

UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER THESIS

**CHALLENGES FOR COMPANIES FROM BOSNIA AND
HERZEGOVINA EXPORTING TO THE EUROPEAN UNION
MARKET**

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TABLE OF CONTENTS

INTRODUCTION	1
1 BOSNIA AND HERZEGOVINA'S ECONOMIC CONTEXT AND EXPORTS TO THE EU	3
1.1 Brief overview of BiH's economic trajectory	3
1.2 BiH-EU economic relations since independence	9
1.3 BiH-EU trade relations	11
1.3.1 BiH's exports in general	12
1.3.2 BiH as an exporter to the EU	13
1.3.3 Specific export data	15
2 REGULATORY AND INSTITUTIONAL HURDLES AFFECTING BiH'S EXPORTS TO THE EU	17
2.1 Institutional theory's approach to trade	17
2.2 BiH's internal regulatory complexities	17
2.3 EU regulatory and procedural requirements	20
2.4 Negative synergy effects	22
2.5 Economic concepts	23
3 EXPORT PROMOTION	24
3.1 Role of Export promotion agencies	24
3.2 Export promotion cases around the world	26
3.3 Export promotion agencies in Southeast Europe	27
4 METHODOLOGY	28
4.1 Methodology overview	28
4.2 Goals of qualitative research	29
4.3 Research methods	30
4.3.1 Survey	30
4.3.2 Interviews.....	30
4.4 Sampling and data collection	31
4.4.1 Survey	31
4.4.2 Interviews.....	33
5 ANALYSIS AND DISCUSSION	33
5.1 Survey	33

5.1.1 Likert scale	33
5.1.2 Questions on the companies' experiences	39
5.2 Interviews with companies.....	41
5.3 Insights from experts	48
5.4 Discussion of findings.....	51
6 RECOMMENDATIONS.....	53
6.1 Recommendations for current and potential exporters.....	54
6.2 Policy recommendations	55
CONCLUSION.....	56
REFERENCES	59
APPENDICES	67

LIST OF FIGURES

Figure 1: Size (GDP) and Development (GDP per capita) of the Economies of the Yugoslav states in 1988	4
Figure 2: Top 10 donor pledges to BiH.....	6
Figure 3: BiH's GDP in billion €	7
Figure 4: Annual percentage change of GDP	8
Figure 5: SWOT analysis of BiH's economy	9
Figure 6: FDI in BiH 1994-2008 per home country (in million €)	11
Figure 7: BiH's foreign trade in billion € (2018-2022).....	12
Figure 8: BiH's foreign trade deficit in billion €	13
Figure 9: Top 5 export partners in 2022 (in %)	14
Figure 10: Level of agreement with question 1	34
Figure 11: Level of agreement with question 2	35
Figure 12: Level of agreement with question 3	36
Figure 13: Level of agreement with question 4	37
Figure 14: Level of agreement with question 5	38
Figure 15: Level of cooperation with domestic institutions	40
Figure 16: Biggest challenges for exporters	41

LIST OF TABLES

Table 1: Economic indicators in the post war years.....	6
Table 2: Exports and imports in thousand euros.....	16
Table 3: Financial incentives to support export in case of Latin American countries	26
Table 4: Sample information	32
Table 5: Overview of recommendations	53

LIST OF APPENDICES

APPENDIX 1: Povzetek (Summary in Slovene language)	1
APPENDIX 2: Questionnaire survey about the challenges companies face when exporting in Bosnian language	2
APPENDIX 3: Questionnaire survey about the challenges companies face when exporting in English language	6
APPENDIX 4: Expert interview questions.....	9
APPENDIX 5: Journalist interview questions	9
APPENDIX 6: Company's interview questions	10

LIST OF ABBREVIATIONS

bh. - Bosnian

BIH – Bosnia and Herzegovina

CEFTA – Central European Free Trade Agreement

DPA – Dayton Peace Agreement

EBRD – European Bank for Reconstruction and Development

EFTA – European Free Trade Association

EORI – Economic Operator Registration and Identification

EPA BIH – Export Promotion Agency BIH

EU – European Union

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

PRRP – Priority Reconstruction and Recovery Program

SAA – Stabilization and Accession Agreement

SAD – Single Administrative Document

SIIPA – Serbian Investment and Export Promotion Agency

SMEs – Small and medium-sized enterprises

UNDP – United Nations Development Programme

VTK – (bh. Vanjsko Trgovinska Komora BiH); Foreign Trade Chamber of BiH

WB – Western Balkan

INTRODUCTION

In today's world, every element of a country's economy—industries, service sectors, income, and employment levels—is linked to the economies of its trade partners. This results in international trade in commodities and services, labour, technology, investment money, and commercial activity. As a consequence, international commerce is central to boosting economic growth (Al Hemzawi & Umutoni, 2021).

Exports from a certain country reflect products and services produced locally but sold to buyers in other countries. As export transactions entail selling local products and services to international customers, they result in an inflow of cash to the seller's country (Corporate Finance Institute, 2022). Foreign trade exchange is central to national economic development (Božić-Miljković, Kaličanin & Mitić, 2020). Smaller economies are more reliant on international trade and are therefore often more open than large ones. As a result, international economic links are more crucial for them (Šušnjar Čanković, 2015).

Taking into account the strengthening of both political and economic ties between the European Union (hereinafter: EU) and Bosnia and Herzegovina (hereinafter: BiH), and by focusing on the increasing foreign trade, this master's thesis explores the EU-BiH economic relationship in greater detail. In particular, this thesis looks at the biggest challenges for selected BiH companies, small and medium-sized enterprises (hereinafter: SMEs), exporting to the EU market, and the possibilities of improving the export process for other aspiring companies from the country.

On a broader scale, the foreign trade connections of the Western Balkan (hereinafter: WB) countries have changed significantly since the social and economic upheavals in the early 1990s (Pere & Ninka, 2017). Since 2000, the EU has granted the WB countries autonomous trade preferences, which were extended for another five years at the end of 2020. These trade preferences allow almost all exports from WB to enter the EU duty-free and in unlimited quantities (European Commission, 2020).

SMEs in various industries consider exports to be the best driver for business expansion and enhanced profitability (Namiki, 1988). They typically encounter greater hurdles when expanding internationally than huge corporations. In comparison to larger enterprises, SMEs have smaller market dominance, weaker reputations, lesser economies of scale, a lack of resources, less expertise in foreign markets, and less broad integration into worldwide economic networks (Morais & Ferreira 2020). According to recent international trade data, certain WB countries increased their market shares in the EU, with Serbia and BiH benefiting the most due to their larger manufacturing bases, followed by North Macedonia, while Montenegro, Albania, and Kosovo still lag behind (Qorraj & Jusufi, 2018).

This thesis aims to shift the spotlight from the political to the economic side of relations between the EU and BiH. The economic relationship between BiH and the EU is a neglected topic despite its significance. The trade between the two has been increasing

since the 2000s and will continue to increase as BiH comes closer to becoming a full member of the EU. WB countries form a land bridge and the quickest transit route between the EU's southern edge and its central European core. This thesis aims to conduct scholarly analysis on the foreign trade of BiH with the EU and also provide recommendations on how to improve the process itself based on the insights gained through fieldwork. In addition to its contribution to academic debates, the thesis will have practical value for companies from BiH and the WB region in general that are planning on exporting to the EU in the future. This master's thesis examines and draws lessons from the experiences of BiH enterprises that have been successful in exporting to the EU market. To that end, the thesis focuses on firms that export semi-finished products primarily from the metal industry, the construction sector, and the wholesale and retail sectors. I intend to create an overview of the issues and difficulties that businesses experienced, the regulatory requirements that they had to satisfy, and provide recommendations on how to fulfil those requirements.

The thesis examines how exports were managed before the introduction of free trade zones¹ and how they have been handled in recent years. This will demonstrate how procedures were streamlined and enhanced in conjunction with the growth of commercial connections between the EU and BiH. This knowledge of export-successful enterprises is critical since their valuable expertise as incumbents may serve as a model for future companies entering the market. I hope to uncover reproducible best practices by performing research case on successful companies based on their successes and success formula. The thesis will specifically outline the challenges they experienced and eventually conquered, as well as whether any and, if so, what type of institutional help was provided to them along the path.

The research goals of the thesis are:

1. To provide an analytical insight into the perspective of exporters from BiH to the EU.
2. To collect original qualitative data on the first-hand experience of BiH exporters and potential exporters.
3. To triangulate data from companies with original data obtained from relevant institutions in BiH overseeing foreign trade and data collected through an interview with an expert in the field from an academic and research institution.
4. To provide actionable recommendations to stakeholders on how to create better conditions for companies and support BiH's exports to the EU.

The thesis addresses the following research questions:

What is the history and current state of trade relations between BiH and the EU, and in particular, of BiH's exports to the EU?

¹ A free-trade zone is an area where products may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of customs officials. A free-trade zone's main goal is to eliminate trade barriers brought on by high tariffs and complicated customs restrictions (Encyclopaedia Britannica, 2023).

1. How did the trade develop through the years?
2. What effect does the trade balance have on the domestic economy?
3. What do the quantities of exported commodities indicate about the trade balance?

What kind of difficulties do BiH's companies face when exporting to the EU?

1. What are the challenges connected to the standards needed to export?
2. What are the bureaucratic procedures that they must contend with?
3. How did the economic instability affect trade routes?

How can the institutions in BiH improve the conditions for companies willing to export?

1. What kind of institutional support can they provide for interested companies to develop their production and logistical capabilities?
2. How can they help with matchmaking with EU partners and promotion to the EU market?

Where are the biggest improvements needed, on the company level, to encourage more companies to export in larger quantities?

1. How can the efficiency of export procedures be enhanced?
2. To what extent could qualified professionals in the field influence the operations?

The thesis is structured as follows: The initial two chapters include a comprehensive analysis of the economic landscape in BiH across time, examining both domestic and external challenges that impact the growth of the local economy. The third chapter of this study examines several international cases that illustrate strategies employed by less developed countries to enhance their export activities. These cases serve as valuable examples that can be potentially adapted and implemented within the context of BiH. Chapters 4 and 5 of this study present the primary qualitative data that was collected and then analyse and interpret the findings. The final two chapters of this thesis include ideas for resolving specific issues related to exports as well as a concluding section.

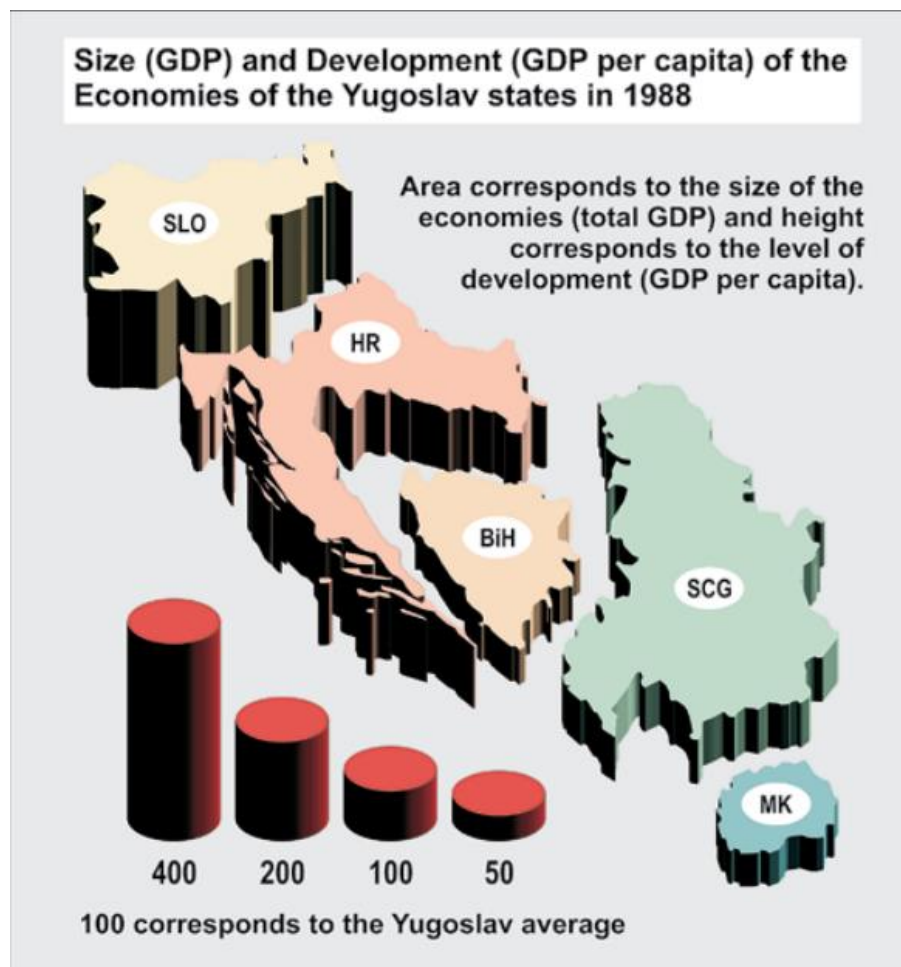
1 BOSNIA AND HERZEGOVINA'S ECONOMIC CONTEXT AND EXPORTS TO THE EU

1.1 Brief overview of BiH's economic trajectory

BiH was one of the underdeveloped countries of the former Yugoslavia in 1991, with a Gross Domestic Product (hereinafter: GDP) of \$8.7 billion (\$2,000 per person). A robust industrial base and a highly trained labour force contributed to the economy's

diversification. Large-scale industrial complexes in the raw material and energy sectors accounted for almost half of the nation's production (USAID, 1998).

Figure 1: Size (GDP) and Development (GDP per capita) of the Economies of the Yugoslav states in 1988



Source: Stiperski & Lončar (2008).

As every post-communist country, BiH had to go through a transition from a self-managed market socialist economy (Estrin, 1991), to a free market one. This transition was a tough process, and fundamental reforms were required. Institutional structures that did not adhere to societal norms, power relationships, and values needed to be transformed (Tridico, 2013).

The extreme devastation of the war has made this transition even more challenging. Unlike some other ex-communist countries like Czechoslovakia, which disintegrated peacefully, Yugoslavia was torn apart by war. During the first part of the 1990s, when BiH was at war, most of the rest of Central and Eastern Europe had already begun the transition from socialist planned economies to market-based ones (World Bank, 1999).

The post-conflict reconstruction of BiH after to the Bosnian War in the 1990s was a multifaceted and arduous project encompassing diverse dimensions, including political, social, economic, and infrastructural restoration.

At the end of the war in 1995, the GDP had decreased by nearly 70% (to roughly \$2.5 billion), and the GDP per capita had dropped to \$400. Employment plummeted by more than 80%, while monthly income for the employed plummeted to 5–20 Deutschmark. At least 80 percent of the population was dependent on humanitarian aid. In addition, the conflict interrupted the economic reform effort begun in the late 1980s and damaged or terminated previous supply and trading relationships.

The estimated direct and indirect conflict damages vary from \$15 billion to \$70 billion (USAID, 1998). In terms of the overall aid programme in BiH, leadership was split between the World Bank and the EU, which collaborated with the Bank in hosting and co-chairing donor conferences. BiH's governments have not been actively involved in assistance coordination at any stage (Effron & O'Brien, 2004).

To help the country and its war-torn economy, the European Bank for Reconstruction and Development (hereinafter: EBRD), the World Bank, and the International Finance Corporation, with the help of the European Commission, designed the Priority Reconstruction and Recovery Programme (hereinafter: PRRP) for BiH.

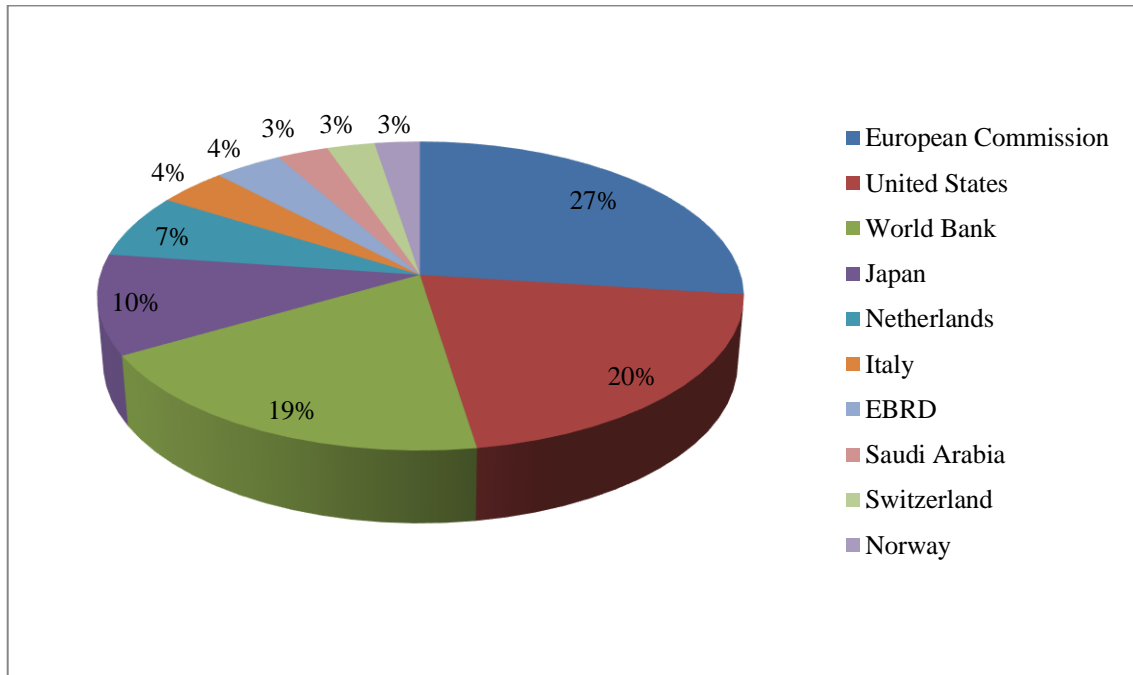
The aim of the PRRP in the first post-war year was to stimulate the economy and create a flow of domestic production, jobs, and incomes that, in turn, generated domestic resources. These resources could be channelled towards the reconstruction effort and allow the nation to gradually reduce its reliance on foreign aid (World Bank Group, 1997).

By the end of 1998, a total of US\$4.2 billion in donor funding had been promised, and US\$2.8 billion had been released to assist the PRRP and related peace implementation efforts. This donor assistance, together with the dedication of the people and authorities of BiH, has resulted in significant accomplishments in each of the programme's key areas (World Bank, 1999).

In brief, the post-war reconstruction of BiH was a comprehensive endeavour that sought to restore the nation's economic and infrastructural foundations, while also grappling with intricate political and social obstacles. Despite notable advancements in various domains, the nation nevertheless encounters substantial challenges in attaining enduring reconciliation, stability, and complete integration into the EU.

It is clear from Figure 2 what kind of role the European Commission played in those post-war years. They were highly involved in both the peacemaking efforts during the war and the economic reconstruction after the war. This was to be expected since BiH's geographical location (a link between Central and Southeast Europe) entitled the EU to help BiH with any means necessary.

Figure 2: Top 10 donor pledges to BiH



Source: USAID (1999).

The first response of the BiH's economy to the reconstruction effort was overwhelmingly favourable, as estimated by the GDP and GDP per capita recoveries in the early post-war years. Nevertheless, these strong growth rates came from a relatively low base; by 1999, the GDP and GDP per capita had only returned to around 60 percent of their pre-war levels (World Bank, 2004).

