Predhodno priopćenje

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INTRA-INDUSTRY TRADE AND ECONOMIC DEVELOPMENT (CASE OF BOSNIA AND HERZEGOVINA)

Abstract

By CEFTA 2006[2] creation and Stabilisation and Association Agreement[3] implementation, Bosnia and Herzegovina has been exposed toward foreign trade liberalization and national economy adapting, which should bring the higher B&H international competitiveness before its full entrance into EU membership. The measurement of intra-industry trade share into foreign trade as a whole, as well as in individual economic branches, could be very significant indicator of the competitiveness and B&H economic development in the context of macroeconomic policy as a whole. Passing through three stages of economic development (factor-driven stage, efficiency-driven stage, and innovation-driven stage), where the income per capita constantly increase according to productivity increment, the relatively intra-industry trade share becomes more and more important. According to economic theory, the turnover of goods increment and foreign trade deficit decrement should have positive correlation with the intra-industry trade increment. The subject of this paper is analysis of these statements on the example of B&H foreign trade and its economic development.

Key words: *intra-industry trade, GL index, international competitiveness, stages of development, Bosnia and Herzegovina.*

INTRODUCTION

Intra-industry trade is a part of total foreign trade whose share has the increasing trend as the international competitiveness level of certain country become higher and more similar in relation to its main foreign trade partners. That's why the relative importance of intra-industry trade is the most important in the case of the most developed countries with similar structure of their national economies (in regard of relative capital and labour force endowments, the technological availability, national income per capita, consumer preferences, etc.). According to economic theory, the inter-industry trade, based on comparative advantages, has the dominant share in the total amount of foreign trade in the first stage of economic development, while by reaching the higher levels of economic development, the intra-industry trade share, based on competitive advantages, increase and become dominant.

If the structure of B&H foreign trade has dominantly organised as the inter-industry trade for a longer period, it means that Bosnia and Herzegovina hasn't adjusted enough for the foreign competition. In that case, the B&H will be mostly involved in foreign trade through industry branches which are based on unskilled

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[2] The parties of the CEFTA 2006 (Central Europe Free Trade Agreement) are: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Kosovo, Albania and Moldova.
[3] Bosnia and Herzegovina signed SAA (Stabilisation and Association Agreement) on June 16th. 2008. at Luxemburg.

work and nature resources exploitation, where the possibilities for production diversification and intra-industry trade development are lower.

The analysis of B&H foreign trade structure (inter and intra industry trade) in relation with its economic development could explain its real international competitiveness level.

1. The intra-industry trade interpretation and its sources

The total foreign trade is divided on two parts: intra-industry and inter-industry trade. The inter-industry trade concerns on the foreign trade of goods among different industry branches and that trade is based on different comparative advantages in the countries.[4]

The comparative advantages determine the amount and the structure of foreign trade in the sense that the amount of foreign trade will be higher if the differences in comparative advantages (or disadvantages) among countries are higher. It is also expressed in relation between developed countries and countries in transition, because developed countries are relatively abundant in capital, and transitional countries are relatively abundant in labour force. But, on the world level, the majority of foreign trade is created in relation between developed countries, because there are many other reasons which determine the amount and structure of foreign trade.

Intra-industry trade concerns on foreign trade of goods and services within the same industry branches between different countries. The intra-industry trade is not initiated by differences in comparative advantages among countries, but by many other reasons. The examples of intra-industry trade are practically unlimited, such as: automobile industries, food and drinks (wine for example), different manufactured goods (mobile telephones, computers, furnish, etc.), tourist services, raw materials etc. The intra-industry trade is not irregularity, but it has had the dominant role in the world foreign trade, especially in recent time within the conditions of globalization. So, there are two main global trends in the world foreign trade in recent time:

- the amount of foreign trade between developed countries has the highest and constantly increasing trend, and
- Intra-industry foreign trade between developed countries has had higher share in relation to inter-industry trade which has had higher share between developed countries and countries in transition.

