THE EFFECT OF NON-TARIFF BARRIERS ON TRADING FLOWS BOSNIA AND HERZEGOVINA WITHIN CEFTA 2006

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Abstract

Main objective of this paper is presentation of non-tariff barriers influence on trading flows among countries within CEFTA 2006, in other words, position of Bosnia and Herzegovina in terms of agreement. CEFTA 2006 represent middle-European zone of free trade founded for the purpose of trading flow strengthening within Western Balkan countries on the path of their accession to EU. According to that, Bosnia and Herzegovina as a member of CEFTA 2006 tries to reach better economic position within agreement and accelerates its integration toward EU. Although, on the path to trade liberalization country’s members cancelled tariffs and quotes in their relationships, while they continued to use non-tariff barriers at the large extent. Consequently, in this paper we intended to lighten the role and trade position of Bosnia and Herzegovina within CEFTA 2006. We concluded that Bosnia and Herzegovina achieved enviable economic result regarding strength of trading flows and competitiveness. Despite of this, we also concluded that position of Bosnia and Herzegovina could be better within CEFTA 2006. if country’s members eliminate invisible tariffs, or if Bosnia and Herzegovina would performed more actively in the process of reforms conduction in the field of annulling of non-tariff barriers.

Key words: standards, barriers, administrative measures, trade, free trade, liberalization.

JEL Classification: F1, F15

1. Introduction

CEFTA 2006 originates from previous CEFTA Agreement. CEFTA (Central European Free Trade Agreement) or middle-European zone of free trade was founded in 1992 by Hungary, Poland and former Czechoslovakia. After period of foundation, several countries accessed to them, such as: Slovenia in 1996, Romania in 1997, Bulgaria in 1999, Croatia in 2003 and Macedonia in 2006 (Zenić-Zeljkovic, 2011). In 2006, Bulgaria,
Romania, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Kosovo, Moldova, Montenegro and Serbia negotiated about changes and extension of original CEFTA into new CEFTA 2006. Negotiations were supported by Pact for stabilization for South Eastern Europe and European Commission. CEFTA 2006 came on force in July 2007 (Mostetsching, 2011). This agreement replaced existing bilateral agreement regarding free trade and supported multilateral trade cooperation between South Eastern Europe counties.

Western Balkan countries started liberalization of inter-regional trade flows in 2000 under the initiative of EU. This process is finished by ratification of new Middle-European agreement regarding free trade, well-known under the name CEFTA 2006 (Bjelic, et al, 2013). New agreement replaced currently signed 32 bilateral agreements among country's members, related to exchange of trade concessions on bilateral basis, in that way making inter-regional trade of products liberalized, creating regional zone of free trade also for agricultural products.

Main characteristics of CEFTA trade flows are following: low exchange of products with added value, unsatisfactory quality and amplitude of banking services supply and lack of funding sources, poor cooperation, as well as inter-regional direct investments (Bilas and Franc, 2011).

After foundation of CEFTA 2006 trade exchange grew, especially from 2008. Among country's members there were two trade processes: intra-trade and inter-trade exchange. Intra-trade exchange represents trade of similar products or products which are in different phases of production, i.e. trade exchange of goods within the same industry. On the other side, inter-trade exchange is defined as exchange of goods and products between different industries. For example, trade with agricultural products, services, machines and equipment.

Inter-regional trade increased in the first half of 2000's (period of agreement on bilateral trade) and continued to grow in the second half of decade (period from CEFTA 2006 foundation). During the first decade of 2000's trade was tripled, whilst in the second decade it was increased 6 times (Petreski, 2011). Observing key trading partners within CEFTA 2006, it could be noted that trade flows are mostly performed among key trade partners from Croatia, Bosnia and Herzegovina and Serbia. Croatia and Serbia are the largest trade exporters and achieved surplus in inter-regional trade of goods, while Montenegro, Kosovo and Bosnia and Herzegovina are connected through intra-regional trade via import.

Besides agricultural products trade, CEFTA 2006 involved new amendments on trade of services, intellectual property rights, ownership, public procurement and investment promotion. Mentioned amendments are compiled with rules of World Trade Organization and EU. This agreement strengthened process of market liberalization or trade within Western Balkan countries. The existence of traditional relationship between ex-Yugoslavia countries, could impact on stronger competitiveness of products from country's members, i.e. from regions which would find the path to European market. Agreement brings some advantages. First of all, there was increase of trade exchange of goods and services in the region. Agreement liberalized more than 90% of trade with goods and services among countries in region (Mojsovska, 2006). It means that agreement caused the growth of trade exchange and strong product competitiveness – economy of scope, decreasing of production costs, stronger efficiency and productivity and production specialization.

Implementation of CEFTA 2006 does not mean only annulling of non-tariff barriers, rather gradually cancellation of non-tariff barriers – technical barriers, sanitary and phytosanitary and administrative measures. CEFTA 2006 provides improvement of regional economic cooperation, especially in terms of export to EU (cumulation of product origin). It means that goods originated from one country signatory could be used in production of goods in other country’s members and exported without negative impact on preferential status of final product origination. According to that, those products are treated as domestic products. Due to mention act 3. CEFTA 2006, diagonal cumulation of goods origin is possible between CEFTA 2006, EU and EFTA's members (Iceland, Norway, Switzerland and Lichtenstein) and Turkey (Vapa-Tankosic, et al, 2011). CEFTA 2006 also upgrades FDI inflow, because the market from cca 27 million of consumers is much attractive for foreign investors in comparison with individual country’s market. On the way of attracting foreign
direct investments (FDI), members of CEFTA 2006 adopted laws which guaranteed the most privileged treat-
ment, liberalization of public procurements, production modernization, implementation of new technologies
and knowledge and business strategy etc. CEFTA 2006 stimulates process of integration to EU. Accepting
the agreement, which is defined by CEFTA 2006, country’s members also accept conduct of necessary
reforms on the path to EU membership (Pjerotic, 2008).

