

12. State on Competitiveness in FBiH

12.1 Trilogy Studies on Competitiveness

State on competitiveness (in) the Federation of Bosnia and Herzegovina it perhaps the best presented through the analysis of some of the most relevant studies that have been conducted through years by referential international institutions. It is the following set of studies:¹

- Competitiveness of the Countries and the Region of Southeast Europe,
- Competitiveness of Bosnia and Herzegovina and the Region of Southeast Europe, and
- Report on Competitiveness of Bosnia and Herzegovina.

Normally, the Report on Competitiveness of Bosnia and Herzegovina in this trilogy has the longest tradition.² Its focus is on the state on competitiveness of Bosnia and Herzegovina in the context of the *WEF's Global Competitiveness Report - GCR*, which, due to its holistic approach, and the fact that the distinguished Harvard Professor *Michael Porter* is a member of this team, can be considered as one of the most referential reports in this domain.

When it comes to the holistic approach, the structure of *the Global Competitiveness Report* is constituted by 12 pillars on which, according to this model, the competitiveness is based. Those pillars are: (1) institutions, (2) infrastructure, (3) macroeconomic stability, (4) health and primary education, (5) university education and professional training, (6) efficiency of commodity markets, (7) efficiency of labor markets, (8) sophistication of financial markets, (9) technological competence, (10) market size, (11) business sophistication, and finally, (12) innovation. Each of these pillars has a number of render indicators. Total number of indicators is 110.

The weight of the two remaining studies in the trilogy is certainly in the fact that, in addition to the analysis of competitiveness in terms of *GCR*, they also offer an insight into the state on competitiveness from the perspective of other *WEF* reports (*The Global Enabling Trade* with the freedom of trade index, *The Global Information Technology*

¹ Trilogy of the mentioned studies has been, together with relevant international institutions on the territory of BiH, reviewed and published by the Center for Management and Information Technologies of the Faculty of Economics in Sarajevo - the MIT Center, which has published the trilogy of the mentioned studies to the topic of competitiveness of BiH for the second year in a row.

² Report on Competitiveness of BiH has been published by the MIT Center, as a partner institute of the *World Economic Forum - WEF* in Davos, for many years now.

Report with the index of willingness to network, ...), as well as reports and studies of other international institutions such as *Doing Business Report* of the *World Bank - WB*, which provides measures the countries according to the ease of doing business. It is perhaps more important that these studies offer the opportunity to compare BiH with 11 countries in the wider region, by comparisons with individual countries (Albania, Bulgaria, Montenegro, Greece, Croatia, Macedonia, Moldova, Romania, Slovenia, Serbia and Turkey), by average figures of the region to which BiH belongs, in a study called SEE+, then by average figures of the region composed of the countries from SEE+ that are, conditionally speaking, considered to be in the "waiting room" for the EU accession, which is here called SEE-, and by the average figures of the EU region.

A note: although these studies primarily relate to Bosnia and Herzegovina, there is no doubt that the results of the mentioned studies significantly reflect the actual situation in the Federation BiH.

12.2 “ACID TEST” of the General State on Competitiveness in BiH and FBiH

The general impression is that the state on competitiveness of BiH, and also of FBiH, is, to put it mildly, not good. However, far more worrying is the fact that this state, observed through the prism of the past few years, has an unquestionable trend of deterioration (Figure 12.1).

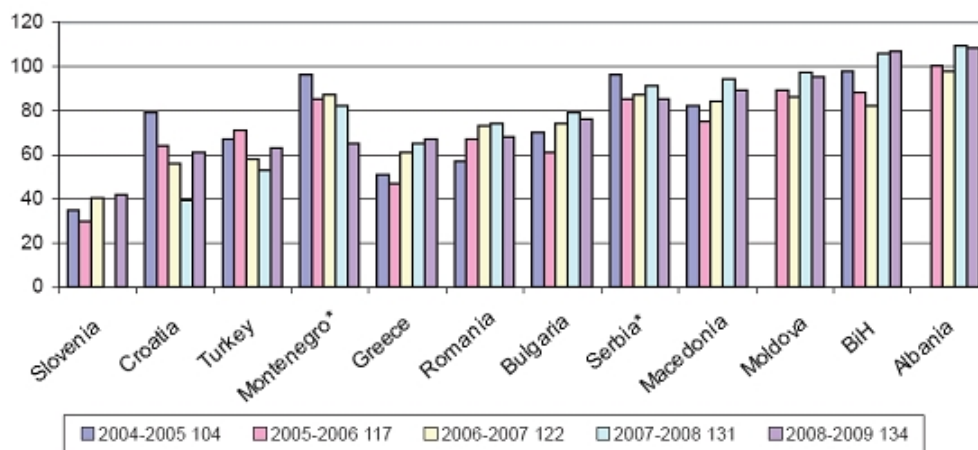


Figure 12.1 Comparison of ranking according to the WEF Global Competitiveness Report 2005-2009 of the SEE+ countries

Source: Competitiveness of the Countries and the Region of Southeast Europe 2008.-2009., Zlatko Lagumdžija, Regional Economic Forum and the MIT Center of the Faculty of Economics in Sarajevo, Sarajevo, 2008.

