

# Examining the Degree of Foreign Trade Dependence and Its Influence on GDP Growth

Senija Nuhanović<sup>1</sup> & Mirnesa Baraković Nurikić<sup>1</sup>

<sup>1</sup> Faculty of Economics, Tuzla University, Tuzla, Bosnia and Herzegovina

Correspondence: Mirnesa Baraković Nurikić, Faculty of Economics, Tuzla University, Univerzitetska 8, 75000 Tuzla, Bosnia and Herzegovina. Tel: 387-61-639-434. E-mail: mirnesa-barakovic@hotmail.com

Received: December 29, 2020

Accepted: March 15, 2021

Online Published: March 29, 2021

doi:10.5539/ibr.v14n4p71

URL: <https://doi.org/10.5539/ibr.v14n4p71>

## Abstract

Contemporary international economic environment registers an increasing relationship and interdependence of countries regardless of the degree of their development. In the open economy, the development of foreign trade mainly implies the growth of gross domestic product (GDP). The basic goal of this paper is to examine the influence and effects of trade dependence on GDP. Trade dependence is used to describe a country for which exports and imports are very important. This coefficient also shows the degree of national economy openness. The analysis included the area of Bosnia and Herzegovina for the period 2010-2018, whereby the relevant statistical data were processed for export, import, GDP, as well as the selected coefficient of foreign trade dependence. The results showed the existence of a short-term or long-term relationship between GDP and the total export and import, as well as between GDP and export.

**Keywords:** trade dependence, foreign trade, gross domestic product, national economy, Bosnia and Herzegovina (BiH)

## 1. Introduction

The proportion of foreign trade in gross domestic product (GDP) of a country varies due to a different level of country's openness or a different degree of its dependence on foreign trade (Jotanović (2006), p. 77). The concept of trade dependence is the central point of observation in current globalization process in the world. According to Travis (1981), if one country is an extremely significant economic partner of another country, then its influence on the foreign policy of another country is such that the relationship can be described as economic dependence. As no country would be able to survive without the appropriate development of foreign trade, it is important that a country has links to the countries that can provide it with economic benefit in the long run. For a long time, Bosnia and Herzegovina (BiH) has registered a deficit in foreign trade exchange, with an extremely high dependence on the import of essential products such as energy products, medicinal products, food, automobiles, etc. In the years after the global financial crisis, the total volume of foreign trade of BiH also decreased. Favorable economic structure and general economic development may reduce country's dependence on import and increase its dependence on export. However, bearing in mind the overall situation in the country, such situation is still rather elusive. That mean, products that can be produced in the country are imported and products at a lower stage of production are exported. On the other hand, political and regulatory situation in this country is one of the biggest problem for single trade policy. Due to all the above mentioned, the question is raised so as to what is the optimum strategy for BiH apropos of its trade dependence on other countries. By optimal strategy we mean a strategy that will contribute to increasing gross domestic product by controlling trade dependence (import or export).

## 2. Literature Review

In the neighboring countries as well as globally, some studies have been conducted on trade dependence and GDP growth. The following section brings some of these studies.

In their paper, Yuhong L., Zhongwen C., Changjian S. (2010) examined the relationship between foreign trade and GDP growth in East China. Analyzing data time series, they studied the causes and consequences of foreign trade (import, export) on GDP. Their analysis included 28year statistical data of east China from 1981 to 2008. Their results showed a positive relationship between GDP and the total export and import as well as between

GDP and export, while they failed to prove any link between GDP and import trade.

Osakwea P. N., Santos-Paulino A. U. and Dogan B. (2018) investigated the relationship between trade, trade liberalization, and exports diversification in developing and Sub-Saharan African (SSA) countries. By using the non-parametric analyses, they indicate that developing countries that are more open to trade tend to have more diversified exports structures than those that are classified as less open. The empirical analyses showed that GDP per capita, human capital and institutions, play important roles in exports diversification.

Kahn-Nisser S. (2019) looked at the linkages between export to the European Union (EU), export to china and human rights policies. The author concluded that export to the EU at high rates are more likely to converge towards its policies than countries that don't export to the EU. Countries' human rights policies are positively associated with the EU's human rights policies and this association is conditioned by countries' levels of export to the EU.

Šošić V. and Vujčić B. (2005) examined trade integration and accession of Croatia to the European Union (EU). By constructing the gravity model, they attempted to assess the level of trade restructuring achieved by Croatia. They came to the conclusion that the liberalization of international trade that occurred in the previous years did not significantly increase the trade with the signatory countries but only increased the trade with the former Yugoslav countries that had already been Croatian partners. The authors claimed that reforms need to continue so as to increase the total openness of this country and its international trade.

