

## **Comparative Analysis of Bosnia Herzegovina to the Other Former Yugoslav Federation Countries in the Context of Political and Economic Perspectives**

**Hakan M. KIRIŞ**

Suleyman Demirel University, Isparta/Turkey

[hakkan@iibf.sdu.edu.tr](mailto:hakkan@iibf.sdu.edu.tr)

**Canan ŞENTÜRK**

Suleyman Demirel University, Isparta/Turkey

[canansenturk@iibf.sdu.edu.tr](mailto:canansenturk@iibf.sdu.edu.tr)

**Hidayet KESKİN**

Suleyman Demirel University, Isparta/Turkey

[hunlu@iibf.sdu.edu.tr](mailto:hunlu@iibf.sdu.edu.tr)

**Onur SUNGUR**

Suleyman Demirel University, Isparta/Turkey

[onurs@iibf.sdu.edu.tr](mailto:onurs@iibf.sdu.edu.tr)

**Abstract:** A major period of transformation has begun all over the world since 1980s. The important developments occurring in the political field with neoliberal policies have also affected economic field equally. Economic stability and transformation cannot be considered separately from political stability and transformation. In this context, disintegration of the Soviet Union and Yugoslavia has led to important developments not only political but also economic fields. Today, there are countries of Bosnia - Herzegovina, Slovenia, Serbia, Croatia, Macedonia, Kosovo and Montenegro in the territory of the former Yugoslav federation. With dissolution of the federation, political and economic transformation process started in these countries. This study aims to make a comparative analysis in the context of macroeconomic indicators on Bosnia – Herzegovina’s economy with other FYRs’ economies that emerged as a result of political transformation.

### **Introduction**

Former Yugoslav Federation countries are one of the most interesting lands in the world. Ethnic, religious and regional conflicts have shaped the history of these seven countries (Bosnia Herzegovina, Slovenia, Serbia, Croatia, Macedonia, Kosovo and Montenegro). This study makes an effort to put forward political and economic scene of these countries. Especially Bosnia Herzegovina is a prominent example for this paper. Within this context study has two main sections. First political landscape of Bosnia Herzegovina and the other former Yugoslav Federation Countries are explained their political history and demographic indicators in brief. Moreover first section contains the subtitle of Bosnia Herzegovina’s current political and administrative structures. The second section is interested in the economic indicators of these countries. In this section, firstly, recent macroeconomic indicators of these countries are given. Then, the economic transformation of these countries between 2003 and 2009 are analyzed and the effects of global crisis are discussed. The purpose is to provide updated comparative information on different aspects of the economies in Former Yugoslav Federation countries. This overview aims to present recent trends and/or actual forecasts of different indicators of economic development for Former Yugoslav Federation countries.

### **Political Landscape of Bosnia & Herzegovina and the Other Former Yugoslav Federation Countries**

#### **Political History in Brief**

In the history of Western Balkan Countries within the borders of Former Yugoslav Federation, a variety of common grounds can be seen. The word “Yugoslavia” means “Southern Slavs”. Yugoslavia had appeared with the idea of gathering various national and religious communities with equal rights. The Kingdom of

Yugoslavia lived between the two World Wars. The Second World War became a turning point for this country. After the War, the federative structure took the place of the kingdom. Even though it had a socialist character, it had a different tendency from the Soviet Union. In this period, Yugoslavia took part in Non-Aligned Movement.

Disintegration of Yugoslavia can be viewed depending on deep economic and political crisis. Demand of independency of Croatia and Slovenia and then Serbia's domination desire accelerated this process of separation. When Croatia and Slovenia declared independence, Yugoslav crisis internationalized. Bosnia Herzegovina is an unfortunate land because of bloody and unequal battles in 1990s (Kut, 1998: 321 – 324).

Today two new independent countries rise in former Yugoslav lands: Montenegro as an independent country which is split up Serbia in 2006 and Kosovo which is declare of independence in 2008. Kosovo and Montenegro are the latest independent countries of the World today. Thus there are seven countries in former Yugoslav federation territories: Bosnia and Herzegovina, Croatia, Macedonia, Slovenia, Serbia, Montenegro and Kosovo.

After the *pax Romana* Kingdom of Bosnia fought against Hungarians and Serbs. Bosnia was added to Ottoman Empire at 1463. Ottomans ruled Bosnia till treaty of Berlin in 1878. Austro – Hungarian Empire gained Bosnian territory owing to Berlin Treaty without any war with Ottoman Empire. Between the years of 1918 – 1941 Bosnia was ruled by Kingdom of Yugoslavia. After the invasion of Nazi at World War II Bosnia get involved in Yugoslav Federation. After the Bosnia War<sup>36</sup>, Dayton Agreement at 1995 is the constructive treaty of Bosnia and Herzegovina.

Before this agreement, world public opinion witnessed ethnic based Bosnia war between the years of 1991 to 1995 (Maric, 2006a: 90). Continuing 5 years Bosnia war ended in 1995 with Dayton Peace Agreement signed among the leader of Bosnia Herzegovina Alija İzzetbegovic, the leader of Serbia Slobodan Milosevic and the leader of Croatia Franjo Tudman.

