

DIPLOMARBEIT

Titel der Diplomarbeit

„ Foreign Trade of Bosnia and Herzegovina:
Effects of Trade Agreements “

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(Mag. rer. soc. oec.)

Wien, 2011

Studienkennzahl lt. Studienblatt:
Studienrichtung lt. Studienblatt:
Betreuer:

157
Internationale Betriebswirtschaft
Univ.-Prof. Robert Kunst

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1.0 Abstrakt

In dieser Arbeit werden die Auswirkungen des Handelsabkommens auf Wirtschaft des Bosniens und Herzegowina angezeigt, nicht nur die Handelsabkommens sondern auch die Transition des Landes wird betrachtet.

Probleme und Vorteile von Freihandelsabkommen und Transition Prozess sind in der Regel das Hauptthema dieser Arbeit.

Einige der wichtigsten Probleme im Prozess der Transition sind hohe Handels- und Leistungsbilanzdefizit, hohe Arbeitslosigkeit, Kriminalität und Korruption bei der Privatisierung und steigende staatliche Verschuldung. Erfolgreicher Abschluss der Transition ist ein Schritt näher an die Mitgliedschaft in der Europäischen Union, was für Bosnien und anderen Ost Europäische Länder von großer Bedeutung ist.

Da einer der wichtigsten Grundlagen der EU freien Handels System ist, bedeutet das eine breite volkswirtschaftliche Reform bei Kandidat Staaten. Nicht nur ökonomische und juristische Reformen, sondern auch Regionale Zusammenarbeit ist der Schlüssel der EU und es ist direkt an den Handel verbunden.

Ich hoffe, dass diese Arbeit ein Bild darstellt, wie diese Probleme gehandelt werden, nicht nur in Bosnien und Herzegowina, sondern auch in benachbarten Ländern.

1.0 ABSTRACT

In this paper, the effects of free trade where Bosnia and Herzegovina will be used as an example will be shown. Problems and benefits of free trade agreement and transition process in general are the main subject of this paper. Free trade agreements analysis, expectations and results will be mentioned, too.

As a very serious and complex process, transition was a path to be taken by all the Eastern European countries.

The transition process has been a challenge for all of them, considering serious issues that had to be resolved so the transition would be finished successfully. Some of the major problems in the transition process are high trade and current account deficit, high unemployment rate, crime and corruption in the privatization process and indebtedness.

Successful completion of the transition process is a step closer towards the membership in the European Union. Further on, entire Eastern European region had to implement major reforms in economic and legal sense. A new set of laws had to be created and implemented.

As entire region, Bosnia and Herzegovina is also moving to the European integrations by implementing the reforms in economy and legal system.

The speed of transition process differs across Eastern Europe. Some countries have already finished it, and others are still struggling. Those countries which have ended it are now full members of the EU.

One of the main foundations of the European Union is free trade regime.

Regarding that fact, all the countries that have joined EU had to adjust their economies so they can successfully be a part of common market.

Also regional cooperation is the key of EU, and it is directly connected to trade. Member countries are cooperating in any way that is of joint interest. That way, common market is protected and it can survive.

I sincerely hope that I have successfully managed to explain challenges of transition process, together with effects of free trade in Bosnia and Herzegovina, on its way to the European Union.

1.1 INTRODUCTION

1.2 Economic Definitions

It is important to understand the difference between an open and a closed economy.

An economy that is not interacting with other economies is *closed*¹.

On the opposite end, an economy that is freely interacting with other economies is *open*².

Actually, today there are no strictly closed economies in the world. The most closed ones would be the economies of Cuba and North Korea. But on the other hand, totally open economies do not exist because countries are protecting their production with tariff and non-tariff trade barriers.

In an open economy the country is balancing between two economic terms - exports and imports.

A simple definition of *exports* is: domestically produced goods that are sold abroad³.

On the other hand, goods and services that are produced abroad and are selling domestically are *imports*⁴.

All countries are facing the challenge of trade balance (net exports).

The trade balance is “the value of a nation's exports minus the value of its imports; also called the net exports”.

On the one hand, some countries are making trade surplus and on the other hand, some are facing the trade deficit.

A *surplus* presents domination of exports over imports.⁵

The opposite is a *deficit*, meaning that imports are dominating over exports.⁶

For details, see Mankiw and Taylor (2006).

Also, there are different factors which can influence a country's trade balance. Mainly, consumers are the ones defining needs for domestic or imported goods or services. Next important factor is price – meaning the price of domestic or imported goods. Directly connected with these two factors are consumers' incomes – incomes define spending. Beside those factors, costs of transporting goods, exchange rates and policies of the government towards international

¹ Textbook Economics N. Gregory Mankiw and Mark P. Taylor (Chapter 31)

² Textbook Economics N. Gregory Mankiw and Mark P. Taylor (Chapter 31)

³ Textbook Economics N. Gregory Mankiw and Mark P. Taylor (Chapter 31)

⁴ Textbook Economics N. Gregory Mankiw and Mark P. Taylor (Chapter 31)

⁵ Textbook Economics N. Gregory Mankiw and Mark P. Taylor (Chapter 31)

⁶ Textbook Economics N. Gregory Mankiw and Mark P. Taylor (Chapter 31)

trade are also seriously influencing country's trade balance.⁷ For details, see Mankiw and Taylor (2006).

As these factors are changing so the trade balance is also changing.

The consumers in an open economy can choose between: save, buy domestic and buy foreign products.

It is also important to understand the tariff and non-tariff barriers:

Tariff barriers on trade

Tariffs are one of main government interventions directed to protection of domestic industry. By applying taxes on imported goods, the government is protecting local industry, downsizing import and additionally, providing resources for state budget.⁸ For details, see Mankiw and Taylor (2006)

Non-tariff barriers on trade

Countries are also using different mechanisms to decrease imports, especially today in trade liberalization when many countries have dropped the tariffs on imports and the industries are troubling with foreign competitors.

There are many types of non-tariff barriers such as: import bans, quotas on quantity of imported goods, packaging conditions, labelling, health care conditions, product standards, licenses, certificates, buy domestic policy, minimum import prices etc.

According to the online edition of business dictionary, free trade agreement is a contract between two or more countries, united to establish a free trade area.

That free trade area would be conducted across their borders without tariffs or taxes. Only limitation concerns capital and labour – they cannot move freely⁹.

⁷ Textbook Economics N. Gregory Mankiw and Mark P. Taylor (Chapter 31)

⁸ Tariff and Non-Tariff Barriers to Trade Daniel A. Sumner, Vincent H. Smith, C. Parr Rosson

⁹ <http://www.businessdictionary.com/definition/treaty.html>

1.3.1 Country data¹⁰

Figure 1: Map of Bosnia and Herzegovina¹¹



Triangle shaped, Bosnia and Herzegovina is situated in the middle of the Balkan Peninsula. It is surrounded with former Yugoslavian republics: Serbia, Montenegro and Croatia.

It has an area of 51.197 sq. km, and 20 km of coastline.

The capital town is Sarajevo.

Regarding climate conditions, Bosnia and Herzegovina is a continental climate country – with cold winters and hot summers.

Bosnia and Herzegovina is rich in: coal, bauxite, iron ore, copper, lead, zinc, chromate, cobalt, nickel, clay, gypsum, salt, timber and hydropower. Also, 20% of area is covered with arable land which is great agricultural resource. There is a possibility of destructive earthquakes – one earthquake occurred in Banja Luka in 1969; and floods – rivers are rising year by year.

We can say that the political birth of Bosnia and Herzegovina is Declaration of sovereignty from October, 1991. It was followed by a declaration of independence from ex-Yugoslavia on 3rd March, 1992. This declaration was not the beginning of bright Bosnian future, as it resulted in the war. Neighbouring countries and local opponents to independence attacked Bosnia and Herzegovina. The war lasted for almost four years and took hundreds of thousands of victims and made enormous material damage. War was ended by the Dayton peace agreement that was signed on 21st November, 1995. The

¹⁰ CIA <https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html>

¹¹ Source: <http://www.britannica.com/EBchecked/topic/700826/Bosnia-and-Herzegovina>

Dayton peace agreement has divided the country into two parts, called entities: Federation of Bosnia and Herzegovina and Republic of Srpska.

Based on CIA's estimation, country's population is 462159. Majority of population is between 16 and 64, and estimated population growth is 0.016%. Domestic nationalities are: Bosniaks 48%, Serbs 37.1%, Croats 14.3% and other 0.6%. Local religions are: Islam, Catholicism, Orthodoxy, and Judaism. Officially, local languages are: Bosnian, Serbian and Croatian. Differences between these three languages are slight, based on some different words and accent. To foreigners, all three languages sound the same. For details see CIA web presentation.

1.3.2 Economy¹²

The war in Bosnia and Herzegovina has severely damaged local industry. It caused ruination of industry, economy and led to unemployment. Recovery was started immediately, and output was recovering during 1996 to 1999. But, constant growth of output was rather slowed in the years 2000 to 2002. Growth continued in 2003 until 2008. At that time, GDP growth exceeded 5% per year. Unfortunately, next year – 2009, was negatively signed; mainly thanks to global crisis. In 2009, GDP fell by 3%, exports fell by 24%, and unemployment rate reached a figure of 40%.

Banking reform was carried out during the year 2001. Former Communist payment bureaus were shut down and replaced by banks. At this point, banks from Austria and Italy are controlling Bosnian banking sector.

National currency is “konvertibilna marka”, shortly KM, and it was presented in 1998. KM is pegged to Euro, and that has built confidence in the currency. Also, it has helped increasing of banking sector.

Regarding the private sector in Bosnia and Herzegovina, it has marked up constant growth. On the other hand, foreign investment is increasing, but very slowly. Foreign investors' interest exists, but heavy and complicated administration and bureaucracy are rejecting them. Three levels of government – state, entity and municipal are expensive and hardly affordable for Bosnia and Herzegovina. Not to mention its actual funding of huge, slow and inefficient administration. Approximately 50% of GDP is used for government spending. This would not be so bad if Bosnia and Herzegovina was not the country with about 50% of unemployment. Furthermore, Bosnia and Herzegovina has the highest taxes on salaries in the region (only Macedonia is higher) which makes it less interesting for foreign investors.

Thanks to political interruptions, the privatization process has been slow and not very efficient. At this point, privatization process is mainly questionable and is subject to lawsuits.

Two main problems are current account deficit and seriously high unemployment rate.

¹² CIA <https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html>

In year 2007, Bosnia and Herzegovina became a full member of CEFTA (Central European Free Trade Agreement). Two years later, in 2009, the Bosnian economy was seriously injured by global economic crisis; which led to decreasing of GDP and export. On the other hand, the unemployment rate increased.

Probably the largest Bosnian challenge is resizing of public sector in general. That is an obligation needed to be fulfilled in order to apply for additional tranches of Fund aid, at IMF's budget.

Data and statistics on Bosnian economy are taken from CIA's fact book.