Within CEFTA 2006 tariffs and quotes are completely eliminated and do not represent real problem for trade
exchange discouraging. Although, their elimination was followed by invisible trading barriers in the sense of
technical barriers, sanitary and phytosanitary and administrative measures. Their implementation often has
the objective not for legal consumer protection, protection of environment, animals and vegetables, rather for
discrimination of imported products and creation of unfair competition. According to this, country’s members
try to annul invisible barriers respecting the rules of World Trade Organization and EU amendments. The
most often problems among countries are impersonated in: complex border procedure which constantly
changes, lack of coordination of working hours between border departments on border pathways, which
result in long waitings, inconsistent implementation of defined procedures, disclaiming of quality sanitary
and safe certificates, causing doubled testing etc.

Abovementioned problems slower trading flows between country’s members. Bosnia and Herzegovina,
Moldova, Kosovo and Albania lapse in the adjustment process of elimination non-tariffs barriers. As a result,
those countries dropped behind in trading exchange flows with other country’s members. Consequently, it is
very important to continue reform processes and especially Bosnia and Herzegovina to continue with posi-
tive changes for the aim of improvement of competitiveness position.

Basic purpose of this research is impersonated in understanding of influence non-tariff barriers on trading
flows members within CEFTA 2006, with special retrospective view on the case of Bosnia and Herzegovina.
Though, this paper will try to lighten the main characteristic of CEFTA 2006 agreement as well as the influ-
ence of implementation of non-tariff barriers on limitation of trading flows between country’s members.
Special importance and contribution of this paper is offering answers on influence of non-tariff barriers on
trading flows among country’s members of CEFTA 2006 and possible prospective in term of their elimina-
tion.

Research, conducted regarding CEFTA 2006 mostly, mostly focused on analysis of effects of agreement on
trading flows between members. Just a few papers made research regarding impact of non-tariff barriers on
trading flows among members i.e. analyses the case of Bosnia and Herzegovina. So, this paper intends to
make some questions and offer some answers. First, this paper tries to define and determine the main char-
acteristic of CEFTA 2006. Second, this paper intends to determine current status in the field of implementa-
tion and annulling of non-tariff barriers of country’s members. Third, this paper intends to determine trade
position of Bosnia and Herzegovina within CEFTA 2006 and achieved scope in the area of elimination non-
tariff barriers, in other words, adopted measures in the area of technical barriers, sanitary and phytosanitary
and administrative measures. Answers on asked questions will have important implications on understand-
ing of non-tariff barriers effect and their impact on strengthening trading flows within CEFTA 2006 and com-
petitive position of Bosnia and Herzegovina.

2. Review of literature

Influence of CEFTA 2006 on trading flows of country’s members and implementation of non-tariff barriers are
the subject of research of certain authors. In line with that, we intend to quote and briefly present the most
important researches. Handzinski and Sestovic (2011) in their paper perform the problem of barriers imple-
moment in services industry in countries of CEFTA 2006. They separately analyze limitations in some
countries, that are related to market access, ownership structure, local demands regarding certain perform-
ances, transparency and property protection and rights of foreign companies, workforce movement etc.
Beside mentioned, they analyzed status and prospective of all service sectors in CEFTA 2006. Hadzinski et al, (2010) in research, related to improvement of regional trade integration in South Eastern Europe, are occupied with analysis of trading models within member of CEFTA 2006. They also analyze measures for regulation of trade and trade environment as well as reaction of countries on regional integration trends. In research of Hadziomeragic et al, (2007) is analyzed general problem of importance agreement on free trade and its effects on Bosnia and Herzegovina economy. In paper are analyzed theoretical effects of the agreement on free trade. Also, position of Bosnia and Herzegovina is analyzed within agreement on free trade, i.e. it was given description of evolution process in trading flows in Bosnia and Herzegovina economy. Furthermore, there are analyzed problem that influence on achieving positive effect from free trade zone, otherwise gravitation model of trade is presented as well as calculations that measure the trade effects. Kikrekova (2010) in her paper presents the problem of CEFTA 2006 impact on trading flows in Macedonia. She separately analyzes agreement on trade liberalization within CEFTA 2006 and trade exchange in Macedonia regarding mentioned agreement. Also, she analyzes non-tariff barriers and their impact on trading flows within agreement. Mojsoska-Blaževski and Peterski (2010) carry out the problem of Western Balkan trade with EU and CEFTA 2006, with special attention on Macedonia. They concluded that, through applying of gravitation model, trading relationship between countries depend upon level of GDP per capita. Furthermore, they determine that income was not equal in the free trade zones and CEFTA 2006. According to them, the main cause for that is existence of non-tariff barriers. Pjerotic (2008) in his paper conduct analysis of trade liberalization effects in South Eastern Europe countries, in other words, analyze trade structure between members, i.e. flows of intra-industrial exchange. Jelisavac and Zirojevic (2008) researched the significance of CEFTA 2006 formation, otherwise positive and negative effects which cooperation had on country’s members. Also, they analyzed the effects of non-tariff barriers on trading flows of country’s members as well as potentials of CEFTA 2006.

Bjelić and Dragutinovic Mitrovic (2013) in their paper conduct the analysis of competitiveness position of Serbia in CEFTA 2006. In order to investigate the competitiveness position of Serbia in that agreement, they used gravitation model. Model showed that Serbia exported more in less developed countries of CEFTA 2006 in comparison with export to EU countries. Beside this, they concluded that nearness of market in relation to market liberalization has significant influence on trading flows in Serbia. Bjelić et al, (2013) analyze the global financial crisis influence on export of Western Balkan countries. During financial crisis there had been decrease in export from Western Balkan countries to EU countries. According to authors, it is generally accepted that more than 90% of total export in Western Balkan countries is directed to EU. Solely economic crisis caused export decrease and made these countries less resistance. So, those countries intend to, through CEFTA, strengthen intra-regional trade flows in order to be less dependent upon external markets.