Table 1: Economic indicators in the post war years

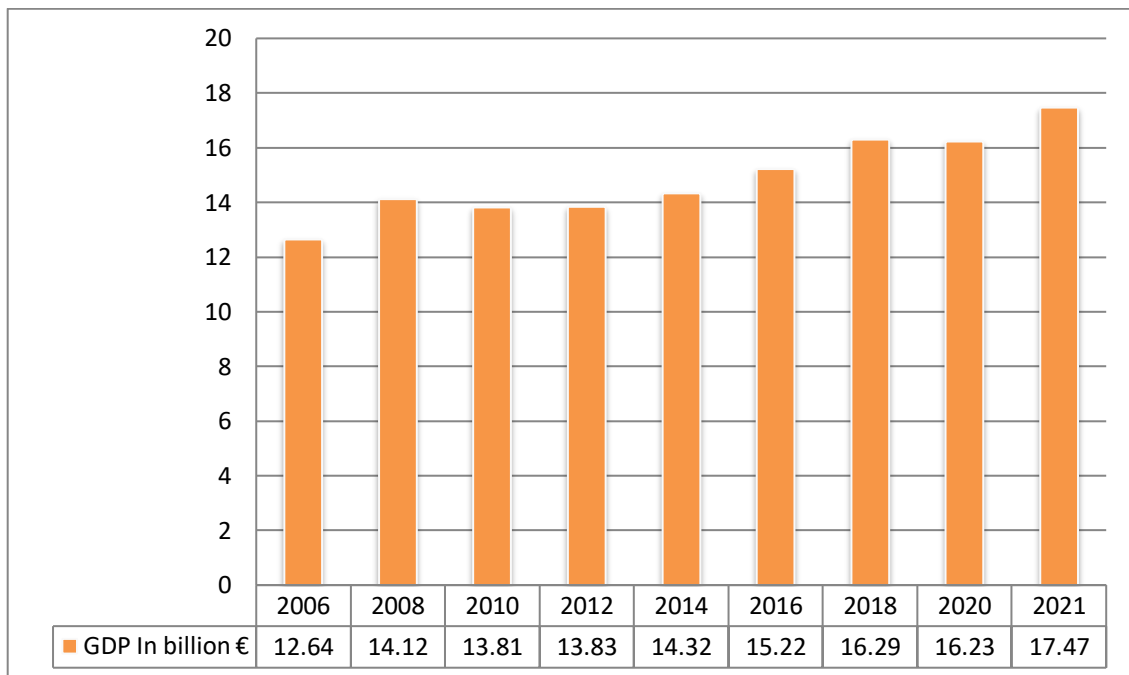
	1995	1996	1997	1998	1999	2000
GDP growth (annual %)	20.8	85.9	36.6	15.6	9.6	5.6
Industry value added (% of GDP)	26.96	25.72	25.30	25.96	24.40	24.87
Exports of goods and services (% of GDP)	20.41	24.01	28.41	29.33	25.59	25.96
Imports of goods and services (% of GDP)	71.47	83.11	73.89	66.11	58.14	55.39
Current account balance (% of GDP)	-10.34	-27.29	-30.06	-18.37	-20.69	-19.95

Source: World Bank (2004).

By 2000, most roads, power supplies, telecommunications, water supplies, and schools had been reconstructed to near pre-war standards.

When analysing the economy of a country, the most important indicator is the GDP. From the end of the war until the present, the value of the GDP of BiH was constantly increasing (excluding the economic crisis of 2008 and the COVID pandemic of 2020), but not to be neglected is the fact that the country suffered enormous damages due to the war and that by 2009 it only managed to reach 80% of its GDP before the war (Turbić, 2017).

Figure 3: BiH's GDP in billion €

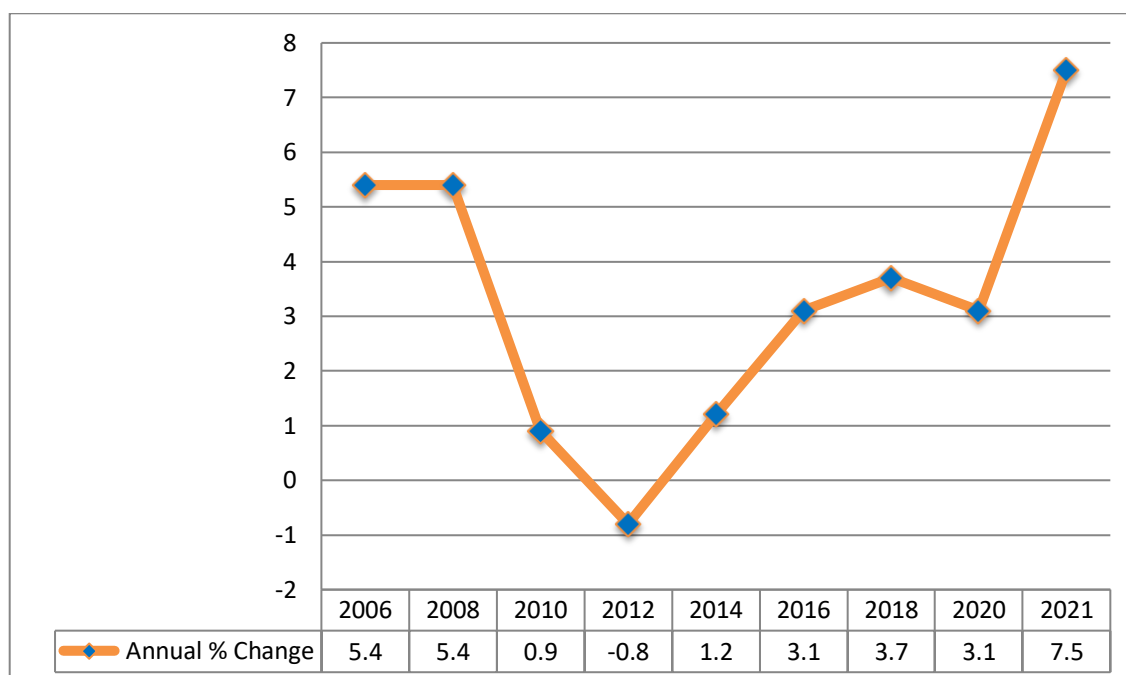


Source: World Bank (n.d.).

Figure 3 shows how GDP gradually increased in the 2006–2021 period, with few exceptions. It reached its maximum in 2021, just as the economy was recovering from the pandemic. Important to notice is that even though the GDP in the 2000–2010 period was quite high, it does not reflect the real image of the domestic economy due to the significant devastation of the war. By relying on this single report, it is easy to conclude that significant progress has been made in the period, although on the ground things were different due to the many reasons we will mention later in the chapter.

In addition to this, BiH's development was far worse than that of its main economic competitors, Croatia and Serbia. For this reason and from this time distance of almost 20 years, the impression is that BiH failed to accelerate the reconstruction of its economy post-war, considering the significant aid and the Foreign Direct Investments (hereinafter: FDI) that were invested in the country.

Figure 4: Annual percentage change of GDP



Source: World Bank (n.d.).

In its 2003 report on BiH, the World Bank clearly stated that the country has a significant current account deficit and internal debt, as well as excessive administrative spending. In addition, approximately 20% of the population still lives below the poverty level, with an additional 30% at risk of falling into poverty. In addition, significant distortions in the social safety net harm the poor and threaten the system's financial viability (World Bank, 2003).

Additionally, according to United Nations Development Programme (hereinafter: UNDP) data, the effective restructuring of BiH's economy faced significant hurdles. The first was high consumption (at all levels of government consumption) in non-productive areas of the economy (army, pensions, and other social services). In addition, the bureaucratic obstacles to investments and new lawful economic activity are excessively high. The inability to change the regulatory framework in BiH was also a key impediment to economic development (UNDP, 2009).

According to the World Bank (n.d.), the biggest economic difficulty for BiH is the imbalance of its economic model: governmental policies and incentives favour the public sector over the private sector, consumption over investment, and imports over exports. Society must adopt a business climate that encourages private investment, fosters the growth of both small and medium-sized businesses and larger corporations, promotes export performance and productivity gains, and produces much-needed private sector jobs.

In sum, we can use these insights to conduct a SWOT analysis of BiH; such a model is developed in Figure 5 on the next page and applied more in depth in later chapters of the thesis.

Figure 5: SWOT analysis of BiH's economy

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> • Great geographical position (proximity to both south and west) • Big potential for further economic development • Access to the sea • Abundance of natural resources (agriculture, timber, energy) • Great potential for tourism (summer and winter) • Low foreign debt in comparison to its neighbours • Low income tax 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> • Only around 10% population with a college degree • Low transport infrastructure • Highly complicated internal organization • War devastation still visible in some parts of the country • Struggle with attracting FDIs • Small market • Large and expensive public administration • Lack of investments in technology • Incompetent government
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • Undergoing accession to the EU and NATO • Steady increase in foreign trade • Growth of GDP • Increase in FDIs • High potential for renewable energy 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • 50% of the young population wants to emigrate from the country • Still unresolved political issues from the past conflict • Some domestic parties gravitate more to the East • On the road to become least developed country in Europe

Source: Own work.

The EU is by far the most important partner of BiH, in both political and economic terms. The most significant milestone in economic relations between the BiH and the EU was the signing of the Stabilisation and Accession Agreement (hereinafter: SAA) in 2008. It established a free-trade zone between BiH and the EU, with the gradual

abolition of customs duties on a large range of items. BiH was required by the agreement to gradually align its customs system and legislation with those of the EU. The SAA also included rules of origin restrictions that must be followed in order to benefit from trade favours (European Commission, 2019).

Another important agreement was the Central European Free Trade Agreement (hereinafter: CEFTA), signed in 2006 in Bucharest, which had an enormous impact on foreign trade for BiH. CEFTA (n.d.), aimed at enhancing trade in products and services, removing trade barriers between the parties, and attracting investments to the region through the implementation of equitable, stable, and consistent trade rules.

The purpose of the agreement was to harmonise the regulatory frameworks of its members with EU and international standards. In addition, it included protection of property rights, competition regulations, and state aid. Countries participating in the agreement are: Albania, BiH, Bulgaria, Macedonia, Moldova, Montenegro, Romania, Serbia, Kosovo, and Croatia (until its accession to the EU).

The CEFTA agreement represents a good basis for preparing the country's accession to the EU. Namely, the agreement in question has the characteristic of being temporary because it is applied until the moment of accession to the EU, and one of the main goals is to adapt the economy of a country to the standards of the EU as well as to strengthen economic cooperation within the region (Jakupović, Aleksić, & Novaković, 2017).

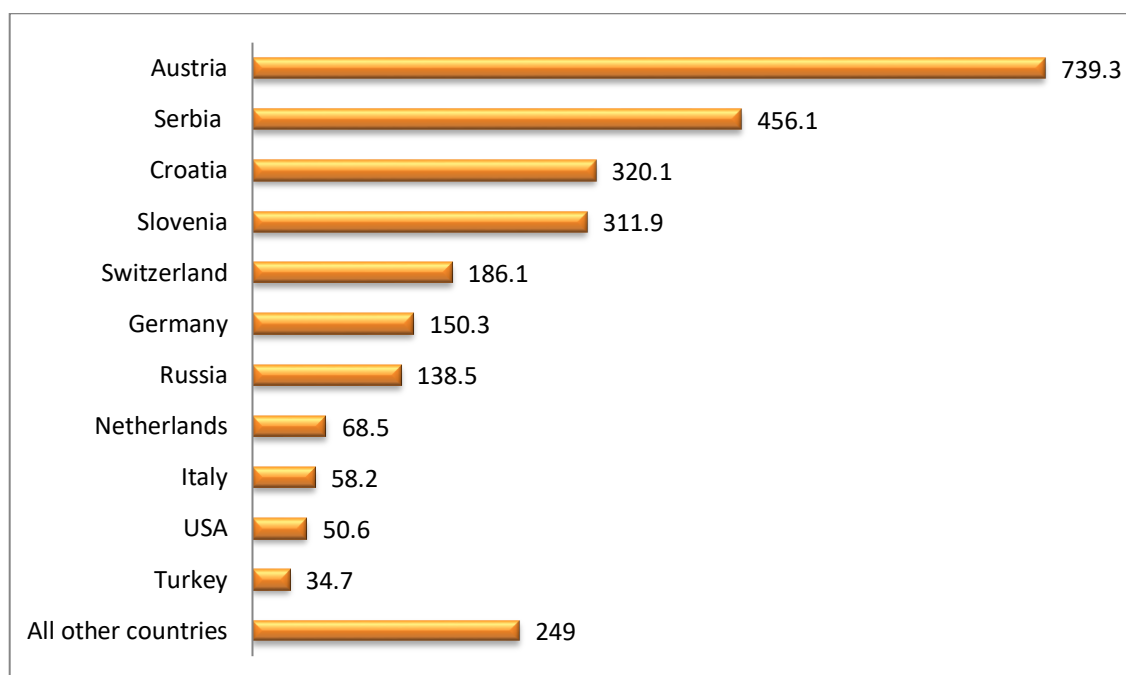
On the other hand, some recent research shows that with Croatia's withdrawal from CEFTA (due to them entering the EU), there was a clear decline in CEFTA's relative importance for BiH's international commerce, despite the region's trade volume continuing to increase in absolute terms (Brkić & Sušić, 2019).

Parallel to the fulfilment of the criteria for integration into the EU, BiH's economic advancement and standard-setting took place in order for BiH to become a strong economy capable of dealing with market pressures from other EU members. Economic growth is critical because it allows the economy to fund all of the needed responsibilities that serve as conditions for entrance to the EU by improving the economic system and raising citizens' living standards (Hadžić, 2022).

Other significant economic factors for BiH are the FDI. Transition nations (including BiH), due to various changes in economic policies and changes in the overall economic system, have a strong need for new capital, which may be gathered in a substantial amount precisely through FDI. Therefore, in their development plans, transition economies focused on attracting these sources of investments (Hurem, 2019).

The main advantage of FDI compared to loans from abroad is that, in the future, they do not imply an outflow of funds that can threaten the current balance and economic growth in the coming period (Mihajlović, 2018).

Figure 6: FDI in BiH 1994-2008 per home country (in million €)



Source: Central Bank of BiH (2009).

The transition process would not be possible without generous FDI in BiH, mostly from the EU and USA. The biggest source of FDI was Austria, in addition to BiH's neighbouring countries, Serbia and Croatia. This was to be expected since BiH was always the focus of both Serbia and Croatia; in fact, a significant number of people living in BiH consider themselves to be either Croats or Serbs.

These investments were mostly in manufacturing (35%), banking (22%), telecommunications (14%), and trade (11%). Although the EU was and still is the biggest source of foreign investment funds (in total, more than 3.5 billion euros since 1996), the impression is that the domestic government and its institutions have not fully utilised this generous support.

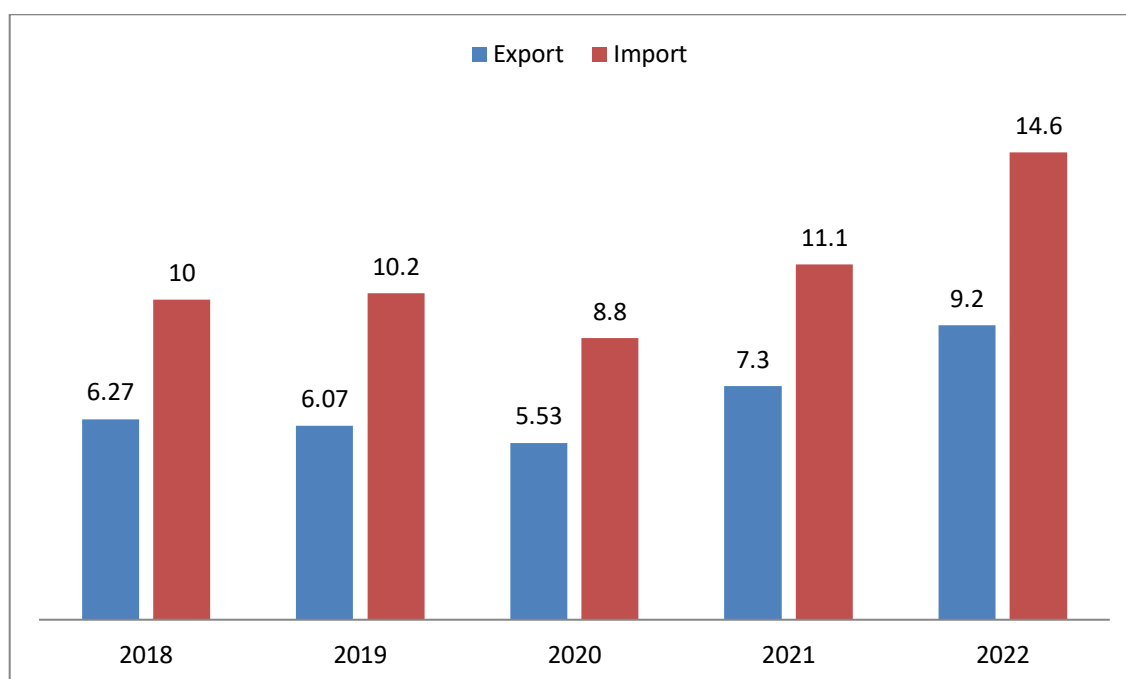
1.3 BiH-EU trade relations

Foreign trade exchange is another indicator that may be used to analyse the extent of economic integration and cooperation between the EU and BiH. This indicator is significant because it accurately and simply depicts the flows of exchange between nations in general, which eventually helps establish strategies to increase trade cooperation (Hadžić, 2022). No country is economically autonomous, i.e., able to create what its population requires. In accordance with the approved neoliberal vision of economic development, foreign commerce was expected to be the major sector of the BiH's economy following the reforms. As a result, the foreign economic relations sector, together with the banking sector, was the first to undergo a rapid, radical change based primarily on the liberalisation of international commerce (Resić & Rahimić, 2020).

1.3.1 BiH's exports in general

When it comes to the actual foreign trade of BiH, including CEFTA and EU countries, it has been increasing in the last decade, following the development of the domestic economy. The CEFTA agreement and SAA with the EU accelerated and enhanced foreign trade since they made customs, tariffs, and regulations simpler. Still, the huge imbalance between exports and imports stands as an improvement point for domestic institutions.

Figure 7: BiH's foreign trade in billion € (2018-2022)



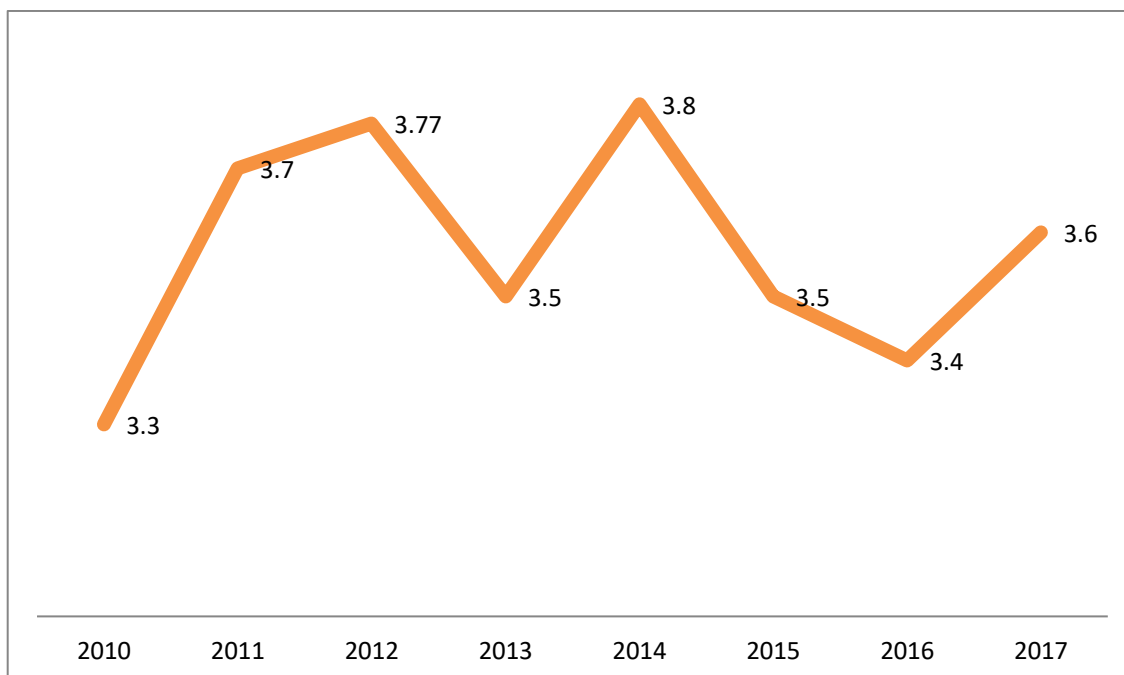
Source: Agency for Statistics BiH (2023).