Table 1: Economic indicators with country comparison to the world¹³

	Value	Country comparison to the world
GDP (purchasing power parity)	\$30.56 billion (2010 est.)	107
GDP (official exchange rate)	\$16.2 billion (2010 est.)	
GDP - real growth rate	1.1% (2010 est.)	175
GDP - per capita (PPP)	\$6,600 (2010 est.)	134
GDP - composition by sector	agriculture: 9.8%	
	industry: 25.9%	
	services: 64.3% (2010 est.)	
Labour force	1.863 million (2007)	123
Labour force - by occupation	agriculture: 20.5%	
	industry: 32.6%	
	services: 47% (2008)	
Unemployment rate	27.2% (2010 est.)	175
Population below poverty line	25% (2004 est.)	
Public debt	39% of GDP (2010 est.)	77
Inflation rate (consumer prices)	1.9% (2010 est.)	52
Stock of narrow money	\$4.098 billion (2010 est.)	99
Stock of broad money	\$9.307 billion (2010 est.)	104
Industrial production growth rate	3.3% (2010 est.)	94
Electricity - production	14.58 billion kWh (2009 est.)	81
Current account balance	-\$887 million (2010 est.)	131
Exports	\$4.787 billion (2010 est.)	109
Imports	\$9.403 billion (2010 est.)	91
Reserves of foreign exchange and gold	\$2.8 billion (2010 est.)	87
Debt - external	\$7.996 billion (2010 est.)	91

1.3.3 Basic macroeconomic indicators of Bosnia and Herzegovina

GDP in period from 1998 to 2004 was increasing on average by 9.1% p.a. or increased in total for 68.9%, but this average rate of GDP increase has decreased in half in the next 6 years.

¹³ CIA FACTBOOK <https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html>

The reasons for this are that the country's infrastructure had to be rebuilt and there are no major infrastructural investments as in the reconstruction period from 1996 to 2000.

In the period between 2000-2003 the country's economy was influenced with reforming the old state owned companies in private companies – the process was called privatization. The largest problem in this process was and still is the redundancy of former workers - their social situation and new workplace. Also, the new owners of privatized companies have serious problems with starting the production and debt rehabilitation. Many new owners could not fulfil the conditions of the privatization contract. Many of these new companies suffered losses in their first 3-5 years not being in position to admit new labour force or to pay taxes.

Table 2: GDP changes 1998-2010¹⁴

Year	GDP	Export	Import	Trade balance	Trade Coverage (in %)
31.12.1998	7650	1168	6651	-5483	17.56
31.12.2000	9611	2398	8267	-5869	29.01
31.12.2002	11651	2285	9177	-6892	24.90
31.12.2003	12303	2428	8365	-5937	29.03
31.12.2004	12920	3013	9423	-6410	31.97
31.12.2005	17127	3783	11807	-8024	32.04
31.12.2006	19252	5164	11388	-6224	45.35
31.12.2007	21760	5936	13898	-7962	42.71
31.12.2008	24702	6714	16292	-9578	41.21
31.12.2009	23994	5531	12355	-6824	44.77
31.12.2010					

All values are in domestic currency KM (konvertilna marka) 1.945 KM for 1 Euro in millions of KM

Table 2 shows that there is a constant increase in GDP, exports and trade coverage, except for the period 2008/2009 when decrease was caused by the global economic crises.

In 2010 there was an increase in exports and increase in trade coverage meaning that the country is recovering from the recession.

Table 3: Employment/unemployment ratio¹⁵

Year	2008	2009	2010
Employment rate (%)	33.6	33.1	32.5
Unemployment rate (%)	23.4	24.1	27.2
Person in employment	528000	501000	500000
Person unemployed	483000	516000	522000

In the period between 1998 and 2002, official employment rate decreased from 651000 to 625000 (4%). The trend of decrease was stopped in 2003. On the

¹⁴ Source: <http://www.bhas.ba/new/> (AGENCY FOR STATISTICS OF BOSNIA AND HERZEGOVINA)

¹⁵ Source: <http://www.bhas.ba/new/> (AGENCY FOR STATISTICS OF BOSNIA AND HERZEGOVINA)

other hand, trend of constant increase of official unemployment has not been stopped in the entire analysing period. Official unemployment has increased from 398000 to 459000. In the period between 2008 and 2010 the negative employment rate changes have continued. A very important factor was the global recession that did not bypass Bosnian vulnerable economy and labour market. In the year 2010 the unemployment level has reached its maximum value with 522000 unemployed persons.

Specific type of social “amortization” has been the employment on informal labour markets (and still is) for year 2003, according to World Bank estimates was on level of 55%¹⁶ in relation to official employment. The most significant group of employees on the informal labour markets, are the agricultural workers. According to the same World Bank research the total number of self-employed in agriculture was approximately 190000 people. In foreign trade of Bosnia and Herzegovina, since adoption of the Foreign Trade Policy of Bosnia and Herzegovina and the introduction of a single Bosnian currency (mid 1998) to the end of 2010, value of exports of goods increased by 30%.¹⁷

Table 4: Export size over the last 12 years¹⁸

Year	Export size (in millions of KM)
1998	1168
2000	2398
2001	1806
2002	2285
2003	2428
2004	3013
2005	3783
2006	5164
2007	5936
2008	6714
2009	5531
2010*	7300

1€=1.95583KM

The export volume decreased in 2009 by 17% compared to 2008, because of the world's economic crisis. But regarding the numbers that were expected in 2010, the exports have increased over the record export volume of 2008.

¹⁶http://www.wds.worldbank.org/servlet/WDSCContentServer/WDSP/IB/2008/01/16/000158349_20080116143947/Rendered/PDF/wps4479.pdf

¹⁷ <http://www.bhas.ba/new/> (AGENCY FOR STATISTICS OF BOSNIA AND HERZEGOVINA)

¹⁸ <http://www.bhas.ba/new/> (AGENCY FOR STATISTICS OF BOSNIA AND HERZEGOVINA)

*(Projected by AGENCY FOR STATISTICS OF BOSNIA AND HERZEGOVINA)

However, despite positive developments in the last year, comparing Bosnia and Herzegovina with the other countries of Southeast Europe (SEE) shows that the position of Bosnia and Herzegovina in foreign trade is far less favourable compared to other countries in this Group.

Table 5: Current account, Trade balance, GDP comparison over the SEE countries¹⁹

Country	Current account (CA)	Trade balance (TB)	GDP ²⁰	CA in GDP %
Albania	-1,875.00	-3,216.10	22,800.00	-15.4
Bosnia & Herz.	-1,292.60	-4,749.20	17,047.00	-6.6
Bulgaria	-4,668.70	-6,673.60	47,102.00	-9.6
Croatia	-3,154.00	-10,279.40	63,188.00	-5.2
FYR Macedonia	-645.70	-2,156.90	9,238.00	-6.9
Montenegro	-1,244.90	-1,903.70	4,140.00	-30.1
Romania	-6,169.00	-6,787.00	161,521.00	-4.5
Serbia	-2,410.40	-6,660.80	42,879.00	-6.6

All values in US\$

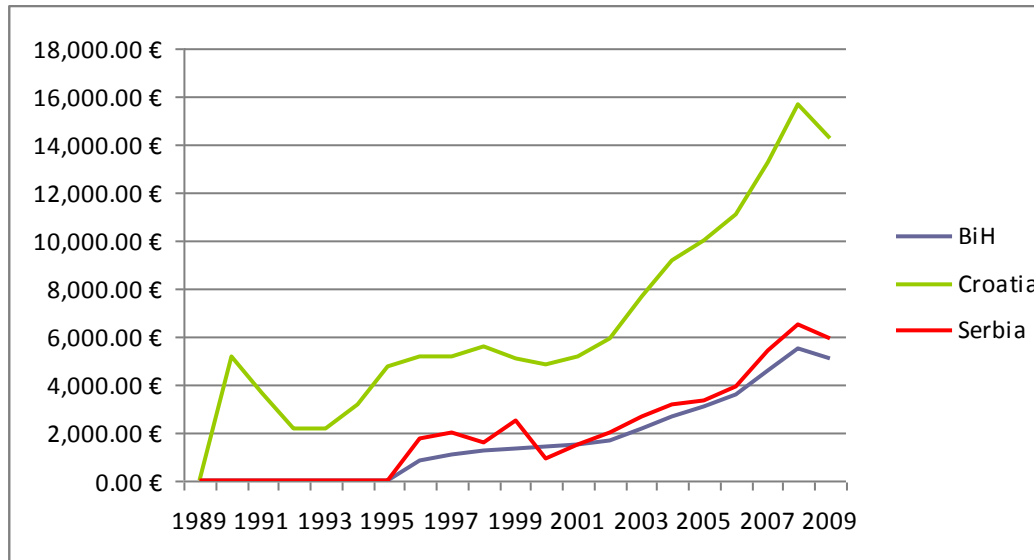
Table 5, compares the external debt and GDP for the entire SEE region including the EU countries.

¹⁹ Source: EBRD Transition Report 2010, *Economy Watch

²⁰ In million US\$, Source: Economy watch „Economic Statistics by Country“

Figure 2 shows the GDP per capita in the three ex Yugoslavian countries in period 1989-2009.

Figure 2: GDP per capita in three ex Yugoslavian countries²¹



Bosnia and Serbia are having similar GDP per capita while, Croatia is much more developed.

Croatian GDP per capita is 14000 USD and in comparison with Croatian GDP per capita in Yugoslavia is about 3 times higher.

Croatia was also second economy in Yugoslavia, since data for Bosnia and Herzegovina and Serbia are not available for this period, it is not possible to say for how much the GDP per capita has changed in these two countries. I assume that results from 2009 are not surprising in case of Bosnia and Herzegovina which was the 4th economy in Yugoslavia but GDP per capita is surprisingly low in Serbian case.

All three countries are facing trade deficits, current account deficits and high unemployment levels like all transition countries.

²¹ Source: EBRD European Bank for Reconstruction and Development, Transition report 2010

Table 6: External debt of Southeast European countries 2009 ²²

Country	External debt stock*	External debt/GDP (in %)	GDP per capita (in US \$)
Albania	4139.6	34.1	3795.8
Bosnia & Herz.	9066.8	46.6	5122.3
Bulgaria (EU)	52336.5	107.6	6400.0
Croatia	64295.0	98.3	14241.4
FYR Macedonia	5505.0	58.8	4542.6
Moldova	4368.0	Na.	Na.
Montenegro	4011.2	96.9	6269.2
Romania (EU)	78655.7	48.8	7504.3
Serbia	31648.9	73.6	5889.2
Slovenia (EU)	55676.3	113.4	24366.5
Average debt, GDP	30970.30	67.81	7813.13

*in millions of US\$

The ratio of external debt to GDP of Bosnia and Herzegovina is by 31.3 percentage points lower than the average value of ten SSE region countries. Table 6 shows that compared to neighbouring countries (Croatia, Serbia and Montenegro) the external debt of Bosnia and Herzegovina is one third of Serbian external debt and one seventh of Croatian's external debt, but also approximately 2.5 times Montenegro's external debt.

The influence of external debt to GDP creation in various regions of the world is significantly different, taking into account the ability of countries to create export-oriented growth strategy. However, in countries that have problems with growing current account deficit, external debt has a significant influence on the magnification of GDP, at least in part that allows the growth of budget expenditures and increase domestic production based on an enhanced ability to import the required components.

In this context, GDP of Bosnia and Herzegovina, adjusted for an assumed ability of external borrowing to the level of the average for countries in the SEE group, would open space for faster economic growth.

Since there is a space for increase of external borrowing for Bosnia and Herzegovina it would be very useful if the new borrowing were be used to finance economic growth. But the international credit institutions are sceptical because of the high level of corruption, crime and huge government spending in Bosnia and Herzegovina.

The new credits could be used in building the transport infrastructure such as highways and modernization of railways; since Bosnia has the smallest highway network in region (only 50km has been built until now). The enormous potential in hydro and thermo energy could be used if the energy projects were financed with new credit arrangements.

²² Source: European Bank for Reconstruction and Development, Transition report 2010.

1.4.1 Transition process in Eastern Europe

This part of the paper will explain more about transition process in SEE region and the lessons which Bosnia and Herzegovina can gain from successful transition examples.

Bosnia and Herzegovina is currently in the middle of a transition process, on its way to the EU. If we want to define *transition process*, we might say that it is constructing of new regulations, unique economic space; economic reform including: development and liberalization of goods, market and trade. Also, transition process presents stronger development of state institutions, enforcement of legal state by fighting the crime and corruption, and creating new regulations.²³ For details, see Anto Domazet (2009).

