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PREFERENTIAL TRADE AGREEMENTS: BASIS OF FURTHER ECONOMIC INTEGRATION OF BOSNIA AND HERZEGOVINA

Review

Abstract

Results presented in the paper accomplished the primary objective of the survey: to affirm further economic integration of Bosnia and Herzegovina in its path towards EU membership. The most important aspects of economic integration, as well as the preferential trade agreements of Bosnia and Herzegovina are elaborated in the paper. Particular attention was paid both to economic analysis of preferential trade agreements and to the effects of Bosnia and Herzegovina's trade agreements. Several topics on economic integration and preferential trade agreements have been assessed. A representative example of preferential trade agreements analysis has been presented, followed by economic effects of implementation of CEFTA agreement in Bosnia and Herzegovina.

Keywords: *preferential trade agreement, customs union, free trade agreement, free trade zone.*

JEL: F15, F43, F36

1. INTRODUCTION

Trade barriers were reduced after the Second World War, causing the international trade to increase rapidly. The reduction of trade barriers occurred due to multilateral trade negotiations under the auspices of the GATT, while, to encourage trade liberalization, some countries mutually decided to additionally reduce trade barriers. These contracts are known as preferential trade arrangements or regional trade liberalization, with practically all 145 WTO member states participating in at least one of the 150 preferential agreements that have been recognized by the WTO.

In order to remove the obstacles in trading goods, services and production factors in numerous states, those states established economic integrations, thus generating several forms of such economic integrations, whereby each subsequent one incorporates the features of the previous one. Given that the creation effects of a form of integration are depleted over time, the states attempt to establish multiple forms of cooperation. The above represents an inexhaustible topic and a basis for conducting research in the form of this paper, since the importance of trade agreement implementation is recognized in practice. Therefore, the aim of this paper is to assess current issues and phenomena of preferential trade agreements of Bosnia and Herzegovina. In accordance with the issues, a thorough hypothesis has been established: Preferential trade agreements that maximize or minimize trade diversion can have the greatest positive impact on the world economy.

The results of the survey summarized in this paper should contribute to economic integration, i.e., to support further economic integration of Bosnia and Herzegovina, a country heading towards its membership in the EU, which symbolizes the highest form of economic integration.

2. FORMS OF ECONOMIC INTEGRATION

In its economic integration theory from 1950, Jacob Viner defined the effects of trade creation and trade diversion. These terms were introduced due to changes in the goods flow caused by price difference, i.e. by changes in customs tariffs for creating an economic union. In his theory, Jacob perceives trade flows before and after the unification of the states, as well as their relationship with the rest of the world. His findings are still the foundation of the theory of economic integration.

However, the basis of the economic integration theory was introduced in the 1960 by the Hungarian economist Béla Balassa, who made a theoretical division of economic integration phase onto the following: a free-trade area, a customs union, a common market, an economic union and complete economic integration. He believed that trade barriers between the markets are reduced by the growth

of economic integration and that supra-national common markets with free movement of economic factors across national borders create the need for further integration, not only economic, but also for political integration.¹

Therefore, economic integration is typically caused by the political will of the state, with the aim of removing obstacles in the movement of goods, services and production factors. Nowadays, integration is usually agreement-based, which usually involves some sort of institutional forms of association. Furthermore, it implies commercial policy of restriction or abolition of trade barriers between countries. There are several forms of economic integration, whereby each subsequent incorporates the features of the previous one, given that the effects of creating a form of integration are exhausted through time, the states seek to establish higher forms of cooperation, thus ranging economic integration as follows:²

1. Preferential trade agreements,
2. Free trade zone,
3. Customs union,
4. Common market and
5. Economic union.

The lowest form of economic integration is a preferential trade agreement that provides fewer trade barriers to states participating in the trade agreement in relation to countries not included in the agreement. An example of a preferential trade agreement is an Agreement of Great Britain and the Commonwealth countries, which later established a system of mutual preferential tariffs in 1919.

Free trade zone involves removal of all trade barriers between member states, with every member state having the right to retain their own trade barriers against countries that are not members of a free trade zone. The best examples of this form of integration is the European Free Trade Association (EFTA), which was founded in 1960 by the United Kingdom, Austria, Denmark, Norway, Portugal, Sweden and Switzerland, as well as the North American Free Trade Agreement (NAFTA), which was founded by the United States, Canada and Mexico in 1993. In addition to these two free trade zones, an fine example of such type of trade integration is represented by the Southern Common Market (*Mercado Común del Sur - Mercosur* or *Mercado Comum do Sul - Mercosul*) formed by Argentina, Brazil, Paraguay and Uruguay.³

¹ Balassa, B.: *The Theory of Economic Integration*, Greenwood Press, 1961, p. 174.