Arriving West Balkans in 7<sup>th</sup> Century, Croats established their kingdom in X. Century. However, Croatian territory was conquered first by Hungarians in 11<sup>th</sup> Century and later in 16<sup>th</sup> Century by Otoman Empire with the Mohacs War. Upon the failure of second siege of Vienna, Croats was conquered this time by Austro-Hungarian Empire. With the separation of Austro – Hungarian in World War I, Croats joined to Yugoslavian Kingdom. After the Nazi occupation in World War II, Croats, just like their neighbors, joined Yugoslavian Socialist Federation. In 1991, Croats declared their independence (Oliver, 2006: 140 – 144).



**Figure 1.** New Independent Countries in Former Yugoslav Federation Lands

Today Macedonia is the name of both a state and geographical territory. As a geographical territory, Macedonia, today covers north-west of Greece, south-west of Bulgaria and the Republic of Macedonia. Therefore, upon the objection of Greece, Macedonia Republic was portrayed as Former Yugoslav Republic of Macedonia when it was established. Although history of Macedonia dates back to antiquity as a geographical territory, the history of Macedonian Republic is quite new. Macedonian, Roma, Byzantine and Ottoman Empires prevailed over the Macedonian territories. Following the World War II, Macedonia, a state depended on Yugoslav Socialist Federation, declared of independence in 1991 (Plunkett, 2006: 232 - 234).

The word Slovenia stands for “the country of Slavs”. Slovenes, just like other Slav communities, arrived this area around VII. Century. After the Dukedom they founded, the area they settled down became, in a little while, a part of Holy Roma-Germen Empire. Slovenes, included in the Yugoslav Kingdom with the separation of Austro-Hungarian Empire after World Was I, joined Yugoslav Federation after Nazi occupation in World War II and remained dependent on this federation until they declared independence in the beginning of 1991. Slovenia is the only country among the countries separated from the former Yugoslav Federation (Oliver, 2006: 331 – 334).

<sup>36</sup> Bosnia Herzegovina is a special foreign policy issue for Turkish politicians and statesmen. Turkey as term president of the Council of Europe and term president of the Organization of the Islamic Conference, played an important role on Bosnia War. Turkey prepared an action plan for Bosnia Herzegovina which included diplomatic and military protections. In fact, direct intervention of Turks alone became a current issue in international diplomacy. Today, a Turkish troop in SFOR serves in Zenica.

Until the Ottoman reign, Serbians organized as a medieval kingdom. This kingdom dominated from 7<sup>th</sup> Century till 14<sup>th</sup> Century. Remaining under the reign of Ottomans for five years, Serbians consisted of communities within the empire and early impressed by nationalist movement. Declaring independency with Agreement of Berlin in 1878, Serbians was the leading community which founded the Kingdom of Yugoslavia after the World War I. Serbia, placed within Yugoslavia Federation following World War II, struggled to maintain Yugoslav Federal Republic with Karadağ in 1992. However, in 2001 the name Yugoslavia vanished, and after a little while, the corporation of Serbia and Karadağ came to an end (Maric, 2006b:268 - 270).

While dependent upon Venice Republic, Montenegro came under the reign of Ottomans in 15<sup>th</sup> Century. For Ottoman Empire, Karadağ was quite problematic area. This country, hosting many rebellions, separated from Ottoman Empire and gained its independence with Berlin Agreement in 1878. One of the countries constituting Yugoslavia, Karadağ, perpetuated the name of Yugoslavia with Serbia in 1990s, however, separating from Serbians, Karadağ regained its independence in 2006 (Maric, 2006b: 269 – 270).

Just like Macedonia, bearing the traces of Hun and Slav migrations, Kosovo placed in the confluence of empires throughout the history. Homaging the Ottomans in such an early year 1389, remained under the domain of Ottomans till 1912. Serbians, put in a claim for Kosovo in historical period, invaded Kosovo in 1995. However, this invasion came to an end with the NATO intervention in 1999. The Republic of Kosovo, is the last independent country of the world. The independency of Kosovo, is a significance improvement in international politics (Maric, 2006b: 270).

### **Demographic Indicators**

Serbia is the most populated country among Former Yugoslav Federation Countries today. Bosnia Herzegovina and Croatia are other over- populated countries following Serbia compared to the others in the region. In contrast, Montenegro is the least populated country.

Bosnia Herzegovina and Montenegro are the most heterogeneous countries ethnically. In Bosnia Herzegovina, no ethnic group has the supreme size in comparison with the others. In Montenegro Montenegrins and Serbs constitute two big ethnic groups. When having a look at the other countries, a different situation is perceived. For example, in Croatia, the 89.6 % of the total population is Croatian, in Slovenia the 83.1 % of the population is Slovene, in Serbia 82.9 % of the population is Serbs, in Macedonia 64.2 % of the population is Macedonians. In Kosovo, 88 % of the population is Albanians.

In Bosnia Herzegovina, no religious group dominates the other one. Bosnia Herzegovina which has the most balanced distribution has the highest Muslim population among the other countries in this study. In contrast, the majority of the population in Croatia and Slovenia is Catholics. Correspondingly, Orthodox Christians are mostly in Macedonia, Montenegro and Serbia. A similar scene is viewed in the extensity of the current languages in the society.

