

# ECONOMIC POLICY OF BOSNIA AND HERZEGOVINA AND ITS IMPACT ON THE IMPROVEMENT OF AGRICULTURAL PRODUCTION

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## Summary

The future in agriculture raises complex demands of the overall economy in terms of possible integration and coherence (politics, agriculture, ecology, etc.). Those relations impose an obligation for authority which brings economic policy for the development of opportunities to improve agricultural production. There are needs for reducing dependence on imported agricultural products which are the result of aspiration of the population and agricultural producers and it should be the goal of economic policy makers. As an important economic activity, in which the main motive for the production of sufficient quantities of food for local people, agriculture is becoming an unavoidable issue in economic development plans of the country. Keeping it in mind as well as a number of cultivated, not sown area in Bosnia and Herzegovina, we can conclude that the agricultural production in our country is neglected. This is a result of unaccountable attitude of political authorities to this activity. Such conclusion is the result of the more obvious fact that the farm products are imported which are adequate for the domestic market, or their production can be organized in the country. The paper sets the scientific, technical and methodological foundations for the development and improvement of agriculture in Bosnia and Herzegovina, to indicate that the present system of the agriculture managing in this country is the main generator of its development inefficiency. It is important to prove that the previous policy of agricultural development in Bosnia and Herzegovina did not produce the expected results. In planning of development and improvement of agriculture it is necessary to use experiences of countries where personal interests don't prevail over the national interests. The paper takes into account the complex economic and social situation present in Bosnia and Herzegovina, which will greatly affect the implementation of such an optimistic given project. However, in the future we need new projects and new ideas, which is the main motto of this work. The purpose of this paper is a theoretical approach to a possible project that could be the backbone of agricultural development and promotion of this important activity in Bosnia and Herzegovina. The aim is to emphasize the need for planning the development and improvement of agricultural production, based on the observation of the arable land's value, instead of opinion of certain groups of people. In that sense we look for the factors that are important for the realization of the project. It is necessary to establish new relationships, boundaries and content model of the economy based on the physical, climatic and other benefits for agricultural development of Bosnia and Herzegovina.

*Key words: agriculture, manufacturing, economy, economic policy, cultivated land, natural attractions and health products.*

## Introduction

From earliest times people want to be different from others. In striving to understand that difference, a man tried to get to know not only the external nature, but also the features of his own being. He realized that what nature gave it is not enough, but he also should produce some products that will improve his way of living.

Creative ability of people came to the fore in understanding what are the products which in certain areas of land can be cultivated. The evaluation of human consciousness led to the evaluation of agricultural production. Therefore, the need for its own production of necessary goods we can define from a broader perspective. A man understood the importance of providing food for his own needs to improve his work and lifestyle.

The study of agricultural production significantly contributes to the understanding of the necessary goods production for the people who live in certain areas.

In this sense very important is monitoring of relevant indicators related to arable land and some of their characteristics in Bosnia and Herzegovina.

The main intention of the authors is to show the process of formulating the economic policy of Bosnia and Herzegovina, as well as its impact on improving agricultural production in the country. In addition, work needs to point to the change of meaning and purpose of certain instruments of economic policy in the area in which it treats the development of agriculture.

### **Agricultural policy in Bosnia and Herzegovina**

The agricultural policy accommodate the government's measures that affects the development of agriculture. That must be an act of conscious development planning of the

national economy. For the improvement of agricultural production the individual interest of some economic subjects is not enough, but the government of the country should also deal with it. The tendency of agricultural producers indirectly influences the economy, while measures of economic policies contribute to its development. As opposed, the actions of companies are focused on some economic branches.

Consequently, all these measures are not the same, as well as the economy is not a unique phenomenon. In this sense, the main question refers to the synchronized development of economic activities in Bosnia and Herzegovina. This question is especially relevant when we know that no economic policy does not constitute a unity, but rather a complex plan of measures in all economic sectors and activities, and only a small part of it is pure economic policy in Bosnia and Herzegovina.

