

## Erkan Ilgün

International Burch University, Department of Management,  
Sarajevo,  
BiH

✉ eilgun@ibu.edu.ba

## Adnan Murad

International Burch University, Department of Management,  
Sarajevo,  
BiH

✉ murad\_adnan@ymail.com

# CROATIA'S ACCESSION TO THE EUROPEAN UNION AND THE FUTURE OF BOSNIA AND HERZEGOVINA

## ПРИДРУЖИВАЊЕ ХРВАТСКЕ ЕВРОПСКОЈ УНИЈИ И БУДУЋНОСТ БОСНЕ И ХЕРЦЕГОВИНЕ

**Summary:** *Whenever a country joins European Union, there are some effects, which not only change the game for entering country but also for third non member countries. The foremost objective of this paper is to examine the possible effects of Croatian joining the European Union on the foreign trade between Croatia and Bosnia and Herzegovina. The core assumption is that Croatian accession to the EU has negative effects on the trade between Croatia and Bosnia and Herzegovina because Croatia is not giving preferential treatment to BH market. To maintain its export market share in the Croatian market, Bosnia and Herzegovina has to show high level of competitiveness.*

**Keywords:** *Croatia, Bosnia and Herzegovina, European Union, competitiveness, foreign trade*

**JEL Classification:** *F18, P33*

**Резиме:** *Придруживање неке државе Европској унији изазива и одређене посљедице не само за земљу чланицу већ и за трећу земљу која није чланица ЕУ. Крајњи циљ овог рада је да се истраже ефекти придруживања Хрватске Европској унији на спољно трговинску размјену Хрватске и Босне и Херцеговине. Основна претпоставка је да придруживање Хрватске ЕУ има негативне ефекте на размјену између Хрватске и Босне и Херцеговине јер Хрватска не даје преференцијални третман тржишту БиХ. Босна и Херцеговина мора да покаже висок ниво конкурентности да би задржала своје учешће у извозу на хрватско тржиште.*

**Кључне ријечи:** *Хрватска, Босна и Херцеговина, Европска унија, конкурентност, спољно трговинско пословање.*

**JEL класификација:** *F18, P33*

## 1. INTRODUCTION

With the escalated pace of development the world is moving towards globalization, interconnectivity and intangibility. Interconnectivity is one of the crucial factors which holds supreme connotation when we talk about European Union. This paper will tend to analyse the pace of development in the recent accession of Croatia to the European Union. This paper will also analyse the consequences of this accession on Croatia's fellow regional countries, particularly taking the case of Bosnia and Herzegovina. The paper will tend to develop an outline of previous and current trade patterns of Croatia with Bosnia and Herzegovina. By following the trade patterns, an analysis will be made regarding the consequences, either good or bad. Will those consequences affect the economy of Bosnia and Herzegovina? Will it accelerate the pace of innovation or suppress innovation in Bosnia and Herzegovina? The answers to these questions will be manifested by this analysis.

## 2. METHODOLOGY

A research can be exploratory, descriptive or causal (Zikmund 2013). To get answer for the questions posed in introduction, this study will provide a comprehensive picture of former and current trade patterns between Bosnia and Herzegovina and Croatia, additionally it will also shed light on the consequences resulting after Croatia's accession to the European Union on Bosnia and Herzegovina by exploiting existing literature. Finally, this study aims to provide recommendations to Bosnia and Herzegovina in order to keep up with the pace of European Union and its unprecedented rate of development. Therefore, this study is an exploratory study. Provided the differentiating features and selection criteria of the two widely accepted research methods, quantitative and qualitative research, this study chooses a qualitative paradigm and exploits an inductive method to test the interrelationships between the two countries in case. The conclusion will be formulated on the basis of deep review of extant literature.

In the first part of this study the establishment of European Union has been elaborated following World War II. Furthermore, the paper delves into explaining Croatia's path to European Union accession. In the next part, trade relations between BH and Croatia have been analysed following the results provided by Mario Holzner in Global Simulation Model Application in order to solidify the analysis. Lastly, the paper provides conclusion and recommendations to Bosnia and Herzegovina.

