SUB-REGIONAL ECONOMIC COOPERATION IN CEFTA: PAST PERFORMANCE AND FUTURE PROSPECTS

Martin DANGERFIELD
University of Wolverhampton, UK

INTRODUCTION

It might be argued that two new trends in sub-regional cooperation in central and eastern Europe (CEE) have emerged over the last twelve months or so. On the one hand, recent governmental changes in the Czech and Slovak Republics may have paved the way for a new wave of cooperation among the 'Visegrad four'. In November 1998, while visiting Bratislava, President Havel spoke of his hopes for "close political cooperation and possibilities of broader sub-regional cooperation in what used to be called the Visegrad Group". The meeting of the Premiers of the Czech Republic, Hungary, Poland and Slovakia which took place in Bratislava on 14 May 1999 was convened for the very purpose of launching 'Visegrad 2'. On the other hand, though the EU pre-accession and sub-regional economic integration have proved complementary in many ways, as the many practical requirements of European Union accession are becoming increasingly clear during negotiations in progress it is also the case that this process threatens to disrupt existing or prevent potentially useful forms of sub-regional cooperation coming into being in CEE. This could be through the extension of the Shengen area, for example, which could compromise arrangements within the CEE-10[1] (particularly between the Czech Republic and Slovakia), along with the requirement that the CEE-10 take care not to introduce free trade or other arrangements with non CEE-10, which will have to be reversed upon accession.

In the five years since the original 'Visegrad Cooperation' between the Czech Republic, Hungary, Poland and Slovakia was put into cold storage, sub-regional cooperation in CEE has mainly proceeded in the framework of the Central European Free Trade Agreement (CEFTA) which came into force on 1 March 1993. CEFTA has since expanded to take in Slovenia (1 January 1996), Romania (1 July 1997) and Bulgaria (1 January 1999). Sub-regional cooperation in postcommunist CEE has existed in order to service relations with the Euro-Atlantic organisations these states are determined to join. Rather than an outcome of Visegrad cooperation, CEFTA represented a shift in the concept of sub-regional cooperation in which the implementation of a sub-regional free trade area replaced political cooperation and policy coordination as the most efficient way for those countries to collectively approach the EU. Since cooperation in the framework of CEFTA has been ongoing for more than six years and some governments in the region have been re-assessing their approaches to sub-regional cooperation, these facts alone justify some reflection on CEFTA's impact so far. Moreover, the very real potential for a new divide in Europe based on boundaries being drawn by the present strategy for EU/NATO enlargement is generating debate about the potential role of CEFTA and other sub-regional entities in Europe. Last (though not least), in these tragic times it is also necessary to recognise that there will be an inevitable need to include a regional cooperation dimension in the 'post-Kosovo' Balkan reconstruction strategy and this draws attention to the potential role and lessons of CEFTA and other sub-regional cooperation experiences in the 'new' Europe.

The first part of this article discusses the role CEFTA has so far played in the transformation and European integration processes in which CEE are engaged. In this respect CEFTA can be credited with a positive contribution to the rebuilding of economic ties in the region and modest inputs to the maintenance of good regional political relations and also to ('soft') security. In addition, CEFTA has also been serving as an important (and often understated) instrument for the EU pre-accession process. The second part considers how the function of CEFTA might develop during the period towards and beyond the first stage of the EU's eastward enlargement. Of the various scenarios which have so far been hypothesised, the possibility that CEFTA could evolve as a more pan European device to connect the more peripheral CEE states (outs) to the European integration process would seem to be the most valuable development path it could

[1] CEE-10 is the group of Europe Agreement states.

follow. The somewhat pessimistic conclusion is that at this stage the signs are that CEFTA is ultimately just another expression of the EU's current projected boundary. The main lesson may well be that CEFTA demonstrates that sub-regional economic co-operation in CEE can yield useful economic and political dividends and the principle question may not be whether CEFTA can extend to other sub-regions of post communist Europe but whether other sets of countries are cognate enough to be able to emulate the CEFTA model.[2]

