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# CEFTA: Between the CMEA and the European Union

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**ABSTRACT** This article uses the CEFTA experience to explore interactions between subregional integration and the EU pre-accession process. It covers the following issues. What contributions did CEFTA make to the EU membership endeavour? In which ways did the EU membership drive impact on the subregional cooperation process? Were restrictions on the form of integration applied (basic trade liberalisation in the CEFTA case) a conscious choice or are there inbuilt limits to subregional integration pursued in the EU pre-accession context? What factors influenced the institutionalisation and widening issues? Does the CEFTA experience offer any lessons for other subregional integration exercises, including those already underway – as in the West Balkans – or purportedly on the agenda – as in the ‘United Economic Space’ planned by certain former Soviet states? The discussion is organised as follows: introduction/preliminaries; the origins of CEFTA; the evolution of CEFTA cooperation; outcomes of CEFTA cooperation; the future of CEFTA.

**KEY WORDS:** CEFTA, Central European Free Trade Agreement, subregional cooperation, EU pre-accession process, EU enlargement

## 1. Introduction

EU accession will not only mark the onset of further intensification of the new members’ integration with incumbent EU states, but also do the same for their mutual integration. As EU members, Central and East European (CEE) countries will achieve a level of integration that never proved possible

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within the failed and flawed Council for Mutual Economic Assistance (CMEA).<sup>1</sup> However, just as considerable *de facto* integration (for example, trade reorientation and inward investment flows from the EU countries) and *de jure* integration (legislative alignment and involvement in certain EU common policies) has preceded EU accession proper, so CEE states' mutual integration also progressed during this time. Subregional economic cooperation has been a genuine and necessary, though often neglected, aspect of EU pre-accession. It has played both a political role, which has included enabling the new EU members to satisfy the EU's insistence they engage in subregional cooperation, and an important practical role in the form of fostering market integration and trade interdependence in advance of deeper integration in the EU context.

This article focuses on the role of the Central European Free Trade Agreement (CEFTA) in the CEE subregional integration process. As well as elaborating its contributions to the EU membership endeavour, it will also reveal that CEFTA's value neither involved nor necessitated going beyond the basic trade liberalisation model of integration and even suggest that this has been a factor in its success. Restricting mutual economic cooperation efforts to free trade was instrumental in getting CEFTA off the ground in the difficult early climate for reintegration projects, and it subsequently enabled a multi-lateral partnership between Europe Agreement (EA) states with different EU accession timetables. Moreover, it has meant that the CEFTA downsizing necessitated by the EU expansion could proceed relatively problem-free. The article also considers this virtue of CEFTA from another perspective to give further insights into ways that subregional integration amongst EU aspirants interacts with the EU accession process. The failure of CEFTA cooperation to move beyond the baseline integration stage was not necessarily premeditated. Deepening measures featured on the CEFTA developmental agenda, particularly in the 1995–96 period, and the CEFTA Treaty included some significant (though ultimately not implemented) non-tariff barrier content. Yet *de jure* integration remained at the basic trade liberalisation level, providing evidence for a further major conclusion that subregional integration has inbuilt limits when pursued alongside the EU integration endeavour.

The analysis of CEFTA is particularly timely in a number of ways. First, on the recent (March 2004) eleventh anniversary of CEFTA, five members were just two months away from EU accession and obligatory CEFTA exit. 2003 was therefore the last full year of CEFTA's existence in this form and, with its purpose for the founding members and Slovenia fulfilled, the point at which a clear assessment can be made of its role and limitations has already arrived. Second, the advent of EU expansion means that CEFTA cooperation has reached a critical juncture, raising questions about whether its future could be anything other than continuing on a much smaller scale until Bulgaria, Croatia and Romania enter the EU. Third, CEFTA represents an important antecedent experience which can potentially inform policy-making in areas where similar processes are underway, under contemplation, or being imposed upon uncertain or even reluctant parties. For example, South East Europe (SEE), where subregional cooperation has already taken

