

CENTAR ZA SIGURNOSTE STUDIJE- BIH

CENTER FOR SECURITY STUDIES-BIH

Research:

Economic Bilateral Relations between Turkey and Bosnia
Herzegovina

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Preface

As part of its activities Center for Security Studies, CSS produces its own research on different topics related to Euro-Atlantic Integration, security sector reforms and bilateral relations in the area of foreign policy. The following research is the analysis of the economic and commercial relations between Turkey and BiH.

The research was conducted by Ozum Iseri, MA holder Southeast European Studies, University of Athens, during her internship at the CSS. The author received the guidelines and assistance from CSS and the TC Commercial Counselor in Sarajevo. Yet all the statements in the research are the author's own.

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INTRODUCTION

There have been considerable changes in Turkey's foreign policy since 2002. Indeed, current Turkish Foreign Minister and former foreign policy advisor of Prime Minister Recep T. Erdogan, Mr. Ahmet Davutoglu's Strategic Depth doctrine which considers Turkey's strategic foreign policy on the basis of geographical and historical depth (referring Ottoman Empire) gives a framework for the Turkish foreign policy.¹ Indeed, Davutoglu names 5 principles regarding Turkish foreign policy. They are; the *balance between security and democracy*; *zero problems towards neighbors*; *proactive and pre-emptive peace diplomacy*; *a multi-dimensional foreign policy*, and lastly *rhythmic diplomacy*². In fact, the doctrine and these principles demonstrate the logic behind the Turkish endeavors in the Southeast Europe (SEE) and Bosnia and Herzegovina (BiH).

Turkey has active relations with the countries of SEE and aims to promote regions stability and prosperity. The Southeast European Cooperation Process³ which aims to improve cooperation and stability is a forum in the region, and which Turkey participates in. Besides, there are significant lobbying activities done by Turkey of which considering SEE countries' interests in international forums. Additionally, within the past few years, there is remarkable increase in exchange of visits between Turkey and the countries of SEE. Furthermore, Turkey has been trying to mediate bilateral disputes in the region.⁴

Concerning BiH, Turkish foreign policy aims to contribute the establishment of permanent stability in the country and supports the Euro-Atlantic integration of BiH. According to Turkish Ministry of Foreign Affairs, given the deep historical, cultural and social bonds with BiH, Turkey supports territorial integrity, sovereignty and independence of the country. Accordingly, Turkey contributed to the reconstruction of BiH,⁵ and actively supported civilian and military

¹ Ahmet Davutoglu, *Strategic Derinlik*, (Kure Yayinlari: Istanbul, 2001).

² The proactive and pre-emptive peace diplomacy principle aims to take measures before crises emerge and escalate to a critical level. The multi-dimensional foreign policy principle aims to have complementary foreign policy design with the all global actors The rhythmic diplomacy principle aspires to provide Turkey with a more active role in international relations. See; Ahmet Davutoglu, Foreign Policy, 20 May 2010, "Turkey's Zero Problems Foreign Policy", http://www.foreignpolicy.com/articles/2010/05/20/turkeys_zero_problems_foreign_policy (last access: 01.12.2011).

³ Albania, BiH, Bulgaria, FRYOM, Romania, Serbia, Greece, Croatia, Moldova and Montenegro take part in the forum. (see, Southeast Cooperation Process, "Member States", <http://www.seecp-turkey.org/icerik.php?no=14>)

⁴ For example, the Turkish lobbying efforts for BiH in process of NATO Membership Action plan can be given as an example. Also, Turkish PM Erdoğan expressed his country's willingness to mediate in the bilateral-talks between Belgrade and Pristina in November 2010. Yet, Ankara's most significant mediation success was the Istanbul Declaration on Peace and Stability in the Balkans signed by Serbia, Croatia, and BiH on April 24, 2010, see Loic Poulain, Akis Sakellariou, Center for Strategic and International Studies, "Western Balkans: Is Turkey Back", 25 April 2005, <http://csis.org/blog/western-balkans-turkey-back>.

⁵ Particularly works of TIKA, Governmental Agency of Turkish Cooperation and Coordination, in BiH are worth to mention, (see, TC Basbakanlik, TIKA, <http://www.tika.gov.tr/> -last access: 15.12.2011).

aspects of Dayton Peace Agreement. Turkey, as a Steering Board member has been joining the work of the Peace Implementation Council and contributing to the EUFOR.⁶

Economy is one of Turkish foreign policy tool aiming to sustain permanent stability and prosperity in BiH and Turkish economy is strong enough to maintain this goal. At a glance, after the 2009 global economic crisis, the Turkish economy is showed signs of recovery with growth estimated at 8.9 per cent in 2010 and 10.2 per cent in the first half of 2011.⁷ In fact, the economy was recorded the third-fastest rate of growth in the G20 last year.⁸ Not a single Turkish bank failed in the financial crisis and inflation has been held down, partly thanks to a strong lira.⁹ Foreign direct investment is also growing.¹⁰ In 2010, Turkey is 17th largest economy in the world with approximately 564 million euros.¹¹

Indeed, improvement of the bilateral economic relations is backed by the two states. Within the past years the politicians, ministers expressed their willingness to improve economic relations. For instance, according to former Bosniak member of the BiH presidency, Haris Silajdžić, ‘policies in BiH would be encouraging to improve economic relations between the countries’.¹² Meanwhile, Turkish President Abdullah Gul extended his wishes to develop economic relations with BiH.¹³ Furthermore, Turkish Minister of Economy Ali Babacan declared that Turkey is interested in investing and Turkish state import-export lender Eximbank will extend credits for projects in the BiH.¹⁴

Additionally, there are works of NGOs and Business forums in developing bilateral commercial and economic relations. First of all, there is Turkey-BiH Business Council which was founded in 1995 by the former Turkish Prime Minister Tansu Ciller, to improve the economic relations in BiH. The council has been hosted the Turkish businessmen and presented projects and investment opportunities. The Turkish politicians and member of civil society organizations have been interested into joining these meetings organized under the Council. Additionally, there have

⁶Republic of Turkey, Ministry of Foreign Affairs, MFA, “Turkey’s Political Relations with Bosnia and Herzegovina”, http://www.mfa.gov.tr/turkey_s-political-relations-with-bosnia-and-herzegovina.en.mfa (last access: 12.07.2011).