CEFTA: TRANSFORMATION, SECURITY AND EU INTEGRATION EFFECTS

The trends in intra-CEFTA trade since 1993 (see data in Table 1) show that economic agents have responded to the improved trading environment between CEFTA countries and it is therefore virtually indisputable that CEFTA has succeeded in its baseline function of helping to rebuild the economic ties of its member states. In addition to the overall healthy trade growth, though the broad commodity structure of intra-CEFTA exchanges (Table 2) has remained constant as far as the proportions of industrial products (more than 90% of total) and food and agricultural products (less than 10% of total) are concerned, some other important developments in commodity structure should be mentioned. The increasing presence of goods of SITC 7 (machinery and equipment) is encouraging as it indicates the growing importance of goods with a higher technological content and entailing more sophisticated product processes.[3] There are clear differences between individual CEFTA countries however. The expansion of exports in SITC 7 applies most strongly to Hungary and then Poland, followed by the Czech Republic. The Slovak Republic is not only fourth in this respect but has in fact hardly registered any significant growth in this product category. Thus trade developments in CEFTA are also indicative of important differences in individual economic reform and transformation experiences.

The problems of intra-CEFTA agricultural trade are widely recognised but the extent to which this represents a significant failure of CEFTA is maybe overplayed. Useful increases in agricultural exports of the Czech Republic, Poland and above all Hungary have been registered. Furthermore, difficulties of agricultural trade in CEFTA are not isolated from the broader problems facing the CEFTA countries' agricultural sectors and the issue of agricultural products is usually at the core of trade disputes across the globe. It is important therefore to keep the CEFTA agricultural trade difficulties in perspective.

Along with trade, integration initiatives are usually associated with positive impacts on levels of foreign direct investment (FDI) entering the integration complex. Though accession to CEFTA has (at least according to official policy statements) indeed been based on expectations that the flow of inward investment will respond as a result[4], it cannot be demonstrated that regional free trade arrangements can outweigh important factors in the calculations of potential investors. On the other hand FDI is an important factor in integrating the CEFTA area, through its impact on the quantity, quality and diversity of the export capacity. The relatively small involvement to date of foreign investment in the Slovak economy (indicating that even a Europe Agreement let alone CEFTA cannot outweigh other calculations of potential investors) is particularly telling in respect of both the impact of CEFTA on FDI inflows and of FDI on intra-CEFTA trade patterns.

As well as regional economic re-integration, CEFTA cooperation has also generated advantages for the political sphere.[5] The non-economic impact of CEFTA corroborates ideas raised in the European Security literature by those analysts who have been arguing that sub-regional co-operation improves the security of participating states. This is not in the conventional sense of security (formation of military alliances etc.) but rather in terms of so-called 'soft'

[2] For a discussion of the problems of sub-regional cooperation among CIS states, for example, see Bremner and Bailes (1998).
[3] The analysis of the commodity structure of intra-CEFTA trade covers the period 1994-1997 and is restricted to the original CEFTA four only. Romania and Bulgaria had not joined CEFTA at that stage and Slovenia's time in CEFTA had still been rather short.
[4] See Dangerfield (1999).
[5] As well as the specific contributions to follow, an important aspect of the overall political function of CEFTA has been its role as 'holding operation' for multilateral political cooperation during the Visegrad Group's dormant period.

security issues (economic interdependence, organised crime, environment) and subtle influences on regional political relations and stability. As well as the more obvious fostering of deeper interdependence between the member states, CEFTA cooperation has provided a forum for dialogue at the highest level.[6] There has also been the need to upgrade and maintain good channels of communication because of CEFTA business. Also relevant is the fact that CEFTA candidacy is an incentive to maintain good relations with the incumbent CEFTA countries and to settle any problems which could compromise accession to CEFTA (e.g. Bulgaria's socialist-era debts to Poland and Hungary). Though its influence will be clearly limited as far as serious bilateral disputes are concerned, in all the above ways CEFTA can help foster good political relations in the region. According to Bailes (1997) sub-regional cooperation exerts an impact through its mere existence: "The largest contribution all these (sub-regional) groups make to security is probably at the unexpressed, existential level: the mere fact that their members belong somewhere, that they understand each other, that they can talk about their worries in the 'corridors', that they have telephone numbers to dial in a crisis. Beyond this all the groupings under study have made some strides (whether they recognise it or not) in 'soft security', by easing human and economic exchanges across frontiers and thus helping to build wider social foundations for stability and understanding."