Important part of transition process is privatization. Basically, *privatization* is ownership transfer – from public (state's) to private. During the transition process, privatization was essential because most of the ownership in transition countries was public and the state was not able anymore to develop or at any point strengthening its “ownership”. Mainly, it applies on industry, large factories formerly owned by state.²⁴ For details see Chowdhury (2006).

The transition and privatization process are carrying a large number of difficulties. One of the most important is trade deficit, but also troubles with trade balance have been experienced in the entire Eastern Europe. For example, Polish transition has all the significant difficulties, for details see Slay (2000). It is possible to find similarities between Polish and Bosnian transition problem, especially regarding trade deficit - Polish trade deficit was also very high in the 1990s.

According to the “Transition Report 2007 by EBRD²⁵” Bosnia and Herzegovina is in the group of 9 countries which will overcome the transition gap in 20 to 25 years. Bosnian neighbourhoods can be found in this group: Serbia and Montenegro.

Poland is the best example of fast and successful transition. According to EBRD Poland has finished transition in only 6 years (1989-1995), Slovenia after 8 years (1989-1997), Hungary, Slovakia, Czech Republic in 10 years (1989-1999) etc.

The economic growth estimation is usually done by a GDP comparison. On the other hand, Henderson, Storeygard and Weil (2009) are using less conventional way to present economic growth of Eastern European countries.

²³ Analiza razloga i uzroka nedovoljnog interesa domacih i stranih investitora u procesu privatizacije sa prijedlogom mjera za poboljšanje ukupnog ambijenta za ulaganje kroz proces privtizacije u FBiH“ Sarajevo 2008, Prof. Dr. Anto Domazet page 90.

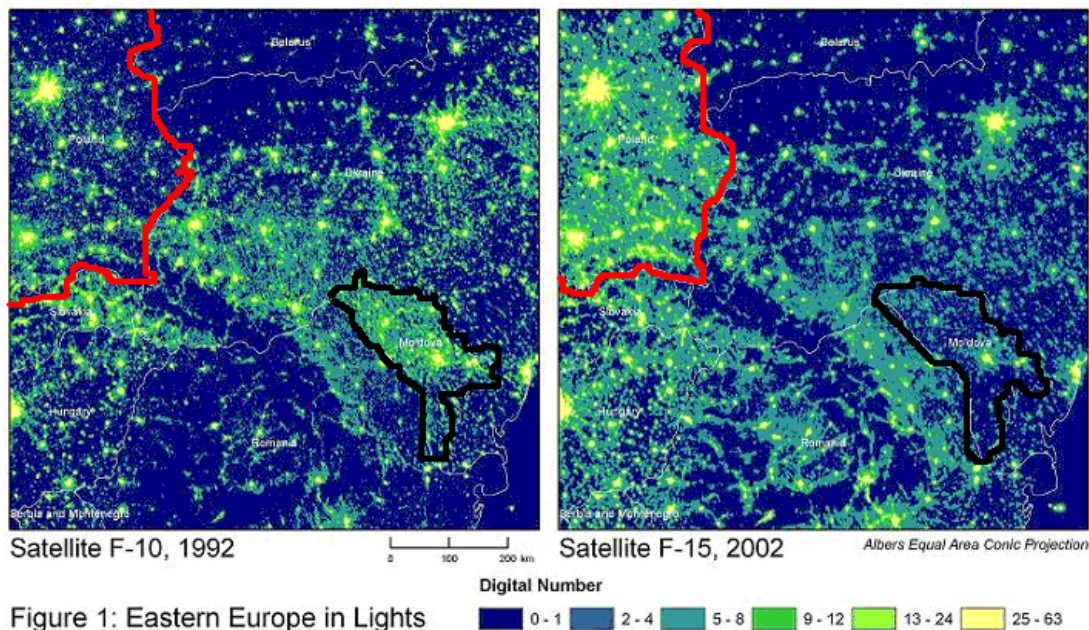
²⁴ Chowdhury, F. L. “Corrupt Bureaucracy and Privatisation of Tax Enforcement”, 2006: Pathak Samabesh, Dhaka.

²⁵ European Bank for Reconstruction and Development

They use satellite night photos of region, to compare which country has the highest economy level. The light lakes of houses, streets, cars, working places, etc. are ideal symbol of countries' development level.

Figure 3 shows the size of light lakes in region and the difference between the light lake size in 1992 and 2002.

Figure 3; Poland and Moldova in lights²⁶



The red border country is Poland, and it is easy to see that Poland's light lake has drastically increased from 1992 to 2002. The statistics are also confirming this point (Poland's GDP growth of 4.21 annually).

It is also, possible to see that Moldova's light lake decreased - what is signalling recession. Statistically, Moldova's GDP has decreased annually by 1.22%.

Unfortunately, it is not possible to say how the light lake has changed in Bosnia and Herzegovina.

But, figure 4 shows today's Old continents lights, and it help us to conclude on which level Bosnian economy is in comparison to the other countries. By the size of Bosnian light lake it is easy to conclude that the Bosnian economy has a long way ahead of it. It is obvious that the Bosnian economy is much less developed than the EU countries.

²⁶ <http://www.voxeu.org/index.php?q=node/3929>

Figure 4: Europe and Bosnia and Herzegovina in lights²⁷



Regarding the question how Poland has done it and what Bosnia can learn and use from their experience, Slay (2000) says:

“During the 1980s, Poles used to joke about possibilities of their economic recovery. They had so much doubts regarding government’s ability to get their country out of crisis that they believed that God and his angels will do it. They used to call it “natural scenario”, and the government successful action was called “supernatural scenario”.

The joke was actually real; Poland’s economy growth was supernatural.

A very important step in Polish way through transition was signing the debt reduction agreement in April 1991 (agreed with Paris Club of creditor governments). According to that agreement, governments that were holding the largest part of Poland’s foreign debt, agreed to write of half of this debt (about 15 billion dollars).

A similar agreement was concluded with London Club of Poland’s commercial bank creditors, it was concluded in 1994. By this agreement, 45% of Polish debt was forgiven (about 13 billion dollars).

Thanks to agreements mentioned above, Poland has managed to fully service her foreign debt, for the first time since 1981.

²⁷ Source: http://www.europemapofeurope.net/Europe_map_of_Europe_satellite_nightlights.htm

The supernatural recovery is generally attributed to Leszek Balcerowicz, whose economic policy has been introduced as general strategy. Leszek Balcerowicz was Polish Deputy Prime Minister, back in 1990.

Thanks to the “Balcerowicz Plan”, Poland became a greatest success story among Eastern Europe transition countries, just nine years after it was presented.²⁸

Growth of Poland’s GDP (35.51%) in period 1992–1997 was the largest one in Europe.²⁹

For details, see Slay (2000).

Main idea of the “Balcerowicz Plan” was to use the low inflation to attract foreign investors. Today, Bosnia is trying the same with stable currency (the inflation in 2009 was below 2%)³⁰, but unfortunately, GDP growth of Bosnia and Herzegovina is much smaller.

It is also interesting that only Poland and Albania from all Eastern European countries had positive GDP growth in 2009. GDP of the Baltic states recoded the biggest decline: -20% compared to previous year. In Croatia, the decrease was 5.7% and in Serbia 3.9%.

On the other hand, in Bosnia the GDP decreased by 3.2%, which is a relatively low decrease.

The largest problem for all import-dependent economies is the financing of the trade deficit.

Bosnia and Herzegovina is financing its trade deficit by loans. It is important to know that 1/3 of trade deficit is actually paid by Bosnian citizens living abroad. According to the CBBIH³¹ data for 2007 Bosnian citizens living abroad spent 2.71 billion KM in Bosnia and Herzegovina. In 2009 this value has drastically decreased to 2 billion KM.

This type of income paid off 1/3 of Bosnian trade deficit in 2007 when trade deficits were about 8 billion KM.

In 2009 the crisis has decreased this type of income but still, this type of income has covered about 1/3 of trade deficit (deficit was about 7 billion KM).

It is estimated that 1.4 million of Bosnian citizens are living abroad; mainly in Europe and the USA.

²⁸ Ben Slay “The Polish economic transition: outcome and Lessons”

²⁹ Ben Slay “The Polish economic transition: outcome and Lessons”

³⁰ CENTRAL BANK OF B&H http://cbbh.ba/files/godisnji_izvjestaji/2009/GI_2009_bs.pdf

³¹ Central Bank of B&H

2.1 THE FOREIGN TRADE REGIME OF BOSNIA AND HERZEGOVINA

2.1.1 Trade law

The foreign trade regime of Bosnia and Herzegovina is defined by law since 19th May 1998 and the most important articles are:

According to Article 1 Act, the purpose of this law is to regulate the basic elements system for exports and imports of goods and services, and determining conditions for carrying out economic activities abroad. The flow of goods and services is generally free, in order to encourage free international trade.

However, paragraph 3 of this article envisaged, that does not preclude prohibitions or restrictions on imports, exports or transit, which are aimed at protecting the health and life of humans, animals and plants, protection national resources that have artistic, historical or archaeological value, as in order to protect public interests and security.

Also, paragraph 4 article 1 Act provides the possibility of protection of domestic production. Such prohibitions or restrictions will not be based on discrimination, but may bring in compliance with international trade rules, which aim extraordinary use of protective measures to protect domestic markets from international unfair competition. An example of unfair international competition is price dumping of goods, or sale of foreign goods in domestic market, which are subsidized by the domestic country.

According to article 2, this law is based on the Constitution of Bosnia and Herzegovina therefore the exclusive jurisdiction over foreign trade policy is given to the institutions of Bosnia and Herzegovina.

2.1.2 Liberalization of foreign trade regime of Bosnia and Herzegovina

There are four stages of trade liberalization in Bosnia and Herzegovina. The first one was concluding bilateral agreements on free trade with different countries of Southeast Europe.

The second stage was the activity for Accession of Bosnia and Herzegovina membership WTO (World Trade Organization).

The third stage is accession to the CEFTA (Central European Free Trade Agreement) in 2006.

The fourth stage is the agreement of SAA (Stabilization and Association Agreement with European Communities and their Member States) signed in Luxembourg on June 16th, 2008.

The first conclusion of bilateral free trade agreements was with countries of the former Yugoslavia and other countries of Southeast Europe and has followed in 2000.

The very first agreement on free trade has been made with Croatia (in Zagreb on December 19th, 2000), then with Slovenia (on October 2nd, 2001), Serbia and Montenegro (on February 01st, 2002), FYR Macedonia (on April 20th, 2002), Turkey (on July 03rd, 2002), Moldova (on December 23rd, 2003), Albania (on April 28th, 2003) and Bulgaria (on October 16th, 2003).

The importance and influence of these agreements between former Yugoslavian countries was immediately enormously positive for all participants. The participation of foreign trade with Croatia, Serbia and Montenegro, and Slovenia in the total foreign trade in 2003 and 2004 amounted approximately 39%. The trade exchange of Bosnia and Herzegovina for 2003-2004 is illustrated in Table 7.

Table 7: Trade exchange increase 2003-2004 caused by free trade agreements³²

Country	Year	Trade exchange (KM)	Share in total foreign exchange of B&H (%)
Croatia	2003	1,952,349	18.09
	2004	2,338,555	18.81
Serbia and Montenegro	2003	1,068,927	9.90
	2004	1,425,755	11.46
Slovenia	2003	1,098,152	10.17
	2004	1,072,360	8.62
Total		4,836,670	38.89

In thousands of KM (1€ = 1.945KM)

The trade agreements with Croatia, Slovenia, Serbia and Montenegro are made on asymmetric basis. This means that the import duties on Bosnia and Herzegovina's products are eliminated immediately from the day of signing the contract but the import duties on products of Croatia, Slovenia, Serbia and Montenegro are eliminated gradually during 2-4 years.