## 3. THE MARSHALL PLAN

World War II deteriorated the infrastructure of Europe. Millions of people were injured, killed and executed in World War II. Industrial and residential centres in England, Germany, France, Poland, Belgium, Italy and elsewhere were ruined. Agriculture production was disrupted by war due to which Europe was on brink of famine. Transportation infrastructure was also devastated. At that time, United States was the only major power in the world which was not affected by the war significantly (Dulles 1993).

In January 1947, Harry Truman, the then President of United States, appointed George Marshall the Secretary of State. George Marshall along with George Kennan, William Clayton and others developed Marshall Plan concept, which George Marshall shared with the entire world in a speech on June 5, 1947 at Harvard. The aim of this plan was to build Western Europe strong primarily. Marshall was convinced to restore political stability by revitalizing the national economies (Hogan 1989). On the other hand, Marshall also realized that political stability in Western Europe would hinder the advancement of communism in that region. Sixteen European countries became a part of this program. They were provided administrative and technical assistance by the Economic Cooperation Administration of the United States, with a humongous sum of nearly \$13 billion.

European economies grew at an unprecedented rate from 1948-1952. Strong trade relations led to the formation of North Atlantic alliance. Marshall Plan funding ended in 1951 (Skutt 2004). The economic boom and prosperity led by coal and steel industries assisted in shaping a powerful entity, what we know today as European Union.

## 4. WHAT IS EUROPEAN UNION?

The European Union is a distinctive economic and political organization of 28 European countries that collectively swathe much of the continent. The European Union was formed in the aftermath of the Second World War. The first steps were to cultivate the seeds of economic collaboration: the gist of this scheme being that countries which trade with one another become economically inter-reliant and more probable to shun conflicts. The outcome was the European Economic Community (EEC), created in 1958, and initially mounting economic cooperation among six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands. Since then, a colossal single market has been created and it continues to develop, nurture and flourish towards its full potential (European Union).

## 5. ACCESSION OF CROATIA TO THE EUROPEAN UNION AND CHANGES IN REGIONAL TRADE

Croatia began negotiations to be a part of European Union in 2005. Finally, in July 2013, after 8 years of extensive entry negotiations, Croatia became the 28<sup>th</sup> member state of the European Union. As it is said, "Victory comes with changes." This applies to Croatia as well. Why? Because, as a part of European Union, Croatia now has a lot of obligations and a set of rules and regulations to follow.

*Table 1 Significant Dates in Croatia's EU Accession*

Dates	Event
29 <sup>th</sup> October, 2001	Croatia signed Stabilization and Association Agreement
21 <sup>st</sup> February, 2003	Membership application for European Union submitted
18 <sup>th</sup> June, 2004	Croatia received official candidate status of European Union
20 <sup>th</sup> December, 2004	European Council fixed the date for negotiations
1 <sup>st</sup> February, 2005	Stabilization and Association Agreement came into force
16 <sup>th</sup> March, 2005	Negotiations postponed due to non-cooperation with International Criminal Tribunal for the Former Yugoslavia (ICTY)
5 <sup>th</sup> October, 2005	Negotiations began
23 <sup>rd</sup> March, 2009	Talks called off due to Bay of Piran border dispute with Slovenia
11 <sup>th</sup> September, 2009	Talks resumed following agreement with Slovenia
9 <sup>th</sup> December, 2011	Croatia signed European Union accession treaty
22 <sup>nd</sup> January, 2012	Croatian referendum for European Union accession passed
1 <sup>st</sup> July, 2013	Croatia became a Member of European Union

Therefore, with Croatia's accession to the European Union on 1<sup>st</sup> July 2013, the country went through drastic political, economic, and institutional changes to its internal structure, as well as to the regional relations between Balkan countries (Radovanović 2013).

