

## Structural injustice and the failure of economic transition: the case of Bosnia and Herzegovina

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### Abstract

*This paper critically examines the nature and consequences of economic transition in Bosnia and Herzegovina, drawing on theoretical insights from David Harvey, Guy Standing, and Thomas Piketty. It explicates the relationship between the political constellation in Bosnia and Herzegovina and the economic outcomes of the transition, where key failures are reflected in systemic dysfunctionality and institutional instrumentalisation. The aim is to present, in a concise and informative manner, the economic consequences of the incomplete transition. The analysis combines secondary literature, statistical data, and international reports to demonstrate how privatisation, deindustrialisation, and unemployment were not neutral reforms but politically shaped processes with enduring social consequences. The study is theoretical-analytical and employs both quantitative and qualitative methods, using descriptive, analytical-synthetic, and heuristic approaches. Presenting these consequences offers insights into the broader impact of the absence of corrective institutional mechanisms, which sustain negative socio-economic outcomes in post-socialist and post-conflict societies.*

**Keywords:** Bosnia and Herzegovina, privatization, deindustrialization, unemployment, informal economy

### Introduction

Following the dissolution of the Socialist Federal Republic of Yugoslavia, the newly formed republics were confronted with the challenge of transitioning from a planned to a market economy. In this context, post-Dayton Bosnia and Herzegovina has faced numerous difficulties. The post-war period was marked by ethnic tensions, political instability, systemic inefficiency, public apathy, widespread socio-economic stagnation. This post-conflict period in Bosnia and Herzegovina has been characterised by political fragmentation and the dominance of ethnonationalist forces. In the Bosnian context, the transition process facilitated the enrichment and empowerment of ethnonational elites through their control over privatisation and redistribution processes. "The economic system of the

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ethnopolitical arrangement functions para-economically" (Mujkić, A., 2007, pp. XIII-XIV). Although Bosnia and Herzegovina represents a unique case, similar outcomes of transition have been observed in neighbouring countries. In Serbia, for example, the privatization process "led to the dismissal of 450,000 workers" (Šuvaković, 2012, p. 92). In Croatia, it created "a new class of tycoons, most of whom had no prior connection to economic activity before the dissolution of Yugoslavia" (Malenica, 2007, p. 133). Thus, the transitional challenges faced by post-Dayton Bosnia and Herzegovina are not isolated, but rather form part of a broader pattern seen across Central and Southeastern Europe, particularly in post-conflict societies. For this reason, Bosnia and Herzegovina's transitional experience merits deeper analysis.

This paper focuses on analysing the specific economic consequences of the transition, by examining its unique forms, mechanisms, and outcomes. The notion of transitioning from a planned to a market economy also presupposed the transformation of authoritarian political systems into liberal democracies (Miladinović, 2009). In many post-socialist countries, the transition was marked by an uncritical acceptance of the free-market model. This model prioritised the free market as the primary mechanism for resource allocation and the regulation of social relations. Privatisation, deregulation, and liberalisation emerged as key instruments in the reconstruction and development of institutions and economies in post-socialist societies. At the same time, these factors contributed to the creation of market oligopolies, the instrumentalisation of public institutions, rising unemployment, and the deepening of social inequalities. Examples of such practices can be found, among others, in Russia (Gelman, 2002; Kukolev, 1998), Ukraine (Elborth-Woytek and Lewis, 2002; Gherghina and Volintiru, 2020), Bulgaria (Nikolova, 2017), and Moldova (Gherghina and Volintiru, 2020; Orlova and Ronnås, 2000).

Among the various transitional challenges in Bosnia and Herzegovina, the economic dimension is particularly symptomatic. On the political level, Bosnia and Herzegovina remains a politically polarised society, grappling with difficult and protracted reforms (Divjak and Pugh, 2008). The political dimension of the transition has significantly influenced the character and form of its economic transition (Vračić, 2019). Nonetheless, to grasp the true nature of Bosnia and Herzegovina's transition, it is especially important to examine its economic aspect. The shift towards a market economy entails privatisation and the restructuring of the economic system. A common challenge for all former communist bloc economies has been the establishment of a market and institutional infrastructure, alongside the privatisation of state-owned assets (Stiglitz, 2004).

Although privatisation and economic restructuring represent core elements of the transition process, in Bosnia and Herzegovina these processes have produced serious adverse consequences.

The absence of a clear and coherent legal and economic system has resulted in regulatory confusion that hinders the economy and threatens the stability of the state (Foča, 2005). Privatisation, deregulation, and market liberalisation have had profoundly negative social impacts. The results of transition raise concerns about both future prosperity and the sustainability of the economic system (Elezović, 2024; Pepić, 2023). Unemployment, precarious and informal labour, corruption, social stratification, exclusion, and deepening poverty are closely linked to failed and clientelist-driven privatisation (Begić, 2016). Privatisation resulted in deindustrialisation, which, according to a report by Transparency International BiH (2009a), was marked by conflicts of interest, a lack of transparency, and a disregard for the protection of the public interest. Deindustrialisation significantly contributed to rising unemployment. Limited employment opportunities and undignified hiring practices created fertile ground for the informal economy, while the workforce—once protected by the state—was overnight transformed into a precarious class.

In this paper, transition is understood as a political project aimed at restructuring power relations. The theoretical framework is characterised by an interdisciplinary approach, incorporating both economic analysis of transitional policies and sociological perspectives on the social consequences of transition. The challenges and negative outcomes of economic transition in Bosnia and Herzegovina, as presented here, are intentionally framed to contribute constructively by synthesising existing proposals and recommendations. Accordingly, this paper also aims to support the articulation of potential solutions for mitigating and potentially remedying the socio-economic consequences of economic transition.