Bilas V. (2007) investigated the relationship between Croatia and the EU in terms of integration into the monetary union. Considered factors are: degree of mutual trade, degree of labor mobility, connection of economic shocks, etc. At the time when the research was conducted, 60% of Croatia's trade was with the EU member states. The analysis of Croatian export showed that the population growth had a positive effect on trade while distance had a negative effect. The analysis of import suggested that all the variables (GDP per capita, the population, distance) were statistically significant.

As Jaffee D. (1985) states, various forms of economic dependence (export and import dependence) will have negative effects on the economic growth of countries. This paper formulates the logic behind this expectation differently in the context of the economic growth effects of one widely employed measure of international economic dependence or export dependence. It was concluded that the positive effect of export dependence is either reduced or reversed under the assumptions of export price fluctuation, increased raw material export, commodity concentration, and foreign capital penetration.

Jerinić M. (2017) studied the position of BiH in foreign trade in relation to other countries. BiH is a small and open country with foreign trade having an important role. Export to foreign markets is rather difficult to many domestic companies due to their low competitiveness and many non-tariff barriers. She concluded that the basic characteristic of BiH foreign trade is a constant foreign trade deficit, bearing in mind the fact that the EU is a dominant trading partner of BiH. Hence, progressive liberalization may have accidental consequences for the domestic trade of this country.

The necessary condition of growth and development of every country is the increase of its foreign trade with other countries in the world. For economic exchange to take place among countries or among partners from different countries, at least one of the following conditions needs to be satisfied (Strahinja (2000), p. 31):

- difference in the offer of some goods between countries,
- difference in the demand for the same goods between these countries, and
- different prices of the same goods in individual countries.

Whether a country is a net debtor depends on its current account. If a country registers a surplus or a positive balance of payments, it means that export is higher than import, i.e., foreign currency inflow is higher than foreign currency outflow. Otherwise, the country registers a deficit or a negative balance of payments. The importance of international trade for a country is measured by the share of foreign trade (export and import) in GDP or the national income of the country. This also shows the degree of dependence of the national economy on foreign trade.

Dependence of a country's national economy on foreign trade (foreign trade coefficient), can be presented by a formula

Foreign trade dependence = total foreign trade / GDP

This coefficient also shows the degree of national economy openness (Sovtić (2009), p. 10).

### 3. Research Methodology

Research objective is to investigate connection between trade dependence, GDP, and export/import in Bosnia and Herzegovina. Central hypothesis of this paper is: Foreign trade dependence influence on the increase (or decrease) of GDP. In order to calculate foreign trade dependence of a country (in our case BiH), we shall use foreign trade coefficient. Generally, the value of this coefficient is higher for smaller countries. Foreign trade coefficient is the share of foreign trade in country's GDP, or the ratio of the sum of import and export and GDP:

$$K_j^{FT} = \frac{X_j + M_j}{Y_j} = \frac{X_j}{Y_j} + \frac{M_j}{Y_j} = K_j^X + K_j^M \quad (1)$$

where:

$K_j^{FT}$  - foreign trade coefficient

$Y_j$  – country's GDP

$K_j^X$  - import coefficient

$K_j^M$  - export coefficient

Apart from this coefficient which we use for the calculation of foreign trade coefficient for individual countries (in our case BiH), world export coefficient may also be calculated using the formula:

$$K_w^X = \frac{X_w}{Y_w} \quad (2)$$

where:

$K_w^X$  – world export coefficient

$X_w$  – the sum of world export of commodities and services

$Y_w$  – global GDP

This coefficient is used so as to show the structure of world international trade.

In order to see the country most exported to, we use the geographic concentration coefficient which is the ratio of the total export of all commodities of a country to a specific territory to the total export:

$$K_j^z = \frac{X_{zj}}{\sum_m (X_{mj})} \quad (3)$$

where:

$K_{jz}$  – geographic concentration coefficient

$X_{zj}$  – the total export of all commodities to the territory of one country

$X_{mj}$  – the total export of a country

Higher trade dependence among countries includes the higher trade concentration ratio.

Apart from the domestic and foreign literature on the topic studies, other data sources included the publications by various agencies in charge of publishing and collecting data used in the paper. Some of them are the Central Bank of BiH, the Foreign Investment Promotion Agency of BiH, Foreign Trade Chamber of BiH, etc.

The scientific methods used in the paper are analysis and synthesis, historical method, comparative method, compilation, description, and generalization. The observed period used in the research of the effect of trade dependence on GDP growth is 2010-2018. The research territory is BiH. The data are presented in tables and graphs and processed by the SPSS program package.