⁷The EBRD, “The Country Assessment Turkey, 2010”, <http://www.ebrd.com/downloads/research/transition/assessments/turkey.pdf> (last access: 15.12.2011)

⁸ Ibid; The Economist, 5 May 2011, “Turkish Economy Is Overheating”, <http://www.economist.com/node/18651739> (last access: 15.12.2011).

⁹ The Economist, “Turkish Economy”.

¹⁰ The EBRD, “The Country Assessment, Turkey”.

¹¹ World Bank, “Gross Domestic Product”, <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf> (last access: 15.12.2011).

¹²Milliyet News, 4 September 2008, Bosna Hersek’ten Turk Yatirimcilar: Yatirim icin Acele Edin”, <http://www.milliyet.com.tr/Ekonomi/SonDakika.aspx?aType=SonDakika&ArticleID=986786&Date=04.09.2008&Kategori=ekonomi&b=Bosna%20Hersekten%20Turk%20yatirimcilara:%20%E2%80%9Cyatirim%20icin%20acele%20edin%E2%80%9D>(last access: 21.11.2011).

¹³Turkiye Cumhuriyeti Cumhurbaskanligi, “Bosna Hersek Ozel”, <http://www.tccb.gov.tr/sayfa/ziyaretler/bosnahersek-ozel/> (last access: 1.12.2011).

¹⁴Daria Stio-Sucic, Reuters, 6 April 2011, “Saudi Investor, Turkey Pledge to invest in Bosnia”, <http://www.reuters.com/article/2011/04/06/bosnia-investment-idUSLDE7351UQ20110406>.

been two investment conferences in BiH in the years of 2010 and 2011. Moreover, Foreign Economic Relations Board, *Dis Ekonomik Iliskiler Kurulu* (DEIK), which is a private institution to develop foreign economic relations of Turkey, has organized several economic cooperation forums in cooperation with the Turkish economic ministries and commercial chambers and businessmen in Turkey. The Commercial Chambers in Turkey and BiH organize meetings in improving economic relations.¹⁵ Indeed, there have been four exhibitions of the Turkish products in Bosnia, in the years of 2003, 2006, 2007 and lastly in 2009 to develop commercial relations.¹⁶

The political climate, endeavors of businessmen and civil society paid off and there have been good developments in economic and commercial relations, as it is described in proceeding sections. The rest of the paper attempts to analyze the existing situation of the economic relations and find out the trade and investment opportunities, current existing problems and it offers some suggestions to develop economic relations more. Hence, the paper organized into four sections. First section presents BiH's economy and the existing economic and trade agreements between the countries. Second section gives a picture of current economic and commercial relations. Finally, the paper provides a brief analysis based upon the founded data.

1. BOSNIAN ECONOMY AND THE ECONOMIC AGREEMENTS BETWEEN TURKEY AND BIH

1.1. BOSNIAN ECONOMY

This section offers an overview on the BiH's economy regarding foreign investment and foreign trade opportunities to have a better analysis of the economic relations between the countries.

BiH is a transition country and is progressing slowly. On the one hand, the political climate in BiH remains difficult (there is no state government of the country for 15 months) and adversely affects economy, including the pace of reforms. 'It remains one of the factors that have an effect on the government's ability to implement certain projects and have an effect on the investments'.¹⁷ Also, lack of single economic space is slowing the decision making.

¹⁵ DEIK, "Turk Bosna Hersek Is Konseyi". http://www.deik.org.tr/Pages/TR/IK_AnaSayfa.aspx?IKID=61

¹⁶ Interview with TC Commercial Counselor in Sarajevo, Mr. Sinan Yanaz on 30 November 2011.

¹⁷ Ibid.

On the other hand, the EU integration remains one of the main external anchors for reform. BiH signed a Stabilization and Association Agreement (SAA) with EU in 2008 and the implementation of the Interim Agreement is ongoing.¹⁸

Furthermore, there are particular difficulties in terms of investment, the quality of the business environment in BiH remains highly problematic and the country lags behind other countries in the SEE. Business registration is difficult.¹⁹ There are delays in business licensing and the frequency of tax payment is high. Yet some measures are under way to solve these difficulties.²⁰ In the World Bank Doing Business 2011 survey, BiH is ranked at the bottom of the SEE region and among the lowest economies in the transition region at 110th position out of 183 surveyed countries. Yet there is some progress on registering property.²¹

Moreover the access to finance is problematic. The road density is below the region. The telecommunication service's quality high and relatively cheap, meanwhile procedures and the waiting time to get the electricity is more demanding than the region's average.²² Additionally, the average salary is cheaper than some of the EU member states; however, it is the more than the other countries in the region, except Croatia.²³ The investment incentives are insufficient. Besides, as common with region corruption is posing a threat to investments.²⁴

Regarding external trade, BiH has made some efforts to eliminate the technical barriers to trade.²⁵ BiH has plenty of free trade zones and signed Central European Free Trade Agreement (CEFTA). Besides, BiH has privileged economic relations with the EU countries, the USA, Japan, Canada, Switzerland, Australia, Norway, New Zealand, and Russia.²⁶ These agreements enable to access to the extensive market. Moreover, there is financial stability due to the use of Convertible Mark.

¹⁸ The European Bank for Reconstruction and Development (EBRD), "Strategy for Bosnia and Herzegovina, 2010-2013", <http://www.ebrd.com/downloads/country/strategy/bosnia.pdf> (last access: 28.11.2011).

¹⁹ Ibid.

²⁰ The OECD, "Investment Reform Index 2010: Monitoring Policies and Institutions for direct investment in SEE", http://www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/investment-reform-index-2010_9789264079588-en(last access: 28.11.2011).

²¹The EBRD, "Strategy for Bosnia".