## 6. THE PATH TO ACCESSION

The hardest job for Croatia's administration at the time to entry negotiations was to oblige sensitive cooperation with the International Criminal Tribunal for the Former Yugoslavia. The Croatian administration captured General Ante Gotovina, accused of war crimes by the International Criminal Tribunal for the Former Yugoslavia. The Croatian government also had to deal with the insidious predicament of political corruption and turbulence, going as far as accusing and indicting its ex-Prime Minister, Ivo Sanader. There was a bunch of other demands that were placed upon Croatian government and apart from it the negotiation process also opened 33 new chapters that were required to be implemented. These *acquis* chapters had a wide assortment from lawful and institutional consistency for a free movement of resources, goods, workers and capital to changes in environmental, societal and judicial systems. Profound execution of the *acquis* in the future will leave a thoughtful impact on Croatia's institutional arrangements. Nevertheless, the accession to the EU will also fabricate a number of significant economic repercussions that will most certainly reverberate throughout the Balkan region. Despite the war that had left Yugoslavia crumbled and disintegrated politically, economically, morally and socially, Croatia and its neighbours are deeply integrated in economic terms. Due to communal preferential treatments within the Central European Free Trade Agreement (CEFTA), trade between Croatia and Bosnia and Herzegovina, for example, raised to €1.5 billion in 2010 making Bosnia and Herzegovina the second largest importer of Croatian goods (11% of its exports). This manifests that Bosnia and Herzegovina and other countries in the Balkan region will definitely require to fine-tune their trade patterns and Croatia's entry will affect their exporters and producers (Neag 2013).

## 7. TWO CONTRADICTORY VIEWS ON FUTURE OF BOSNIA AND HERZEGOVINA AFTER CROATIA'S ACCESSION TO EUROPEAN UNION

Dejan Jović in his chapter, *Croatian European Union Membership and the Future of the Balkans*, has highlighted the consequences of Croatia's European Union Membership in detail. The consequences might be ambivalent, i.e. both positive and potentially negative for tranquillity and security in the post-Yugoslav political space (Jović, *Croatian EU Membership and the Future of Balkans* 2012). The outcome depends on several factors, such as;

- The in-house dynamics of Croatian politics after becoming European Union member;
- The internal factors in other countries of the Western Balkans and in particular in two bordering countries: Bosnia-Herzegovina and Serbia;
- The advancement of the European Union enlargement policy; and
- Global conditions, i.e. potentially profound and intensive attachment of other historically momentous actors in the Balkans. This largely refers to the United States of America, but also Russia and Turkey, all of whom show some concern for this region, and which for some reasons are not a part of European Union.

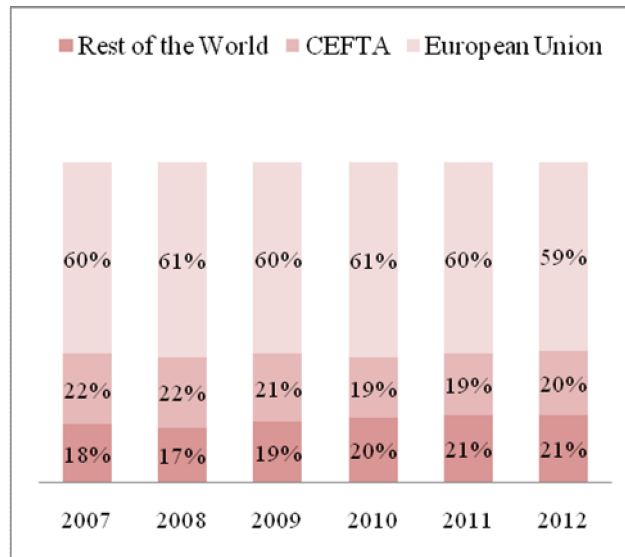
Overall Dejan Jović's analysis indicates that Bosnia and Herzegovina will be highly affected by the entry of Croatia into European Union. This will have negative and positive consequences but it depends on Bosnia's government (Jović 2012). The efficacy with which they will deal with these occurrences will bear fruitful results at the end of the day or deteriorate the relations.