It is clear from the previous graph how import and export sizes varied over the years. Both reached their maximum at the end of the period in 2022 and have been increasing through the years. In some cases, the import amount was almost double the export amount. Also important to mention is that the volume of total exchange increased by more than 100% in the 2010–2022 period (2010 = 10.6 billion €; 2022 = 23.8 billion €). The EU and CEFTA are BiH's most important foreign trading partners. Around 70% of the trade was with the EU, and just over 15% was with CEFTA countries.

On the other hand, “the only group with which we have a surplus in trade exchange is the European Free Trade Association (hereinafter: EFTA). The coverage of imports by exports amounted to 157.4% in 2017. However, these countries are not very important foreign trade partners, since only 1.77% of total exports are done on their market, while imported products from the EFTA countries on the market of BiH accounted for only 0.69%”(Resić & Rahimić, 2020, p. 98).

Figure 8 presents BiH's trade deficit. In this case, the lowest deficit was in 2010 and the highest in 2015. In absolute terms, the deficit reached its maximum in 2008, when it equaled almost 5 billion euros. In recent years, there has been a slight decrease in the trade deficit due to an increase in exports and a slight decrease in imports. The trade deficit varied from 62.5% in 2018 to 66.6% in 2022.

Figure 8: BiH's foreign trade deficit in billion €

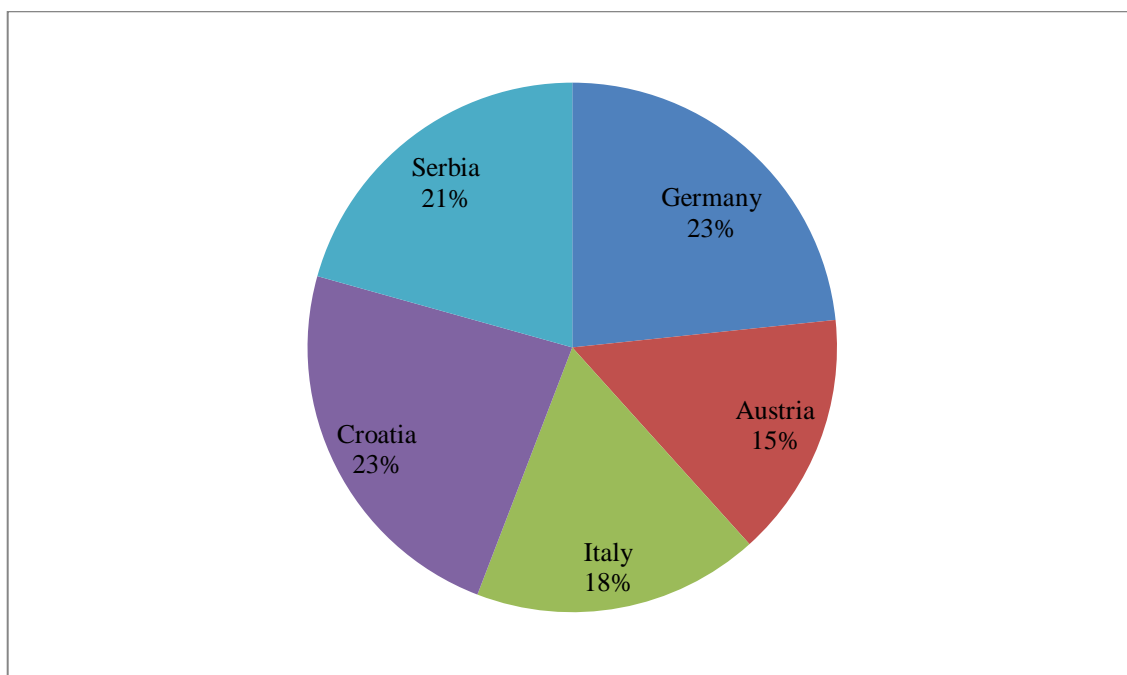


Source: Agency for Statistics BiH (2023).

1.3.2 BiH as an exporter to the EU

When speaking only about the EU market, exports amounted to 5.4 billion euros and imports to 7.4 billion euros in 2022. The most important export trading partners in the EU were Germany, Austria, Croatia, and Italy. The main import partners were Croatia, Slovenia, Germany, and Italy. In addition to this, Serbia was the third-largest export market and the second-largest importer into BiH. Foreign trade surpluses are made only with Austria and Germany. The most important trading partner for BiH is definitely Croatia, due to its proximity and economic and political ties over the years. The volume of exchange with Croatia in 2022 was 4.1 billion, which is approximately 1.3 billion or 48% more than in 2021. Exports amounted to 1.3 billion euros, which is more by 350 million euros or 36%, and imports to 2.8 billion euros, which is an increase of almost 1 billion euros or 56%, and an exchange deficit was realised in the amount of 1.4 billion euros. The coverage of imports by exports amounted to 48% (VTK BiH, 2023).

Figure 9: Top 5 export partners in 2022 (in %)



Source: Agency for Statistics BiH (2023).

The relevance of the sector's export competitiveness arises from the fact that BiH's long-term aims are oriented towards entering the EU, especially now that BiH's membership in the World Trade Organisation is more inevitable. BiH should focus heavily on improving its worldwide competitiveness in order to better deal with rising competition, as well as adapting its economic structure to global demand by strengthening its most competitive industries (Krajišnik & Popović, 2019).

The European economy is more competitive in all respects than the BiH's economy, and many negative impacts of liberalisation will be visible relatively early, while good benefits will be evident only in the long run. Authorities must devote their efforts to resolving several legal, institutional, political, and economic challenges in order to achieve the desired pace of economic growth and, eventually, economic development and economic convergence with EU members (Jerinić, 2017).

According to Krajišnik & Krčmar (2018), BiH must adjust components of its foreign trade policy throughout the accession process in order to eliminate non-tariff obstacles that limit access to the big EU market. This is especially essential as customs ties between BiH and the EU, the most important weapon of foreign policy, are nearly totally liberalised. In the next chapters, we will see how selected companies from BiH overcame many challenges to become exporters to the EU, how they competed in the very competitive market, and whether they had assistance from the local institutions.

1.3.3 Specific export data

In the past five years the trend of general increase of the both import and export amount has continued. The export amount reached its peak in 2022, when it valued at 9.2 billion euros, which was around 34% increase in comparison to 2021. 72% of exports were to the EU, 17.6% to CEFTA countries and only 2.6% to EFTA countries. On the other hand, 65.8% of imports were from the EU, 16.5% from CEFTA, and 3.1% from EFTA (Agency for Statistics BiH, 2023).

Most exported products to the EU in 2022 were: electrical energy (550 mil €), unwrought aluminium (443 mil €), coke and semi-coke of coal (225 mil €), structures of iron/steel (195 mil €), electric conductors (165 mil €) (Agency for Statistics BiH, 2023).

When speaking about specific exporters from BiH they are mostly involved in metal industry and energy exporters. The top 10 include: Aluminij Industries (aluminium industry), ArcelorMittal (steel industry), GIKIL (metallurgical coke), Alumina (manufacturers of different types of alumina, hydrates, zeolites, etc), Sisecam Soda (soda production), TT Kabeli (low voltage cables production), Elektroprivreda Republike Srpske (electrical energy production), Feal (aluminium production), Natron-Hayat (paper and paper packaging production), R-S Silicon (silicon metal production) (Biznis Info, 2023).

Table 2: Exports and imports in thousand euros

	2020		2021		2022	
	Export	Import	Export	Import	Export	Import
Agriculture, forestry and fisheries	115 422	395 499	133 044	427 839	145 608	594 824
Mining and quarrying	57 627	238 802	64 078	334 295	123 408	613 899
Food, beverages and tobacco	387 990	1 195 747	828 677	1 358 702	503 012	1 724 936
Textile and clothing	318 318	577 004	358 574	696 276	825 228	824 805
Leather and leather products	347 157	257 913	381 437	271 971	458 193	329 691
Wood and wood products (except furniture)	318 277	133 131	433 772	180 487	525 250	215 078
Paper and paper products, printing and publishing	133 058	210 805	179 475	241 120	237 940	324 602
Manufacture of coke, refined oil products and nuclear fuel	99 031	568 098	184 997	903 156	294 667	1 661 967
Chemical products	370 515	1 048 819	461 839	1 262 583	623 587	1 501 523
Rubber and plastics	268 663	472 990	336 962	578 564	421 182	684 089
Non-metal mineral products	92 366	220 538	125 183	265 789	161 234	344 504
Metals and metal products	604 820	1 026 708	1 614 298	1 693 981	2 194 224	2 381 789
Electronic, optical and electric products and equipment	414 080	783 496	551 761	917 615	665 796	1 104 093
Machinery and equipment	364 439	625 319	451 936	739 717	543 918	958 355
Means of transport	193 715	540 881	230 812	711 346	302 852	768 878
Furniture	449 321	91 953	538 438	113 741	586 978	132 565
Other manufacturing	61 650	158 849	93 871	185 787	105 685	221 170
Electricity, gas and water	252 991	49 019	422 359	111 318	546 830	200 245
Waste	146 497	16 001	271 916	22 678	279 370	23 042
Others	24 771	27 642	29 932	29 769	36 870	38 912
Total	5 353 623	8 592 476	7 262 992	10 989 442	9 145 820	14 571 469

Source: Agency for Statistics BiH (2023).

2 REGULATORY AND INSTITUTIONAL HURDLES AFFECTING BiH'S EXPORTS TO THE EU

2.1 Institutional theory's approach to trade

Recent data from the World Bank (2022), shows that trade as a percentage of the world's GDP has increased from 25% in 1970 to 56% in 2022. This implies that internalisation has become a crucial part of domestic economies in recent decades. However, not all countries are equally successful in foreign trade. The importance of local institutions in this regard has been highlighted in recent economic literature.

Institutions establish the norms for interactions between private actors and between private and public actors. Therefore, well-functioning institutions reduce the uncertainty endemic to this interaction and, consequently, reduce transaction costs. It is therefore anticipated that institutions of high quality will have a positive impact on economic activity in general and foreign trade in particular (Jansen & Nordås, 2004). Inefficient institutions, on the other hand, can create significant trade barriers. Institutional factors such as pervasive corruption, inefficient bureaucracy, and a high risk of government expropriation of private property can generate uncertainty among producers and discourage long-term investment and innovation. This can impede producers' ability to enhance the quality of their commodities in the future (Faruq, 2011).

According to Jansen & Nordås (2004), the quality of a country's institutions has a positive and significant effect on its openness. Domestic tariffs do not have a statistically significant effect on their own, but they do affect global trade flows when combined with strong institutions. Additionally, domestic institutions have a positive and substantial effect on bilateral trade flows. In fact, according to the study of Faruq (2011), "institutions are at least as important as other determinants of export quality, such as factor endowments, education, research activities, and FDI inflows."

2.2 BiH's internal regulatory complexities

Every company that has the intention of exporting to a foreign market (in this case, the EU) has to go through certain steps: 1. Finding a buyer in the selected market; 2. Ensuring the export product meets the requirements; 3. Adjusting the company's capacities to new export environment; 4. Getting familiar with the customs procedures and regulative; 5. Cooperating with logistics companies. Most of these steps rely solely on the entrepreneurship of the company's managers to ensure a new market for the company and a potentially new source of profit. On the other hand, some of them can be achieved through the guidance of local institutions that can offer counselling or concrete actions to help the companies. Exporting to a new market, especially a potentially financially strong market is also one of the economic goals of the local administration.

In BiH, reside four governmental institutions that can help a potential exporter achieve their exporting goal: the Ministry of Foreign Trade and Economic Relations, Foreign trade Chamber, Agency for promoting export of BiH and the Export Council of BiH. The last two institutions deal with the potential problems of the companies on a micro level. For example, according to the Ministry of Foreign Trade and Economic Relations (2017) “the Export Council of BiH has a coordinating and advisory role and initiates the resolution of problems and open issues of BiH exporters and coordinates their resolution with other institutions. The main goals of the Export Council of BiH are: raising awareness about the importance of export promotion; initiating the creation of an efficient institutional structure and a general environment for export promotion; monitoring the national export promotion strategy; monitoring and directing the work of the Export Promotion Agency (hereinafter: EPA) through the announcement of plans and reports; providing support to exporters; initiation of finding the best systemic and legal solutions related to export promotion, etc.” The last known activities from the Export Council that were published online are from 2017, their more recent activities were difficult to acquire.

On the other hand, the EPA is dedicated to providing assistance to all of BiH’s companies in an effort to develop and expand export markets by promoting products and services. They offer the following services: information on foreign markets and fairs abroad; standards and requirements guidance for individual products; business opportunities and connecting with partners in foreign markets; collective participation and visits to trade fairs abroad; export missions to target markets; reception of delegations from abroad; business forums and B2B with foreign partners; online business networking events (B2B, fairs, conferences, etc.); promotional materials and websites for foreign partners; a database on BiH for exporters (BH Export Directory); online profiles of companies, etc. (Foreign Trade Chamber BiH, 2023).

Additionally, most of the more developed municipalities have an economic sector that is better affiliated with local companies and has better insight into their day-to-day challenges.

When speaking about internal regulatory obstacles, they are not different from the obstacles firms face in other, more developed countries. Although BiH has a highly complicated internal structure with three ministries for economics and countless different agencies whose level of activity can be questioned, on a micro level, local companies face only administrative hurdles in their effort to place their product on the EU market. Those hurdles are very specific and have little to no connection with the BiH’s internal organisation or political relations.

A problem that affects the entire country is the emigration of a large number of workers to the EU. With a lack of workforce and education that is not suited to provide the workforce to the companies, companies cannot increase their production capacities to meet the demand of a potential new export market. It is extremely difficult for a company from BiH to compete with companies from the EU. A significant number of companies are even importing workers from Turkey or Asia. The reason why

companies are having trouble maintaining their workforce and acquiring new ones is that they are encumbered with high taxes and a variety of fiscal levies and benefits that distort their competitiveness as a result of current legal and bylaw solutions and tax regulations. In addition, the burden in the Federation of Bosnia and Herzegovina is the highest in Europe. Consequently, local enterprises cannot compete with those from the surrounding area. All of this impacts the overall employment rate (Jazić, 2019).

Companies that produce agricultural products (fruit and vegetables) are faced with an additional problem. Due to the specificity of the export product, only two border crossings with Croatia are suitable for exporting these products. This means that in the high season of July and August, the export process is extremely difficult because of the long time needed to process all the transports. Products that need to be transported relatively quickly to their final customer in Germany or Austria remain on the border for days. When the product finally reaches its destination, it is, in many cases, unusable anymore. This has produced countless losses for the companies since one truckload of, for example, cucumbers is worth around ten thousand euros. A solution to this problem can only be provided by the official institutions, but the necessary law has not been adopted yet. Additional problems occurred when Croatia officially entered the Schengen area. That has prolonged travel times for the companies even further.

Furthermore, the new customs law that has been enforced since the beginning of August 2022 has altered the procedures for exporters, but not for the better. The new law predicted that the time frame in which products can go through customs is only 10 hours per day, compared to 24 hours previously. For large exporters, it significantly complicated and slowed foreign trade exchange, given that the offered alternatives do not provide a sufficiently efficient procedure for the export of goods. According to estimates, this would potentially result in a 25% decrease in exports per year and the impossibility of fulfilling existing contracts, which would result in financial losses for the companies (Start BiH, 2022). To address this problem, the law has been altered to help the companies. By amending the Decision, proposed by the Directorate for Indirect Taxation of BiH, business entities are enabled to use the simplified customs procedure of export or import by invoice. This practically means that companies that have these approvals continue to use them. In this way, the business community in BiH is enabled to use simpler and faster export and import procedures during 24 hours every day of the month, which is of great importance for BiH's economy that is affected by the crisis in the world market. The simplified customs procedure per invoice directly affects the quick supply of export-oriented companies with raw materials and other raw materials for production in a short period of time. At the same time, they enable the increase of production for export and the retention of customers and create opportunities for business expansion to other markets (Indirect Taxation Authority, 2023).

All of these issues need to be addressed at the administrative level, and cooperation between all the involved factors is crucial. Government institutions in charge of economic activities need to work with the export companies to facilitate the export, since more exports brings benefits for the micro and macro levels of institutions, as well as the exporting companies.

2.3 EU regulatory and procedural requirements

To export a specific product into the EU, there are certain requirements that need to be met. These requirements are, in principle, the same in all members' countries, with some minor differences.

According to the Centre for the Promotion of Imports from Developing Countries (n.d.), there are four types of legislation set for products marketed in the EU, provided for by the European Commission's Regulations and Directives:

1. Framework law that establishes the foundations for a sector. For food goods, for example, the General Food Law assures that every food sold in the EU is safe. In the case of consumer goods, the General Product Safety Directive serves a similar purpose, guaranteeing that all items are safe. Safety is a fundamental criterion that applies in all circumstances, including those not specifically addressed by legislation.
2. Law limiting the use of certain substances, chemicals, and pollutants. This regulation imposes restrictions, which might take the form of affirmative lists of compounds that can be used in certain items, such as preservatives in cosmetics. These frequently do not apply to finished items but to certain chemicals that can be present in any product. This implies that if your product includes any of the prohibited compounds, chemicals, or pollutants, it must fall under the limit established for that substance.
3. CE-marking legislation, which applies to toys and electrical equipment, medical devices, and a few other product categories. The initials "CE" are displayed on items that are subject to the regulation. They demonstrate that the product meets the CE legislation's criteria for safety, health, and environmental protection.
4. Product-specific laws were enacted for a few items. This sort of law mostly addresses marketing regulations, such as establishing rules for selling a product under a certain label, such as when chocolate can be advertised as "milk chocolate." In addition to general laws, product-specific legislation is enacted.

Generally, companies from BiH can export to the EU in two ways: either directly from the parent company in BiH or from a subsidiary in a certain EU country. Companies decide on their own, depending on the product and the export market. If the majority of exports in the EU are to a particular country, then it is recommended to open a subsidiary company.

Another important fact is that every company needs to apply for an Economic Operator Registration and Identification Number (hereinafter: EORI) number. When sharing information with customs administrations, businesses and individuals must use the EORI number as an identity number in all customs operations. It is more efficient for economic operators and customs agencies to use a single form of identification number across the EU. It is also more efficient in terms of statistics and security (Commission

Directorate General for Trade, n.d.) This number, in the case of firms from BiH, can be obtained from the Indirect taxation authority.

Additionally, it may be forbidden or limited to import certain sensitive commodities or certain goods from a certain country. The company might need to get licences, permits, or import notifications that have been formally approved. According to the European Commission (n.d.), “the main types of products that face import restrictions are: agricultural products, medicinal products, chemicals, iron and steel products, cultural assets, textile products, and clothing; weapons; counterfeit or pirated goods; indecent articles, publications, or video recordings; endangered species; waste; some live animals and products containing animal substances; plants; and products containing vegetable substances.”