## 1. Theoretical framework

The theoretical framework incorporates economic, sociological, and more specifically, post-transition dimensions. The economic aspect of the framework contributes to understanding and problematising the structural changes that followed the initiation of the transition process. The conclusions and perspectives of David Harvey (2014), Thomas Piketty (2015), and Nancy Fraser (2013) provide crucial support to the statistical and empirical evidence that highlights the link between the market, institutional instrumentalisation, and the deepening of social inequalities.

David Harvey (2014) views neoliberalism as a project aimed at restoring class power, which, in the context of post-Dayton Bosnia and Herzegovina, can be associated with the privileged status of those overseeing the processes of privatisation and market deregulation. Insights from Thomas Piketty (2015) and Nancy Fraser (2013) concerning structural inequality and redistribution—across

both spatial and generational dimensions—contribute to a deeper understanding of the social problems stemming from an unsuccessful and non-transparent economic transition. Piketty (2015) identifies mechanisms through which wealth becomes concentrated, while Fraser (2013) offers a three-dimensional theory of justice that supports a more grounded analysis of depopulation and the erosion of social security. Her three dimensions—distribution, recognition, and participation—serve as critical tools for analysing the (in)just distribution of resources, the recognition of human identity and rights, and access to decision-making processes within political, economic, and social spheres. Fraser's framework further clarifies how the transition in Bosnia and Herzegovina was political instrumentalised.

The post-conflict period in Bosnia and Herzegovina enabled the instrumentalisation of economic reforms by political elites. In this regard, the work of Guy Standing (2014) on the concept of the precariat is particularly relevant. The emergence of the precariat in Bosnia and Herzegovina is largely a result of the collapse of industrial production, or deindustrialisation, followed by mass unemployment and the expansion of the informal economy. Standing's notion of the precariat enables a deeper understanding of the social consequences of economic transition in Bosnia and Herzegovina, especially in relation to precarious labour. The post-Dayton labour market does not function according to meritocratic or market principles, but is instead shaped by the dominant clientelist-political structure.

Given the significant instrumentalisation of institutions and political manipulation of the economic transition, it is also important to address the structural forms of organised crime. In this context, the investigative work of journalist Domagoj Margetić—*The Bloody Balkan Billions*—serves as a valuable source. Margetić (2019) illustrates how ethnonational political elites in the former Yugoslav republics, including Bosnia and Herzegovina, exploited the transition process as a vehicle for the accumulation of power and wealth. Additionally, the insights of Catherine Verdery (1996) on the cultural-political dimensions of privatisation offer a valuable theoretical tool for examining the socio-economic consequences of the transition in post-Dayton Bosnia and Herzegovina.

The aforementioned theoretical perspectives are instrumental in mapping key analytical frameworks for interpreting the transition process in Bosnia and Herzegovina. In other words, the authors referenced in this theoretical framework serve as touchstones or theoretical anchors. Their work provides the conceptual foundation upon which statistical data, empirical findings, and recommendations from international organisations are connected. This integrated approach enables a clearer identification of the social consequences arising from an incomplete and instrumentalised economic transition. Beyond contextualising theoretical insights within the post-Dayton transition,

this study provides a systematic examination of how political instrumentalisation of the transition has affected social inequality. It connects privatisation, deindustrialisation, unemployment, and the shadow economy as interdependent factors, offering a framework applicable to the analysis of transitions in other post-conflict societies.

## 2. Characteristics of economic transition in Bosnia and Herzegovina

In order to fully and adequately understand the socio-economic consequences of the economic transition in Bosnia and Herzegovina, it is essential, first and foremost, to examine the underlying causes that led to such outcomes. Accordingly, this paper focuses on four key processes—privatisation, deindustrialisation, unemployment, and the expansion of the informal economy. It is important to emphasise that these four processes are inseparable; they are interdependent, and the chronological order in which they are examined carries significant analytical weight in this study. These processes are understood as the result of political decisions and an instrumentalised institutional framework. Unsuccessful privatisation led to deindustrialisation. Deindustrialisation, in a country that was predominantly industrial, resulted in mass unemployment. Widespread unemployment, in turn, facilitated the growth of the informal or grey economy, the erosion of workers' rights, and a rapid decline in the population's standard of living.

Transitional mechanisms allowed the economic and political elites to monopolise power and resources, while simultaneously generating structural distortions in both the economy and the labour market. Catherine Verdery (1996) rightly argues that it is impossible to understand post-socialist transition without recognising that it also entails the reproduction of elite power. The investigative work of journalist Domagoj Margetić (2019) on corruption and organised crime in the former Yugoslav states fully supports Verdery's claim.

Post-Dayton Bosnia and Herzegovina, like other post-socialist societies, found itself in a position during the 1990s in which it was compelled to adopt a market-based economic model. According to Uroš Šuvaković, "*it was not acceptable for the transition to apply to Yugoslavia as a whole, but only to its constituent parts*" (2014, p. 269). This author argues that the aim of the transition—as a process he understands as part of a broader strategy directed against the will of the people in Yugoslavia—was the creation of completely dependent states without real sovereignty. Such states function as the periphery or semi-periphery, not only in economic terms but in every other respect as well. The abandonment of the planned economy affected all segments of Bosnian-Herzegovinian society. Social anomie and economic paralysis following the war required urgent

interventions to ensure the basic functioning of the system and to allow everyday life to continue for the population. However, the response of the political leadership to the pressing need for recovery in a post-conflict society was disheartening and detrimental to citizens. Political elites prioritised wealth and influence over citizens needs. Political decisions regarding privatisation, deindustrialisation, fiscal burdens, and regulatory frameworks were portrayed as inevitable.

