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Impact of Croatia's Accession to the European Union on the Trade Orientation of Bosnia and Herzegovina

Malović Marko¹, Institute of Economic Sciences, Belgrade, Serbia
Škorić Rade

***ABSTRACT** – The paper analyses the impact of accession of Croatia, Bosnia and Herzegovina's traditionally most important regional trading partner, to the European Union on the trade exchange volume and foreign trade orientation of BIH. Although the SAA offered BIH "on paper" a more liberal and favourably asymmetrical trade approach in relation to the CEFTA 2006 Agreement valid until Croatia's accession to the EU, especially in the segment of the agricultural production circulation, the statistical data on mutual trade show unambiguous and significant reduction in the volume of foreign trade, more pronounced in BIH export, particularly in the trade of agricultural products. This confirms once again that only several classes of non-tariff barriers have a decisive influence on at least a short-term negative bilateral trade impact of Croatia's accession to the EU, which BIH tries to compensate by increasing exports to other traditional partners, first Italy and Germany (segment of industrial products in a timely manner focused on the EU core), but also Serbia and Turkey (less picky and in favour of markets). Since much milder decline in imports of BIH from Croatia is not accompanied by a significant comparative increase in direct foreign investments from Croatia to BIH, the volume of bilateral trade exchange could be increased in medium-term manner either by fulfilling different standards, certificates of compliance and certification laid down in the EU (which would result in an increase in BIH exports) or by a possible incorporation of concessions that Croatia enjoyed within the CEFTA 2006 in the SAA with BIH (which would result in an increase in BIH imports).*

KEY WORDS: *BIH, CEFTA, Croatia in the EU, foreign trade*

Introduction

Geographical proximity, common history, the same language caused and predetermined a natural connection between Bosnia and Herzegovina and Croatia in

¹ Institute of Economic Sciences - Belgrade and University of I. Sarajevo, and University of I. Sarajevo, respectively. Malović expresses gratitude for the financial support of the Ministry of Education and Science of R. Serbia on the projects no. 47009 (European integration and socio-economic changes in Serbian economy on the road towards EU) and no. 179015 (Challenges and prospects of structural changes in Serbia: Strategic directions for economic development and harmonization with EU requirements).

political terms. Such connection is also reflected through mutual trade exchange, and therefore the Croatian market was the second most important export market for BIH, while Croatia was absolutely the biggest exporter to the BIH market.

After the disappearance of Yugoslavia, BIH and Croatia were found again under “one roof” by signing an agreement in Bucharest in 2006, according to which BIH became a member of CEFTA², thus joining together with Moldova, Serbia and Montenegro other CEFTA members, as well as Croatia that became the member of CEFTA in 2003. This period can be regarded as a golden period in terms of trade exchange between BIH and Croatia, which led to a significant increase in trade, especially to the outbreak of the so-called Financial crisis.

A new milestone in the history of trade relations between the mentioned countries is Croatia’s accession to the European Union. After Croatia joined the European Union, BIH for the first time bordered a country that is the EU member. By leaving the CEFTA Agreement, Croatia lost all previous preferences enjoyed as a signatory to the Agreement, and further trade between BIH and Croatia was asymmetrically regulated by the Stabilisation and Association Agreement.³

The advantage of establishing new regional trade integrations between the mentioned group of countries, economists almost instinctively view it through the prism of now a legendary theory of trade creation and trade diversion by Jacob Viner. However, Baldwin and Wyplosz (2010) understandably draw attention to the ambiguity and imprecision of the trade creation and trade diversion paradigms: not only does the Viner’s theory insinuate that the cost-benefit analysis of (not) joining the newly formed regional trade integration requires quantitative changes, where the analysis is actually dominated by cost-price increments, but Viner’s theory does not take into account all the effects (e.g. benefit from more favourable imports), where it is in fact completely useless for the analysis of the application of non-tariff barriers. Indeed, in the case of BIH, Watanabe (2012) stresses that the SAA is more than just technical issues agenda for the implementation of trade facilitation, that there is a whole range of essential goals set (in the field of safety, phytosanitary, accounting and many other community standards) that BIH has not yet fulfilled, although the lion's share of BIH products had duty free access to the unique EU market significantly before the signing of the SAA, on the basis of the preferential trade agreement in 2000, which was then reinstated. BIH often does not possess the technology for reaching these standards, but when it does it lacks laboratories for certification of its products, although, for instance, certificate issuance by laboratories in Zagreb costs about EUR 25,000 per product [Watanabe, 2012, page 52].

Therefore, after Croatia joined the European Union on 1 July 2013 and left the CEFTA Agreement, certain changes were inevitable, and so BIH – faced with a series of non-tariff barriers on until recently accessible Croatian market - was slowly finding alternative markets for sales of its products, while the impact of Croatia on BIH market was gradually fading. Whether this trend that has emerged from Croatia’s transition from one to another regional economic integration is just a temporary phase in trade relations between BIH and Croatia, or Croatia’s accession to the European Union has nevertheless significant effects on trade

²CEFTA - Central European Free Trade Agreement

³ Hereinafter: SAA



exchange and foreign trade orientation of BIH, will be assessed hereinafter. This question is particularly interesting insofar as the established theoretical assumptions of further trade liberalization - embodied by SAA's superiority in relation to the CEFTA deal - imply intensification instead of lessening of trade exchange after Croatia's accession to the EU. Even if we allow a certain margin of masking recent foreign trade by introduction of horizontal foreign direct investment from Croatia to BIH, where the investments after Croatia's EU accession did not drastically vary, empirical data suggests the opposite outcome in relation to the theoretical prediction.

