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## INFLUENCE OF THE CEFTA 2006 AGREEMENT ON BIH ECONOMY

### УТИЦАЈ СПОРАЗУМА ЦЕФТА 2006 НА ПРИВРЕДУ БИХ

**Summary:** For the countries like Bosnia and Herzegovina, which are dependent of foreign trade because of their size and open economy, involvement in the process of regional cooperation and integration is a condition without which the further progress is not possible. Commitment of Bosnia and Herzegovina is to be a part of the European Union. A regional associating of countries in the region and making of free trade area such as CEFTA 2006, is creation of prerequisites for accomplishment of criteria which are imperative to accession of one country to the European Union. This agreement which establishes new and modern trade rules and defines questions of liberalization of services, investments, public procurement and intellectual properties, is meant to ensure for the signatory country to make better results in the foreign trade and attract direct foreign investment through its consistent implementation. The capability of a country to maximize benefits which are the result of application of this agreement, represents a direct indicator of competence of the country, member of CEFTA, to participate in competition on the market of European Union.

In order to confirm the main hypothesis that Bosnia and Herzegovina did not have huge benefits of CEFTA 2006 Agreement, the following scientific methods are used: analysis and synthesis, comparative method, classification method, description, statistical, historic method, specialization, approving methods, deductive and inductive, compilation, observing, abstraction and concretization. The research goal is to determine and present the real result which comes out of this free trade zone and implications of exit of Croatia from CEFTA Agreement on economy of Bosnia and Herzegovina.

**Keywords:** CEFTA 2016, liberalization, chances, diagonal cumulation of origin

**JEL classification:** O1, F43, P45

**Резиме:** За земље попут Босне и Херцеговине, које су због своје величине и отворености зависне од спољне трговине, учешће у процесима регионалне сарадње и интеграција представља услов без кога није могуће остварити даљи напредак. Опредјељење Босне и Херцеговине је да буде дио Европске уније. Регионалним повезивањем земаља у окружењу, те стварањем зоне слободне трговине ЦЕФТА 2006, стварају се преуслови за испуњење критеријума који се наводе као императив за приступање једне земље Европској Унији. Овим Споразумом, у који су уведена нова и модернизована трговинска правила, и којим су дефинисана питања либерализације услуга, инвестиција, јавних набавки и интелектуалне својине, омогућава се земљи потписници, да досљедно имплементирајући Споразум, оствари боље резултате у спољнотрговинској размјени, те да привуче стране директне инвестиције. Способност земље да максимизира користи које проистичу из примјене овога Споразума, представља директан показатељ спремности земље, чланице ЦЕФТА-е, да учествује у конкурентној борби на тржишту Европске уније. Доказујући основну хипотезу да Босна и Херцеговина није имала велике користи од Споразума ЦЕФТА 2006, кориштене су научне методе: анализе и синтезе, компаративни метод, метод класификације, дескрипције, статистички, историјски метод, метод конкретизације, специјализације, метод доказивања, дедуктивни и индуктивни, компилације, посматрања, апстракције и конкретизације. Циљ истраживања је да се утврде и презентују стварни резултати који су проистакли из ове зоне слободне трговине, те импликације изласка Хрватске из Споразума ЦЕФТА на привреду Босне и Херцеговине.

**Кључне ријечи:** ЦЕФТА 2006, либерализација, шансе, дијагонална кумулација поријекла

**JEL класификација:** O1, F43, P45

## 1. INTRODUCTION

Taking into consideration the globalization, as well as current trends in the world and the positive experience of the European Union, the liberalization of trade in the region is considered a basic condition for economic growth. Although after the war in the Western Balkans the involved countries did not have a minimum of political will for any form of regional connectivity, the European Union tried through various models of cooperation and help, to establish political and economic stability in this part of Europe. In the process of trade liberalization, countries have started from

different levels of development, and the results that have been achieved in the coming period were different.

Bosnia and Herzegovina is one of small, open economies that can not influence the world economy. For the economic development of these economies, foreign trade is of great importance, as well as the inclusion in the world and European economic developments. However, for the underdeveloped economy of Bosnia and Herzegovina it is a big challenge. Bosnia and Herzegovina is characterized by small market, foreign trade balance deficit, unfavorable export structure, lack of competitiveness of enterprises, non-compliance with European standards and norms, underdeveloped infrastructure, the burden of political problems, the gray economy, corruption. In such circumstances it would be unrealistic to expect that the country is significantly involved in the global economy along with the developed countries.