Within the framework of the demographic features, Croatia, Slovenia and Serbia have a more homogeneous structure. However, Bosnia Herzegovina is considered as the most heterogeneous country.

Country	Population	Ethnic Groups	Religion	Languages
<b>Bosnia Herzegovina</b>	4,613,414 (2009 est)	Bosniak 48%, Serb 37.1%, Croat 14.3%, other 0.6% (2000)	Muslim 40%, Orthodox 31%, Roman Catholic 15%, other 14%	<b>Bosnian, Croatian, Serbian</b>
<b>Croatia</b>	4,489,409 (2009 est)	Croat 89.6%, Serb 4.5%, other 5.9% (including Bosniak, Hungarian, Slovene, Czech, and Roma) (2001 census)	Roman Catholic 87.8%, Orthodox 4.4%, other Christian 0.4%, Muslim 1.3%, other and unspecified 0.9%, none 5.2% (2001 census)	<b>Croatian 96.1%, Serbian 1%, other and undesignated 2.9% (including Italian, Hungarian, Czech, Slovak, and German) (2001 census)</b>
<b>Macedonia</b>	2,066,718 (2009 est)	Macedonian 64.2%, Albanian 25.2%, Turkish 3.9%, Roma (Gypsy) 2.7%, Serb 1.8%, other 2.2% (2002 census)	Macedonian Orthodox 64.7%, Muslim 33.3%, other Christian 0.37%, other and unspecified 1.63% (2002 census)	<b>Macedonian 66.5%, Albanian 25.1%, Turkish 3.5%, Roma 1.9%, Serbian 1.2%, other 1.8% (2002 census)</b>
<b>Slovenia</b>	2,005,692 (2009 est.)	Slovene 83.1%, Serb 2%, Croat 1.8%, Bosniak 1.1%, other or unspecified 12% (2002 census)	Catholic 57.8%, Muslim 2.4%, Orthodox 2.3%, other Christian 0.9%, unaffiliated 3.5%, other or unspecified 23%, none 10.1% (2002 census)	<b>Slovenian 91.1%, Serbo-Croatian 4.5%, other or unspecified 4.4% (2002 census)</b>
<b>Serbia</b>	7,379,339 (2009 est.)	Serb 82.9%, Hungarian 3.9%, Romany (Gypsy) 1.4%, Yugoslavs 1.1%, Bosniaks 1.8%, Montenegrin 0.9%, other 8% (2002 census)	Serbian Orthodox 85%, Catholic 5.5%, Protestant 1.1%, Muslim 3.2%, unspecified 2.6%, other, unknown, or atheist 2.6% (2002 census)	<b>Serbian 88.3% (official), Hungarian 3.8%, Bosniak 1.8%, Romany (Gypsy) 1.1%, other 4.1%, unknown 0.9% (2002 census)</b> <i>note: Romanian, Hungarian, Slovak, Ukrainian, and Croatian all official in Vojvodina</i>
<b>Montenegro</b>	672,180 (2009 est.)	Montenegrin 43%, Serbian 32%, Bosniak 8%, Albanian 5%, other (Muslims, Croats, Roma (Gypsy)) 12% (2003 census)	Orthodox 74.2%, Muslim 17.7%, Catholic 3.5%, other 0.6%, unspecified 3%, atheist 1% (2003 census)	<b>Serbian 63.6%, Montenegrin (official) 22%, Bosnian 5.5%, Albanian 5.3%, unspecified 3.7% (2003 census)</b>
<b>Kosovo</b>	1,804,838 (2009 est.)	Albanians 88%, Serbs 7%, other 5% (Bosniak, Gorani, Roma, Turk, Ashkali, Egyptian)	Muslim, Serbian Orthodox, Roman Catholic	Albanian (official), Serbian (official), Bosnian, Turkish, Roma

**Table 1: Demographic Structure of Former Yugoslav Federation Countries**  
Source: CIA, World Factbook, 2009.

### Political and Administrative Structure of Bosnia and Herzegovina

Today, Bosnia and Herzegovina is composed of two entities. An *entity* is similar to a state in the US, or a province in Canada. The northern, primarily Serb, entity within the country is called the Republic of Srpska, with its capital in Banja Luka. The Federation is the second entity of the country. This entity has all three ethnic groups present, and it is formally referred to as the Federation of Bosnia and Herzegovina. Both the Republic of Srpska and the Federation of Bosnia and Herzegovina are entities within the country, which is itself called Bosnia and Herzegovina (Phillips, 2004: 13).

International commentators wonder how Bosnia can survive as a multinational structure. Theoretical discussions on multi-ethnicity have led to a discuss about which institutional arrangement can best accommodate the various needs of the three main Bosnian communities. The role of international intervention is protecting multi-ethnicity, building viable and legitimate state institutions. More broadly, furthering and sustaining the peace process (Belloni, 2007: 3).

With the signing of the Dayton Peace Agreement, rebuilding Bosnia in the aftermath of a long and bloody war over ethnicity and territory would involve not only reconstituting a deeply divided political community and building up public institutions almost from scratch, but also simultaneously putting the country on the path to free-market capitalism and liberal democracy. The central dynamic of Bosnia's short post-Dayton existence, therefore, has been the tension between the country's ongoing ethnic struggle and the efforts of the international community to implement the main pillars of the Dayton agreement. These pillars include the return of refugees and displaced persons to their pre-war homes, the consolidation of democratic values, institutions, and practices, the recreation of a climate of relatively tolerant multi-ethnicity, and the creation of a viable market economy (Donais, 2005: 1-2).