Theory of regional economic integrations

In the second half of the twentieth century, a large number of regional economic integrations was created in almost all continents. Without a doubt, the most important integration in this period was the European Union (signing of the Maastricht Treaty in 1993). During this period, CEFTA was established (1994) by the Czech Republic, Hungary, Poland and Slovakia.

Origins and goals of regional economic integrations

Economic integrations usually occur in two ways. The first way is the political will of a country that is strong enough to impose such idea to geopolitically smaller countries. The second one is based on economic agreements between sovereign countries. This is a common way to create integrations in the twentieth century, and usually involves some kind of an institutional form of association. The reasons for the emergence of regional integration are primarily economic and political. Primarily political motives were behind the most developed and biggest economic integrations. Regional economic integrations emerged mostly as economic ties between the national and world markets.

Regional economic integrations are primarily aimed at intensifying trade between the member countries of the integration, through a process of reduction or complete elimination of both tariff and non-tariff restrictions. As a rule, this results in an increase in purchasing power of population of the regional integration, because of the decrease in prices of imported goods. Transfer of capital between countries of regional integration becomes a lot easier, while multiple barriers to movement of capital are eliminated. This leads to mutual benefits to both the foreign investor and the host country. Ultimate goal of regional economic integration is the economic development of the integration member countries and increase in the welfare and living standards of the population in the integration member states [Jovanović, 2004], [Mike-Frederick, 2007].

Basic forms of regional economic integration

Regional economic integrations represent various forms of fusion of economies of two or more countries that are usually close in the geographical area. Theoretically speaking, there are several basic forms of economic integrations. Balassa (1961)⁴ presented the concept by

⁴ Bela Balassa, a Hungarian economist and a consultant for the World Bank

which economic integrations have five stages in their development, starting from the free-trade area as the simplest form, to an economic and political union as the most complex form of regional economic integration. In fact, the literature identifies from the preferential trade agreement, through free trade zone, partial and full customs union, the common market, the single market, to full economic and monetary union, total of seven so far empirically verified degrees of regional economic and trade integration [Kovačević, 2000], [Pelević-Malović-Vučković, 2004].

CEFTA in the Western Balkans (CEFTA 2006)

CEFTA 2006 represents geographical relocation of the former Central European Zone (i.e. Association) of free trade to the area of the so-called Western Balkans. The Western Balkans is a relatively new term used by the European Union and Euro-Atlantic structures since the beginning of XXI century in order to, above all, mark the countries in the Balkans that are not members of the European Union (except Turkey). This imply: Serbia (including Kosovo and Metohija within the framework of the United Nations resolution 1244), Croatia, Bosnia and Herzegovina, Albania, Macedonia and Montenegro. It should be noted that Moldova also joined the CEFTA agreement, although it does not belong to this geographical area. The reason why Moldova entered CEFTA can be found in political or geopolitical domain, given that the trade between Moldova and the CEFTA member states from the Western Balkans is at the level of statistical error [Botrić, 2012].

Croatia's accession to the CEFTA agreement marked the expansion of the CEFTA to the territory of the Western Balkans. When most of the "old" CEFTA member states joined the EU, except Croatia, Romania and Bulgaria, there was a need for CEFTA expansion, since its current format did not have the specific purpose for further existence. The logical step for extension, and it can be said the only one possible, led to the Western Balkans. Although they signed the CEFTA agreement in 2006, Romania and Bulgaria have never become members of the "new" CEFTA, given that they joined the European Union on 1 January 2007.

CEFTA 2006

Bearing in mind that the "old" CEFTA proved to be a good preparation for the European Union accession, the logical decision was to introduce a new form of the agreement by amending the old agreement and the simultaneous accession of new members. Hence the title of the agreement "Agreement on Amendment of and Accession to the Central European Free Trade Agreement", usually referred to as CEFTA 2006.

The agreement consists of two parts, the main text and annexes to the agreement. The main text of the agreement has only four articles, such as: Accession, The Parties, Amendment of CEFTA, and Entry into Force (articles listed in order). Annexes to the Agreement are the backbone and a vital part of the Agreement, in particular Annex I, which essentially defines all relevant issues regarding the regulation of trade relations and other issues of importance for both the economy of the signatory countries as well as for the very functioning of the CEFTA agreement, while Annex II acts as a kind of bypass between previous numerous bilateral agreements and the new unique agreement.