Moving on to the more direct link between sub-regional cooperation in CEFTA and EU pre-accession, this is evident in several respects. The EU condition that future members also address their mutual integration is satisfied (this applies to the Baltic States too who have been implementing the Baltic Free Trade Area (BFTA) since 1994) and the real integration which will in any case come with EU membership is thus well underway. CEFTA has also provided a framework for the further development of economic cooperation which anticipates collective EU membership. As the CEFTA states' relations with the EU have gone through the various stages this too has broadened the parameters of CEFTA integration. When the Europe Agreements were put in place, for example, regional trade arrangements could follow suit. Later, following approval of the EC Commission 1995 White Paper on EU enlargement to CEE, the CEFTA countries were subsequently able to entertain a move to some elements of a common market without fear that regional economic cooperation would breach the limits demarcated by the current phase of the EU integration process. Hence in autumn 1995, following the Brno CEFTA summit, liberalisation of capital and services was accepted onto the CEFTA agenda with even free movement of labour having been discussed in this context. CEFTA co-operation also offers the valuable experience of intergovernmental processes and procedures (as policy makers) and this gives the 'state-building' newly independent countries in particular a chance to demonstrate their maturity in this respect. Due to all of the above, both past and present CEFTA candidates have validly viewed CEFTA as an important part of the route to EU membership. There are many reasons why CEFTA cannot act as a vehicle for the coordination of the CEFTA states' EU accession strategies, which will remain essentially national ones, but the above suggest that its contributions to the EU accession are clearly useful ones and CEFTA cooperation should be given more recognition as a bona fide component of that process.

CEFTA TOWARDS AND BEYOND EU ENLARGEMENT

Turning now to the question of the future role of CEFTA, as far as the existing members of CEFTA and potential members from the CEE-10 are concerned this is fairly straightforward. As indicated above, these countries can continue their integration by ongoing market integration and further developing their cooperation in ways that are compatible with their approach to full EU membership. This will obviously depend on whether they have the political will and the administrative and technical capacity to do so. They may be distracted or demotivated by the demands of EU negotiations and/or the need to attend to important matters arising out of the regional dimension of preparations to enter the EU (e.g. attention to border issues, the Czech-Slovak customs union etc.). Either way, deepening of integration among the existing CEFTA, even if it takes a multi-speed character, can only facilitate the EU accession and should yield real

---

[6] The Prime Ministers of the CEFTA countries meet annually at CEFTA Summits. In the case of certain countries (the Czech and Slovak republics during large parts of the Klaus and Mečiar regimes, for example) CEFTA summits were the only occasion their leaders were guaranteed to come face to face.

economic benefits. To reject this premise would undermine the very assumptions upon which the strategy of EU accession itself are based — the desirability of integration!

The other question connected to CEFTA's future, which is whether it can have a redefined role in the long term, especially when its core members are in the EU, is more complicated and inevitably speculative. A number of possible scenarios for CEFTA have tended to be put forward. First, it may wither away in the style of EFTA, which is a distinct possibility. Second, it could become a regional grouping inside the EU along the lines of Benelux or the Nordic Council. Apart from the problem of the division of the current CEFTA into ins and pre-ins, this function would surely lie with other groupings (of which the revitalised Visegrad Group is the most obvious). Third, (and this is where CEFTA could make the most useful contribution to the European integration process) might CEFTA enlarge to take in all current candidates, as well as ones which may emerge later, and continue as a bridge to the EU but with a more pan-European brief? Unfortunately, the current impediments to CEFTA enlargement beyond the CEE-10 restricts the likelihood of this scenario for now. Of the three non CEE-10 candidates (Croatia, FYR Macedonia and Ukraine) only Croatia has any realistic chance of a Europe Agreement in the (relatively) near future.[7] Equally disappointingly, the need for the CEE10 to align trade relations with those of the EU is currently preventing the existing CEFTA members from exercising their policy preferences to sign new bilateral free trade agreements with non-CEE-10 countries in the region.[8] This not only precludes formal expansion of CEFTA but also prevents the de facto incorporation of non-CEE-10 into CEFTA (and therefore into the broader European economic integration process) to the political and economic detriment of all countries involved. Finally, what about the prospect that CEFTA might even evolve as an alternative to the EU if more countries were able to join anyway (i.e. the accession rules were changed)? The main problems with this scenario are that the rump CEFTA members would not be likely to reject their stated EU ambitions and, together with the lack of necessary cognateness of the current CEFTA candidates, the shared problems of relative economic backwardness and retarded progress in economic reform would rule out serious integration deepening for a very long time. Thus it seems CEFTA could only become an extension of the European free trade complex rather than a genuine alternative to the EU.