Given this situation and the changing nature of economic developments, particularly in the context of establishing a new development strategy to improve agricultural production, and bearing in mind the numerous technological and other changes in the sphere of economic policy, the government of Bosnia and Herzegovina should redefine the very essence of their orientation, and find new forms of cooperation with the private sector interested in agricultural production, and society as a whole. In this sense, it is expected that institutions of Bosnia and Herzegovina contribute to the improvement of agricultural production. "The essential importance of institutions is reflected in their particular role of the structure of incentives in an

economy.<sup>261</sup> It means that the contribution of these institutions will be measured by their involvement in defining of agriculture policy and support to agricultural production. The identification of different needs of the country starts with transformation of economic policy, by relevant research techniques. The objectives of economic policy reflects those needs, but they are limited to existing external and internal constraints. Previously identified needs are fulfilled and aims are achieved by applying of programs, strategies or instruments that derive from the general economic policies. On the other hand those programs and instruments influence the development of certain economic sectors, the realization of the development plans, the availability of investment funds and capital, labor, etc. However, we can't discuss about the economic policy and not having in mind the internal and external constraints. External constraints have a dominant influence, especially if they relate to countries with a significant foreign trade. High volume of trade with surrounding countries impose an obligation to monitor the economic situation in these countries, because it significantly affects the volume of trade with Bosnia and Herzegovina. This exchange largely depends on the market's flow, on the supply of and demand for certain goods and services. On the external constraints can also affect some other factors, such as energy or some other crisis, caused by natural, political or other reasons. These reasons may be changes in energy prices (oil, electric energy, etc.) that directly reflect the cost of the product, and thus their competitiveness in the market. In the literature these forms are known as extreme forms of elasticity demand. The elasticity of demand is determined by the present factors, which will positively or negatively affect on the purchasing power of the population. Thus, "..... wide spending goods will have a different elasticity of demand, where demand for everyday food products is inelastic ( $E_t < 1$ ) unlike other products that represent luxury."<sup>262</sup> As we have noted, when it comes supply of foodstuffs and food, which is largely the result of agricultural production, there is constant demand as a result of the persistent need for the same. The economic policy measures are given to alleviate the consequences of possible crisis and similar phenomena. The internal constraints have a great significance for the implementation of economic policy. They have a positive effect when the relation between supply and demand is balanced, and when there is stability in the market. These relations can be modified by measures of economic policy which will establish mechanisms to protect domestic production. To this end, at the domestic population we should create the reputation that the qualitative properties of domestic

<sup>261</sup> Jasmin Halebić, Nova institucionalna ekonomija i ekonomski razvoj – slučaj Bosne i Hercegovine, , Tranzicija br. 16, Ekonomski institut Tuzla, Tuzla 2005

<sup>262</sup> H. Kurtović i K. Hodžić; Ekonomske osnove države i prava, Pravni fakultet Univerziteta u Zenici, Zenica 2007

products are at the same, or even on a higher level than the foreign products. We should awake patriotism, which can be manifested in different ways, and one of them is to purchase and consume domestic products.

Agricultural policy has a major impact on the development of the national economy and is often associated with the development policy of the country. "The purpose of agricultural policy is to provide, through prices, a certain economic status of agriculture in the whole agricultural system through, and then to provide development incentives, as far as pricing policy is available."<sup>263</sup> This connection is especially emphasized in the manner that the agricultural development policy is a part of developing country's policy, because the same subjects are the carriers of both policies. Globally, all the interventions of society (or government) and public actions in the field of agriculture are included in term „policy for promoting of agriculture.“ It means that all the measures and instruments of economic policy should be directed towards fostering the development of agriculture. Consequently, we seek the answer to the question how to evaluate the economic policy measures? We believe that that the policy of economic development as an area of national policy development, meets up with a question: what are the objectives of economic development of the country, and what are the criteria for evaluation of developmental goals?

In this regard, we believe that these problems can be observed through consideration of two aspects of analysis:

- a) by method of the national development policies and
- b) by method which assumes that the economy is a goal in itself

Here we start from the fact, that the economy support the national development policy, as a method who achieves the objectives of economic and / or social system as a whole. Therefore, the evaluation of economic development goals is measured by its contribution to the main objectives of development policy.