Figure 1. Stages in the CEFTA development



Legend: - CEFTA's founding members (left CEFTA in 2004), Slovenia - (Expansion of 1996, left CEFTA in 2004), Romania - (Expansion of 1997, left CEFTA in 2007), Bulgaria - (Expansion of 1999, left CEFTA in 2007), Croatia - (Expansion of 2003, left CEFTA in 2013)⁵, Expansion of 2006 -

CEFTA 2006 is an improved version of the previous Agreement, which consisted of a series of bilateral agreements. Compared to bilateral agreements, CEFTA Agreement is far more complex and comprehensive. Besides being a plurilateral agreement, it includes some new issues that were not covered by the previous agreement or it significantly improves the provisions that were insufficiently precise and effective in application in the bilateral agreements.

Annex I of the Agreement as the creator of the trade regime within CEFTA

The manner of trade exchange in the area covered by CEFTA is defined by the Annex I of the Agreement. Annex I of the main agreement has 52 articles divided into seven chapters, and nine sub-annexes. Annex I is a very extensive document written on approximately 450 pages. We will mention three chapters that are most important for the subject of our paper.

Chapter 1 "General obligations applicable to trade in all goods".

The first chapter includes Articles 2 to 6 of the Agreement. As the title suggests, this chapter defines the general obligation of all parties involved in trade of both industrial and agricultural products. More specifically, it determines: classification of goods in the trade, basic duties, the rounding manner for reduction, ban on the import and export of quantitative restrictions and measures having equivalent effect, and the abolition of all existing ones on the date of entry into force of the Agreement, ban on the introduction and abolition of existing customs duties on exports, the standstill clause and the abolition of

customs duties that are not in accordance with Article VIII GATT⁶ 1994. The problem in establishing free trade is non-tariff barriers, which hinder the full achievement of one of the priorities of the CEFTA agreement – the establishment of truly free trade zone as of 31 December 2010. According to data from the Chamber of Commerce of Belgrade, from 2009 to 2013, 114 different non-tariff barriers were found within CEFTA, while a total of 73 are removed. Serbia registered 26 different types of barriers that were implemented by other members of CEFTA. All signatories of the CEFTA agreement are formally committed to remove existing barriers and not to introduce new ones. Meanwhile, as the most developed country with the longest participation in the Western Balkan incarnation of CEFTA, it seems that Croatia benefited the most from the implementation of the CEFTA agreement.

Chapter 2 “Industrial products”

This chapter consists of only two articles. The first article determines the scope and at the same time define what is implied by industrial products. These are products classified within the chapters 25-97 of the Harmonized Commodity Description and Coding System, with the exception of products that, according to the WTO Agreement on Agriculture, are considered agricultural products. These products are listed in sub-annex 1. The second article defines abolition of import duties, charges having an equivalent effect to customs duties and import duties of a fiscal nature and schedules of the abolishment.

Chapter 3 “Agricultural products”.

As with industrial products, the first article of the chapter establishes the scope of agricultural products and at the same time defines them. In addition to the standard classification under which agricultural products are considered products classified within the chapters 1-24 of the Harmonized Commodity Description and Coding System, agricultural products include some industrial products that are considered agricultural products according to the WTO Agreement on Agriculture.

Bearing in mind the specificity of agricultural products, the second article of the Chapter regulates the lowering or elimination of import duties, charges having equivalent effect and import duties of a fiscal nature on the products listed in sub-annex 3. This sub-annex represents a consolidated overview of all bilaterally agreed tariff concessions for agricultural products. Unlike industrial products, agricultural products have not been fully liberalized among the parties to the bilateral agreements. This chapter also provides that the parties will not be limited in the pursuance of the respective agricultural policies, but without prejudice to the concessions granted under Article 10 (Customs Duties on Imports). It also explicitly stipulates that all Parties shall refrain from the use of export subsidies, and abolish any such existing subsidies, in their mutual trade.

⁶ General Agreement on Tariffs and Trade – GATT can be considered as the forerunner of the World Trade Organization as we know it.



CEFTA agreement with respect to the stabilisation and association agreement

In this part of the paper, the attention will be paid to the differences, i.e. similarities between the Stabilisation and Association Agreement⁷ and the CEFTA Agreement with regard to regulation of trade relations between the Parties. The importance of this lies in the fact that the trade relations between Croatia and Bosnia and Herzegovina were regulated with the SAA on 1 July 2013, not with CEFTA agreement as in previous years.

SAA with BIH

Annex I of the SAA with BIH determines and defines BIH concessions on import of industrial products originating in the Community. Tariff rates for the group of the most sensitive products will be reduced under the following schedule: on the date of the Agreement, customs duties will be reduced to 90% of the basic duty, on 1 January of the first year after the entry into force of the Agreement, duty shall be reduced to 80%, in second year to 60%, in third year to 40%, in fourth year to 20%, and after the expiry of five years they will be completely abolished. For products from the group of very sensitive products, customs duties will be reduced in the following order: on the date of the Agreement, customs duties will be reduced to 75% of the basic duty, on 1 January of the first year following the date of entry into force of the Agreement, the duty will be reduced to 50% of the basic duty, in second year to 25%, and in third year they will be completely abolished. Customs duties on imports of sensitive products will be reduced by 50% the date of the Agreement, and totally abolished on 1 January next year. Import duties on products not included in Annex I will be abolished in its entirety on the date of entry into force of the Agreement.