Beside abovementioned researches, there are also studies with subject of CEFTA 2006, such as: CEFTA issues paper 4 – elimination of non-tariff barriers in CEFTA (2012), CEFTA trade statistics half year (2012), Agency for statistics of Bosnia and Herzegovina – trade exchange of Bosnia and Herzegovina with foreign countries (2012, 2013), Central bank of Bosnia and Herzegovina – Bilten (2012), Foreign trade Chamber of commerce (2012, 2013).

3. Trading flows and Bosnia and Herzegovina position within CEFTA 2006

Emerging countries are faced with increased trade deficit of balance payment current account. Growth of trade deficit makes problematic macroeconomic stability of emerging countries. Foreign trade policy of Bosnia and Herzegovina is characterized with certain shortcomings which are result of poor organization of institutional system. Foreign trade is under jurisdiction of Ministry for foreign trade on the level of Bosnia and Herzegovina. Although, some segments of foreign trade policy conducting are under jurisdiction of entities who make arrangements with neighbor countries and in that way it comes to non-harmonized foreign trade
policy. Despite that, in recent period is distinguished the process of harmonization of foreign trade of entities and its conducting by foreign government institutions on the state level. Precisely, from 2008 the process of harmonization in conducting of foreign trade policy has more significance than former.

One of the reasons for trade deficit existence in the economy of Bosnia and Herzegovina is adoption of Law on Foreign Trade Policy from 1997. It is much liberalized law, which provided too much opening toward foreign countries of Bosnia and Herzegovina economy. There are 3 main reasons for described situation: 1) domestic product capacities were on the very low level after the war ending and protection of domestic industry was not realistic option, 2) significant inflow of donating funds and 3) inefficient administrative capacity, i.e. non-payment of tariffs and taxes on borders. Before mentioned law does not include existence of quantitative limitations beside special cases, such as jeopardizing of public safety, safety of people, animas, vegetables etc. (Hadziomeragic, et al, 2007).

Foreign trade exchange of Bosnia and Herzegovina recorded strong import of products after war ending till nowadays. Although, coverage of import by export was very low in 2003 and amounted only 29%. After 2003, there had gradual increase of import of goods and services in Bosnia and Herzegovina. Growth of exports in countries of CEFTA 2006, EU and other trading partners, was the result trade liberalization in Bosnia and Herzegovina. During period of global financial crisis in 2008, especially during 2009, there was recorded the growth in coverage of import by export. In 2011 these rate was 53%. Although, trade deficit continued to increase in comparison with 2010 (see Table 1). Trade deficit was the highest during 2008.

Table 1. Export and import in Bosnia and Herzegovina in period 2003 – 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Average rate of 1EUR in KM</th>
<th>Trade exchange level</th>
<th>Export</th>
<th>Import</th>
<th>Balance</th>
<th>Rate of coverage import by export in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1,95583</td>
<td>5.518.5588</td>
<td>1.241.537</td>
<td>4.277.051</td>
<td>-3.035.514</td>
<td>29,0</td>
</tr>
<tr>
<td>2004</td>
<td>1,95583</td>
<td>6.358.289</td>
<td>1.540.401</td>
<td>4.817.888</td>
<td>-3.277.487</td>
<td>32,0</td>
</tr>
<tr>
<td>2005</td>
<td>1,95583</td>
<td>7.650.970</td>
<td>1.934.319</td>
<td>5.716.651</td>
<td>-3.782.531</td>
<td>33,8</td>
</tr>
<tr>
<td>2006</td>
<td>1,95583</td>
<td>8.463.456</td>
<td>2.640.463</td>
<td>5.822.993</td>
<td>-3.182.531</td>
<td>45,3</td>
</tr>
<tr>
<td>2007</td>
<td>1,95583</td>
<td>10.141.385</td>
<td>3.035.327</td>
<td>7.106.058</td>
<td>-4.070.731</td>
<td>42,7</td>
</tr>
<tr>
<td>2008</td>
<td>1,95583</td>
<td>11.761.864</td>
<td>3.431.633</td>
<td>8.330.231</td>
<td>-4898.599</td>
<td>41,2</td>
</tr>
<tr>
<td>2010</td>
<td>1,95583</td>
<td>10.589.745</td>
<td>3.627.873</td>
<td>6.961.872</td>
<td>-3.333.999</td>
<td>52,1</td>
</tr>
<tr>
<td>2011</td>
<td>1,95583</td>
<td>12.142.311</td>
<td>4.203.925</td>
<td>7.938.386</td>
<td>-3.734.461</td>
<td>53,0</td>
</tr>
</tbody>
</table>


During 2012, trend of trade deficit increasing was continued. Fundamental cause of the growth in trade deficit was industrial production fall caused by felt of demand for half-finished materials in countries which are main trading partners, accompanied by export decrease, while, from the other side, the felt in domestic demand caused import decreasing. Observing foreign trade exchange in 2012, it could be noted that export was decreased for 272,5 million KM or 1,7%, while import was lower for 364,2 million KM or 4,4%. Trade deficit amounted 7, 39 billion KM, that is for 1,3% more than for 2011. Coverage of export by import in 2012 amounted 51,8% which is below the level for 2011 (CBBIH Bilten, 2012).

Regarding export, main trading partners for Bosnia and Herzegovina are: Croatia, Germany, Italy and Serbia. During 2012 the value of export in Bosnia and Herzegovina recorded decrease in all abovementioned countries. Export in Croatia was lower in 2012 compared with 2011 for 1,5% and amounted 277,4 million KM, export in Germany decreased for 1,7% and amounted 294 million KM, export in Italy was down for 2,5% and
The effect of non-tariff barriers on trading flows Bosnia and Herzegovina within CEFTA 2006

amounted 243 million KM, whilst export in Serbia was decreased for 33,9% and amounted 166 million KM. On the import side, main trading partners of Bosnia and Herzegovina were: Croatia, Germany, Russian Federation and Serbia. The value of imported goods from Germany was lower for 3,9% and amounted 435,4 million KM, import from Croatia was decreased for 5,5% and amounted 561 million KM, import from Russian Federation was down for 23,4% and equal 450,9 million KM and import from Serbia felt for 7,2% and amounted 367,2 million KM (CBBIH Bilten, 2012). Export in Croatia, Germany, Italy and Serbia made approximately 50% of total export in Bosnia and Herzegovina.