² Salvatore, D.: *International Economics (Međunarodna ekonomija)*, 9th Edition, Faculty of Economics, Publishing Centre, Belgrade, 2009, p. 352.

³ *Ibid.*

Customs Union is a trade agreement within a group of countries, among which free trade takes place, but, unlike the free trade zone, with a common customs tariff in relation to imports from third countries. Customs Union can be represented as follows:

$$\text{Customs} = \text{Free trade zone} + \text{Common Customs Tarif}$$

Customs Union implies the abolition of customs or other trade barriers among member countries, as well as the harmonization of trade policies (e.g. establishing common customs tariffs) towards non-member countries of the customs union. The best known modern example of such form of integration is the European Union (EU), or European Common Market formed in 1957 among West Germany, France, Italy, Belgium, Netherlands and Luxembourg. One of the most significant historical examples of this form of integration is the Zollverein, or Customs Union established in 1834 among the independent German states, which was significant during Bismarck's unification of Germany in 1870.⁴

Common market, in addition to free movement of goods, provides the free movement of labour and capital among member states. As the removal of trade barriers ensures expansion of markets and easier exchange and movement of products and services, there is a need to expand the entire business, not just trade with other member countries. It leads to the need for investing and engaging workforce, thereby requiring the abolition of barriers for free movement of labour. An example of a common market is the market of the European Union, which reached the status of a common market in early 1993.

Economic union is a common market of the Member States who negotiate and implement the harmonization of economic policies, and in some cases form a common economic policy, which is, in theory, known as partial and complete economic union (Economic and Monetary Union). While partial union handles common interest rate policy, foreign exchange rate policy, tax harmonization etc., Complete union introduces its common currency, a common central bank as well as the government with supranational powers that implements a common economic policy, which ultimately represents the most advanced form of economic integration. A perfect examples of a complete economic and monetary union are the United States and the European Union.

By enabling free movement of labour and capital, there is a need for coordinating common policies of education, training, pensions, social security, interest rates, price stability, taxes, etc., which leads to synchronisation of economic policy, and ultimately to forming a unified economic policy.⁵

⁴ Ibid.

⁵ Ibid.

Table 1: Comparison of economic integration forms

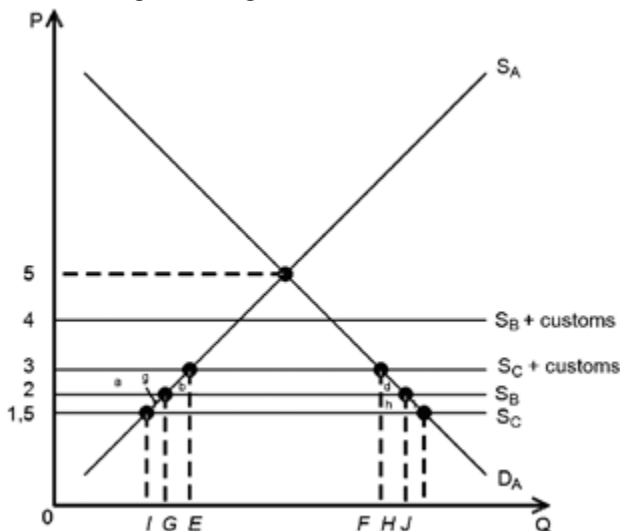
| Level of integration | Elimination of Tariffs and Quotas Among Member States | Common External Tariff and Quota System | Elimination of Restrictions on Production Factor Movements | Harmonization and Unification of Economic and Social Policies and Institutions |
|----------------------|---|---|--|--|
| Free trade zone | Yes | No | No | No |
| Customs union | Yes | Yes | No | No |
| Common market | Yes | Yes | Yes | No |
| Economic union | Yes | Yes | Yes | Yes |

Source: Keegan, W.J., Green, M.S.: Global Marketing, Prentice Hall, 2000.

3. ECONOMIC ANALYSIS OF PREFERENTIAL TRADE AGREEMENTS

Economic implications of regional trade liberalization, such as the free trade agreement or the customs union, are essentially the same. In order to better explain such implications, the best would be to make an example by using three hypothetical countries: A, B, and C. Let us assume that the country A is a manufacturer of a certain product and that it protects its own manufacturers from foreign manufacturers in the amount of 100%. Assuming that the product will cost 5.00 BAM per unit, and that the country B is ready to export the same product priced at 2,00 BAM per unit, while the country C is also exporting the same product at a price of 1.50 BAM per unit.

Figure 1: Regional trade liberalization



Source: Husted, S. & Melvin, M.: International economics, 6 edition, Pearson Addison-Wesley, Boston, 2004, p. 252.