Annex III of this Agreement defines BIH tariff concessions on imports of agricultural products originating in the Community. Customs duties on non-sensitive products shall be abolished on the date of entry into force of the Agreement. For products from the group of sensitive products, customs duties will be reduced to 50% of the basic duty on the date of entry into force of the Agreement, and will be completely abolished on 1 January next year. Customs rates on highly sensitive products shall be reduced in the following schedule: on the date of the Agreement, customs duties will be reduced to 75% of the basic duty, on 1 January of the first year to 50%, on 1 January of the second year to 25%, and in third year they will be completely abolished. For agricultural products from the group of the most sensitive products, customs duties will be reduced under the following schedule: on the date of the Agreement, customs duties will be reduced to 90% of the basic duty, on 1 January of the first year following the date of entry into force of the Agreement the duty will be reduced to 80%, in second year to 60%, in third year to 40%, in fourth year to 20%, and after the expiry of five years they will be completely abolished. Special group of products consists of products whose import will be limited by quotas, which will not have customs duties on imports, but customs duties will be applied by the MFN principle/clause. This group of products includes: products of pork, beef and sheep meat and live animals.

⁷ Hereinafter: SAA

Bosnia and Herzegovina has the privilege of exporting almost all products to the EU market, except for certain types of fishery products, which represent a minor part of BIH exports⁸.

Differences between the CEFTA Agreement and SAA

According to the CEFTA Agreement, trade of industrial products between Bosnia and Herzegovina and Croatia is free of duty, while in the case of agricultural products, preferential tariffs and tariff quotas are reciprocally/symmetrically applied for a number of basic agricultural products and foodstuffs. From this perspective, Bosnia and Herzegovina should have an advantage in trade with Croatia, because it will be able to export almost all products without tariff and quantitative restrictions, and on the other hand, 73 products are protected by quantitative restrictions on imports from the Community to Bosnia and Herzegovina, and 275 products remain under full customs protection after the expiry of five years from the date of entry into force of the Agreement.

Trade exchange between Bosnia and Herzegovina and Croatia before and after Croatia's accession to the European Union

Geographical closeness and a number of other factors, such as similar consumers' taste and common history, influence the extremely strong connection of these countries in terms of trade. Therefore, they largely depend on one another, and to a certain extent, they are mutually dependent in terms of trade.

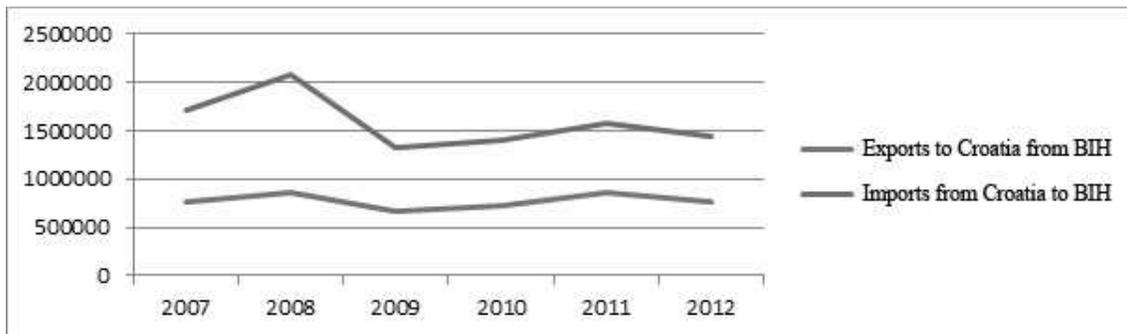
Trade between Bosnia and Herzegovina and Croatia before Croatia joined the European Union

Trade exchange between BIH and Croatia accounts for the lion's share of the total intra-CEFTA trade. Therefore, trade between Croatia and Bosnia and Herzegovina is one of the main drivers of intra CEFTA trade.

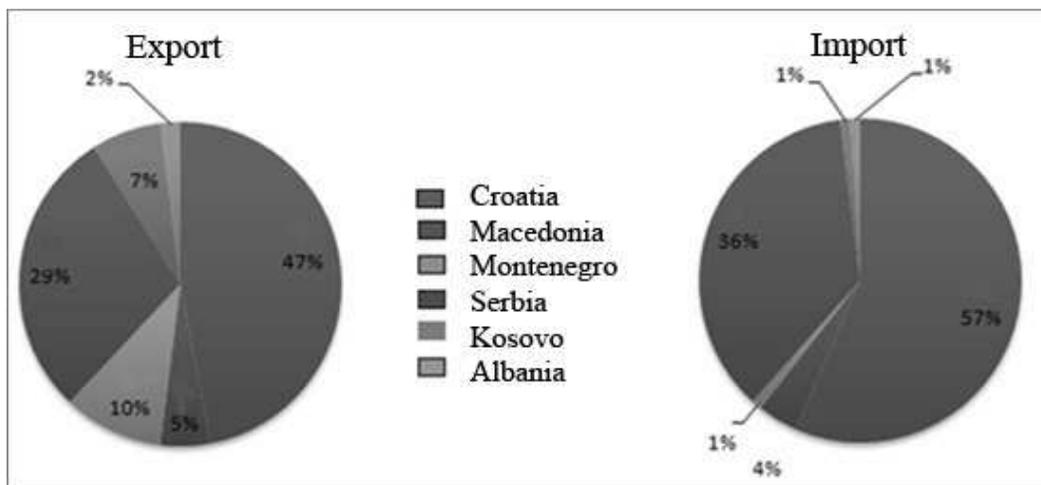
Trend of increasing volume of foreign trade between Croatia and BIH is continued by BIH joining the CEFTA Agreement in 2007, and such trend is maintained until the first serious impacts of the global economic crisis on their economies in late 2008 and much of 2009, which caused a significant decrease in the volume of trade exchange. However, the main impact of the global economic crisis was followed by re-consolidation and a gradual increase in trade.