On the import side, main trading partners of Bosnia and Herzegovina were: Croatia, Germany, Russian Federation and Serbia. In 4Q there was decrease of value of import from those countries. The value of imported goods from Germany equals 435,4 million KM, with annual decrease of 17,6 million KM (3,9%), import from Croatia totaled 561,2 million KM and it is lower for 32,5 million KM (5,5%), whilst import from Russian Federation is lower for 93,8 million KM (23,4%) and amounted 450,9 million KM. Import from Serbia is decreased for 28,4 million KM (7,2%) and amounted 367,2 million KM (CBBIH Bilten, 2012).

In next Table 2, we can see the coverage ratio of export and import with the most significant trading partners in a period from 01. to 03. of 2013. Based on data, we can conclude that Bosnia and Herzegovina reached trade surplus only with Germany – 106,65%. After Germany, Austria and Italy are the countries with who Bosnia and Herzegovina has high rate of coverage import by export – with Austria that rate is 83,66% and with Italy 83,8%. With countries members of CEFTA 2006, and ex member of CEFTA – Croatia, the coverage ratio for observed period amounted 51,03%, while with Serbia amounted 43,50%, as the main trading partners.

Table 2. Surplus/deficit and coverage of import by export in Bosnia and Herzegovina with the most important trading partners (01.03.2013.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Export</th>
<th>Import</th>
<th>Balance</th>
<th>Coverage of export by import in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>338.791</td>
<td>317.656</td>
<td>21.135</td>
<td>106.65</td>
</tr>
<tr>
<td>Austria</td>
<td>151.027</td>
<td>180.531</td>
<td>-29.505</td>
<td>83.66</td>
</tr>
<tr>
<td>Italy</td>
<td>227.483</td>
<td>273.479</td>
<td>-45.996</td>
<td>83.18</td>
</tr>
<tr>
<td>Netherlands</td>
<td>29.436</td>
<td>53.944</td>
<td>-24.508</td>
<td>54.57</td>
</tr>
<tr>
<td>Turkey</td>
<td>46.167</td>
<td>87.485</td>
<td>-41.317</td>
<td>52.77</td>
</tr>
<tr>
<td>Slovenia</td>
<td>172.448</td>
<td>327.087</td>
<td>-154.638</td>
<td>52.72</td>
</tr>
<tr>
<td>Croatia</td>
<td>292.437</td>
<td>573.027</td>
<td>-280.589</td>
<td>51.03</td>
</tr>
<tr>
<td>Serbia</td>
<td>149.276</td>
<td>343.180</td>
<td>-193.904</td>
<td>43.50</td>
</tr>
<tr>
<td>Hungary</td>
<td>43.657</td>
<td>125.994</td>
<td>-81.337</td>
<td>27.51</td>
</tr>
<tr>
<td>Poland</td>
<td>20.313</td>
<td>91.631</td>
<td>-71.318</td>
<td>22.17</td>
</tr>
<tr>
<td>Russian Fed.</td>
<td>12.313</td>
<td>78.626</td>
<td>-66.653</td>
<td>16.50</td>
</tr>
<tr>
<td>Switzerland</td>
<td>39.324</td>
<td>401.989</td>
<td>-362.665</td>
<td>9.78</td>
</tr>
<tr>
<td>Other country.</td>
<td>479.816</td>
<td>498.939</td>
<td>19.424</td>
<td>96.17</td>
</tr>
<tr>
<td>Total</td>
<td>1.994.147</td>
<td>3.353.567</td>
<td>-1.359.420</td>
<td>59.46</td>
</tr>
</tbody>
</table>


Considering export structure in quoted 4 countries, in Serbia and Croatia are mostly exported products from industry of mineral gas, lubricants and similar products, where belongs also electricity. In Germany and Italy
dominate export of various finished goods, products segregated according to material (metals and products based on metals, paper, products from cellulose, textile etc.).

If we consider import according to goods structure, the largest decrease recorded group of products mineral origin (share in total import – 19.1%) for 176.7 million KM or 19.4%, then processing of alimentaries (share in total import – 10.2%) for 19.2 million KM or 4.6%. The largest increase of import is recorded to following group of products that have the highest share in total import: machines, appliances, mechanical and electrical devices for 12.5 million KM or 2.4% and products of chemical industry for 15.7 million KM or 4.3% compared with the same period of previous year (see figure 1) (CBBIH Bilten 4, 2012).

![Figure 1](image1.png)

On the export side, the most significant share (22.1%) has basic metals, which recorded decrease in the amount of 38.9 million KM (8.2%) compared with same quarter of 2011. On the second place are products of mineral origin with share of 10.5% of total export, with also decreasing trend in the amount of 85.9 million KM (29.3%) vs. same period of previous year. Third group of products according to share are various products, mostly related to furniture which encompass 10.6% of export in 4Q, with rise of 17 million KM (8.9%). The largest share in trade deficit in 4Q 2012 had following group of products: products of mineral origin (mainly fuel oil) 28.3%, appliances and mechanical devices 18.1%, processing of alimentaries 16.1% and products of chemical industry 13.2% (see Figure 2).

![Figure 2](image2.png)

Although, speaking about Bosnia and Herzegovina position within CEFTA 2006 it is important to make retrospective view on CEFTA 2006 Report for the first half of 2012 – emphasizing that export of Bosnia and Herzegovina within CEFTA 2006 amounted 626,105 million EUR. For Bosnia and Herzegovina, the most important exporting partner was EU, where Bosnia and Herzegovina export equals 1,163,798 million EUR, while the rest of the world export reached 1,351,890 EUR. Bosnia and Herzegovina exported in Turkey 49,338 million EUR and in EFTA countries 25,617 million EUR, China 2,419 million EUR and Russia 5,481 million EUR. On the other side, Bosnia and Herzegovina mostly imported from EU 1,763,988 EUR and
CEFTA countries 915,259 million EUR, Russia 376,019 million EUR, China 192,894 and Turkey 107,574 million EUR and rest of the world 2,833,390 EUR (see Table 3).