This type of agreement has helped exports since the products of Bosnia and Herzegovina's producers have been privileged in those three countries.

Also the series of free trade agreements has helped the reopening of many production facilities such as "VW Sarajevo" which had used the free trade area to export cars composed in Sarajevo, but since 2008 the production has stopped because the export duties of EU countries have been removed for all exports in the former Yugoslavian countries.

Bosnia and Herzegovina is a member of SEECP (South East European Co-operation Process) and the main objective of this association is an improvement of regional co-operation, and building the trust between neighbouring countries and the improvement of trade and investment, including the elimination of existing barriers, stimulate the free exchange of goods, capital and trade, support to business contacts, adjustment of the judiciary with the EU standards, further liberalization and harmonization of policies of trade and transport, the conclusion of trade agreements and support the establishment and effective functioning of free trade. The members of this association are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Montenegro, Moldova, Republic of Macedonia, Romania, Serbia, Slovenia and Turkey.

The general characteristic of foreign trade relations of SEECP members is widening trade deficits and current account deficits.

³² Source: Agency for statistics of B&H (Bulletin 2005)

Compared with other members of SEECP, Bosnia and Herzegovina has the smallest number of signed free trade agreements in the end of 2004. Only 9 were signed, and for example Turkey, Romania and Bulgaria had 25 signed free trade agreements in the end of 2004, Croatia 20, Serbia-Montenegro, Moldova and Albania 10.

Bosnia and Herzegovina has been forced to customize the import tariffs by the WTO and the level of import tariffs has been very low since year 2000 that is actually much lower than in other SEE countries (see table 8).

The low import tariff has increased that imports and the domestic production has been suffering, especially the consumers' goods industry was shaken, because the imported goods such as food and cosmetics were cheap and the domestic producers had the problem with meeting the high quality standards needed for exporting in the EU.

Also, other SEE countries have been more careful with reducing the import tariffs.

The huge problem for Bosnia and Herzegovina was also, lack of state control of goods crossing the border, since the state did not have a border police until the end of 2001.

Table 8: Tariff rates in SEE countries³³

Country	Weighted average tariff rate in (%)
Albania	11.8
Bosnia and Herzegovina	6.6
Bulgaria	10.9
Croatia	9.8
Macedonia	13.8
Romania	13.7
Serbia and Montenegro	n.a.
Slovenia	9.9

³³ Source: The World Bank, World Development Indicators 2003, Washington, 2003, Chapter 6, pp. 326-328;

2.1.3 Preferential arrangements of Bosnia and Herzegovina with the countries of the European Union and the countries of Western Europe

Bosnia and Herzegovina has gained benefits over the GSP³⁴ and GSTP³⁵ preferences system.

Thanks to this, developed countries are able to grant concession on import of specified manufactures and semi-manufactures from countries that are still developing.³⁶

Under these arrangements, if all goods that are produced in Bosnia and Herzegovina meet technical and quality standards, they can be exported with lower tariffs or without tariffs at all, to the territory of the European Union, Norway, Switzerland, Japan, the USA, Russia and Canada. This arrangement was in force until the end of 2005.

The GSP and GSTP preferences system has been very helpful in increasing exports.

Also, this system has been misused by some companies, especially by sugar exporters which had imported sugar from South America and sold it in the EU as “Bosnian domestic product” and on that way bypass the import tariffs. Since Bosnia and Herzegovina is producing raw sugar in a very low volume, the EU found out that it is not possible to export so much, finding out that majority of “Bosnian sugar” is actually coming from South America. The EU decided to set quotas on sugar imported from Bosnia and Herzegovina to avoid the misuses of the preference system.

2.2.1 Problems of introduced foreign trade reforms

The assumption on which was based the conclusion of free trade agreements was that the elimination of tariffs on products and services from Bosnia and Herzegovina would create a significant expansion in exports of Bosnia and Herzegovina’s companies, while reducing or at least slowing import growth. The indicators of the trade volume with Croatia, Slovenia and Serbia and Montenegro since the signing of the contract until the year 2003 did not confirm this assumption.

In fact, too simplistic logic that the abolition of duty on goods from Bosnia and Herzegovina will make Bosnia and Herzegovina’s products more competitive in Croatian and Slovenian markets did not take into account that medium and large enterprises from the processing industry sector with potential for export were still in privatization process. Approximately 50% of potential exporting

³⁴ Generalized System of Preferences

³⁵ Global System of trade Preferences

³⁶ <http://www.citeman.com/3511-gsp-and-gstp/>

enterprises were still subject of privatization process. In most of those enterprises the transformation has not been finished or even started. Also the financial resources which could support the expansion of export activity on a continuous basis in Bosnia and Herzegovina are either non-existent or available at almost twice the interest rate compared to neighbouring countries. It leads to conclusion that the authorities have rushed with signing the free trade agreements.

According to the geographical structure, the key markets of Bosnia and Herzegovina are the countries of the European Union, CEFTA countries³⁷ and the countries that Bosnia and Herzegovina has signed a free trade agreement with (Turkey) and other countries including the countries that allowed GSP (preferential status) to Bosnia and Herzegovina.

Table 9 shows the increase of trade deficit with main trade partner countries.

Table 9: Countries with which Bosnia and Herzegovina has the largest trade deficits³⁸

Country	Trade balance				
	1998	2001	2004	2007	2009
Croatia	-422.8	-857.3	-1,124.50	-1,359.10	-911
Germany	-310.5	-444.2	-967.1	-980.7	-581.6
Slovenia	-366.6	-770	-559.9	-239.2	-295.9
Serbia & Mont.	-264.9	-57.4	-519	-607.2	-541.6
Montenegro (2006)				127.3	190.7
Italy	-1,397.10	-544.4	-384.2	-476.3	-540.8

In millions of KM (1€ = 1.945KM)

Market problem in Bosnia and Herzegovina does not emanate from the fact that it was closed to traffic goods and services with foreign countries. On the contrary, World Bank data on customs protection of domestic production showed that producers from Bosnia were the least protected throughout SEE region.

The weighted average rate of tariff protection in Slovenia and Croatia is 33% higher than in Bosnia and Herzegovina. Macedonia has twice the average tariff rates. On the other hand, although the general characteristic of foreign trade relations in the SEE member countries of the region is growing trade deficit and the current account deficit, but the worst ratio (the trade deficit / GDP) is achieved in Bosnia and Herzegovina.³⁹

³⁷ Albania, Croatia, Macedonia, Moldova, Montenegro, Serbia, Kosovo (UNMIK)

³⁸ Source: <http://www.bhas.ba/new/> (AGENCY FOR STATISTICS OF BOSNIA AND HERZEGOVINA) Bulletin 2005, 2008, 2010, Fikret Čaušević "UTICAJ MJERA VANJSKOTRGOVINSKE POLITIKE NA TEKUĆI RAČUN I KONKURENTNOST BOSNE I HERCEGOVINE "(2005)

³⁹ Fikret Čaušević "UTICAJ MJERA VANJSKOTRGOVINSKE POLITIKE NA TEKUĆI RAČUN I KONKURENTNOST BOSNE I HERCEGOVINE "(2005)

The preceding analysis showed that Bosnia and Herzegovina is one of the most open economies in the SEE region, but also one of the most unorganized markets in SEE region. The organization has been improved in the last few years with help of the EU. The government was forced to apply EU standards for products certification, quality control and import tariffs and on that way the Bosnian trade market has increased its organization level.

The process of stabilization and association in the EU (SAA⁴⁰) is forcing the government to apply different types of standards in Bosnia and Herzegovina. The SAA has also removed the trade tariffs between the EU and Bosnia and Herzegovina, so now (since 2009.) the goods imported from the EU countries are cheaper than before SAA and more competitive on the Bosnian market. On the other hand, many products of Bosnia and Herzegovina haven't fulfilled the high quality standards of the EU and only small numbers of goods are actually exported in the EU.

The best example is the problem of the Bosnian meat and milk industry which is due to the fact that there is no state expert institution that will be able to give the certification of quality for meat and dairy products. Without that certificate which will prove that Bosnian meat and milk products are fulfilling the quality standards of the EU, the EU market remains closed for Bosnian products.

3.1 TRADE STATISTICS AND COMMENTS

Table 10: export-import coverage in the last 12 years⁴¹

Years	Turnover of goods	Exports	Imports	Trade balance	Export/Import ratio (%)
1998	5,661,009	1,064,175	4,596,834	-3,532,659	23.15
1999	6,021,750	1,149,218	4,872,532	-3,723,314	23.59
2000	8,846,999	2,264,390	6,582,609	-4,318,219	34.40
2001	8,971,771	2,341,545	6,630,226	-4,288,681	35.32
2002	9,984,519	2,089,652	7,894,867	-5,805,215	26.47
2003	10,793,419	2,428,235	8,365,184	-5,936,949	29.03
2004	12,435,732	3,012,762	9,422,970	-6,410,208	31.97
2005	14,963,997	3,783,199	11,180,798	-7,397,599	33.84
2006	16,553,081	5,164,296	11,388,785	-6,224,489	45.35
2007	19,834,826	5,936,584	13,898,242	-7,961,658	42.71
2008	23,004,206	6,711,690	16,292,516	-9,580,826	41.19
2009	17,886,378	5,531,199	12,355,179	-6,823,980	44.77
2010	20,622,935	7,293,816	13,329,119	-6,035,303	54.72

In thousands of KM (1€ = 1.945KM)

One of the most noticeable characteristic of the total foreign trade in the past decade is a steady increase in the deficit (with the exception of the year 2006 where there was the largest increase in export value, but the smallest increase in

⁴⁰ Agreement on Stabilization and Association Agreement (SAA)

⁴¹ Source: <http://www.bhas.ba/tematskibilteni/2006-vanjska-trgovina.pdf> (1998-2005), http://www.bhas.ba/tematskibilteni/ETS_2009_001_01-bh.pdf (2006-2009) page 13, data for 2010 are est. by trade association of B&H

the value of imports). The reduction of deficit in 2009 was largely a result of overall reduction of trade caused by the recession, rather than increase of exports and penetration of new markets.

In 2008, there was a significant increase both in exports and imports. This was a good sign of increasing economy in Bosnia and Herzegovina, but unfortunately the global crises of 2009 has proven that increase from 2008 was not actually significant as it was presented.

2010 was the best year for Bosnia and Herzegovina's trade with a record trade ratio of 54.72%.

Between 1998 and the end of 2010 the cumulative foreign trade deficit reached an enormous amount of 72 billion KM.

