INFLUENCE OF TERTIARY ACTIVITIES ON LOCAL AND RURAL DEVELOPMENT IN BOSNIA AND HERZEGOVINA

Rahman Nurković*

Abstract

The paper includes a detailed theoretical and practical analysis of spatial processes of tertiary activities in local and rural development in Bosnia and Herzegovina. In recent period, particularly after 1995, in local development of municipalities and, in particular, in rural settlements of Bosnia and Herzegovina big spatial changes occurred thanks to fast development of tertiary activities, which strongly affected the transformation in rural settlements. Our research will be focused primarily on the local, rural development of settlements, expansion of new tertiary activities in rural settlements and on various housing constructions, and arrangement of traffic infrastructure. The mentioned processes strongly affect the contemporary spatial and functional structure of rural settlements in Bosnia and Herzegovina. For analysis of a complex development of tertiary activities in Bosnia and Herzegovina elements of social, economic and physiognomic nature have been taken, which were special and significant for transformation, respectively for the changes of local and rural areas with orientation of spatial development of new economic activities. Bosnia and Herzegovina has significant difficulties in restructuring, but also good prospects to be fast included into the European economic courses.

Keywords: Tertiary activities, Transformation, Rural development, Transition, Bosnia and Herzegovina.

Introduction

Tertiary activities have an exceptionally important role in economic development in many countries. The existing statistics of economic activities cannot perceive its full economic importance and influence. A lack of adequate economic measurements of tertiary activities in local and rural development in Bosnia and Herzegovina often leads to underestimation of the benefit from tertiary activities, particularly with other economic sectors (Spurr 2006). Tertiary activities need to be observed as a set of different activities whose demand is not related only to the tertiary demand. The additional difficulty in measurement of tertiary activities in Bosnia and Herzegovina

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originates from characteristics of the tertiary products that are partially intangible and are not easy to measure either by physical or financial indicators (Hara 2008).

Starting from the recognised problems of evaluation of tertiary activities in local and rural development, the purpose of this paper is the establishment and testing of the procedure for estimation of the total contribution of tertiary activities in total contribution to economy in Bosnia and Herzegovina. Evaluation of the total contribution of tertiary activities to economy implies, therefore, linking the satellite account of tertiary activities with different models that may perceive macroeconomic influence of tertiary activities on local and rural development (Alhert 2008).

In contemporary period of economic-geographic development around 43% of rural population live in rural space of Bosnia and Herzegovina. Most of the rural space increasingly takes on characteristics of clear lagging behind in development, which represents a significant negativity of all demographic, socio-cultural and spatial planning indicators. With a change of socio-economic system into market economy, rural space of Bosnia and Herzegovina is facing new challenges. In all this, more and more intensive development of contemporary economic activities is also particularly expressed. For needs of this paper, our focus will, therefore, be shifted away from the wider context of rural changes towards agrarian production as an element that has been deemed a compatible function of rural spaces of Bosnia and Herzegovina.

In this paper, among other, it has been emphasized that each rural area in Bosnia and Herzegovina represents a particular individuality and distinctiveness. The paper itself has been divided into three parts. In the first part, an application of a new institutional theory, in the sense of analyzing the rural space as a product of contemporary economic development, has been discussed. In the second part, a context of development of social and economic restructuring of rural spaces in Bosnia and Herzegovina, as a subject of analysis at the village level, has been discussed. The third part represents a discussion over a process of improvement in transportation in rural settlements, and the method in which the process itself has been shaped by the state and social institutions has also been presented and analysed. Finally, conclusions were made in order to emphasize the role of institutions in an interaction between rural spaces and rural economy, and to stimulate the changes in rural economy of Bosnia and Herzegovina.