CONCLUSIONS

The success of CEFTA has been apparent in terms of the rehabilitation of regional economic ties in central and eastern Europe, helping to maintain multilateral political interaction and practical assistance to the approach to the EU. As negotiations for full EU membership progress the CEFTA states are discovering reasons to intensify their own cooperation. Unfortunately, as things stand the same forces will restrict the further development of wider patterns of sub-regional cooperation in CEE, whether through the extension of CEFTA or bilateral arrangements. In the interests of a more inclusive rather than exclusive European integration process, action should be taken to ensure that the EU enlargement strategy does not close the door to economic cooperation between the current CEE applicants and those states in the region whose relations with the EU are less advanced.

---

[7] Even then, Croatia will face further delays because Lithuania and Latvia are slated as the next countries to join CEFTA.

[8] The Hungarian government has expressed its desire to sign free trade agreements with Croatia and Ukraine for example, but has also admitted the need to hold back on this because of the fear it could complicate the EU accession. See Dangerfield (1999).

REFERENCES

A Bailes, (1997) 'Sub-regional organisations: The Cindarellas of European Security', *NATO Review*, Vol. 45, No. 2, March, web edition: http://www.mfa. ee/nato/docu/review/articles/9702-8.htm

I Bremner and A Bailes, (1998) 'Sub-Regionalism in the Newly Independent States', *International Affairs*, 74, 1, pp.131-148

Central European Business Weekly (CEBW), various editions

CESTAT Statistical Bulletin, various issues

A Cottey et al, (1996) *Multi-Layered Integration: The Sub-Regional Dimension*, Summary of an Inter-Governmental Conference, Bucharest 7-8 October 1996, Warsaw, Institute for EastWest Studies.

M Dangerfield, (1998) *The Central European Free Trade Agreement (CEFTA): Towards and Beyond the Eastward Enlargement of the European Union*, paper presented to the 3rd EPRC/ISA Conference, Vienna, 16-19 September.

M Dangerfield, (1999) Integrating The 'New' Europe: What Role (If Any) Does The Central European Free Trade Agreement (CEFTA) Have? Paper resented at the conference 'Beyond Boundaries II: New Europe...Pan Europe? Trajectories and Destinations' University of Salford, 19-21 February 1999

M Grela, (1997), 'CEFTA and Pan-European Political and Economic Cooperation', in H. Machowski (ed.), *The Further Development of CEFTA: Institutionalisation, Deepening, Widening?*, Warsaw, Friedrich Ebert Foundation.

C Preston, (1997) *Enlargement and Integration in the European Union*, London, Routledge.

TABLES

Table 1 ***Intra-CEFTA Trade, 1993-1997***
$US millions

	1993	1994	Index 1994/ 93	1995	Index 1995/ 94	1996	Index 1996/95	1997	Index 1997/ 96	Index 1997/ 93
Czech Republic										
Export	3488.9	3258.5	93.4	4348.3	133.5	4943.6	113.7	4907.1	99.3	140.7
Import	2745.7	2718.1	99.0	3883.3	142.9	3886.4	100.1	3645.9	93.8	132.8
Hungary										
Export	461.6	565.2	122.4	757.4	134.0	1162.9	153.5	1387.2	119.3	300.5
Import	655.3	900.3	137.4	982.3	109.1	1253.8	127.6	1377.7	109.9	210.2
Poland										
Export	680.4	823.0	121.0	1244.9	151.3	1480.8	119.0	1738.1	117.4	255.5
Import	682.2	918.5	134.6	1624.0	176.8	2160.5	133.0	2652.2	122.8	388.8
Slovakia										
Export	2716	3057	112.6	3778	123.6	3656	96.8	3419	92.1	125.9
Import	2483	2226	89.7	2757	123.9	3225	117.0	2931	90.5	118.0
Slovenia										
Export				403.2		450.7	111.8	504.2	111.9	
Import				633.7		615.8	97.2	704.9	114.5	
Romania										
Export						293.6		341.7	116.4	
Import						540.9		641.5	118.6	

Note:

Data for Slovenia in 1995 and for Romania in 1996 included for comparative purposes

Table 2 *INTRA-CEFTA Trade by Commodity Structure (SITC) of Visegrad 4 , 1994 and 1997*