Figure 5: Export / Import ratio development 1998-2010.⁴²

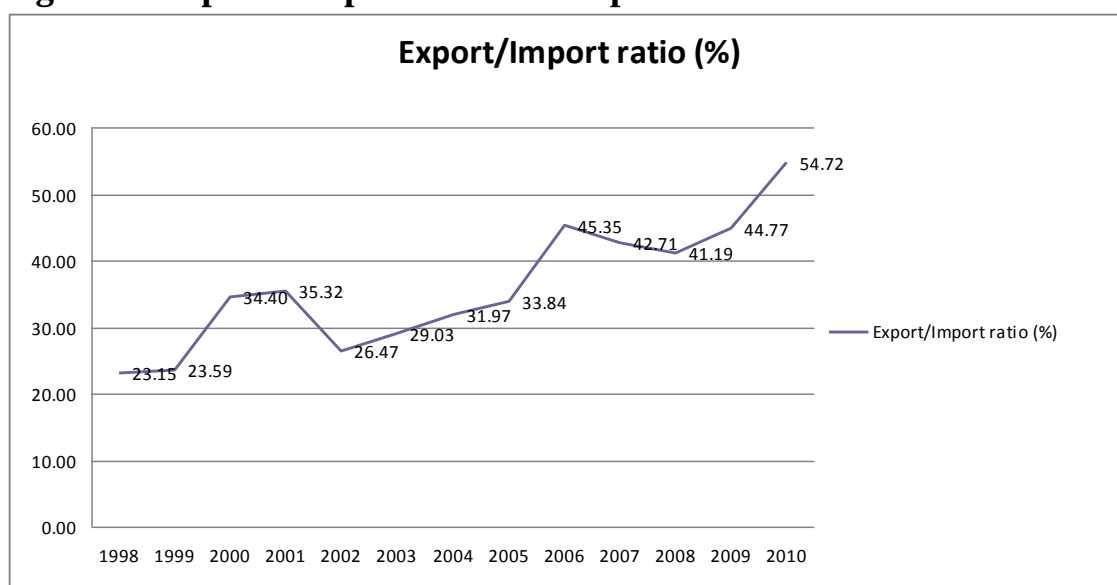


Figure 5 shows the export/import ratio development in the last 12 years; it is shown that in 2010 Bosnia and Herzegovina is reaching the best results, it is encouraging that export volume is increasing much faster than import volume.

⁴² Source: <http://www.bhas.ba/tematskibilteni/2006-vanjska-trgovina.pdf> (1998-2005), http://www.bhas.ba/tematskibilteni/ETS_2009_001_01-bh.pdf (2006-2009) page 13 data for 2010 are est. by trade association of B&H

Figure 6: Export trading partners⁴³

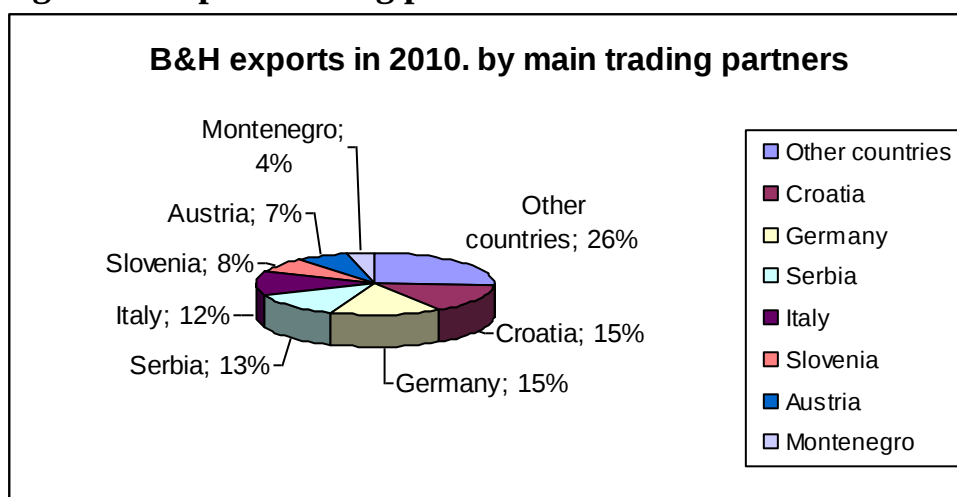


Figure 6 shows the main export destination countries for 2010. The largest exporting market is the EU with about 54% of total exports. The main export partners from the EU are Germany (15%), Italy (12%), Slovenia (8%) and Austria (7%). Neighbouring countries are also among main trade partners: Croatia (15%) also the largest importer of Bosnia and Herzegovina's goods, then Serbia (13%) and Montenegro (4%). 26% of all Bosnian exports are sold in other countries such as Turkey, Hungary, Russia, the USA and North African countries etc.

⁴³ http://www.bhas.ba/tematskibilteni/ETS_2009_001_01-bh.pdf page 40

Figure 7: Import trading partners⁴⁴

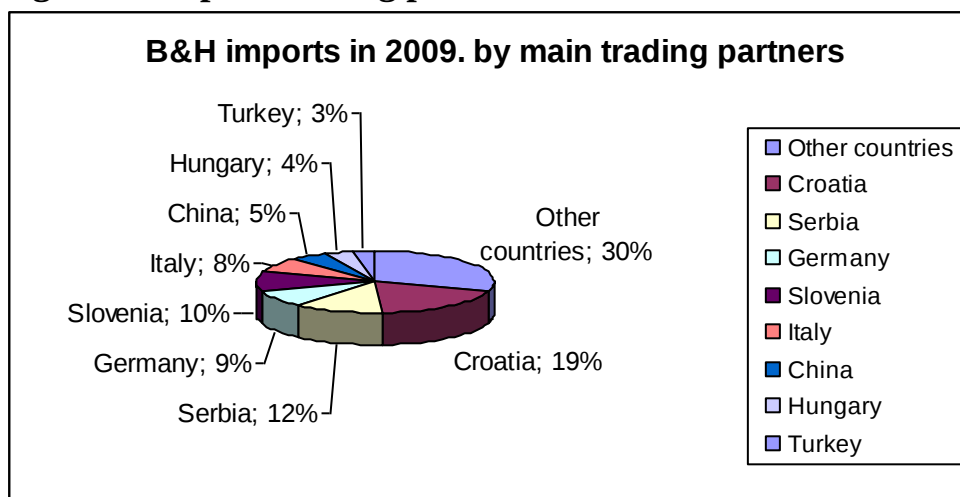


Figure 7 shows the countries which are dominating exporters of goods to Bosnia and Herzegovina in 2010. The majority of goods imported are coming from the EU countries where Germany (9%), Italy (8%) and Slovenia (10%) are the largest partners. Most goods imported from a single country are coming from Croatia (19%) and from Serbia (12%). Other significant import partners are China (5%), Hungary (4%) and Turkey (3%), and from other countries 30% of total goods imported.

4.1 TRADE AGREEMENTS (CEFT, SAA)

“Regional processes are the path of no return and it is imperative that we tie our fate to them. Much work is still ahead when it comes to meeting the requirements of the CEFTA Agreement and the Agreement on Stabilization and Association Agreement (SAA).”⁴⁵

4.1.1 Central European Free Trade Agreement CEFTA

The Central European Free Trade Agreement was signed under the patronage of the Stability Pact for South Eastern Europe. It was signed by secretaries for trade and commerce, in Bucharest, on 19th December, 2006.⁴⁶

CEFTA has replaced all the bilateral trade agreement that have been applied before it.

For the first five parties - Albania, Macedonia, Moldova, Montenegro and UNMIK/Kosovo; it came into force on 26th July, 2007. Croatia joined two months later, on 22nd August, 2007. For Serbia, it came into force on 24th

⁴⁴ http://www.bhas.ba/tematskibilteni/ETS_2009_001_01-bh.pdf page 40

⁴⁵ Veselin Poljašević, President of Foreign Trade Chamber of B&H

⁴⁶ <http://www.ceftatradeportal.com/>

October, 2007 and finally for Bosnia and Herzegovina on 22nd November, 2007. However, full implementation of CEFTA, for Bosnia and Herzegovina, started by the end of year 2007.⁴⁷ For details, see CEFTA trade web presentation.

4.1.2 Impact of CEFTA on Bosnia and Herzegovina and neighbouring countries

It is necessary to consistently, fully and effectively apply CEFTA agreement. Free trade and harmonization of business conditions, in accordance with WTO rules and the EU standards, will contribute to increasing production and employment, a wider range of goods, increased competitiveness and a significant inflow of investment in the region.

The benefits of the CEFTA agreement for the region are obvious - the trade exchange between CEFTA countries is constantly increasing, some of the countries may benefit more than others but still the economic integration is only way for economic improvement. The size of the market is very important for development and since the CEFTA countries are small markets their companies cannot reach benefits from economy of scale, for example, without market integration.

4.1.2.1 The CEFTA impact on Bosnia and Herzegovina

Table 11: Trade between CEFTA countries and Bosnia and Herzegovina⁴⁸

Year	Export	Import	Trade balance	Trade volume
2005	1,406,926	3,118,418	45.12%	4,525,344
2006	1,698,794	3,183,514	53.36%	4,882,308
2007	2,006,584	3,929,224	51.07%	5,935,808
2008	2,415,021	4,703,483	51.35%	7,118,504
2009	1,990,979	3,312,857	60.10%	5,303,836

In thousands of KM (1€ = 1.945KM)

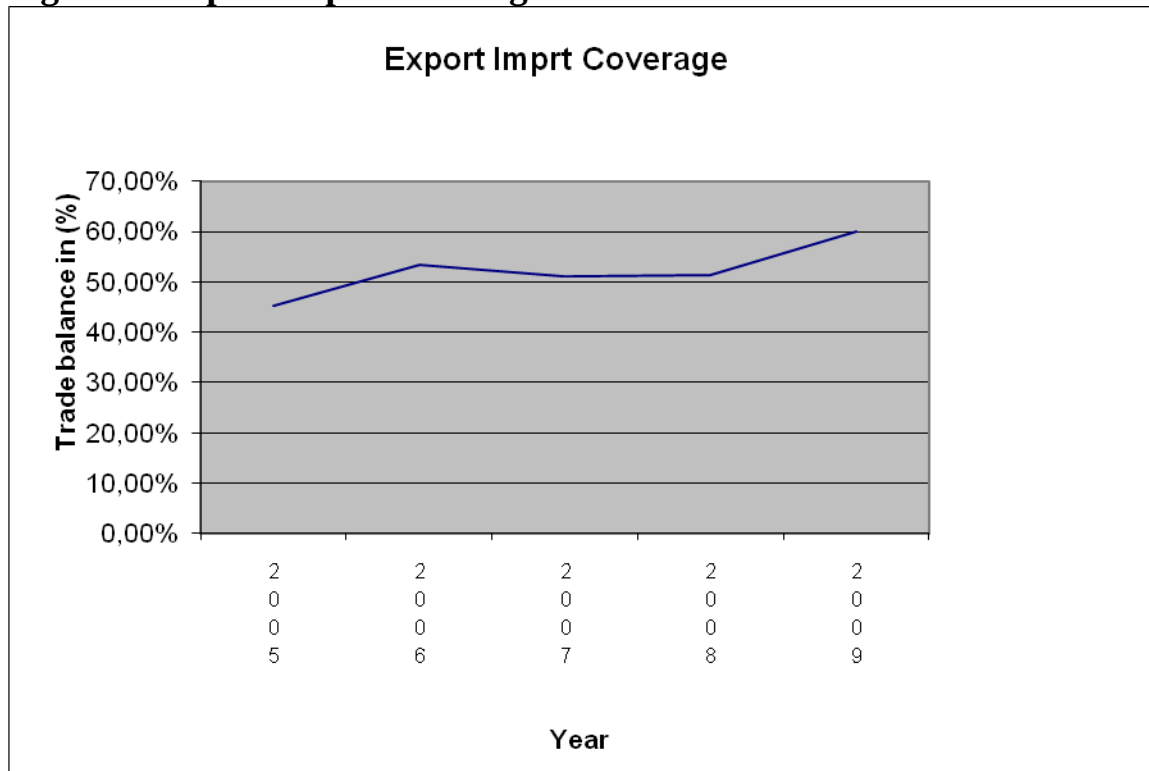
The CEFTA agreement came into force on January 1st, 2007 and Bosnia and Herzegovina achieved favourable results. The size of export has increased for about 15% (2006-2007), and this trend has been continued in 2008 by 16% increase in export. Also the volume of imported goods has been increasing. The best indicator of positive trade development is the trade balance which has been increasing constantly, even during the crisis in 2009, which has slowed the development.

The year 2010 has been very successful for export of goods in CEFTA countries. Exports of goods in CEFTA region have increased by approximately 400,000,000 KM⁴⁹.