Marko Radovanović in his article discusses that Central European Free Trade Agreement (signed by Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK on behalf of Kosovo) plays an immense role in the regional trade. Nevertheless, Croatia had to abolish this Agreement after July 1st 2013, since it had to introduce the so-called Common External Tariff towards the non-European Union countries. This greatly impacted the regional trade patterns. Croatian export of industrial goods to Bosnia and Herzegovina (which constitutes around 60% of the total) remains unchanged. On the other hand, the price of Croatian meat, fruits, vegetables and milk products rose sharply in Bosnia and Herzegovina due to the change in tariff regime. Instead of Central European Free Trade Agreement, Bosnia and Herzegovina has to apply higher tariffs which it holds for the entire European Union. In the case of BH exports to Croatia, an increase in tariffs is expected for four kinds of produce: beef, sugar, wine and fish. Nonetheless, BH's exports to the European Union are heavily regulated and strict standardization rules apply, which effectively renders many of its products "un-exportable". Moreover, recent negotiations between Bosnia and Herzegovina and Croatia concluded that there will be only two official export border crossings and this is going to increase transportation costs for many BH producers, lowering the competitiveness of their products in the Croatian market. Moreover, its entry will change regional trade patterns and might induce problems for certain industries in neighbouring countries. Nevertheless, Croatia will most probably remain deeply integrated with the region and provide immensely useful guidance, advice and support for other Balkan countries and particularly Bosnia and Herzegovina on their way to the European Union.

## 8. TRADE STRUCTURE OF CROATIA

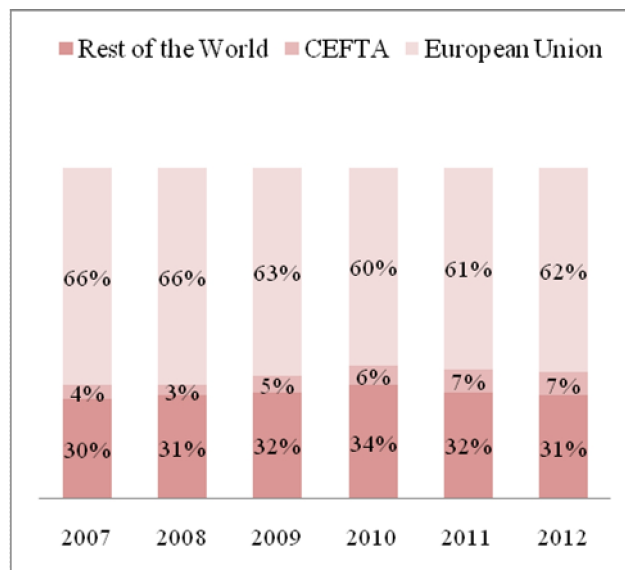
The progression of Croatian trade, since the acceptance of the Central European Free Trade Agreement (CEFTA) 2006 agreement, depicts a comparatively steady regional structure. This is relevant to both exports and imports. In Figure 1 it is obvious that Croatia's exports have remained relatively stable with CEFTA region over 6 years. The export figure is fluctuating between 19%-22% in the entire span. On the other hand, exports with European Union and rest of the world have also been stable. Even in 2009 recession the figures were stable.

Table 2 Croatian Exports



Source: The Vienna Institute for International Economic Studies

Table 3 Croatian Imports



Source: The Vienna Institute for International Economic Studies

Imports of Croatia have also been stable since joining Central European Free Trade Agreement (CEFTA). There has been no or little fluctuation in the figures posted. The import figures with CEFTA region are fluctuating between 3%-7% throughout.