**Figure 2.** Bosnia and Herzegovina Political Map

The post-Dayton state-building process has also been deeply affected by the broader ideological overtones of contemporary global capitalism, with its deep distrust of activist and interventionist government. Somewhat paradoxically, therefore, the post-war Bosnian state is often simultaneously defined as both under-developed and over-intrusive: lacking basic capacities and competencies to exercise effective governance while continuing to wield inordinate influence over the remains of the Bosnian economy (Donais, 2005: 47).

Bosnia and Herzegovina has three primary religious groups: Orthodox, Catholic, and Islam. Orthodox Christians have ties to the Serb ethnic group, Catholics to the Croats, and the Muslims are often referred to as *Bosniaks* (not to be confused with Bosnians). Surprisingly, each of these ethnic groups has the same ancestral heritage, just as the now diverse population shares the same Slav ethnic roots. Religious differences and extreme nationalism offer the most apparent answers to this question. This complex question will be examined in greater detail in the following chapters, and it is an essential one to explore if one is to understand Bosnia and Herzegovina and its neighbours in the region (Phillips, 2004: 9).

### Macro Economic View of Former Yugoslav Federation Countries

In this section, various macro economic indicators for Former Yugoslav Federation countries are presented. The purpose is to provide updated comparative information on different aspects of the economies in Former Yugoslav Federation countries. This overview aims to present recent trends and/or actual forecasts of different indicators of economic development for Former Yugoslav Federation countries.

Main demographical indicators of the countries Bosnia - Herzegovina, Slovenia, Serbia, Croatia, Macedonia, Kosovo and Montenegro are presented in Table 2 as follows:

	BiH	Croatia	Kosovo	Macedonia	Montenegro	Serbia	Slovenia
<b>Area(km<sup>2</sup>)</b>	51,129	56,594	10,908	25,713	13,812	88,361	20,273
<b>Population</b>	4,613,414	4,489,409	1,804,838	2,114,550	672,180	7,334,935	2,054,199
<b>Density</b>	90,2/km <sup>2</sup>	81/km <sup>2</sup>	220/km <sup>2</sup>	82,2/km <sup>2</sup>	50/km <sup>2</sup>	107,46/km <sup>2</sup>	99.6/km <sup>2</sup>
<b>GDP* (billion \$)</b>	\$29.477	\$78.539	\$5.352	\$18.831	\$6.506	\$78.506	\$55.741
<b>Per capita GDP*</b>	\$7,361	\$17,703	\$2,965	\$9,163	\$10,393	\$10,635	\$27,654
<b>HDI Rank (2007)</b>	76th	45th	-	72th	65th	65th	29th

**Table 2.** Recent Demographic And Macro-Economic Indicators Of Former Yugoslav Federation Countries

\* according to Purchasing Power Standard (PPS)

**Source:** (CIA, 2009)

According to 2009 figures, total GDP's of these countries (according to PPS) is around \$ 273 billion. In terms of GDP, the richest countries of these seven countries are Croatia and Macedonia. However, when these two countries, per capita GDP values are examined, it has been seen that Croatia is second and Macedonia is fifth. Slovenia has \$ 27.655 per capita GDP and it is the highest country according to per capita GDP. Kosovo is located at the end according to GDP and per capita GDP in these seven countries. In addition to this, all countries, except Slovenia, are entered "high" category in terms of Human Development Index. Slovenia is entered in the "very high" category in terms of Human Development Index. Kosovo does not have a rank which is calculated by the UNDP.

Bosnia and Herzegovina had a developed industrial infrastructure before the war and nearly half the country's income and employment were being provided by 10 companies. In this year's heavy industry, in particular metallurgy and chemical industries, constituted an important part of industrial production and the vast majority of production was oriented to the domestic market. (T.C. Saraybosna Büyükelçiliği, 2008: 9). Bosnia-Herzegovina was trying to cross a free market economy after gaining independence. However, before realizing that war has begun in the country. The war which was started in 1992, has done great harm to the country. The interethnic warfare in Bosnia and Herzegovina caused production to plummet by 80% from 1992 to 1995 and unemployment to soar. . After end of the war and the provision of political stability, the national economy has begun to revive with international investments.(DEİK, 2005: 2). With an uneasy peace in place, output recovered in 1996-99 at high percentage rates from a low base In terms of real GDP, 29.9% growth in 1997, 28,9% in 1998 and 9,5% in 1999 was achieved.(IMF, 2010). In 1999, The EU proposes the new Stabilisation and Association Process for five countries of South-Eastern Europe, including Bosnia and Herzegovina. In 2000, Zagreb Summit; the Stabilisation and Association Process is officially endorsed by the EU and the Western Balkan countries including Bosnia and Herzegovina. In November 2003, the Commission produces a Feasibility Study assessing Bosnia and Herzegovina's capacity to implement a future Stabilisation and Association Agreement. The study concludes that negotiations should start once Bosnia and Herzegovina has addressed 16 key priorities (OECD, 2006: 13). These negotiations related to Stabilisation and Association Agreement play an important role in the country's economic policies (DEİK, 2005: 2). As a result of these efforts, GDP growth exceeded 5% per year between 2003-2008. Improvement in economic performance between the 2003-2008 years is reflected to growth and national income figures. However the current account deficit, unemployment and low incomes continue to be major economic problems. Besides, due in large part to the global economic crisis, GDP fell by about 3% in 2009, exports fell 24%, and unemployment rose above 40% (CIA, 2009).