Nevertheless, it should be noted that BIH exports is not significantly reduced in the years of the strongest impact of the global economic crisis, as it was the case with Croatia exports, which recorded a significant drop.

⁸ It should be noted that the Interim Agreement is currently in force, and the SAA is blocked because of political issues. Interim Trade Agreement can be considered as a shortened version of the SAA, which applies only to trade issues. Interim Trade Agreement entered into force on 1 July 2008.

Chart 1. Trade exchange between BIH and Croatia (in thousands of USD)⁹

Croatian market is by far the most important market for the export of products from BIH, and nearly half of total exports of BIH to CEFTA members was made to Croatian market. Furthermore, BIH is absolutely the biggest importer of Croatian products among CEFTA members.

Chart 2. Trade between BIH and CEFTA countries¹⁰

After Croatia, Serbia is the largest importer from BIH, importing almost 30% of BIH exports to the CEFTA market. Serbia is a major exporter to the BIH market, so that the export of Serbia accounts for 36% of total import of BIH from CEFTA countries.

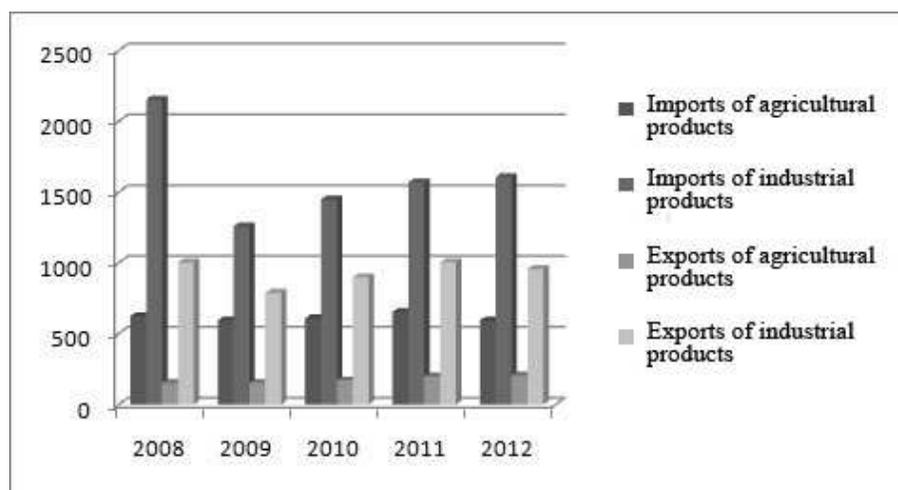
Exports to the Croatian market accounts for 15% of total exports of BIH in 2012, while imports from Croatia is also about 15%. Speaking strictly in numbers, the value of exports of BIH amounted to USD 765 million, while imports recorded a value of USD 1,446 million.

⁹ Source: BIH Agency for Statistics

¹⁰ Source: CEFTA trade portal - <http://www.ceftatradeportal.com/>

Speaking of the structure of trade, the biggest section relates to trade in industrial products, while the smaller part, but not negligible one, relates to trade in agricultural products, especially imports of agricultural products into the market of BIH.

Chart 3. Structure of trade in BIH ¹¹



Having analysed the Chart 3, we can say that trade of agricultural products during the observed period under almost constantly recorded a slight growth, and therefore, the negative effects of the global economic crisis do not have a decisive influence on trade in agricultural products. However, the negative effects of the global economic crisis are clear and obvious on trade in industrial products, so trade was significantly reduced in 2009, but recorded growth afterwards, but this growth was mild when it comes to the export of industrial products originating in BIH to the Croatian market.

Trade between Bosnia and Herzegovina and Croatia after Croatia's Accession to the European Union

When Croatia joined the European Union in mid-2013, Croatia left the CEFTA agreement, and since 1 July 2013, trade relations between Croatia, on the one hand, and Bosnia and Herzegovina, on the other hand, have been regulated by the Stabilisation and Association Agreement.