Figure 1 illustrates the market for the given product in the country A. The lines S_b and S_c denote export curves to the country A from the countries B and C, and vice versa. In free trade, the country A would import products from the country C, at a price of 1.50 BAM per unit, and considering that the given product can be purchased from the country C at a price of 1.50 BAM, there is no demand for the product from the country B at the price of 2.00 BAM.

If an assumption is made that the country A has duty fee set to 100%, it would result in a doubled price of the given imported product, therefore causing the product from the country C to increase to 3.00 BAM per unit. Such price is still lower than the 4.00 BAM (2.00 + 2.00 BAM of customs) for the product that could be imported from the country B. Therefore the country A continues to import only the specified product from the country C at a price of 3.00 BAM per unit.

If the country A negotiated a free trade agreement (FTA) with the country B, it would result that the products imported into the country A from the country B would not be burdened by customs. Customs would remain in force for all the products coming from the country C. Since the product from the country B has no duty fees, the consumers would be able to buy the product at the price of 2.00 BAM, instead of buying the product at a price of 3.00 BAM from the country C. Therefore, it is the natural tendency of the country A to transfer the purchase of products from the country C to the country B. The import would be expanded to other products in the process.

This example clearly demonstrates that the establishment of a free trade zone or a customs union can have two effects onto international trade. The first effect represents a country of origin trade shift - from the country C to the country B. Such shift of trade sources is known as trade diversion. As a rule, trade diversion is seen as a benefit for the convergence of the world. Accordingly, the country A no longer imports goods or services from the Country C, all for the benefit of the country B, i.e. the country A has agreed to give preference in favour of its partner from the free trade zone.

Another effect of forming a free trade zone is to expand trade of the country A, with import being expanded onto other products. Such event occurs since consumers are able to pay lower prices for imported products. The expansion of trade, which is the product of a free trade zone or a customs union is known as the trade creation.

Whether the establishment of a free trade zone would benefit the member states or not, depends on the strength of trade creation and trade diversion. Calculation of the impact of a free trade zone onto the country A by creating a free trade zone between the countries A and B is as follows. If the country A forms a free trade

zone with the country B, the consumers in the country A should benefit from the following:

- ◆ The price paid by the consumers is lowered from 3.00 BAM to 2.00 BAM,
- ◆ Consumer surplus is increased by \$ (a + b + c + d),
- ◆ Manufacturers surplus drops by \$ a, while customs revenue drops by \$ (c + e),
- ◆ Creating a network of such changes in surplus provides an incentive for the country A \$(b + d) - \$e.

Due to trade diversion, the country A no longer trades with the country C, which was caused by the drop in customs rates. Part of the drop in customs earnings (Sc), benefits the consumers in the form of lower end prices. The remaining amount (Se) is a loss for the country A. Such loss occurs because the free trade agreement between the country A and the country B means that the consumers in the country A would have to pay a higher price to manufacturers in the country B than they would have paid for the same products in the country C. The “e” represents the amount by which the price rose (0.50 BAM), while the grounds of “e” represents the amount of trade diversion from the country C on the basis of the free trade agreement. Accordingly, \$e represents an increased amount that the manufacturers from the country B received compared to what the manufacturers from the country C received prior to placing the free trade agreement into effect. However, the expansion of trade causes the transfer of profits. Consumers in the country A pay lower prices when purchasing products, therefore expanding the trade.

Table 2: Free trade agreement effects between the countries A and B onto the country A

| | | | | | |
|---|------|------|------|------|------|
| Change in consumer surplus | \$a | +\$b | +\$c | +\$d | |
| Change in manufacturers’ surplus | -\$a | | | | |
| Change in state revenues | | | -\$c | | -\$e |
| CHANGE IN EFFECT | | \$b | | +\$d | +\$e |

The above example clearly states that the country B benefits on the basis of its export from such arrangement, which is achieved by having the country B enter new markets that had not been available in the past. On the other hand, it is given that the prices of products from the country A are higher than prices from the country C, the country B reduces its tariffs on products from the country A, thus being faced with an uncertain prospect of the consumer well-being. At the same time, the country C is suffering a loss because its manufacturers have lost a certain market share. Therefore, since the impact of FTAs onto countries A and B is uncertain, and that the country C is suffering a loss, a positive effect of such agreement onto the international economy is uncertain. Generally, preferential trade agreements that maximize trade creation or minimize trade diversion can have the greatest positive impact on the world economy.

If a free trade agreement between the countries A and C is analysed, the country A will eliminate customs tariffs towards the country C. In such case the price of a product imported from the country C would drop to 1.50 BAM thus the imports from the country C. Such occurrence would cause an increase in imports which actually represents a genuine trade creation. If that would be the case, trade diversion would be exactly zero, since the countries A and C traded prior to and following the signing of the agreement. For the country A, the effect of the free trade agreement with the country C in relation to the duty fees amounts to $\$(b + f + g + d + h + i)$. Country C also benefits from such contract because its export is increasing. That way, the country B does not experience any losses nor gains since that agreement has no impact on its trade.