Total economic development of Bosnia and Herzegovina was tightly connected to coal and salt production, on which ferrous metallurgy and chemical industry, as the leading branches of industry, have developed. The regional centres of Tuzla, Zenica, Sarajevo, Mostar and Banja Luka are characteristic as they had a fast transformation and the most rapid industrial development. A series of location factors affected the volume of industrial production and its structure, also the basic population structure according to activities, and the spatial distribution of industry of Bosnia and Herzegovina. Among these, the most important factors are: geographic-traffic, demographics, natural resources, historical, microlocation factors and the market.
Bosnia and Herzegovina used to be a significant industrial centre in SFRJ, particularly in machine-tool and chemical industries. (Nurković 2001: 83-89)

Methods of work and data sources

Methodological approach is imperatively adjusted to purpose of this paper, so tertiary activities in Bosnia and Herzegovina have a strong influence on local and rural development. The research has been considered through local and rural development of the areas in Bosnia and Herzegovina. In estimation of economic contribution of tertiary activities to economy quantitative methods in the range from stochastic to deterministic are almost exclusively used. Among stochastic methods, the most commonly used methods are econometric methods based on analysis of time series, cross-sectional and panel data. Deterministic methods include models of gravitation (which can partially be stochastic models as well), input-output analysis (Input-output, IO) and social accounting matrix (Social Accounting Matrix, SAM), satellite account of tertiary activities and computable general equilibrium model (Computable General Equilibrium, CGE) (Hara 2008).

With regard to contents and inclusion into a system on social accounting, evaluation of direct contribution of tertiary activities to local and rural development of economy in Bosnia and Herzegovina is a good basis for defining and application of the models that enable consideration of the total contribution of tertiary activities. Namely, with a direct contribution of tertiary activities perceiving the influence of tertiary activities on local and rural development is more complete, as well as extension of the analysis through considering the links between the sectors that directly sell the services and products of tertiary activities and those activities servicing these sectors (indirect effects of tertiary sector); it is also necessary to consider the influence of increase in income on the economy due to consumption of tertiary activities (induced effects of tertiary activities). In the series of the mentioned methods by which it is possible to perceive the total or partial influence of tertiary activities on economy, the models based on input-output analysis are particularly distinguished, as well as the models of computable general equilibrium (Zhao et al. 1997).

Input-output tables are an important indicator of direct and indirect contributions of tertiary activities in local and rural development to national economy (Jurčić 2000), and the modelling of tertiary activities starts from the creation of tertiary activities on the basis of the data from input-output table, and the analysis of multiplicative actions of tertiary activities (DZS 2002).

Input-output analysis is widely applied as the means of estimation of total effects of tertiary activities; however, one should bear in mind also its limitation as the means of estimation of net effects of tertiary activities on economy of local and rural development in Bosnia and Herzegovina. Input-output analysis is based on
the assumptions on fixed prices and fixed coefficients and may result in overestimation of economic effects of tertiary activities on local and rural development. With input-output analysis only positive effect of tertiary activities on economic activity is perceived, while neglecting the negative effects that may be bigger than the positive ones. The shortcomings of input-output analysis initiated bigger and bigger use of the computable general equilibrium model as a set of equations that describe production, consumptions, trade and country’s activities (Dwyer et al. 2004; Blake et al. 2006). Contributing in different ways to economic understanding of tertiary activities, computable general equilibrium models indicate that, due to influence on prices of factors and real appreciation of course, the influences of tertiary activities on the sectors related to tertiary activities are smaller than it is anticipated by input-output models, and, at the same time, they also enable consideration of negative effects of tertiary activities on other sectors competing for these factors (Blake 2009).

Unequal regional development is a common regularity of development of tertiary activities, which is particularly expressed, in specific developmental stages, in polarization of economic activities, population and income. On the basis of these, they have a smaller number of employed persons and, on the whole, less developed tertiary activities. Influence of tertiary activities on local and rural development in Bosnia and Herzegovina requires the use of particular methods. Therefore, studying the general methods and the way of methodology of urban and rural geography in a combination with regional geographic approach will be applied. As a basic method of gathering the sources of primary data the interview method was used, i.e. in-depth interview, at which a major instrument was a reminder for interview. About 15 economic activities in Bosnia and Herzegovina were examined. The research was also completed by the analysis of the contents of secondary sources, interpretation and description of the adequate data bases of the Agency for Statistics of Bosnia and Herzegovina.