⁴⁷ <http://www.ceftatradeportal.com/>

⁴⁸ http://www.bhas.ba/?option=com_publicacija&vrsta_publicacije=1&lang=ba
(Foreign Trade Bulletin 2006,2007,2008,2009,2010)

Figure 8: Export import coverage of B&H with CEFTA countries⁵⁰



4.1.2.2 Trade balance of Bosnia and Herzegovina with Croatia

Croatia is the largest trading partner of Bosnia and Herzegovina. 17%⁵¹ of all Bosnian exports are sold in Croatia and 15%⁵² of Bosnian imported goods are coming from Croatia. In table 12 we can see the changes of trade volume between Croatia and Bosnia and Herzegovina.

Table 12: Trade balance between Bosnia and Herzegovina and Croatia⁵³

Year	Trade deficit	Changes of trade deficit	Trade balance
2005	-1,111,012	-	50.89%
2006	-981,656	11.64%	41.61%
2007	-1,359,078	-38.45%	44.51%
2008	-1,156,836	14.88%	49.58%
2009	-910,992	21.25%	41.10%

In thousands of KM (1€ = 1.945KM)

It is easy to see the usefulness of CEFTA agreement for Croatian exporting to Bosnia and Herzegovina. CEFTA (2007), the great progress in goods exported

⁴⁹ Est. By Foreign trade chamber of B&H
(http://www.komorabih.ba/index.php?option=com_content&view=article&id=931:vtr&catid=77:vijesti-informatika-i-statistika-&Itemid=132)

⁵⁰ http://www.bhas.ba/?option=com_publicacija&vrsta_publicacije=1&lang=ba
(Foreign Trade Bulletin 2006,2007,2008,2009,2010)

⁵¹ Figure 2

⁵² Figure 3

⁵³ http://www.bhas.ba/?option=com_publicacija&vrsta_publicacije=1&lang=ba
(Foreign Trade Bulletin 2006,2007,2008,2009,2010)

from Croatia to Bosnia and Herzegovina was a negative influence on Bosnian trade deficit rate of 38%. The value of goods exported from Bosnia and Herzegovina to Croatia in 2007 was 1.090.120.000 KM (124.862.000 KM more than 2006) and value of goods imported from Croatia to Bosnia and Herzegovina was 2,449,198,000 KM (502,284,000 KM more than 2006).

4.1.2.3 Trade balance of Bosnia and Herzegovina with Serbia

Table 13: Trade balance between Bosnia and Herzegovina and Serbia⁵⁴

Year	Trade deficit	Changes of trade deficit	Trade balance
2005	-549,159	-	57.79%
2006	-434,403	20.90%	54.58%
2007	-607,297	-39.80%	53.40%
2008	-783,922	-29.08%	61.08%
2009	-541,565	30.92%	51.71%

In thousands of KM (1€ = 1.945KM)

Serbia has also had a great progress in exporting to Bosnia and Herzegovina since Bosnia entered the CEFTA 2007. The year before applying the CEFTA trade agreement Bosnia and Herzegovina had the trade deficit of 434,403,000 KM with Serbia as well as in 2007; the deficit has increased to 607,297,000 KM, what is corresponding to deficit increase of 39.80%.

It is interesting that both neighbouring countries Croatia and Serbia have increased their surplus of approximately 40% in trade with Bosnia and Herzegovina, immediately after Bosnia and Herzegovina joined CEFTA.

4.1.3 Results and problems in applying CEFTA

4.1.3.1 Results of CEFTA on Bosnian trade and industry

As before, and since the beginning of the Agreement, most of our trade in CEFTA takes place with neighbouring countries (95.4%), primarily Croatia (54.6%) and Serbia (36.3%). From year to year there is an increase in trade participation of Montenegro, particularly in Bosnian export and UNMIK/Kosovo, and Macedonia has a slightly smaller percentage of participation. Bosnia has a positive trend and perspective with Albania, and also is achieving a significant surplus with Moldova, but their participation in Bosnian trade is negligible.

Concerning the enormous trade deficit with CEFTA is, is the dominance of the leading trade partners (Croatia and Serbia) apparent. Almost three quarters of Bosnian trade deficit with CEFTA countries is achieved with Croatia, and more than one third of deficit is deficit with Serbia. On the other hand, Bosnia has a

⁵⁴ http://www.bhas.ba/?option=com_publikacija&vrsta_publikacije=1&lang=ba
(Foreign Trade Bulletin 2006,2007,2008,2009,2010)

high surplus with Montenegro and UNMIK/Kosovo (571,861,206 KM from the beginning of agreement).

The CEFTA has helped Bosnia to improve the structure of exporting goods and the export import coverage. Particularly encouraging is the improvement in the agricultural sector, with total reduction in imports of agricultural and food products by 8.35%, while export has increased by around 9.75%. This positive trend largely relates to the field of CEFTA, and partly from the influence of the global recession (2009). Also, it is caused by the increase of domestic production of earlier imported products. That increase is actually a re-start of local industry. Factories that were ruined and closed because of war, were rebuilt and production was restarted. That way, domestic products are reducing imports and increase exports. Bosnian manufacturers are increasing the range of products and successfully increasing the market share in region.

The CEFTA agreement has stimulated the foreign investors to invest in the production facilities around Bosnia and Herzegovina, because of cheap labour force and increase of the market. The CEFTA region is counting about 26 million inhabitants and that is an additional stimulation for foreign investors.

4.1.3.2 Problems in applying CEFTA

One of the most important reasons why the positive effects of CEFTA are not much higher is the lack of regional cooperation.

The inter-industrial exchange (exchange of the same kinds of goods in both directions) is on a very low level. The exchange is dominated by “cooperation” in the form of export of cheap raw materials (timbers, iron etc.) and electric energy from Bosnia and Herzegovina into the neighbouring countries, where they are used for production of finished products and re-exported to Bosnia and Herzegovina. Such “cooperation” is in fact the economic exploitation of Bosnia and Herzegovina. The unfair position has changed in 2009 during the recession, when neighbours did not have the funds to maintain their protectionist and discriminatory economic policies on the same level, and in 2009 the quality of Bosnia and Herzegovina’s products has won a certain position in their markets. Numerous analogous policies are used by Croatia and Serbia, such as the import of livestock and fish, which is allowed, but import of frozen fish and meat or meat and fish products is prohibited.

The exporting companies are having troubles on borders where their trucks are waiting to cross the border for several days until their loads are not usable any more. One example which has triggered off a diplomatic scandal between Croatia and Bosnia and Herzegovina happened in summer 2010, when Croatian border police denied crossing of border for several tons of milk without any reason until milk got spoiled. After that incident, Bosnia and Herzegovina

introduced counter measures and prohibited the import of Croatian milk products.

There are also other non-tariff barriers that exporters are facing in the CEFTA region. Most of those are caused by a low development of uniform system which should determine the quality of products and recognition of competence and equivalence of Bosnian quality determination institutions.

New negotiations between countries will be necessary.

Until the all requirement conditions for far trade are fulfilled, Bosnia and Herzegovina should use all in CEFTA agreement available “protective” measures and counter measures if needed.

4.1.3.3 Unused potential of CEFTA agreement

Bosnia and Herzegovina has a potential to improve trade and cooperation in different segments by using the CEFTA agreement.

The defence industry of Former Yugoslavia was organised in such way that all Yugoslavian republics produced in cooperation with each other for example, some parts are produced in Croatia and other in Serbia or Bosnia, or the other parts of Yugoslavia. Today, the companies which are producing in this segment are separated and they are only producing the products for which they have technology, so that there are no highly sophisticated products.

The defence industries of all countries are suffering losses of market because of lack of cooperation. And even if Croatia and Serbia had already achieved a significant export success with defence industry, the regional cooperation would have provided much better results.

Also, in tourism industry it is possible to achieve better results. Tourism cannot give the full effect without regional team approach and creating a regional tourism product.

The mountains in Sarajevo with Olympic history and Croatian great coast could be promoted together. Herzegovina is a natural tourist hinterland of Croatian coast, opens numerous opportunities for cooperation and common interest. It is possible to organize a regional tour packages, combining holidays on Croatian coast with visits to Medjugorje, Mostar, Počitelj and other attractive cities in Herzegovina.

Certain EU assistance funds, such as IPA (Instrument for Pre-Accession Assistance) are directed towards improving cross-border cooperation.

Cooperation in the energetic sector is a natural-geographic necessity, particularly when it comes to hydropower potential. A number of announcements of joint projects are encouraging, but the actual implementation is still missing.

5.1 SAA (Stabilization and Association Agreement with European Communities and their Member States)

SAA between the European Union Member States and Bosnia and Herzegovina was signed on June 16th, 2008 in Luxembourg.

Since Bosnia and Herzegovina has expressed her wish to enter the European Union, there have been signed different types of bilateral and multilateral agreements between the two parties. One of those is a bilateral agreement for Stabilization and Association, the SAA agreement which is the step before getting the possibility to apply to admission in the EU.

The Stabilization and Association Agreement is a preferential agreement, which should contribute to economic and political stabilization of Bosnia and Herzegovina and to the establishment of a closer relationship between the parties in short and long-term, as SAA is concluded for an indefinite period.

Also, SAA agreement contains a list of tasks necessary for joining the EU.

According to the Europa.eu web site, SAA tasks are⁵⁵:

1. Strengthening of: democracy, rule of law and legal state in B&H;
2. To create political, economic and institutional stability; as well in B&H and wider region;
3. To provide a base for political dialogue and developing close political relation among Bosnia and Herzegovina and EU
4. To work on development of economic cooperation by harmonizing legislation to the EU
5. To complete the process of transition to market economy
6. To build and promote harmonic economic relations and free trade area among Bosnia and Herzegovina and EU
7. Accepting and applying regional cooperation in all fields that are covered by the agreement

Only when the country has fulfilled all the given objectives, then it can submit its Application for submission in the EU.

All the countries in region had the same route on moving closer to the EU.

Figure 9 shows the current positions of Balkans countries on their way to the EU.

⁵⁵<http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=7201>

Figure 9: The process of admission into the EU on Balkan⁵⁶



Croatia, Montenegro, Macedonia and Turkey are already candidate countries for the EU entry.

Serbia and Albania are one step behind the candidature, and they have already fulfilled the SAA objectives and submitted application for entry.

Bosnia and Herzegovina is two steps before having the candidate status - reaching the SAA objectives is very hard because of complicated political situation. But the optimistic expectations are that Bosnia and Herzegovina will fulfil all SAA objectives until the end of 2012.

5.1.1 The impact of SAA on trade exchange of Bosnia and Herzegovina

Three of seven SAA objectives are related to Economy relations between the EU and Bosnia and Herzegovina.

One of those three objectives is “Promoting harmonious economic relations and developing gradually a free trade area between Bosnia and Herzegovina and the Community”.

The development of a free trade area between Bosnia and Herzegovina and the EU is already in the final phase since there are no trade tariffs on trade exchange between parties (since 2009), except on some goods: for e.g. used cars from the EU are still under tariffs restrictions.

The SAA agreement had both positive and negative effects on Bosnia and Herzegovina's economy. The increase of political stability and trade simplification with the EU increased the market attractiveness for foreign investors. But on the other hand, the trade deficit is increasing EU products that became very competitive on the Bosnian market, and Bosnian products are much less commutative on the EU market. Also the tariff revenue has drastically decreased.

Usually, negative effects prevail in short term.

⁵⁶ http://en.wikipedia.org/wiki/Stabilisation_and_Association_Process

Reason for this lies in fact that because of free trade foreign products will be more competitive on the market and trade deficit should increase. But the world financial crisis has influenced the expected short term scenario after the SAA signature; Bosnian economy was expecting larger increase in imports, and it did not happen.