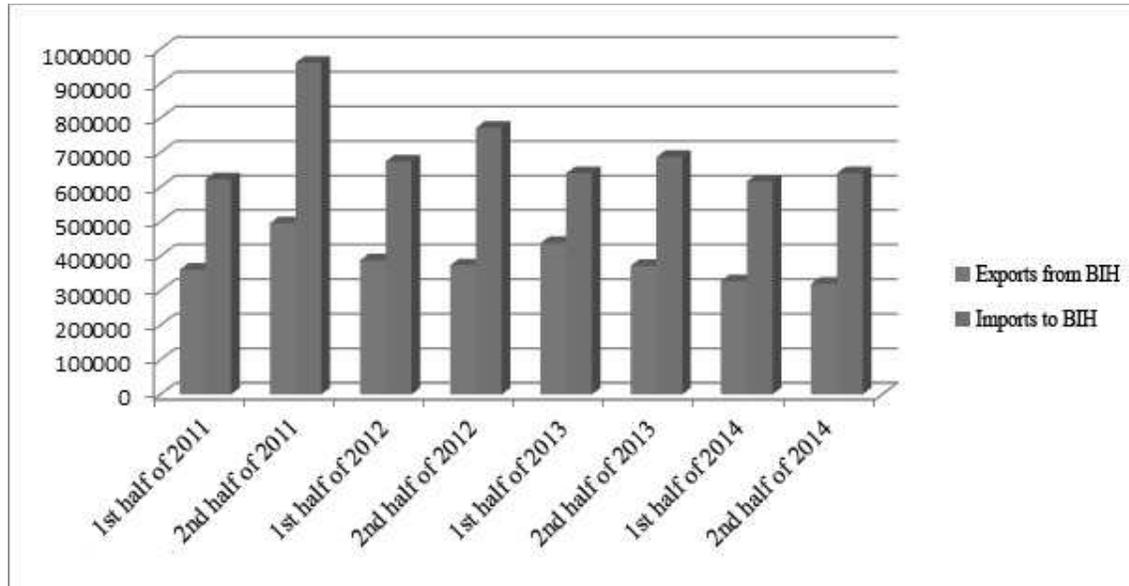
Chart 4 clearly indicates that trade between observed countries slowed down after Croatia joined the European Union, i.e. continues to decline, given that trade in the past period varied in intensity, with periods of growth and decline. Although exports of BIH in the second half of 2013 did not decline compared to the same period of 2012, the situation is quite different when it comes to the first half of 2014 compared to the first half of the previous year, with a large decrease in exports by as much as 25%. Imports also recorded a slight decline, so the imports in the second half of 2013 was by 11% lower than in the same period of the previous year. The trend of reduced imports and exports continues in the

¹¹ Source: BIH Agency for Statistics



following period, so the exports in the second half of 2014 was by 15% lower than in the same period of the previous year, while imports decreased by 7% in the same period.

Chart 4. Trade between BIH and Croatia (in thousands of USD)¹²

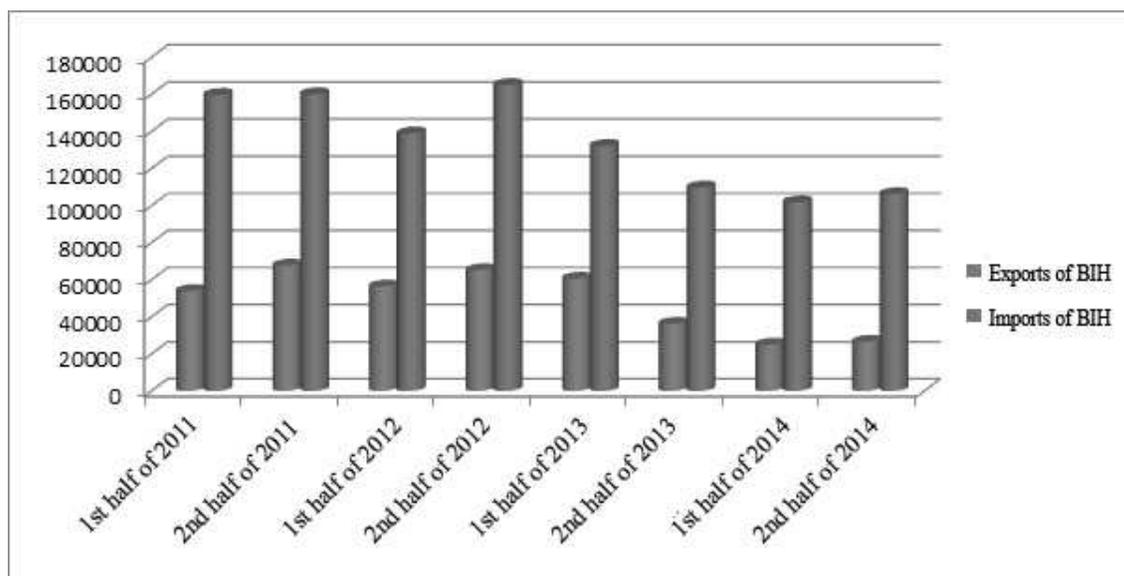


Even based on this not so particularly complex chart it can be concluded that exports of BIH to Croatia suffers significantly after Croatia's accession to the EU, while imports are decreased but not in a particularly great extent. Due to such developments, exports of BIH to Croatia as well as the part of the economy suffer significant consequences, contrary to the expectation that the export-oriented part of the economy of BIH would take advantage of more favourable access to the Croatian market.