## 9. CURRENT TRADE RELATIONS

As mentioned earlier, after joining European Union Croatia has abolished Central European Free Trade Agreement with its fellow Balkan countries. Until now, Central European Free Trade Agreement was regulating the trade relations between Bosnia and Herzegovina and Croatia. Thus, the advantages that Bosnia and Herzegovina enjoyed in terms of foreign trade exchange have begun to cease. As of now, Croatia has become a part of European Union market which requires Bosnia and Herzegovina to change its policies and come up to the level of European Union standards in order to conduct trade. Bosnia and Herzegovina's government has been quite cold to this situation until now and no significant efforts have been made to restore trade terms or to find out some middle way. This

has put entire economy into an inferior position with respect to Croatia and other European Union markets because of extensive restrictions that came along with new European Union parameters, which definitely is a stumbling block for trade relations between two countries. In this likely situation, the Stabilization and Association Agreement between Bosnia and Herzegovina and the EU becomes the key scaffold for the probable liberalization of trade with Croatia, in accordance with the definite conditions and dynamics provided in the supplementary annexes and protocols (Bassuener 2012). This becomes particularly significant considering that Croatia, along with Serbia, is the most important foreign trade partner of Bosnia and Herzegovina. Imports from Croatia to Bosnia and Herzegovina in 2010 amounted to €1.05 billion. At the same time exports from Bosnia and Herzegovina to Croatia amounted to €547.40 million which means that the export-import ratio was 52%. It is fascinating to note that ten years ago the export-import ratio was almost 7:1 in favour of Croatia whereas the results from 2010 show that this disparity has been condensed to 2:1. Bosnia and Herzegovina exports to Croatia amounted to 16% of total exports from Bosnia and Herzegovina to foreign markets. The growth of imports from Croatia to Bosnia and Herzegovina in 2010 (10.99%) is lesser than the augmentation of exports from Bosnia and Herzegovina to Croatia (13.40%). All these indicators, however, are put into question by Croatian accession to the European Union because at present Bosnia and Herzegovina would only be able to export fish and raw animal skin to the European Union as it is only with regard to these products that the requirements for export are met. These requirements are not met for a bunch of other products such as technical products, agricultural products including seeds and planting material and for livestock. According to current analysis producers of milk and dairy produce, eggs, and fresh meat are affected the most. Bosnia and Herzegovina does not have the capability to endorse conformity with veterinary and plant health and safety standards, principally for food items. At the same time Bosnia and Herzegovina has inadequate laboratories or certification bodies whose certificates are recognized in Croatia. Most of these troubles also pertain to the transfer of goods to certain third countries and European Union countries. Noticeably, in this scenario, the elucidation lies solely in the hands of domestic authorities and institutions (European Commission 2013).

Eventually, Bosnia and Herzegovina basically has to convene all the European Union requirements in terms of trade with European Union countries and the third countries through which exports will be transported on route to European Union countries. It is apparent which of these procedures and standards are the most imperative and which can be accomplished. The most vital among them are the standards from the series ISO 14000 (Environmental Protection), OHSAS (Occupational Health Management System and Safety at Work), HACCP (Food Health and Safety), and ISO 9000 (Quality Management System). This huge task cannot be completed in the anticipated future if the rapidity and comportment of organization remains the same as in the past. All of this was recognized from the moment Croatia started its negotiations about European Union accession and now it can be observed how petite has been done in this area which is, honestly, not adequate. The public is ignorant of this as their concentration has been persistently sidetracked by the fatiguing politicization of everything that stands in the way of resolving these issues. The duty that is now before the institutions and authorities in Bosnia and Herzegovina must be dealt with an extraordinary commitment with the issues, first-rate organization, clearly defined goals with predetermined timelines and direct tasking. Failure to make this work will comprise of an irretrievable loss in the development of economic and political synchronization of the country on its way to the European Union (Lejour 2007).