Processes in the space of the local and rural development

Economy is the next important factor of economic development of the local and rural areas in Bosnia and Herzegovina. At the beginning of the 21st century, about 43% of total population of Bosnia and Herzegovina lived in rural area. With analysing the number of rural population and rural characteristics of Bosnia and Herzegovina, it is also indispensable to analyse the current situation within the wide historical context. Rural areas have been exposed to degradation processes that lead to extinction threshold of ruris, a village-basic element of rural area, since the mid-19th century, and particularly during the socialist economic system since the mid-1950s to 1990, with the transition in the past decade, and also in the period from 1922 to 1995. Civilization and historical processes of deruralization, industrialization and urbanization that are present in certain stages of development in all parts of the world had an extremely selective and negative influence on development of the BIH village.
The socialist planned economy has favoured an industrial development in Bosnia and Herzegovina that was subjected to deruralization, as a typical rural country, which became evident after 1955. Due to intensified industrialization and the decline of interest in agriculture, the deruralisation process started i.e. leaving the village as a place of residence. Deruralization has been an accelerated process in the past fifty years. In 2011, over 70% of rural areas in Bosnia and Herzegovina were characterized by obvious regression in development, which indicates to clear negativity of all demographic, sociocultural and spatially planned indicators. These areas that are often isolated in traffic aspect, with the aging population and the predominant share of older people and women in the total population are deeply in the process of dying out. Concrete measures are to be taken toward the further development of these areas as without interventions they tend to lag behind in development, 40% of rural areas are within the framework of a balanced development, and about 30% experience an expansion (Nurković 2007 : 101).

Increasingly frequently, rural areas do not represent only agricultural-production areas. On the contrary, it can generally be said that the share of agricultural and forest production corresponds to the level of area’s socio-economic development in relation to other functions of rural areas. The more developed, socially and economically, an area is, (in sense of development from rural through industrial into a tertiary society) the smaller is the importance of agricultural and forest production in its total economy, and vice versa. (Crkvenčić 1991 : 5)

The consequence of such development is not only an unequal structure of these activities, but also their territorial distribution. The spatial distribution of tertiary activities most coincides with a spatial distribution of the industrial, respectively urban centres, and less with rural settlements. The depicted relations in economic structure of Bosnia and Herzegovina are even better seen while analysing the share of the active population by sectors in the period from 1961 to 2009. Namely, the biggest share of the active population in Bosnia and Herzegovina was in secondary sector: 74.5%, then in tertiary with 23.3% and primary sector with 2.2% (Table 1 and Chart 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
<th>The share of urban population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>4.2</td>
<td>39.4</td>
<td>56.4</td>
<td>38.2</td>
</tr>
<tr>
<td>2003</td>
<td>3.9</td>
<td>35.4</td>
<td>60.7</td>
<td>40.1</td>
</tr>
<tr>
<td>2006</td>
<td>3.1</td>
<td>36.8</td>
<td>60.1</td>
<td>42.0</td>
</tr>
<tr>
<td>2007</td>
<td>2.7</td>
<td>32.2</td>
<td>65.1</td>
<td>43.2</td>
</tr>
<tr>
<td>2009</td>
<td>2.7</td>
<td>33.4</td>
<td>63.9</td>
<td>46.5</td>
</tr>
<tr>
<td>2011</td>
<td>3.1</td>
<td>32.1</td>
<td>65.0</td>
<td>47.3</td>
</tr>
</tbody>
</table>

Source: The State Agency for Statistics of Bosnia and Herzegovina, Sarajevo, 2011
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Chart 1: The share of employment (%) in activity sectors and the share of urban population in the population of Bosnia and Herzegovina, 2001–2011

Source: The State Agency for Statistics of Bosnia and Herzegovina, Sarajevo, 2011

In 2009, there were 63.9% of all active inhabitants in tertiary sector of Bosnia and Herzegovina, in secondary 33.4% and in primary 2.7%. The economic crisis, which started after 1981, most expressively reflected in industry, which despite this still had a primacy among all activities. At the end of 1991, closing down the industrial enterprises and dismissal of workers in Bosnia and Herzegovina started. Due to gradual restructuring from the planned to a market economy, the economy of Bosnia and Herzegovina has been experiencing the anticipated problems in the past several years: decrease in volume of production, deteriorated export routes, increase in unemployment, and still insufficiently determined and rapid processes of privatisation and development of new tertiary activities in rural settlements.