### 4. Results and Discussion

Based on the formula for foreign trade dependence (Foreign trade dependence=total foreign trade/GDP), the calculated dependence of each index of foreign trade of BiH in the period 2010-2018 slightly increased, with occasional fluctuations. Table 1 and Graph 1 present dependence trend. Foreign trade dependence increased from

minimum 81.65% in 2010 to maximum 93.30% in 2018.

Table 1. Dependence of Bosnia and Herzegovina's GDP on foreign trade

	EUR million and %							
	GDP	FOREIGN TRADE	EXPORT	IMPORT	SURPLUS / DEFICIT	FOREIGN TRADE DEFICIT	EXPORT COEFFICIENT	IMPORT COEFFICIENT
2010	12,968.9	10,589.7	3,627.9	6,961.9	-3,334.0	81.65%	27.97%	53.68%
2011	13,411.7	12,142.3	4,203.9	7,938.4	-3,734.5	90.54%	31.35%	59.19%
2012	13,407.5	11,816.7	4,017.9	7,798.8	-3,780.9	88.14%	29.97%	58.17%
2013	13,691.8	12,041.3	4,284.9	7,756.4	-3,471.5	87.95%	31.30%	56.65%
2014	13,988.3	12,721.5	4,438.9	8,282.6	-3,843.7	90.94%	31.73%	59.21%
2015	14,617.4	12,700.1	4,595.1	8,104.9	-3,509.8	86.88%	31.44%	55.45%
2016	15,289.9	13,078.4	4,815.4	8,263.0	-3,447.6	85.54%	31.49%	54.04%
2017	16,042.4	14,950.7	5,652.5	9,298.2	-3,645.6	93.19%	35.23%	57.96%
2018	17,081.2	15,937.2	6,084.5	9,852.6	-3,768.1	93.30%	35.62%	57.68%

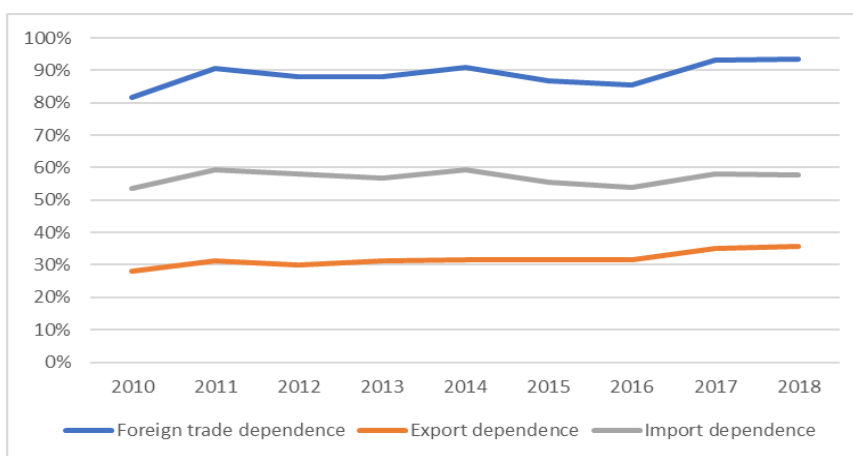
Source: Authors' calculation, Central Bank of BiH (January 2020) and the Agency for Statistics of BiH (January 2020)

Table 1 shows high foreign trade dependence of BiH (over 81%) in the entire observed period, with import dependence higher than export dependence. The main reason for such a condition is the fact that BiH registered a constant deficit of balance of payments, which in the observed period was over EUR 3.3 billion. The ratio of export dependence increased from minimum 27.97% in 2010 to maximum 35.62% in 2018, while the ratio of import dependence grew from minimum 53.68% in 2010 to maximum 59.21% in 2014, while over the years that followed it registered a mild drop compared to the maximum value.

It is evident that for all three observed ratios, the minimum value was registered in 2010, when the volume of foreign trade was rather lower than in the years that followed, which can be explained by the consequences of the global financial crisis. Although export grew at a rate higher than import, the value of the imported goods was significantly higher than the value of the exported goods, which is why foreign trade deficit was registered.<sup>1</sup> The main interpretation of deficit of balance of payments of BiH is that it indicates the lack of competitiveness of this country and its economy (Bodiroža (2008), p. 229).

Graph 1 shows that the index of GDP dependence for all three observed measures (foreign trade, import and export) is rather constant, with the maximum value for all the indices in 2018 and a small drop in their values in 2016.

<sup>1</sup> Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (2020)



Graph 1. Index of GDP dependence on foreign trade, import, and export

Source: Authors' calculations, Central Bank of BiH (January 2020) and the Agency for Statistics of BiH (January 2020)

In order to see the countries from which the goods were imported to BiH most as well as the countries to which BiH exported, we shall observe the value of the geographic coefficient for import and the geographic coefficient for export.