Brutal decline from the 82nd position in the Report 2006/2007 to the 106th position in the Report 2007/2008 is alarming. Not even the fact that this year we fell for only one place (it is still a decline) cannot be comforting when following two facts are considered:

1. Almost all the countries in the region, narrower and wider regional spectrum, move forward and improve their positions (Croatia is at the 61st position, and Montenegro at 65th, while only Albania is behind us out of all countries of the region at the 108th place, - even Moldova which belongs to our wider region is in front of us at the 95th position).
2. Out of 134 countries, which are included in this year's Report, it is difficult to imagine that BiH would be positioned lower (or deeper) considering the structure and reputation of the countries that are behind us (mostly poor and poorly developed countries of the African continent, with a few Asian countries from the same category).

12.3 Competitive Advantages and Competitive Disadvantages

State on competitiveness of BiH, and also of FBiH, is possible to determine by the survey of the previously mentioned indicators on which the *GCR* is based. The *WEF's Report* provides rankings for each of the indicators individually, and those indicators by which the country is ranked among the first fifty are referred to as competitive advantage. All other indicators, referring to those by which a land is ranked from the 51st to the last, 134th place, are rendered as competitive disadvantage.

12.3.1 Competitive Advantages

Unfortunately, the situation with competitive advantages of Bosnia and Herzegovina, when it comes to this model, looks really devastating. Specifically, out of 110 indicators, Bosnia and Herzegovina has competitive advantages only in 12 indicators, some of which are truly bizarre. These are: commercial price of terrorism (23rd out of 134 countries), inflation (10th), difference between interest rates for savings and investment (38th), presence of malaria (1st), impact of HIV/AIDS on business (26th), spreading of HIV (1st), life expectancy (42nd), quality of education in mathematics and natural sciences (45th), flexibility in determining wages (33rd), practices by recruitment and dismissals/severance (20th), women's participation in the total labor force (17th), and the legal mechanism of protection of lenders and borrowers (16th).

A matter of concern, apart from the fact that there are only 12 indicators, is also the fact that in as many as half of them, i.e. in six pillars, there are no competitive advantages whatsoever. Those are: infrastructure, efficiency of commodity markets, technological preparedness, market size, business sophistication and innovation. Even the pillar of institution could almost be considered as a pillar without a single competitive

advantage considering the fact that out of 18 indicators only the indicator of commercial price of terrorism (23rd) belongs to competitive advantages (and even that indicator is in our circumstances absurd), while out of the other indicators from the pillar of institutions the indicator which is the closest to have a competitive advantage occupies only the 70th position (commercial price of crime and violence). In addition to four other indicators, by which we are ranked at the 75th, 87th, 111th and 116th position, we occupy positions in the range from 120th to 130th position by all other indicators (total of 12 indicators) out of 134 countries.

Pillars with the largest number of competitive advantages are health and primary education (4 out of 11) and efficiency of labor markets (3 out of 10) (Table 12.1).

Table 12.1 Pillars with the largest number of competitive advantages: health and primary education and efficiency of labor markets

4 th pillar: Health and primary education					7 th pillar: Efficiency of labor markets				
			Advantage	Disadvantage				Advantage	Disadvantage
4.01	Impact of malaria on business	63		x	7.01	Cooperation between employers and employees	102		X
4.02	Presence of malaria	1	x		7.02	Flexibility in determining wages	33	x	
4.03	Impact of tuberculosis on business	68		x	7.03	Costs of compensation/bonus payments in addition to salary	60		X
4.04	Presence of tuberculosis	66		x	7.04	Rigidity by employment	93		X
4.05	Impact of HIV/AIDS on business	26	x		7.05	Practices by recruitment and dismissals/severance	20	x	
4.06	Spreading of HIV-a	1	x		7.06	Costs of dismissals	53		X
4.07	Mortality of children	56		x	7.07	Salaries and productivity	129		X
4.08	Life expectancy	42	x		7.08	Reliance on professional management	133		X
4.09	Quality of primary education	57		x	7.09	Brain drain	119		X
4.10	Number of pupils in primary education	n/a			7.10	Women's participation in the total labor force	17	x	
4.11	Costs of education	n/a							

Source: <http://www.weforum.org/documents/gcr0809/index.html>

12.3.2 Competitive Disadvantages

As for the competitive disadvantages of Bosnia and Herzegovina, according to *the Global Competitiveness Report* it would be pointless to count all 98 indicators. Thus, it is worth mentioning just a few.