Exports of CEFTA States, $US million

	0	1	2	3	4	5	6	7	8	9	Total
1994											
Czech Republic	185.4	60.0	105.9	372.2	21.1	532.0	873.9	828.9	288.7	0.5	3268.6
Hungary	70.4	25.6	35.6	26.4	19.5	135.6	87.9	63.4	38	0	502.4
Poland	47.8	1.4	60.7	190.6	0.1	113.9	215.5	126.2	66.9	0.2	823.2
Slovakia	171.6	43.7	188.8	235.3	4.4	487.5	632.5	583.2	266.4	2.2	2615.6
Total	475.2	130.7	391.0	824.5	45.1	1269.0	1809.8	1601.7	660.0	2.9	7209.8
% of total exports	6.59	1.81	5.42	11.44	0.62	17.60	25.10	22.22	9.15	0.04	
1997											
Czech Republic	274.2	95.6	135.2	330.4	19.5	700.2	1390.3	1482.6	432.6	4.5	4865.1
Hungary	321.4	16.7	69.4	111.3	37.8	292	240.7	259.3	93.8	0	1442.4
Poland	145.5	0.8	58.6	258.3	1.1	229.5	504.2	293.9	166.8	0	1658.7
Slovakia	144.9	45	167	339.5	8.5	532.3	1218.3	666.6	237.8	0.9	3360.8
Total	886.0	158.1	430.2	1039.4	66.9	1753.9	3353.4	2702.4	931.0	5.4	11327.0
% of total exports	7.82	1.40	3.80	9.18	0.59	15.48	29.61	23.86	8.22	0.05	
Index 1997/94	186.5	121.0	110.0	126.1	148.6	138.2	185.3	168.7	141.1	187.5	157.1
Weighted Index 1997/94:											
Czech Republic	8.3	3.1	3.6	6.0	0.4	18.9	45.5	54.5	13.3	-	
Hungary	101.7	0..8	9.4	32.5	5.1	43.6	45.7	73.5	16.1	-	
Poland	26.7	0.0	3.4	21.1	1.5	27.9	71.1	41.3	25.1	-	
Slovakia	3.6	1.4	4.4	14.6	0.5	17.3	69.8	22.7	6.3	-	
Total	14.6	1.7	4.2	11.6	0.9	21.4	54.9	40.3	11.6	0.09	

Notes:

Hungarian data based on import data of Czech Republic, Poland and Slovakia
Formula for weighted index is as follows: Index 1994/97 x (% of total exports/100)

Key to SITC codes:

0 = food and live animals; 1 Beverages and tobacco; 2 Crude materials, except fuels; 3 = Mineral fuels, lubricants, related materials; 4 = Animal and vegetable oils, fats, waxes; 5 = Chemicals and related products; 6 = Manufactured goods, classified chiefly by materials; 7 = Machinery and transport equipment; 8 = Miscellaneous manufactured items; 9 = Others

Sources (Tables 1 and 2): Dangerfield (1999)

Table 3 *Cumulative foreign direct investment inflows, CEFTA and Croatia, 1997*

	$US billions	As % of 1997 GDP
Poland	26.0	15
Hungary	22.5	39
Czech Republic	8.0	11
Romania	2.8	8
Slovenia	2.4	14
Croatia	1.3	7
Slovakia	1.0	5

Source: *Business Central Europe*, November 1998, 18

Table 4 Status of Potential CEFTA Members

Candidate	WTO member?	Europe Agreement?	Guests at CEFTA summits?	Bilateral free agreements in force with existing CEFTA members?
Croatia	No*	No	1997	Slovenia (1/1/98)
Latvia	Yes	Yes	1996,1997	Slovakia (1/7/97) Czech Rep (1/9/97) Slovenia (1/8/96) Poland (May 1999)
Lithuania	No*	Yes	1995,1996,1997	Slovakia (14/11/97) Czech Rep (1/7/97) Poland (30/12/97) Slovenia(1/3/97)
FYR Macedonia	No*	No**	1997	Slovenia (1/7/96)
Ukraine	No*	No***	1996,1997	

Notes

*WTO applications currently being considered by accession working parties.
** FYR Macedonia's 'Trade and Cooperation Agreement' with the EU entered into force on 1/1/1998
*** Ukraine's 'Partnership and Co-operation Agreement' contains a provision for the two parties to discuss establishing a free trade area, but so far this is not on the agenda.

Sources: Dangerfield, (1998); WTO Information Unit