It is evident, that the intra-industry trade share will be higher if the development and similarity (in the sense of factor of productions and technology endowments) of the certain economies are higher. And, the inter-industry trade (based on comparative advantages) will be higher if the similarity (in the sense of relative factor of productions endowments and development) of certain economies is less. These trends are activated by globalization influences and they bring the higher polarization on reach and poor world. In that sense, the intra-industry trade share in total foreign trade amount is the useful indicator about development and competitiveness of certain economy toward the rest of the world. In the other words, the intra-industry trade

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[4] The certain country has the comparative advantages in the goods which production intensively requires the factor of production that is relatively abundant (or relatively cheaper) in that country. In the opposite sense, the country has the comparative disadvantages in the goods which production intensively requires the factor of production that is relatively scarce (or relatively more expensive) in that country. This postulate is known as HO theorem (Heckscher-Ohlin theorem) in economic theory.

share shows in which way[5] the certain economy is involved in international trade relations with the rest of the world in the sense of its technological development. If the intra-industry trade share of certain economy is higher with the developed countries, it is indicator of its higher development and international competitiveness level.

It is not possible to make complete definition about intra-industry trade because it could be consequence of many different reasons. Intra-industry trade couldn't be explained by comparative advantages. It can be explained only in terms of relative profitability. It means that intra-industry trade will exist anytime when the residents from different countries evaluate that it is profitable to import and export the goods within the same industry branches in the same time. The sources of intra-industry trade are numerous and they are mostly situated within the assumptions of imperfect competition, which were ignored in classical and neoclassical models of foreign trade theories.

The main intra-industry trade sources are:[6]
- dynamic economies of scale (or long-term average cost reduction trend)
- product differentiation and different consumers preferences
- transportation costs
- unequal income distributions in countries
- seasonal production etc.

However, the economies of scale and product differentiation are the most important reasons for intra-industry trade development. If there are the increasing economies of scale, then the average cost has the long-run decreasing trend and it is normal that countries, within such conditions, concentrate their limited factors of production on smaller number of huge firms. Then the mass production and specialization will enable the reduction of average cost in long term and exploitation of all advantages which increasing economy of scale could bring. The increasing economies of scale (or long-term average cost reduction) are usual phenomena in many industrial processes and it is main reason why countries reduce their product lines on significantly smaller number in relation to much higher number of goods which are needed to fulfil demand of their residents.

It is also evidence that the big companies in the conditions of dynamic economies of scale would be directed to not only on domestic market, but also much more on international market. The market size is the main limitation for higher degree of specialization in production. So, none of the countries in the world couldn't produce all different variants of products and services to fulfil its domestic demand. The intra-industry trade (i.e. the simultaneous import and export of different products which belong to the same industry branch) is essential for each developed country.

The intra-industry trade share is the highest within the foreign trade among developed countries, especially in the high sophisticated goods of processing industries and services (for example: machinery, transport vehicles, electrical equipment, transport equipment and miscellaneous manufactured articles, chemicals, food, touristic services), i.e. in those areas where the increasing economies of scale and product differentiation have the significant influence. On the other side, the inter-industry trade share is mainly located in the areas of extract industries (for example: row

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[5] I.e. what products and services are the subjects of foreign trade, and which countries are its main foreign trade partners.
[6] Appleyard, D.R., Field, A.J., Cobb, S.L. (2008), *International Economics*, p. 193-194.

materials, wood, petroleum ...) where the natural resources endowment and comparative advantages are the main determinant.

2. How much the B&H foreign trade is intra-industrial?

There are several alternative indicators for measurement of intra-industry trade. The most widely used and preferred index is Grubel-Lloyd Index (GL). This paper is going to use GL index, too. GL index measures intra-industry trade as a percentage of a country's total trade. Formula for calculating the intra-industry shares in one certain industry branch i by GL index is:

GL = 1- [|Xi - Mi| / (Xi + Mi)]

where Xi and Mi are the exports and imports of industry i.
GL index takes values from 0 to 1. If the trade is balanced, then the GL index is equal 1 and the whole trade is intra-industry trade. On the other side, if the GL index is equal 0, it means that the whole trade is inter-industry trade. So, if the GL index is closer to 1, it means that country is more developed and more competitiveness in certain industry branch.

For the whole country or all industry branches, the GL index could be calculated as follows:

GL = 1 – [Σ |Xi - Mi| / Σ (Xi + Mi)].

The relation between intra-industry and inter-industry trade, or the intra-industry and inter-industry share in the total foreign trade, could be very important indicator about international competitiveness level of the certain country.

If the similarity in capital/labour ratio and technological development between certain country and its main foreign partners is higher, it implicate that the intra-industry trade share (based on economies of scale and product diversification) will be higher and the inter-industry trade share will be smaller. So, if the consumption conditions (such as consumer's needs and preferences and income per capita) are more similar it also means that the intra-industry trade share will be higher and inter-industry trade share will be smaller.

