D. Tavželj (2025)
Public Enterprise
Volume *29*(2), 2025

International Center for Promotion of Enterprises
ICPE

Bosnia and Herzegovina in Regional Economic Integration: Outlook, Constraints and Cooperation Prospects

Abstract

This article examines Bosnia and Herzegovina's position in regional economic integration, with particular attention to its macroeconomic outlook, structural constraints, and prospects for deeper business cooperation. It argues that Bosnia and Herzegovina should be understood neither through a narrowly promotional narrative of untapped opportunity nor through an overly deterministic reading centred on political and administrative fragmentation. Rather, the country occupies an intermediate position. It has a diversified industrial base, a sustained export orientation, proximity to the European Union market, and credible scope for near-shoring, technical cooperation, and selective investment upgrading. Yet these opportunities remain conditional on institutional reform, simplification of the business environment, better labour-force retention and skills adaptation, and a more decisive response to the decarbonisation pressures increasingly tied to access to the European market. Drawing on recent policy literature and selected academic contributions, the article concludes that Bosnia and Herzegovina's future role in regional economic integration will depend less on identifying entirely new comparative advantages than on improving the coherence, competitiveness, and sustainability of the productive capabilities it already possesses.

Keywords: Bosnia and Herzegovina, regional economic integration, business environment, near-shoring, European Union

1. Introduction

Bosnia and Herzegovina occupies a distinctive position within the political economy of South-East Europe. It is a small open economy with an industrial legacy that still matters, a high degree of trade dependence, and a geographical position that places it in close relation to the European Union market and to neighbouring Western Balkan economies. At the same time, it is a country whose economic prospects are routinely interpreted through the lens of political complexity, slow reform, and institutional fragmentation. These factors are significant and cannot be dismissed. Yet an exclusive focus on them can obscure an equally important fact: Bosnia and Herzegovina remains economically relevant because it continues to combine productive capability, cross-border trade integration, and a degree of export specialisation that gives it more strategic significance than is often assumed (European Commission, 2024; International Monetary Fund (IMF), 2025; World Bank, 2025b).

This paper argues that Bosnia and Herzegovina's economic potential should neither be overstated in promotional terms nor discounted because of its institutional weaknesses. The more useful question is how the country's existing economic assets may be translated into more resilient and sophisticated forms of regional integration. In this context, regional integration should not be reduced to formal market access or geographical proximity. It is better understood as a process involving participation in value chains, regulatory approximation, movement towards European standards, sectoral upgrading, and the capacity of firms to operate across administrative and national boundaries with lower transaction costs (IMF, 2019; OECD, 2025).

The research seeks to synthesise recent institutional and academic literature in order to clarify the main factors shaping Bosnia and Herzegovina's regional economic trajectory. Its central claim is that the country possesses genuine cooperation potential based on industrial breadth, export experience, and proximity to EU-centred production networks, but that this potential remains conditional on four interrelated factors: the reduction of internal market fragmentation, improved business-operating conditions, a more strategic response to labour and skills constraints, and adaptation to the green-transition pressures increasingly tied to European market access (Brkić, 2019; European Commission, 2024; OECD, 2022; World Bank, 2024).

2. Bosnia and Herzegovina's Position in Regional Economic Integration

Regional economic integration in the Western Balkans is often discussed in the language of accession, free trade, and harmonisation. These are necessary dimensions, but they do not fully capture the issue at hand. For Bosnia and Herzegovina, the practical content of integration lies in the interaction between formal frameworks and productive realities. The country is already integrated into the region and into the wider European economy through trade flows, production linkages, labour mobility, financial exposure, and regulatory conditionality. The more difficult question concerns the depth and quality of that integration (European Commission, 2024; IMF, 2019).