Bosnia and Herzegovina has suffered a major structural change in economy. On the one hand institutions which are necessary for the functioning of healthy free-market economy, are established with technical and financial support and assistance of particularly the European Union and the United States. On the other hand, country is trying to repair the damage which is caused by war. Bosnia and Herzegovina took many important steps about correction of the country's image against foreign investors and it has been efforts to increase foreign investment. In May 1999 a new Foreign Investment Law was enacted at the state level. Some new investments have been made through the progress of privatization (WIIW, 2002: 4). In addition, Foreign Investment Promotion Agency (FIPA) was established in 1999 for the the development and identifying of trade and investment relations. FIPA provides data, information, analysis and advice on the business and investment environment, including the legal framework for foreign direct investment, investment incentives, economic and business trends (FIPA, 2010). In addition to the establishment of FIPA, various improvements were made in Bosnia-Herzegovina to improve the investment environments such as 5-year programme for SME development adopted in Republic of Srpska in 2001, harmonisation of customs tariffs in 2002, adoption of law on Indirect Tax in 2003, Law on Business Registration in 2004 etc. (OECD, 2006: 18-19).

Basic problem in Bosnia-Herzegovina is that Bosnian state and society couldn't enough integrated after the war which took place between 1992-1995. Normalization of the relationships between ethnic identities takes time and that causes problems from time to time in the state administration and bureaucracy. Dayton Peace Agreement has allowed for the legal ethnic division of Bosnia-Herzegovina. The state-wide organizations does not functioning adequately because of the some articles in the Constitution of Bosnia-Herzegovina. For example, according to the fourth Article of the Constitution, to take a decision in Bosnia-Herzegovina Parliament, a certain percentage of MPs from both entities must be approve this decision. For that reason, there are bottlenecks in Bosnia-Herzegovina's state-level councils. Representatives of different ethnic groups can agree on very few issues because of this more fundamental reform can not be taken. (TEPAV-EPRI, 2010: 2).

Croatia, according to CIA World Factbook 2009, has a \$ 29.477 billion GDP and \$7,361 per capita GDP by 2009. Today, main sectors of Croatia's economy are industry, agriculture, forestry, fishing industry and food, drink, and tobacco production, construction, transport and communication, and trade. Croatia affected badly from the 1991-1995 war and economy collapsed between this period. The other result of this war was that Croatia missed the investment potential in Central and Eastern Europe followed the fall of Berlin Wall. Together with ensuring political stability, positive developments began in the economy of Croatia. Between 2000 and 2007, Croatia's economic fortunes began to improve slowly, with moderate but steady GDP growth between 4% and 6%. The economic growth mainly led by rapid increase in tourism and credit-driven consumer spending. Besides, Croatia signed Stabilisation and Association Agreement with the EU in 2001 and submitted formal application for EU membership in February 2003 (OECD, 2006b: 5). On October 4, 2005, EU accession negotiations started and Croatia has entered new era. According to the Government of the Republic of Croatia, EU accession negotiations will have a positive effect on a larger inflow of foreign capital, especially into greenfield investment projects, which should eventually increase the economic growth and global competitiveness of the Croatian economy. In Croatia, as in Bosnia-Herzegovina, in terms of primary goals of economic policy, a special position is given to foreign investments which are very important for the future

development of the country and further restructuring and modernization of the economy. The particular emphasis is on creating a favourable business environment harmonized with the business environment prevalent in the European Union, further development of market economy, stimulation of private investments, promotion of international competitiveness, and entrepreneurial and market freedom. Since 2002 Trade and Investment Promotion Agency (TIPA) has been active and its basic activities are directed towards proactive searching, informing, attracting and realization of qualified investment projects which include production of goods and services with high added value intended for export, as well as projects which will generate new jobs (Government of the Republic of Croatia, 2010). Nevertheless, difficult problems still remain, including a high unemployment rate, a growing trade deficit and uneven regional development. The state retains a large role in the economy, as privatization efforts often meet stiff public and political resistance. While macroeconomic stabilization has largely been achieved, structural reforms lag because of deep resistance on the part of the public and lack of strong support from politicians. Croatia's high foreign debt, anemic export sector, strained state budget, and over-reliance on tourism revenue will result in higher risk to economic stability over the medium term (CIA, 2009).