For example, when it comes to the pillar of institution it is interesting to look at the indicators relating to the corporate aspect of company business operations in Bosnia and Herzegovina portrayed through three indicators. Unfortunately, our ranking here is very bad, that is we are at the very bottom of the ranking. Our ranking by the indicator on

efficiency of management boards of companies is 129th (which in fact shows that management boards of local companies are extremely inefficient), whereas our indicators on ethical behavior of companies and protection of interests of minority shareholders have catastrophic ranking with 130th place.

As for the infrastructure pillar, the indicator on quality of overall infrastructure, we are on the 127th place. It is worthwhile to point out that we are "stuck" on the bottom of the scale by the indicator on quality of our ports' infrastructure – on the 134th position.

The pillar of macroeconomic stability is, generally looking, not that bad, but the national savings rate is. The 130th position by this indicator is certainly not a good basis in terms of future investment projects.

The pillar of health and primary education is perhaps our greatest competitive advantage as a whole. This is the pillar in which we have the most competitive advantages in one place, but also the pillar in which we have no serious competitive disadvantages.

However, higher education and professional training brings us back to the harsh reality. Quality of schools for management (107th), local availability of research and training services (126th), and level of training of employees (126th) are our biggest competitive disadvantages from the domain of this pillar.

Table 12.2 One of the six pillars in which we do not have any competitive advantage: efficiency of commodity markets

7 th pillar: Efficiency of commodity markets			Competitive advantage	Competitive disadvantage
6.01	Intensity of local competition	98		x
6.02	Extent of market dominance	106		x
6.03	Effectiveness of anti-monopoly policy	134		x
6.04	Extent and effect of taxation	112		x
6.05	Total tax rate	66		x
6.06	Number of procedures needed to start a business	103		x
6.07	Time period needed to start a business	108		x
6.08	Costs of agricultural policy	121		x
6.09	Frequency of time barriers	53		x
6.10	Average customs rate	94		x
6.11	Presence of foreign ownership	100		x
6.12	Impact of business on regulation from the FDI domain	128		x
6.13	Burden of customs procedures	92		x
6.14	Degree of concern for consumers	110		x
6.15	Sophistication of buyers	119		x

Source: <http://www.weforum.org/documents/gcr0809/index.html>

The pillar of efficiency of commodity markets is one of the mentioned pillars in which we do not have any competitive advantage (Table 12.2). Furthermore, due to its structure, but also due to our poor results, it is worthwhile to single out several indicators from this pillar which are our biggest competitive disadvantages. First of all, these are the indicators that relate to starting a business considering the fact that small and medium enterprises should have the role of the generator of economic development and prosperity. Specifically, the 103rd position by the indicator on the number of procedures required to start a business, and the 108th by the indicator of the time period needed to start a business, are catastrophic results for a transitional economy such as ours. This aspect of competitiveness will be addressed later in the text in a shorter analysis of results of *Doing Business Report* of the World Bank that measures the ease of doing business. The presence of foreign ownership is an indicator that tells us to what extent our opportunities and economy are of interest to foreign owners of capital, which could open some new investment projects, and additionally make a more serious competition. According to this indicator we are on the 100th place. The degree of concern for consumers and the sophistication of buyers are two indicators that could be considered jointly, since the sophistication of buyers also indicates that buyers are demanding, and conditionally speaking, "being spoiled", while the degree of concern for consumers in this context can be taken as the readiness and efficiency of companies in responding to demands from customers (which may be more or less sophisticated). If we compare the results by these two indicators (sophistication of buyers 119th, and the degree of concern for consumers 110th), one could say that domestic consumers provide for themselves a kind of concern that they deserve (even the degree of concern for customers a bit better than the sophistication of buyers – the 9th position). In a series of disastrous ranking positions which we occupy by the indicators of this pillar, it is worth pointing out the effectiveness of anti-monopoly policy with which we occupy the last position.