The imported goods may need to pay import duties when they reach the EU. Because the EU is a customs union, regardless of the EU Member State, a single import tax is required at the port of entry where the import declaration is made. The commodity is subsequently free to circulate on the EU market without further customs procedures (European Commission, n.d.).

When exporting a certain product to the EU, it is clearly stated what kind of documentation is needed for the customs process:

- A customs declaration
- Single Administrative Document (hereinafter: SAD) (Common import declaration form for all EU countries). According to Directorate-General for Taxation and Customs Union, (n.d.), “SAD is composed of a set of eight copies, each with a different function. Using one single document reduces the administrative burden and increases the standardisation and harmonisation of data collected on trade.”
- Depending on the type of goods imported, there are potentially additional requirements (commercial invoices, transport documents, certificates of origin, import licences, test results and other certificates, inspection certificates) (Commission Directorate General for Trade, n.d.).

When goods arrive at the border, they are temporarily stored (for no more than 90 days) under customs surveillance until they are cleared. On the basis of the provided papers, the products may be cleared, or they may be chosen for a document check. Before the imported items can be approved, firms may, in some circumstances, be requested to present additional paperwork.

Moreover, products may be chosen for a document or physical inspection. A product can move freely and be sold anywhere on the EU market once it has been cleared by customs officials, giving it the same status as an EU product (Commission Directorate General for Trade, n.d.).

Specific EU regulations are quite clear and explained in quite detail, the following research shows how well companies from BiH understand these regulations.

2.4 Negative synergy effects

As briefly mentioned in the previous chapter, all the important parties involved need to cooperate. Synergy between mostly the companies and the official institutions, and furthermore with the EU institutions, is of the utmost importance.

There are many positive sides to successful cooperation between companies and institutions: institutions can support BiH businesses and assist them in navigating regulatory and other obstacles. For instance, institutions can advocate for policies that encourage the expansion of BiH's businesses and provide legal and other assistance to businesses confronting lawsuits and other barriers. Furthermore, the Foreign Trade Chamber and trade associations can provide BiH's firms with market intelligence and industry insights, enabling them to identify new opportunities and remain competitive. By collaborating closely with these institutions, firms can remain informed of the most recent industry trends and regulations. To address the problem of the workforce, universities and technical colleges can provide workers with training and education, enabling them to gain fresh expertise and skills that will enhance their performance and productivity. This can also aid in the recruitment and retention of eager-to-learn and grow employees.

However, this cooperation between the two can also produce some negative synergistic effects: Working with domestic institutions can be complicated and bureaucratic, which can result in delays and ineffectiveness. Slow decision-making can aggravate firms and leave them with the impression that their requirements are not being met. Additionally, institutions in BiH may have scarce resources to assist businesses, posing challenges for both sides. For instance, an institution may not have sufficient staff or funding to provide the amount of help that a company requires, and a company may find it difficult to invest in research and development without assistance from an institution. One of the biggest issues is that businesses and government agencies may lack mutual trust, impeding collaboration. This distrust may be the result of past events, a lack of transparency, or poor communication.

Because BiH's institutional environment is subpar, there is less trust, which leads to contract-based economic relationships. However, when trust is used as a foundation for business relationships in BiH, it is likely to be interpersonal trust. These findings have significant implications for understanding how trust influences economic performance. Since institutions generalise trust beyond a specific set of exchange counterparties, the use of institutional trust as a premise for a governance mechanism may result in increased economic performance of companies due to the inclusive nature of social patterns and tie formation. Due to its reliance on strong connections embedded within cohesive, closed-off groups, the application of interpersonal trust may limit economic potential (Rus & Iglič, 2005).

In addition, there are no concrete institutional or legislative improvements in place to create the stimulating environment required for the development and growth of SMEs. Of these, the most significant obstacles companies face are: "bureaucracy, the time it

takes to implement judgements, the issuing of building permits, corruption, a lack of financial stimulation or government support, the time lapse between a trial date being set and a judgement being passed, a lack of government measures to stimulate employment, the quality of the workforce, the quality of road networks, social and health insurance payments, registration of real estate, and the quality and costs of telecommunications” (Džafić, Zahirović, Okičić, & Kožarić, 2011, p. 167).

Numerous obstacles established by or inherited from the previous system remain in existence in BiH. Despite the country's numerous assets and opportunities, these obstacles impede entrepreneurial development. The most important prerequisite for such progress is the establishment of an institutional infrastructure able to foster optimal conditions for entrepreneurial growth. Due to a lack of a holistic, equitable, and future-oriented approach to socioeconomic transformation, international experience indicates that a number of models deemed pertinent in various international contexts have not been effective in BiH (Ateljević, O'Rourke, & Todorović, 2004).

2.5 Economic concepts

There are two concepts in economic theory that are significant for this master's thesis:

1. Institutional economics
2. International entrepreneurship

According to institutionalist economists, the economic role of government entails a broader concept of efficiency that extends far beyond Pareto Optimality (an ideal situation in which all resources are optimally utilised and no economic actor can benefit without affecting the welfare of others). They are primarily concerned with the government's role in “enhancement of the life process,” as guided by the ongoing and continuing construction of values in society, in which the government is concerned with the deployment of resources with a view towards greater efficiency rather than the market allocation of resources (Parada, 2001).

The research that I present in the following chapters demonstrates the limited influence of the government and institutions on the export process for companies from BiH and therefore does not suit the above-mentioned institutional theory in economics.

On the other hand, the success that companies from BiH achieve when entering a new market can solely be a result of their own entrepreneurship and resolution to succeed without any significant assistance or consultation from the economic institutions. This lack of assistance has not discouraged the company's managers from their efforts to pursue their goals.

Entrepreneurship as a main determinant for success in this specific case can be viewed through the concept of International Entrepreneurship. “This concept is centred on the opportunity construct, as embedded in international growth and as a complement to the liability of foreignness. It is also centred on the role of decision makers and their

cognition as a complement to organisation-level resources and capabilities” (Zucchella, 2021, p. 1). The following chapters elaborate on how this exact concept is significantly applicable in the case of companies from BiH.

In contrast to the traditional Uppsala theory, which said that firms, especially multinationals, could become international by following a specific, regular, slow, and evolutionary process, the IE field started in the early 1990s, showed that some small and young new ventures could enter international markets from the start in their early years (Tabares, 2020).

The international entrepreneurship concept is significantly more applicable to my master's thesis since it combines the two main elements of internalisation through exports and entrepreneurship as the main success factors. The findings in the following chapters will demonstrate this even further.

The two previously mentioned concepts are part of a larger debate on what the role of government should be in economics. The successful stories of some European countries like the UK or Switzerland, in which there are almost no interventions by the government, do not necessarily apply to BiH.

Authors like Mazzucato (2011), even argue that if innovation-driven economic development is a priority, a far more proactive stance is necessary. It is argued that the role of the government in the most successful economies and during periods of highest economic development has extended far beyond establishing the proper infrastructure and establishing the rules. In that sense, developing countries like BiH are in need of a more proactive government. According to the research of Yahaya (1991), the case for state intervention remains strong, particularly in the context of developing nations. In pursuing interventionist policies, however, a number of significant criticisms and challenges must be considered.

3 EXPORT PROMOTION

3.1 Role of Export promotion agencies

Export promotion is a collection of policies and practices designed to directly or indirectly support exports in any country. Export promotion policies encompass a vast array of policies and programmes designed to assist current and prospective exporters. These policy measures could be aimed at national exporters or international firms that produce goods for the domestic market and/or export market (Chitauru, 2021). According to the findings of Munch & Schaur (2018), promotion of exports increases sales, value added, employment, and value added per employee. Taking into account expenditures on export promotion, subsidies, and tax distortions, the gain in value added for small businesses is approximately three times greater than its direct costs.

In general, countries have regarded export promotion as a means to economic growth for decades, and it has played a crucial role in development. To accomplish economic growth and development, countries, particularly developing nations, have adopted a range of strategies, including import substitution, industrialization, and export promotion (Newman, 2021).

Over the past two decades, the number of Export promotion agencies (hereinafter: EPA) across the globe has tripled, with the majority focusing on assisting exporters in comprehending and locating markets for their goods (Lederman et al., 2010).

Export promotion organisations offer a wide range of services to exporters, from counselling to funding their participation in foreign trade missions and fairs. These services may have diverse consequences and so contribute differently to these organisations' goals (Volpe Martincus & Carballo, 2010). In general, EPAs include all measures and programmes aimed at assisting current and potential exporters in foreign market penetration, such as export subsidies, lower tax rates on exporting firms' earnings, favourable insurance rates, favourable financial conditions, or exchange rate fluctuations (Belloc & Di Maio, 2011).

Around the world, a variety of export promotion programmes are available to assist enterprises in entering export markets. However, businesses must first be aware that these promotion programmes are available before they can make use of them (Ahmed, Mohamed, Johnson, & Meng, 2002).

Recent research indicates that the support of EPAs has been effective with regard to rigorous and extensive trade margins. A common justification for the services provided by EPAs is the existence of market defects that prevent producers from accessing foreign markets, despite the fact that they may have sufficient productivity to compete internationally (Cruz, 2014). Given the goal of growing exports of domestically produced goods and services, government initiatives may also include equipping national producers with a better understanding of the international markets to which their products are marketed. This entails developing a competitive platform that allows for the successful launch of exports by establishing stronger, more effective, and longer-lasting contacts and representation in international markets (Belloc & Di Maio, 2011).

According to the research of Allen (2014), potential exporters may be dissuaded from entering foreign markets by a high cost of entry and uncertainty caused by information frictions. Consequently, the presence of market defects such as externalities and asymmetric information may support some mechanisms of government-sponsored export promotion in order to make some additional gains from trade possible (Copeland, 2008). At the firm level, however, it remains unclear whether the services provided by EPAs influence the likelihood that non-exporting firms will become exporters. Although some studies are cited as demonstrating that EPA activities are ineffective at promoting new exporters, it is not clear that this is actually the case (Cruz, 2014). On the other hand, according to the research of Hayakawa, Lee, & Park (2014), EPAs have a positive and significant effect on exports. However, the magnitude of the effect

diminishes significantly, indicating that endogeneity must be taken into account when accurately measuring the impact of EPA on exports.

3.2 Export promotion cases around the world

According to my findings, in a particular case of Spain, regional agencies enhance commerce. It appeared that the anticipated impact was greater than that of Spanish embassies and consulates. Furthermore, a disaggregated analysis revealed that this effect is not distributed uniformly throughout Spanish areas (Gil, Llorca, & Serrano, 2008). Early in the twenty-first century, Latin America appeared to be traversing a significant development threshold, poised to break out of the cycle of insufficient economic growth that had characterised the preceding two decades (Garry & Moreno-Bird, 2015). During the period 2000-2010, Latin America achieved economic growth and made significant strides in reducing poverty. The region grew at an average annual rate of 4% between 2003 and 2012 due to the rapid expansion of global commerce and rising commodity prices, despite the contraction caused by the global financial crisis (OECD, n.d.). For the first time, a period of robust global economic development has coincided with a stretch of economic vitality and stability in Latin America. The region has been able to capitalise on the recent global economic expansion by achieving robust development through an increase in exports (Isbell, 2008). The findings of Lederman, Olarreaga, & Payton (2010), in the case of seven South American states indicate that export promotion boosts exports primarily by assisting enterprises in entering and surviving in export markets. The impact on exporting enterprises' intense margins is weak.

Table 3: Financial incentives to support export in case of Latin American countries

	Credit export agency	Export credit line in the Development bank	Export credit insurance	Loan for working capital	Finance for entire investment	Finance for marketing	Buyer's credit
Argentina	x		x	x	x	x	x
Bolivia		x					
Brazil		x	x	x			x
Chile				x		x	x
Colombia	x		x	x		x	x
Ecuador			x	x			
Mexico	x	x	x	x	x	x	x
Peru		x		x			
Uruguay		x	x	x			
Venezuela	x		x	x			x

Source: Melo (2001).

In a research conducted in Colombia Volpe Martincus & Carballo (2010), concluded that using programmes that mix diverse services leads to better export performance than their fundamental individual components, notably along the country-extensive margin. In addition to this, some other researchers go more in detail and describe how EPAs subsequently impact also the GDP of the country.

In the case of companies from Malaysia, Ahmed et al. (2002), suggested that government agencies, in particular, need to do more to promote their role in developing external trade. Creating a higher level of awareness of export promotion tools, particularly among SMEs, should be given greater emphasis. According to research by Olarreaga, Sperlich, & Trachsel (2016), a one percent increase in export promotion budgets increases exports by 0.074 percent on average, supporting previous researches.

Also, they indicate that these export gains result in very high GDP per capita benefits. Indeed, a 1% rise in export budgets results in a 0.065% increase in GDP per capita. More intriguingly, their findings demonstrate which EPAs traits result in substantial increases in exports and which result in large advances in GDP per capita.

3.3 Export promotion agencies in Southeast Europe

To obtain a better understanding of the EPA BiH, it is important to compare it to other agencies in neighbouring countries.

For example, in Serbia, their sister agency is called “Serbia Investment and Export Promotion Agency (hereinafter: SIEPA)” and is a part of the Development Agency of Serbia. They were even among the top 10 agencies in the world in a recent survey by the International Trade Centre. Their activities include organising the participation of Serbian companies at international fairs, providing assistance in building contacts and learning about current trends, providing financial assistance to domestic companies for the implementation of marketing activities aimed at export markets, improving the competitiveness of domestic companies, etc. They also provide a database of domestic companies that “contains information about the assortment of products, quality standards, and capacities of Serbian companies, as well as their contact information, so that foreign companies can search the database and look for suppliers” (Razvojna Agencija Srbije, n.d.).

In North Macedonia, one of the agencies is Invest North Macedonia. They were founded in 2005 and are responsible for “attracting foreign investments and supporting the export promotion of the Republic of North Macedonia.” More specific information on their promotion strategy was unavailable since, according to their official website, they were in the process of introducing a new export promotion strategy. On the other hand, they do offer a handbook for potential exporters from North Macedonia.

In Croatia, one of the agencies is the Croatian Chamber of Economy, which connects critical economic sectors in Croatia through a network of county chambers, communities, and organisations, as well as membership in international chambers.

Additionally, the Ministry of Economy and Sustainable Development offers its assistance, which includes the collection of information on regulations, i.e., business conditions in foreign markets; the collection and publication of information on export opportunities and opportunities for cooperation in foreign markets; the coordination and implementation of promotional activities aimed at the internationalisation of business, i.e., export activities; and participation in the drafting of regulations aimed at strengthening Croatian exporters' competitiveness (Ministarstvo gospodarstva i održivog razvoja RH, n.d.).

The Croatian Bank for Reconstruction and Development can offer specific financial assistance to exporters in Croatia. They define their role as providing exporters with a range of financial options so they can compete on a level playing field in international markets. As part of its mission to promote exports, HBOR assists exporters throughout the entire export process, from initial negotiations to final payment (HBOR, n.d.).

4 METHODOLOGY

4.1 Methodology overview

The thesis is built on two categories of data: primary and secondary. Primary data is collected via survey and interviews. A questionnaire survey was carried out on a sample comprised of companies from BiH that are currently exporting to the EU or aim to do so. The survey was constructed via Google Forms and distributed through email. It consists of four parts, mainly aimed at detecting the most important challenges companies face when exporting and also evaluating their level of cooperation with governmental institutions in charge of trade and economic policies. The collected data was analysed with Google Suite tools and Microsoft Office Excel. Interviews were carried out with: an expert from the academic community who can provide additional insight on the topic, a journalist that covers economic topics, and two of the exporting companies.

Secondary data came in the form of official statements, media clippings, archives, research reports, tables, and audio-visual data. The sources of secondary data will be: a) official institutions and statistical offices; b) academic articles and books; c) popular and media sources, web pages, and social media. Secondary data will be utilised to provide an official perspective on trade procedures, trade balance, and restrictions, as well as to compare official data with company perspectives. This may be used to analyse how different stages of the same process are perceived and understood.

In addition to this, one part of the secondary data research will present certain concepts in economic theory that can be observed in the specific case of the relationship between the companies and the institutions in the BiH. More specifically, the institutional theory

of economics and international entrepreneurship are introduced in Chapter 4 to provide a framework on how economic theory observes the economic relationship between countries, how economic systems should operate, and which theory can be used to describe the specific case of my master's thesis.

The collected data will be thoroughly analysed and compared. The research, based on eclectic sources, will provide a kaleidoscopic overview of the export process and the level of cooperation between companies and institutions. This will provide the foundation for the formulation of actionable recommendations.

4.2 Goals of qualitative research

As I previously mentioned, my qualitative research consisted of both interviews and a survey. The survey what was conducted among the companies had the goal to obtain general information on the companies (to which sector they belong, how long have they been exporting, etc.). This provided context for the further questions. The second objective of the survey was to point out some challenges they face as exporters. These challenges can be directly linked to the detailed information obtained from the interviews with some of the companies on how they overcame those challenges due to their entrepreneurship, contacts, and experience in conducting business with companies from BiH and abroad.

This information showed how companies succeeded in exporting in spite of the significant hurdles faced by domestic institutions. In an ideal institutional economics case, local institutions guide the companies to a more efficient way of conducting business. In this case, however, companies have to overcome the obstacles of the market and competition solely based on their own entrepreneurship. The survey and interview results can be used by both potential export companies to gain information on potential challenges ahead and by economic institutions to develop new methods of assistance for current and potential exports to the EU.

On the other hand, the interviews with an economic expert and a journalist that cover the economic topic help the reader gain insight into what this institutional frame is that the companies have to work in. The objective of the expert interview was to gain an additional opinion on the export topic. By being part of the academic community, experts can gain scientific insight on the issue from a macro- and microeconomic point of view. I saw economic experts as a tool to bridge the gap between concrete insights from the companies and their challenges and the institutions that are more focused on exports from a macro level. Furthermore, a journalist who specialises in economic topics has insight into both the companies and the institutions. They can, from their experience, present a complete understanding of how the relationship between certain economic actors functions in the specific case of BiH.

Ultimately, the purpose of the primary research was to assist potential future exporters by providing an overview of the potential challenges they may be faced with.

Additionally, by providing their insights on the level of cooperation between them and the institutions, current exporters can help improve this cooperation and subsequently simplify their future export endeavours.

4.3 Research methods

4.3.1 Survey

Questionnaire survey was chosen as a method of quantitative research. The survey targeted companies from BiH, both current and potential exporters, and the companies were from many different industries. The survey finally consisted of four drop-down questions, five multiple-choice questions, six short answer questions, and six 5-point Likert scale questions. The questions were intended to point the specific challenges that the companies faced, and to show the level of cooperation with the official institutions. The final number of companies reached amounted to 32.

4.3.2 Interviews

The second research methods were semi-structured, in-depth interviews, with an economic expert in the field of foreign trade and a journalist that specializes in economics, and with two companies. Interviews were conducted upon obtained an informed consent. This method was chosen because it combines elements of structured and unstructured interviews, provides a framework for the topic, and provides a more detailed understanding (George, 2022). The expert interviews were conducted via Zoom and consisted of open-ended questions regarding exports from BiH to the EU and relations between the companies and the local institutions. The objective was to provide additional insight on the challenges the companies faced, and to provide potential solutions. In addition to this, two in-depth interviews with exporting companies were conducted in March 2023 at their premises. These in-depth interviews provided a more detailed insight on the companies, their challenges and their cooperation with the local institutions. The interviews were analysed using thematic analysis because thematic analysis offers a versatile approach that can be tailored to suit the requirements of various research, enabling a comprehensive and intricate understanding of data, owing to its theoretical flexibility (Braun & Clarke, 2006); (King, 2013). Thematic analysis is a valuable method for condensing significant characteristics of an extensive dataset, as it compels the researcher to adopt a methodical approach to data management, hence facilitating the creation of a coherent and orderly final report (King, 2013).