Kosovo, one of the latest independent countries of the World, declared Its independence in 2008. Today, Kosovo's population is 1,804,838 and has \$ 5.352 billion GDP. Kosovo has the second largest coal reserves in Europe (Reuters, 01.10.2009). Besides, Kosovo had the largest exporting company in the Federal Republic of Yugoslavia. However, today, Kosovo is one of the poorest countries in Europe with \$ 2.965 per capita GDP. During the 1990s, economy suffered badly from poor economic policies, international sanctions, weak access to external trade and finance, and ethnic conflict. After a jump in 2000 and 2001, growth in Gross Domestic Product (GDP) was negative in 2002. Between 2003 and 2009, Kosovo's real GDP growth was approximately %4 per year. In addition, Kosovo is the only country which has positive GDP growth in 2009 among Former Yugoslav Federation countries (see Table 3 below). Today, the main target of the economic policy of Kosovo is transition to the free trade system. Kosovo's economy has shown significant progress in transitioning to a market-based system in recent years. In this context, Kosovo has drafted a legal framework that ensures the fulfilment of European standards of competitiveness. However, Kosovo is still highly dependent on the international community and the diaspora for financial and technical assistance. Unemployment, around 40% of the population, is a significant problem that encourages outward migration and black market activity (CIA, 2009).

At independence in September 1991, Macedonia was the least developed of the Yugoslav countries, producing a mere 5% of the total federal output of goods and services. An absence of infrastructure, UN sanctions on the downsized Yugoslavia, and a Greek economic embargo over a dispute about the country's constitutional name and flag hindered economic growth until 1996. GDP subsequently rose each year through 2000. In the first half of 2001, violent conflict brought the country on the verge of civil war. The conflict has cost the economy rather dearly. During a civil conflict, the economy shrank 4.5% because of decreased trade, intermittent border closures, increased deficit spending on security needs, and investor uncertainty. Investments and especially foreign direct investments slowed down as the risks increased dramatically (WIIW, 2002: 6). Growth averaged 4% per year during 2003-06 and more than 5% per year during 2007-08. Macedonia has maintained macroeconomic stability with low inflation, but it has so far lagged the region in attracting foreign investment and creating jobs, despite making extensive fiscal and business sector reforms (CIA, 2009).

Montenegro severed its economy from federal control and from Serbia during the Milosevic era and maintained its own central bank, adopted the Deutchmark, then the euro - rather than the Yugoslav dinar - as official currency, collected customs tariffs, and managed its own budget. The dissolution of the loose political union between Serbia and Montenegro in 2006 led to separate membership in several international financial institutions, such as EBRD. On 18 January 2007, Montenegro joined the World Bank and IMF. Montenegro is pursuing its own membership in the WTO and signed a Stabilization and Association agreement with the European Union in October 2007. On December 15, 2008, Montenegro submitted an EU membership application. Unemployment and regional disparities in development are key political and economic problems. Montenegro has begun to attract foreign direct investment in the tourism sector. The global financial crisis is likely to have a significant negative impact on the economy, due to the ongoing credit crunch, a decline in the real estate sector, and a fall in aluminium exports (CIA, 2009).

Slovenia, which, on 1 January 2007, became the first 2004 European Union entrant to adopt the euro, is a model of economic success and stability for the region. With the highest per capita GDP in Central Europe, Slovenia has excellent infrastructure, a well-educated work force, and a strategic location between the Balkans and Western Europe. Structural reforms to improve the business environment have allowed for somewhat greater foreign participation in Slovenia's economy and have helped to lower unemployment. In March 2004, Slovenia became the first transition country to graduate from borrower status to donor partner at the World Bank. In December 2007, Slovenia was invited to begin the accession process for joining the OECD. Despite its economic success, foreign direct investment (FDI) in Slovenia has lagged behind the region average, and taxes remain

relatively high. In 2009 the world recession caused the economy to contract - through falling exports and industrial production - more than 6% and unemployment to rise above 9% (CIA, 2009).

The Serbian economy has grown relatively quickly since a sharp contraction in 1999 brought on by the war. Serbia has made progress in trade liberalization and enterprise restructuring and privatization, including telecommunications and small- and medium-size firms. It has made some progress towards EU membership, signing a Stabilization and Association Agreement with Brussels in May 2008, and with full implementation of the Interim Trade Agreement with the EU in February 2010. Serbia is also pursuing membership in the World Trade Organization. Reforms needed to ensure the country's long-term viability have largely stalled since the onset of the global financial crisis. Serbia is grappling with fallout from crisis, which has led to a sharp drop in exports to Western Europe and a decline in manufacturing output. Unemployment and limited export earnings remain ongoing political and economic problems. Serbia signed an augmented \$4 billion Stand By Arrangement with the IMF in May 2009. IMF conditions on Serbia constrain the use of stimulus efforts to revive the economy, while Serbia's concerns about inflation and exchange rate stability preclude the use of expansionary monetary policy. Nevertheless, the IMF projects that Serbia's economy will grow by 1.5% in 2010 after a 3% contraction in 2009 as a recovery in Western Europe takes hold (CIA, 2009).

When growth performance is examined between 2003-2008 years, Montenegro is the first country according to 6.2% average annual real GDP growth performance. Montenegro has exhibited a growth performance especially in excess of 10% in 2007. Bosnia-Herzegovina and Serbia showed 5.5% average annual growth during this period. Slovenia, Croatia, Macedonia and Kosovo showed nearly 4-5% annual growth performance during the same period. In general evaluation, all the countries achieved 5% annual growth rates during this period. In the same period, EU-27 has demonstrated 2.1% annual growth rate (Eurostat, 2010).