On the other side, if differences in the relative capital and labour endowment, as well as in technological development of the countries are high, then the undeveloped countries with a lower level of productivity and technological development are going to specialize in goods which production is intensive in unskilled labour or land, and developed countries with a higher level of productivity and technological development are going to specialize in the high sophisticated goods which production is intensive in capital. In this case, the foreign trade will be dominantly in the form of inter-industry trade, based on comparative advantages.
The intra-industry share for the total foreign trade, as well as for certain economy branches of Bosnia and Herzegovina, is shown in Table 1.[7]

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[7] Source: Authors' calculations based on data of Agency for Statistics of Bosnia and Herzegovina.; Internet: http://www.bhas.ba/

	2005.			2006.			2007.			2008.			2009.		
	Export	**Import**	**GL Index**	**Export**	**Import**	**GL index**	**Export**	**Import**	**GL index**	**Export**	**Import**	**GL Index**	**Export**	**Import**	**GL Inde**
Agriculture, hunt, fisheries and forestry	39.790	475.303	0,15	101.600	488.761	0,34	92.929	597.631	0,27	99.925	739.245	0,24	123.829	585.928	0,35
Mining and quarrying	185.054	288.894	0,78	194.527	350.341	0,71	192.366	354.249	0,70	157.083	667.772	0,38	103.594	1.057.389	0,18
Food, beverages and tobacco products	251.739	1.478.828	0,29	275.105	1.519.796	0,31	345.103	1.697.555	0,34	408.278	1.955.669	0,35	416.301	1.842.422	0,37
Textiles and Wearing apparel	160.841	577.165	0,44	263.281	604.860	0,61	290.888	685.829	0,60	347.254	730.985	0,64	332.731	655.441	0,67
Leather and products of leather	111.125	276.008	0,57	335.156	360.291	0,96	390.734	392.251	0,998	417.720	411.085	0,99	367.637	377.062	0,99
Wood and products of wood (except furniture)	349.504	124.301	0,53	405.469	118.705	0,45	470.059	169.571	0,53	441.461	189.588	0,6	335.953	143.577	0,60
Paper and paper products, publishing	76.425	267.818	0,44	95.813	326.555	0,45	114.553	364.946	0,48	145.194	401.780	0,53	157.712	361.573	0,61
Coke, refined petroleum products and nuclear fuel	154.476	1.043.836	0,26	128.238	1.338.478	0,18	208.787	1.414.270	0,26	251.266	1.885.076	0,24	264.983	753.655	0,52
Chemical products	125.927	1.060.423	0,21	196.200	1.079.776	0,31	236.834	1.297.951	0,31	314.819	1.486.341	0,35	283.609	1.370.706	0,34
Rubber and plastic Products	51.481	384.302	0,24	75.101	397.375	0,32	108.224	494.279	0,36	126.694	563.051	0,37	111.069	488.257	0,37
Non-metallic mineral products	51.283	426.686	0,22	73.735	383.220	0,32	102.029	497.542	0,34	107.665	505.124	0,35	104.609	379.473	0,43
Basic metals and metal Products	1.075.146	942.709	0,93	1.588.393	1.309.144	0,90	1.790.144	1.846.992	0,98	1.968.112	1.973.462	0,999	1.139.824	1.146.059	0,997
Machinery and Equipment	201.078	1.206.921	0,29	244.382	932.298	0,42	335.415	1.322.031	0,41	429.933	1.811.580	0,38	365.490	1.052.733	0,52
Electrical	100.349	705.644	0,25	129.205	830.880	0,27	161.471	1.028.256	0,27	192.649	1.056.138	0,31	180.731	934.167	0,32

machinery and precision instruments															
Transport vehicles and equipment	391.306	1.114.276	0,52	413.831	990.205	0,59	433.309	1.204.065	0,53	443.893	1.382.944	0,49	272.473	825.622	0,50
Manufacture of furniture	218.657	220.069	0,997	388.587	217.594	0,72	434.017	299.342	0,82	490.159	320.004	0,79	511.763	248.696	0,65
Electricity, gas and water	147.419	164.486	0,95	252.027	107.660	0,60	225.468	189.142	0,91	365.449	167.928	0,63	456.367	97.313	0,35
Other	3.305	43.967	0,14	3.646	32.846	0,20	4.254	42.340	0,18	3.717	44.226	0,16	2.523	35.107	0,13
Total	**3.783.199**	**11.180.798**	**0,48**	**5.164.296**	**11.388.785**	**0,53**	**5.936.584**	**13.898.242**	**0,55**	**6.711.690**	**16.292.516**	**0,53**	**5.531.199**	**12.355.179**	**0,53**
Turnover of goods (Export + Import)	14.963.997			16.553.081			19.834.826			23.004.206			17.886.378		

Table 1. in thousands of BAM, Source of data: Agency for Statistics of Bosnia and Herzegovina.