Table 3. CEFTA 2006 Trade Statistic 2012 half year: case Bosnia and Herzegovina

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra CEFTA</td>
<td>626.105</td>
<td>915.259</td>
</tr>
<tr>
<td>RoW</td>
<td>1,351,890</td>
<td>2,833,390</td>
</tr>
<tr>
<td>EU</td>
<td>1,163,798</td>
<td>1,763,988</td>
</tr>
<tr>
<td>EFTA</td>
<td>25,617</td>
<td>25,158</td>
</tr>
<tr>
<td>Turkey</td>
<td>49,338</td>
<td>107,574</td>
</tr>
<tr>
<td>Russia</td>
<td>5,481</td>
<td>376,019</td>
</tr>
<tr>
<td>China</td>
<td>2,419</td>
<td>192,894</td>
</tr>
</tbody>
</table>


Considering export of Bosnia and Herzegovina in country’s of CEFTA 2006, it should be noted that Bosnia and Herzegovina mostly export to Croatia – 48% of total export. After Croatia, Serbia is the most significant exported market for Bosnia and Herzegovina with 30% of export, then Montenegro with 10%, Kosovo 6%, Macedonia 5% and Albania 2%. After leaving CEFTA 2006 from the side of Croatia, Serbia and Bosnia and Herzegovina would be the most important trading partners. On the side of import, it could be noticed that Bosnia and Herzegovina mainly imports from Croatia 57%, Serbia 38%, Macedonia 4% and Montenegro 1%. Observing according to export structure in Bosnia and Herzegovina, based on 5 leading industries, in CEFTA 2006 country’s, there should be notified domination of products which are classified as materials, then, mineral fuels, lubricants and similar products, food and live stock, raw materials etc. The structure of export in Bosnia and Herzegovina economy, based on 5 leading industries, in EU countries is mostly related to products classified as materials, various product articles, raw materials etc. (see Figure 3).

Figure 3.
Top five sectors in exports to CEFTA

Source: adjusted according to CEFTA, 2012, p. 6.

On the other side, considering according to import structure of Bosnia and Herzegovina economy, based on 5 leading industries from CEFTA 2006 countries, the mostly imported are mineral fuels, lubricants and similar products, food and live stock, products classified as materials, chemicals and similar products etc. (see Figure 4).
Observing according to scope of trade exchange of agricultural and non-agricultural products in Bosnia and Herzegovina with country’s of CEFTA 2006, it should be noticed that among country’s members in the process of trade exchange dominate non-agricultural products compared with agricultural products. Comparing 1Q of 2011 vs. 1Q of 2012, there was recorded domination of non-agricultural products in relation with agricultural products in the process of exchange (see Table 4). Beside that, in total amount is evidenced decreasing of trade exchange with those members of CEFTA 2006 and rest of the world. The main reason for that situation is presence of economic recession in EU zone and in larger trade partners in the world.

<table>
<thead>
<tr>
<th>Country</th>
<th>1H2011 Agricultural products</th>
<th>1H2011 Non-agricultural products</th>
<th>Total</th>
<th>1H2012 Agricultural products</th>
<th>1H2012 Non-agricultural products</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>8,145</td>
<td>12,249</td>
<td>20,394</td>
<td>6,703</td>
<td>6,564</td>
<td>13,267</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Croatia</td>
<td>201,844</td>
<td>656,149</td>
<td>857,993</td>
<td>202,590</td>
<td>617,282</td>
<td>819,872</td>
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<td>Macedonia</td>
<td>24,871</td>
<td>38,697</td>
<td>63,568</td>
<td>27,252</td>
<td>33,534</td>
<td>60,787</td>
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<td>Moldova</td>
<td>180</td>
<td>952</td>
<td>1131</td>
<td>293</td>
<td>935</td>
<td>1228</td>
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<tr>
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<td>78,661</td>
<td>89,511</td>
<td>10,884</td>
<td>64,044</td>
<td>74,928</td>
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<td>437,231</td>
<td>600,317</td>
<td>161,192</td>
<td>370,358</td>
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<td>39,506</td>
<td>9,356</td>
<td>30,376</td>
<td>39,732</td>
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<td>Rest of the World</td>
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<td>3,808,787</td>
<td>4,186,322</td>
<td>373,076</td>
<td>3,812,204</td>
<td>4,185,280</td>
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<tr>
<td>CEFTA</td>
<td>416,739</td>
<td>1,255,682</td>
<td>1,672,421</td>
<td>418,271</td>
<td>1,123,093</td>
<td>1,541,364</td>
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</tbody>
</table>


In period January – May 2013, export amounted 3 billion and 464 million KM, that is for 10,8% more vs. same period of last year, whilst import amounted 6 billion 8 million KM, which is for 0,5% lower vs. same period of 2012. Coverage of import by export was 57,6%, while foreign trade deficit in goods amounted 2 billion 544 million KM. Export in CEFTA countries was 1 billion 23 million KM, which is for 4,6% more than same period of 2012, when import was 1 billion 362 million KM, that is for 7,6% less than previous year. Coverage of import by export was 75,1%. Import in EU countries was 2 billion 57 million KM, 10,3% higher than same period of 2012, while import was 2 billion 841 million KM, just 0,8% more than same period of previous year, Coverage of import by export was 72,4% (ASBIH, 2013).
4. Non-tariff barriers within CEFTA 2006

CEFTA 2006 is multilateral agreement on free trade which replaced 32 bilateral agreements on free trade on the territory of Western Balkan. Primary goal of CEFTA 2006 foundation was formation of free trade zone between country’s of Western Balkan and Moldova until 2010. Agreement ensures trade liberalization of agricultural and non-agricultural goods and services and full protection of intellectual property rights. This agreement provides practice of fair competition and gradual liberalization of public procurements market in country’s members. Under the term liberalization of trade exchange of non-agricultural products usually we consider annulling of all import tariffs which are not reconciled with the act VIII GATT from 1994, then complete elimination of export tariffs and measures with equivalent effects and all quantitive limitations and measures with equivalent effect.