Although the Western Balkan countries signed 32 bilateral free trade agreements, which removed a large number of administrative, technical and procedural barriers to trade, it became necessary to define some other areas which were not defined by bilateral agreements or "old" CEFTA. In this Agreement, the task set was not only the trade liberalization, but also the harmonization of investment policies and joint appearance on the third markets. CEFTA 2006 has given the option to the Western Balkan countries, to participate in free trade with economically similar countries, and to obtain in addition expanded market opportunities for product placement from Bosnia and Herzegovina, strengthen the competitive position of the country, and faster and easier fulfill the requirements for accession to the European Community.

## **2. THE STRUCTURE OF THE AGREEMENT ON CHANGING AND APPROACHING THE CENTRAL EUROPEAN FREE TRADE AGREEMENT**

The beginning of liberalization among South Eastern European countries has started by establishing of the Stability Pact for South Eastern Europe, with one of the main goals to establish a need for regional cooperation and trade liberalization. Signatory countries were obliged by Memorandum of Understanding to conclude a bilateral trade agreement, and 32 bilateral agreements were signed in the period from 2002 to 2006. All of this was a preparation for signing a single trade agreement, which included all bilateral agreements, and therefore CEFTA (*Central European Free Trade Agreement*) was established in December 1992. As CEFTA member countries left this Agreement when they approached the European Union, there arose a need to expand the Agreement on South Eastern countries and therefore the Agreement on Changing and Approaching to CEFTA was initialled on 10 October 2006 in Brussels. Bosnia and Herzegovina together with Serbia, Albania, Montenegro, Moldavia, Macedonia, UNMIK (Kosovo) signed Agreement on Changing and Approaching the Central European Free Trade Agreement (CEFTA 2006) in Bucharest on 19 December 2006. Bulgaria, Rumunia and Croatia also signed CEFTA 2006, but when they approached the European Union they left CEFTA Agreement. For Bosnia and Herzegovina this Agreement entered into force on 22 November 2007. The same as other free trade agreements this also one means an improvement of development of signatory countries and speeds up approaching to European Union.

The Agreement of changing and approaching to CEFTA consists of seven chapters: General obligations of trade goods, Industrial products, Agriculture products, Technical barriers in trade, General terms, New trade questions, Functional rules. The CEFTA 2006 Agreement is more complicated and comprehensive in relation to bilateral contracts. In consideration of its plurilateral nature, the Agreement establishes some new questions not involved earlier and significantly improves terms that had been not so precise and efficient in usage (MVTEO 2007, 7).

First of all it concerns services, investment, public procurement and intellectual property protection. Even if it seems that this is not so related with trade goods what is the main frame of the Agreement, it provides a wider picture of trade than just some transactions (MVTEO 2007, 50).

Services trade accounts for over of 60% of GDP in developed countries. In transition economies, such as the countries of Western Balkan, service trade will develop in further time when the level of free trade liberalization will increase. The CEFTA 2006 Agreement defines that signatory countries develop and expand cooperation until complete liberalisation and mutual opening of their markets for services in the context of European integration, taking into account the relevant terms of GATS and obligations that are overtaken by members of STO toward GATS (CEFTA 2006,13).

The newer trade agreement includes also regulations of investments that guarantee, according to the WTO rules, equal treatment to all investors, both domestic and foreign. Each side is in obligation to protect investment of other side according to domestic laws and legislations and will not disturb it by unsubstantial measures of management, maintenance, usage, enlargement, sales and liquidation of investments (CEFTA 2006,14).

For companies in Bosnia and Herzegovina it is important to compete in public procurement and that is why the regulation of this area in CEFTA 2006 is very important. A regulation of transparency of public procurement as on open and efficient competition principle gradually opens a market for public procurement which means that suppliers from other countries shall not get less favourable treatment than domestic suppliers of goods, services and works. (MVTEO 2007,53). The Agreement applies on every law, rule, procedure or practice of any procurement by government institutions or other relevant institutions (CEFTA 2006, 14).

The laws on protection of intellectual property in Bosnia and Herzegovina, and also in other countries in region, which are not applied and implemented enough, are in indirect connection with foreign investment. Investments often come to countries with a priority of rule of law including the law on protection of intellectual property, while on the other side, home countries are interested in protection of their rights. In CEFTA 2006 Agreement, intellectual property rights involve such rights as patent, brand, industrial design and geographic marks, copyrights and related rights, topography of integrated circuits as well as protection against unfair competition (CEFTA 2006, 20).