²²The OECD, "Investment Reform Index", 264.

²³ Interview with Mr. Yanaz

²⁴ Ibid. Net FDI in 2008 is 700 million euros, in 2009 -2.8, in 2010 it is estimated by EBRD as 0.7. Considering the GDP growth, in 2008 is 5.7, in 2009 is -2.5 and in 2010 it is estimated by EBRD as 0.7. (see, EBRD Bosnia Country Assessment, <http://www.ebrd.com/downloads/research/transition/assessments/bosnia.pdf>- last access: 15.12.2011).

²⁵ OECD, "Investment Reform Index", 264.

²⁶ Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA, "Bosna Hersek'te Yatirim Imkanlari, Agustos 2008", http://www.fipa.gov.ba/FipaFiles/File/Publications/turski/io_t_aug_2008.pdf (last access: 20.11.2011).

Yet, the rules and procedures for firms operating in the free trade zones and for exporters are considered as burdensome. It is necessary to build commercial relations between foreign investments and local firms.²⁷

Additionally, after the years of growth the economy entered a sharp decline in late-2008, in common with other countries of the region.²⁸ This decline affected inflows of direct investment in 2009.²⁹ Economic growth in 2010 and 2011 is likely to be positive but modest; some very tentative signs of recovery are starting to emerge in the first few months of 2010, but growth this year is likely to be somewhere between 0 and 1 per cent.³⁰ Besides, the purchasing power is low. There is lesser possibility for exporting higher value products.³¹

To sum up, it is emphasized that the BiH is a transition economy, there is slow progress in transition and political climate in the country affect the potential economic investments to the country. In particular, lack of harmonization between the entities, the problematic quality of the business environment, the low road density; the long waiting time to get the electricity, high labor cost, the burdensome rules and procedures for firms operating in the free trade zones and for exporters were pointed out as existing problems.

On the other hand, the EU integration is the main external anchors for reform. There are some measures which are under way to overcome difficulties on business registration, there is high quality and cheap of the telecommunication service and free trade zones. Besides, BiH's privileged position to the big markets and BiH's stable currency were pointed out as advantages for the investment.

1.2. THE ECONOMIC AND COMMERCIAL AGREEMENTS

There are agreements between the governments to improve economic and trade relations of the countries. The main agreements are:

Agreements:	Signature Date
Trade and Economic Cooperation Agreement	07.11.1995
Mutual Protection and Encourage of Investment	21.01.1998
International Highway Transportation Agreement	22.01.1998
Free Trade Agreement	03.07.2002
Cooperation Protocol on Fields of Veterinary Sciences	13.12.2002
Social Security Convention and Management Agreement on its Application	27.05.2003
Double Taxation Avoidance Agreement	16.02.2005

²⁷ Ibid.

²⁸ EBRD, "Strategy for Bosnia".

²⁹ OECD, "Investment Reform Index", 259.

³⁰ EBRD, "Strategy for Bosnia".

³¹ Interview with Mr. Yanaz.

Source: Foreign Economic Relations Board, www.deik.org.tr

In fact, Free Trade Agreement provides immunity from the custom duty for the all exports in agriculture food, and industry goods. Since 2007, BiH abolished all custom duties and taxes in same effect in export.³² Besides, the Double Taxation Avoidance Agreement which enables the companies to pay their taxes only in their home country, entered into force on 1 January 2009.

2. CURRENT ECONOMIC RELATIONS

2.1. COMMERCIAL RELATIONS

The trade relations between the countries are at respective levels although trade between the countries could have been better. The global economic crisis in 2009, the insufficient advertisement for the Turkish products and the small market in BiH has adversely affected the commercial relations.³³

Turkey's exports mainly mineral chemicals, and oil. Additionally, there are diesel and semi-diesel transports, glass, carpet, military equipment, textile goods, home furniture made by coal and steel, chocolate and cacao products, tomato and toys. Turkey imports copper, electric locomotive engine, military equipment, and chemical goods and cattle leather.³⁴ The majority of trade between the countries is between the Federation and Turkey.³⁵

In 2011, total export to Bosnia is 203.839.000 while total import from the country is 64.048.000 (until this September), according to Turkish Statistics Institution.³⁶

Years	Export (Million Euros)*	Import	Trade Volume
2008	428	18	446
2009	170	28	198
2010	169	54	223

Source: MFA Turkey, "Türkiye, Bosna-Hersek Ticari ve Ekonomik İlişkileri", http://www.mfa.gov.tr/turkiye_-bosna-hersek-ticari-ve-ekonomik-iliskileri.tr.mfa. *Approximate Conversion from the US Dollar to Euro.

³²Foreign Economic Relations Board, Dis Ekonomik İlişkiler Kurulu, DEİK, "Bosnia Hersek Ülke Bulteni Agustos 2011".

³³Ministry of Foreign Affairs, "Türkiye, Bosna-Hersek Ticarive Ekonomik İlişkileri", http://www.mfa.gov.tr/turkiye_-bosna-hersek-ticari-ve-ekonomik-iliskileri.tr.mfa; Uyumsoft, "Bosna- Hersek'te geniş yatırım imkanı bulunuyor", <http://www.uyumsoft.com.tr/bosna-hersek.aspx> (last access: 21.11.2011).

³⁴MFA, "Türkiye, Bosna-Hersek".

³⁵Interview with Mr. Yanaz.

³⁶Turkish Statistical Institute, www.tuik.gov.tr.