## **10. GLOBAL SIMULATION MODEL ANALYSIS APPLIED TO CROATIAN TRADE WITH OTHER REGIONAL COUNTRIES**

Mario Holzner, from The Vienna Institute for International Economic Studies, conducted a study in June 2013 named, "Impact of Croatian EU Accession on Regional Trade Patterns" (Holzner 2013). The primary of this study was to analyze the regional trade consequences after Croatia's accession to the European Union and concurrent exit from the Central European Free Trade Agreement on 1<sup>st</sup> July 2013. The Global Simulation Model (GSIM) as proposed by Francois and Hall (2003) is applied in this case in order to measure the overall effects.

The overall results indicate that Croatian exports to Montenegro will increase by 3.1%, to Albania will increase by 2.8% and to the European Union will increase by 1.6%, while Croatian

exports to Kosovo will drop by 38.5%, to Moldova will decrease by 19.1%, to Serbia will decrease by 14.3%, to Macedonia will decrease by 1%, to Bosnia and Herzegovina will marginally drop by 0.9% and to rest of the world will show a humongous drop of 17.5%. Domestic sales in Croatia are expected to decrease by 0.1%. Croatian imports from Serbia will increase by 5.4%, from Albania will increase by 3.5%, from Moldova will increase by 1.2%, from the European Union will increase by 0.8%, from Kosovo will increase by 0.5% and from rest of the world will increase by 2.6%, whereas those from Bosnia and Herzegovina will slightly drop by 1.3%, from Montenegro will drop by 1.3% and from Macedonia will drop by 0.7%.

This result shows that Croatia's entry to European Union is posing significant threats to Bosnia and Herzegovina in terms of trade. As noticed in the results calculated by Holzner, Bosnia's imports and exports are going to decrease marginally after Croatia's accession to European Union. The forecast depicts a marginal decline in both imports and exports, -1.3% and -0.9%, respectively. In context of this paper, it is obvious that in any case Bosnia and Herzegovina is going to face the bitter circumstances of Croatian accession to European Union in terms of trade pattern. A dip in trade with Croatia will also hurt Bosnia's economy. But again this calls for the betterment of Bosnia and Herzegovina on the whole. Tighter standards and higher regulations will only prepare Bosnia and Herzegovina for a brighter future.

## 11. CONCLUSION

The thorough analysis that has been made so far shows that Croatian accession to the European Union will have a very constructive impact, not only on Croatia but also on Bosnia and Herzegovina. The accession will, at the same time, essentially modify relations in the region and in some sectors, (particularly the economic and trade sectors), and will have a dramatic impact on the condition of Bosnia and Herzegovina. Both the positive and the negative implications accompanying this enormous transformation in the region could change the moral, social, economic, industrial and political situation in Bosnia and Herzegovina, chiefly in the short term, changing the current state of affairs by discarding some existing practices and starting many new and diverse ones. The decisive fact in this circumstance is that there is no explanation for the abolition of the unconstructive impact of Croatian accession to the European Union for Bosnia and Herzegovina, especially in the long run, other than the prompt and concrete up gradation of all the standards obligatory for the functioning of Bosnia and Herzegovina and synchronization with European Union standards. An up gradation of standards will merely make Bosnia's products more dexterous. This process must be carried out in Bosnia and Herzegovina without any reservations in a competent, prompt and liberal manner (Policy Analysis 2012).

The commitment of the European Union in tackling these problems will, as always, principally be motivated by self-interest. In these processes the European Union will, no doubt, be "more favourably apt" towards Croatia than towards Bosnia and Herzegovina. The germane institutions and bodies in Bosnia and Herzegovina must be conscious of this fact and make strenuous efforts to use all obtainable funds in order to resolve as many bilateral issues as possible. Any delays on this pathway will result in severe consequences, which will primarily affect the domestic people of Bosnia and Herzegovina (Begovic 2013). Even though Croatian accession to the European Union is a noteworthy act, it also brings an assortment of unusual complications for Bosnia and Herzegovina. Triumph in tackling these complications in the region can take the entire progression in a constructive direction, but failure can produce consequences that will result in new qualms and unconstructive trends in already intricate and complex times. This is why all and sundry should bear their split of the responsibilities and obligations to banish the pessimistic aspects of this act.