Unlike bilateral agreements which apply bilateral cumulation of goods origin, CEFTA enables diagonal cumulation of goods origin. This Agreement provides that material from European countries, Turkish and EFTA countries can be used in production of goods as far as CEFTA member country has a signed free trade agreement (apart from CEFTA 2006, Bosnia and Herzegovina has signed free trade agreements with EU, EFTA and Turkey). In order to determine which country can apply a diagonal origin cumulation, a country provides free trade agreements signed between one another and CEFTA Common committee. By applying this way of origin cumulation, the goods has a status of domestic goods origin even if materials from other countries, partner countries are used in their production. There are certain rules: the goods will get an origin of a country where final product had been made, only if added value in the country of final production is higher than the value of material with origin of each country whose material had been used in production of the final product. In this way, the final product does not lose a priority of preferential customs tariff.

### 3. A COMPARATIVE ANALYSIS OF FREE TRADE OF BIH WITH CEFTA

CEFTA countries are, after European Union, the most important foreign trade partners of Bosnia and Herzegovina. This is expected, given the geographic location of CEFTA countries and traditional custom of shopping products from these countries especially from Croatia and Serbia. The table below shows the data about merchandise trade of BiH with regions.

*Table 1 A geographic structure of merchandise trade of BiH 2008-2015 (in thousands KM)*

Region	2010		2012		2014		2015	
	Size	Participation	Size	Participation	Size	Participation	Size	Participation
<b>CEFTA</b>	6.969.099	<b>33,79</b>	7.374.202	<b>31,89</b>	3.693.428	<b>14,9</b>	3.801.516	<b>15,44</b>
<b>ÄU</b>	10.649.660	51,64	12.089.444	52,28	16.866.916	68,2	17.111.395	69,50
<b>Rest of the world</b>	3.004.507	14,57	3.659.223	15,83	4.168.641	16,9	3.705.009	15,06
<b>TOTAL</b>	20.623.266	100,00	23.122.869	100,00	24.728.985	100,00	24.617.920	100,00

Source: Foreign Trade Chamber of Bosnia and Herzegovina, Foreign trade of BiH (2010, 2012, 2014, 2015), available on [www.komorabih.ba](http://www.komorabih.ba), access on 10.06.2016.

In terms of the trade exchange of Bosnia and Herzegovina it is notable that a positive trend made in exchange of BiH with CEFTA members was not achieved in exchange with EU countries. A

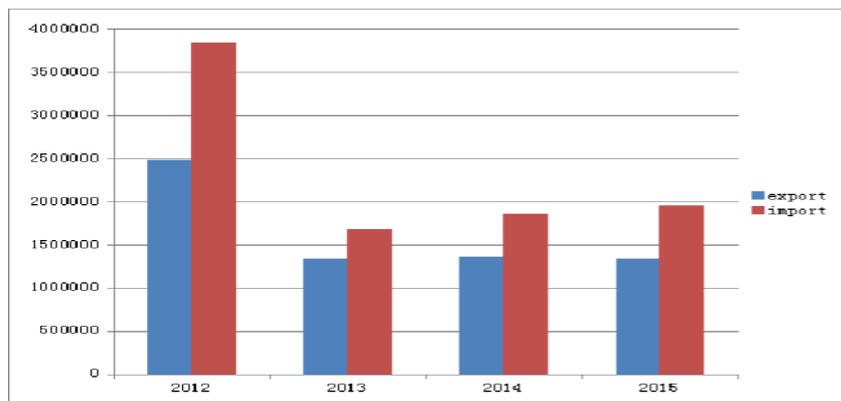
decrease has been significantly expressed after Croatia's entering the EU, what is expected, if we take into consideration importance of Croatia for external trade.

The biggest participation in foreign trade of BiH and CEFTA members was made in 2009, amounting to 35%. The following year this percentage of participation decreased by 1.21 % and was 33.79%. A decline trend was continuing in the later period and thus the participation of CEFTA in total external trade was 14.65 % in 2013, 149 % in 2014, and in 2015 there was a slight improvement with 15,44%. participation of CEFTA members in total foreign trade.