As Nancy Fraser (2013) notes, the depoliticisation of economic power typically involves framing political decisions as economic, technical, or market-driven necessities. Fraser further concludes that neoliberal transformation generates structural injustice through economic decisions that are, in fact, deeply political. Even minimal critical reflection reveals that economic decisions are politically driven and entail far-reaching social consequences. In post-Dayton Bosnia and Herzegovina, transitional policy essentially served class interests, privileging the appropriation and concentration of power by political and economic elites at the expense of the broader public.

Like other former post-socialist states, Bosnia and Herzegovina sought to establish a nation-state modelled on 18<sup>th</sup>-century prototypes (Džafić, 2023). Under such conditions, rather than focusing on economic recovery and national prosperity, the post-conflict period in Bosnia and Herzegovina was characterised by competition among political elites over assets that had previously been under social ownership. In the early 1990s, as in other republics of the former Yugoslavia, one of the initial decisions was to declare socially owned property as state property. “Social ownership, according to its name, could be defined as the ownership of the social community — the common property of all members of society, property that does not belong to any individual natural or legal person” (Mujkić, E., 2012, p. 6). Under such circumstances, the post-war period in Bosnia and Herzegovina was marked by a struggle among political elites for control over property that had previously been socially owned. Earlier, during the war (in 1993 and 1994), laws had been adopted that transformed socially owned property into state property, a process that was later transferred to the entity level (Pepić, 2023).

The impending market liberalisation, driven by global centres of power, motivated ethno-political elites to exploit their existing political influence to the detriment of the country's citizens. As a result, foreign investment was obstructed, and monopolies emerged under the control of politically connected capitalists. In Bosnia and Herzegovina, as Džafić (2023) aptly concludes, the free participation of citizens was hindered because political elites held control over economic resources and determined their social distribution (Kutunarić, 1994).

The greed of these elites and their inner circles resulted in widespread impoverishment, deep stratification, and the weakening of social norms. Corruption and a persistent lack of political will to

foster a favourable economic and social environment have given rise to numerous societal challenges, significantly diminishing both the quality of life for citizens and the country's developmental potential. Even three decades after the official end of the conflict, Bosnia and Herzegovina remains far from achieving its pre-war level of economic development.

The negative consequences of deindustrialisation in Bosnia and Herzegovina have further contributed to a dramatic rise in unemployment and the growth of the shadow economy. As most workers were previously employed in industry, the closure of major plants plunged many families into economic despair. In reality, the restructuring of the economy in Bosnia and Herzegovina was never fully realised; rather, it can be argued that economic growth was actively undermined by the political leadership. “In the absence of a real market economy, the main places of employment and the main employers become the political parties in power and the firms under their party-state control” (Kovačević, B., 2018, p. 99).

Politically driven employment has eroded economic efficiency and fostered a bloated, ineffective bureaucracy. As a result, the labour market functions in such a way that those unwilling to play by the unwritten “rules of the game” remain uncompetitive. By 2012, the state had lost over 20 billion convertible marks due to economic inefficiency (Kozić, 2012). There are countless examples of dysfunction within the political system, with corruption being among the most prominent. Regardless of which party holds power, ethnopolitics in the post-Dayton state has become strongly correlated with corruption (Džafić and Žiga, 2023). An economic order in which business actors aligned with political elites enjoy privileged treatment has had a detrimental impact on the broader economy.

The business environment in Bosnia and Herzegovina neither attracts foreign investment nor stimulates individual entrepreneurial initiative. “According to the Global Competitiveness Index for the period 2017–2018, Bosnia and Herzegovina ranked 92nd out of 141 countries” (UNFPA, 2019, p. 37). The country’s uncompetitive market, its weakened economy, and the enduring lack of political will to improve citizens’ living standards have all had a profound effect on the quality of life. In 2016, Bosnia and Herzegovina was ranked as the fifth poorest country in Europe (Kovačević, 2018).

Ultimately, the consequences of economic transition in Bosnia and Herzegovina have significantly shaped the country’s demographic profile. The average age at which women give birth has increased, birth rates are in decline, fewer marriages are being formed, and unemployment remains persistently high—particularly among young people. At the same time, the family model has undergone transformation: the meaning of family increasingly reflects partnership rather than

procreation (Bobić, 2003). In addition, there has been a noticeable rise in single-parent families, separated households, and families without children (Draganović, 2016).

The negative natural population growth and lack of motivation for parenthood in Bosnia and Herzegovina are direct consequences of the country's unfavourable economic situation. Over half a million people live below the poverty line, with poverty being particularly prevalent among the elderly, children, and the rural population (UNFPA, 2019). In the long term, the declining number of women of reproductive age is expected to have a negative impact on the country's ability to improve birth rates (UNFPA, 2019). Negative birth rates and continued emigration have been consistently accompanied by an increase in the proportion of the elderly population. Average wages are insufficient to cover even half of monthly living costs, while inadequate pensions often leave elderly individuals without essential support. Social inclusion of the elderly and other vulnerable groups is virtually nonexistent. Bosnia and Herzegovina allocates only two-thirds of the EU average (as a percentage of GDP) to social protection—less than other Western Balkan countries (International Labour Organization, 2022).