The following question is raised from the previous statement: why should we create a free trade zone with the country B, when the benefit would be greater if a free trade zone is formed with the country C? There are several answers to this question, but none is entirely satisfactory. On one hand, the formation of preferential trade relations can be explained as the need to be released from the framework of the statistical calculation of profit and loss and to calculate dynamic gains. In this particular case, under the assumption that there are economies of scale of production of various goods, when the countries A and B form a free trade zone the size of the market is expanding for manufacturers from both countries, which allows such manufacturers to expand their production and to lower their prices. Therefore, why not include the country C into such free trade zone in order to establish universal free trade and to fully exploit the economies of scale.

On the other hand, preferential agreements are formed on the basis of political and non-economic reasons. One of such examples is the creation of the European Union, which can be seen as an attempt by European politicians to fully integrate their economies in order to prevent war. However, the establishment of a Generalized System of Preferences scheme among various industrialized countries and developing countries has obviously been strongly politically motivated. These plans provide limited extraordinary trade preferences for goods produced in developing countries.⁶ Many of these plans were initiated in early 1970s by industrialized countries under pressure from developing countries which required assistance in their development.

⁶ <http://www.legalserviceindia.com/article/1425-WTO-&-Development-In-Developing-Countries-Perspective.html>, (08.04.2014.)

4. PREFERENTIAL TRADE AGREEMENTS AND THEIR EFFECTS ON THE ECONOMY OF BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina has signed several preferential agreements, the most important being the Central European Free Trade Agreement which includes the following member states: Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia (FYROM), Moldova, Serbia, UNMIK on behalf of Kosovo, Montenegro and Croatia to the date of its accession to the EU. In addition to this Agreement, Bosnia and Herzegovina has signed a Preferential Trade Agreement between Bosnia and Herzegovina and the Islamic Republic of Iran and the Free Trade Agreement between Bosnia and Herzegovina and the Republic of Turkey.⁷

Table 3: Selected data on BiH foreign trade 2001-2006

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------------------------|-------|-------|-------|-------|-------|-------|
| Import (billion euro) | 3.748 | 4.114 | 4.253 | 4.757 | 5.715 | 5.823 |
| Import - annual growth rate (%) | 11.4 | 9.8 | 3-4 | 11.9 | 20.1 | 1.9 |
| Export (billion euro) | 1.152 | 1.068 | 1.188 | 1.441 | 1.934 | 2.640 |
| Export - annual growth rate (%) | -0.5 | -7.3 | 11.1 | 21.3 | 34.2 | 36.6 |
| Trade deficit (billion euro) | 2-595 | 3.046 | 3.066 | 3-317 | 3.781 | 3.183 |
| Trade deficit (% GDP) | 42.6 | 47.1 | 45.0 | 44.2 | 46.9 | - |
| Current account balance (% GDP) | -13.6 | -19.4 | -21.2 | -19.2 | -21.1 | - |
| Openness (X+M)/GDP | 80.5 | 80.1 | 79-9 | 82.7 | 95.0 | - |

Source: Hadziomeragić, A. et al.: Bosnia and Herzegovina in SEE trade arrangements: Analysis and policy recommendations, BiH Economic Studies, Directorate for Economic Planning, No. 1, pp. 9-42.

Table 4: BiH's main trade partners, 2003-2006

| | Export shares (%) | | | | Import shares (%) | | | |
|---------------------|-------------------|------|------|-------------|-------------------|------|------|-------------|
| | 2003 | 2004 | 2005 | 1-9 2006 | 2003 | 2004 | 2005 | 1-9 2006 |
| EU 15 | 38.1 | 38.4 | 35.5 | 37.9 | 34.2 | 33.2 | 35.3 | 31.0 |
| Germany | 12.4 | 9.5 | 11.3 | 12.6 | 12.1 | 11.8 | 14.4 | 11.5 |
| Italy | 14.7 | 17.4 | 13.1 | 12.4 | 10.2 | 9.1 | 8.9 | 8.7 |
| SEE FTA | 35.3 | 38.8 | 38.6 | 33.3 | 26.8 | 29.4 | 30.4 | 28.5 |
| Croatia | 17.5 | 21.6 | 20.5 | 18.8 | 17.4 | 17.6 | 16.9 | 17.2 |
| Serbia & Montenegro | 16.5 | 15.8 | 15.5 | 13.5 | 7.9 | 10.2 | 10.1 | 10.2 |
| CEE | 12.6 | 14.3 | 16.2 | 22.0 | 20.9 | 16.7 | 17.1 | 21.6 |
| Slovenia | 10.8 | 9.1 | 9.6 | 12.5 | 9.3 | 5.3 | 7.0 | 7.4 |
| Others | 14.0 | 8.5 | 9.7 | 6.8 | 18.1 | 20.7 | 17.2 | 18.8 |

Source: Hadziomeragić, A. et al.: Bosnia and Herzegovina in SEE trade arrangements: Analysis and policy recommendations, BiH Economic Studies, Directorate for Economic Planning, No. 1, pp. 9-42.

