



Source: Anon., 2006:9

In the Development Strategy of municipality Kakanj 2007th-2017th through the SWOT analysis, it was found that the migration from rural into urban area is one of the most dominant weaknesses of Kakanj, and the development of rural areas is defined as a possibility. Development potentials of Kakanj municipality in the field of agriculture and rural tourism will create the basic guidelines for rural development in the area of Kakanj. It is significant to emphasize that in addition to developed industry (Cement plant, Power Plant Kakanj, brown coal mine Kakanj), community development opportunities are reflected in favorable climatic conditions, and appropriate quality of the land that is suitable for the production of fruits and vegetables. (Anon., 2006)

The Potential of Municipality Kakanj in the Field of Rural Development

Agriculture

Currently the municipality Kakanj has 270 registered agricultural holdings. In the municipality there are opportunities for the development of horticulture through the revitalization of existing and constructing new plantation type orchards, and connecting with existing purchasing, processing and production facilities in the area of Zenica-Doboj Canton and the whole country. Especially important are opportunities for the development of livestock, with special emphasis on sheep and cattle in addition to providing opportunities for the development of fish farming, beekeeping and medicinal herbs. Protecting agricultural lands from devastation, and recultivation of devastated land to use for other purposes, is certainly one of the preconditions for a planned and organized agriculture. Organized approach and implementation of economically viable projects (organized milk collection, planting orchards, planted strawberries, raspberries, etc.) as well as the tendency of growth of small and medium business is an additional indicator of the existence of initiatives in this field in the local community. On the territory of Kakanj municipality, the agricultural area is 8 976.6 acres. (Anon., 2006:15-18) The ownership structure of agricultural land according to data from the cadastre is following: in private ownership there is 92%, and the owns State 8% of total agricultural land.

Rural tourism

The importance of rural tourism is reflected in the interaction of agricultural production, traditional products, presenting the traditions, traditional gastronomy and tourism services, in one word, using existing resources. Rural tourism development is based on sustainable development. This is reflected in the revitalization of existing, traditional building or heritage, which is given a new touristical purpose. At a time when a lot of pressure is created in the space, due to the construction of new facilities, rural tourism brand in a totally different way tries to unite, restore and organize the space. Rural tourism does not need to build new capacities, but now faces the challenge of how best to take advantage of the existing structure. Through the diversification of rural economic activities, farmers and other rural residents are trying to secure additional sources of revenue. Rural tourism, traditional crafts, direct sales, facilities for sale on the farms, non-agricultural services or facilities for the use of renewable energy, contribute to the development of rural areas. Among the sectors, certainly the most significant one is rural tourism. (Anon., 2011c) Rural tourism is a range of activities, services and additional contents organized by the rural population, mainly in the family farms in order to attract tourists in their area and create additional income. Rural area, as a basic resource for development of rural tourism is an enormous potential for meeting the needs of the urban population for peace and space for outdoor recreation. Rural tourism involves visiting natural parks and other heritage in rural areas, scenic ride, enjoying the rural scenery and stay at touristical peasant farms. Primary and guiding role in rural development should have the relevant ministries, which will come to expression during the implementation of Rural Development strategy of Zenica-Doboj Canton, which is in the making. Rural tourism development in the area of Kakanj will definitely be linked to the existing tourism resources, which particularly includes:

Bobovac: Royal medieval city and capital of Bosnia, a place that preserved the Bosnian crown and that was the last stronghold of the rulers before the arrival of the Ottoman Empire. Bobovac was declared a national monument of Bosnia. (Anon., 2011f)

Picture 3: Remains of the Royal City Bobovac



Source: <http://ardtravel.ba/upload/image>

Tajan: Intact nature on 1297 m altitude, canyons, caves, lakes, natural stone bridges, flora, fauna and paleontological findings, are the reasons why Tajan is declared a “Natural Park “. (Anon., 2011f)

Picture 4 - Tajan – Natural Park



Source: <http://snikatom.com/slike/ppt/image008.jpg>

Ponijeri: The mountain is very rich in flora, fauna and mountain streams. In winter the average height of snowfall is about 100 cm. Ponijeri has excellent conditions for organizing the ski school and receiving a large number of guests. (Anon., 2011f)