Economic transition in Bosnia and Herzegovina has produced lasting structural harm across society. The restructuring of the economy was never fully or adequately implemented in a way that would bring about the intended positive outcomes of transition. Market competition in Bosnia and Herzegovina is distorted; the past is nationalised, collapse is repeated, and the standard of living—as well as the overall quality of life for the majority of the population—reflects a reality of long-term neglect.

## **2.1. Privatisation**

Privatisation is a term that carries overwhelmingly negative connotations for much of the population of Bosnia and Herzegovina, as well as for citizens of neighbouring countries. Successful cases of privatisation in Bosnia and Herzegovina are exceptions rather than the rule. Viewed through the theoretical lens of David Harvey (2014), privatisation in Bosnia and Herzegovina exemplifies capital accumulation through the expropriation of state property. Harvey argues that the transformation of social and state-owned property into private ownership is not a result of market rationality, but rather a politically instrumentalised process of capital redistribution. According to Harvey (2014), the process of economic liberalisation serves to entrench oligarchic structures. His insights suggest that the destructive social impacts of economic reforms are not unintended side effects but rather integral features of the neoliberal project. In this context, Bosnia and Herzegovina

may be seen as a striking example of widespread disenfranchisement of citizens and the consolidation of oligarchic power, resulting in pronounced class polarisation within society.

The success in consolidating the economic power of clientelist circles in Bosnia and Herzegovina can, in part, be linked to narrative and discursive maneuvers associated with the depoliticization of key social issues. In line with Nancy Fraser's theoretical approach, privatization is not presented merely as a structural or functional matter, but as a strategic discourse aimed at framing privatization—and all of its negative consequences—as an unavoidable necessity. Factory closures are therefore portrayed as the result of necessary market reforms, while social insecurity and the decline in living standards are framed as systemic failures and as inherited problems from the previous system.

Specifically in the context of Bosnia and Herzegovina, the suffering of citizens and workers was not depoliticized in the way Fraser describes in her concept of discursive normalization of injustice. Instead, injustice was politicized, and in this way presented as part of a broader, global neoliberal process which was used to justify the beginning of the country's economic transition. As a result, the negative consequences of transition were not hidden or denied, but rather framed in public discourse and academic literature as inevitable outcomes of altered global political and economic circumstances that directly affected the local level.

Although economic and business-related matters are primarily within the jurisdiction of the entities under the Constitution of Bosnia and Herzegovina, the state also holds certain assets and has ownership rights at the state level. Accordingly, the process of privatization has been regulated separately in each administrative unit. In the Republika Srpska, privatization was initially governed by the Law on Privatization of State Capital in Enterprises from 1998, and later by the 2006 law of the same name. In the Brčko District of BiH, the process is regulated by the Law on Privatization of Enterprises of the Brčko District. In the Federation of Bosnia and Herzegovina, it is governed by the Law on Privatization of Enterprises.

Most of the privatization process has already been completed. What remains under public ownership primarily includes enterprises of strategic importance, residual state capital in partially privatized companies, and assets recorded in the passive sub-balance sheets of privatized enterprises. The essence of the aforementioned laws lies in the formal possibility granted to citizens to purchase property, yet the actual economic conditions necessary for realizing that right were largely absent. In Bosnia and Herzegovina, social and state revenues have been concentrated within narrow clientelist circles and in the hands of the political-economic elite. On one hand, there were buyers who profited from the destruction of enterprises, while on the other, workers were left without jobs, material

security, or unpaid wages. This pattern is also reflected in the observations of Guy Standing (2014), who notes that stable employment has been replaced by insecure, informal, and temporary forms of work. In other words, the destruction of the economy in Bosnia and Herzegovina—through the misuse of privatisation—has led to the creation of the precariat. In this context, one can speak of a pronounced class polarization in society, in which a wealthy and influential ruling elite stands in opposition to the broad mass of impoverished and disenfranchised citizens (Šavija, 2015).

The conditions created as a direct consequence of the non-transparent privatisation process have facilitated the growth of the informal economy in the country. The privatisation conducted as part of the economic restructuring plan was exploited by legitimate representatives of ethnic groups to the detriment of the ethnicities they represent. The privatisation model in post-Dayton Bosnia and Herzegovina was “legalised by the war and its consequences” (Fočo, 2005, p. 85). *By imposing privatisation as part of the framework for the reconstruction and rebuilding of the war-devastated economy in Bosnia and Herzegovina, international actors thus supported the continuation of war policies aimed at appropriating capital by ethnonational elites* (Pepić, 2022, pp. 180–181).

Ethnonational elites used the transition process to stabilise their own power. Domagoj Marjetić, in his research on the flow of money related to economic and privatisation scandals, as well as criminal activities, finds evidence of the involvement of political elites from the former Yugoslav states. Most of the large capital in the country originates from the war economy and continues to operate post-conflict under the cover of privatisation (Marjetić, 2019). Numerous pieces of evidence regarding the exploitation of transitional processes for the appropriation of capital and its relocation to offshore accounts indicate that ethnonational elites cooperated in creating economic networks and extracting capital. Boards and managers close to political elites were installed in enterprises, leading them to bankruptcy and collapse. This practice aligns with Klaus Offe’s findings. Offe (1996) discusses hybrid transition regimes—societies in which the transition has not been successfully completed, where democratic and market reforms primarily benefit the interests of political elites and oligarchic circles close to them (Transparency International Bosna i Hercegovina, 2009b).