⁷ <http://www.mvteo.gov.ba/sporazumi/bilateralni/Archive.aspx>, (08 April 2014)

CEE includes Poland, Slovakia, Slovenia, Czech Republic, Hungary (Bulgaria and Romania are within the SEE FTA countries).

4.1. Central European Free Trade Agreement

The implementation of the new Central European Free Trade Agreement - CEFTA 2006, obliges the adhering Parties to undertake certain commitments:⁸

- ◆ to abolish all quantitative restrictions on imports and exports,
- ◆ to abolish export duties, export charges of a fiscal nature, import duties, import charges of fiscal nature and measures having equivalent effect,
- ◆ it is forbidden to introduce new duties and taxes in mutual trade,
- ◆ it is forbidden to introduce new and increase already applied import duties and fees having equivalent effect and other import duties of a fiscal nature,
- ◆ customs fees that are not in accordance with Article VIII of the General Agreement on Tariffs and Trade, and any similar charges have been abolished in mutual trade,
- ◆ application of sanitary and phytosanitary measures is regulated in accordance with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures,
- ◆ application of technical barriers to trade is regulated in accordance with the WTO Agreement on Technical Barriers to Trade,
- ◆ unnecessary existing technical barriers to trade will be identified and eliminated, without further introduction of new unnecessary technical barriers,
- ◆ application of the harmonization of Rules of Origin have been agreed,
- ◆ customs procedures have been simplified and streamlined and should bring a reduction in formalities in respect of trade,
- ◆ Parties shall refrain from, and abolish any measures or practices of internal fiscal nature which in any way constitute discrimination between the products of States Parties to the Agreement,
- ◆ if any of the Parties determines that by trading with another Party, there is dumping in terms of Article VI of the GATT, it may undertake appropriate measures against such practices in compliance with the WTO Agreement on Implementation of Article VI of the GATT,
- ◆ in accordance with Article XIX of the GATT and the WTO Agreement, Parties reserve the right to take protective measures if the products imported can cause injury to domestic manufacturers of identical or directly competitive products,
- ◆ in accordance with the WTO Agreement, Party which is experiencing considerable payment difficulties or is under imminent threat of such occurrence may apply restrictive measures,

⁸ Central European Free Trade Agreement – CEFTA 2006, Annex 1, <http://www.cefta.int>, (08 April 2014)

- ◆ establishment of a Joint Committee for the Control and Management of the implementation of the Agreement has been agreed.

The mere implementation of FTAs had its advantages as well as disadvantages. The data indicate that despite the existence of bilateral FTAs, Western Balkan Countries still base majority of their trade outside the region. The most important trading partners of Bosnia and Herzegovina were only two countries from the region.

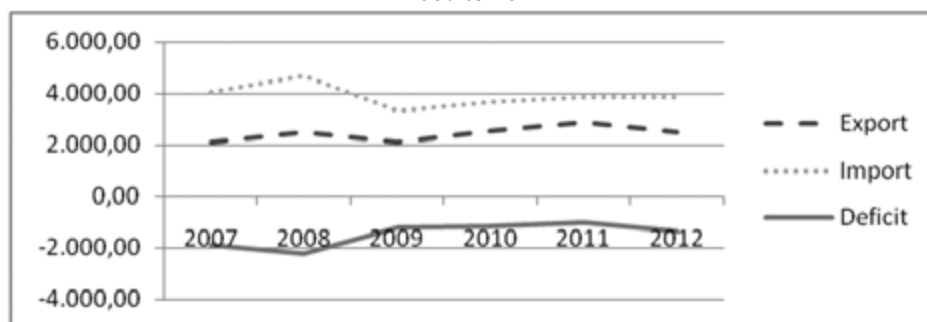
The aim of the creation of the Central European Free Trade Zone is consolidating democracy and market economy in the Member States, with the most important feature of the Agreement is the option of diagonal accumulation of capital, with a privileged export to the European Union that provides a product that is made up of at least 51% of domestic materials, which is very difficult to accomplish, particularly taking into account the development level of the B&H economy. The Agreement indicates that the products shall be labeled as domestic when produced from any raw materials that come from the States Parties to the Agreement.