A useful distinction may be drawn between shallow and deep integration. Shallow integration refers to tariff reduction and basic market opening. Deep integration refers to the wider set of conditions that allow firms to participate more fully in cross-border economic activity, including regulatory consistency, customs and logistics performance, certification and standards alignment, dispute resolution, access to finance, and labour-market adaptability. Bosnia and Herzegovina has made progress on the former, but remains constrained on the latter. This helps explain why its economy can appear outwardly connected while still underperforming relative to its structural possibilities (IMF, 2019; OECD, 2025).

The macroeconomic literature points to the same conclusion. Bosnia and Herzegovina has maintained a significant degree of macroeconomic stability through its currency board arrangement, prudent debt dynamics over much of the post-crisis period, and relatively strong reserve coverage. Yet macroeconomic stability has not been matched by rapid convergence. Growth has remained positive but moderate, and the pace of convergence with the EU has been slow. The central bottleneck is therefore not stabilisation as such, but structural transformation. Increasingly, Bosnia and Herzegovina's development problem is one of economic quality rather than simple economic continuity (IMF, 2025; World Bank, 2025a, 2025b).

From this perspective, regional integration is both an opportunity and a disciplining framework. Closer integration with the EU and neighbouring markets can support investment, export diversification, technology transfer, and economies of scale. At the same time, it exposes firms and public authorities to more demanding standards of competitiveness, compliance, and environmental adjustment. The key issue is therefore not whether Bosnia and Herzegovina is connected to the regional and European economy, because it clearly is. The issue is whether it can deepen that connection under more demanding competitive and regulatory conditions (European Commission, 2024; World Bank, 2024; wiiw, 2024).

3. Macroeconomic Outlook and Trade Integration

Recent macroeconomic assessments present a mixed but broadly coherent picture. Bosnia and Herzegovina continues to display economic resilience, but not at a pace sufficient for faster convergence. IMF projections suggest growth of 2.4 per cent in 2025, with a return to around 3 per cent over the medium term, while inflation has shown renewed upward pressure after the sharp disinflation of 2024. The World Bank likewise points to a slowdown in industrial activity, particularly in manufacturing, alongside moderate growth and revived inflationary pressures. These assessments suggest an economy that remains functional and externally connected, but vulnerable to weaker external demand, domestic political uncertainty, and persistent structural bottlenecks (IMF, 2025; World Bank, 2025a, 2025b).

This moderate outlook matters because Bosnia and Herzegovina's growth model remains highly exposed to the external environment. Trade openness and dependence on European demand mean that external slowdowns are transmitted quickly into industrial performance. At the same time, the domestic market is too small to provide a sufficiently robust basis for sustained growth on its own. This reinforces a wider point made in the literature on small transition and post-transition economies: durable convergence is more likely where domestic reforms enhance the capacity of firms to compete in larger external markets than where growth depends primarily on internal consumption and public expenditure (IMF, 2019; World Bank, 2025b).

Bosnia and Herzegovina's trade structure supports the argument that the country remains relevant as a productive economy rather than merely a consumption market. Its exports are not concentrated in a single dominant commodity, nor are they confined entirely to low-complexity segments. Metals, machinery, electrical equipment, wood processing, furniture, chemicals, and agro-food products all play visible roles. This diversification matters because it points to accumulated industrial capabilities, supplier networks, and export know-how. It also means that regional integration is not simply a matter of selling more goods abroad, but of upgrading what is produced, how it is certified, and where it is positioned within wider value chains (Brkić, 2019; European Commission, 2024; IMF, 2019).

The trade geography is equally significant. The European Union remains the central external reference point, both as a market and as a regulatory anchor. Neighbouring economies remain highly relevant as well, whether through CEFTA-based trade, inherited industrial linkages, or the practical logic of transport and subcontracting. In this setting, Bosnia and Herzegovina's economic future is likely to depend on a dual orientation: maintaining and expanding links with nearby markets while deepening integration into EU-facing production systems (Brkić, 2019; European Commission, 2024; wiiw, 2024).