Relative ratios of import and export may be expressed by coverage of import by export, an indicator that measures the country's capability to maintain a balance in merchandise trade (Krajišnik 2013, 233). Although there is an improved tendency, a coverage of import by export shows an unsatisfactory result in earlier period. In 2012, the coverage was 64,63%. The largest decrease of value of import was made in trade with Serbia, although agriculture imports increased by 5%, whereas exports of industrial products decreased by 32,53%. The most representative products in import to Serbia are: mineral fuel, mineral oil and their distillation products, iron, steel and wood and wood products (MVTEO 2013, 57).

In 2013, Croatia became a European Union member. After that, the regional structure of foreign trade with BIH had changed and the participation of EU in total BIH merchandise trade had increased and participation of CEFTA had decreased. In that year, a coverage of import by export in trade with CEFTA was 79,54%, the following year 72,93% and in 2015 it was 68,17%.

Chart 1 The coverage of import by export of BiH and CEFTA



Source: Author, based on data from Statistics Agency of BiH, Economic statistics-Merchandise trade statistics of BiH with abroad by years (2012-2015), available on [www.bhas.ba](http://www.bhas.ba), access on 10/06/2016

A high level of openness of economy and low competition brought Bosnia and Herzegovina foreign trade into unfavourable position, and in trade with the most important partner from CEFTA, Serbia, it generated a long time deficit. A deficit is constant also in trade with Macedonia as Croatia (when it was a CEFTA member). There is a surplus in trade with Montenegro and other countries (Moldavia, Albania). Participation of these countries except Montenegro is negligible and shall not be specially considered.

Table 2 Merchandise trade with CEFTA members 2013- 2015 ( in thousands KM)

	2013			2014			2015		
	Export	Import	Coverage %	Export	Import	Coverage %	Export	Import	Coverage %
<b>Serbia</b>	766.745	1.485.608	<b>51,6</b>	800.690	1.629.521	<b>49,1</b>	770.695	1.728.490	<b>44,6</b>
<b>Macedonia</b>	92.823	143.619	<b>64,6</b>	94.072	142.787	<b>65,9</b>	114.591	147.175	<b>77,9</b>
<b>Montenegro</b>	270.745	36.238	<b>747,1</b>	293.818	71.752	<b>409,5</b>	262.844	56.322	<b>466,7</b>
<b>Other Cefta</b>	205.404	13.778	<b>1.490,8</b>	169.658	19.022	<b>891,9</b>	186.134	25.174	<b>739,4</b>

Source: Author, based on data of Statistics Agency of BiH, Economic statistics-Merchandise trade BiH with abroad by years (od 2012 do 2015), available on [www.bhas.ba](http://www.bhas.ba), access on 10/06/2016.

Recapitulating all above, and considering that the most important indicator of competition is import, implies a need to decrease the competition of economy and business entities from Bosnia and Herzegovina and thereby improve balance of payments of BiH.

#### **4. A IMPLICATION OF CROATIA EXIT FROM CEFTA AGREEMENT 2006 ON BIH TRADE**

On 01 July 2013 Croatia became the 28<sup>th</sup> member of European Union, and entered in community with development economic countries. By entering in EU, Croatia speeded up the solving of transition problems, modernized its law system and stabilized a legal state, but in economy it did not make a positive result. The relevant statistic data from the previous period show that Croatian economy did not use significantly its membership in European Union. A competitive economy is at the same level as before entering to European Union, although it was expected that there would be an increase of product competition by applying a diagonal cumulation of origin that enables installation of parts from technologically developed countries into Croatian products. All products made in EU get a label "made in EU" which has a positive impact on export of Croatian products outside European Union. However, the Croatia's export has not increased significantly since its entering the European Union.

By entering the European Union, Croatia leaves CEFTA 2006 Agreement and loses a privileged place on that market. Given Croatia was a leader among CEFTA signatories and that in 2006, CEFTA after EU, was the second most important foreign trade partner of Croatia, with whom it made external trade surplus, it was clear why European Commission demanded from CEFTA countries that Croatia held up a preferential treatment in trade which it had before entering in EU. Extra motive to EU are also companies from EU which had plants in Croatia and whose products were burdened by customs when imported on CEFTA trade market. This increases the product price and decreases their share on the market, which refers especially to the consumer goods rather than the luxury products which have characteristics of non-price competitive products (quality product, innovative product, product for consumer groups, brand products...). Although it was forecast that many Croatian companies, would move out to Bosnia and Herzegovina, it did not happen.