In Bosnia and Herzegovina, Sarajevo has got the biggest share with approximately 65% of total number of employed persons in tertiary activities. This is to be expected because tertiary activities are very developed in the capital and the administrative, economic, educational, scientific, cultural, health and sports centre of the country. In the city centre there are eight commercial centres, while at the junctions of the main city traffic lines and in the vicinity of road hubs there are about 20 shopping centres. An unequal regional development is a common regularity of development of tertiary activities, which is particularly expressed, in certain stages, in polarisation of economic activities, population and income. At the same time, particular parts of the country remain on the periphery poorly or insufficiently affected by general development of new tertiary activities. Tertiary activities are generally more developed in larger than in smaller municipal centres in Bosnia and Herzegovina. After Sarajevo, tertiary activities are most developed in Banja Luka, Mostar, Tuzla, Brčko District, Bijeljina, Travnik, Bihać, Tešanj etc. In contrast, they are less developed in smaller centres: in Foča, Goražde, Trebinje etc. The smaller, undeveloped municipality centres have poorly developed tertiary activities, primarily the commerce, insufficient needs for craft and catering services, a small number of residential buildings in social
sector etc. On the basis of these, they have a small number of employed persons and, on the whole, less developed tertiary activities. (Griffin and Ford 1980 : 397-422)

In service industry in rural areas, crafts industry is the most common. These are mainly the crafts acting of which, on the basis of wood and iron, facilitated performing of specific agricultural activities. With development of mass industrial production and concentration of that production in the cities, rural areas gradually lost the biggest part of their earlier crafts. Instead of old crafts, new crafts, primarily the service trade enters the rural areas more and more intensely. They appeared as a need for satisfying a higher living standard, respectively the repairs of new farming equipment and gadgets. New crafts have not yet become a substitute for a loss of traditional crafts. The more important tertiary activities in Bosnia and Herzegovina according to share of employed persons in both sectors in 2010, had the following order: catering industry about 35.656 or 10.5% of employed persons, transport and connections about 48.434 or 14.2%, finances about 47.981 or 14.1%, compulsory insurance about 76.623 or 22.5%, education about 64.272 or 19.7% and the field of public health and social welfare 67.272 or 19.7% respectively. The consequence of such development of tertiary activities in Bosnia and Herzegovina is not only an unequal structure of these activities in rural settlements, but also their territorial distribution. The spatial distribution of tertiary activities coincides the most with the spatial distribution of industrial, respectively urban centres (Table 2 and Map 1).

Table 2: Estimation of number of employed persons in tertiary activities of Bosnia and Herzegovina, 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>Number of employed persons</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catering industry and tourism</td>
<td>35.656</td>
<td>10.5</td>
</tr>
<tr>
<td>Transport and connections</td>
<td>48.434</td>
<td>14.2</td>
</tr>
<tr>
<td>Finances</td>
<td>47.981</td>
<td>14.1</td>
</tr>
<tr>
<td>Compulsory insurance</td>
<td>76.623</td>
<td>22.5</td>
</tr>
<tr>
<td>Education</td>
<td>64.272</td>
<td>19.0</td>
</tr>
<tr>
<td>Public health and social welfare</td>
<td>67.272</td>
<td>19.7</td>
</tr>
<tr>
<td>Total</td>
<td>340.717</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: The State Agency for Statistics of Bosnia and Herzegovina, Sarajevo, 2011