This is where recent discussion of near-shoring becomes analytically useful. Renewed interest in production closer to the EU market, particularly after the pandemic and amid geopolitical tensions, has created openings for the Western Balkans. The evidence for Bosnia and Herzegovina is more modest than for some peers, but recent research does identify a possible near-shoring effect in the post-2020 period. Even where the scale remains limited, the broader implication is important. Bosnia and Herzegovina's location, industrial tradition, and export orientation make it a plausible site for selective production relocation, supplier integration, and technical cooperation with firms seeking lower logistical risk and closer alignment with EU demand (wiiw, 2024).

Near-shoring, however, should not be romanticised. Relocation decisions depend not only on geography and labour costs, but also on legal certainty, certification, licensing, labour availability, energy reliability, and digital and physical infrastructure. Bosnia and Herzegovina can therefore benefit from this trend only to the extent that it reduces the frictions that currently make nationwide business operation cumbersome (European Commission, 2024; OECD, 2025; wiiw, 2024).

4. Structural Constraints to Deeper Integration

The principal obstacle to Bosnia and Herzegovina's fuller regional economic integration lies not in the absence of productive activity, but in the fragmented conditions under which that activity must be organised. The European Commission has repeatedly noted that the country's business environment suffers from a fragmented internal market and weak rule-of-law conditions. This formulation is useful because it captures the problem with precision. The issue is not simply that reform is incomplete. It is that the country's own internal economic space still imposes costs and duplications that undermine nationwide operations and weaken its attractiveness as a coherent business environment (European Commission, 2024).

This fragmentation is especially visible in business registration, licensing, certification, and digital interoperability. Recent OECD analysis shows that lengthy and sometimes costly procedures, combined with the lack of mutual recognition of licences and certificates, continue to prevent firms from operating smoothly throughout the country. In practice, companies may still face repeated administrative procedures when crossing entity lines, while incomplete digitalisation and fragmented electronic-signature arrangements add further transaction costs. These are not marginal inconveniences. They go directly to the feasibility of scaling business activity, especially for smaller firms and for investors seeking operational clarity (OECD, 2025).

A second major constraint concerns labour. Bosnia and Herzegovina is affected by large-scale emigration, demographic decline, and persistent skills mismatches, all of which carry consequences for competitiveness. The issue is not merely that labour is leaving, but that labour scarcity is increasingly interacting with weaknesses in education and training systems. OECD work on labour migration in the Western Balkans shows that emigration can intensify labour-market distortions and skills shortages, thereby discouraging investment where firms cannot secure the workforce they need. More recent OECD work on Bosnia and Herzegovina's reform agenda adds that skills anticipation remains weak, that digital and green skills are insufficiently embedded in vocational systems, and that institutional mechanisms for matching education with labour-market demand remain underdeveloped (OECD, 2022, 2025).

This matters because modern cross-border cooperation increasingly depends on reliable human capital. Near-shoring, supplier integration, technical subcontracting, and industrial upgrading all require more than cost advantages. They require workers capable of operating within tighter standards, more digitalised processes, and greener production systems. In this respect, Bosnia and Herzegovina's labour challenge is not peripheral to regional integration. It is one of its main conditions (OECD, 2022, 2025; wiiw, 2024).

A third constraint concerns institutional credibility and investment conditions. Recent academic work on foreign direct investment in Bosnia and Herzegovina confirms the wider international finding that institutions matter for investment attraction. While the precise statistical effects of particular governance indicators may vary, the broader conclusion remains persuasive: regulatory unpredictability, weak enforcement, and uneven administrative quality undermine the country's ability to convert formal openness into sustained investment inflows. This is particularly relevant for manufacturing and service activities that require medium-term certainty rather than short-term market access alone (Babajić & Baraković-Nurikić, 2024; European Commission, 2024).