Picture 5: Ponijeri - Ski Resort



Source: www.kakanj.com.ba

The Franciscan monastery in Kraljeva Sutjeska: The first written record of the monastery is found in the list of Franciscan writer Bartholomew Pisanski from 1385th. Besides being one of the oldest Bosnian institutions, the monastery is famous for its rich collection of valuable library and museum exhibits. (Anon., 2011f) Al Fatih Mehmed the II mosque in Kraljeva Sutjeska: One of the first mosques in BiH, built in 1463rd after the fall of medieval Bosnian capital Bobovac. (Anon., 2011f) Bočica - mountain resort: In the complex of the Mountain lodge the visitors have at their disposal bedrooms, mansion, fountain, large terrace, an amusement park and swimming pool for children. (Anon., 2011f)

Rural Infrastructure

One of the preconditions for rural development is that the rural infrastructure is developed. Regarding the current state in the municipality Kakanj in this area, the situation is

not satisfying, but it is far better than in many other areas of our country. Infrastructure projects in the field of rural development are major investment projects, which will certainly need investors, both from the higher levels of government in BiH and the European Union. Development of rural infrastructure should be guided by the strategies of rural development, from higher to a lower level, in accordance with the dynamics of the operational and action plans, using available potentials and resources.

Local Rural Development Strategy

Rural development strategies must exist at the local level, if it is serious approach to this issue. The local rural development strategies are based on existing long-term strategic development plan. In our case, this is the Development strategy of Kakanj municipality 2007th; - 2017th , which requires revision and update. (Anon., 2006) The strategic document of rural development at the local level must take the form of an action plan, by which will be exactly defined what are the objectives, priorities and measures, and who is responsible for certain activities, and certainly the manner in which these activities will be financed. Especially important is the monitoring and evaluation. Implementation framework of the strategic plan for rural development should not remain at the local level. In accordance with the overall strategic planning system and the adopted strategic goals, it is necessary to find the modalities and get closer to major sources of financing, such as the EU funds. (Anon., 2011b)

The Importance of the Strategy for Rural Development in Higher Levels

In order for a strategic plan for rural development at the local level to have a real possibility for implementation, it is necessary that the general objective, which is the basic concept, is aligned with the strategic plan of rural development at a higher level, of course, if such exists. Unfortunately, in FBiH, in contrast to RS, there is yet no strategic plan for rural development, without which it is not possible to develop a program of rural development at the state level, or withdraw funds from the European Union in an amount of about 80 million Euros, as stated in numerous media, among others on the web page www.poljoprivreda.ba. (Anon.,2011e) With this fact, all efforts by local communities seem in vain. Hope inspires the fact that activities were implemented in 2010th in order to enact very important strategic documents, such as the National Development Strategy, Strategy of the development of Federation 2010th-2020th, and action plans of ministries and institutions in FBiH. Also significant is the fact that the municipality Kakanj is involved in the process of creating the rural development strategy of Ze-Do Canton, in realization of which is participating ZE-DO Canton region Sicily and Agricultural-food Faculty Sarajevo. The first meeting was held on 23.03.2011th. For the Municipality of Kakanj, which is part of the Zenica-Doboj Canton, significant fact is that the annually action plan is adopted in Cantons, and that the Business Service Center of Zenica is designated as an implementing unit of the Zenica-Doboj Canton. Higher levels of government, with its institutions, must in significant measure involve the local levels, when making strategic and action plans, in order to come together to achieve the desired results and goals, and have a common stance in speeches and applications to the European Union. (Anon., 2011a; Anon., 2011b)

Implementation Measures and Operational Plans

Within one of the strategic objectives of the Action Plan for Strategic Planning of Zenica-Doboj Canton “Sustainable Development”, predicted are the following sub goals: 1st Agriculture, food production and rural development and 2nd Ecology and development of energy potentials (Anon., 2011a)

Sub goal 1st “Agriculture, food production and rural development” includes the following priorities:

- Establishment of functional institutional capacity for agriculture and rural development,
- Improving the competitiveness of the production, processing and trade, along with raising the level of safety and quality of domestic products,
- Nature preservation and rational management of natural resources,
- Improving living conditions and income diversification of rural employment,
 - o Measure 1: Improvement of rural infrastructure,
 - o Measure 2: Support the production of specific geographic brand-name products,
 - o Measure 3: Promoting Rural Tourism.