Chart 5 clearly indicates the extraordinary reduction in the volume of exports of agricultural products and food industry products from BIH to Croatia. Exports in the second half of 2013 was almost halved compared to the first half of 2013, i.e. it declined by more than 40%. The same trend continued in 2014, so exports in the first half of 2014 decreased by incredible 59% compared to the same period of previous year and by 30% compared to the second half of 2013. Imports also recorded a significant drop, but not as drastic as in the case of exports. Imports in the second half of 2013 decreased by 17% compared to the first half of the same year, but if we compare the imports in the second half of 2013 with imports in the same period of the previous year, we can conclude that imports declined by more than a third (34%).

¹² Source: BIH Agency for Statistics

Chart 5. Trade exchange of agricultural products between BIH and Croatia (in thousands of USD)¹³.



These are quite worrying figures, which cannot be attributed as a consequence to any other event except to Croatia's accession to the European Union and to all effects that this event entails. Floods in May that had major implications on agricultural production both in BIH and Croatia, do not have a decisive influence on the trade exchange, since a huge drop in trade occurred immediately after Croatia joined the European Union, i.e. in the second half of 2013.

As an additional argument in favour of the thesis that Croatia's accession to the EU has a negative impact on the volume of trade between the observed countries is the fact that export of products from BIH to Croatia amounts to less than 11% of the total exports of BIH in 2014 as opposed to 15% in 2012. Croatia's share in total import of BIH also decreased from 15% in 2012 to 11.4% in 2014. In absolute value, exports recorded a value of USD 648 million, while imports amounted to USD 1,256 billion.

Finding alternative markets?

For the period until 1 July 2013, we can say that the economy of BIH was vitally linked to the Croatian market. However, after Croatia's accession to the European Union there was a gradual change in trade orientation of Bosnia and Herzegovina, although the Croatian market continues to be one of the most important markets.

In other words, loss of a significant part of the Croatian market, the economy of BIH tries to compensate it through the increase in the exports to other markets, mainly to the markets of countries indicated in Chart 6.

¹³ Source of data: BIH Agency for Statistics



Chart 6. Growth/decline in exports/imports with major trading partners in the first half of 2014¹⁴.

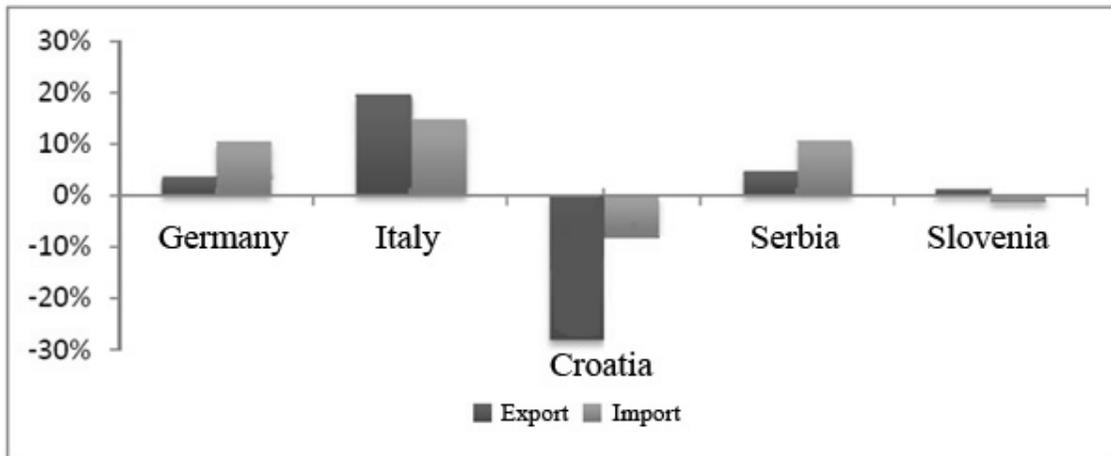
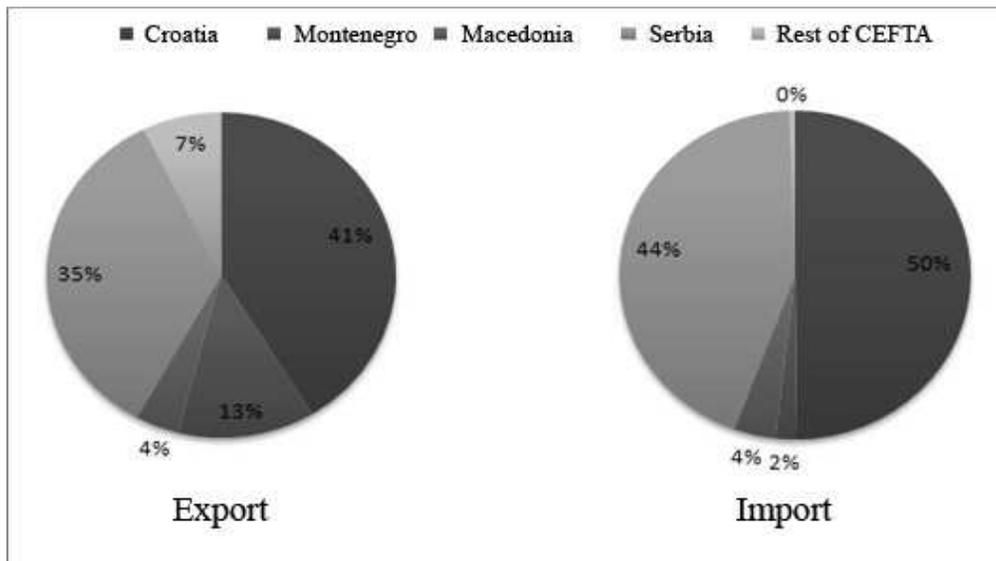