2008

ALBANIA	207.644.868	24.241.393
SLOVENIA	437.244.576	165.175.984
CROATIA	224.841.524	71.841.681
BOSNIA AND HERZEGOVINA	382.137.501	16.781.133
KOSOVO	190.497.747	3.525.049
*UNMIK 1244		
MONTENEGRO	32.699.661	951.277
SERBIA	310.180.944	41.625.544
Total	1.785.246.821	324.142.061

2009

ALBANIA	196.065.311	3.375.504
SLOVENIA	426.318.390	178.018.700
CROATIA	153.673.440	76.765.226
BOSNIA AND HERZEGOVINA	161.920.512	36.563.865
KOSOVO	198.177.656	7.264.580
MONTENEGRO	18.804.326	4.096.864
SERBIA	218.923.712	39.491.818
Total	1.373.883.347	345.576.557

2010

ALBANIA	180.112.312	65.739.045
SLOVENIA	270.732.988	217.723.262
CROATIA	186.094.602	158.629.216
BOSNIA AND HERZEGOVINA	168.283.690	54.142.029
KOSOVO	220.205.668	10.266.859
MONTENEGRO	20.810.225	4.727.992
SERBIA	229.025.489	82.344.897
Total	1.275.264.974	593.573.300

**2011*Until
September**

ALBANIA	138.944.589	71.011.741
SLOVENIA	319.138.524	190.089.450
CROATIA	134.604.880	172.911.180
BOSNIA AND HERZEGOVINA	144.515.910	45.435.861
KOSOVO	143.429.311	5.343.819
MONTENEGRO	13.899.131	4.584.475
SERBIA	186.666.637	124.008.037
Total	1.081.198.982	613.384.563

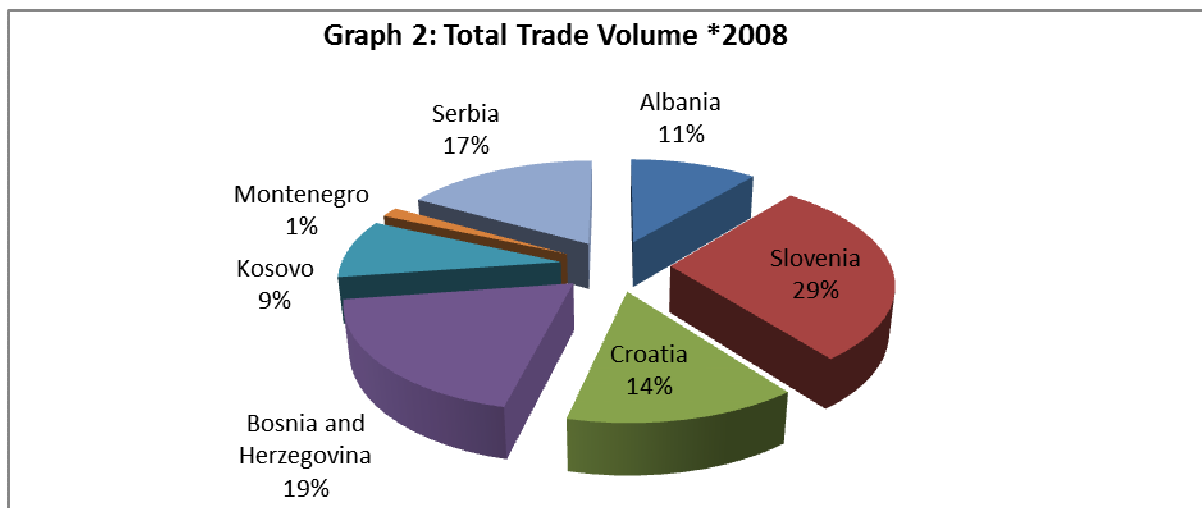
The total trade volume with the chosen countries overall is increasing in the past years. The export values from Turkey are higher than the import values of the SEE countries and the EU member state, Slovenia.³⁷ Trade volume between Slovenia and Turkey is ahead than the rest of the countries in the years of 2008-2011 (until 2011 September). In 2008, Turkey exported the most to Slovenia, then Bosnia and thirdly to Croatia. Turkey imported the goods the most from Slovenia, then Croatia and the third Serbia. Turkey exported the most to Slovenia, Serbia and Kosovo. She imported most from Slovenia, then Croatia and Serbia in 2009 and in 2010. In 2011 until September, Turkey exported the most to Slovenia, Bosnia and Kosovo. She imported them most from Slovenia, Croatia and Serbia (see the details at the table above). Overall, Turkey export values are higher than the import's from the country.

Yanaz evaluates the trade relations between the countries are at a good position and expects to reach export volume to 200 million euros and the total export will raised 30 percent in the end of this year. According to Yanaz, the decline after 2009 is also because of the termination of the oil trade between the countries which was set for only 2 years.³⁸

To improve commercial relations Yanaz claims that the Turkish firms should take the initiative to introduce themselves in BiH and there are some firms such as Beko, Bellona which are doing that. There is great support from the Turkish government. For instance, there are several incentives which are provided under some conditions.³⁹

Yanaz who sees the trade and investment as complementary to each other claims that there should be more investment in BiH to increase trade with the country.⁴⁰