Liberalization of trade exchange of agricultural products within agreement means elimination of tariffs and quotes as well as export subsidies. In the case that certain country continues with use of some export subsidies, other country’s members have an opportunity to use barter trade tariffs in order to protect and implement the rules of fair competition on their markets. Country’s members are obliged to apply rules of World Trade Organization regarding sanitary and phytosanitary measures. Also, agreement contains the rule on technical barriers within agreement of World Trade Organization and obliged its members to reconcile their national technical standards with World Trade Organization and EU until the end of 2010 (Kikerkova, 2010).

It is generally known that in international trade larger tariff liberalization of trade cause the growth of importance of non-tariff barriers. Non-tariff barriers among members of CEFTA 2006 commence due to fact that country’s members are in different stages of reconciliation their regulatory rules with EU legislative. Those countries that advanced in standard harmonization with EU have an impact on other members to reconcile their legislative in short time manner, causing strength of trading flows. For that reforms processes there is necessity for time and resources (Ženic-Zeljkovic, 2011).

Members of CEFTA 2006 precisely defined deadlines for reconciliation (Jelisavac and Zirojevic, 2008):

- technical trade barriers - until 31.12.2010. members are obliged to harmonize and reconcile the process of procedure;
- competitiveness – until 01.05. 2010. – competitiveness principles begin to apply on all companies, involving state companies and those with special and exclusive rights followed by active participation of independent regulatory agency;
- public procurements – until 01.05. 2010. members will insure non-discrimination and equal treatment for all participants;
- protection of intellectual property – until 01.05. 2014 all counties must respect formerly adopted rules.

Non-Tariff Barriers involve wide spectrum of measures which significantly could influence on trading flows between members of CEFTA 2006 and in general. In non-tariff barriers we include technical barriers, sanitary and phytosanitary and administrative barriers.

Standards, technical acts and acts of compliance evaluation often cause technical barriers in trade. Governments introduce technical barriers for the purpose of achieving goals of public policy, including national security, health of nation, safety and environmental protection. Although, those acts are often the source of problem for trade directly and indirectly, especially when they are implemented disproportionately and are not directed to rightful goals. Those measures also cause deterioration of trading flows among countries when they are introduces unified and when they are not enough transparent and available to foreign producers (CEFTA 2006, 2012).
In order to offset or eliminate unnecessary technical barriers which impact on trade, World Trade Organization, through its agreement on technical barriers, intends to define rules, i.e. regulate procedures and avoid charging of unnecessary technical barriers. Most of countries in CEFTA 2006 are members of World Trade Organization and automatically accept defined rules. Simultaneously with mentioned process within EU, country’s members completely reconcile technical barriers in order to strengthen its trading flows. Consequently, member of CEFTA 2006 intend to be a part of EU, as it is case with Croatia, which became the part of EU since July 1, 2013 I intend to annul non-tariff barriers, making important steps closer to EU. Those CEFTA countries which harmonized its infrastructural systems with EU automatically eliminate technical barriers between themselves and EU. Finally, task for all country’s members of CEFTA 2006 is harmonization of trading system between each other, consequently with EU.

Implementation of technical barriers in trade often causes limitations in trade, although it is not the purpose of their existence in the most of cases. Technical barriers became very important tool for protection of domestic industry, bearing in mind that tariffs and quotes are annulled. But, implementation of technical barriers does not mean always limitations in trade. In some cases, technical barriers or standards and acts could initiate trade – but it is rare situation. Technical standards influence positive on strengthen consumer’s confidence regarding imported goods, because imported goods should fulfill necessary standards and rules. Technical barriers influence also positive on exporters because they obtain necessary information about consumer’s preferences, simultaneously decreasing costs of collection information of that type.

Institutional framework for standardization in CEFTA 2006 countries is on very low level, causing blocking trade with EU countries and between each other. Consequently, standardization of quality is cause of limitation trading flows within CEFTA 2006. Exporters mostly claim that standards are used as technical barriers in order to discourage trade, i.e. to protect domestic industry or producers from foreign competition. On the other side, domestic producers consider that standards are not used sufficiently (in terms of products quality) as technical barriers and in that way allow import of products with doubtful quality, creating unfair competition.

Based on the last CEFTA 2006 Report it is evidenced progress of all countries in term of infrastructure of standardization and regulation, representing one of the key factors for EU accession. Made progress in area of standardization is obvious, but not speed enough and comprehensive in order to provide mutually confession of quality standards between countries of CEFTA 2006. Harmonization of standards and processes of regulation consider adoption of European standards with simultaneously eliminating of technical barriers among member of CEFTA 2006 and EU. Despite of that, certain countries still stay behind in transferring technical rules from EU. In the process of transfer and adoption of technical rules and bodies for evolution of reconcile process from EU, among advancers are: Croatia, Macedonia, Serbia, Montenegro, while Albania, Bosnia and Herzegovina and Moldova should make addition effort. Bosnia and Herzegovina and other two mentioned countries, due to slow process of adoption rules from EU, are exposed to potential problems of export on CEFTA 2006 and EU markets. Because of retrogression in area of annulling trading barriers, trade exchange of Bosnia and Herzegovina is often below the potentially desirable level.

Country’s members of CEFTA 2006 also intend to conduct harmonization regarding international voluntary standards that are very important for trading flows. By acceptance of international standards, products from CEFTA 2006 countries would be easier traded among members and EU countries. Implementation of international standards bring unique message regarding reconciliation of quality of products and services. Introduction of international standards has positive effects on attraction of FDIs and strengthen of trading flows. Those standards are especially important for less developed countries, because due to standards countries get the opportunity to export products on developed markets. Countries from CEFTA 2006 could not be proud regarding made steps in the area of international standards introduction. Croatia and Serbia are advancers in that process, although they are very far from European average. Other countries such as: Bosnia and Herzegovina, Albania, Montenegro, Moldova are behind in this process and from them it is expected speeding up the process in following year if they want to be closer to EU integration flows.
Countries from CEFTA 2006 executed mutual recognition adopted standards in last two years. Although, it can not be expected that process will be completed soon, because it is very sensitive field with complex process of legal regulation followed by non-existence of clearly defined time frameworks for their mutual recognition.