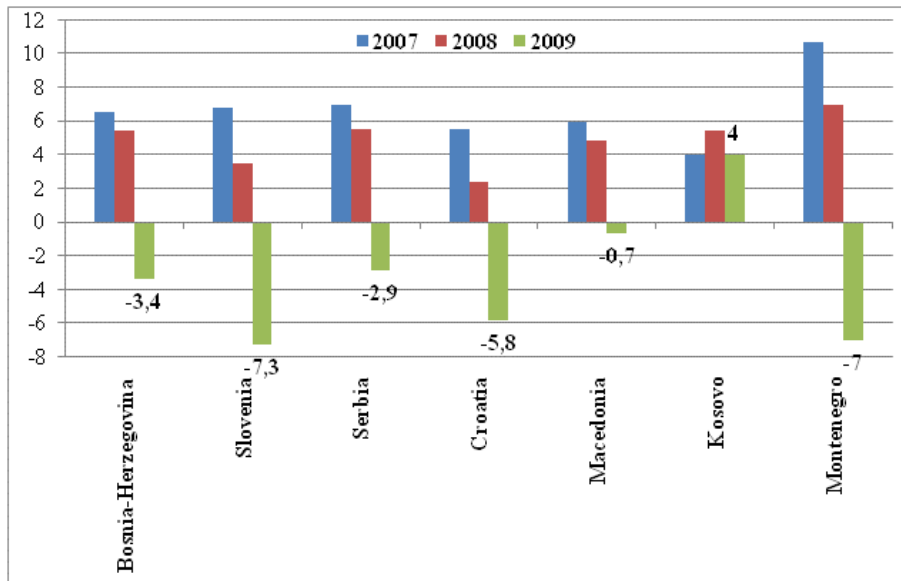
	2003	2004	2005	2006	2007	2008	2009
<b>Bosnia-Herz.</b>	3,5	6,3	4,3	6,2	6,5	5,4	-3,4
<b>Croatia</b>	5,0	4,2	4,2	4,7	5,5	2,4	-5,8
<b>Kosovo</b>	5,4	2,6	3,8	3,8	4,0	5,4	4,0
<b>Macedonia</b>	2,8	4,1	4,1	3,9	5,9	4,8	-0,7
<b>Montenegro</b>	2,5	4,4	4,2	8,6	10,7	6,9	-7,0
<b>Serbia</b>	2,4	8,3	5,6	5,2	6,9	5,5	-2,9
<b>Slovenia</b>	2,8	4,3	4,5	5,8	6,8	3,5	-7,3

**Table 3.** Real GDP Growth

**Source:** World Economic Outlook, IMF, April 2010, p. 159.

After several years of solid economic growth, the Former Yugoslav Federation countries region has entered a deep recession and negative growth rates are expected for most countries during 2009. With the effects of global crisis, the economic downturn experienced throughout the world, is also showed the effects in this countries. All countries, except Kosovo, showed negative growth performance in 2009. When real GDP growth figures were examined in 2009, it has been seen that Slovenia is the worst affected country by the crisis. Slovenia's economy has been shrinking 7.3% in 2009. Then Montenegro is followed Slovenia by 7% economic growth reduction. Average growth performance of these seven countries was -3.3% in 2009. Excluding Kosovo's 4% growth from this figure, the growth performance of the other six countries is -4.5%. This figure is close to the EU-27's -4.2% reduction rate in 2009 (Eurostat, 2010). In 2010, in line with worldwide expectations, all the countries should start recovering and some of them should resume a positive growth, albeit much lower than the figures for 2007 (RCC, 2009). Real GDP growth rates of these countries between 2007-2010 are given in Figure-1 as follows:





**Figure 3.** Real GDP Growth of Former Yugoslav Federation Countries

Source: World Economic Outlook, IMF, April 2010

Industrial production has fallen across the region during the first half of 2009, due to a decline in key export markets and lower lending by local banks (RCC, 2009). As a result of decline in GDP and industrial production, inflation rates decreased in 2009. However, during 2007 and 2008, inflation rates were high in these countries due to rising oil, energy and agricultural products' prices. Between 2003-2009, the country with the highest inflation rates is Serbia with approximately 11.25% in average. As the world economy starts expected recovery in 2010 and beyond, inflationary concerns can however again become an issue in the region (RCC, 2009).

	2003	2004	2005	2006	2007	2008	2009
<b>Bosnia-Herz.</b>	0,5	0,3	3,6	6,1	1,5	7,4	-0,4
<b>Croatia</b>	1,8	2,0	3,3	3,2	2,9	6,1	2,4
<b>Kosovo</b>	0,3	-1,1	-1,4	0,6	4,4	9,4	-2,4
<b>Macedonia</b>	1,2	-0,4	0,5	3,2	2,3	8,3	-0,8
<b>Montenegro</b>	7,5	3,1	3,4	2,1	3,5	9,0	3,6
<b>Serbia</b>	11,7	10,1	17,3	12,7	6,5	12,4	8,1
<b>Slovenia</b>	5,6	3,6	2,5	2,5	3,6	5,7	0,8

**Table 4:** Inflation Rates in of Former Yugoslav Federation Countries

Source: World Economic Outlook, IMF, April 2010, p. 165.