The second level of evaluation is the one where the economy is seen as a goal in itself. The target functions here are the manufacturing, services and income, or the effects of economic processes, while the fund involve the resources that are allocated to activities that produce certain goods. In the economy all the processes take place to ensure the earning continuity.

In accordance with that, the goals of economic development can be defined as:

- a) intermediate targets through which final goals of social development can be achieved
- b) independent objectives on the specific area.

The development objectives of any industry are always subordinate to the general development goals of the country. It is difficult to imagine such objectives that would be inconsistent with the general development goals when it

<sup>263</sup> Ferhat Čejvanović; Mjere agrarne politike u Bosni i Hercegovini, sa posebnim osvrtom na voćarsku proizvodnju, Tranzicija“ Međunarodni naučni časopis za ekonomiju i politiku tranzicije, Tuzla –Beograd broj: 19-20, Tuzla 2007

is clear that this branch of industry is a subsystem of the general socio-economic system of the country.

So, to set development goal of an industry it is necessary to define development objectives of the society. This is the task of the policy makers. They are „the institutions that project desirable economic goals .....“<sup>264</sup> So, we believe that the the quality of the of economic policies depends on ability of these entities to set realistic and achievable goals, whereas, it starts from“ ...the economic value of environmental resources, where natural capital is valued as a input in production: land (agricultural inputs and farming ),.....“<sup>265</sup> This indicates the need for classification of natural resources, in our case arable land and its valuation.

In this context, our country is still not cleared their basic developmental orientation. This situation led to misunderstandings, and creates false images of the importance of agriculture to the country development. In that case, many unsown arable land is a consequence of the weakness of the economic policy or the conditions in which agriculture is developing.

Consequently, the improving policy of agricultural production, as part of general economic policy of Bosnia and Herzegovina must formulate its own goals and be compatible with the broader national interests that are complementary to the specific objectives of national and local authorities.

When the goals of improving agriculture considers separately then the problem may arise in the sense of demarcation of these goals. Specifically, those objectives can be targets of economic development and other areas or policy development, and thus would have a positive impact on achieving the goals of economic development.

#### **Processes in the economic policies of Bosnia and Herzegovina**

The processes that occur as a result of the realization of the need to harmonize economic policy with the scientific revolution that has contributed to increasing yield per unit of measure, brought to a man a lot of positive, and increasingly negative socio-economic and environmental results. The positive result we can find in providing sufficient resources to meet the needs of the population. And we know that "It is of great importance for every society to satisfies human needs with its economic activity."<sup>266</sup> Despite the fact that the food which we get in agricultural production is the basic need we are not fully aware of the importance of economic activities, focused on agricultural production in the country.

The economic institutions coming to the fore. A "major economic institutions are ownership, market, companies

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<sup>264</sup> H. Kurtović i K. Hodžić; Privredno-pravni sistem i politika“, Pravni fakultet Univerziteta u Zenici, Zenica, 2011.

<sup>265</sup> Maida Fetahagić, Indikatori održivosti – cjelovit pristup „ Tranzicija“ Međunarodni naučni časopis za ekonomiju i politiku tranzicije, Tuzla –Beograd broj: 19-20, Tuzla 2007)

<sup>266</sup>

and contracts.“<sup>267</sup> Realizing the importance of above, we must ask ourselves: Are those economic institutions clearly defined? If we start from the property, which represents the power of a person over things then we must ask another question: are the current land owners of in Bosnia and Herzegovina possessors or whether the government returned ownership to the real owners?

Bearing in mind the current political situation in the country, it is impossible to provide answers. There are two main reasons. First, a large number of land owners in Posavina is dimmed to return on their land. Second, neither the state is not fully implemented the repossession process.

Thus, in addition to inadequate agrarian policy in our country are present some other restrictions. These restrictions have far-reaching consequences of bad economic policy. The farmers, who in the past (referring to the period before 1992.) worked on their farms, are willing to continue with their work. Unfortunately, it is not possible, because politicians is not ready for radical measures against those who prevent the return of property.