Comparison to the Other Countries in the SEE Region



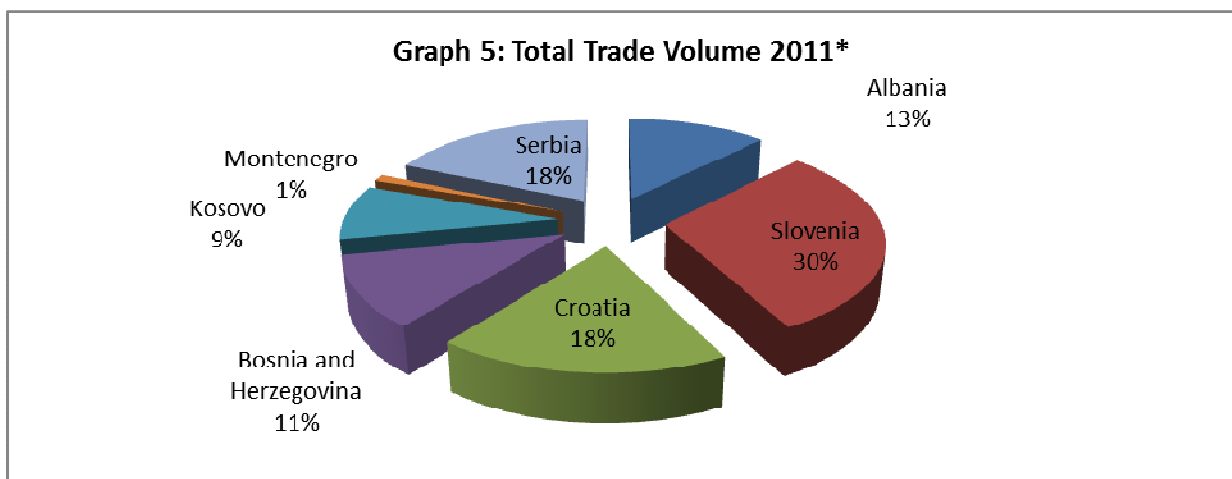
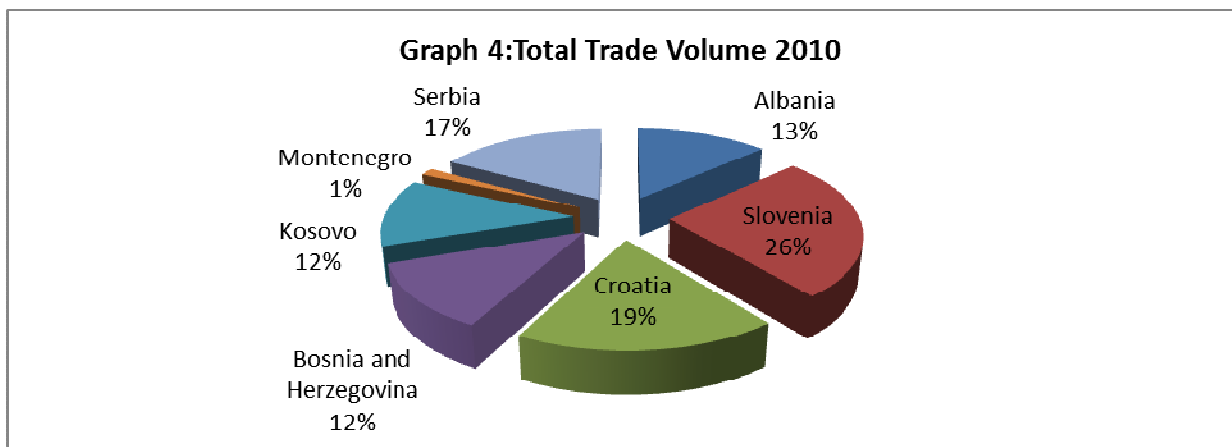
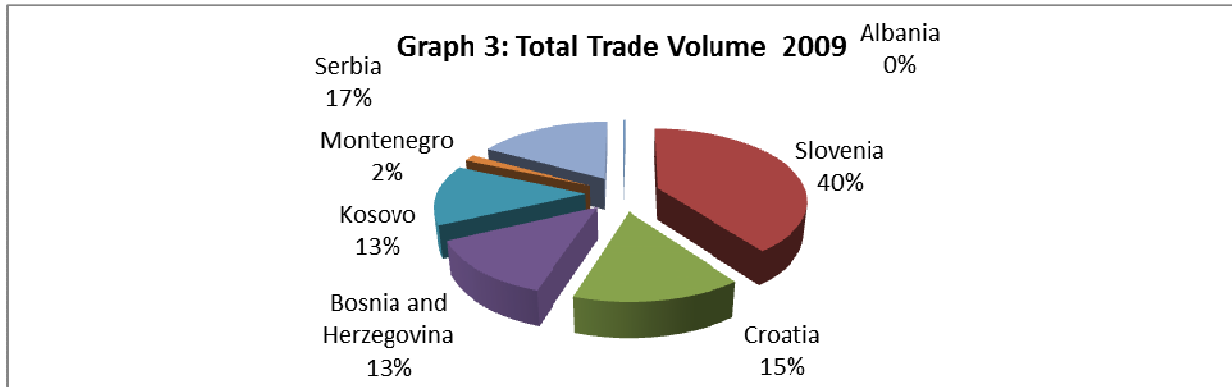
³⁷ Slovenia is chosen to show the gap between geographically close countries, EU member with the SEE countries.

³⁸ Interview with Mr. Yanaz.

³⁹ Ibid.

⁴⁰ Ibid.

*Graph is to show the percentage of the individual countries in terms of total trade volume comparison to the countries chosen.



*Until September, 2011

Based on the data on graphs above, Slovenia around 31 % and she as an EU member country is ahead then the compared countries, the other percentages in total trade volume with Serbia average 17 % and Croatia average 17 % is close to BiH's 14.

According to analysis of this section, three conclusions are to be drawn.

- There is developing trade relations between the countries. Yet, it is below the expected levels and this is source from the global economic crisis and the insufficient introduction of the Turkish Product.
- The trade relations with BiH stayed a bit behind the other SEE countries and the EU member state, Slovenia.
- To improve trade relations between the countries the Turkish production should be advertised more through international fairs.

2.2. TURKISH INVESTMENTS IN BOSNIA

There have been Turkish investments and there is economic cooperation between the BiH and Turkey in different sectors. Turkey is rated 10th country invests to the country most.⁴¹ 72 million euros of capital has been invested to BiH since 31 December 2009. 50 firms are operating in the country.⁴² There has been great economic cooperation between the countries in sectors of defense, industry, coal and still, textile, wood and paper industry, furniture, leather, electronic and food industries.⁴³

According to numbers presented below, Turkey is the first country the invest Bosnia the most in 2009 with the 94.6 million euros and she is 6th in the year of 2010 with the 20.1 million euros.