Import volume of a country depends on its national income (Kovačević (2016), p. 248). The countries from which the goods were most imported to BiH in the period from 2010 to 2018 are given in Table 2 and Graph 2. To obtain the data, we used the geographic concentration coefficient for import.<sup>2</sup> The highest value of this coefficient also indicates the country or the region from which the goods are most imported to BiH.

Table 2. The value of geographic concentration coefficient for BiH import by regions and countries

	In EUR million									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	
<b>EU</b>	3,196.3	3,602.4	3,659.9	4,170.1	4,879.7	4,931.3	5,116.5	5,663.1	5,961.4	
<b>CEFTA</b>	1,883.3	1,984.6	1,964.1	1,346.3	952.6	1,000.6	1,057.9	1,185.8	1,191.1	
<b>Croatia</b>	1,052.7	1,138.4	1,126.1	1,000.3	946.8	855.4	827.1	934.9	979.2	
<b>India</b>	27.5	38.0	36.8	41.0	51.5	53.8	68.4	63.7	66.3	
<b>Italy</b>	618.9	706.4	730.8	757.9	845.5	899.0	971.2	1,054.3	1,109.9	
<b>Japan</b>	42.1	44.9	45.3	39.0	48.5	54.1	47.5	53.2	58.2	
<b>China</b>	335.2	396.2	417.4	467.4	695.1	558.2	558.3	606.4	684.7	
<b>Hungary</b>	213.1	193.9	211.1	226.7	221.7	210.2	207.2	231.0	253.9	
<b>Germany</b>	728.6	842.8	882.4	887.0	955.9	978.7	1,022.0	1,075.6	1,174.5	
<b>Poland</b>	126.9	154.0	213.2	201.2	212.0	231.5	242.4	280.8	283.7	
<b>Romania</b>	68.2	96.1	88.3	94.2	111.4	102.1	91.9	96.1	106.3	
<b>The Russian Federation</b>	608.0	836.0	763.8	770.0	660.8	465.3	372.9	463.9	456.3	
<b>The USA</b>	248.2	320.4	198.5	197.7	243.1	225.6	167.6	299.0	322.7	
<b>North Macedonia</b>	70.2	71.1	71.8	73.4	73.0	75.2	77.8	79.1	78.1	
<b>Slovakia</b>	46.3	59.0	59.2	61.4	63.4	74.5	68.2	74.7	75.6	

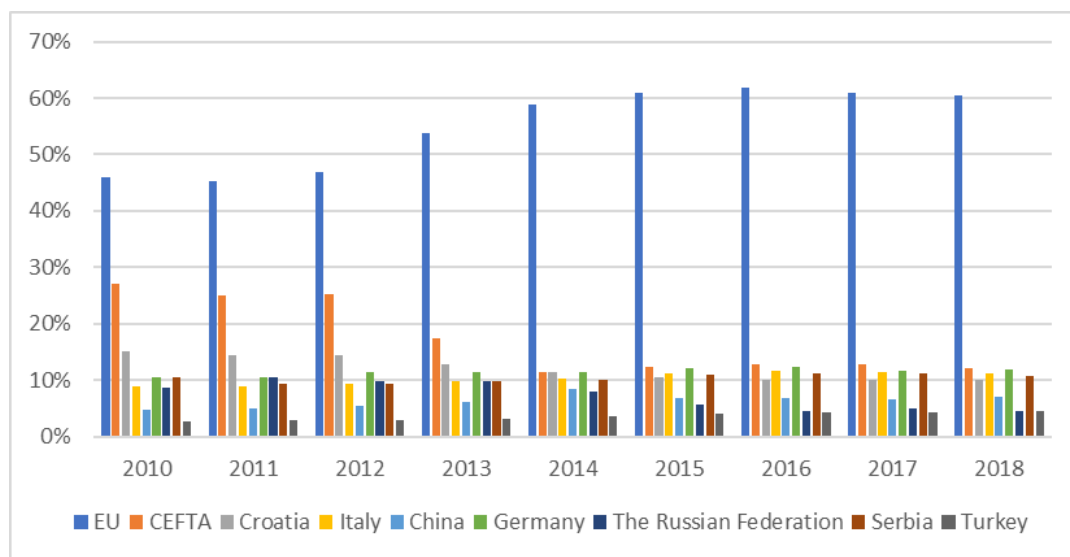
<sup>2</sup> The countries with the share higher than 0.5% in the last three-year period are presented individually, the remaining countries are categorized as other countries.