Accordingly, the present processes in the economic policies of other countries, did not find fertile ground in our country. So we can say that the Bosnia and Herzegovina is an example of inefficient agricultural country, which is characterized by: unresolved property relations, farming inability, and the diversity of the natural advantages for the development of agricultural production but also by failure in realizing of its importance by the political authorities. As a result "these processes are accompanied by strong social differentiation and rapid population poverty."<sup>268</sup> By neglecting of its natural wealth and by importing from other countries, Bosnia and Herzegovina throttling poorly developed agricultural production.

Agricultural production implies the maximum exploitation of arable land, thus reducing the number of people who are starving, on the one hand and increases their independence from other countries, on the other side. Increasing agricultural production in the world and in Bosnia and Herzegovina, is the ideal opportunity for improvement of agricultural policy, because the exploitation of own natural resources become an imperative.

Besides, there is the ability to import „transgenetic food created by genetic engineering, which contains allergens that causes severe allergic reactions that threaten health.“<sup>269</sup> It can be concluded that import decreases the

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<sup>267</sup> H. Kurtović i K. Hodžić; Privredno-pravni sistem i politika“, Pravni fakultet Univerziteta u Zenici, Zenica, 2011

<sup>268</sup> Kadrija Hodžić i Srđan Vukadinović; Korupcija kao sistem (at)ski projekat u urušanim tranzicijskim društvima (case study- Bosna i Hercegovina i Crna Gora, „ Tranzicija“, broj: 19-20, Ekonomski institut Tuzla, Tuzla 2004

<sup>269</sup> Čarls V. Kegli jr. I judžin R. Vitkof, Svetska politika – ternd i tarnsformacija, Centar za studije jugoistočne Evrope, Beograd, Fakultet političkih nauka Univerziteta u Beogradu i Diplomatska

food problem, but at the same time it might create some with far-reaching consequences such, as diseases.

Accordingly, while in other countries a national interest is implicate in Bosnia and Herzegovina it is subordinated to individual interests. This attitude of individuals as well as political authorities contributes to reducing the volume of agricultural production and may endanger health of those who consume the food that is imported. This confirms the conventional wisdom of "ordinary people." In the present time, a man living on the stage of life where dominates the desire for personal enrichment, increases the perception of irregularities, where the citizens are omitted. To resist these powerful individuals or groups, it is necessary to adopt measures of economic policy, whose implementation will be binding on the representatives of authority. In this way, the agriculture as a very important socio-economic fact will provide the victory of the citizens of Bosnia and Herzegovina, against corrupt individuals.

#### **The objectives of improving agricultural production**

"The economy of Bosnia and Herzegovina has serious structural problems, such as the lack of strategy and policy resource, which is directly manifested in a small domestic product, in very low resource-usage efficiency as well as in their poor valuation in creating of domestic product."<sup>270</sup> If we accept those structural problems as unsolvable, then the measures of economic policy in a country such as Bosnia and Herzegovina would be a waste of time. However, there are no such problems; you just need to find a way to resolve them. In this sense, to prove what we just said, it is necessary to establish goals, whose realization overcome the obvious problems, especially when it comes to goals, which contribute to the regulation of relations in agriculture.

The objectives of improving agricultural production in Bosnia and Herzegovina will have the national character, if we consider them as a means of achieving a balance in foreign trade who leads to the social and economic development. As they reduce the deficit in foreign trade relations of Bosnia and Herzegovina with other countries and as they represent national goal of economic development of the country, for their consideration the time dimension has no crucial importance.

Thus, it is necessary for policy makers to understand that the improvement of agricultural production is the strategic goal, which in its content, structure and hierarchy still depends on the normative or the final goals and specific development conditions. They should not neglect the manufacturing capabilities in their own country, considering that the improvement of agricultural production should become a goal to strive for, not just a means to contribute to getting the vote. Striving to improve agriculture has to be both. Only in this way, they contribute to the economic

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akademija Ministarstva spoljnih poslova Srbije i Crne Gore, Beograd 2006

<sup>270</sup> Rajko Tomaš, Svjetska ekonomska kriza kao faktor produblivanja opće krize u Bosni i Hercegovini, časopis

„Forum Bosne“ br. 47/09, Međunarodni forum Bosna, Sarajevo 2009.

development of the country and the affirmation of the policyholder.