Table 5: Total Foreign trade of BIH with CEFTA from 2007 to 2012

| Year | Export | | Import | | Total | | Deficit | Coverage |
|-------------|----------|---------|----------|---------|----------|---------|-----------|----------|
| | Value | ↑/↓ | Value | ↑/↓ | Value | ↑/↓ | | |
| 2007 | 2.125,80 | - | 4.041,32 | - | 6.167,12 | - | -1.915,52 | 52,60% |
| 2008 | 2.491,71 | 17,21% | 4.712,37 | 16,60% | 7.204,08 | 16,81% | -2.220,66 | 52,88% |
| 2009 | 2.104,50 | -15,54% | 3.316,16 | -29,63% | 5.420,66 | -24,76% | -1.211,65 | 63,46% |
| 2010 | 2.546,59 | 21,01% | 3.683,37 | 11,07% | 6.229,95 | 14,93% | -1.136,78 | 69,14% |
| 2011 | 2.873,87 | 12,85% | 3.881,64 | 5,38% | 6.755,51 | 8,44% | -1.007,77 | 74,04% |
| 2012 | 2.483,11 | -13,60% | 3.841,49 | -1,03% | 6.324,60 | -6,38% | -1.358,39 | 34,79% |

Source: Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, Information on implementation of the Agreement on Amendment of and Accession to the Central European Free Trade Agreement (CEFTA 2006) in 2012, p. 27.

Figure 2: Dynamics of Foreign trade of Bosnia and Herzegovina with CEFTA from 2007 to 2012



Source: Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, Information on implementation of the Agreement on Amendment of and Accession to the Central European Free Trade Agreement (CEFTA 2006) in 2012, p. 27.

In comparison with 2010, during 2011 the value of trade was increased, both in exports and in imports. It is important to note that the value of exports to CEFTA was increased in a higher percentage than the value of imports which caused the reduction of the B&H deficit, implying coverage of 74%, which represents the highest import-export coverage ratio since the CEFTA Agreement for Bosnia and Herzegovina entered into force. The import-export coverage in the period of the Agreement had an upward trend, and it reached the highest level of 74.04% in 2011, which was later reduced to 64.64% in 2012.

Table 4: Foreign trade of B&H with CEFTA countries

| Country | Year | Import | Growth/ | Country | Year | Import |
|------------|------|------------------|---------|------------------|---------|-------------------|
| Albania | 2008 | 3.507.897,89 | - | 16.538.054,79 | - | 13.030.156,90 |
| | 2009 | 1.662.256,26 | -52,61% | 12.230.063,67 | -26,05% | 10.567.807,41 |
| | 2010 | 5.037.710,13 | 203,06% | 42.709.485,77 | 249,22% | 37.671.775,64 |
| | 2011 | 4.080.911,81 | -18,99% | 69.676.722,80 | 63,14% | 65.595.810,99 |
| | 2012 | 4.384.559,34 | 7,44% | 49.428.392,77 | -29,06% | 45.404.833,43 |
| Montenegro | 2008 | 39.589.960,66 | - | 231.444.265,67 | - | 191.854.305,01 |
| | 2009 | 38.773.154,20 | -2,06% | 229.506.317,59 | -0,84% | 190.733.163,39 |
| | 2010 | 44.540.785,65 | 14,88% | 310.180.069,51 | 35,15% | 265.639.283,86 |
| | 2011 | 40.628.708,79 | -8,78% | 300.429.610,62 | -3,14% | 259.800.901,83 |
| | 2012 | 55.565.092,89 | 36,76% | 249.230.118,58 | -17,04% | 193.665.025,69 |
| Croatia | 2008 | 2.779.926.964,68 | - | 1.156.835.899,29 | - | -1.623.091.065,39 |
| | 2009 | 1.855.136.118,05 | -33,27% | 944.143.954,78 | -18,39% | -910.992.163,27 |
| | 2010 | 2.058.946.377,29 | 10,99% | 1.070.625.984,93 | 13,40% | -988.320.392,36 |
| | 2011 | 2.226.507.275,93 | 8,14% | 1.204.439.829,10 | 12,50% | -1.022.067.446,83 |
| | 2012 | 2.202.545.386,89 | -1,08% | 1.165.019.049,40 | -3,27% | -1.037.526.337,49 |
| FYROM | 2008 | 150.981.358,50 | - | 66.087.497,42 | - | -84.893.861,08 |
| | 2009 | 128.956.136,98 | -14,59% | 61.541.384,98 | -6,88% | -67.414.752,00 |
| | 2010 | 137.275.599,82 | 6,45% | 69.970.893,42 | 13,70% | -67.304.706,40 |
| | 2011 | 139.030.327,50 | 1,28% | 128.914.083,84 | 84,24% | -10.116.243,66 |
| | 2012 | 140.386.046,02 | 0,98% | 124.241.815,12 | -3,62% | -16.144.230,90 |
| Moldavia | 2008 | 3.514.805,21 | - | 2.075.922,18 | - | -1.438.883,03 |
| | 2009 | 5.324.108,84 | 51,48% | 2.117.095,49 | 1,98% | -3.207.013,35 |
| | 2010 | 2.744.927,80 | -48,44% | 2.316.736,76 | 9,43% | -428.191,04 |
| | 2011 | 2.385.205,39 | -13,10% | 2.816.285,98 | 21,56% | 431.080,59 |
| | 2012 | 2.956.625,36 | 23,96% | 6.280.030,02 | 122,99% | 3.323.404,66 |