The lack of genuine political support for the EU agenda is reflected in very limited progress also as regards approximation to EU laws and standards. This concerns in particular the fields of veterinary and food safety; competition; public procurement; energy; environment and climate change; transport; employment and social policies. In other areas, such as rural development or regional policy, there is little progress due to the lack of agreement on the relevant country-wide strategies. In a number of cases appointments for important bodies need to be made. Failure to do so is hampering the legislative progress. Other institutions such as the State Aid Council have been suffering from the lack of financial resources and could therefore not function properly so far. One of the few positive

exceptions is the area of intellectual, industrial and commercial property rights where preparations to align with EU standards are advanced.

In order for Bosnia and Herzegovina to be able to export products of animal origin to the EU it is necessary to advance rapidly with the transposition of the EU's veterinary and food safety legislation. Bosnia and Herzegovina is the only country in the region which has not aligned its legislation with the 2004 EU directives on public procurement. It needs to do so as a matter of urgency. The country needs to maintain consistent efforts for a sustainable implementation of all reforms introduced under the visa liberalization roadmap, also regarding the broader measures at the borders aimed at strengthening national and regional security. Activities related to preventing abuses of the visa-free regime need to continue.

On the whole, it can be concluded that the accession of Croatia to the European Union will produce favourable scenario for Bosnia and Herzegovina to solidify its position and accelerate the pace of innovation by producing high quality products at par with European Union standards. The government of Bosnia and Herzegovina will play key role in this development. It will not be wrong to say that the change and innovation in Bosnia and Herzegovina after Croatia's accession to European Union is totally dependent on the actions of the government. Minor mistakes at this point in time will result in severe repercussions.

## REFERENCES

- Lejour, Arjan. M. 2007. *The Economic Effects of Croatia's Accession to the EU*. Croatia: Economics Institute Zagreb.
- Begovic, Mirsada F. 2013. Al-Jazeera. 13 December <http://www.aljazeera.com/indepth/opinion/2013/07/201376104219682555.html>
- European Commission. 2013. *Bosnia and Herzegovina 2013 Progress Report*. Brussels.
- Dulles, Allen. W. 1993. *The Marshall Plan*. Berg Publishers.
- European Union. 2013. Accessed 20 October [http://europa.eu/about-eu/index\\_en.htm](http://europa.eu/about-eu/index_en.htm)
- Hogan, Michael J. 1989. *The Marshall Plan: America, Britain and the Reconstruction of Western Europe, 1947-1952 (Studies in Economic History and Policy: USA in the Twentieth Century)*. Cambridge University Press.
- Holzner, Mario. 2013. *Impact of Croatian EU Accession on Regional Trade Patterns*. Vienna: The Vienna Institute for International Economic Studies.
- Jović, Dejan. 2012. Croatian EU Membership and the Future of Balkans. In D. Jović, *Unfinished Business: The Western Balkans and the International Community*.
- Jović, Dejan. 2012. Turning nationalists into EU-supporters.
- Bassuener, Kurt W. 2012. *Croatian and Serbian Policy in Bosnia and Herzegovina - Help or Hindrance?* Sarajevo - Berlin.
- Neag, Maria A. 2013. *Balkan Analysis*. 20 October <http://www.balkananalysis.com/croatia/2013/01/28/croatias-eu-accession-and-some-effects-on-regional-states/>
- Foreign Policy Initiative BH. 2012. *Policy Analysis*. Sarajevo:
- Radovanović, Marko. 2013. *Center for Security Analyses and Prevention*. Retrieved 2013, from Center for Security Analyses and Prevention <http://www.cbap.cz/?p=1284&lang=en>
- Skutt, Mary Sutton. 2004. *George C. Marshall: Man Behind the Plan*. Lexington, Va., Blue Valley Books.
- Zikmund, William G., Barry J. Babin, Jon C. Carr and Mitch Griffin 2013. *Business research methods* (9th ed.). Hampshire : Cenage Larning