Thomas Piketty (2015), like Klaus Offe, emphasises that an unregulated capitalist framework leads to the rapid concentration of wealth within narrow clientelist circles, which exacerbates structural inequalities. In Bosnia and Herzegovina, political decisions and connections have created a privileged class of owners of capital accumulated through non-transparent means. This has widened the gap between rich and poor and closely aligns with Piketty’s analysis of redistributive injustice in neoliberal systems. However, unlike Piketty’s identification of the problem within the neoliberal framework itself, it is important to highlight that, in the context of post-Dayton Bosnia and

Herzegovina, the key issue is the inconsistent, selective, and exclusive model of establishing a neoliberal market system. In Bosnia and Herzegovina, it functions only nominally, as genuine free competition and independent market regulatory mechanisms do not truly exist. The dysfunctionality of the system in the country is partly due to the absence of a healthy foundation for establishing meritocracy. Citizens are bearing the costs of this dysfunction. Thousands of workers in the post-conflict period, due to job losses, have been left without pension and disability insurance contributions being paid, with the resulting losses compensated from the state budget. The irresponsible actions of the authorities stand as clear evidence of their disregard for the citizens and society at large.

Piketty observed that the pattern of wealth concentration is historically persistent, and he identifies it, for example, during the French Belle Époque. “At the time, Paris had about one-twentieth of France’s population but possessed a quarter of the country’s wealth” (Piketty, 2015, p. 366). Inequality continued to grow over the decades, reaching drastic proportions in the contemporary context.

Piketty identifies the political factor as a decisive element in enabling the concentration of wealth within narrow clientelist structures. The transition has proven to be an extremely effective mechanism for concentrating wealth in the hands of a few. The case of Bosnia and Herzegovina represents an extreme example of this phenomenon: wealth has been concentrated in the hands of a clientelist elite. The result is deep social polarization, the elimination of the middle class, and the establishment of permanent structural inequality, which does not support the rule of law but, quite the opposite, reinforces principles of domination.

In the post-conflict period, social and class inequalities were compounded by existing ethnonational divisions (Šavija, 2015). The privatisation process in Bosnia and Herzegovina not only fails to meet basic requirements but has also left far-reaching consequences on the functioning of society as a whole. Instead of the expected increase in efficiency and competitiveness, the Bosnian economy is characterised by non-competitiveness, lack of transparency, the privileging of economic actors close to the authorities, and a low level of trust in institutions. The established order continues to stifle social activism and economic initiative among citizens. For example, “in 2017—22 years after the end of the armed conflict in Bosnia and Herzegovina—264 bankruptcy procedures and 740 liquidation procedures were initiated” (Kovačević, 2018, p. 38). By 2020, a total of 727 companies were privatized in Republika Srpska, and 1,088 in the Federation of Bosnia and Herzegovina, making a total of 1,815 companies (Pepić, 2023, p. 568). The problematic privatisation model in Bosnia and Herzegovina has blocked economic development. The economic dimension of the transition has

affected all aspects of the lives of the Bosnian population. Privatisation has become one of the key mechanisms for generating structural inequality and a political instrument for the distribution of power and capital.

In order to define and implement a reform framework that would mitigate and limit the consequences of the incomplete economic transition in Bosnia and Herzegovina, it is essential to confront the underlying systemic problems. The economic system in Bosnia and Herzegovina must be depoliticised. Political appointments and the employment of party affiliates in public companies, institutions, and regulatory bodies must be halted. The judiciary must be freed from political influence so that justice can be administered without obstruction. This will enable the effective sanctioning of corrupt and other actions detrimental to the public interest. It is essential to rationalise expenditure on excessive administration in state and state-affiliated institutions, while simultaneously increasing funding for education, science, culture, and healthcare. Furthermore, it is necessary for citizens to recognise the need to establish strong, independent trade unions through which they can improve their bargaining position. Initiating these processes would act as a catalyst for decisive and positive systemic change. Ignoring or delaying the depoliticisation of the economic system and judicial reforms will render the system in Bosnia and Herzegovina increasingly dysfunctional, making life even more difficult for its citizens.

## **2.2. Deindustrialisation**

Before the war, industry was the backbone of the Bosnian economy. "In 1961, 54.3% of all workers were employed in industry, 58.4% in 1981, and by 2000, 35.2% of the total employed in Bosnia and Herzegovina were in industry" (Nurkanović, 2007, p. 358). In the post-conflict period, damaged industrial infrastructure, disrupted supply chains, market uncompetitiveness, and outdated technology put the survival of industrial production in question. In the country, as in other Western Balkan states, significant foreign investment was necessary for the process of reindustrialisation (Miljković, 2020). The lack of foreign investment, combined with technological backwardness, has called into question the self-sustainability of enterprises. It is important to emphasise that the genuine willingness of the political elites in the country to attract foreign investment is also questionable. Oligarchic structures operated beyond institutional control, using the institutional framework for orchestrated, agreed-upon looting (Margetić, 2019). Formally, the key reasons for Bosnia and Herzegovina's unpopularity among foreign investors are political instability and the complexity of the administrative structure. However, numerous internal factors also contribute to this unpopularity, including corruption at all levels of society.