Finally, Bosnia and Herzegovina faces a deeper structural challenge linked to decarbonisation and the EU's Carbon Border Adjustment Mechanism. This issue should be treated as a core economic variable rather than as a separate environmental theme. Bosnia and Herzegovina's export profile includes emissions-intensive sectors, and its energy system remains heavily shaped by coal. The World Bank notes that the country has one of the highest shares of CBAM-applicable goods in its exports to the EU, and that the affected sectors are significant in terms of output, employment, and export performance. Adaptation to the green transition is therefore no longer optional. It is a condition of preserving external competitiveness (World Bank, 2024; wiiw, 2024).

The adjustment challenge is complex. Coal remains economically and socially embedded in parts of the country, while private participation in renewable energy still faces technical, regulatory, and institutional barriers. Yet the same transition also opens opportunities. Decarbonisation can support technological upgrading, attract new forms of investment, and reorient development in affected regions if accompanied by credible policy, infrastructure, and skills support. For Bosnia and Herzegovina, green transition is simultaneously a competitiveness issue, an industrial-policy question, and a regional-integration imperative (World Bank, 2024; wiiw, 2024).

5. Sectoral and Bilateral Cooperation Prospects

If Bosnia and Herzegovina's constraints are substantial, so too are its sectoral opportunities. The most plausible areas for stronger cooperation are not necessarily those associated with generic investor marketing, but those where industrial capability, market demand, and regional logic already intersect. Manufacturing remains central, particularly in metal processing, electrical equipment, machinery, automotive-related supply activity, wood processing, furniture, and parts of the chemical industry. These sectors matter because they combine tradability, industrial experience, and the possibility of integration into wider production systems (Brkić, 2019; European Commission, 2024; IMF, 2019).

The wood-processing sector is especially illustrative. It combines a domestic resource base, manufacturing depth, export experience, and scope for movement into higher-value products. The same may be said, in different ways, of metal and electrical industries, which remain significant both because of their share in exports and because they connect relatively readily to cross-border supplier networks. Agro-food, ICT, transport and logistics-related services, and selected tourism niches also present meaningful possibilities, though their future performance will depend more heavily on standards, quality upgrading, and market positioning (European Commission, 2024; wiiw, 2024).

Innovation capacity is often treated as a weakness in Bosnia and Herzegovina, and in aggregate terms that judgement is justified. Recent European Innovation Scoreboard data classify the country as an emerging innovator with performance below the EU average. Yet the same profile reveals a more differentiated picture: Bosnia and Herzegovina performs relatively well in the share of SMEs introducing product innovations and, to a lesser extent, business process innovations. This does not overturn the broader diagnosis, but it does suggest that the economy should not be described as wholly innovation-poor. A more accurate conclusion is that innovative capacity exists, but remains weakly financed, thinly institutionalised, and insufficiently connected to a broader industrial strategy (European Commission, 2025; OECD, 2025).

In bilateral terms, Slovenia remains a relevant but not exclusive point of reference. The relationship is geographically close, commercially established, and institutionally legible. Academic work on Bosnia and Herzegovina's trade relations with Slovenia shows both increasing trade intensity and a rise in intra-industry trade over time. This is important because it suggests a relationship that is not limited to one-way exchange of highly dissimilar goods. At the same time, the same literature indicates that Bosnia and Herzegovina's comparative position in this trade remains less favourable, which points to the need for upgrading rather than simple expansion (Brkić, 2019).

For that reason, Bosnia and Herzegovina's cooperation prospects with Slovenia are best understood less in terms of trade volume alone and more in terms of production relations. The more promising forms of cooperation include contract manufacturing, component supply, technical partnerships, licensing arrangements, selective joint ventures, renewable-energy and infrastructure cooperation, and collaboration in fields where EU-facing compliance matters. Such cooperation is not automatically transformative, but it can support the movement of Bosnian firms towards higher value-added positions if it is linked to standards, technology, and longer-term market access rather than short-term subcontracting on cost terms alone (Brkić, 2019; wiiw, 2024).