In more developed municipality centres there is a considerable increase in trade and catering industry, dictated not only by the demand of numerous permanent inhabitants but also of those periodically interested, in dependence of importance and function of a given regional or municipal centre. Today, these activities also have a strong influence on transformation of rural settlements and development of new commercial centres, petrol stations, catering establishments and an increased number of employed persons in these activities (Černe 2005 : 125-136).
Today, there is also a bigger share of employed persons in housing-communal activities of the developed municipal centres in Bosnia and Herzegovina. There is a larger number of inhabitants in them, as well as a larger accumulation of funds for housing construction and public utilities. Therefore, the housing construction is more intensive, the number of apartments in private property is bigger, and there are also many different organisations for offering various services for housing and communal construction, urbanism, planning etc. In the smaller and undeveloped municipal centres the situation is opposite. A huge domestic administrative apparatus and insufficient input of foreign capital in Bosnia and Herzegovina are additional problems, which should be solved as fast as possible, since the European Union spreads faster than expected. Our neighbours will naturally know how to make use of it and thus the European Union will become our first neighbour, but with the closed door until the situation changes in accordance with the European principles and other standards.

Map 1: Geographic distribution of tertiary activities in Bosnia and Herzegovina, 2011.

Author: Nurković 2013
Revitalization of rural areas

Rural areas in Bosnia and Herzegovina are affected by economic impoverishment and a lack of communal and social infrastructure. The fragmented and irrationally divided properties are unprofitable and do not offer an opportunity for development of commercial agriculture. Even the properties that are oriented toward quantity production and have necessary preconditions are facing fierce competition in the market. Development and entry of new, non-agricultural activities into the rural areas frequently isn’t a planned process, but the consequence of impossibility of existence from dealing with the activities of primary sector. A social reputation of a peasant has largely declined. This situation was caused by a series of factors that marked the development of a village and the rural area of Bosnia and Herzegovina in the past, primarily from the mid-19th century and abolition of serfdom. Revitalization of a village, in a sense of sustainable and complete development, is an indispensable process of protection of rural areas as the primary production areas of food and other goods, the areas of specific anthropogenic landscape with the pronounced natural, traditional, cultural and historical elements, oases of greenery and ecological balance, and in the end, as the areas of tranquillity and rest from dynamical and stressful urban living. Tourism in rural area is one of the factors that may have an essential role in renewal and sustainable development of a village.

The previous modest scientific research, and also the spatial-planning documents and legal acts show that differences between the rural areas of Bosnia and Herzegovina cannot be neglected. The need for preparation of typology of rural areas is in accordance with the practice of the regional and spatial planning of the European Union. It originates from the hypothesis on non-homogeneity of rural areas, which is reflected in:
- extremely big differences in number of inhabitants and population density between the suburban rural settlements,
- spatially and temporally more distant areas,
- differences in population structures,
- completely opposite economic processes in different rural areas from the strong economic development exceeding the trends in urban settlements (e.g. development of industrial zones) to economic ruination,
- differentiated socio-economic structure of population,
- different level of technical standard and equipment of a household,
- different perceptions of rural areas – from the rural idyll to backwardness (Woods and McDonagh 2011: 136-139).

Diversification of structures and functions of the local communities and rural areas of Bosnia and Herzegovina is a consequence of differences in their natural-geographic, demographic and socio-economic characteristics and connection with urban and other central settlements and distance from them, respectively from their position in a network of settlements and nodal-functional organisation of space.
Non-homogeneity of the rural areas is a reflection of their historical development, particularly in crucial moments of development of the BIH village in the second half of the 19th century, and the process of deagrarisation and deruralisation in the second half of the 20th century. Bosnia and Herzegovina was a predominantly agricultural and rural country in the mid-19th century. Three-fourths of the population lived in rural areas, and the existence of more than a half of the total population is based on agricultural production. The complex and interconnected processes of industrialization, urbanization, deagrarisation and deruralisation have resulted in deep changes in the spatial picture of Bosnia and Herzegovina.

In the period from 1953 to 2001, the share of rural population in the total population decreased from two-thirds to 42-49%, and the share of agricultural population decreased ten times, from 56.1 to 5.5%. The culmination of the agrarian exodus, like in other Balkans countries was in the 1960s and 1970s, parallel to development of industry and tertiary sector, and the migrations to foreign countries. General and agrarian policies have not supported a private farmer’s estate, which affected, along with the mentioned processes, the social and economic impoverishment of the rural area. As a result, most of the contemporary research emphasizes negative demographic, economic and social characteristics of BIH rural areas at the beginning of the 21st century. On the grounds of the performed analysis of the functions in big, medium and small towns, it can be concluded that a level of the subregional centre is a desirable degree of central-local importance of the settlements that are considered to be urban in formal and geographic sense (Vresk 1999: 87-91).