4.4 Sampling and data collection

4.4.1 Survey

In the data collection process of quantitative research, non-probability purposive sampling was used. This type of sampling suited my topic the best since I was interested only in small to medium-sized companies from BiH that are current exporters to the EU specifically or are planning to do so in the near future. The quantitative data was collected at the beginning of May 2023. The survey was officially distributed on May 2, 2023, and the collection stopped on May 9, 2023. In total 46 companies were contacted, out of whom 32 responded. The questionnaire was made in Google Forms and sent to the respondents electronically via email and, in some cases, also via other social media channels.

The collected data was later analysed through tools available in Google Suite and Microsoft Excel. Table 4 depicts that most of the companies came from two sectors: construction and retail, followed by metal construction and other sectors. The rest of the respondents were mostly from the wood industry, service sector, and logistics. This was to be expected since most of the contacts I had at the time in the industry were mostly from these sectors.

Since I was mostly interested in SMEs, the majority of the companies were exactly in that category (14 companies have 20-100 employees, 12 less than 20 employees). In the previous chapters we can see that most of the companies in BiH are SMEs, which is why they were my primary focus.

The next important piece of information the survey required was when the companies were founded. This was interesting in the context of exporting and since BiH was independent for only 32 years. As expected, most of the companies were founded in the post-war years (1995-2000). 17 or 53.1% of companies were current exporters, while 15 or 46.9% of others were, at the given moment, not an exporter. Furthermore, when asked how much of their total exports are for the EU market, the average for the entire 17 companies was around 52%.

Table 4: Sample information

Company	Industry	Employees	Foundation	Exporter	Years of exporting	% of exports to EU
1	Retail and wholesale	50-70	1990	Yes	10-15	100
2	Metal	100-150	2001	Yes	5-10	40
3	Construction	> 150	1994	Yes	15-20	25
4	Wood	50-70	1987	Yes	5-10	90
5	Construction	70-100	1997	Yes	5-10	100
6	Construction	> 150	2000	Yes	10-15	10
7	Other	<20	1991	No		
8	Retail and wholesale	100-150	1998	No		
9	Retail and wholesale	100-150	2013	No		
10	Retail and wholesale	<20	2000	No		
11	Transport and logistics	<20	2019	No		
12	Other	20-50	1998	No		
13	Other	<20	2008	Yes	5-10	20
14	Retail and wholesale	70-100	2000	Yes	10-15	80
15	Metal	<20	2014	Yes	2-5	90
16	Retail and wholesale	20-50	1996	No		
17	Metal	<20	1996	Yes	10-15	30
18	Metal	50-70	2010	No		
19	Other	<20	1992	No		
20	Wood	20-50	1989	Yes	>20	60
21	Retail and wholesale	<20	2016	No		
22	Construction	70-100	2000	Yes	2-5	10
23	Construction	50-70	1996	No		
24	Metal	>150	2006	Yes	15-20	100
25	Construction	20-50	2011	No		
26	Retail and wholesale	20-50	1988	No		
27	Food industry	20-50	1996	Yes	10-15	3
28	Construction	20-50	2001	Yes	2-5	80
29	Construction	<20	1996	Yes	15-20	1
30	Service	<20	1998	Yes	2-5	10
31	Construction	<20	2008	No		
32	Construction	50-70	2005	No		

Source: Own work.

4.4.2 Interviews

The expert interviews were conducted in December 2022 and July 2023 via email, although later interaction and communication between the interviewer and the interviewee were present. The collected data was analysed through thematic analysis. In order to collect the interviews, contact was made with a total of seven individuals, of whom two expressed their willingness to participate in an interview. In addition, contact was made with five companies in an effort to arrange an interview. Of the five, two companies consented to participate.

5 ANALYSIS AND DISCUSSION

5.1 Survey

5.1.1 Likert scale

The survey included six Likert scale-type questions² aimed at assessing the degree of agreement with specific statements pertaining to the existing obstacles faced by exporters as well as hypothetical challenges that may arise for future exporters. The acquired data was of utmost importance in obtaining a comprehensive understanding of the obstacles encountered and the degree of collaboration between companies and institutions, as perceived by the company.

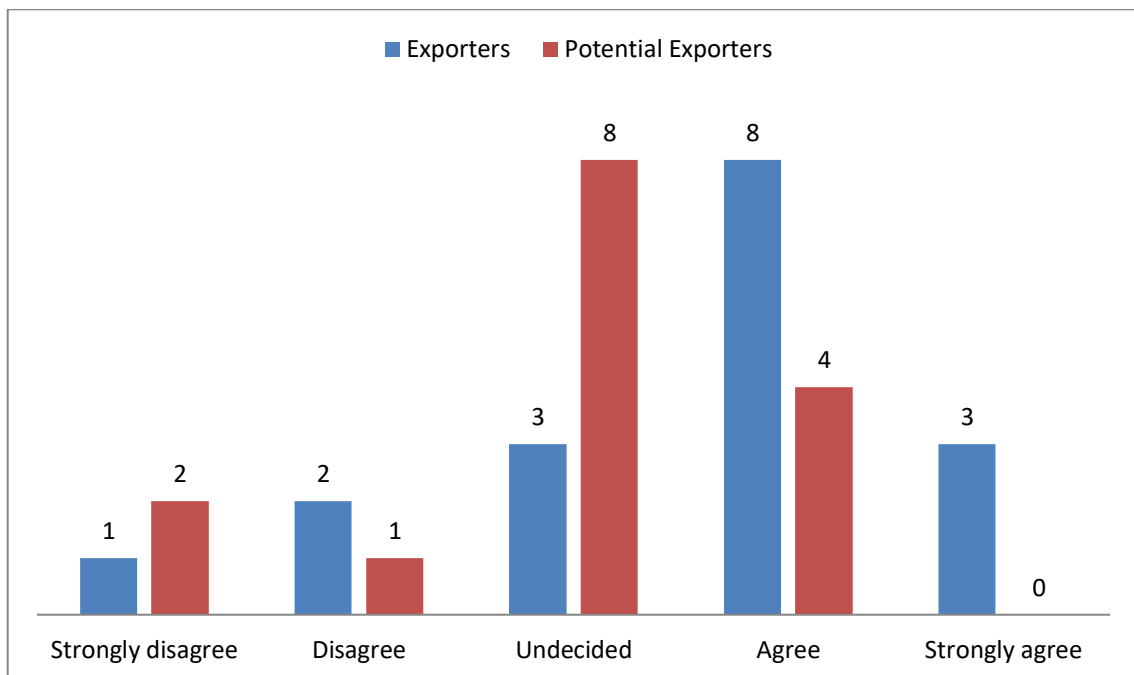
The findings hold considerable value for the thesis as they offer valuable insights from companies, which serve as proof of the insufficient collaboration among economic entities in BiH.

Question 1: Information on EU standards for imported goods is clear and easily obtainable.

Gaining insight into the perceptions of surveyed companies regarding EU standards and their level of affiliation with them was of significant importance. Based on the aforementioned findings, it is possible to draw certain conclusions.

² “A Likert scale is a common approach in survey research. It uses a 5 or 7-point answer range to gauge respondents' opinions or feelings. Respondents can choose a negative, neutral, or positive response to a statement. Likert scales are a type of rating scale used to measure attitudes, agreement, importance, or likelihood. They assume attitudes are evenly spaced along the rating scale.” (Khosravi, 2023)

Figure 10: Level of agreement with question 1



Source: Own work.

Figure 10 above presents the collected data for this question. Exporters mostly agreed with the statement, while potential ones were mostly undecided. This can be a sign that potential export companies are still not paying significant attention to different EU regulations, and that is something they will have to consider in the near future. The majority of the respondents in total see the information on EU standards as relatively transparent and easily understandable. I believe the EU has made substantial efforts to clarify their standards, although certain requirements vary from country to country, such as in the construction industry.

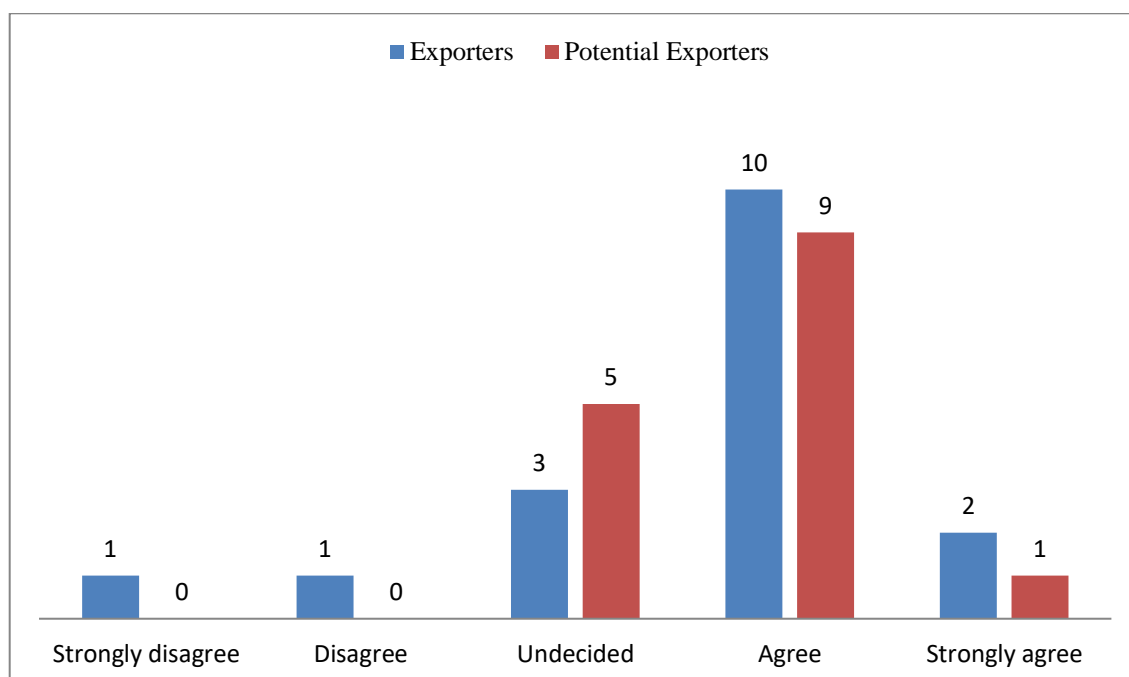
In addition, Croatian is one of the official languages of the EU, which facilitates improved communication with businesses from BiH. The lowering of the language barrier had a significant impact on BiH's businesses' ability to comprehend EU regulations.

Question 2: High tariff barriers significantly impact ability to export to the EU market.

From Figure 11 we can depict the level of agreement to this statement. Both current and potential exporters agree on the matter, and are well aware of the tariff barriers imposed by the EU.

In many instances, the ability of managers to discover a more efficient method of production or transport determines whether or not these obstacles can be overcome without outside assistance. Positively, companies continue to pursue the EU as a foreign market despite the high barriers and tariffs. The market's potential is significantly greater than the entry restrictions and tariffs.

Figure 11: Level of agreement with question 2



Source: Own work.

According to Bjelić, Mitrović, & Petrović (2013), “technical barriers to trade are main barriers when goods are exported to the EU.” In addition to this, administrative barriers are also important factor that affects WB economies’ trade with all observed trading partners, but these effects are not significantly higher for the WB’s intraregional trade (Bjelić, Mitrović, & Petrović, 2013).

Overcoming these obstacles may be an area where domestic institutions can be of the most assistance. It would be simpler for businesses to overcome impediments and become successful exporters if established export companies and prospective exporters provided them with guidance, assistance, and organised counselling.

Question 3: Time lost at border crossings/customs is too long.

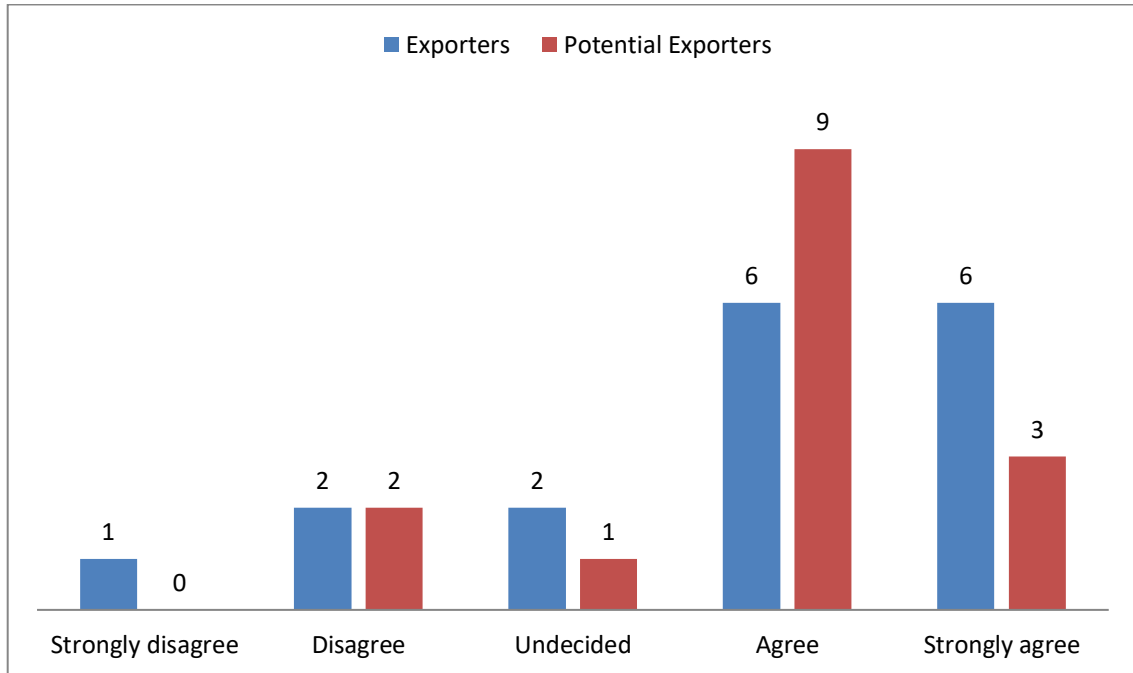
Numerous countries and international organisations are currently engaged in continuing initiatives to enhance customs procedures, optimise infrastructure, and embrace technological advancements. These initiatives aim to mitigate delays and expedite the cross-border transportation of commodities. Nevertheless, businesses involved in international trade still face significant challenges in the form of customs and border delays.

According to the research Anderson & van Wincoop (2001), border barriers have a significant impact on the prosperity of minor countries. Small countries are more reliant on international trade, so border barriers increase their average trade barrier more than they do for large nations, resulting in a greater decline in welfare.

According to Customs Administration of Republic of Croatia (n.d.), BiH has around 50 border crossings with the EU (Croatia), from which 20 are international border

crossings and are suitable for customs operations. Another important fact is that only two border crossings are suitable for all different kind of goods. Furthermore, many of them do not have the capacity to check every single transport in a reasonable amount of time. Some have only one lane for declaring customs, and that is something that companies in this survey find extremely challenging.

Figure 12: Level of agreement with question 3



Source: Own work.

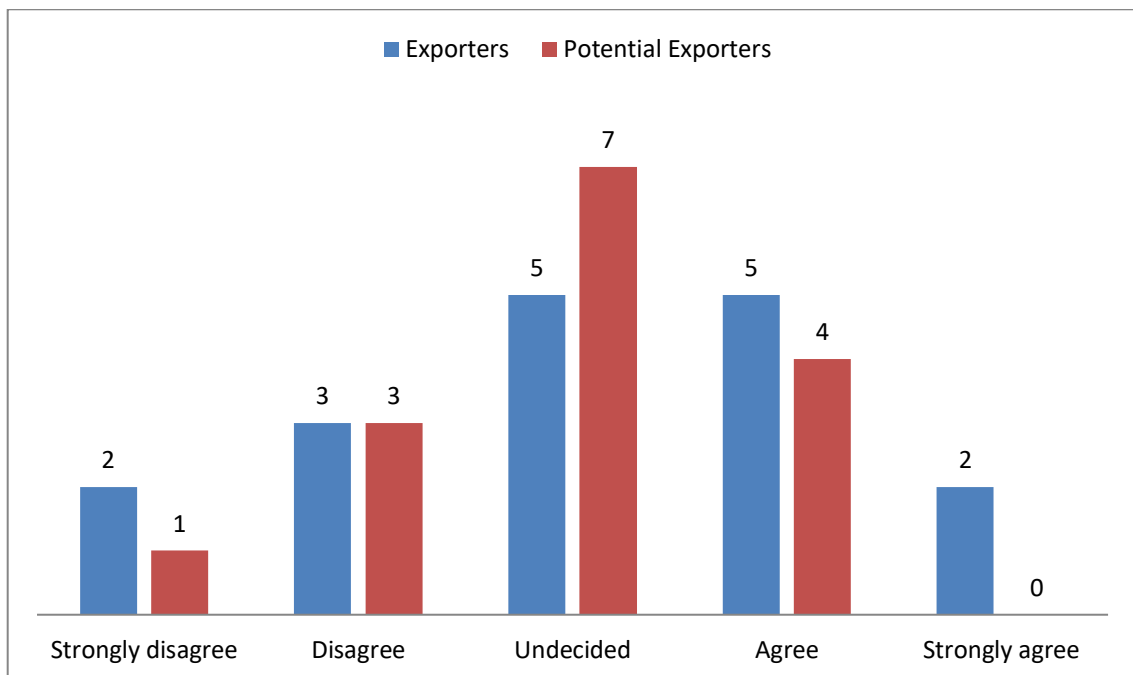
These barriers for movement are a significant obstacle for the domestic companies, but also for the country's welfare in general.

The waiting times and the delays in this particular case are a result of different factors: strict EU regulations on imported goods, ever-increasing trade between the EU and BiH, a lack of infrastructure or manpower in customs and border authorities to process all the requests, and domestic road infrastructure in BiH in general. When it comes to the actual responses, again, the level of agreement was quite similar. The time-consuming border crossings are a well-known fact in the business community, so both potential and current exporters are well aware of what to expect when exporting to the EU.

Question 4: Competition from the EU companies is a deterring factor.

Not all challenges to exports to the EU market come from specific EU regulations and other administrative barriers. A market of 27 countries consists of many competing companies, which in most cases have financial backgrounds with which most of the companies from BiH cannot compete. Where they can compete, though, is in the price of materials and labour.

Figure 13: Level of agreement with question 4



Source: Own work.