The economic hypothesis, which has been confirmed by many studies and empirical data in the past,[8] that countries that have longer common borders and have reduced barriers on foreign trade (customs duty and quotas) will have higher level of intra-industry trade among themselves, is not confirmed by example of Bosnia and Herzegovina foreign trade. Although Bosnia and Herzegovina mainly has been noting increasing trend of foreign trade amount and high openness of the economy,[9] the majority of B&H foreign trade is inter-industry trade.[10] Relatively high foreign trade amount hasn't enabled Bosnia and Herzegovina to create more opportunities for higher intra-industry share with its main foreign trade partners on the basis of wider product lines of differentiated products. That fact is a consequence of significantly lower B&H competitiveness level toward its all foreign partners.

Export			Import		
Country:		%	Country:		%
Croatia	944.144	17%	Croatia	1.855.136	15%
Germany	814.110	15%	Germany	1.395.705	11%
Serbia	741.441	13%	Serbia	1.283.006	10%
Italy	702.356	13%	Italy	1.243.234	10%
Slovenia	463.129	8%	Slovenia	758.953	6%
Austria	325.370	6%	China	557.106	5%
Montenegro	229.506	4%	Turkey	366.818	3%
Other countries		24%	Other countries		40%

Table 2. B&H exports and imports in 2009 by main trading partners, (in thousands of BAM)
Source: Agency for Statistics of Bosnia and Herzegovina.

According to the Global Competitiveness Report 2009-2010, Bosnia and Herzegovina was ranked on 109th place among 133 countries which were included into competitiveness measurement and all its foreign partners (all South-East European countries and especially EU country members) were ranked as countries with a significantly better competitiveness level (Table 3.).[11]

Country/Economy	Rank	Score	Country/Economy	Rank	Score
Germany	7	5,37	Russian Federation	63	4,15
Austria	17	5,13	Greece	71	4,04
China	29	4,74	Croatia	72	4,03
Slovenia	37	4,55	Bulgaria	76	4,02
Poland	46	4,33	Macedonia, FYR	84	3,95
Italy	48	4,31	Serbia	93	3,77
Hungary	58	4,22	Albania	96	3,72

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[8] For example, EEC countries have experienced the increment of intra-industry trade from 54% (1959) to 67% (1967) as the consequence of foreign trade liberalization and custom union creation. Source: Grubel, H. & Lloyd, P. J. (1975).

[9] Openness of the economy is measured by foreign trade (export + import) share in the gross domestic product for certain economy.

[10] If the export (import) value of certain industry is a half of import (export) value of the same industry, the GL index would equal 0, 67. So, if the GL index < 0, 67, it means that inter-industry trade level is higher than intra-industry trade level, and if the GL index > 0, 67, it means that intra-industry trade is higher than inter-industry trade.

[11] Source: World Economic Forum, The Global Competitiveness Report 2009-2010, p. 14-15.

Turkey	61	4,16	.....		....	....
Montenegro	62	4,16	Bosnia and Herzegovina	109	3,53	

Table 3. The Global Competitiveness Index 2009–2010 (selected countries).
Source: The Global Competitiveness Report 2009-2010, World Economic Forum

The direct consequence of such low B&H competitiveness level and inappropriate liberalization (through CEFTA and SAA implementation) is that Bosnia and Herzegovina has been noting very high and continuous foreign trade deficits which disable a higher development of B&H intra-industry trade (Table 4.). In 2009, Bosnia and Herzegovina has experienced significant foreign trade deficit decrement (as well as the turnover of goods), but the intra-industry trade share was unchanged in relation to the three previous years. The explanation for that absurd is clear. The foreign trade deficit decrement is not a consequence of B&H economy competitiveness level increment, but because of world economic crises where the B&H import has experienced more higher decrement (-24,8%) than B&H export decrement (-17,6%).