<b>Slovenia</b>	413.6	423.6	410.8	385.7	390.2	395.5	425.1	466.7	468.9
<b>Serbia</b>	730.9	749.4	731.9	759.6	833.2	883.7	934.7	1,037.9	1,058.8
<b>Spain</b>	76.5	117.5	82.6	73.1	89.3	78.5	93.1	94.7	125.3
<b>Sweden</b>	38.7	44.1	34.6	36.7	43.6	47.6	52.2	49.6	53.2
<b>Switzerland</b>	47.6	44.9	43.1	41.4	43.3	48.7	48.7	56.0	60.8
<b>Turkey</b>	193.8	230.1	229.8	252.2	297.7	329.6	351.4	392.0	447.1
<b>Great Britain</b>	50.2	51.9	61.4	65.2	78.3	75.4	70.9	81.2	82.2
<b>Vietnam</b>	10.9	12.2	18.2	26.4	28.7	42.1	43.0	52.9	53.5
<b>Other countries</b>	333.2	346.9	388.2	370.0	414.9	417.6	455.5	591.2	647.0

Source: Central bank of Bosnia and Herzegovina (January 2020)

CEFTA members: Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, Serbia, Kosovo

Graph 2 shows that BiH mainly imports from the EU countries (from 2013 more than 50 percent of import comes from the EU), followed by CEFTA members. Import from CEFTA members was in a constant decline for the entire observed period, especially after 2013. When it comes to individual countries, the most BiH import came from Croatia, Germany, and Serbia.



Graph 2. Geographic concentration coefficient of BiH import by countries (in percentage)

Source: Authors' calculation, Central Bank of Bosnia and Herzegovina (January 2020)

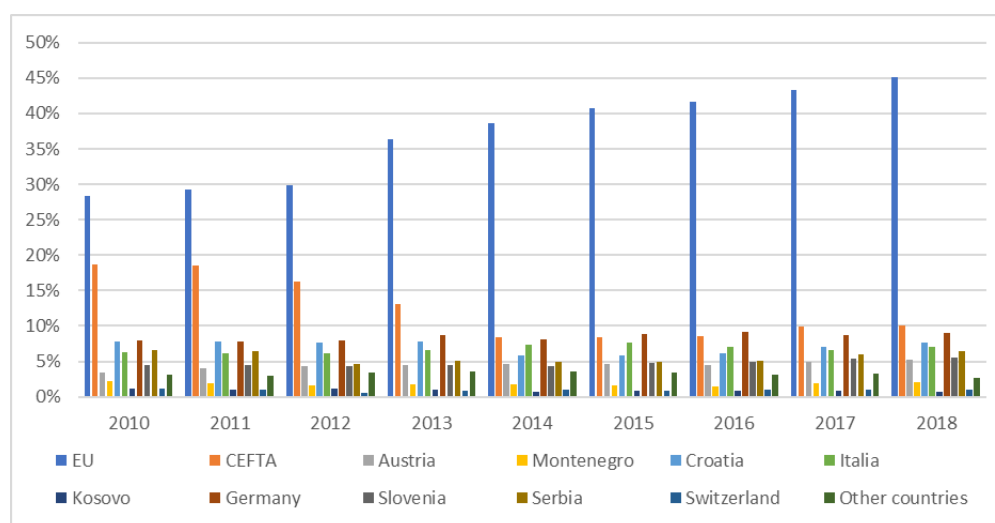
If the geographic concentration coefficient of export is observed, it is evident that the highest export, the same as import, came from the EU and CEFTA (Table 3). The export to the EU grew in the entire period from 2010 to 2018 (increased from 28.4% in 2010 to 45.1% in 2018), while the export to CEFTA decreased in the same observed period (decreased from 18.1% in 2010 to 10.1% in 2018).

Table 3. The value of geographic concentration coefficient for BiH export by regions and countries