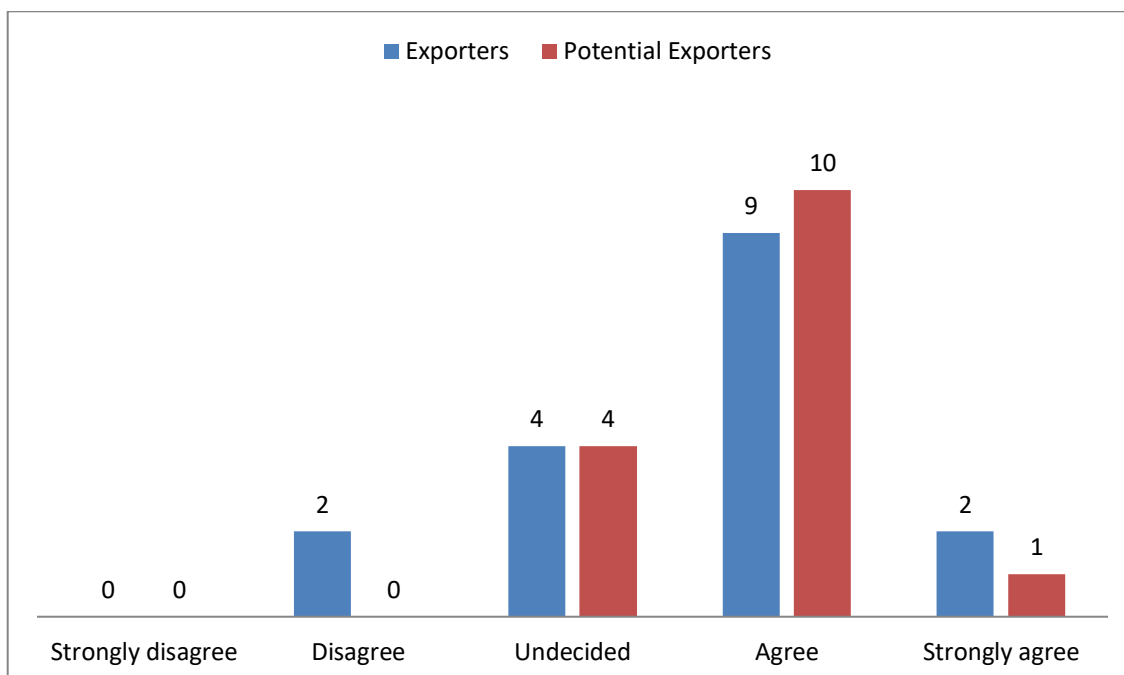
In some in-depth interviews with companies that participated in the survey, I discovered that the majority of their products not only met local market requirements but also those of international markets. In that sense, a specific product made in BiH can be more durable, of higher quality, and less expensive than a similar product that is made in the EU.

Other firms from eastern countries (primarily Turkey and China) were not included in the survey; fortunately, EU regulation is quite specific on this subject. In light of this, I am convinced that the quality of production and products in certain enterprises in BiH is comparable to that of EU-produced goods. We can deduce the level of agreement with the previous statement from Figure 16. This was the statement that provided the closest results; again, potential exporters were mostly undecided, but current exporters have very similar results and are shared between agree, undecided, and disagree. We can conclude that competition is something to be considered when exporting and those experiences may vary from company to company. Notable is the fact that, although competition is viewed as a challenge, it is viewed as less of a challenge than EU-imposed institutional factors.

Question 5: Financial challenges (necessary investments, production growth) impact the decision to pursue exports.

Obviously, to pursue exports, companies need to adjust and, in most cases, expand their production. In addition to that, current exporting companies and potential exporters have different starting points when it comes to investments.

Figure 14: Level of agreement with question 5



Source: Own work.

In the particular case of company Civić d.o.o. with which I did an interview, they invested over 100 thousand euros in the previous years for a laboratory where they could test the performance of their products. Furthermore, the quality of the testing they do is periodically tested by an institution from Croatia that is in charge of allowing or disallowing certain product imports to Croatia. Additionally, they had to employ professionals in the field to conduct the testing, which was an additional investment.

On the other hand, this investment made by this specific company was simplified by the fact that the company was already established in the BiH market and had the funds to invest in export opportunities. The same investment can be extremely challenging for a company that is not well established in the domestic market and is oriented only to exports.

Considering the potential financial investments that every company must make when expanding, and in this case when exporting to the EU, it is understandable that both types of companies concur with this statement; 10 of the potential exporters and 9 exporters view this as a significant challenge. None of the 32 companies that participated in the survey strongly disagreed with the statement.

Question 6: Cultural and language differences are factors that need to be taken into consideration.

When it comes to the relevance of cultural and linguistic factors, half of the companies agreed with the statement, 21.9% disagreed, and 9.4% were undecided. The results were consistent for both current and potential exporters.

These were surprising results, given that the largest EU market for BiH's companies is Croatia, where there are almost no linguistic differences and a few cultural ones. The

next largest markets, such as Germany, Austria, and Italy, present substantial language and cultural barriers. According to Letestu and Holmgren (2012), despite the fact that cultural differences are not a deciding factor when deciding whether or not to enter a foreign market, they appear to affect the internationalisation process of firms in various ways. Regardless of cultural differences, all companies study and enter every market where they detect a business opportunity.

It is possible that companies disregard this aspect of internationalisation because economic and tariff barriers appear to be more essential. In addition, the manner in which business is conducted in central Europe and BiH is a subject that can be investigated in greater depth.

Domestic institutions and chambers of commerce can also help to resolve these differences. By providing basic training or advice on how exporters can adapt to the foreign environment, they can assist the export companies in becoming more competitive in the foreign markets despite the cultural and language differences.

5.1.2 Questions on the companies' experiences

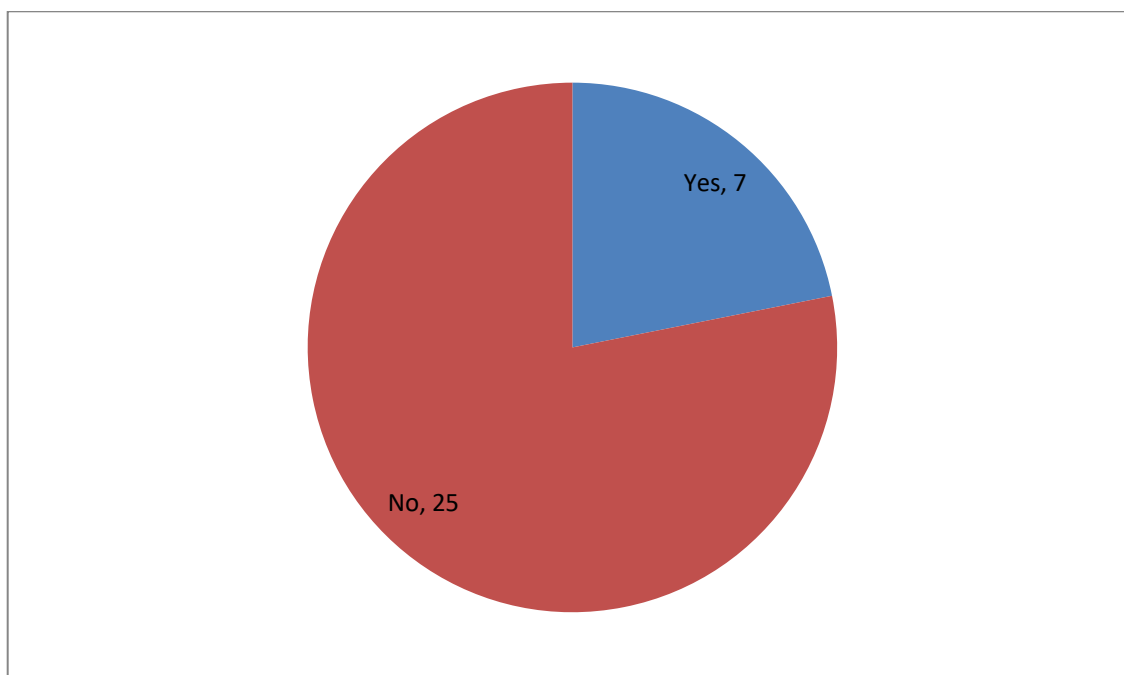
The previously mentioned statements can assist us in gaining a better understanding of the possible challenges for the companies in BiH. The questions help us understand how company managers, due to their entrepreneurial character, navigate all the possible challenges that their companies may encounter. According to Rebecca, Knight, Liesch, and Zhou (2018), in a distributed, global ecosystem of opportunities and opportunity seekers, the pursuit of international opportunities can be evaluated by an individual-level cognitive activity, constructed by a firm-level creative endeavour, and shaped by an institutional-level structuring activity.

On the other hand, the results show us how this institutional-level structuring activity, in the specific case of BiH, constructs mostly barriers for exporters and future exporters. According to Hoxha (2009), in transition economies, various contextual obstacles impede the development of businesses; these factors include business environment factors, the most significant of which are institutional factors. These obstacles are a consequence of a hostile and unpredictable business environment, an environment characterised by weak institutions and lax enforcement of laws, regulations, and property rights. Having in mind the potential obstacles in transition nations that affect especially SMEs, in the final section of the survey, respondents were asked about their experience and level of cooperation with domestic economic institutions, from the local to the state level.

Question 1: Have you cooperated with domestic institutions that handle exports and export promotion?

It was very important for the thesis to emphasize the lack of cooperation between the companies that participated in the survey and economic institutions in BiH.

Figure 15: Level of cooperation with domestic institutions



Source: Own work

25 of the companies have never cooperated with institutions from BiH that deal with exports, and only 7 have. Most of the respondents that answered positively cooperated with the Foreign Trade Chamber of BiH, but as they mentioned in the next answer, the cooperation did not have any significance for their exports.

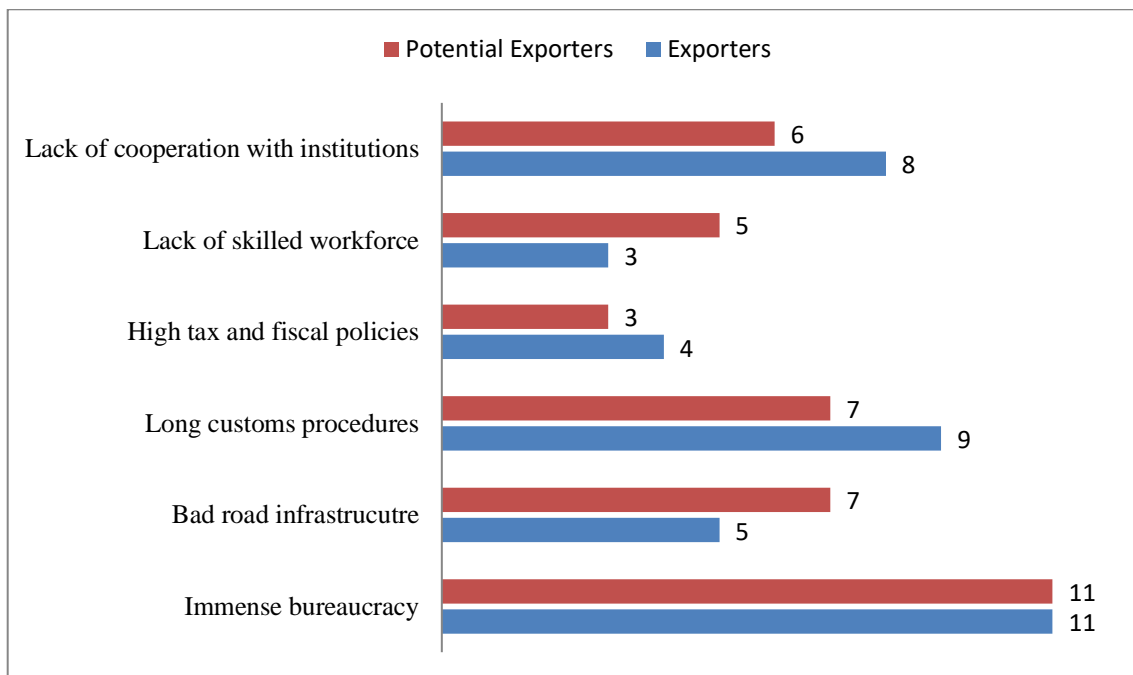
Question 2: Are you aware of any government or non-government support programmes aimed at helping BiH companies export to the EU market?

The response to this question was almost unanimous. 31 out of the 32 companies that participated in the survey are not aware of any programmes that support exporters. Only one company answered positively but did not provide an answer about the specifics of the programme.

In the final question of this kind, regarding participation in specific programmes, the companies were unanimous. Not a single firm out of the 32 that participated has ever been a part of or participated in a programme conducted by domestic economic institutions to help exporters. This can be a sign of the level of involvement the institutions have when it comes to exports. I provide some recommendations on how to resolve this issue in the next chapter.

In the last question, companies were asked their opinion on the biggest challenges companies from BiH face when pursuing exports.

Figure 16: Biggest challenges for exporters



Source: Own work.

It was clear from analysing the previous responses that bureaucracy is by far the single biggest challenge for companies. The giant administrative network that the country is made of also has an impact on the economic side. Long customs procedures are also part of this excess bureaucracy. By eliminating these two challenges, companies can profit in many ways. On the other hand, I was surprised by the results that high tax and fiscal policies were found to be the least challenging for companies.

Finally, the respondents were given a chance to give their comment or an insight into the topic in the open-ended question. Only two responded. The first company stated that:

“Easier availability of information and less bureaucracy would change a lot of things”.

The second company answered with:

“Long customs procedures are a big problem; sometimes we have to wait an hour just to begin the process. More capacity for customs would mean a lot for trucks that are empty and only need to transit.”

5.2 Interviews with companies

In addition to the survey described previously, I also conducted two interviews with the companies. These provided me with a deeper and more comprehensive understanding of their challenges and their successful export narrative, which can be quite beneficial to other potential exporters who can learn from their mistakes. Both companies were asked the same questions, and thematic analysis was used to analyse the obtained data.

The first interview was with Civić d.o.o. company from Cazin in BiH. They are involved mostly in the construction industry but also in retail and wholesale. They employ around 100 employees, depending on the season (summer is high season for the construction industry). The second interview was conducted with Miral – PVC d.o.o. company from Velika Kladuša, BiH. The company was founded in 1996, and currently employs 130 workers. They manufacture primarily PVC joinery, glass facades, decorative panels, etc.

Question 1: How did you come to the decision to pursue exports to the EU market?

“First of all, BiH’s market is significantly limited due to its size. Secondly, when it comes to our product specifically, the competition is enormous. So the decision to export, specifically to the markets of Croatia and Slovenia, is because the demand is higher and consequently the prices are higher. The other reason was that we wanted our brand Thermopor to be recognised on the EU market because that opens the possibility of cooperation with companies from other EU countries like Austria, Italy, and Germany. Not to be neglected is also the fact that Cazin, in which our company is located, is in close proximity to the Croatian border, which reduces transport expenses significantly.” (Civić d.o.o.)

It is evident that Civic d.o.o. perceived exports to the EU as the inherent trajectory for the company's expansion. Additionally, the manager pointed out that due to the wide variety of products the company offers, the local market is too small to meet their sales requirements.

In the case of Miral – PVC d.o.o. the company was founded in 1996, and shortly after, in 2001, they began with exports. In those post-war years, they introduced something new to the market (PVC joinery), and that put them on the map.

“After the war, the demand was enormous due to many reconstruction programmes, but when the demand was not that significant, we needed to adjust because we were already producing a significant amount of product, so we decided to export them to Croatia. Our facilities were just a few kilometres from the border, so exporting to Croatia made a lot of sense. In 2005, exports to other EU countries really increased since we moved to a much bigger facility.” (Miral – PVC d.o.o.)

They even exported to the USA and Canada, so exporting to the EU was not a major issue in that sense. To put it into context, last year they had 440 exports by their own transport.”

It is apparent that both companies view the EU as a vital export market, particularly the neighbouring countries (Croatia, Austria, Slovenia, etc.). Also, the proximity to the border is an additional benefit for the companies. The latter company has more experience in exporting, even to some further destinations. That is possible because of the specificity of their products, which are more suitable for long transports.

Question 2: What were the most significant challenges that your company faced during the export process?

“The EU is extremely strict when it comes to import procedures, laws, and customs. For example, our product was at the border or customs a number of times for a couple of days, which is of course costly for the company.” (Civić d.o.o.)

What the company did was obtain a "simplified customs procedure" for their EPS product (Expanded polystyrene; styrofoam), which allows their transport truck to pass customs without any delays. Periodically, there are detailed checks of the cargo, even for the EPS product, which does require a longer amount of time, but luckily they are just periodic.

“The biggest and most time-consuming challenge from our perspective was the enormous bureaucratic challenges we encountered in Croatia; there were many procedures and many laws we needed to comply with to be able to export our product.” (Civić d.o.o.)

In addition to the aforementioned hurdles, the manager also observed that, despite successfully entering the EU market, there remains the potential for particular EU member states to prohibit the use of their product for a variety of reasons (i.e., failing to adhere to prescribed norms).

Number one challenge for Miral – PVC d.o.o. would be how to stay competitive in a market with so many demands on the other side, but also many suppliers. Some of those suppliers do not even possess the necessary certificates, and their products do not comply with the regulations.

“It is very difficult to compete with them in price when, for example, their window is more than twice as cheap as ours.” (Miral – PVC d.o.o.)

The second biggest challenge for the company is deadlines.

“There have been some cases in which our product leaves the factory on time, but due to customs and borders, it is sometimes not delivered in time, or just in time.” (Miral – PVC d.o.o.)

The third biggest challenges are the regulations and certificates.

“Our advantage was that since the beginning we planned on exporting, so we have been ahead of time in that sense. We always complied with the newest regulations; we had to, to stay competitive.” (Miral – PVC d.o.o.)

Both businesses concur on the challenges mentioned in the survey, but they evaluate them differently. For the former company, EU regulations pose the greatest challenge, whereas for Miral-PVC d.o.o., an increase in competition presents the greatest obstacle.

Question 3: Was there any assistance from domestic or foreign economic institutions?

When it comes to institutions from BiH, there was almost no assistance in the exporting process for Civić d.o.o.

“The only assistance came from the Federal Ministry of Development, Entrepreneurship, and Craft for implementing the ISO 9001 standard in 2015 and from the EBRD. All together, the assisted funds amount was not higher than 10,000 euros. More significant assistance was provided by institutions in Croatia, which is our top foreign market. There, we had assistance from the IGH civil engineering institute, which assisted us in achieving and complying with EU norms regarding our products. Our EPS product, Thermopor, was tested by IGH a number of times, and that also amounted to approximately 60000 euros in expenses for the company.” (Civić d.o.o.)

For Miral – PVC d.o.o. the assistance is almost nonexistent; there was some assistance last year from the local institutions, but it can be said that it was just a "drop in the ocean" of what they would need.

“Everything we did and succeeded in was just a product of our work and our own brains; relying on any help from the local institutions is just not feasible. We do not want to depend on anyone.” (Miral – PVC d.o.o.)

In light of the preceding findings, a unanimous response to this question was anticipated. Even if domestic institutions provided some assistance, it was insufficient. However, the company Civic d.o.o. received assistance in the form of counselling and guidance from a foreign economic institution, which aided them in obtaining the necessary certificates to export their product to Croatia. The second response demonstrated that entrepreneurship remains the primary asset of successful businesses.

Question 4: How did your company adapt to the new environment?

“Firstly, and from our experience, the most notable is that we opened a branch of our company in Zagreb, Croatia. This allowed us to simplify the export process for both the company and the final buyer. This company is basically a „transit company" for easier export to the EU.” (Civić d.o.o.)

Another benefit for the company is that buyers are generally more confident when they see that they are working with a company that has an EU address. Furthermore, the base company in Cazin has changed its headquarters site due to the increasing amount of product produced and exported.

“Also, now we have more than 100 employees, whereas in 2012, when the export first started, we had only 30. One of the biggest and most costly investments was in the laboratory in which we do the required testing of our EPS products.” (Civić d.o.o.)

According to the company, it was necessary for them to allocate resources towards enhancing their employees, logistics infrastructure, and production facilities. The total value of these investments exceeded 15 million euros.

Miral – PVC d.o.o. company's policy is that their whole profit at the end of every year is invested further in the company. Just last year, they invested 1.5 million euros in new machinery; this year, they invested in solar energy.

“At the beginning, we employed just 15 people; now we have around 130. Also, we invested in new trucks; we own six of them at this moment. Last year we opened our new headquarters and production facilities, all together covering around 15 thousand m² of space. These are all significant investments in an attempt to grow continuously and stay competitive.” (Miral – PVC d.o.o.)

In an effort to remain competitive in existing markets and to pursue new export markets, both companies have invested a substantial quantity of capital over the past decade to expand their production capabilities and hire new employees.

Question 5: What are the most significant EU markets for your company, and why are they significant?

“More than 90% of our products are exported to Croatia, not only due to our branch in Zagreb but also the geographical proximity. To be more precise, our EPS product is not suited for long exports, for example, to Spain or France. The radius in which this product is profitable is around 400km. Other markets are mostly Italy and Slovenia.” (Civić d.o.o.)