Table 14: Trade values between the EU and Bosnia and Herzegovina⁵⁷

Year	Import	Export	Volume	Balance	Coverage	Increase	
						Import	Export
2005	5784435	2022899	7807334	-3761536	34.97%	-	-
2006	5500370	2995284	8495654	-2505086	54.46%	-4.91%	48.07%
2007	6799251	3415970	10215221	-3383281	50.24%	23.61%	14.04%
2008	8060734	3722382	11783116	-4338352	46.18%	18.55%	8.97%
2009	5942394	3014038	8956432	-2928356	50.72%	-26.28%	-19.03%
2010	6670461	3979200	10649661	-2691261	59.65%	12.25%	32.02%

In thousands of KM (1€ = 1.945KM)

The table 14 shows the change of trade parameters in period 2005-2010.

Since 2009, when the tariffs between the EU and Bosnia and Herzegovina are totally removed, Bosnian export in the EU has increased in the last year for one third. EU exports to Bosnia and Herzegovina also increase but modestly in comparison to Bosnian, only one eighth.

The statistics seem to be very positive for the Bosnian trade deficit, since also the trade coverage has increased for exactly 9%, that way reaching its maximum in the last 10 years.

In theory, the positive effects of free trade are usually long term effects, and they are:

1. Strengthening export competitiveness and increasing market access
2. Increased competition in the domestic market
3. Restructuring of production to comparative advantages
4. Cheaper inputs for manufacturing sector
5. Investment growth
6. Accelerated transfer of technology and knowledge
7. Fall in prices of goods and services
8. The growing volume of trade
9. Increase in national spending and economic development
10. Increase welfare

Theoretically, increasing competition in the market of goods and services should, in the long run, lead to a drop in the general level of domestic prices and increase supply. Consumers should have the most benefit from this. Such effects

⁵⁷ http://www.komorabih.ba/images/dokumenti/pdf/statistika/cefta_eu_2010.pdf

have not been (or at least not in significant volume) recorded in Bosnia and Herzegovina. Actually, according to data from the Agency for Statistics of Bosnia and Herzegovina prices have increased. The explanation for this lies in global crisis and oil price increase.

Also, according to theory, liberalization in the long run will lead to an increase in national consumption to a level that will be above the national production, which will eventually open up possibilities for additional growth, investment and economic development.

These effects can be considered in the future, and I hope that neither Bosnia and Herzegovina will be an exception in this respect.

Some of the disadvantages of liberalization (although the liberalization may not be the only reason - it is the synergy effect of several factors), mainly in the short term, which can be confirmed to have occurred in Bosnia and Herzegovina are:

1. Increased competition in Bosnia and Herzegovina's market has aggravated the business conditions for domestic companies.
2. The ability to reduce or really depress wages in less competitive domestic sectors
3. Possibility of increasing or actual increase of the rate of unemployment due to the liquidation of uncompetitive domestic enterprises, especially large public companies
4. The growth of social costs because of possible redundancy
5. Loss of revenue from the collection of customs duties
6. Possible or actual negative effects on the balance of payments due to increased imports of competing products from the EU countries
7. Increasing the adjustment costs related to the institutional and legal reforms
8. Increasing costs of compliance with environmental standards, etc.

Developing countries whose economic growth relies on foreign direct investment, such as Bosnia and Herzegovina, and which have an import dependent economy are faced with: difficult access to foreign sources of financing, lower inflows of foreign direct investment and lower foreign demand, difficult conditions to obtain consumer and investment credits. All those reasons together will cause slower economic growth in the future.

The largest trade partners from the EU are still Germany, Italy, Slovenia, Austria, Hungary, United Kingdom and the Czech Republic.

The main trade consequences of global crisis are decrease in demand and consumption. Unfortunately, the main trade partners of Bosnia and Herzegovina from the EU, Germany and Italy had the lowest GDP scores in the second part of 2008, in the last 10 years⁵⁸. This has also an impact on demand and

⁵⁸ Ministry of Foreign Trade and Economic Relations of B&H

consumption, which implies that demand for Bosnian goods in those countries, has also decreased. This is also confirmed by table 15 which shows a 19% decrease in exports in 2009.

But it is obvious that the EU economies are recovering from the crisis and it is expectable that demand for Bosnian goods in the EU will increase.

There has already been a significant increase in demand for Bosnian goods in the EU in 2010.

Also, the structure of Bosnian exports to the EU is rather interesting. The top 20 product groups which are exported in the EU are industry goods, e.g. mechanical parts, machines, furniture etc. There is no group of agricultural and food products which are exported to the EU.

On the other hand, the EU is also exporting industry goods (machines, vehicles). Actually, 70% of all exported goods to Bosnia and Herzegovina are industry goods and the other 30% are food and beverages.

Over this data, it can be explained the fact that 70% of arable land in Bosnia and Herzegovina is unused and that 31% of all imported goods are actually food and beverages.⁵⁹

5.1.2 Free trade agreement between Bosnia and Herzegovina and Turkey

A free trade agreement with Turkey signed on July 3rd 2002, which was applied from July 1st 2003, has a particular importance for Bosnia and Herzegovina.

This agreement allows companies from Bosnia and Herzegovina and foreign investors to open the market of Turkey with over 70 million consumers. In addition, there is a possibility of purchasing raw materials and intermediate goods in Turkey, their processing in Bosnia and Herzegovina and placing those in the EU, Turkey or CEFTA countries without or with preferential tariffs.

The agreement with Turkey has not been used on optimal level. The trade exchange between Turkey and Bosnia and Herzegovina is very small - only 3% of goods imported in Bosnia and Herzegovina are coming from Turkey, and only 3% of all goods exported from Bosnia and Herzegovina are finding their customers in Turkey.

The trade balance is obvious on side of Turkey. In 2009, Bosnia and Herzegovina exported goods in worth of 52 million KM and imported goods in worth of 367 million KM - from Turkey.

But, the agreement has been one of the reasons why many companies from Turkey have invested in Bosnia and Herzegovina. Turkey is the fourth largest investor, after Austria, Slovenia and Germany.

⁵⁹ <http://www.seebiz.net/poslovanje/ekonomija/gospodarska-komora-fbih-trazi-privremenu-zabranu-uvoza-sezonskog-voca-i-povrca>

There is no doubt that this agreement can be used by both sides more effectively.

Bosnia and Herzegovina's companies have to find a way to enter this 70 million people market.

5.1.3 Free trade agreement between Bosnia and Herzegovina and EFTA (European Free Trade Association)

On the last day of March 2011, Bosnia and Herzegovina and EFTA countries: Switzerland, Liechtenstein, Norway and Iceland, started the negotiations on establishment of free trade agreement between Bosnia and Herzegovina and EFTA.

It is a market of around 13 million inhabitants with a very pronounced purchasing power.

Expectations regarding this agreement are very important and quite large. Trade and investments are expected to grow significantly in Bosnia and Herzegovina. Also, strengthening mutual cooperation between ratifying countries is an essence to this agreement.

Up to now main products exported in EFTA countries were electricity, aluminium, steel and furniture. Bosnia is hoping that also other groups of products will now find a place on the EFTA market and that the volume of goods which are exported until EFTA will increase.

The greatest benefit from this agreement should be the increase of investment from EFTA countries in Bosnia and Herzegovina.

The agreement will be provided with an asymmetry in the liberalization of commodity markets, EFTA market will open immediately for all goods from Bosnia and Herzegovina, and Bosnian market for goods from EFTA countries will open gradually, in the interim period, which will be defined by the agreement.

Also it is allowed for both sides to use WTO mechanisms for protection of domestic production.

5.1.4 Bosnia and Herzegovina negotiations with World Trade Organization

The World Trade Organization WTO is, as well as institutional and legal framework of the multilateral trading system, in the fields of trade tariffs and trade in goods, services and intellectual property. It currently has 153 member states.

Bosnia and Herzegovina is one of the few countries which are not accepted in WTO until now. For example some of countries which are outside WTO are Equatorial Guinea, Laos, Afghanistan, Bhutan, Montenegro and Serbia.

It is interesting that Bosnia and Herzegovina has started the negotiation with WTO in 1999 and until today, 12 years later, the negotiations are not finished. Only China has negotiated longer than Bosnia and Herzegovina – it took them 15 years to become a member.

But in this case Bosnian government hasn't been the problem; the problem exists because any new WTO candidate has to negotiate with each WTO member country.

The negotiations have been successfully closed with the larger number of WTO members. The few countries which block Bosnian membership are Ecuador, Salvador, Brazil, India, South Korea, Switzerland and the USA.

Since the mentioned countries are not the "biggest trade partners of Bosnia and Herzegovina" actually Bosnian trade with those countries is negligible, Bosnian negotiators were willing to make a compromise.

Unfortunately, that is not possible because Bosnia and Herzegovina has obligations to the EU and the tariff regulation must be in compliance with the EU regulations.

For example, the EU prohibits low tariff for fish from Ecuador, where Ecuador is insisting on negotiation with Bosnia and Herzegovina. For Bosnia it is totally irrelevant if Ecuador can export its sea fish to Bosnia and Herzegovina with low tariffs or not. But it is important for EU since the EU and Ecuador are in fishing competition.

Problems with other countries like the USA, South Korea and India are also similar.

These negotiations require greater diplomatic will on both sides, and it is difficult to say when they will come to an agreement.

It is hard to tell the damage for Bosnia and Herzegovina not to be a member of WTO, because most of Bosnian trade is happening among free trade agreement signees.

It is important to mention that Bosnia and Herzegovina is applying the WTO regulations even if it is not formally the WTO member.

Even if Bosnia and Herzegovina becomes a full member in WTO some great trade expansion is not to be expected regarding the membership.

It is important to understand that membership would improve the state's image and credibility, by being a part of one great world association.

Also it would protect the countries trade, even if Bosnia is already applying the WTO regulations there is no mechanism of protection of those rules.

WTO countries are not legally forced to apply the WTO regulations with Bosnia.

In case if the country is not respecting the WTO rules in trade with Bosnia and Herzegovina, Bosnia cannot claim protection from WTO.

6.1 TRADE LIBERALIZATION EFFECTS

6.1.1 *Trade liberalization benefits in theory*

To clearly understand benefits of trade liberalization we must take a look at liberalization benefits.

The reasons for trade liberalization are:

1. Comparative advantage:

In accordance with comparative advantage theory, countries can make growth in their economies by becoming expert in producing goods with lower opportunity costs. Explanation is quite simple; each country has to do what they know best, and then trade it for needed products and/or services. This way, all the countries can benefit, and the market is then presenting actual supply and demand

2. Economy of scale:

Economy of scale is directly linked to comparative advantage theory. Meaning that after developing expertise in producing certain goods, they can benefit from economy of scale, and produce mentioned goods at lower cost.

This way, industries with fixed cost of production can actually benefit from economy of scale and resized cost. On the other hand, consumer will benefit also, as the goods now have lower prices.

3. Increases healthy competition:

In the case of increased foreign demand, industries will respond to it by resizing costs and increasing efficiency. This way, monopolies will be prevented inside of local market. Also, stopping monopolies means stopping price increasing. All this leads to a healthier competition within the domestic industry.

4. Increases economic growth:

Logically, the biggest factor leading to economic growth is trade. Trade has to be a result of real demand and supply, only that way economic growth is showing the actual state of economic growth. Economic growth that was generated from free trade always brings new and better jobs, higher living standards etc.

5. Effective use of raw materials:

Use of raw materials is one of the benefits generated from free trade. Use of highly valuable and highly limited raw materials is a preference. For example, it is well known that Middle East is very rich with oil, but on the other hand that is pretty much everything they have. Here, trade ensures that oil (as highly limited resource) is distributed to other countries (which are not rich with it or not

having it at all). In return, other necessary products for everyday use are going to Middle East.