	In EUR million								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>EU</b>	1,978.7	2,327.7	2,327.7	2,821.9	3,204.0	3,299.2	3,444.0	4,022.8	4,438.8
<b>CEFTA</b>	1,302.0	1,469.4	1,269.6	1,016.7	694.5	682.2	712.6	915.4	996.3
<b>Austria</b>	240.6	316.5	334.8	351.5	386.4	379.9	373.5	459.8	522.0
<b>Belgium</b>	30.0	17.0	17.3	17.9	22.2	22.1	24.9	27.7	30.7
<b>Bulgaria</b>	5.7	9.4	19.3	39.1	38.2	30.4	46.0	39.7	26.1
<b>Montenegro</b>	158.6	153.6	127.4	138.4	150.2	134.4	123.1	180.2	205.6
<b>Czech Republic</b>	39.2	52.8	49.4	77.9	75.8	67.2	73.0	82.6	102.9
<b>Egypt</b>	12.1	11.9	13.7	12.0	24.4	20.6	39.1	18.4	31.5
<b>France</b>	44.5	46.5	49.9	55.1	624.2	60.5	81.2	101.4	116.7
<b>The Netherlands</b>	41.4	72.0	63.9	56.5	63.3	76.5	105.0	130.6	134.6
<b>Croatia</b>	547.4	615.8	595.7	610.8	488.3	473.0	503.8	656.6	748.5
<b>Italy</b>	440.7	492.7	480.2	513.0	611.2	621.2	578.3	618.2	691.7
<b>Kosovo</b>	79.8	84.7	91.5	80.9	62.2	72.2	76.2	78.7	68.0
<b>Luxembourg</b>	18.4	27.2	23.6	25.5	25.1	28.6	31.9	37.4	36.1
<b>Hungary</b>	64.5	84.9	59.0	70.9	95.4	96.5	99.5	130.8	146.0
<b>Germany</b>	555.2	621.7	618.7	670.2	673.6	722.4	756.4	815.9	890.4
<b>Poland</b>	39.8	51.4	50.3	47.3	42.6	44.1	50.9	68.9	83.5
<b>Romania</b>	36.9	31.6	58.4	62.3	59.7	67.8	67.1	86.1	94.3
<b>The Russian Federation</b>	19.4	27.2	28.6	29.2	40.7	50.1	56.2	75.0	67.1
<b>Saudi Arabia</b>	1.8	7.8	24.9	8.9	10.9	21.8	24.0	28.3	44.2
<b>The USA</b>	9.5	9.8	14.2	18.8	21.4	33.1	36.6	37.5	33.3
<b>Macedonia</b>	35.8	65.9	63.5	47.5	48.1	58.6	67.6	74.1	62.1
<b>Slovakia</b>	24.1	56.3	42.1	61.5	60.3	64.8	71.7	75.0	87.8
<b>Slovenia</b>	312.8	361.4	334.0	351.0	356.8	382.9	412.7	497.7	540.5
<b>Serbia</b>	457.5	512.3	363.0	392.0	409.4	394.1	420.7	559.2	639.9
<b>Spain</b>	27.0	37.3	49.8	55.1	56.9	68.2	77.0	67.9	48.1
<b>Sweden</b>	26.2	27.7	25.0	35.5	36.1	37.2	43.0	49.4	50.8
<b>Switzerland</b>	82.0	78.8	44.8	68.0	80.5	72.8	83.3	89.8	100.5
<b>Turkey</b>	41.8	76.7	93.5	89.3	119.8	181.3	205.1	220.4	165.3
<b>Great Britain</b>	16.5	13.7	15.7	22.5	25.6	33.8	26.1	42.9	47.4
<b>Other countries</b>	218.7	239.3	265.5	276.1	291.0	279.2	261.6	302.4	268.9
<b>TOTAL EXPORT</b>	6,961.9	7,938.4	7,798.8	7,756.4	8,282.6	8,104.9	8,263.0	9,298.2	9,852.6

Source: Central bank of Bosnia and Herzegovina (January 2020)

The presentation of export by countries (Graph 3) shows that the most export was made to Germany, Croatia, Serbia, Austria, Kosovo, Montenegro, and Switzerland. The biggest reason for such a structure of export by countries is smaller geographic distance of these countries.



Graph 3. Geographic concentration coefficient of BiH export by countries (in percentage)

Source: Authors' calculation, Central bank of Bosnia and Herzegovina (January 2020)

Tables 4, 5, and 6 show descriptive statistics for testing the effect of trade dependence on the basic component of the economy of every country, its GDP. The ratios observed were: foreign trade dependence, import dependence, and export dependence relative to GDP.

Table 4. Mean values of GDP, foreign trade, import and export dependence

	Mean	Std. Deviation	N
GDP	14,499.90	1,383.69	9
Foreign trade dependence	0.8878	0.03598	9
Import dependence	0.3167	0.02449	9
Export dependence	0.5689	0.02028	9

Table 4 shows that the mean value for the observed nine years for GDP was EUR 14,499.90. In the observed period, the mean value of the coefficient of foreign trade dependence was 88.78%, the coefficient of import dependence was 31.67%, and the coefficient of export dependence was 56.89%.