Exit from CEFTA 2006 Agreement represents a challenge not only for Croatia but for CEFTA member countries as well. Given that Bosnia and Herzegovina made the largest volume of merchandise trade with Croatia, if we observe CEFTA members, implications on BiH economy will surely arise. Although a preferential treatment is approved in Bosnia and Herzegovina for import of goods to EU unilaterally which means without obligation of reciprocity, there are limitations to placement of BiH products to European Union, including Croatia. Limitations relate most often to export of food products because European Union guarantees full safety of food quality and that is why the control system in export country must be certified and adjusted to European Union directive.

Although Bosnia and Herzegovina established many institutions to assist in harmonisation of BiH economy with European Union market and its regulations and adopted large legislation, it still did not solve the problem of export of food products to Croatia (especially milk and milk products as significant export products of BiH). The analysis of the reports of Foreign Trade Chamber of Bosnia and Herzegovina shows that export of milk and milk products has increased in the period from 2008 to Croatia's entering the European Union, but decreased already in the first month (July 2013) for over 50% because of closing of the Croatian market. The European Commission made the decision that import of milk from Bosnia and Herzegovina to European Union is allowed, but Croatia appealed on that decision by explaining that there exists unfair competition (lower price, lower quality, government subsidies), and export of milk to Croatia has continued.

Table 3 Overview of foreign trade indicators for BiH and Croatia for 2015 (in thousands EUR)

	Bosnia and Herzegovina	Croatia**
GDP*	14.422.467*	44.326.000
Total import	7,874,891	18.481.973
Total export	4,712,946	11.481.973
Coverage of import by export	59,8%	62,1%
Export to partner country	483.629	1.244.022
Import from partner country	1.244.022	483.629

Source: Statistics Agency of BiH "Gross domestic product for Bosnia and Herzegovina in 2015", available on <http://www.bhas.ba/saopstenja/2016/Saopstenje%20Q4.pdf>

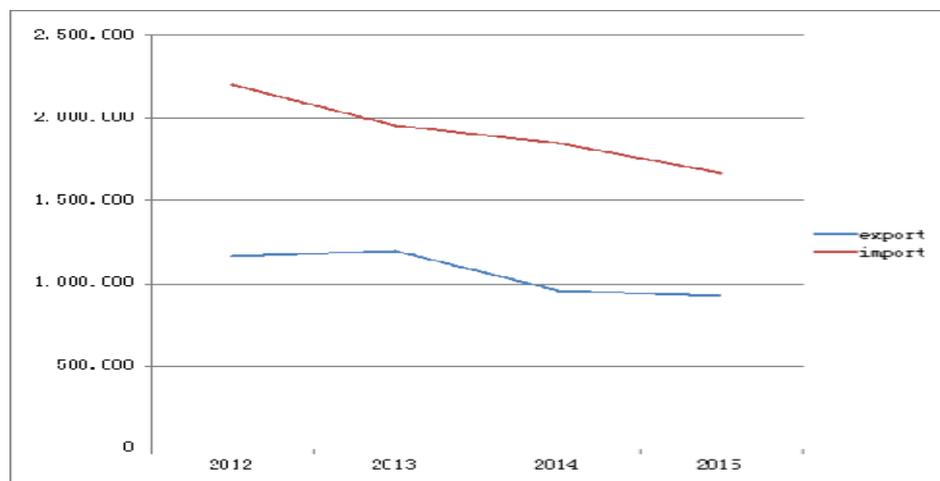
Foreign Trade Chamber of BiH, Foreign trade of BiH, The volume of foreign trade of BiH in 2015., available on: [http://komorabih.ba/wp-content/uploads/2013/05/cefta\\_eu\\_efta\\_2015.pdf](http://komorabih.ba/wp-content/uploads/2013/05/cefta_eu_efta_2015.pdf)

\*\* State Statistics Institute of Republic of Croatia, available on <http://www.dzs.hr/>, access on 10/06/2016

The table above indicates the most important foreign trade indicators of Bosnia and Herzegovina and Croatia. The most important foreign trade partner of Croatia is European Union with which it has almost 67% of Croatian exports and 79% imports (State Statistics Institute of Republic of Croatia).