Table 3: Modified model of separation of urban settlements in Bosnia and Herzegovina in 2011 Nurković, R. applied in working out the typology of rural areas

<table>
<thead>
<tr>
<th>Size of settlement (number of inhabitants)</th>
<th>Share of non-agricultural households</th>
<th>Share of employed persons in a settlement of living, except the active agricultural population</th>
<th>Degree of centrality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.500-1.999</td>
<td>50% and less</td>
<td>25% or more</td>
<td>subregional centre</td>
</tr>
<tr>
<td>2.000-4.999</td>
<td>50% and less</td>
<td>25% or more</td>
<td>-</td>
</tr>
<tr>
<td>5.000-9.999</td>
<td>-</td>
<td>25% or more</td>
<td>-</td>
</tr>
<tr>
<td>10.000 and more</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Adapted by the author, 2011

On the basis of the BIH Agency for Statistics, Bulletin 6/2011, most of the population that returned to rural areas is primarily young or old. The results of research of different nongovernmental organizations, groups of activists in rural areas, show that most of the young population consider their staying in rural areas to be temporary and the dealing with agriculture and other activities serves to them only as a way of earning
the minimum income, which is being saved for later departure to urban areas and looking for jobs there in other sectors. On the other hand, the elderly rather see the agriculture as a safe source of food and solid income, than as a commercial activity.

Economically the most active population, between ages 25 and 49 years, is the least present in activities on farms. Most of the activities and motivation for development of the farm capacities, for the purpose of achieving high incomes, is usually expected from this group. Such demographic model resulted in low income in rural areas in entire Bosnia and Herzegovina. The number of households also shows that Bosnia and Herzegovina is relatively a rural country. Namely, according to data from 2007, at the level of Bosnia and Herzegovina there were total of 1,054,613 households of which 58.5% in the rural areas. Accurate and reliable data on the rural population and labour markets in Bosnia and Herzegovina are very limited. This is mainly due to the fact that there has been no official census in the country since 1991. In the past 15 years, the country’s demography has changed dramatically. The official data of the Agency for Statistics of Bosnia and Herzegovina from 2007 show that there were total of 3,447,156 inhabitants of which 1,110,770 belonged to working population in Bosnia and Herzegovina.

Conclusion

Economy is the next important factor of economic development of the local and rural areas in Bosnia and Herzegovina. At the beginning of the 19th century about 43% of the total population of Bosnia and Herzegovina lived in rural area. While analysing the number of rural population and rural characteristics of Bosnia and Herzegovina, it is also indispensable to analyse the current situation within the wide historical context. New rural development of the settlements is associated with other smaller towns into an interconnected urban system where each provides services and products for its surroundings, accompanying region and its hinterland. These are followed by specialized shops (banking services, legal services, a large market, diversified labour, extensive public services, car showrooms, computer equipment, furniture, and alike). A strong pressure of foreign and domestic investors lead to poor quality and illegal construction of buildings in rural settlements, which are spreading spatially along the traffic routes.

An unequal regional development is a common regularity of development of tertiary activities, which is particularly expressed in certain developmental stages in polarisation of economic activities, population and income. At the same time, some parts of the country remain on the periphery, poorly or insufficiently included in the general development of the new tertiary activities. Tertiary activities are generally more developed in the bigger than in smaller municipal centres of Bosnia and Herzegovina. After Sarajevo, tertiary activities are most developed in Banja Luka,
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Mostar, Tuzla, Brčko District, Bijeljina, Travnik, Bihać, Tešanj etc. In contrast, they are more poorly developed in smaller centres: Foča, Goražde, Trebinje, etc. The smaller, undeveloped municipal centres have poorly developed tertiary activities, primarily the trade, insufficient needs for craft and catering services, a small number of residential buildings in social sector etc. According to these, they have a small number of employed persons and, on the whole, the less developed tertiary activities.

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