Year:	Turnover of goods	Imports	Exports	Trade balance	Export/Import ratio %
1998.	5.661.009	4.596.834	1.064.175	-3.532.659	23,2
1999.	6.021.750	4.872.532	1.149.218	-3.723.314	23,6
2000.	8.846.999	6.582.609	2.264.390	- 4.318.219	34,4
2001.	8.971.771	6.630.226	2.341.545	- 4.288.681	35,3
2002.	9.984.519	7.894.867	2.089.652	- 5.805.215	26,5
2003.	10.793.419	8365183	2428234	-5936949	29.0%
2004.	12.435.732	9422969	3012763	-6410206	32.0%
2005.	14.963.997	11180797	3783199	-7397598	33.8%
2006.	16.553.081	11388783	5164295	-6224488	45.3%
2007.	19.834.826	13898242	5936583	-7961659	42.7%
2008.	23.004.206	16287044	6714302	-9572742	41.2%
2009.	17.834.047	12324401	5509646	-6814755	44.7%

Table 4. B&H exports and imports 1998.-2009. (In thousands of BAM)
Sourcet: http://www.bhas.ba/new/indikatori

So, the positive correlation between turnover of goods increment and foreign trade deficit decrement with intra-industry trade doesn't always exist. Foreign trade liberalization is not good solution for all countries if the differences in economic development or competitiveness level among countries are high. Bosnia and Herzegovina is much more underdeveloped country in relation toward its foreign trade partners and foreign trade liberalization couldn't bring benefits for her. Within such conditions, Bosnia and Herzegovina could be involved into international foreign trade mainly by products based on her natural resources (i.e. through extract industries), but not through products based on progressive technology (i.e. through processing industry) where the opportunity for differentiated products to be traded is much higher. That's why the foreign trade liberalization could increase the turnover of goods for Bosnia and Herzegovina, but with huge and continuous foreign trade deficits (as it showed in Table 4.), without or with very small increment in intra-industry trade (as it showed in Table 1.). Foreign trade liberalization is not a source for economic development, but more a consequence of economic development. Foreign trade liberalization could be source of economic development and intra-industry trade increment for all foreign trade partners only if the countries are developed and approximately on the equal economic development level.

3. The intra-industry trade and stages of development of Bosnia and Herzegovina

Bosnia and Herzegovina is transitional country, burdened by many problems of after war economic reconstruction and adapting toward new conditions of growing international competition. The amount of intra-industry trade index for Bosnia and Herzegovina is one of the indicators which could explain the structural changes toward more effective economy and its international competitiveness.

According to the World Economic Forum, there are three stages of development: factor-driven stage of development, efficiency-driven stage of development and innovation-driven stage of development.[12] Each of these stages is described by many characteristics. As the countries move from one development stage to another higher stage, they will adjust their economies in the sense of many economic and structural adapting (i.e. wages level and labour productivity will increase, turnover of foreign trade and intra-industry trade will increase etc.). But, there are two main indicators which are used for certain country to be allocated to stages of development. The first criterion is a level of GDP per capita, as it is shown in the Table 5.[13]

Stage of development	GDP *per capita* (in US$)
Stage 1: Factor driven	< 2.000
Transition from Stage 1 to Stage 2	2.000 – 3.000
Stage 2: Efficiency driven	3.000 – 9.000
Transition from Stage 2 to Stage 3	9.000 – 17.000
Stage 3: Innovation driven	> 17.000

Table 5. Income thresholds for establishing stages of development
Source: WEF, The Global Competitiveness Report 2009-2010, p. 11.

According to this criterion (GDP per capita), Bosnia and Herzegovina could be classified as a country in the efficiency driven stage of development (Table 6.).

Year:	Nominal GDP (in million BAM)	Nominal GDP (in million US$)	GDP per capita (in BAM)	GDP per capita (in US$)	The inhabitant number (in thousand)	The average annual exchange rate BAM/US$
2005.	17.127,0	10.889,0	4.457,0	2.834,0	3.843,0	1,5728
2006.	19.252,0	12.346,0	5.010,0	3.212,0	3.843,0	1,5594
2007.	21.760,0	15.222,0	5.664,0	3.962,0	3.842,0	1,4295
2008.	24.702,0	18.481,0	6.429,0	4.810,0	3.842,0	1,3366
2009.	23.994,0	17.047,0	6.244,0	4.436,0	3.843,0	1,4075

Table 6. B&H Gross Domestic Product
Source: Central Bank of Bosnia and Herzegovina.