Although Croatia made a deficit in foreign trade (in 2015 the deficit was 7,01 billion euro), and in trade with Bosnia and Herzegovina it made a surplus. According to data of Foreign Trade Chamber of Bosnia and Herzegovina, imports to BiH with which Croatia has the largest volume of free trade among CEFTA members, in 2014 was 1,32 billion euro, which was a decrease by 5,3 % in relation to 2013. On the other side, exports from BiH to Croatia decreased in 2014 in relation to 2013 by 20% amounting to 501,7 billion euro. In 2015, the value of foreign trade with Croatia continued (exports decreased by 3,1% and import by 9,6%) .

Chart 2 Merchandise trade of BiH and Croatia



Source: Author, based on data from Statistics Agency of BiH, Economic statistics - Merchandise trade statistics of BiH with abroad by years (from 2012 to 2015), available on [http://www.bhas.ba/saopstenja/2016/ETS\\_2015M12\\_001\\_01\\_hr.pdf](http://www.bhas.ba/saopstenja/2016/ETS_2015M12_001_01_hr.pdf), access on 23/05/2016.

The statistics of free trade shows that the size of merchandise trade of Bosnia and Herzegovina with Croatia has been in fall for several years. That period appeared after Croatian exit from CEFTA Agreement and its incorporating in internal market of European Union. Exit from the free trade zone, import of Croatian products to BiH lost its preferential treatment and this increased prices of goods. This increase mostly affected food, agriculture, tobacco and confectionery industry of Croatia. In the same period, import from Serbia and Turkey increases as a substitute to domestic goods (milk and milk products, processed meat and tobacco and alcohol) (CBBIH 2014, 27).

On the other side, export from BiH to Croatia decreased although the EU market is open for exports of products from BiH there are difficulties because of rigorous control of testing products exported to EU. Every BiH product exported to EU needs to be produced according to EU directive

and approved by inspection along with the official control system of exporting country that is compliant with EU institutions. EU authorities evaluate and constantly search for the best possible explanation before issuing a ban or permit to any product. Exports of food ingredients would be larger if BiH had fulfilled on time EU market export criterion. The state support is necessary in order to implement regulations and make Bosnia and Herzegovina completely utilise vicinity of Croatia and based on that develop more favourable foreign trade with EU countries.

## 5. IMPORTANCE OF SIGNING THE CEFTA AGREEMENT FOR BIH

The rounds of negotiations have been going on since the signing of General Agreement on Tariffs and Trade (GATT), which led to great contribution to reduction of trade barriers, and a positive effect on trade liberalisation on the world economy. Alongside with trade liberalisation there developed a process of globalisation that decreased or fully abolished barriers in international trade. Globalisation deletes borders among countries and gives chance to competitive economies and firms to evaluate their capabilities. In these conditions, small countries are faced with a problem: on one side they depend on foreign trade and on another side they do not have competitive products that may bring positive results in foreign trade. A high level of economy openness which means also a high level of trade liberalization must be adjusted with a level of economic development of a country and competition of their economy entities (Krajišnik 2013, 231). For this purpose, connection between countries, especially countries with similar level of development, represents an imperative and a step ahead to integration in the European and world economic flow. A common market of economically similar countries shows a country's competence to participate in open trade in European market (CNP 2011, 3).

Bosnia and Herzegovina is the country with a high level of openness of economy and low level of competitive products and thus realizes a chronic deficit in the foreign trade. A high deficit in foreign trade indicates that product competitiveness is insufficient. For this purpose, accession to the free trade area with similar economic countries represents a way for Bosnia and Herzegovina to prepare for accession to the European Union and also for participation in global economic flows. Although CEFTA countries are considered to have a similar level of development, there is still the trade deficit in this group. The trade deficit occurs as a consequence of trade dominated by imports and apart from low exports, BiH economy has a bad export structure; most exports refer to raw materials and semifinished goods and most imports refer to products of high level production with a higher added value.

However, this Agreement represents a great chance, because CEFTA 2006 extended in relation to the so called "old" CEFTA Agreement that was signed by Višegrad group members and adjusted to the West Balkan countries. This mostly refers to the diagonal cumulation of goods origin that certainly increases the trade among countries. A country is capable to produce its own products although parts and raw materials from other country are incorporated in them and then to export them without customs, based on preferential treatment, to a country with which it had signed a trade agreement. In this way, countries trade products with origin and accomplish a bigger size of non-custom trade.

