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Market and Trade Data

Look to the Future for Export Market in Bosnia-Herzegovina

By Sanela Stanojcic

The civil war of 1992-95 still casts a long shadow over the economy of the Federation of Bosnia and Herzegovina. So does the sluggish transition from a socially planned to a market economy.

In recent years, the Federation's economy has been driven by international donations with GDP (gross domestic product) growth reflecting external assistance rather than increased domestic production. Most U.S.-origin exports to the federation, mainly

wheat and sunflower seed oil, are food donations.

Bosnia imports about three times as much as it exports. In calendar 2004, the country exported a little over \$2 billion worth of products. Agricultural imports made up about a quarter to a third of the \$6.5 billion worth of imports.

Principal trading partners include neighboring EU (European Union) and ex-Yugoslavian countries. Croatian, Slovenian, German, Serbian, Austrian, and Italian processed foods dominate the market. Beverages (alcoholic and non-alcoholic) and mineral water, grains, tobacco products, sugar, and dairy products head the list of imports.

Barriers Still In Place

Though food import tariffs are low compared to other countries in the region, challenges to exporters include a complicated dual system of government, low incomes, and poor infrastructure.

The transformation of the Federation from a planned to a market economy and integration into the European and world trade structure has been slow. Barriers remain to internal and external trade and foreign direct investment--from significant legislative, regulatory, and institutional differences between the two Federation entities to the inability of the governments to prevent unfair competition and provide financial and other essential services.

Economic Prospects Glimmer

The economic development picture is not all negative, however. While some large state-owned enterprises still have not been privatized, there has been significant growth



in the number of small and medium businesses, which account for half of the country's income.

Recent reform progress promises to bring the country increased prosperity and stability. Efforts have been made to liberalize trade, especially within the southeast European region. Negotiations have begun for WTO (World Trade Organization) accession, which will greatly enhance the Federation's international presence.

The introduction of a central bank, adoption of a currency board, and the creation of a single currency, the KM (Konvertibilna Marka) has lent a degree of economic stability. The currency board ensures that the KM is fully backed by hard currency or gold, and the exchange rate is fixed at approximately 2 KM to the euro. Therefore, prices have remained stable since introduction of the KM. On Jan. 1, 2006, a single VAT (value-added tax) of 17 percent replaced indirect state taxes.

Per capita GDP in 2004 has been estimated at \$2,150, with a total GDP coming in at \$8.2 billion. The real GDP growth rate in 2004 was 6 percent.

Consumer Preferences

Generally, consumers view price as the primary factor in a food purchasing decision, and tend toward large packages at lower unit prices. Nonperishables are normally bought monthly at shopping centers, with perishables procured on an as-needed basis at small grocery outlets.

Consumption of red meats is relatively high, more so lately because of the outbreak of avian flu in Europe and in the Federation in February 2006. Traditionally, consumption of beef and veal is higher than poultry, pork, or lamb. Pork consumption is somewhat limited due to the large Muslim population.

Consumers prefer to prepare meals at home from fresh foods rather than buy ready-to-eat and frozen meals. Usually sold in specialized stores, organics are mostly consumed by a small expatriate community. Consumers dislike foods derived from biotechnology, but information about the product benefits could change this attitude.

Retail Sector Changing

Small food retailers are slowly losing out to large wholesalers. Shopping centers are popping up and introducing big changes in the retail market. Though not yet prolific, these centers import and distribute great varieties of fresh meats, exotic, and new-to-market foods, and ready-to-eat foods.

They also provide fine customer service, restaurants with good prices, and attractions for children. These retailers feature in-store promotions and tastings and offer small gifts with purchases. Special discounts entice returning customers.

HRI Could Be Promising

Growth in tourism would provide a major source of job growth and foreign exchange earnings for Bosnia and Herzegovina, with huge benefits for the economy. However, government regulations have thus far limited tourism development.

Existing HRI (hotel, restaurant, and institutional) companies tend to prepare meals from basics. Since there are no organized distribution networks in place, they buy ingredients from small groceries, green markets, big producers, retail centers, and wholesalers.

Dayton Accord Set Boundaries

Following its declaration of independence from the former Yugoslavia in April 1992, Bosnia and Herzegovina was thrown into a three-year-long war. This led to major displacements of the population and extensive physical and economic destruction.

The Dayton Agreement, signed in December 1995, created a national government for the region that is charged with conducting foreign policy and international agreements, and customs, economic, and fiscal policy. The Agreement also created a second tier of government, comprised of two state entities — the joint Bosniak-Croat Federation of Bosnia and Herzegovina (mostly Bosnian Muslim or Bosniak and Bosnian Croat) and the Bosnian Serb Republika Srpska (mostly Bosnian Serb) — along with the independent district of Brcko.

Setting Up Shop

Foreign exporters often rely on locally registered importers for help with food import regulations. Business friendships are highly valued among the importers that provide transportation, product storage, market information, financing, and some insurance for their trade partners. The U.S. Foreign Commercial Service can help locate qualified distributors. (See <http://www.buyusa.gov/bosniaand/en/>)

Recent harmonization efforts within the Federation are yielding some results, but tax regimes between the two entities still differ. Distribution systems for the two entities are also different, often requiring a business relationship with a distributor from each.

Some foreign companies set up offices to control distribution channels; others rely on strong local companies. Establishing a local presence and employing local people signal long-term commitment to the market, an important consideration for federation business partners.

Television is the most popular advertising medium accounting for 68 percent of retail advertising, trailed by radio, newspapers, and magazines. Outdoor ads account for 20 percent of the advertising dollar. Trade events and fairs throughout the region offer

a good way to find partners and distributors and market products and services.

What About U.S. Exports?

While market obstacles are definitely a consideration, high-quality U.S. products can find a small but growing clientele, because consumer awareness is improving as incomes rise. California wines and almonds have already found niche markets.

Other high-value prospects include tobacco products, beverages, mineral water, chocolate, coffee, cheeses, confectionery, sauces

and spices, fish, seafood, wines ice cream, tree nuts, and peanuts. ■

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