But, there is also the second criterion which determines the stage of development for certain country. That criterion measures the export share of mineral product[14] in the total

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[12] World Economic Forum, The Global Competitiveness Report 2009-2010, p. 7.
[13] Ibid, p. 11.
[14] Mineral products contain crude oil and gas, all metal ores and other minerals as well as petroleum products, liquefied gas, coal, and precious stones.

export. If that share is over 70% of total export, it means that country is factor driven economy.[15]

It is evident that Bosnia and Herzegovina competes on international market by export of its extractive industry goods (i.e. basic metals or ores: iron, coal and aluminium), wood and products of wood and electricity that are dominantly based on country's natural resources and unskilled work. These products are mainly homogenous products without opportunities for higher differentiation and for intra-industry trade increment. Because of low level of labour productivity in production of these products, the direct consequence is also the relatively low level of wages and economic grow. On the other side, Bosnia and Herzegovina imports goods of processing industries (for example machinery and equipment, electrical machinery and precision instruments, transport vehicles and equipment etc.).

(in thousand BAM)	Export	Import	Foreign trade balance	GL index
Food and beverages	400 000	2 202 000	- 1 802 000	0,31
Petroleum derivatives	145 000	1 380 000	-1 235 000	0,19
The electric power	487 000	96 000	391 000	0,33
The chemicals	294 000	1 550 000	- 1 256 000	0,32
Iron and aluminium	582 000	580 000	2 000	0,998
Transport vehicles and components	96 000	739 000	- 643 000	0,23
Wood and products of wood	806 000	179 000	627 000	0,36

Table 7. B&H foreign trade of the most important goods (2009)
Source: Agency for Statistics of Bosnia and Herzegovina.

Bosnia and Herzegovina has had the highest foreign trade deficit in food and beverages (26% of total foreign trade deficit), and consequently small level of intra-industry trade. It is obvious absurd because 50% of B&H total territory is farmland and even 45% of that is the virgin land.[16]

The majority of the successful economies in the world hadn't based their economic development on natural resources endowments, but on capital (human and physical), new technologies, management and production and export of the most sophisticated products.[17] The economic development based dominantly on natural resources is very limited because of their limited quantities, profuse exhaustion, price decrement of natural resources, new technologies etc.

Bosnia and Herzegovina should develop more efficient production processes which will bring production opportunities of more differentiated products with higher product quality.

Conclusion

The higher part of B&H foreign trade is inter-industry trade based on comparative advantages, i.e. based on differences in relative factor of production endowments. It also represents the smaller level of national welfare, because lower intra-industry trade level

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[15] For example, the GDP per capita in Saudi Arabia was 19,345.3 US$ in 2008., but that country was allocated as economy in transition from factor driven (Stage 1) to efficiency driven (Stage 2) economy, because of its dominant export share of mineral goods (oil) in the total export.; Source: World Economic Forum, The Global Competitiveness Report 2009-2010, p. 270.

[16] Source: Agency for Statistics of Bosnia and Herzegovina.

[17] Japan confirms this statement, because it is one example of the most developed country that doesn't endowment with reach natural resources.

indicates the smaller choice or assortment of the goods and less satisfying of consumers wishes.

As the consequence of B&H foreign trade liberalization (through CEFTA and SAA), Bosnia and Herzegovina has experienced turnover of goods increment, but also foreign trade deficit increment. But, B&H export and national income increment is primary realised on export of extract industry goods based on its natural resources (iron, steel and aluminium, wood ...). So, the B&H import is mainly determined by goods of processing industry where the possibilities for more differentiated products and intra-industry trade development are significantly higher. These determine low level of intra-industry share of individual branches (in the field of extract and processing industry) and of B&H foreign trade as a whole.

The economic principle about positive correlation between foreign trade increment and intra-industry trade increment, as well as between foreign trade deficit decrement and intra-industry trade increment haven't been confirmed in the case of B&H foreign trade. B&H economy is much more underdeveloped toward its foreign trade partners, so the foreign trade liberalization couldn't bring economic prosperity for her.

Within such conditions, liberalized foreign trade policy cannot bring economic development for Bosnia and Herzegovina especially for a long period. Bosnia and Herzegovina should use the possibilities within CEFTA and SAA agreement about protection of domestic underdeveloped economic branches and apply appropriate macroeconomic policy to improve B&H competitiveness level.

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