

Bosnia and Herzegovina: Trade Brief*

Trade Policy

Bosnia and Herzegovina has adopted significant unilateral trade reforms since the end of the civil war in 1995. Its MFN applied simple tariff average of 7 percent, while slightly higher than in 2001, is lower than in an average lower-middle-income country and is comparable to the Europe and Central Asia (ECA) regional mean. The 2007 MFN applied import-weighted tariff average is 8.8 percent, about 3.5 percentage points higher than in an average ECA country. The use of nontariff barriers, however, is quite limited (according to World Bank and IMF reports) and the country maintains one of the lowest tariff rates on agricultural products among all of the Southern and Eastern Europe (SEE) countries.

Market Access

The country faces very low constraints to its exports, as reflected in the very low rest-of-the-world applied tariff average (including preferences) of 0.4 percent. MFN duty-free exports, moreover, accounted for 31 percent of its total exports in 2006. Bosnia and Herzegovina is still in the process of WTO accession (the fourth meeting of the WTO Working Party was held in September 2007). It was granted Autonomous Trade Preferences (ATPs) in 2000 by the European Union, with which it initialed in December 2007 a Stabilization and Association Agreement (SAA). The country had a number of free trade agreements (FTAs) with several other Balkan countries, but these were supplanted by the Central Europe Free Trade Agreement (CEFTA) in 2007. It does also have an FTA with Turkey. It maintains a currency board anchored to the euro, which has been supporting macroeconomic stability.

Behind the Border Constraints

Bosnia and Herzegovina's Doing Business 2007 rank, 105th (out of 178), has remained unchanged since 2006. Persistent difficulties in access to finance, protection of property rights, and licensing, as well as political uncertainty and corruption, are some of the key constraints to business development and investment. The country's regulatory quality and rule of law governance indicators are similar to the regional mean, although the former trails behind the regional average. Ranked 88th (out of 151) on the 2006 Logistics Performance Index, infrastructure improvements remain critically needed, particularly in the transportation and energy sectors. Bosnia and Herzegovina's Doing Business—Trading Across Borders 2007 rank, 53rd, is noticeably higher than the previous year (67th) due to continued improvement in facilitation of cross-border flow of goods. Its per capita rate for telephones and mobile phones (73 percent in 2006) surpassed the lower-middle-income country group average, while its Internet user rate (24 percent in 2006) has risen considerably since the early 2000s and is now twice the lower-middle-income country group mean and is comparable to the ECA average.

Trade Outcomes

Thanks to a largely successful post-war reconstruction program and a trade regime that kept the cost of imported inputs used in export production lower than in many other countries, Bosnia and Herzegovina has recorded impressive growth rates since the mid-1990s. Despite double-digit growth in exports in both 2005 and 2006 (spurred in part by increased world prices of

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

metals, a key export), real growth in total trade fell from over 8 percent in 2005 to slightly below zero in 2006 due to falling imports. At 103.5 percent (2006), Bosnia and Herzegovina's trade integration is similar to the latest ECA average and slightly above the lower-middle-income country group mean. Services (including tourism) accounted for nearly a quarter of the country's total exports in 2006 while its main commodity exports in 2005 included aluminum and aluminum ores, chairs, engineering parts, and footwear. According to the IMF's Direction of Trade Statistics, Bosnia and Herzegovina's main trading partners in 2005–06 were Croatia, Slovenia, Germany, and Italy. Foreign direct investment (FDI) inflows as a share of GDP were 3.5 percent in 2006.

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