The main investors to Bosnia in 2009

	Country	Million Euro
1	Turkey	94.9
2	Austria	46.1
3	Croatia	38.0
4	Serbia	31.9
5	Slovenia	30.7
6	Italy	9.8
7	Poland	8.2
8	Cyprus	8.0
9	Montenegro	6.0

⁴¹BorsaGundem, "Bosna'ya Yatirim Yapmanin Tam Zamani", 17 August 2011, <http://www.borsagundem.com/haber/oku/rss/26376> (last access: 30.11.2011)

⁴²Athina W. Tesfa-Yohannes, Bilgesam, Center for Strategic Studies, 14 July 2010, "Stability of Bosnia and Herzegovina and Turkey's role". http://www.bilgesam.org/en/index.php?option=com_content&view=article&id=368:the-stability-of-bosnia-herzegovina-and-turkeys-role&catid=95:analizler-balkanlar&Itemid=140(last access: 30.11.2011)

⁴³ Speech of the Chief Marmara Group Strategic Research, Dr. Akkan Suver, in 28 September 2009, Vienne Economic Forum, Sarajevo, "Investment to Bosnia and Herzegovina", <http://www.marmaragrubu.org/vilanana.htm>, (last access: 30.11.2011).

Source: www.musavirlikler.gov.tr

The main investors to Bosnia in 2010

	Country	Euro
1	Austria	97.289.130
2	Serbia	50.609.850
3	Croatia	38.865.158
4	Saudi Arabia	37.341.691
5	Slovenia	20.561.508
6	Turkey	20.166.886
7	Russia	15.624.211
8	Sweden	11.350.680
9	Hungary	11.248.421
10	Switzerland	8.627.703

Source: www.musavirlikler.gov.tr

Turkish medicine factory Nobel has invested 6 million euros to the country and it has operated since 2007. On January 2007 the company launched a firm in Banja Luka, Republika Srpska.⁴⁴ One of the famous companies in Turkey, Zorlu Holding has been involving actively in economic activities in the country.⁴⁵

Turkish company “Kastamonu Entegre Ağaç Sanayi Ticaret AŞ” launched its operation in cooperation with Natron-Hayat d.o.o. Maglaj and it founded “Natron” d.d. Maglaj firm in 2005. The company invested the paper sector approximately 60 million euros in 2007.⁴⁶ The total investment of the company is 10 million euros.⁴⁷

Soda Sanayi AŞ (Şişecam), Turkish company, obtained 80 % of the shares of the (FSL) Fabrika Soda Lukavac in BiH, which was privatized in 2007. The Şişecam invested approximately 10 million euros. The Fabrika Soda Lukavac has reached the production of 220.000 tons per year and strengthened its competitiveness in the sector.⁴⁸ In total, the company made 56.7 million euros investment.⁴⁹

⁴⁴ Foreign Economic Relations Board, Dis Ekonomik Iliskiler Kurulu (DEIK), “Bosna Hersek Ulke Bulteni Agustos, 2011”,

http://deikweb.neosistem.com/2842/Bosna_Hersek_%C3%9Clike_B%C3%BClteni_A%C4%9Fustos_2011.html
(last access: 29.11.2011)

⁴⁵ Ibid.

⁴⁶ Kastamonu Entegre Agac Sanayi ve Ticaret AS,

<http://www.kastamonuentegre.com.tr/Home.asp?BID=3&Page=4&id=8&Title=bosna-hersek-kraft-kagit-tesisi>.

(last access: 29.11.2011)

⁴⁷ DEIK, “Bosna Hersek”,

48; Sisecam Chemicals Group Soda Sanayi AS, <http://www.sodakrom.com/haberler/haberler.asp> (last access: 29.11.2011).

⁴⁹ DEIK, “Bosna Hersek”.

Moreover, there have been great investments in banking and the infrastructure sectors from the Turkish companies in the country; these are the Turkish Ziraat Bank Bosnia d.d. (TZBB) and the Turkish Airlines.

In fact, TZBB was issued the license to carry out the banking business in BiH in October 1996, and started its operations in Sarajevo in March 1997 as a first bank founded with foreign capital in BiH.⁵⁰ Today, TZBB has 27 branches; 14 cash desks, 12 branches in BiH and headquarters in Sarajevo. In 2010, TZBB has reached the number of 749 merchant places and 31 ATM machines.⁵¹ The Bank gives short-term and long-term loans for different purposes such as financing current business, preparing export, investment.⁵² Its total deposits in 2010 amounted to 52 million euros, and its deposits are in increase.⁵³ The bank also led the way for Turkish investments in the banking industry.⁵⁴ Total investment of the Bank is 25 million euros.

On December 2008, Turkish Airlines (THY) signed an agreement with BiH airlines for the 49 % shares of the country and on March 2009 the process had been terminated.⁵⁵ In total THY invested 5 million euros.⁵⁶

Today, there have been some investment/business opportunities, as well; in areas of chemical industry, wood, textile, programming, electronic, coal and steel, leather industry.⁵⁷ According to Director of the TBZZ, Kenan Bozkurt, this is perfect time to invest into BiH, particularly in the sectors of energy, transportation, food, tourism, finance, real estate and insurance.⁵⁸ Bozkurt assures that the TBZZ is ready to finance investments in BiH. Bozkurt informs that the taxes are quiet low; there is no tax for the 10 million euros investment for next five years and the investments are under the state guarantee. The low labor cost was emphasized also by Bozkurt.⁵⁹

There are many projects in different sectors such as energy, tourism, food industry; they are all needs to be undertaken by the investors. For Yanaz, especially food sector is quiet promising for investment. The country is in the position of the importing 1/ 3 of their total agricultural product. Particularly, the agriculture has advantageous position in the RS.⁶⁰

⁵⁰ Turkish Ziraat Bank in Bosnia (TBZZ), "About the Bank", <http://www.ziraatbosnia.com/eng/obanci.htm>(last access: 21.11.2011).

⁵¹ TBZZ, "Annual Report 2010", http://www.ziraatbosnia.com/eng/annual_2010.pdf(last access: 21.11.2011). All of the branches and cash points are in the Federation, (Interview with Mr. Yanaz).

⁵² TBZZ, "Corporate Loans", <http://www.ziraatbosnia.com/eng/kkredit.htm>(last access: 21.11.2011).

⁵³ TBZZ, "Annual Report".

⁵⁴ Center for Strategic and International Studies, "Western Balkans: Is Turkey Back?" <http://csis.org/blog/western-balkans-turkey-back>, (last access: 21.11.2011).