The process of restructuring the Bosnian economy most significantly affected the industrial sector (Miljković, 2020). The deindustrialisation process reduced the country's export potential and increased poverty among the population. Deindustrialisation is directly linked to non-transparent privatisation. By focusing on the development of small and medium-sized enterprises, the state became an exporter of raw materials, similar to other deindustrialised countries (Kovačević, B., 2018). The new owners of Bosnian enterprises, which had previously been the driving force behind economic development, either lacked the intent or the knowledge to revive industrial production. Instead, the newly minted owners sought to liquidate assets as quickly as possible for profit (Fočo, 2005). According to analyses of post-transition economies (Bohle and Greskovits, 2012), deindustrialisation in Eastern Europe is a consequence of systemic integration into the global economy, but in such a way that societies from the region operate as a periphery. From this perspective, deindustrialisation in Bosnia and Herzegovina is also a result of broader economic peripheralisation and the colonisation of capital.

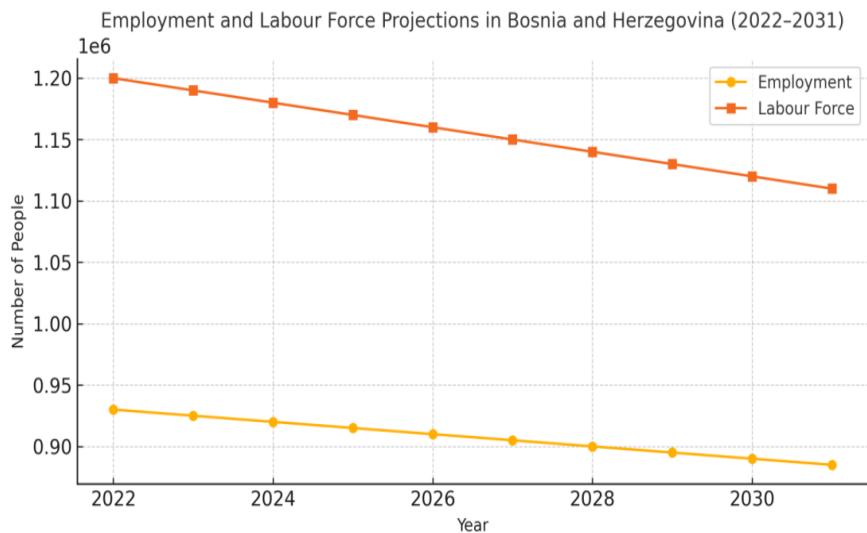
Neglecting the social consequences of the destruction of the country's industrial capacity led to an economic and social crisis within the system. The mass of disenfranchised, unemployed, and neglected citizens often had to work informally for the very employers responsible for their predicament. These workers were deprived of basic social benefits and received wages insufficient to cover fundamental living costs. This process, in the context of deindustrialisation as part of the transition in Bosnia and Herzegovina, confirms David Harvey's (2014) observation that neoliberal privatisation is a form of restoring class power. Public resources are transferred into narrow clientelist-political frameworks, while the resultant damage is compensated from the citizens' budgets. According to Miljković (2020), the economic crisis in the Western Balkan countries, caused by the deindustrialisation process, represents a persistent social crisis with no end currently in sight.

According to the Agency for Statistics of Bosnia and Herzegovina (2025), the majority of employed persons worked in the service sector (59.8%), followed by industry and construction (32.2%), while the smallest share was in agriculture, forestry, and fishing (7%). Although the share of industrial employment in 2025 is only slightly lower compared to the year 2000—especially considering the overall population decline—available data suggest that the industrial sector has not recovered. The dominance of employment in service activities potentially points to structural weaknesses in the labour market, as service jobs are often lower-paid and more precarious.

### **2.3. Unemployment**

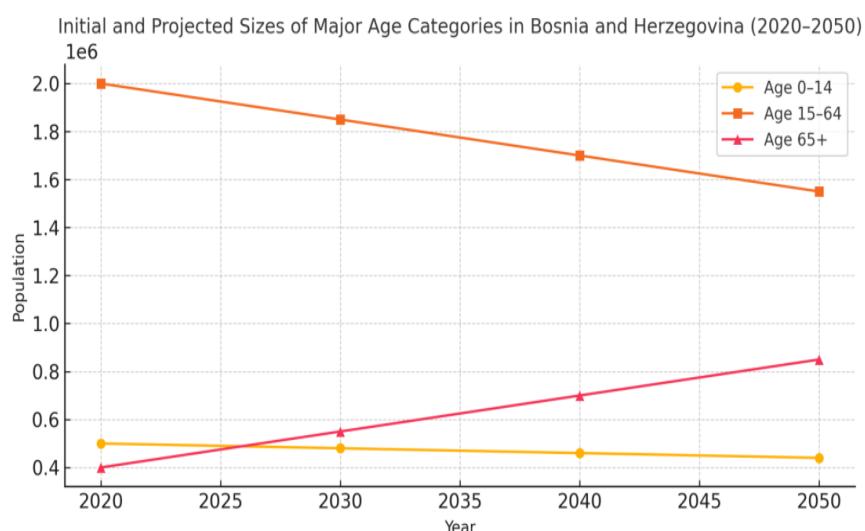
The labour force in Bosnia and Herzegovina continued to grow until 1991 (UNFPA, 2019). However, in the post-Dayton state, this trend has consistently declined. The main reasons for the reduction in the labour force are negative natural population growth and emigration. Nearly two-thirds of young people are unemployed, with little prospect of securing employment in the near future (Kovačević, 2018). The inability to find work is one of the primary factors motivating young people to leave the country. Even more acute is the difficulty young people face in finding adequate employment matching their qualifications and individual needs. The unemployment rate among young people aged 15 to 24 was 63.10% in 2012, and as many as 58.5% had been searching for work for over a year (Hadžimahmutović and Martić, 2013). In the first quarter of 2025, the labor force in Bosnia and Herzegovina was approximately 1.4 million people, with 86.6% employed and 13.4% unemployed (Agency for Statistics of Bosnia and Herzegovina, 2025). The number of people outside the labor force was about 1.47 million, marking a 1.4% increase. The activity rate was 48.7%, while the employment rate stood at 42.2%. Long-term unemployment, defined as unemployment lasting more than 12 months, remains very high—around 86% of all unemployed—especially among those with lower education levels (over 90%), while it is lower among those with tertiary education (around 69%). The high prevalence of long-term unemployment is particularly symptomatic. It can be assumed that a portion of these individuals engage in informal work or take on seasonal jobs abroad.