The pillar with the greatest range of results (from 17th to 133rd) is certainly the one on the efficiency of labor markets. In addition to some very good competitive advantages within this pillar, we also have, unfortunately, some serious competitive disadvantages. First of all those are relying on professional management (133rd) and the so called *brain drain* or the phenomenon of young professionals leaving the country (119th). Wages and productivity are on the 129th place. HRM (human resources management) aspect of this pillar, which perhaps could be seen through the indicator by the title of cooperation between employers and employees, is located on the 102nd place.

The indicator on financial market sophistication of the pillar with the same title gives us a ranking on the 120th position, which is not at all surprising.

Acceptance of the technology on the level of companies (133rd), the availability of the latest technology (123rd), as well as the laws related to *ICT* (118th), are our two worst rankings when it comes to the pillar on technological preparedness. At a time when microprocessor became technological underlying concept for business, these results are devastating. These results not only show the level of sophistication of business but also

of the level of the entire socio-cultural environment. It is useful to make a small digression and mention the index of readiness for networking (*Networked Readiness Index - NRI*) from the *WEF Global Information Technology Report*. The *NRI* determines the readiness of the state/community to incorporate the *ICT* into itself and to have a benefit from it. Unfortunately, Bosnia and Herzegovina takes the low 95th position out of 127 "measured" countries. The *NRI* has three components: the environment component, the readiness component and the usage component. The last two components clearly separate personal, business and government readiness and usage. It is clear that both, individual readiness and the use is more advanced than business and government readiness and usage, but the discrepancy should not be this big (individual: readiness – 68th, use – 68th; business: readiness – 97th, use – 100th; government: readiness – 114th, use – 116th).

We should, however, go back to the analysis of competitive disadvantages from the perspective of the *Global Competitiveness Report*.

The pillar on market size has only two indicators: the size of the domestic market, which puts us on the 86th position, and the size of the international market, that puts us on the 103rd place. It is clear that export-oriented companies should have a more significant support, especially if the dark predictions about the coming wave of "closure" of many economies become reality.

Business sophistication is a pillar that needs special attention given the fact that we have a ranking above the 100th places by eight out of nine indicators. Particularly interesting are the sophistication of the production process (123rd), which has to do with the previously mentioned pillar of technological preparedness, then the nature of the competitive advantage (116th), and the extent of the value chain (113th). The state of cluster development is our biggest competitive disadvantage within this pillar – we are on the second last 133rd position.

And finally, innovation. Within this pillar we have such competitive disadvantages such as companies' spending on research and development (119th), availability of scientists and engineers (100th), and the capacity for innovation (126th).

12.4 The Most Problematic Factors for Doing Business (in the opinion of business community)

Global Competitiveness Report offers another analysis, and that is the analysis of the most problematic factors for doing business in the opinion of the business community. If we look at the results of this analysis, and if we then compare these results, as the study on competitiveness of the MIT Center suggests, with the results of the opinions of the

business community in the EU (Figure 12.4), we can see what kind of difference we actually deal with and what kind of diametrically different issues a local manager must think about compared to his/her counterparts from an average EU country.

Specifically, the top three factors (out of 15 offered) that represent the biggest problems for business operations in the opinion of BiH managers are of a political-legislative character. These are, first, the instability of the government, second, the instability of politics, and third, inefficient government bureaucracy. In comparison, only the problem of the inefficiency of government bureaucracy is also in the EU the top problem – it is the problem number one. The other two problems, the instability of governments and the instability of politics, are only on the 12th and 10th place. A much larger problem in the EU, apart to inefficient government bureaucracy, seems to be restrictive regulations related to labor and tax regulations. We cannot say that the regulations relating to labor are not a problem in FBiH, but the fact is that at this moment our business community does not recognize it as a top problem, that is as a priority problem to be solved.