⁵⁵ Turk HavaYollari, "01 Ocak-30 Eylul 2011 Donemine Iliskin FaaliyetRaporu", http://www.download.thy.com/download/investor_relations/annual_reports/2011__eylul_Faaliyet_Raporu.pdf, (last access: 21.11.2011). The shares of BiH airlines belong to the Federation (50.93 %) and Energoinvest A.S (0.066 %)

⁵⁶ DEIK, "BosnaHersek".

⁵⁷ Milliyet News. "BosnaHersek'ten Turk", Uyumsoft, "Bosna- Hersek".

⁵⁸ BorsaGudem, "BosnaHersek'e Yatirim".

⁵⁹ Ibid.

⁶⁰ Ibid.

In the preceding paragraphs the investment opportunities are presented by sectors. Due to the limit of the paper three of the most promising sectors; energy, transportation; and tourism are chosen.

2.2.1. ENERGY

Bosnia has a considerable potential for investment in the energy sector. The country had remarkable renewable energy source, specifically, hydro, wind, solar, geothermal. The renewable energy is considered as second potential after coal.⁶¹

In Particular, hydropower has great possibility for further development, as only one-third of its potential has been utilized. When it comes to the European countries, BiH is in the 8th place with its hydro-potential.⁶²

Moreover, in production of the electricity is outstanding. The country produces more than the demand within its territory and it exports 20% of the total production to neighboring countries (i.e. Serbia, Croatia, Slovenia, and Montenegro).⁶³ Besides, the price for the electricity is quite low in comparison to the other EU member states and Eurozone countries.⁶⁴

Moreover, the energy sector is competitive and it has increased its competitiveness within the years.⁶⁵ In addition, energy demand in the country is bound to rise. BiH has free trade agreements with the various states, has an objective in European integration while having considerable modernization process in the sector.⁶⁶ It has desirable judicial arrangements for the investment. Most of all, the country has a positive approach to foreign investments.⁶⁷ Also, BiH has a considerable amount of agreements in regional level and with the EU. For instance, Energy Community treaty was signed between the EU and nine SEE countries (including BiH) in 2005.⁶⁸

⁶¹Kalkinma Bankasi, Bosna Hersek Sektor Raporlari; Enerji Sektoru, 3, http://www.kalkinma.com.tr/data/file/raporlar/ESA/UA/BiH_Enerji_Sektoru.pdf (last access: 29. 11.2011)

⁶² Lana Pasic, Balkan Analysis, "Sources of Energy in Bosnia and Herzegovina and Implication for Energy Security, 9 May 2011, <http://www.balkananalysis.com/bosnia/2011/05/09/sources-of-energy-in-bosnia-and-herzegovina-and-implications-for-energy-security> (last access: 21.11.2011).

⁶²Borsa Gundem, "Bosna Hersek'te Yatirim".

⁶³Kalkinma Bankasi, "Bosna Hersek; Enerji",17.

⁶⁴Ibid., 7.

⁶⁵Ibid.,16

⁶⁶FIPA, "BosnaHersek'teYatirim", 47.

⁶⁷Kalkinma Bankasi, "BosnaHersek; Enerji", 25-26.

⁶⁸The treaty created the Energy Community of South East Europe (ECSEE), proposing the regional energy market and common policies for gas and electricity, which would be in line with the EU standards and in accordance with EU's Internal Energy Market. (see Lana Pasic, "The Sources of Energy".

Yet, there is low growth rate in the energy sector. BiH is far behind its neighbors when it comes to the development of the institutions and strategies in this area.⁶⁹ There have been still some loops in the judicial arrangements to facilitate the foreign investment. The capital accumulation is low. The dependency to foreign aid is also diverting factor of the potential investments. The infrastructure is insufficient. There is no sufficient infrastructure for gas supply.⁷⁰

All in all, there is a high potential in BiH in producing renewable energy sources, the electricity and later the thermic centrals despite there are some problems. Also, the geographical position of the country, considering it as a wide market in SEE and Europe is worth to mention. It is believed that the future investment in energy sector is going to be an interest of the Turkish investors.

2.2.2. INFRASTRUCTURE/ TRANSPORTATION

The transportation investments, is ‘sine qua non’ for other investments. Besides the country has a lot to offer. The geographical location of the country has a link between Adriatic Sea and Central Europe. Furthermore there is a political consensus on the development on this sector; there have been many promising projects such as Corridor VC which started to be invested.⁷¹ For instance, this project is going to revitalize the economy of county while linking BiH with her neighbors.⁷² These projects, however, need a great capital to be undertaken by strategic partners.⁷³

Nonetheless BiH is not well developed in transportation infrastructure. The average salary is expensive, there is lack of experience to develop this sector, and there is insufficient capital accumulation. Besides, the topography of the country hinders the better quality of the highway. Institutionalization is lagging and there are problems in the judicial arrangements.⁷⁴

All in all, Bosnia offers an opportunity in investing infrastructure with her idiosyncratic geographical location, her fast pace development in the sector and the indispensable position of this sector regarding the other sectors. Besides, the transportation infrastructure is under way and within the next years is going to be convenient for the potential investments in the country. The projects in process should be attention of the Turkish investors.

⁶⁹Ibid.

⁷⁰Ibid., 24-25.

⁷¹ Corridor VC project, is one of the important infrastructure in the country, is going to link Budapest and Adriatic Sea.

⁷²Kalkinma Bankasi, “Bosna Hersek Sektor Raporlari 2010; Altyapi Sektoru”, 23, http://www.kalkinma.com.tr/data/file/raporlar/ESA/UA/BiH_Altyapi_Sektoru.pdf (last access: 29.11.2011)

⁷³Bosna Hersek ile Iliskileri Gelistirme Merkezi (BIGMEV), “Sektorel Veriler”, <http://www.bigmev.org/Altsayfa.aspx?id=15&Grup=5>

⁷⁴Kalkinma Bankasi, “Bosna Hersek; Altyapi Sektoru”, 23-26.