| | | | | | | |
|--------|------|------------------|---------|------------------|---------|-----------------|
| Serbia | 2008 | 1.725.961.518,59 | - | 942.040.261,74 | - | -783.921.256,85 |
| | 2009 | 1.283.005.884,99 | -25,66% | 741.440.892,80 | -21,29% | -541.564.992,19 |
| | 2010 | 1.429.476.639,28 | 11,42% | 894.774.923,79 | 20,68% | -534.701.715,49 |
| | 2011 | 1.465.644.882,47 | 2,53% | 1.001.879.178,02 | 11,97% | -463.765.704,45 |
| | 2012 | 1.431.542.455,50 | -2,33% | 710.001.805,51 | -29,13% | -721.540.649,99 |
| Kosovo | 2008 | 8.653.739,38 | - | 76.453.535,51 | - | 67.799.796,13 |
| | 2009 | 3.255.736,45 | -62,38% | 113.518.492,20 | 48,48% | 110.262.755,75 |
| | 2010 | 5.336.746,31 | 63,92% | 156.007.572,16 | 37,43% | 150.670.825,85 |
| | 2011 | 3.347.362,18 | -37,28% | 165.713.117,94 | 6,22% | 162.365.755,76 |
| | 2012 | 4.114.343,00 | 22,91% | 178.907.504,46 | 7,96% | 174.793.161,46 |

Source: Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, Information on implementation of the Agreement on Amendment of and Accession to the Central European Free Trade Agreement (CEFTA 2006) in 2012, p. 34.

4.2. Preferential Trade Agreement between Bosnia and Herzegovina and the Islamic Republic of Iran

Preferential Trade Agreement between Bosnia and Herzegovina and the Islamic Republic of Iran was signed in Tehran on 15 December 2008, followed by its ratification by the Presidency of Bosnia and Herzegovina on 15 April 2009. The Agreement provides for preferential treatment of imported goods as defined in Annexes A and B of the Agreement. Import duties lower than regular ones are implied for goods accompanied by a certificate of origin proving the BH or Iranian origin. The objectives of the Parties in concluding this Agreement have been as follows:⁹

- ◆ strengthening economic relations between the Parties,
- ◆ increasing the volume of trade in goods between the Parties,
- ◆ creating a more predictable and secure environment for the sustainable growth of trade between the Contracting Parties,
- ◆ introduction and gradual improvement of the Preferential Trade Arrangement and its prospective upgrading to a Free Trade Agreement that could be considered in the following period,
- ◆ developing trade through the exploration of new areas of cooperation,
- ◆ providing diversity of products traded between the Parties,
- ◆ providing opportunities for fair conditions for trade competitiveness among their enterprises,
- ◆ removing trade barriers, thereby contributing to the harmonious development and expansion of both bilateral and global trade.

4.3. Free Trade Agreement between Bosnia and Herzegovina and the Republic of Turkey

This Agreement provides that import duties, fees of equivalent effect and import duties of a fiscal nature, which are applied in Bosnia and Herzegovina on the

⁹ Preferential Trade Agreement between Bosnia and Herzegovina and the Islamic Republic of Iran, Article 1.

effective date of this Agreement to products originating from the Republic of Turkey shall be gradually reduced in accordance with the following schedule:

- ◆ January 2005 - to 35% of their value;
- ◆ January 2006 - to 15% of their value;
- ◆ January 2007 - remaining duties will be abolished.

The objectives of this Agreement are to promote through the expansion of mutual trade the harmonious development of economic relations between the Parties and thus to foster in the Parties the advance of economic activity, the improvement of living and employment conditions, and financial stability; to provide fair conditions of competition for trade between the Parties; to contribute by the removal of barriers to trade, to the harmonious development and expansion of world trade.¹⁰

5. STABILIZATION AND ASSOCIATION AGREEMENT: THE BASIS FOR FULL EU MEMBERSHIP

In 1999, the EU summit in Cologne for the Western Balkan countries, including Bosnia and Herzegovina established preconditions for full membership in the European Union, i.e. a door was opened to start the Stabilization and Association Process. The key to this process is the Stabilization and Association Agreement, and by signing the Agreement in 2008, Bosnia and Herzegovina made the first contractual relationship with the EU and confirmed its status as a potential candidate for EU membership. Such act marked the first phase of the Stabilization and Association Process, where Bosnia and Herzegovina agreed on a number of obligations that must be complied with within the given timeframe in order to achieve candidate status and to start accession negotiations and full membership in the EU.