Due to the inability to find employment, young people most often leave the country in search of a better life. Economic migration reduces the domestic labour force and creates a demographically unfavourable situation that calls into question the very possibility of economic recovery. “Mass emigration flows in the 1990s have turned into persistent flows of economic migrants seeking better employment and educational opportunities in developed countries” (UNFPA, 2019, p. 19). Economic emigration also contributes to the ageing population. High unemployment has directly impacted the number of working-age people and the unfavourable ratio between workers and pensioners. “From 2006 to 2017, the total number of working-age people decreased by 13% in the Republic of Srpska, with an especially alarming inactivity rate (the share of inactive and unemployed people within the working-age population) reaching 63% in 2017” (UUPRS, 2019, p. 8). The situation in the Federation of Bosnia and Herzegovina reflects that of the Republic of Srpska. According to projections (UNFPA, 2022), the workforce in Bosnia and Herzegovina will decrease by nearly one hundred thousand people by 2031.

**Figure 1. Employment and labour force projections in Bosnia and Herzegovina, 2022–2031**

Source: UNFPA (2022)

Negative natural population growth and economic emigration will continue to influence the ageing of the population. According to UNFPA projections (2022), over the next thirty years, the number of children and adolescents in Bosnia and Herzegovina will be nearly halved. In contrast, the number of elderly people will increase by over 200,000 during the same period. By 2070, 42% of the population in Bosnia and Herzegovina will be elderly. Unemployment is closely tied to demographic ageing, contributing to declining marriage and birth rates.

**Figure 2. Initial and projected sizes of major age categories, 2020–2050.**

Source: UNFPA (2022).

## 2. 4. The Shadow Economy

The expansion of the shadow economy in Bosnia and Herzegovina is primarily a consequence of actions taken by authorities at all levels. Political decisions concerning the economy and industry have led to profoundly negative social effects, which have encouraged informal labour. Privatization in Croatia led to an increase in unemployment and forced people to self-organize (Malenica, 2007). A portion of unemployed Bosnian-Herzegovinian citizens, like those in neighboring countries, engaged in informal economy work, seasonal work abroad, or permanently emigrated. Research on the shadow economy in Bosnia and Herzegovina has shown that the informal economy accounted for more than 50% of the country's Gross Domestic Product (Tomaš, 2010). According to Piljić (2021), the deeper causes of the shadow economy stem from the economic system itself. Weak enforcement of laws, a lack of adequate mechanisms to combat the shadow economy, and an absence of political will to stimulate formal economic activity have resulted in annual losses amounting to billions of convertible marks for the state.

A significant factor contributing to rising unemployment is the extraction of capital from the country. Capital extracted through privatisation has never been reinvested into the domestic economy, a trend which also applies to neighbouring countries—Serbia, Croatia, Montenegro (Margetić, 2019). The primary beneficiaries of the shadow economy are the employers themselves, whilst workers suffer the most (Šarić, 2013). The nexus between crime and politics in post-Dayton Bosnia and Herzegovina is one of the reasons for the absence of concrete, effective measures to combat the shadow economy and stimulate formal employment. The authorities profit the most from the shadow economy, establishing a corrupt chain through illegal taxation and extortion (Tomaš, 2010).

Irresponsible actions by the authorities often render formal economic activity unprofitable for citizens. Corruption hinders social mobility and reduces opportunities for legitimate profit. At the same time, the poorest bear the brunt of corruption. The consequences of corruption are always most severely felt by honest people.

Unemployment and poverty play a particularly important role in fostering the shadow economy. In Bosnia and Herzegovina, approximately 900,000 people live below the poverty line (Kovačević, 2018). Given that the country had a population of 3.5 million according to the 2013 census, and that hundreds of thousands have since emigrated, it is likely that over one-third of the population currently lives below the poverty line. Poverty in Bosnia and Herzegovina is a major obstacle to limiting the shadow economy, and the state's efforts to address this issue are not focused on creating a more favourable business environment.