In this context, we grouped the objectives of improving agricultural production into the following categories:

- \* Economic objectives of agricultural policy

- \* Objectives relating to natural resources

- \* Market objectives (in foreign trade)

- \* Government objectives (promotion of social welfare and recognition of government policy)

By grouping these goals, we synthesized different views on this subject. We believe this is realistic, because it is logical that the agriculture must be in function of the economic system and the objectives of its development must rise from the goals of the economic system. It is important to note that the strategic goals of the agricultural development do not occur in a specific form. They are usually manifested through concrete measures in a given planning period and should directly lead to their realization.

There are also objectives relating to foreign exchange operations, then the objectives of the system and pricing policy (cost of mandatory purchase of agricultural products), and legislation in agricultural policy, as the instruments of direct control of its implementation. Seriously, approach to the realization of set objectives implies "identification of the opportunities and threats in the environment."<sup>271</sup> In case of Bosnia and Herzegovina and its international relations with individual countries in the part related to imports of agricultural products, information is poor. Certain lobbies agreed to their sphere of influence. Literally, it was agreed what products Bosnia and Herzegovina would import from Serbia, or Croatian. The most of the imported agricultural products comes from these two countries from our region.

Given the above, it is necessary for the next period adopt measures to protect domestic production and oblige the state to encourage the development of agriculture. In addition, we emphasize that Bosnia and Herzegovina needs to change and to redefine the goals of its agricultural policies, as well as activities aimed at their implementation approximately every few years. Although we must admit, "As a small country who accepted the SOE concept in international economic relations, Bosnia and Herzegovina is strongly influenced by international environment."<sup>272</sup> Such environment controls macroeconomic process in our country.

#### **Conclusion**

The main problem for some countries is selection of mechanism for implementation the goals, which largely depends on many factors, primarily on the degree of

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<sup>271</sup> H. Bećirović i S. Kurtović; Poslovno komuniciranje u svijetu globalnog biznisa, Internacionalni univerzitet „Philip Noel baker“ u Sarajevu, Sarajevo 2008.

<sup>272</sup> Meho Bašić: Makroekonomska efikasnost kao faktor duhgoročnog ekonomskog razvoja Bosne i Hercegovine, Časopis nza društvena pitanja „Pregled“ broj 4Univerzitet u Sarajevu, Sarajevo 2006

economic development of the country, its political system as well as the attitudes of those who makes those decisions.

In the current circumstances, Bosnia and Herzegovina is the country with unsettled relations. It is quite certain that narrow individual interests of the two entities are critical, and marginalize the competence of the state.

In this context, the entities should adjust its policy of foreign trade with countries from the region, as well as instruments for achieving economic development goals and policies to improve agricultural production. Unfortunately, their actions are opposite. Such relationships are not conducive to faster economic development of the country, and therefore, any improvement of agricultural production. That diminished the positive effects in some economic sectors, although both entities are aware that long-term benefits are much smaller than the negative effects on the economy of Bosnia and Herzegovina. In this context, it is logical that the instruments of economic policy in the domain of legislation, foreign trade and exchange regimes, GDP system and policy and employment in entities generally defined in accordance with their internal policy.

In the future Bosnia and Herzegovina must take into account the fact that the neighboring countries, Croatia and Serbia, are the most important partner in foreign trade, especially in the import of agricultural product from these countries. Therefore, it is impossible to imagine Bosnia and Herzegovina as a country that can produce enough food, even though the data on arable land per se guarantee the ability to own both productions enough to meet current needs for agricultural products.

After all, the organization of the own production should not be an insurmountable obstacle, because it is only required political will, which could be materialized through a subsidy to agricultural producers and a guarantee that agricultural surpluses will be bought back at market prices.

Until the time when Bosnia and Herzegovina will be in a position to produce enough food for its population, it must continuously works on the harmonization of laws, regulations and instruments in all areas (including also those related to agriculture), with the EU legislation. Otherwise, it will remain isolated in every respect, and in terms of agricultural development.

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