Table 5. The Pearson correlation coefficient

		GDP	Foreign trade dependence	Import dependence	Export dependence
GDP	Pearson Correlation	1	0.585	0.894**	0.081
	Sig. (2-tailed)		0.098	0.001	0.836
	N	9	9	9	9
Foreign trade dependence	Pearson Correlation	0.585	1	0.870**	0.836**
	Sig. (2-tailed)	0.098		0.002	0.005
	N	9	9	9	9
Import dependence	Pearson Correlation	0.894**	0.870**	1	0.495
	Sig. (2-tailed)	0.001	0.002		0.175
	N	9	9	9	9
Export dependence	Pearson Correlation	0.081	0.836**	0.495	1
	Sig. (2-tailed)	0.836	0.005	0.175	
	N	9	9	9	9

\*\* Correlation is significant at the 0.01 level (2-tailed).

Table 6. Spearman's correlation coefficient

		GDP	Foreign trade dependence	Import dependence	Export dependence	
Spearman's rho	GDP	Correlation Coefficient	1.000	0.532	0.870**	0.051
		Sig. (2-tailed)	.	0.141	0.002	0.896
		N	9	9	9	9
	Foreign trade dependence	Correlation Coefficient	0.532	1.000	0.829**	0.797*
		Sig. (2-tailed)	0.141	.	0.006	0.010
		N	9	9	9	9
	Import dependence	Correlation Coefficient	0.870**	0.829**	1.000	0.473
		Sig. (2-tailed)	0.002	0.006	.	0.198
		N	9	9	9	9
	Export dependence	Correlation Coefficient	0.051	0.797*	0.473	1.000
		Sig. (2-tailed)	0.896	0.010	0.198	.
		N	9	9	9	9

\*\*Correlation is significant at the 0.01 level (2-tailed).

\*Correlation is significant at the 0.05 level (2-tailed).

Based on Spearman's and Pearson coefficients, Tables 5 and 6 show that there is a positive correlation between GDP and coefficient of dependence on foreign trade, export, and import. The highest level of correlation is for GDP and import dependence coefficient, which implies that the increase (or decrease) of this coefficient will have the highest influence on the increase (or decrease) of GDP.

Michaely's research (1977) brought some very interesting results regarding export and import coefficients by groups of countries in the world. These results are very similar to the conclusion reached through the analysis of



coefficients of export and import concentration in our research. Some of the most important results are (Kovačević (2002), p. 79):

- developed countries on average had almost two times lower coefficients of export concentration than underdeveloped countries,
- large developed countries had the lowest coefficients and large underdeveloped countries had the highest coefficients of export concentration,
- developed, especially large developed countries, had low coefficients of export and import concentration,
- differences in the level of export concentration were significantly higher than the one for import concentration, and
- countries with high coefficients of export concentration are mainly very underdeveloped.

It is evident that countries cannot rely on development strategy by encouraging domestic manufacturing by limiting the import of processing goods as precisely the decision for such a strategy would be the decision to prevent export growth (Nalić (2016), p. 5). BiH's most important foreign trade partners are precisely the countries from its surrounding. Therefore, it should concentrate on the possibilities for domestic manufacture of the products that are imported from these countries. Its export should focus more on the export of products in final stages of their production or finished products with comparative advantages, while the export of raw materials, semi-finished products and natural resources of the country should be reduced.

## 5. Conclusion

For the majority of developing and underdeveloped countries, import is dominated by industrial products, machines and equipment, while export is dominated by raw materials, products at lower stages of processing or without any processing (wood, coffee, ores, citrus fruit, etc.) (Vukmirica, (2000), p. 118). The key partners of BiH in foreign trade are the EU and CEFTA, while among the individual countries these are Germany, Serbia, and Croatia. BiH still faces undesirable tendencies that require its prompt reactions so as to avoid or at least partially prevent some of the unwanted events such as a decrease in export, competitiveness, etc. Some of these tendencies include: high and/or constant deficit, production concentration in export, dominant participation of individual partners, export of goods at lower stages of processing, large import of consumer goods, large import of products already manufactured in the country, low import of equipment and technology, etc. The question is what kind of strategy in terms of foreign trade would be optimal for BiH bearing in mind the existence of some restrictive fiscal measures, limited monetary policies, and free flow of capital. A possible solution might be significantly stronger incorporation of foreign trade in the development strategy of the country, reduction of coefficient of geographic concentration, and expansion of export production base. In addition, natural potentials (for example energy sources and wood) and labor force should be used more as components for manufacturing finished products intended for export while their import in the form of raw materials and semi-finished products should be reduced. In any case, export-oriented strategy should have the priority in the coming period as it results in GDP growth, better standard of living, foreign currency flow, and consequently the improvement of balance of payment.