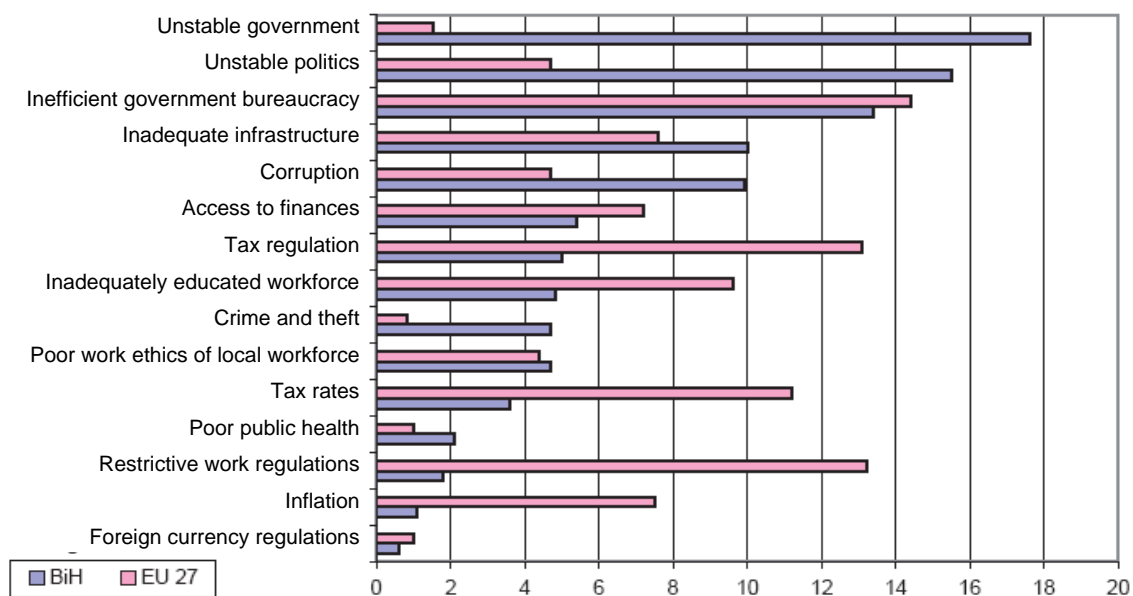


Figure 12.4 The most problematic factors for doing business in the opinion of business community: comparison with the EU

Source: Competitiveness of the Countries and the Region of Southeast Europe 2008-2009, Zlatko Lagumdžija, Regional Economic Forum and the MIT Center of the Faculty of Economics in Sarajevo, Sarajevo, 2008.

12.5 A Superficial Look at the Competitiveness from the Perspective of Doing Business Report of the World Bank

If we were to include in this elaboration also the *Doing Business Report* of the World Bank, which offers the index of *Ease of Doing Business*, then we could get a clearer picture, at least when it comes to the pillar of efficiency of commodity markets and its indicators on the number of procedures needed to start a business and the time period it takes to run a business. *The Doing Business Report 2009* includes 181 countries, and our overall ranking is 119 (Figure 12.5). The first indicator in the framework of this Report is called starting a business, and we occupy the 161st place. Integral elements of this indicator are the procedures (number) and time period (number of days) required to start a business. Regarding the procedures, we have 12 procedures, and the time period needed to start a business is 60 days. This is, of course, the ideal case. If we take into account that there are countries which, according to both indicators, show the figure 1 (i.e. 1 procedure, 1 day - New Zealand), or at least 3 (like Georgia), then we cannot really look for justification in the necessity of large bureaucracy.

		2008		2009	
WB DOING BUSINESS Bosnia and Herzegovina	<i>Simplicity of doing business (rating)</i>	117		119	
	Starting business (rating)	153		161	
	Procedures (number)		12		12
	Time period (days)		54		60
	Obtaining permits (rating)	150		137	
	Procedures (number)		16		16
	Time period (days)		467		345
	Staff employment (rating)	116		117	
	Ownership registration (rating)	148		144	
	Procedures (number)		7		7
	Time period (days)		331		48-208
	Receiving loans (rating)	51		59	
	Protection of investors (rating)	84		88	
	Paying taxes (rating)	144		154	
	Cross-border trading (rating)	57		55	
	Documentation for export (number)		6		6
	Time period for export (days)		19		16
	Enforced (by law) realization of contract (rating)	125		123	
	Procedures (number)		38		38
	Time period (days)		595		595
	Closure of business (rating)	61		60	

Figure 12.5 BiH in *Doing Business Report*

Source: Competitiveness of the Countries and the Region of Southeast Europe 2008-2009, Zlatko Lagumdžija, Regional Economic Forum and the MIT Center of the Faculty of Economics in Sarajevo, Sarajevo, 2008.

12.6 Competitiveness and the Global Crisis

In the end, it would be useful to comment on the state on competitiveness of FBiH in relation to the current crisis. We agree with the opinion of a larger number of experts that the best response to these declines would be support programs for export investment and agriculture. Realistic predictions are that there will be a significant reduction in exports, and consequence of that will be especially felt in the construction and metal complex, production of automobile parts, textiles, furniture. Given a rather certain reduction of budget revenues and public funds, it can lead to a slowdown in implementation of major investment projects such as road infrastructure.

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