The most important markets for Miral – PVC d.o.o. company, are Croatia, Austria, Italy and Germany, with around 30% of exports going to Croatia.

“There have been cases where a single project in Germany, for example, or Switzerland is worth as many as 10 projects in Croatia. But in general, Croatia is our most important foreign market; we even have another company in our name in Croatia, which proves how important they are to us. There is also no language barrier, so that makes things easier. Furthermore, our product is very sensitive to damages and reclamations; Croatia is near, and for that reason, it is more suitable and less risky for transport.” (Miral – PVC d.o.o.)

In the context of transporting delicate items like glass windows, Miral – PVC d.o.o. company demonstrates a preference for the ultimate purchaser to arrange the transportation logistics, thereby assuming responsibility for any damages incurred during the transportation process. In terms of exports, Croatia holds significant importance as a foreign market for both companies, mostly owing to its geographical proximity, absence of language hurdles, and established business ties. Both companies also maintain a subsidiary in Croatia, which serves to streamline and expedite the export procedure.

Question 6: How difficult is it to comply with EU regulations throughout the period once the export starts?

“Like for most companies, the beginning was the hardest because we did not have the necessary product for the EU market. From the moment our product is able to comply with EU regulations, everything is much simpler, but still not without challenges. For example, we had a problem with specific regulations in Austria, which require the density of the EPS product to be 150 kilopascals, while all other countries demand 120 kilopascals.” (Civić d.o.o.)

The company's manager states that complying with these requirements is currently too much of a challenge for the company, but if demand is higher, they might also consider that option.

Complying with the regulations is quite difficult for Miral – PVC d.o.o., especially since the same regulations regarding their specific product do not exist in Germany, Italy, or Croatia. Today, energy efficiency is very important in many markets, especially in Germany, and in order to be competitive in the market, they needed to improve and invest. In Italy, safety glasses are mandatory, so they needed to adapt further. Croatia, on the other hand, is a little bit simpler when it comes to regulations.

“What is today considered okay and energy efficient will probably not be in a couple of years. That is the challenge we need to face. We work with some consulting firms that assist us in complying with the regulations.” (Miral – PVC d.o.o.)

The regulatory framework for specific items inside the EU exhibits variations between different member states. In the construction industry, where both enterprises are actively engaged, there is a frequent occurrence of environmental regulatory changes. It is noteworthy that the latter corporation also sought the aid of an external consulting agency. This is one area in which domestic institutions could potentially provide support.

Question 7: How satisfied are you with the company's growth as a result of new export markets?

“I must say that we are extremely satisfied with how the company grew during the period, not only because of the exports but also because of the huge investments made. What is a challenge for us is the ever-increasing competition on the EU market from companies from Serbia and Croatia. We strive to grow further, but we need to adapt to the new environment to be more attractive to our customers.” (Civić d.o.o.)

It is noteworthy to observe that the Civić d.o.o. corporation exhibits a lack of concern for domestic competition, instead focusing on competition originating from nearby countries. This can provide an indication of their perceived market position since they exhibit a high level of confidence in their products.

“Like every manager, I can say that we are satisfied, but we need to continue to grow even more. The EU market has definitely a lot of potential, and that is the way we want to go. When my father founded the company, he never dreamed that it would grow so big, but the relationships we made with buyers and partner firms and the trust we built are the foundations that help us grow.” (Miral – PVC d.o.o.)

This company has always been export-oriented, and in that sense, they are extremely satisfied. But there is always room for improvement. What would be significant is if they could establish relationships with some construction companies and apply together for certain projects abroad. Or if some "handlers" who buy products from them can buy

even more product, or if they can find more handlers, which would significantly change their production, we would grow even more.

“What is important to notice is that we do not advertise at all; it is just word of mouth.” (Miral – PVC d.o.o.)

It is evident that the company's directors are entrepreneurial; sustained growth is the only way to remain competitive. The EU market offers numerous growth opportunities, whereas the domestic market is relatively modest and capital-poor. Since deciding to export to the EU, both businesses have experienced substantial benefits. However, future expansion will necessitate numerous additional investments and plans.

Question 8: Are there any incentives to increase the amount or variety of the goods exported?

“Of course, plans are quite big. We already increased the variety of the goods; now we also export steel construction and sheet metal products. Also, we are planning to export products that are compatible with EPS, so that a consumer can obtain all the necessary products he needs from our company, not just styrofoam. We do this to simplify the process for the final consumer, for their benefit.” (Civić d.o.o.)

This company also pointed out that their “primary goal is not necessary to increase the number of buyers, but to work with the existing ones to present them our new products and increase our cooperation for the benefit of both parties involved.” (Civić d.o.o.)

Miral – PVC d.o.o. aspires to go further, not necessarily by producing more goods but rather by innovating. Producing new items via new production methods has the highest profit margin, at least in their company's situation. They compete in the market by focusing on speed, pricing, and quality.

“We do not export in large quantities, but our product is quite reasonably priced, and the quality is no different than products made anywhere in the EU. When it comes to variety of goods, they are pretty much endless, but all the requests from the buyers can be done (and done in a reasonable amount of time, approximately 2 weeks from the time of the order until the product is on your doorstep), and that is our forte.” (Miral – PVC d.o.o.)

The growth strategies of the two businesses are distinct. The company Civić d.o.o. wishes to increase exports of their other products and provide consumers with comprehensive packages. The latter company, on the other hand, intends to innovate by exporting the same quantity at competitive prices and with rapid delivery.

Question 9: Based on your past experience, how would you potentially improve the export process for other companies from BiH?

Civić d.o.o. sees the process as extremely difficult, complicated, and time- and money-consuming.

“It is a formidable task to grow from just a local distributor to a company that exports to the EU. The initial costs are very high, and if a company can

overcome those initial expenses, there is obviously a profit to be made. I believe that the improvement is mostly needed at the bureaucratic level; if there is a way to simplify the process, I am sure that more companies would be considering exports.” (Civić d.o.o.)

Miral – PVC d.o.o. suggests to all companies to first have a quality product and secondly to have the logistics sorted because buyers want everything delivered without too much hustle and they will pay for it accordingly.

“In our specific sector, for a new company to export to, say, Austria or Germany, it is very demanding. They need to invest significant funds in the machinery of logistics to even start; we are talking millions of euros. And these investments are made periodically, every 5–10 years. In my opinion, it would be great if official institutions could in some way help companies that are profitable and not in debt. I think that will, in some way, incent other companies decide to export.” (Miral – PVC d.o.o.)

According to the company, to remain competitive it is ultimately up to the companies, their cash, and their intelligence; relying on domestic institutions is not an option.

Recommendations for future exporters are quite clear and unanimous: a) have a quality product, b) ensure the capital c) pursue different markets. The assistance from government is something that can be a bonus, but not relied on.

This is in accordance to the previously mentioned statements that entrepreneurship is the sole factor for success, at least in this case.

5.3 Insights from experts

The semi-structured open-ended interview with an expert in the field of foreign trade and economics was conducted to gain a new insider's view on the topic of challenges that companies from BiH face when exporting their products to the EU. The primary objective was to examine the topic from a scientific perspective and obtain a better understanding of the challenges and potential solutions to improve exports overall.

The interaction between firms and economic institutions is facilitated with the involvement of economic experts. The expertise and familiarity possessed by individuals can prove to be beneficial for all stakeholders concerned.

The first point that the expert mentioned was the problem of competitiveness, more specifically the infrastructure or lack of infrastructure problem:

“There are many challenges; one of them can be infrastructural. For example, to increase production capacity, a company needs a certain voltage of electricity, and since EP (Elektroprivreda BiH) is the sole supplier, sometimes they are unable to deliver the contracted voltage, which results in a stoppage in production and delays in delivery where the customer loses his rating and credibility. Such situations cause additional costs in production, such as scrapping packaging.” (Expert)

Furthermore, the expert pointed out a legal framework issue:

“In BiH, there is no legally defined obligation to possess and meet the requirements of quality control standards (ISO and HCCP). Only the imposition of such an obligation and co-financing by the state for companies that meet the requirements contributes to their competitiveness and improvement of product quality.” (Expert)

The expert also concluded that „accreditation bodies are constantly faced with problems on the BiH market because the competent institutions, from the local to the BiH level, do not promote them enough.” Consistent with the previously constructed pattern in the survey section, the interviewee reintroduced the lack of action by the institutions that are in charge and additional costs that could potentially be avoided:

“Institutions at all levels have failed in the process of achieving the necessary standards. One could highlight the local level, where small exporters independently form associations in order to join together and reach the required amount for export. Also there, for example, honey producers face problems that should be solved at the state level as regards standardisation and recognition of product quality.” (Expert)

According to the expert, “quality control laboratories in BiH must meet EU standards in technical terms, and this way, additional costs of testing products abroad would be avoided.” (Expert)

Finally, the expert gave some recommendations on the macroeconomic level that affect not only exporters but producers in total and how companies from the BiH can be more competitive in the market:

“If, on a macro level, we would support exporters who are oriented towards the export of finished products and not raw materials, e.g., cases like exporting raw chestnuts instead of pureed chestnuts or exporting wood instead of furniture, we could increase the number of employees in the manufacturing sector and reduce the trade deficit because we would export higher-value products. In this way, we would contribute to balancing our balance of payments.” (Expert)

The second open-ended interview was carried out with a journalist originating from BiH who exclusively focuses on matters pertaining to the economy. The main objective of this interview was to acquire a comprehensive understanding of the interplay between institutions and firms, including the nature of their collaboration and the major challenges hindering their cooperation. By addressing these issues, the aim was to enhance the business environment overall.

Firstly, the journalist commented on the current level of competitiveness for the companies in BiH:

“Companies based in BiH have a difficult time competing with companies and prices on the international market, particularly when competing with major international players. Those who are successful have typically achieved an enviable level of development and invested substantial funds in development

and modernization, or they have identified a market segment offering an authentic product that is unavailable on the international market.” (Journalist)

Additionally, the interviewee provides recommendations on how companies can improve their competitiveness:

“This competitiveness can be improved by investing in production means that will increase output in less time and with less money and labour consumption. Some businesses have intelligently identified international initiatives and begun applying for EU grants, which they use to increase their production and climb the competitiveness rankings. In addition, some businesses grew and flourished as a result of excellent management, investments, and well-planned operation.” (Journalist)

It is indisputable that in order to enhance competitiveness, the implementation of an investment strategy is important. The interviewee highlighted that certain enterprises are seeking EU funding, while domestic institutions provide minimum or none financial assistance to the companies. Furthermore the expert commented on the current level of cooperation between the government institutions and companies, and provided some general recommendations on how could this cooperation improve:

“Institutions provide some assistance, but preference is always given to companies owned by those who can assist power holders in some of their affairs, or even by family members. Only a handful of individuals have achieved business success through their own entrepreneurship, investments, ups and downs, and independent from political influences.” (Journalist)

According to the journalist, “it would be simple to resolve if those in authority treated the responsibilities entrusted to them in a domestic manner and if corruption did not prevail in BiH. BiH is not the only nation afflicted by corruption, but it is among those that have been impacted on all levels.” (Journalist)

In this regard, I requested the respondent to provide their insights on the preceding discoveries of the performed study regarding the companies, wherein they highlighted several significant obstacles encountered by them:

“All of the challenges you mentioned are a result of the previously mentioned occurrence. By favouring the hiring of new employees from election to election, the bureaucratic system has grown so large that no one ventures to count the number of employed individuals. Institutions cooperate with elected officials as a result of favouritism and corruption; they meet with those with whom they have an agreement, and they do not experience poor infrastructure, excessive bureaucracy, or poor cooperation.” (Journalist)

In addition to his own, the journalist also commented on the challenges that are deemed to be less significant than the preceding ones:

“These are all components of the issue. Recently, while conducting research on the exploitation of workers, I discovered through conversations with employers that companies are presently seeking skilled workers. In fact, we import

employees from all over the world, whether they are IT engineers or manual labourers. When you are confronted with all the problems of the grey state that you face as a businessperson, taxes become a solvable problem, because you know exactly what you're up against.” (Journalist)

To conclude, the journalist expert gave a general prediction on how the domestic economy will evolve with regards to the previously mentioned challenges:

“It is difficult to say and predict, but we will continue to export our most valuable commodity: inexpensive labour. Undoubtedly, I do not anticipate economic growth in BiH. We are not industrious and diligent enough to work from home, nor do we have employees who would become mired in the real sector. We are accustomed to inactivity and offices, so few individuals desire to work with soil, fabric, or in a factory.” (Journalist)

The journalist also points that, “the employers have not yet gotten over their attitude towards workers: “I have 200 people like you in my office”; they maintain a hard line and do not raise wages, they do not provide humane working conditions, so whoever decides to work in the factory, goes to Germany or Austria, where for the same work, they will earn five times more and live a humane life.” (Journalist)

The journalist offers a highly objective critique of both the labour force and companies. The resolution of these issues is highly intricate and necessitates collaborative efforts from both parties to enhance mutual comprehension. The establishment of mutual trust can yield benefits for all parties concerned.

Although companies and experts provide various perspectives on the topic of obstacles, both companies and experts agree on a significant point: government institutions in BiH provide no assistance to businesses. In some instances, they even inhibit the companies' potential growth as businesses and exporters. The subsequent chapter discusses the implications of these findings and how they affect the economic climate in BiH.

5.4 Discussion of findings

In this chapter, an analysis of the previously described results will be conducted in order to derive meaningful conclusions. Through engaging in comprehensive discussions with several participating companies and experts, a number of challenges were detected. Consequently, my attention was directed towards addressing these identified challenges. The poll results served to validate my existing concerns on the challenges faced by companies.

It is intriguing to observe the extent of consensus among corporations on many matters, with the exception of EU laws, where unanimity was achieved. Moreover, enterprises had a sense of ambiguity concerning the potential competition originating from other EU member states. In contrast, there was complete consensus among participants with

regard to statements relating to domestic challenges, as the majority of corporations expressed agreement or strong agreement.

This observation was particularly evident in the concluding section of the study, when 80% of the companies surveyed demonstrated a lack of collaboration with domestic organisations in the context of their export activities. This observation serves to validate the assertion that the level of cooperation in question is virtually nonexistent. Moreover, in cases where only one of the enterprises possessed knowledge of an expert support programme, it becomes evident that companies must depend on their own capabilities in the realm of exporting.

It may be concluded that there is a notable alignment between the viewpoints of the companies and the experts regarding the recurring issues encountered by companies. Based on the primary research conducted, three significant issues can be identified:

1. Immense bureaucracy – As depicted in Figure 16, both exporters and non-exporters are unanimous that institutional factors, in this case bureaucracy, are impeding their business operations.
2. Lack of communication with the institutions – Both the companies and the experts agreed that the current level of communication is insufficient to improve the quality and amount of goods exported.
3. Bad infrastructure – This difficulty involves not only inadequate road infrastructure (almost no highways), but also infrastructure at border crossings that, if improved, can shorten travel times.

Given my familiarity with the present political and economic climate in BiH, these outcomes were largely predictable. These challenges affect not only businesses but also individuals in BiH and are part of a lengthy list of problems that the country must address.

In contrast, it is noteworthy to see the perception that EU laws and obstacles are regarded as comparatively less significant when compared to local matters. Companies must adapt to EU rules in order to ensure the availability of their products in other markets. The overall domestic organisation of a country undoubtedly has an impact on enterprises and entrepreneurs. In the subsequent chapter, a set of proposals will be presented with the aim of resolving the previously mentioned difficulties and optimising the efficiency of the export sector within the economy. In addition, the interviews with the experts revealed a number of specific issues that companies confront, such as a lack of skilled labour, corruption, and excessive bureaucracy. To address these problems, institutions at all levels of government must increase their activity; the following chapter provides recommendations on how this can be accomplished.

6 RECOMMENDATIONS

After a detailed analysis of the insights obtained from the companies and the experts, I was able to detect many different challenges that companies confront with. In this chapter, I would like to provide some recommendations on how companies can make their exports more efficient or how they can increase the amount or variety of products they already export.

Furthermore, I will try to provide some recommendations for aspiring exporters, since they are in greater need of assistance than already established exporters. Finally, I will make some recommendations on how the institutions can assist the companies. Already established exporters may feel that the biggest challenges are behind them, and that may be so, but as all companies want to progress, they will also need to find other ways to ultimately make more profit. If companies approach new markets on a professional and detailed level, they have a bigger chance of being competitive.

Table 5: Overview of recommendations

RECOMMENDATIONS	PROBLEM	ADRESSED TO	BEST PRACTICES
Explore new markets	Companies mostly export to a small number of EU countries.	Potential and current exporters	Conduct market research in-house, or outsource it.
Monitor EU regulations	Most of the regulations are clear, but they change and differ.	Potential and current exporters	Assign a small sector that deals with EU regulations.
Improve in-house capabilities	Companies need to adjust to new markets.	Potential exporters	Invest in new technologies and workforce.
Decide on logistics	Excessive time lost at border crossings.	Potential exporters	Explore new and more efficient transport routes and times.
Ensure investments	Companies agree that investments can impact the decision to export.	Potential exporters	Cooperation with institutions, or finding a niche product.

Source: Own work.

6.1 Recommendations for current and potential exporters

Firstly, before exporting to a new market, businesses should conduct market research to determine how much demand there is for their products, the level of competition, and the cultural differences. This can be a significant hurdle for most companies in BiH, as they often lack the resources to conduct this kind of market research. It is often the case that companies export small amounts of products first to test if the demand is there or not. If there is no demand or if it is not profitable to export, companies often take a small loss, but that can be the price of exploring new markets.

Also important is that companies stay aware of potential changes in EU regulations. Keeping up-to-date with regulations is essential, as export regulations can be complicated and are continually evolving. To avoid delays and potentially even fines, exporting companies should remain current on the most recent compliance regulations and requirements. Additionally, they could consider collaborating with a consultant or a professional in the field to ensure compliance.

Furthermore, they need to ensure that their in-house capabilities are up-to-date in order to meet the needs of the customers and the new market. Also, companies need to utilise technology even more. Technology can assist businesses in streamlining their export processes and increasing their efficiency. In my research in the field, I have seen how different companies use technology to be more efficient and to track every product that is being made. The company director can see from his office which products are being made and by which employees. This kind of online tool can manage orders and monitor cargo trucks; additionally, it can aid in reducing errors and accelerating delivery times. In addition, firms can utilise analytical tools for data to gain insights into market trends, consumer behaviour, and logistics performance.

When speaking about logistics, companies need to decide whether to operate logistics with their own equipment or outsource logistics to another company. Most new exporters decide on outsourcing since it requires fewer initial investments. We have learned from the survey that companies complain about the amount of time lost at customs. Companies that have their own logistics can potentially find new ways to be more efficient, use new routes, or set new timeframes for deliveries. With fuel prices currently increasing, making this process more efficient can be extremely cost-saving for companies.

The potential new exporters from BiH face the above challenges, but not only that, they also need to provide initial investments to even attempt to be efficient and export. I think that the route they should be considering is finding a niche product that is not very well established in the EU, although this can prove to be very complicated as well as time- and money-consuming. By finding their niche and being efficient in production, they can compete in price and quality with products coming not only from other non-EU countries but also from domestic products made in the EU.

6.2 Policy recommendations

The area in which most recommendations can be made is definitely the amount of cooperation between the companies, experts, and institutions. If these three parties can work together, the economy in general can benefit. It was extremely insightful to learn that only one out of the 32 companies even heard about some sort of counselling for exporters, and none of the companies ever participated in one. This is where improvements are very much needed.