More broadly, regional economic integration will be strongest where bilateral relationships reinforce domestic upgrading. Cooperation with Slovenia and other relevant European and regional partners can play this role to the extent that it helps Bosnian firms move upward in quality, reliability, certification, and sustainability. The objective therefore is to trade and cooperate on better terms (IMF, 2019; OECD, 2025; World Bank, 2024).

6. Conclusion

Bosnia and Herzegovina's economic outlook should be read neither through a language of inevitability nor through one of simple promise. The country is not condemned to stagnation by its political complexity, but neither will location, labour costs, or formal market access produce development automatically. The more plausible interpretation is that Bosnia and Herzegovina remains an economy with real but conditional potential (European Commission, 2024; IMF, 2025; World Bank, 2025b).

Its relevance in regional economic integration rests on several enduring strengths: proximity to the EU market, an established export base, diversified industrial capabilities, and the possibility of closer inclusion in production networks shaped by near-shoring and technical cooperation. Yet these strengths will yield limited results unless the country addresses the frictions that continue to weaken nationwide business operation and deter deeper investment. Three challenges stand out in particular: internal market fragmentation, labour and skills constraints, and delayed adaptation to the green and digital requirements of European integration (OECD, 2022, 2025; World Bank, 2024; wiiw, 2024).

The central policy implication is therefore straightforward. Bosnia and Herzegovina does not need to reinvent its economic identity from the beginning. What it needs is to improve the coherence, competitiveness, and sustainability of the productive capacities it already possesses. In practical terms, this means simplifying registration and licensing procedures, strengthening mutual recognition and digital interoperability across the country, aligning education and training more closely with industrial and technological demand, and approaching decarbonisation as a development strategy rather than an external burden (OECD, 2025; World Bank, 2024).

Under these conditions, Bosnia and Herzegovina could occupy a more credible and valuable position in regional economic integration. Without them, it is likely to remain in an intermediate state: connected, but not fully competitive; industrial, but not sufficiently upgraded; open, but not yet easy to operate in. Its future economic role may depend less on the discovery of new potential than on the effective realisation of capabilities already visible in its economy today (European Commission, 2024; IMF, 2019; wiiw, 2024).

References

Babajić, A., & Baraković-Nurikić, M. (2024). The role of economic institutions in attracting foreign direct investment in Bosnia and Herzegovina. *Economic Review: Journal of Economics and Business, 22*(1), 59-72.

Brkić, S. (2019). Development of trade relations of Bosnia and Herzegovina with Slovenia: Different aspects of analysis. *Naše Gospodarstvo/Our Economy, 65*(3), 40-49.

European Commission. (2024). *Bosnia and Herzegovina 2024 report*. Brussels: European Commission.

European Commission. (2025). *European innovation scoreboard 2025: Bosnia and Herzegovina country profile*. Brussels: European Commission.

International Monetary Fund. (2019). *Lifting growth in the Western Balkans: The role of global value chains and services exports*. Washington, DC: International Monetary Fund.

International Monetary Fund. (2025). *Bosnia and Herzegovina: 2025 Article IV consultation. IMF Country Report No. 25/252*. Washington, DC: International Monetary Fund.

OECD. (2022). *Labour migration in the Western Balkans: Mapping patterns, addressing challenges and reaping benefits*. Paris: OECD Publishing.

OECD. (2025). *Assessing Bosnia and Herzegovina's reform agenda for private sector development*. Paris: OECD Publishing.

World Bank. (2024). *Western Balkans 6 country climate and development report: Bosnia and Herzegovina country compendium*. Washington, DC: World Bank.

World Bank. (2025a). *Bosnia and Herzegovina country factsheet*. Washington, DC: World Bank.

World Bank. (2025b). *Western Balkans regular economic report: Bosnia and Herzegovina factsheet*. Washington, DC: World Bank.

Wiener Institut für Internationale Wirtschaftsvergleiche (wiiw). (2024). *Transforming the Western Balkans through near-shoring and decarbonisation*. Vienna: wiiw.