

Bosnia and Herzegovina Trade Brief

Trade Policy

Bosnia and Herzegovina has adopted significant trade reforms since the end of the civil war in 1995. Today, based on its 6.8 percent simple average MFN applied tariff, Bosnia and Herzegovina's trade regime is similar to that of other Europe and Central Asia (ECA) countries, but more open than that of an average upper-middle-income country (9 percent). Similar to the majority of other countries in its comparator groups, Bosnia and Herzegovina is more protective of its agricultural goods (MFN of 12.4 percent) than of its non-agricultural goods (MFN of 6 percent). Based on the MFN applied tariff, it ranks 70th out of 181 countries (where 1st is least restrictive). Bosnia and Herzegovina's maximum MFN applied tariff, excluding alcohol and tobacco, was 204.3 percent in 2008 and has been decreased to 181.8 percent in 2009, but is still higher than in 2007 when it was 167.7 percent.

The Bosnian Parliament adopted, in June 2009, a law that re-imposes MFN duties on agricultural products from Serbia and Croatia,¹ which are Bosnia and Herzegovina's second and third most important trading partners, respectively, after the European Union (EU)² and with which Bosnia and Herzegovina has been in a free trade agreement since 2007 through the Central European Free Trade Agreement (CEFTA). The new law requires that the duties be implemented in line with Bosnia and Herzegovina's laws and its obligations under the CEFTA and GATT. However, on July 3, 2009, the Constitutional Court of Bosnia and Herzegovina decided to review the constitutionality of the law and suspended the

application of tariffs so as to mitigate any long-term damage.³

External Environment

The simple average rest of the world tariff (including preferences) faced by the country's exports is 10.4 percent. When its trade flows are taken into consideration, it is apparent that Bosnia and Herzegovina's exports have good access to international markets, especially in comparison to its comparators. The country's weighted average rest of the world tariff (including preferences) is 0.5 percent, much lower than the regional and income group averages of 2.1 and 3.1 percent, respectively. Similar to the majority of other countries in the region, Bosnia and Herzegovina's agricultural products face a less favorable trading environment (4.9 percent tariff) than its non-agricultural products (0.2 percent tariff). In nominal terms, its convertible marka appreciated by 6.6 percent against the U.S. dollar in 2008, making exports more expensive in foreign currency terms.⁴

Bosnia and Herzegovina and the EU have implemented a free trade zone through the entry into force of the Transitional Agreement, which was signed on June 16, 2008, together with the Stabilization and Association Agreement (SAA). While the latter needs to be ratified by the EU member states, the Transitional Agreement contains provisions from the SAA that could be implemented immediately.⁵ The gradual opening of Bosnia and Herzegovina's market is especially important as the EU is the country's main trading partner, accounting for more than half of the country's exports and almost half of imports in 2007.⁶ Additionally, trade integration was advanced further through the introduction of diagonal accumulation of origin of goods for countries in the EU's Stabilization and Association Process, Turkey and EU member states.⁷

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at <http://www.worldbank.org/wti>.

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Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Bosnia and Herzegovina ranked 132nd out of 183 countries in the 2010 Ease of Doing Business index. Additionally, its Logistics Performance Index score, which reflects the extent of

trade facilitation in the country, is below the ECA and upper-middle-income group averages, suggesting that it has a less conducive climate for trade. It scores 2.46 on a scale of 1 to 5, with 5 being the highest score, while the regional and income group averages are 2.59 and 2.85, respectively. Bosnia and Herzegovina ranked 88th out of 150 in the world and 14th in the ECA region (with Turkey leading the regional group). The logistics indicators in which it performed the best were domestic logistics costs and timeliness of shipments in reaching their destination, while its weakest performance was in the ability to track and trace shipments.

Trade Outcomes

Bosnia and Herzegovina's trade growth, in real terms (constant 2000 US dollars), improved slightly from an average rate of 7.2 percent over the 2005–07 period to 8.7 percent in 2008. Though export growth declined to 8.2 percent in 2008 compared to 14.1 percent over the 2005–07 period, this was more than offset by the increase in import growth to 9.1 percent in 2008 from 3.9 percent over the 2005–07 period.

In recent years, the country's exports have grown more than the regional average, bolstered by high metal prices, with steel and aluminum continuing to be the country's main exports.⁸ However, the concentration of exports on resource-intensive products means that they are affected by swings in commodity prices (the main export commodities include aluminum, iron and steel products, and electricity). The recent fall in these prices influenced the slowdown in export growth in nominal U.S. dollar terms (from 26.1 percent in 2007 to 20.2 percent in 2008). Exports further declined in the first half of 2009, falling by 33.6 percent in nominal U.S. dollars in comparison to the same period in 2008.⁹ Imports also contracted by 34.9 percent in nominal U.S. dollars in the same period,¹⁰ after the nominal growth rate of imports had fallen to 22.6 percent in 2008 from 29.5 percent in 2007. Partly driven by high food and oil prices (heavy petroleum accounts for 10 percent of Bosnia and Herzegovina's imports), the 2008 growth rate was several times higher than in 2006, when nominal import growth had fallen to 3.3 percent on the back of a VAT-related slowdown.¹¹ Bosnia and Herzegovina is dependent on remittances, which, as a share of GDP, dropped to 14.8 percent in 2008 from 17.8 percent the year before. FDI inflows into the country in 2008 were a 5.4 percent of GDP, a drop from 13.9 percent of GDP the year before.

Notes

1. European Union Commission. March 17, 2009.
2. Global Trade Alert 2009.
3. World Trade Organization 2009.
4. Global Trade Alert 2009.
5. International Monetary Fund (IMF) 2009.
6. Croatian state news agency HINA 2008.
7. Economist Intelligence Unit (EIU) 2008.
8. World Bank 2009.
9. Centralna Banka Bosne i Hercegovine (CBBH) 2009a.
10. Centralna Banka Bosne i Hercegovine (CBBH) 2009b.
11. International Monetary Fund (IMF) 2008, p. 9.

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- Centralna Banka Bosne i Hercegovine (CBBH) 2009a. *BH External Sector: Exports of goods by tariff chapters*. CBBH. August 5. <http://www.cbbh.ba/index.php?id=34&lang=en&table=izvoz_robe_po_tarifnim_glavama>.
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