2.2.3. TOURISM

There is remarkable tourism potential in different areas of the sector. Chiefly, the winter tourism, Ecotourism, Spa Tourism, cultural and religious tourism⁷⁵, and sea tourism have potential to develop. According the World Trade Organization, BiH is going to show ten percent growth in tourism in the next years.⁷⁶

On the one hand, the tourism sector in BiH has low share in Gross National Product. Particularly, there is need to modernize the sector and particularly the accommodation facilities which are behind the demand.⁷⁷ Yet, there is some gabs in the institutionalization and the judicial arrangement. Grey economy in BiH affects competitiveness of the sector and there is insufficient infrastructure in transportation. The country is still a transition country. There are some repercussions of management system in investment decisions.⁷⁸

On the other hand, the political initiative and the given importance to this sector have some fruits in increasing numbers of the investment today.⁷⁹

All in all, the tourism sector has a potential in the different areas for the future and has showed this in the past years. According to Yanaz, Bosnia has offers better opportunity for the winter tourism.⁸⁰ The different international actors have involved in the sector in past years.⁸¹ Still, the country needs more investment to develop this sector. The competitiveness in the country is suffered due to the neighbor EU countries has the advantage to enjoy the EU funds. On the other hand, the investment environment is open for the foreign investors and BiH has a lot to offer them despite of some drawbacks.

According to analysis of this section, three conclusions are to be drawn.

- First, there have been already economic investments to county and cooperation between the countries in various sectors.
- Second, there has been some investment/business opportunities today, as well; in areas of chemical industry, wood,⁸² textile, programming, electronic, coal and steel, leather industry.⁸³

⁷⁵Such as, Bjelasnika, Igmanve Jahorina, Blidinje, Vlasic veKupres Mountains has guests from Serbia, Moutegro, Slovenia and Croatian and the other European countries.In BiH, therapeutic spa centers are found recently. For example, Vilina Vilas (Visegrad),Sanskallidza (Sanski Most), Dvorovi (Bijeljina), Slatina and Laktasi (Banja Luka), Fojnica, BanjaVrucica (Teslic), Gata (Bihac), Guber, (Srebrenica), Kiseljak (Sarajevo), Gradacacve Mljecanica (Dubica). The country has cultural and religious heritage which has considerable importance in the history and heralds a potential to attract tourists. Headed by the cities of Sarajevo, Banja Luka, MostarveBihac, the country has bridges, mosques, churches and synagogues. (see, Kalkinma Bankasi, Bosna Hersek; Turizm)

⁷⁶KalkinmaBankasi, "Bosna Hersek Sektor Raporlari 2010; Turizm Sektoru", 1
http://www.kalkinma.com.tr/data/file/raporlar/ESA/UA/BiH_Turizm_Sektoru.pdf (last access: 1.12.2011)

⁷⁷Kalkinma Bankasi, BosnaHersek; Turizm, 2,6.

⁷⁸ Ibid.

⁷⁹ Ibid.,22.

⁸⁰ Interview with Mr. Yanaz,

⁸¹Kalkinma Bankasi, Bosna Hersek; Turizm, 25-26.

⁸²Milliyet News, "BosnaHersek'ten Turk" .

- Third, as pointed out in proceeding paragraphs, the sectors of energy, infrastructure/transportation, and tourism despite the fact that there are some drawbacks.

CONCLUSION

To improve economic relations with BiH is one of the aims of active Turkish foreign policy and there are many activities organized by NGOs and the businessmen in achieving this aim. Accordingly, have been good developments in economic relations.

This paper attempted to analyze economic relations between the countries, the current economic relations and the opportunities in investments and trade. The first section presented brief of the BiH's economy to give a better comprehension into topic and presented the existing bilateral agreements to demonstrate the facilities. Second section surveyed the current economic relations in terms of trade and investments.

It is argued that BiH and Turkey have respectable commercial and economic relations. Nonetheless, there are things to be done by the both countries to have better commercial and economic relations. The progress in EU integration, steps for transition to market economy and the change in the political atmosphere would affect the economy of the country and would create better atmosphere for trade and investment.

In particular, to ameliorate bilateral economic relations, Turkish firms should take opportunity to introduce themselves in the market. Additionally, Turkish investors should assess the sectors and the related projects which offer good investment opportunities; such as in the sectors of energy, transportation; tourism; food. Meanwhile BiH authorities should diminish the complexities of the rules and procedures in commercial relations and in doing business. The implementation of the measures against corruption and grey economy should be given special importance.

Overall, Turkey should be persistent to improve economic relations more by focusing on the facilities that BiH offers. Turkey's economic existence in BiH will push reform process, the most needed modernization and most of all it will help BiH in Euro-Atlantic integration.

Indeed, it is well documented fact that Turkey wishes stability and prosperity in the region and BiH. Historically and economically speaking Turkey has a power to assist in achieving stability and prosperity in the country. Furthermore, comparison to other actors in the region, Turkey has a great potential to have a benign leadership position. The leadership is also backed by the

⁸³Uyumsoft, "Bosna- Hersek'te geniş".

United State administration.⁸⁴ On the other hand, Turkey is not the only actor in the region. Russia, for instance, has a capability to involve and noteworthy influence in the regional matters; and accordingly country has considerable bilateral relations with the SEE countries. Nevertheless, Turkey has a rather advantage position over the other actors considering the key issues in the region and BiH.⁸⁵ Thus, steps are taken in improving economic bilateral relations should be continued to be one of the essential foreign policy tools in BiH. In short, Turkey should continue to conduct this policy and create every possible opportunity to improve bilateral economic relations with BiH.

⁸⁴ Jusko Bojadzic, Dnevni Avaz, "Odjeci Bajdenove Posjete: Americi Vazno da Turska na Balkanu Bude u Prednosti nad Rusijom, 5 December 2011, <http://www.dnevniavaz.ba/vijesti/teme/68697-odjeci-posjete-dzozefa-bajdena-istanbulu-americi-vazno-da-turska-na-balkanu-bude-u-prednosti-nad-rusijom.html> (last access: 15.12.2011).

⁸⁵ Ibid.

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