Table 5. Progress in Convergence to EU Standards

<table>
<thead>
<tr>
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<tbody>
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<td>Albania</td>
<td>14,424</td>
<td>15,029</td>
<td>n/a</td>
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<td>9,653</td>
<td>32</td>
<td>35</td>
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<tr>
<td>Croatia</td>
<td>10,695</td>
<td>21,368</td>
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<td>145</td>
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<tr>
<td>FYR Macedonia</td>
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<td>6,011</td>
<td>20</td>
<td>36</td>
</tr>
<tr>
<td>Montenegro</td>
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<td>1,530</td>
<td>n/a</td>
<td>0</td>
</tr>
<tr>
<td>Serbia</td>
<td>2,805</td>
<td>5,072</td>
<td>325</td>
<td>347</td>
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<tr>
<td>Kosovo</td>
<td>665</td>
<td>1,200</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>


For the aim of tracking elimination of technical barriers within CEFTA 2006, there were used following indicators (CEFTA 2006, 2012):
- Institutional framework for standardization and foreign cooperation,
- Transfer of European technical rules in primary sectors,
- Adjustment of European standards in sectors defined as priority,
- Institutional framework for accreditation and foreign cooperation,
- Evaluation of reconciliation between infrastructure and procedures,
- Mechanisms of information and reporting.

Based on CEFTA 2006 Report for 2012, all countries reached positive shift measured by abovementioned indicators, in terms of elimination and reconciliation of technical trade barriers which are constraint for trade within countries from CEFTA 2006 and EU. In the Report is emphasized that Croatia, currently part of EU, reached the best performance. Former Yugoslav Republic Macedonia, Serbia and Albania are above the average for CEFTA, Montenegro is very close to average, while Moldova, Bosnia and Herzegovina and Kosovo are behind them significantly.

The second type of non-tariff barriers are sanitary and phytosanitary measures (common abbreviation – SPS). That group of measures or barriers, due to its nature, is considered acceptable because they are related to limitations which should ensure safety of food, animals and sanitary protection of vegetables. But rarely, that measures are used not just for mentioned situations, already they served for protection of domestic economy or for limitation of import from foreign countries. For the purpose of annulling sanitary and phytosanitary limitations, World Trade Organization intends, through agreement, to define and introduce international standards, guidelines and recommendations in order to discourage limitations of trading flows among countries. According to that, CEFTA 2006 members accept basic guidelines of World Trade Organization and recommendations of EU. In the first instance, they try to accept following agreements: risk evaluation (SPS measures should underlie on scientifically proved propositions); principle of equality (equal
relations or treatment toward foreign and domestic exporters); reconciliation (there is a need for compliance with international standards, guidelines and recommendations) and transparency (SPS measures should be immediately published and available). For evaluation of sanitary and phytosanitary measures among CEFTA 2006 members there are used following indicators (CEFTA 2006, 2012):

- Institutional framework for SPS,
- Level of cooperation between SPS agencies within CEFTA 2006 and external levels,
- General rules on SPS measures,
- Transfer of European SPS measures, and
- Mechanism of information and reporting.

Cancellation of tariffs and quotes on agricultural products within CEFTA 2006 countries, sanitary and phytosanitary measures are intensively used as barriers in trade between country’s members. Talking about sanitary and phytosanitary barriers, it is very important to stress that in the export structure of CEFTA 2006 countries dominate agricultural products. Export of agricultural products made more than a quarter of total export in CEFTA 2006. In export of agricultural products dominate Kosovo, Serbia, Macedonia (Handziski, et al, 2010).

CEFTA 2006 countries are obliged to have good coordination in the process of introduction of sanitary and phytosanitary measures. That considers that it would not be necessary to introduce those measures and that all countries would be informed in time. But, the largest problem in term of annulling of sanitary and phytosanitary measures is non-existence of clearly defined deadlines for their elimination. Countries which want to access to EU must on that path to eliminate mentioned measures. It is often that countries members unified introduce sanitary and phytosanitary measures, making harder for import products. Clear examples of introduction mentioned measures are done by Croatia, Serbia, Bosnia and Herzegovina etc. The most often complaints are related to inspections and checking of alimentary products, banning import of live stock, milk and products based on milk. Despite of that, countries members achieved significant progress in direction of convergence sanitary and phytosanitary measures. Especially are emphasized advancers in this area, such as: Croatia, Macedonia and Montenegro, whilst other countries are below the average.

Based on CEFTA 2006 Report for 2012 it is obvious that Croatia, ex-member, reached the largest progress. Former Yugoslav Republic Macedonia and Montenegro are above the average of CEFTA. Albania, Bosnia and Herzegovina and Serbia achieved similar result and they are very close to CEFTA average, while Moldova and Kosovo should conduct serious reforms in order to be closer to international practice.

Third group of non-tariff barriers is related to tariff and administrative procedures. Tariff and administrative procedures bring certain costs of business, which are inevitable due to its nature. But, some countries often introduce additional limitations on export and import of certain products, above defined measures, causing unnecessary business complication. As a result, there would be present counter-effect in term of reaching negative benefits from participation in international product chain and disincentiveness of foreign direct investments. Consequently, in order to avoid unnecessary costs and complicated tariff and administrative barriers, it should be conduct measures which will reduce cost of business, make procedures more transparent and act coherent, unbiased and unique administrative border demands, simplified of tariff system, harmonization of administrative requests, elimination of complicated procedures, implementation of international agreements regarding cooperation etc. (CEFTA 2006, 2012).