As we learned from the cases of other countries in Chapter 3 (Melo, 2001; Ahmed et al., 2002; Lederman, Olarreaga, & Payton, 2010), local economic institutions could possibly support companies in many different ways:

1. Market research – institutions can also help companies by using their networks and capacities to research potential markets in the EU.
2. Fairs and exhibitions – institutions can help connect current and future exporters with potential importers from the EU.
3. Export subsidies – like in the case of Croatia, institutions can offer financial grants and assistance to motivate more companies to export (reduce tax burden, etc.).
4. Reducing bureaucracy – institutions can maximise their efforts to reduce the bureaucracy that affects exporters.
5. Exploring new trade agreements – ministries of economics can explore new opportunities for improving on current trade agreements and signing new trade agreements.

Of course, providing this kind of recommendation seems straight-forward in a typical country with an already established economy, but in the case of BiH, this is quite different. There are a number of different institutions at different levels that deal with the economy and exports. Firstly, every municipality has its own economic department, and furthermore, every canton (the Federation of BiH has 10 cantons) has its own ministry for economics. Additionally, every entity in BiH (there are two of them) has its own ministry, and finally, there is a Ministry of Foreign Trade and Economic Relations on the state level. Additionally, there are a number of different agencies, councils, etc. that should also be in the service of the companies.

The question is: How do we coordinate the work of all of these institutions so they can assist the companies? Upon pondering the details, it is obvious that institutions in the area should be the primary source of support for businesses, as communication with them is straightforward and not time-consuming.

Local institutions are involved in the problems the companies face and can assist them in trying to resolve the issues. Local ministries for economics can then potentially cooperate with the state level to resolve the many challenges the company is facing. Additionally, all institutions, regardless of level, must work together to try to reduce the enormous bureaucracy that every business faces. By reducing the time required to

obtain a certificate or other essential document, institutions can assist businesses in pursuing exports.

Also, when discussing the specific problem of time lost at border crossings, Bosnia and Herzegovina institutions can collaborate with Croatian institutions to find more efficient ways of conducting customs procedures. Increasing the number of border crossings with greater logistical capacity can save exporters significant amounts of time. Potential exporters can be more competitive with other companies if they can guarantee quick delivery to their EU customers.

Finally, when speaking about the highest level of government, the reduction of tax burdens and lower fiscal policies will definitely reduce costs for companies. This savings can then be invested in technology or logistics.

Also, like the expert mentioned in the previous chapter, adjusting economic policies for the future can make companies, and subsequently the BiH's economy in total, more competitive in the market. By focusing on producing whole products and not just exporting raw materials like wood or metal, local companies can be more competitive. Additionally, the government can provide grants or financial help for companies that incorporate environmentally friendly technologies. Lower-level institutions (the Foreign Trade Chamber, the Export Promoting Agency, and others) are more aware of the issues the companies confront and, as a result, can contribute more to their resolution.

In conclusion, the most important recommendation would definitely be to increase the amount and quality of dialogue between all the economically oriented parties involved in BiH. These include companies (both exporters and potential exporters), experts, and all levels of government. By having institutions that listen to the problems of companies and make efforts to resolve them, trust between the companies and the institutions can be rebuilt. Even though the lower levels of government operate within the limits of their jurisdiction, they can at least be involved in the issues facing the companies and act accordingly.

The government cannot leave businesses with the impression that they are operating on their own without assistance and support. Even though BiH has not attained the level of economic development of the EU or even its non-EU neighbours, this does not impact every aspect of governance. The level of participation and effort of institutions that deal with exports must be significantly improved.

CONCLUSION

The primary goal of this master's thesis was to detect specific challenges that export-oriented companies face when attempting to export their products to the EU market. To find the answers to that question, the thesis first provided an overview of the economic situation in BiH from the end of the war in 1995 to the present day. Additionally, to gain a better understanding of the topic, it also analysed the current context in which BiH's economy is operating. Insights into the political background of the relationship

between the EU and BiH and how it developed over the years help us understand the trajectory of economic cooperation. Finally, in the first part, the thesis presented data on trade between the EU and BiH.

In the second part, the thesis discussed hurdles and obstacles companies can face when exporting to the EU that affect their intention to export on a macro level. They can mostly be divided into three different types:

1. EU regulatory requirements
2. Competition in the EU
3. Complex internal organisation of BiH

In the most important part of the thesis, Chapter 5, the thesis discussed the data obtained through primary and secondary data research regarding specific exporting challenges that companies face in their day-to-day operations. Those mostly consist of:

1. Lack of support or assistance from the local institutions in BiH – Rather than establishing a legal framework designed to assist businesses and the economy in general, local institutions in BiH operate in a completely different manner by creating numerous obstacles to the efficient conduct of business.
2. High tariff barriers in the EU – Second important challenge for companies, are the tax and import duties when exporting to the EU, companies from BiH typically price their goods accordingly and are unaffected by tariff barriers.
3. Information on the necessary requirements for exports into certain EU countries – Depending on the product they export and the frequency with which EU regulations change, exporting companies must stay informed of the most recent standards.
4. Time-consuming customs procedures and demanding transport times – With only three border crossings with Croatia that are suitable for all products, domestic companies need to adjust and plan their logistics accordingly.
5. Competition from companies in the EU but also from non-EU countries – As seen in Chapter 5, competition is not a major deterring factor for companies in BiH, but is still something to be aware of.
6. Cultural and language differences – According to the research, these distinctions are not viewed as a significant obstacle; however, if businesses intend to be successful, they must be conscious of different business practices in various EU regions. (i.e. Italy, Germany of Nordic countries)

The thesis sought to focus primarily on the first difficulty described above. As a result of my prior experience and insights into the business community, I was familiar with the majority of the problems they face as a result of the inert government and massive bureaucratic apparatus.

One of the most remarkable findings of this thesis was that certain companies from BiH have emerged as successful exporters despite the fact that they have virtually no assistance or guidance from the economic institutions. As a consequence, companies are forced to rely on their own resources.

The unintentional laissez-faire economy that was mentioned in Chapter 2, has reached its full potential in BiH. Companies exist without any, or in some cases, only marginal, help or assistance from the local government. This is naturally one of the biggest challenges the domestic economy faces in its goal to be more competitive in comparison with neighbouring countries. In Chapter 5, the thesis provides some recommendations on how these challenges could be overcome. The economic institutions at all the different levels of government should be more devoted to assisting companies because all parties can benefit from an increase in trade. In addition, the government, in collaboration with businesses, should devise a strategy for exporting finished goods in addition to basic materials.

When it comes to the actual level of relations between the exporting companies and the institutions, it is clear that that relationship is below every measurable level. The fact that most companies evaluate cooperation with the institutions as low provides a clear indication that changes are needed. The local institutions should first rebuild the trust of the companies by listening to the problems they face when exporting. Not all the problems of the companies come from a lack of cooperation, but many do, and that is where the local government can assist.

Regarding the other types of challenges companies face, it is their mission to explore new ways of more efficiently operating and to develop new products that will comply with strict EU regulations for imports. Also, a better understanding of the EU regulations and the different EU markets can be extremely helpful in detecting where the demand is highest.

This thesis presents challenges for exporting companies but also provides some recommendations on how to confront those challenges. However, it is not without limitations. The empirical findings of the thesis are based on research on a relatively limited data sample of 32 companies; additionally, most of them came from the same or similar industries. Besides these challenges that the thesis presented, different companies from different industries face some other specific challenges that were not mentioned. This study had also some limitations. The sample collected was mostly from a few similar industries (construction, metal industry, etc.). Furthermore, there are some disadvantages to a semi-structured interview (low validity, high risk of research bias, etc.). Additionally, difficulties were encountered in establishing communication with certain economic agencies at the state level; their insight specifically on this topic would be valuable for comparison, and this can be a topic for some future master's theses. Finally, the study could have also benefited from incorporating insights from EU-based customers, which was beyond the capacity of the research done at the MA level.

These limitations can be addressed in further research, which will include a larger and more diverse sample, etc. Moreover, future research can provide a couple of ideas, such as comparative research, etc.

The greatest value that the thesis adds is the insight it provides into how the export process for companies in BiH can be improved. These enhancements may occur either within the organisation or in its relationships with domestic economic institutions. As a

result of these institutions failure to provide the assistance they were obligated to, the export process becomes more complicated and domestic companies become less competitive. In order to overcome the challenges outlined in the thesis, companies and institutions should collaborate to deliver micro- and macroeconomic prosperity to BiH. This thesis provided some recommendations for how this can take place in practice.

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APPENDICES

APPENDIX 1: Povzetek (Summary in Slovene language)

Naslov mojega magistrskega dela je bil "Izzivi podjetij iz BiH pri izvozu na trg Evropske unije." Prvi dve poglavji sta služili kot uvod v temo. Za bralca je ključno, da pridobi boljše razumevanje gospodarske situacije v BiH, kako se je razvijala v nedavni zgodovini in kako izgleda danes.

V prvem poglavju sem predstavil aktualne gospodarske podatke za BiH, s poudarkom na izvozu. Vsebuje pregled od začetka 2000-ih let do današnjega dne. Drugo poglavje razlaga različne dejavnike, ki vplivajo na izvoz v EU, predvsem domače dejavnike in notranje kompleksnosti v BiH, pa tudi EU predpise za različne izdelke. Drugo poglavje omenja tudi nekatere ekonomske koncepte, ki se najbolj ujemajo s vsebino naloge. V tretjem poglavju analiziram različne primere spodbujanja izvoza po svetu, te primere iz srednje razvitih držav lahko uporabimo kot smernice za institucije v BiH.

Naslednje poglavje predstavlja metodologijo moje raziskave, vključno z metodo zbiranja podatkov in metodo vzorčenja.

Središče naloge je poglavje 5, v katerem predstavim rezultate ankete med 32 trenutnimi in potencialnimi izvozniki iz BiH, intervjuji s podjetji ter tudi intervjuji z ekspertom in novinarjem iz BiH. Anketa je vsebovala vprašanja, ki so se osredotočala predvsem na mnenja podjetij o različnih vprašanjih, kot so njihovo poznavanje EU predpisov, izzivi pri izvozu in odnosi z domačimi gospodarskimi institucijami v BiH. Intervjuji s podjetji, ki trenutno izvažajo, so omogočili podrobnejši vpogled v izzive, s katerimi so se morali soočiti, da bi postali uspešni izvozniki. Ti vpogledi ne predstavljajo le uspešnih zgodb izbranih podjetij, temveč tudi njihove priporočila za potencialne izvoznike.

Anketa in intervjuji s podjetji so pokazali na tri glavne izzive:

- Obsežna birokracija;
- Slaba cestna infrastruktura;
- Pomanjkanje komunikacije med institucijami in podjetji.

Intervjuji z eksperti pa ponujajo drugačen pogled na izzive in odnos med podjetji ter institucijami. Ker so strokovnjaki povezani z obojima, lahko zagotovijo konkretna priporočila za ukrepanje, ki bi zmanjšala izzive za podjetja in izboljšala njihove odnose z institucijami.

V zadnjih dveh poglavjih sem skušal podati nekaj priporočil ne samo podjetjem, ampak tudi institucijam. Če bi se ta priporočila uporabila, bi lahko povečala izvoz v EU in posledično izboljšala gospodarsko situacijo v BiH.

APPENDIX 2: Questionnaire survey about the challenges companies face when exporting in Bosnian language

Q1 – Naziv firme (opciono):

Q2 – Industrija (sektor):

- Metalski sector
- Građevinski sector
- Transportni I logistički sector
- Maloprodaja I veleprodaja
- Drvni sector
- Hemijski I farmaceutski sector
- Uslužni sector
- Poljoprivredni sector
- Sektor proizvodnje hrane
- Energetski sector
- Tekstilna industrija
- Drugo

Q3 – Broj zaposlenih:

- Manje od 20
- 20-50
- 50-70
- 70-100
- 100-150
- Više od 150

Q4 – Godina osnivanja firme:

Q5 – Da li izvozite na tržište EU?

- Da

- Ne

Q6 – Koliko godina izvozite u EU?

- Manje od 2 godine
- 2-5
- 5-10
- 10-15
- 15-20
- Više od 20

Q7 – Koliko procenata vašeg ukupnog izvoza se odnosi na izvoz u EU?

Q8 – Informacije o EU standardima za uvoz su jasne i lako dostupne.

- (1) Uopšte se ne slažem
- (2) Ne slažem se
- (3) Neodlučan sam
- (4) Slažem se
- (5) Potpuno se slažem

Q9 – Komplicirani carinski postupci i tarife značajno utiču na mogućnost izvoza u EU.

- (1) Uopšte se ne slažem
- (2) Ne slažem se
- (3) Neodlučan sam
- (4) Slažem se
- (5) Potpuno se slažem

Q10 – Vrijeme izgubljeno na granici/carini je predugo.

- (1) Uopšte se ne slažem
- (2) Ne slažem se
- (3) Neodlučan sam
- (4) Slažem se
- (5) Potpuno se slažem

Q11 – Konkurentnost firmi iz EU je factor odvrćanja.

- (1) Uopšte se ne slažem
- (2) Ne slažem se
- (3) Neodlučan sam
- (4) Slažem se
- (5) Potpuno se slažem

Q12 – Financijski izazovi (neophodna ulaganja, širenje proizvodnje) utiču na odluku o izvozu.

- (1) Uopšte se ne slažem

- (2) Ne slažem se
- (3) Neodlučan sam
- (4) Slažem se
- (5) Potpuno se slažem

Q13 – Kulturne i jezične barijere su faktori koje izvozne firme moraju uzeti u obzir.

- (1) Uopšte se ne slažem
- (2) Ne slažem se
- (3) Neodlučan sam
- (4) Slažem se
- (5) Potpuno se slažem

Q14 – Da li ste surađivali sa domaćim ekonomskim institucijama koje se bave izvozom i promocijom izvoza (Entitetska ministarstva, Vanjskotrgovinska komora, Agencija za promociju izvoza, Izvozno vijeće BiH)?

- Da
- Ne

Q15 – Ako jeste, o kojim se institucijama radi i kakva su Vaša iskustva?

Q16 – Šta su po Vašem mišljenju najveći domaći/lokalni izazovi za firme koje izvoze u EU?

- Obilna birokratija
- Loša putna infrastruktura
- Duge carinske procedure
- Visoki porezi i parafiskalni nameti
- Nedostatak stručne radne snage
- Nedovoljna suradnja sa institucijama
- Drugo

Q17 – Da li znate za neke institucionalne ili neinstitucionalne programe za pomoć pri izvozu?

- Da
- Ne

Q18 – Ako je odgovor Da, za koje programme znate?

Q19 – Da li ste učestvovali u nekom od programa pomoći ili savjetovanja na temu izvoza?

- Da
- Ne

Q20 – Ako je odgovor Da, molimo Vas objasnite Vaše razloge za učestovanje u tim programima?

Q21 – Molimo da dodate bilo kakve dodatne komentare ili uvide u vezi sa izazovima sa kojima se suočavaju bh. kompanije prilikom izvoza na tržište EU (opciono).

APPENDIX 3: Questionnaire survey about the challenges companies face when exporting in English language

Q1 – Company name (optional):

Q2 – Industry (sector):

- Metal industry
- Construction
- Transport and logistics
- Retail and wholesale
- Wood industry
- Chemical and pharmaceutical industry
- Service sector
- Agricultural sector
- Food industry
- Energy industry
- Textile Industry
- Other

Q3 – Number of employees:

- Less than 20
- 20-50
- 50-70
- 70-100
- 100-150
- More than 150

Q4 – Year of establishment:

Q5 – Do you currently export to the EU?

- Yes
- No

Q6 – How many years have you been exporting to the EU?

- Less than 2 years
- 2-5
- 5-10
- 10-15
- 15-20

- More than 20

Q7 – What percentage of your total exports goes to the EU market?

Q8 – Information's on EU standards for imported goods are clear and easily obtainable.

- (1) Strongly disagree
- (2) Disagree
- (3) Neither agree nor disagree
- (4) Agree
- (5) Strongly agree

Q9 – High tariff barriers significantly impact your ability to export to the EU market

- (1) Strongly disagree
- (2) Disagree
- (3) Neither agree nor disagree
- (4) Agree
- (5) Strongly agree

Q10 – Time lost at border crossings/customs is too long.

- (1) Strongly disagree
- (2) Disagree
- (3) Neither agree nor disagree
- (4) Agree
- (5) Strongly agree

Q11 – Competition from the EU companies is a deterring factor.

- (1) Strongly disagree
- (2) Disagree
- (3) Neither agree nor disagree
- (4) Agree
- (5) Strongly agree

Q12 – Financial challenges (necessary investments, production growth) impact the decision to pursue exports.

- (1) Strongly disagree
- (2) Disagree
- (3) Neither agree nor disagree
- (4) Agree
- (5) Strongly agree

Q13 – Cultural and language differences are factors that need to be taken into consideration.

- (1) Strongly disagree

- (2) Disagree
- (3) Neither agree nor disagree
- (4) Agree
- (5) Strongly agree

Q14 – Have you cooperated with domestic institutions which handle exports and exports promotion?

- Yes
- No

Q15 – If Yes, what are those institutions and what were your experiences?

Q16 – In your opinion, what are the biggest domestic issues for companies exporting to the EU market?

- Immense bureaucracy
- Bad road infrastructure
- Long customs procedures
- High tax and fiscal policies
- Lack of skilled workforce
- Lack of cooperation with institutions
- Other

Q17 – Are you aware of any government or non-government support programs aimed at helping BiH companies export to the EU market?

- Yes
- No

Q18- If Yes, can you name those support programmes?

Q19 – If yes, have you participated in or benefited from any of these programs regarding exports?

- Yes
- No

Q20 – If Yes, can you explain the reasons why you participated?

Q21 – Please provide any additional comments or insights regarding the challenges faced by BiH companies when exporting to the EU?

APPENDIX 4: Expert interview questions

1. From your perspective, what are the most common problems faced by companies from Bosnia and Herzegovina that decide to export to the European Union market?
2. With what measures could domestic companies become more competitive on the European Union market?
3. To what extent do institutions at the local, entity or state level help in the process of achieving the necessary norms for export?
4. In your opinion, what would facilitate and simplify the whole process so that as many companies as possible decide to export?
5. At the macro level, how much would a focus on export-oriented companies contribute to the development of the economy?

APPENDIX 5: Journalist interview questions

1. Based on your experience, to what extent can domestic companies compete on foreign markets in terms of price, product quality, delivery speed, etc.?
2. How can domestic companies increase competitiveness?
3. How much do domestic institutions, at any level, assist companies to export their products more easily, in terms of advice, speeding up procedures, etc.?
4. Given that you are in constant contact with government institutions and companies, how could this relationship be improved so that companies would be as efficient as possible in exporting, but also so that the economy as a whole would profit?
5. Based on the results of the previous research, I detected the 3 biggest problems that companies face when exporting to the EU, and they are in this order: Abundant bureaucracy, Lack of cooperation with institutions, Poor infrastructure. How would you comment on these results and how well it matches your previous experiences as a journalist?
6. On the other hand, according to my research, lacks of skilled labour and high tax obligations are the least problem for companies, why (or how do you comment on that)?
7. How do you predict the development of the domestic economy (with a focus on exports) in the next few years, given that EU accession is still far away, and the neighbouring economies of Serbia and Montenegro are well ahead of us on the way to the EU?

APPENDIX 6: Company's interview questions

1. How did you come to the decision to pursue exports to the EU market?
2. What were the most significant challenges that your company faced during the export process?
3. Was there any assistance from domestic or foreign economic institutions?
4. How did your company adapt to the new environment?
5. What are the most significant EU markets for your company, and why are they significant?
6. How difficult is it to comply with EU regulations throughout the period once the export starts?
7. How satisfied are you with the company's growth as a result of new export markets?
8. Are there any incentives to increase the amount or variety of the goods exported?
9. Based on your past experience, how would you potentially improve the export process for other companies from BiH?