Mentioned measures are especially important for the municipality Kakanj to achieve such priorities - improving the living conditions and income diversification of rural employment, because they are usually in line with existing resources which our municipality has. In this regarded, it is necessary to plan the future strategy for local development. It is extremely important to set goals and priorities and to plan realistically so the results would not be absent.

Sources of Financing and the European Funds

We agree with the fact that a strategic plan for rural development at national level should be the framework as a basis to define ways to withdraw funds from the EU funds. Our budgets, in some cases are not large enough even for the routine maintenance, let alone a large development projects can not be even consider. It is very important to recognize the European path in this field and use it. It is necessary to train capable personnel to work on European projects, both in the stage of selection, preparation of projects and applications, and in the implementation phase. Working on projects financed from EU funds is very demanding. Within the existing capacities, in most municipalities, it is almost impossible to organize high-quality work in this area. For starters, at least one person, preferably a whole team of people, should be familiar with the policies of the European Union, with strategic planning at all levels in our country, to follow the current public calls to propose projects, develop applications and monitor implementation of approved projects. Some municipalities have a department for the European integration, or professional counselors for that area, because it requires full-time and continuous work in appropriate conditions, in order to achieve results. It doesn't have to mean that it is necessary to recruit new staff and additional sources of financing, because the appropriate education and restructuring of existing human resources can make significant improvements.(Anon., 2011b; Anon., 2011g)

Compliance with the Policies of the European Union

I want to emphasize the importance of the following terms:

Rural Development - Rural development is part of the common agricultural policy of the European Union. The objectives of rural development are in line with the Lisbon strategy

(2000 - 2005.) and the Göteborg Strategy (2001), that is competitiveness and sustainable development. Rural development is focused on four areas: competitiveness of agriculture, food and forestry, land management and environment, quality of life and diversity of rural areas; Leader approach. In the period since 2007th – 2013th the Regional Development is supported through the European Agricultural Fund for Rural Development (EAFRD). (Anon., 2000; Anon., 2001)

Common Agricultural Policy-Cap - Common Agricultural Policy is one of the most important policies of the European Union and almost half the EU budget is invested in it. It represents a set of measures and programs for subsidizing agriculture in the European Union. Its aim is to ensure reasonable prices and acceptable quality of agricultural products for the European consumers, a satisfactory income for farmers in the EU and the preservation of rural heritage. The framework for the joint agricultural policy is set by the Treaty on the European Economic Community (1957/1958), and its implementation began in 1962. (Anon., 1957; Anon., 2011b)

European Agricultural Fund for Rural Development eafrd and European Agricultural Guarantee Fund (EAGF) - European Agricultural Fund for the Rural Development and European Fund for the Agricultural Guarantee are the instruments of support for the common agricultural policy of the European Union which have been established in the financial perspective 2007th – 2013th. European Agricultural Fund for the Rural Development is aimed at reducing disparities between regions of the European Union through the development of agriculture. Enabled through it is the unique source of funding for all programs of the European Union for Rural Development. The Fund focuses support in four areas: improving the competitiveness of agriculture and forestry, improvement of the environment and landscape, quality of life in rural areas and diversification of rural economy, and the Leader approach (building capacities of local employment and diversification of rural economy). The value of the fund in a financial perspective 2007th – 2013th is 91 billion Euros. European Fund for the Agricultural Guarantee is aimed at supporting sustainable agriculture. Through this fund, among other, provides a refund for the export of agricultural products to non-member countries and direct payments to European farmers. The value of the European Fund for the Agricultural Guarantee in the financial perspective 2007th – 2013th is 317 billion Euros. (Anon., 2011b; Anon., 1999; Anon., 2001; Anon., 2011d; Anon., 2011e; Anon., 2011d)

Out of the above terminology, and short descriptions, it is clear that all development strategies, including rural development, both at higher and at the lower levels, must harmonize with each other, and primarily with the agricultural policy of the European Union, in order for to make sense to seek financial support for the achievement of certain goals through our projects.

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