In addition to the formal accession of Bosnia and Herzegovina to the European Union, the primary objective of the Agreement is the gradual approximation of B&H legislation with the most important standards and rules of the European Union internal market. The Agreement itself comprises of ten chapters (“Titles”): General Principles, Political Dialogue, Regional Cooperation, Free Movement of Goods, Trade in Services (Movement of Workers, Establishment, Supply of Services, Current Payments and Movement of Capital, General Provisions), Approximation of Laws, Law Enforcement and Competition Rules, Justice, Freedom and Security, Cooperation Policies, Financial Cooperation and Institutional, General and Final Provisions; where Bosnia and Herzegovina’s signing marked the new reform phase of adaption to legal, economic and political standards of

¹⁰ Free Trade Agreement between Bosnia and Herzegovina and the Republic of Turkey, Article 1.

the EU, as well as the phase of preparation for the fulfillment of the candidates' obligations.¹¹

Although more than six years have passed since the Agreement signing, Bosnia and Herzegovina, according to reports of the European Commission, made very limited progress in all areas, particularly those relating to the fulfillment of the political criteria. Although the countries of the region decisively continued towards the EU, B&H still remains motionless, which is mainly driven by the lack of collective political will and leadership. The efficiency and functionality of the political institutions at all levels should be improved and a coordination mechanism for EU Affairs should be immediately established.

6. CONCLUSION

In order to eliminate barriers for better exchange of goods, services and production factors, states create economic integrations. They are usually based on the agreements of sovereign states, but they can also be established by the political will of the state's powerful enough to impose such an idea. Establishment and the division of economic integration can be applied through several forms: preferential trade agreements, free trade zone, customs union, common market and economic union. Relationship between economic integration and trade barriers has been proven both in practice and in theory, implying that the progress of economic integration causes reduction of trade barriers. Another integration feature is the fact that a higher level of integration leads to the need for further economic and political integration.

Thus, a Preferential Trade Agreement which is the subject of this paper is the weakest form of economic integration that provides lower trade restrictions to the member states in relation to non-member countries. Although this is the lowest level of economic integration, Bosnia and Herzegovina has signed several Preferential Agreements, the most important being the Central European Free Trade Agreement. In addition to this Agreement, Bosnia and Herzegovina has signed a Preferential Trade Agreement between Bosnia and Herzegovina and the Islamic Republic of Iran and the Free Trade Agreement between Bosnia and Herzegovina and the Republic of Turkey. The value of exports to CEFTA countries has increased more than the value of imports, which led to a reduction in the deficit of B&H and increase of export-import coverage.

For Bosnia and Herzegovina, this form of integration represents only the first step in the further integration, since Bosnia and Herzegovina may resolve its

¹¹ DEI, Osnovni prikaz Sporazuma o stabilizaciji i pridruživanju, <http://www.dei.gov.ba/press/publikacije/default.aspx?id=1174&langTag=bs-BA>, (03.12.2014)

economic and political problems only by further integration with the European Union. The first step has been made. However, brave, wise and committed leaders are needed. Those who would lead the country towards further integration and EU accession

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PREFERENCIJALNI TRGOVINSKI SPORAZUMI: OSNOVA DALJNJIH EKONOMSKIH INTEGRACIJA BOSNE I HERCEGOVINE

Pregledni rad

Sažetak

Rezultatima istraživanja predstavljenim u ovom članku ostvarivana je primarna misija istraživanja: afirmirati daljnje ekonomske integracije Bosne i Hercegovine na njenom putu ka članstvu u EU. U članku su elaborirane najvažnije značajke o ekonomskim integracijama, te o preferencijalnim trgovinskim sporazumima Bosne i Hercegovine. Posebna pažnja je posvećena ekonomskoj analizi preferencijalnih trgovinskih sporazuma, kao i efektima trgovinskih sporazuma Bosne i Hercegovine. Elaborirano je više tematskih jedinica o ekonomskim integracijama i preferencijalnim trgovinskim sporazumima. Predstavljen je reprezentativni primjer analize preferencijalnih sporazuma. Navedeni su ekonomski efekti Bosne i Hercegovine od provođenja sporazuma CEFTA-e.

Ključne riječi: *preferencijalni trgovinski sporazum, carinska unija, sporazum o slobodnoj trgovini, zona slobodne trgovine.*

JEL: F15, F43, F36