For the aim of annulling of administrative barriers in trade among members of CEFTA 2006, there are used following indicators for measuring of their elimination or harmonization (CEFTA 2006, 2012):

- Foundation of national tariff web page on which would be presented all information,
- Evaluation of tariff business,
The effect of non-tariff barriers on trading flows Bosnia and Herzegovina within CEFTA 2006

- Participation in trade community,
- Improvement of rules,
- Complaint procedures,
- Fees and costs,
- Formality: documentation and electronic automation,
- Tariff procedures and processes, and
- Domestic and cross-border cooperation between agencies etc.

In term of administrative barriers CEFTA 2006 countries made progress regarding transparency and protection of enterprises rights abroad. Furthermore, all countries members published adopted laws and procedures in official gazettes and on Internet pages of authorized institutions. They apply the same business procedures toward domestic as well as toward foreign companies in institutional sense. It means that foreign companies could make complaints on made decisions on more levels, as it is case with domestic companies. In that sense, some members succeed in shortening of necessary time in arbitrage process. For example, Serbia need 6 weeks for arbitrage for domestic legal entities and 11 weeks for foreign legal entities, while in Montenegro described process lasts 45 days (Handzinski and Šestović, 2011).

Based on CEFTA 2006 Report for 2012, Croatia, Former Yugoslav Republic of Macedonia and Serbia made dynamic progress. But, Montenegro reached result that is a little above the average, whilst Albania and Moldova are close to CEFTA average. In the case of Bosnia and Herzegovina and Kosovo, there is a need for additional effort to append to progressive countries. Based on below presented graph, we could conclude that Bosnia and Herzegovina is on the bottom among countries within CEFTA 2006. Bosnia and Herzegovina's lapsed in the process of elimination of non-tariff barriers and non-conducting reforms has negative influence on trading flows and competitiveness position within agreement (see Figure 5).

![Figure 5. Total average mark for all 3 dimensions](source: Adjusted according to CEFTA2006, 2012, p. 81.)

5. Non-tariff barriers: case study of Bosnia and Herzegovina

CEFTA 2006 countries are faced with unified introduction of non-tariff barriers that could be source of trading tensions between them. All countries member, also Bosnia and Herzegovina, mainly emphasized presence of following non-tariff barriers within CEFTA 2006 (CEFTA 2006):

- Complicated procedures on custom border transitions, high bureaucracy and non-adjusted working hours of customs and inspection services (sanitary, veterinary, radiology);
- Lack of internationally recognized bodies for accreditation and certification and insufficient number of authorized laboratories and institutions;
- Non-recognition of quality certificates – agreements on mutual recognition of documents are not signed yet among countries in CEFTA 2006. Therefore, each country has its own control. Every shipment of goods is tested (samples) for two times on both borders;
- Problem of non-adjustment of domestic standards and technical rules with international standards;
- Lack of adequate transport and other infrastructure;
- Complicated regime of issuing licenses, corruption and smuggling.

Bosnia and Herzegovina is, in the area of technical barriers, reached certain results that are presented on figure 6. Progress is achieved especially in the field of standardization and outside cooperation, adjustment to EU standards, accreditation and outside cooperation. But, poor results are reached in the area of transferring or adoption of EU technical rules, adjustment or reconciliation of evaluation process and mechanism of information and reporting. For the purpose of elimination of mentioned deficiencies, Bosnia and Herzegovina should speed up the process of acceptance EU technical rules, strengthen physical capacities and competences and also appointed cooperative national mechanism for information and reporting.

**Figure 6.**
Result for technical barriers in trade - Bosnia and Herzegovina


Bosnia and Herzegovina is, in the area of sanitary and phytosanitary barriers, reached good progress on cooperation between agencies for SPS. In the field of institutional framework of SPS is reached just a little progress. Also, there was recorded poor progress in the area of development mechanism of information and reporting, SPS legislatives, transferring of European SPS measures (see Figure 7).

**Figure 7.**
Result for sanitary and phytosanitary measures - Bosnia and Herzegovina

Source: Adjusted according to CEFTA 2006, 2012, p. 91.

In the field of administrative barriers Bosnia and Herzegovina reached certain progress, especially in the part of involvement in trading community and rules improvement. But, Bosnia and Herzegovina is poorly positioned in the field of development of national custom web, fees and costs, complaints procedures, documen-
tations and automation, custom procedures and processes, domestic and cross-border cooperation between agencies and opinion polls. For the aim of speed progress in the area of administrative barriers Bosnia and Herzegovina should appoint on border pathways opinion polls on which will get information regarding trading rules and procedures. In the case of improvement of complaint procedure, it is necessary to provide right for complaint procedure against official body, which is responsible for decision-making. Strengthening of the automation process and reducing of necessary documentation should provide better cooperation with country’s from CEFTA. In the field of legislature, there is need for changes in order to provide data processing ahead, just before product would be on the border. Also, it is necessary cooperation between custom and other relevant agencies which have clearly defined roles and responsibilities (see Figure 8).

Figure 8.
Total result for administrative barriers - Bosnia and Herzegovina

Source: Adjusted according to CEFTA 2006, 2012, p. 92.

Conclusion

Based on our analysis we confirmed that foundation of CEFTA 2006 improved trading position of Bosnia and Herzegovina in comparison with period within Stabilization Pact for South Eastern Europe. Bosnia and Herzegovina succeed with its membership in CEFTA 2006 to reduce trade deficit, in other words, coverage of import by export. After Croatia exit as of July 1, 2013 Bosnia and Herzegovina together with Serbia will become leading trading partners. According to that, we also validate that in the area of annulling non-tariff barriers countries in CEFTA 2006 made significant progress. Elimination of non-tariff barriers among country’s members and accepting rules of World Trade Organization and EU directives means their faster integration toward EU and strengthening competitiveness position. In that sense, we determine that Bosnia and Herzegovina lapsed in term of acceptance EU directives which are related to annulling of non-tariff barriers. According to that, Bosnia and Herzegovina with that position diminishing its role in trade exchange with other country’s members. Finally, we conclude that Bosnia and Herzegovina should make reforms, as other countries, in the area of technical, sanitary and phytosanitary barriers, if it wants to strengthen its competitiveness position and reach faster access to EU.
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