	2003	2004	2005	2006	2007	2008	2009
<b>Bosnia-Herz.</b>	-19,4	-16,4	-18,0	-8,4	-12,6	-14,9	-7,5
<b>Croatia</b>	-5,4	-4,6	-5,7	-6,7	-7,6	-9,2	-5,6
<b>Kosovo</b>	-8,1	-8,3	-7,4	-6,7	-8,8	-16,0	-18,7
<b>Macedonia</b>	-4,1	-8,4	-2,6	-0,9	-7,2	-13,1	-7,3
<b>Montenegro</b>	-6,7	-7,2	-8,5	-24,1	-39,5	-52,4	-27,2
<b>Serbia</b>	-7,2	-12,1	-8,7	-10,1	-15,6	-17,5	-5,7
<b>Slovenia</b>	-0,8	-2,7	-1,7	-2,5	-4,8	-6,2	-0,3

**Table 5:** Current Account Balance (% of GDP)

Source: World Economic Outlook, IMF, April 2010, p. 174.

In terms of Current Account (CA) balance, it is seen that all the countries have been running CA deficits since last seven years (See Table 5 below). Montenegro has the highest CA deficit with -23.6% in average in this period. Between 2003 and 2005, Montenegro had CA deficit below 10%. However, since 2006, Montenegro's CA deficit has exceeded 10% and has increased rapidly. Bosnia-Herzegovina follows Montenegro with %13,9 CA deficit in average between 2003 and 2009. Slovenia has almost reached CA balance with -0.3% CA deficit in

2009. Due to the economic crisis, the CA deficit is expected to decline for most countries also due to the reduced import levels and commodity prices (RCC, 2009).

## Conclusion

Countries in this study have many problems about political stability because many ethnic and religious groups live in this region. Especially the era of 1990s was the time of diversity conflict. Undoubtedly the instability affects the economic structure. This situation is supported by statistical indicators.

A major period of transformation has begun all over the world in 1980s. The important developments occurring in the political field with neoliberal policies have also affected economic field equally. Economic stability and transformation cannot be considered separately from political stability and transformation. In this context, disintegration of the Soviet Union and Yugoslavia has led to important developments not only in political but also in economic fields. Today, there are countries of Bosnia - Herzegovina, Slovenia, Serbia, Croatia, Macedonia, Kosovo and Montenegro in the territory of the former Yugoslav federation. With dissolution of the federation, political and economic transformation process started in these countries.

In conclusion, it can be said that the current global economic crisis is taking the toll on Former Yugoslav Federation countries as well. It is therefore necessary for the governments of the region to attempt to mitigate to the highest extent possible the impact on the real economy, keep inflation under control, and ensure macroeconomic and financial system stability. However, the short term measures should not interfere with the pursuit of long-term reforms that are needed in order to achieve sustained growth (RCC, 2009).

## References

- BELLONI, R. (2007), *State Building and International Intervention in Bosnia*, Routledge.
- Central Intelligence Agency, (2009), *The World Factbook Report*, <https://www.cia.gov/library/publications/the-world-factbook/index.html>
- DONAIS, T. (2005), *The Political Economy of Peacebuilding in Post-Dayton Treaty*, Routledge.
- Government of the Republic of Croatia, [http://www.vlada.hr/en/about\\_croatia/information/croatian\\_economy](http://www.vlada.hr/en/about_croatia/information/croatian_economy)
- IMF, (2010), *World Economic Outlook-Rebalancing Growth*, International Monetary Fund Publication Services, USA.
- MARIC, V. (2006a), "Bosnia Hercegovina", *Western Balkans, Lonely Planet Guide Books*.
- MARIC, V. (2006B) "Serbia & Montenegro", *Western Balkans, Lonely Planet Guide Books*.
- OLIVER, J. (2006), "Croatia", *Western Balkans, Lonely Planet Guide Books*.
- OLIVER, J. (2006B), "Slovenia", *Western Balkans, Lonely Planet Guide Books*.
- PHILLIPS, D. (2004), *Bosnia & Herzegovina*, Chelsea House Publishers, US.
- PLUNKETT, R. (2006), "Macedonia", *Western Balkans, Lonely Planet Guide Books*.
- Regional Cooperation Council, (2009), *South East Europe Economic Indicators*, [http://www.rcc.int/download.php?tip=docs&doc=Selected+economic+indicators\\_first+half+of+2009\\_180909.pdf&doc\\_url=b8fe37299bb01712fe7e16bf4209c0e4](http://www.rcc.int/download.php?tip=docs&doc=Selected+economic+indicators_first+half+of+2009_180909.pdf&doc_url=b8fe37299bb01712fe7e16bf4209c0e4)
- OECD, (2006), *Bosnia and Herzegovina Country Fact Sheet*.
- TC Saraybosna Büyükelçiliği Ticaret Müşavirliği (2008), *2007 Yılında Bosna Hersek'in Genel Ekonomik Durumu Ve Türkiye İle Ekonomik-Ticari İlişkileri*, Saraybosna.
- TEPAV, (2010), *Bosna Hersek Açılımının Geleceği*.
- HUNYA, G. (2002), "FDI in South-Eastern Europe in the early 2000s", *The Vienna Institute for International Economic Studies (WIIW)*.