High income taxes are one of the factors contributing to the impoverishment of workers. Citizens of Bosnia and Herzegovina can afford only 38% of the products and services in the average European consumer basket, while also paying more for food than citizens of the European Union (Kovačević, 2018). High tax burdens incentivise of-the-books payments, with many workers registered only for the minimum wage. In Bosnia and Herzegovina, more than 35% of active workers in the shadow economy are reported as earning the minimum wage (SELDI, 2016). However, it should be emphasised that the exact scale of the informal economy in the country cannot be precisely determined. According to the *Employment Policy Review of Bosnia and Herzegovina* (ILO and Council of Europe, 2007–2008), only around one in five individuals who were unemployed in 2001 found formal employment within three years, while most transitioned into the informal labour market (p. 6). An analysis from 2008 revealed that “almost 290,000 people were employed in the shadow economy sector, of whom 80% were formally unemployed individuals” (Tomaš, 2010, p. 71). Informal labour is particularly prevalent in agriculture (around 30%) and in occupations performed by unskilled workers (UNFPA, 2019). Informal labour in agriculture is partly driven by the negative consequences of trade liberalisation. Farmers, burdened by taxes, cannot compete with imported products, so part of their income remains undeclared. This social policy has, to some extent, been imposed on companies as a form of business operation (Tomaš, 2010). Although it is clear that reducing income taxes would lead to an increase in the number of taxed salaries and have a positive impact on the socio-economic status of the population, the authorities have not withdrawn from the established tax levels.

The process of economic transition did not result in recovery, restructuring, or diversification of the economy. Instrumentalised institutions and the absence of self-correcting mechanisms in the system allowed the exploitation of the transition process for enrichment, the stabilisation of power, and the establishment of monopolies over the market and economy. This has demotivated foreign investment and citizens’ initiatives in both economic and wider socially contributive terms. The economic consequences of the incomplete transition in Bosnia and Herzegovina are the root causes of numerous social and demographic problems.

As a step towards addressing the issue of the shadow economy, it is recommended to simplify the tax system and reduce parafiscal charges (Efendić and Pugh, 2018). Some of the proposed economic development measures also include aligning the education system with labour market needs (ILO, 2022; OECD, 2022), youth employment programmes and retraining initiatives (UNFPA, 2024), accelerating the digitalisation of administrative services, public sector reform (ILO, 2022),

investment in transport, energy, and digital infrastructure to reduce regional inequalities (World Bank, 2024), and the digitalisation of the economy (OECD, 2024a).

Recommendations related to institutional and political reforms include, among other things, anti-corruption measures, increasing transparency, strengthening the institutional framework (Tomaš, 2010; Šiljak and Nielsen, 2022), and simplifying bureaucratic procedures (IMF, 2022; World Bank, 2024). The OECD (2024b) Report on the Competitiveness of the Western Balkans, based on identified weaknesses in areas such as digital transformation, education, and tourism, recommended the establishment of independent bodies to combat corruption with real executive powers, as well as the adoption of binding norms to prevent conflicts of interest and laws regarding the origin of assets.

## Conclusions

Post-Dayton Bosnia and Herzegovina faces numerous challenges, many of which are closely linked to the process of economic transition. The analysis conducted in this paper points to deep and long-lasting structural consequences of transition in the country. Privatisation, deindustrialisation, unemployment and the expansion of the informal economy, as mutually connected processes, have generated effects that have irreversibly shaped society. Politically instrumentalised privatisation enabled clientelism and weakened the country's economic potential, while the closure of industrial enterprises left a large number of workers unemployed. Rising unemployment increased poverty, which in turn created space for the growth of the informal economy. Deprived of labour and social rights, citizens have often been compelled to work for the very actors responsible for their economic marginalisation.

The study highlights the decisive influence of political structures on the direction and character of economic reforms. Key aspects of transition were used as instruments of political consolidation. In the context of the social implications of instrumentalised transition in Bosnia and Herzegovina, economic polarisation stands out in particular, having had a markedly negative impact on demographic indicators. The lack of economic competitiveness and widespread social insecurity are direct consequences of a non-transparent privatisation process, which generated a series of additional adverse economic developments. The consequences of these processes are evident today in mass emigration and low natural population growth, that is, in depopulation which will, in the future, pose additional challenges to economic recovery.

It is necessary to emphasise that this study also has several limitations. First, the analysis relies on secondary sources. Second, the focus of the paper is on Bosnia and Herzegovina, while

comparisons with other countries were used solely to identify similar patterns of transition; similarities and differences between countries were not analysed systematically and thus represent a potential avenue for future research. Third, the interconnectedness of privatisation and deindustrialisation with rising unemployment and the expansion of the informal economy allows for the mapping of the basic characteristics of the mechanism of instrumentalised transition, but leaves out other important dimensions of the transitional process, such as fiscal policy, migration, broader institutional development and education reform.

The general conclusion points to the need for the depoliticisation of economic institutions and for strengthening the system's self-corrective mechanisms. The analysis indicates the necessity of a more transparent regulatory framework that would reduce barriers to investment and encourage innovation and competitiveness. Ignoring or postponing the depoliticisation of the economic system will make the system in Bosnia and Herzegovina increasingly dysfunctional, further worsening the living conditions of its citizens. Measures that would represent a genuine step forward — such as reducing parafiscal charges and simplifying the tax system — are still lacking, and the authorities do not consider them with sufficient seriousness. A dignified standard of living requires labour market reform, improved social protection and the restoration of trust in public institutions, all of which are inconceivable without consistent rule of law.

Based on this study, it is possible to identify several directions for future research that could enrich and further verify knowledge about the specificities of economic transition in Bosnia and Herzegovina, as well as broader patterns of transition in post-socialist societies. Future research could focus on comparative regional analyses, sectoral effects of transition and the examination of reindustrialisation potential. There is also significant scope for studies aimed at identifying systemic solutions for reducing the informal economy, as well as for analysing the role and position of trade unions in the process of economic transition. Particular value would be provided by empirical research on informal work, the experiences of workers in privatised enterprises and the situation of former workers following restructuring.

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