6. Lesser cost of living:

Tariffs and taxes that are intended to protect government interests are increasing costs of industrial production. That way is increased the price of final product and costs of living are higher. On the other hand, it ensures lower costs of industrial production by abolition of government interventions. That way, final products are cheaper, and therefore living costs are lesser.

7. Increased choice:

Thanks to free trade, both export and import are increasing. This ensures that more products are available on the market. Thus, a consumer has a greater ability to choose among a variety of products.

8. Good government and peaceful international ties:

Once more, thanks to free trade there is no need for protectionist government policies that are leading to corruption inside the government. So, free trade is reason for healthier government, and therefore healthier country which also, means – healthier economy. This way, relationships among countries are better and stronger. Also, thanks to healthy government, international relations are stable and peaceful.⁶⁰

For details, see Irwin (2009).

⁶⁰Douglas A. Irwin „Free Trade on Fire“ <http://benefitof.net/benefits-of-free-trade/>

6.1.2 Trade liberalization benefits on the example of Bosnia and Herzegovina

Now let's take a look which of counted benefits have found place in Bosnia and Herzegovina

Table 15: Trade liberalization benefits

Benefits in theory	Benefits in B&H
1. Comparative advantage	- Bosnia has comparative advantage in wood and steel industry in region. -The market represents true supply and demand, before in Yugoslavia; market demand estimated over 5 year plan.
2. Economy of scale	-The size of market gives opportunity to use advantages of economy of scale. -Over the free trade agreements B&H has increased its potential market for consumers in EU, in CEFTA region and Turkey.
3. Increases healthy competition	- The increase of healthy competition could be true. It is hard to say that in the Bosnian market there is no monopoly, the crime, corruption and lobbying of powerful foreign companies and all of them are big problems in B&H.
4. Increases economic growth	-The GDP in average is increasing; the increase in production output is connected to trade liberalization.
5. Effective use of raw materials	-The use of raw materials could be better, the main exports of B&H are wood and steel with no or very low grade of industrial processing, and this situation can be also seen as raw materials exploitation from foreign countries.
6. Lesser cost of living	-The prices of durable use should be lower, after removing the import tariffs, and by increase of competition. Unfortunately, durable goods prices have increased. The reason why this benefit didn't find place in B&H is the global crisis and higher energy prices.
7. Increased choice	- Consumers in B&H is having opportunity to purchase among large number of products.
8. Good government and peaceful international ties	-This benefit hasn't been fulfilled in full capacity; relations between neighbouring countries are still "hard". The CEFTA agreement did make some positive effects but the governments of all countries didn't use this opportunity to make the relations more flexible.

6.2 BEFORE CONCLUSION:

Practical examples of export problems in B&H companies, what can the government do for exporting companies?

Even if Bosnian trade balance has a positive trend in last years, the exporting companies are still having big issues regarding, mainly, the application of inconsistent economic law applying, non-tariff barriers and export restrictions caused by political decisions.

A variety of factors that impede exports is caused, in general, by inadequate and inconsistent state policy, which should support exporting companies not only by promises, but also with fulfilment of promises given.

It is not real to speak about elimination of trade deficit, but state institutions have to seriously work on further reduction of trade deficit.

Primarily, state institutions have to enable certification of domestic products, which will then have international credibility. At this point, there is no serious and relevant institution that is able to do certifying.

Further on, the domestic business environment has to be improved. State institutions are always late with returning of tax and sick leave benefits for sick workers. The refundable sick leave benefits are extremely important in industries where the females are main labour force - e.g. textile industry.

The bank guarantees are also one of the problems; there is no state owned bank which would help the exporting companies in this kind of problems.

Also, state institutions are charging high prices for bureaucratic services and revision. It is important to mention that bureaucracy is extremely complicated and a lot of time is needed for only simple certificates and approvals.

The government has to help the companies in education and technological improvement, because companies are not able to finance the technical moderation and education of workers.

In most of the countries, agricultural policy is working on protection of domestic food producers. Even in the free trade agreements, trade with agricultural products is limited due the protection. The only real free trade agreement in the agricultural case is the EU, in all other agreements there are some restrictions on trade of agricultural products.

The purpose of state agricultural policy is to provide specific measures of a permanent policy of the economic position of agriculture in the whole agricultural system, and then to ensure that development policies.⁶¹

⁶¹ Utjecaj CEFTA sporazuma na vanjskotrgovinsku razmjenu poljoprivrednih proizvoda u Bosni i Hercegovini, Ferhat Čejvanović⁶¹, Kadrija Hodžić², Lejla Terzić³

Unfortunately, the agricultural policy in Bosnia and Herzegovina is not developed as in surrounding countries, without mentioning the EU countries. Agricultural policy must be maintained, regardless of the impact of world markets on the one hand, and the impact of world prices, on the other. Agricultural policy in Bosnia and Herzegovina must fit into the general processes of globalization of trade liberalization. Agriculture has a special place in these processes with regard to the most limited utility in liberalization.

On the other hand we have a positive example where government is supporting the exporting companies in textile and shoes industry. Government is participating by paying a subsidy for textile and shoes companies with 50 KM (app. 25 Euros) for each worker per month. But even in this symbolic case there are delays in payment.

The greatest exporting company in Bosnia and Herzegovina is “ASA Prevent Group” and they are complaining about a lot of issues, primarily regarding legislation and states negligence.

The Prevent says: "The problem is the interpretation of the law."

In fact, the problem is the payment of value added tax (VAT) on domestic raw materials for production in the “Free Zone”, although by the law production in “Free Zones” provides exemption from this tax.

A similar situation is with indirect taxes. Because of varying law interpretations of the various institutions Prevent has no right to use the relief provided by the Law on worker contributions for the leather-textile industry.

The next company which is complaining on government work is the largest milk producing company in country “Milkos” from Sarajevo. They are unable to export their products in EU due to lack of certification institutions.

“Milkos” is also complaining about the lack of resources which is caused by bad agricultural policy. The agricultural subsidies are the lowest in region and are paid with a delay of several months.

On the other hand, the fish industry is the only one which has a green light for exporting to the EU. But, they are also suffering because of classical non-tariff barrier the quota.

The EU has set the quota on fish imported from Bosnia and Herzegovina - only 60 tons of Bosnian fish can be imported in the EU each year. This value is well below Bosnian capacity.

“In this case the problem lies again, on Bosnia and Herzegovina’s government” says “Norfish” the largest fish producing company in Bosnia and Herzegovina. The EU has conditioned Bosnia and Herzegovina government with further trade concessions until the government provides constitutional reforms.

“Norfish” is also having problems with exporting in Serbia, because the fish is kept on Serbian border for several days until Serbian “quality check” is finished. In some cases the “Norfish” must return the shipment without reason.

On the example of given companies we can conclude that government inactivity is one of the main reasons for the low exports. Bosnia and Herzegovina’s government has a serious job to do in the future, so finally Bosnia and Herzegovina’s companies could be equal partner in the EU countries market.

6.2.1 Conclusion

By searching for the reasons of trade liberalization acceptance, as a concept for Bosnia and Herzegovina we should look at several factors, ranging from lack of funds for reconstruction in war destroyed economic facilities and economic system, then to achieve the objectives and benefits of European integrations and the objectives of development and economic growth. And also it should not ignore the difficult social situation of the country since the end of the war until today, where it was necessary to ensure the supply of the market needs at the lowest prices.

Nobody can deny that the economy of Bosnia and Herzegovina is facing many problems. No one can deny that some problems are highlighted by the day when Bosnia and Herzegovina adopted concept of trade liberalization.

On the other hand, no one can confirm that the same problems in the economy would not exist without the acceptance of trade liberalization.

It is sure that Bosnia and Herzegovina’s economy would be in difficult position if Bosnia and Herzegovina stayed out of the liberalization process.

Perhaps liberalization happened too early, because after the war economy of Bosnia and Herzegovina was destroyed, hacked, and devastated, without any protection and incentives, was exposed to the merciless laws of market economy, was at start doomed to failure. This is the main topic in the accumulated foreign trade deficit. In the first five years after war, it was about 34 billion KM (about 17.5 billion Euro), when import of goods from abroad was eight times as much as exports. Today that ratio is more favourable (2:1), but it is still far from perfect balance.

Despite some problems in the interpretation, the application of the regulations of the agreement itself and the consequences of major economic and financial crises, when it comes to the SAA, the main issues for Bosnia and Herzegovina can be identified. These are related to the implementation of the SAA as well as the implementation of the concept of trade liberalization, which require larger, more complex and systematic solutions.

Some of these are:

1. General lack of readiness of the business community to act in conditions of increased competition and especially the lack of knowledge about the benefits of free trade or how to use the preferential treatment.
2. The absence or poor functioning of certain institutions (lack of equipment, specialist training, vacancy institutions, etc.) that would support B&H exports of goods and controlled the imported goods.
3. The absence of agricultural policies at state level.
4. Excessive fragmentation of producers and the lack of organized concentrations of primary producers and the processing sector and the market.
5. Production without or with the use of old standards that do not meet the requirements of the importing country.
6. Misuse of the agreed preferential treatment
7. Bad or non-existent marketing approach to the markets of importing countries, etc.

In addressing already mentioned and other problems of an economic nature, it must come to improvement in wider structures, both economic and political, the political is perhaps most important in Bosnian case.

This paper pointed out the problems of domestic producers and exporters which are coming from the government (laziness, ignorance, lack of political will to solve some problems) such as poor application of the signed trade agreements.

Developing countries whose economic growth relies on foreign direct investment, and which have an import dependent economy, such as Bosnia and Herzegovina, are faced with difficult access to foreign sources of financing, lower inflows of foreign direct investment and lower foreign demand and all of this together will cause slower economic growth in the future.

Generally, the reduction of tariff protection increases competition in the domestic market, which affects the agricultural sector and that part of the industry sectors which, because of serious structural problems are not very flexible.

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8.1 CURRICULUM VITAE

Objective:

Name and Surname	Enes Selmanovic
Date of Birth	16.02.1985.
Citizenship	Bosnia & Herzegovina
Address	Ramiza Jasara 3, Sarajevo, Bosnia & Herzegovina Kellinggasse 4/11 , 1150 Vienna, Austria
Telephone (mobile);	+ 43 650 56 23 283 (mobile); + 387 61 38 86 18
E-mail:	selmanovicenes@hotmail.com;

Employment experience

Job Title:	Practice
Employer:	“Fin profi” d.o.o. Sarajevo, Lukavička cesta 164
From:	09/2006 to 08/2007

Description:	- Accounting, - Statement analysis, - Monthly reports - Took part in administrative part of work in the office
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(Reference: “Fin profi” d.o.o. Sarajevo, Bosnia & Herzegovina, tel.: +387 62 300 002, info@finprofi.ba, www.finprofi.ba)

Job Title:	Marketing project
Employer:	Qidenius Technologies GmbH, Mooslackengasse 17/2 1190 Vienna Tel. +431230603543 www.qidenius.com qidenius@quidenues.com
From:	03/2009 to 05/2009

Description:	- Google adwords for QiScan Product (Firma: Qidenius Technologies GmbH Vienna, Austria Tel. +431230603543)
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Education

2006-2011	University in Vienna, University of Economics BWZ, study of international economics IBWL
2010	Italian language course in Florence
2005-2006	German language course in Vienna
1999-2003	Finished Secondary education: Fifth Gymnasium in Sarajevo.

Language :	German fluent in speaking and writing English fluent in speaking and writing Bosnian fluent in speaking and writing Italian basic knowledge (level B1)
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Computer skills:	MS Windows (2000, 2007, 2010, ME, XP), MS Word, MS Power Point, MS Project, MS Office Outlook, MS Excel, Outlook Express, SPSS, SAP.
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