## References

- Agency for Statistics of Bosnia and Herzegovina.  
[http://www.bhas.ba/tematskibilteni/ETR\\_00\\_2017\\_TB\\_0\\_BS.pdf](http://www.bhas.ba/tematskibilteni/ETR_00_2017_TB_0_BS.pdf), January 2020
- Bilas, V. (2007), Croatian and EU trade connections, Pregledni znanstveni rad. *Zbornik Ekonomskog fakulteta u Zagrebu, godina 5*. Retrieved from <https://hrcak.srce.hr/26123>
- Bodiroža, M. (2008). *Međunarodna ekonomija, Univerzitet za poslovne studije, Banja Luka*.
- Central bank of Bosnia and Herzegovina  
[http://statistics.cbbh.ba/Panorama/novaview/SimpleLogin\\_bs\\_html.aspx](http://statistics.cbbh.ba/Panorama/novaview/SimpleLogin_bs_html.aspx), January 2020
- Jaffee, D. (1985). Export Dependence and Economic Growth: A Reformulation and Respecification. *Social Forces*, 64(1), 102-118. <https://doi.org/10.2307/2578974>
- Jerinić, M. (2017). Bosnia and Herzegovina's foreign trade: Source or barrier for economic development. *Dubrovnik International Economic Meeting*, 3(1). Retrieved from <https://hrcak.srce.hr/187436>
- Jotanović, G. Č. (2006). *Međunarodni ekonomski odnosi, Ekonomski fakultet, Banja Luka*.
- Kahn-Nisser, S. (2019). The EU, China, trade dependence and human rights. *Cambridge Review of International*

- Affairs*. <https://doi.org/10.1080/09557571.2019.1641067>
- Kapor, P. (2009). *Međunarodne finansije i bankarstvo, Megatrend, Beograd*.
- Kovačević, R. (2016). *Međunarodne finansije, Čugura print, Beograd*.
- Kovačević. (2002). *Međunarodna trgovina, Ekonomski fakultet Beograd*.
- Michaely, M. (1977). Exports and Growth: An Empirical Investigation. *Journal of Development Economics*, 4, 49-53. [https://doi.org/10.1016/0304-3878\(77\)90006-2](https://doi.org/10.1016/0304-3878(77)90006-2)
- Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina. (2018) Retrieved from [http://www.mvteo.gov.ba/attachments/bs\\_Home/Ostale\\_stranice/Međunarodni\\_trgovinski\\_odnosi\\_i\\_sporazumi/Međunarodni\\_odnosi\\_-\\_Statistika/Analiza\\_vanjskotrgovinske\\_razmjene\\_BiH/26032019\\_Analiza\\_vanjskotrgovinske\\_razmjene\\_BiH\\_za\\_2018.pdf](http://www.mvteo.gov.ba/attachments/bs_Home/Ostale_stranice/Međunarodni_trgovinski_odnosi_i_sporazumi/Međunarodni_odnosi_-_Statistika/Analiza_vanjskotrgovinske_razmjene_BiH/26032019_Analiza_vanjskotrgovinske_razmjene_BiH_za_2018.pdf)
- Nalić, M. (2016). Uloga konkurentnosti u međunarodnoj razmjeni, pregledni rad, Tranzicija. *Zagreb, Year XVIII*, 37.
- Osakwea, P. N., Santos-Paulino, A. U., & Dogan, B. (2018). Trade dependence, liberalization, and exports diversification in developing countries. *Journal of African Trade*, 5(1-2), 19-34. <https://doi.org/10.1016/j.joat.2018.09.001>
- Sovtić, K. (2009). *Ekonomija spoljne trgovine, Megatrend, Beograd*.
- Strahinja, D. (2000). *Politika i strategija međunarodne razmjene, Express digital tisak, Rijeka*.
- Šošić, V., & Vujčić, B. (2005). *Trade integration and Croatian accession to the European Union* (3rd ed.). Institute of public finance, Friedrich Ebert Stiftung, Zagreb. Retrieved from [https://www.researchgate.net/publication/5129418\\_Trade\\_integration\\_and\\_Croatian\\_accession\\_to\\_the\\_European\\_Union](https://www.researchgate.net/publication/5129418_Trade_integration_and_Croatian_accession_to_the_European_Union)
- Travis, T. (1981). *A comparison of the global economic imperialism of five metropolises*. Sage publications Beverly Hills, Volume 6, pp. 165-213.
- Vukmirica, V. (2000). *Svjetska trgovinska politika i tržišta, PS Grmeč, Beograd*.
- Yuhong, L., Zhongwen, C., & Changjian, S. (2010). Research on the Relationship between Foreign Trade and the GDP Growth of East China—Empirical Analysis Based on Causality. *Modern Economy*, 1, 118-124. <https://doi.org/10.4236/me.2010.12012>

## Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>).