In addition, consumers accomplish certain benefit due to diagonal cumulation, and non-custom trade based on preferential treatment. In this way, diverse and cheaper products of numerous producers are available to consumers. On the other side, import based on preferential treatment has a negative effect on some companies from Bosnia and Herzegovina that are not competitive enough and lose their position on the domestic market. We are also witnesses that the BiH market is mostly supplied by imported goods that are often of a questionable quality. This is because of inadequate regulation in this area and the low standard of living of residents whose only buying factor is the price.

Issues of services, public procurements, intellectual property and investment are defined by CEFTA 2006. Bosnia and Herzegovina, as most of undeveloped economies, sees the solution of problems of low level of economic growth, unemployment, chronic deficit and lack of capital in foreign investments. In the last decade there has been a trend that investments regulation in the world is accepted as a part of trade agreements where a trade remains the main component (MVTEO 2007, 51). The Chapter VI of CEFTA 2006 defines terms concerned with investment and they are explained in four articles by determining: the size of application, goals, investment treatment and development clause.

The largest size of foreign investment in the country has been brought by ownership transformation of firms and was not the consequence of signed agreements that guarantee the National treatment or Treatment of the most favourable nation to investors. This country is dominated by commercial investments such as purchase of banks or opening of shopping malls where money easily turns over and earnings are transferred to another country. The share of greenfield investment is negligible because they mean a healthy business climate that does not exist in Bosnia and Herzegovina.

CEFTA 2006 countries are, except Serbia, small markets in terms of territory size and the number of population, purchasing power and level of development. Each of those markets individually, is not interesting to foreign investors and multinational companies. Attraction of investments is more successful on regional base where foreign investors are more interested for market of 22 million of consumers on the CEFTA market than for the market of 3,8 million such as BIH market. That is why CEFTA countries are small and undeveloped economies, burdened by ethnic and religious differences. Mutually harmonised investment policy would lead to better utilization of available resources in the region by avoiding double capacity investment which exceeds the market needs (ISAC 2011,2).

## 6. CONCLUSION

This research confirms the hypothesis that Bosnia and Herzegovina did not have huge benefits by signing the CEFTA agreement although it was expected that the 2006 CEFTA Agreement would bring out multiple benefits to the economy of Bosnia and Herzegovina. In the period from the signing to date, foreign trade indicators have not shown values that could significantly affect the balance of payments, and so, indirectly, other macroeconomic indicators. In the period from 2007 to 2014, the value of current balance account of Bosnia and Herzegovina did not change significantly and in the first year after the signing of the Agreement the current balance account of Bosnia and Herzegovina had a negative value in amount of KM 2,047 million, in 2011 KM – 2,488 million and in 2014 KM – 2,067 million.

However, what is particularly worrying is the high foreign trade deficit with Serbia and Croatia, countries with which Bosnia and Herzegovina has no major geographical, traffic, linguistic and social barriers and with whom it achieves 45,3% of the whole foreign trade. So, in 2015, in exchange with Serbia, the coverage of import by export was 38,25% and with Croatia it was 38,88%. The Croatian accession to the European Union has brought new problems for the economy of Bosnia and Herzegovina. Trade statistics show that the volume of trade with Croatia is in constant decline (by 10,9% in 2014 in relation to 2013 and by 7,4% in 2014 in relation to 2015). Exports from Bosnia and Herzegovina is hampered by the inability to fulfill the conditions set by European Union, while Croatia is using all legal means, which allowed it as a member of the EU, to prevent the export of product from Bosnia and Herzegovina to Croatia. In addition, the phasing out of the Agreement of CEFTA and the loss of preferential treatment to export their products to this market, declined import from Croatia to Bosnia and Herzegovina. In this way, there was a rise in prices of goods from Croatia, as well as the effect of diverting trade, when many products from Croatia were replaced by products from Serbia or Turkey.

Apart from the fact that Bosnia and Herzegovina did not have huge benefits from CEFTA Agreement, this paper confirms that trade agreements do not necessarily have to increase foreign trade, the level of foreign investment, and general well-being of the country unless it carries out necessary reform processes. The reform process is primarily related to the development of small and medium-sized enterprises, supporting export-oriented sectors, reform of the business environment, support to the development of innovation, awareness of producers of the needs of the market .

In further researches, special attention needs to be directed towards finding out systems solutions that will enable Bosnia and Herzegovina, by trade liberalization, harmonization of investment policies, public procurement, services and other fields that are regulated by newer trade agreements, to open opportunities to increase its competitiveness and maximize the benefits of this free trade Agreement.

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