Chart 7. Intra CEFTA trade of BIH plus Croatia (2014)¹⁵



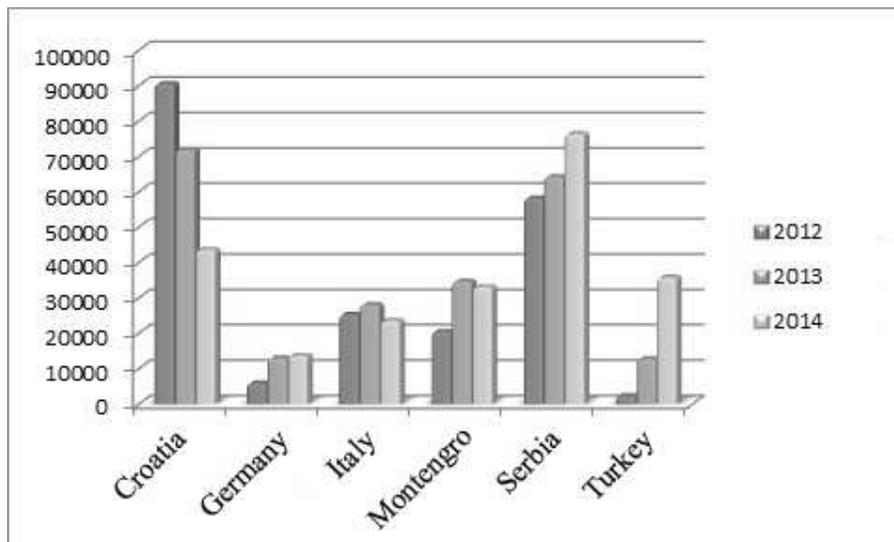
If we compare Chart 7 and Chart 2, we see that Croatia's participation both in import and export in BIH decreased, and although this decrease is not large in scale it is not negligible. The share of Croatia in exports of BIH was reduced by 6 percentage points, while imports in BIH decreased by 7 percentage points. It seems that this situation benefited Serbia the most, which increased the share of exports to BIH market by 8 percentage points.

Change of export orientation is particularly noticeable when it comes to exports of food and agricultural products.

¹⁴ Source: BIH Agency for Economic Planning

¹⁵ Source of data: BIH Agency for Statistics and the CEFTA Trade Portal

Chart 8. Exports of food and agricultural products of Bosnia and Herzegovina to most important partners (in thousands of USD)¹⁶



It is interesting to note that only exports to Croatia fell in the reporting period, while exports to other EU member states at the same time increased slightly. This can be explained by the fact that exporters who meet the required standards for food exports to the EU market, mainly choose to export to Germany, Italy or any other Member State where they can get better prices of their products. However, the most significant trend that is obvious from Chart 8 is a large increase in exports of food and agricultural products to the markets of countries that are not members of the European Union.

Conclusion

Although the SAA offered BIH “on paper” a more liberal and favourably asymmetrical foreign trade approach in relation to the CEFTA 2006 Agreement valid until Croatia’s accession to the EU, especially in the segment of the agricultural production circulation, the statistical data on mutual trade show unambiguous and significant reduction in the volume of foreign trade, more pronounced in BIH export, particularly in the trade of agricultural products. This confirms once again that only several classes of non-tariff barriers have a decisive influence on at least a short-term negative bilateral trade impact of Croatia’s accession to the EU, which BIH tries to compensate by increasing exports to other traditional partners, first Italy and Germany (segment of industrial products in a timely manner focused on the EU core), then to nearby and brotherly Serbia (segment of agricultural and food industry products that do not meet EU standards), but also to Turkey as an export destination with a high presence of diaspora. Since much milder decline in imports of BIH from Croatia is not accompanied by a significant comparative increase in direct foreign investments from Croatia to BIH, the volume of bilateral trade exchange could be increased in medium-term manner either by fulfilling different standards, certificates of compliance

¹⁶ Source of data: BIH Agency for Statistics of



and certification laid down in the EU (which would result in an increase in BIH exports) or by a possible incorporation of concessions that Croatia enjoyed within the CEFTA 2006 in the SAA with BIH (which would result in an increase in BIH imports).

Since in the latter case, the volume of trade increased in favour of Croatia and at the expense of BIH, the behaviour of the Bosnian-Herzegovinian exporters is somewhat rational. Those who managed to timely achieve high and meticulous standards of production and trading on the EU Single Market, chose the segments of the market that are more capable of payment, while others waiting for more organized support of the state in the form of a coherent and systematic export promotion strategy of economic growth of BIH (that is still missing), opted for neighbouring and less demanding markets outside the EU.

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The World Trade Organization: <http://www.wto.org>

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