off to the extent that the *de jure* framework for a free trade zone linking states covered by the Stabilisation and Association Process (SAP) is now virtually in place.<sup>2</sup> Also, subregional economic cooperation between former Soviet states, after years of failed Russian-sponsored reintegration efforts (e.g. the Commonwealth of Independent States, Russian-Belarussian Union), may be gathering real momentum. In April 2004, Russia and Ukraine were reported to have committed “to greater economic integration when the two parliaments ratified a Treaty creating an economic union called the United Economic Space”.<sup>3</sup> Belarus and Kazakhstan are tipped to join in the near future.<sup>4</sup> Unlike CEFTA and the SAP case, the United Economic Space (to be known as YEP after its Russian initials) will develop outside the organising and motivating framework of an EU membership exercise and perhaps even in the context of a kind of tug-of-war between integration within YEP and further EU integration. As George Soros recently put it: “To counteract Russia’s pull, the EU must offer greater access to Europe’s common market, more favourable visa regimes, job and immigration opportunities, and access to capital, cultural contacts and technical assistance”.<sup>5</sup> Clearly, it is vital for the EU to be clear on what kind of subregional cooperation it wants to encourage in the ‘Wider Europe — new neighbourhood’ zone, what its essential purpose will be and how it might contradict other objectives. Examination of earlier subregional cooperation experiences may assist with such an assessment.

The article begins by looking at the origins and initial objectives of CEFTA, emphasising how the legacy of the CMEA and the primacy of EU integration ambitions interacted in determining the nature, form and initially restricted scope of CEFTA. The next section discusses the evolution of CEFTA across three dimensions — institutionalisation, deepening and widening — and discusses these in the context of the main developmental phases of CEFTA cooperation and the various factors at work. This narrative reveals the limitations of CEFTA cooperation in the context of its status as a secondary integration scheme subordinate to and driven in its detail by the process of its members’ simultaneous accession to the EU. The article then focuses on outcomes of CEFTA cooperation. These are elaborated primarily in terms of the essential pre-accession role as a device to encourage trade growth but also highlighting some other important effects, of a political as well as economic nature, which have contributed to the success of CEFTA as a vehicle for helping to lay the foundations for the much deeper mutual integration processes that formally commenced on 1 May 2004. The final section of the article deals with the impact of EU accession proper on CEFTA, including discussion of both the downsizing process and where CEFTA goes from here.

## 2. From CMEA to CEFTA

The CEFTA Treaty was signed in December 1992 and implementation began on 1 March 1993. Its remit was strictly circumscribed: a free trade area for industrial products by 2001; partially liberalised trade in agricultural products; to remove certain non-tariff barriers; to apply to the Visegrad Four (V4)

only since the Cracow Treaty had no enlargement provisions. The CEFTA Treaty was clearly modelled very closely on the EA trade chapters both in the detail of its provisions and the timescale for transition to free trade. Moreover, just as the EAs were differentiated bilateral trade arrangements rather than a multilateral EU-Visegrad deal, liberalisation schedules within CEFTA were bilaterally settled. A crucial difference between the EA and CEFTA liberalisation principles was that concessions were essentially symmetrical in the latter.

Technically speaking, CEFTA was to be a reintegration exercise as these countries had formerly belonged to the CMEA. Yet, like most things in the topsy-turvy world of 'real' socialist economics, the notion of reintegration carried problems as, largely because of the economic system and structures onto which it was bolted, the CMEA was a phenomenally ineffective integration vehicle. Intra-CMEA trade was considerably below the norms of regional economic associations and as a proportion of total trade was in decline throughout almost the whole duration of the CMEA project. Intra-CMEA trade was also largely inter-industry and CEE member states had a clear export aversion to the CMEA area for so-called 'hard' goods and an import aversion for 'soft' goods.<sup>6</sup> Furthermore, non-trade aspects of integration such as labour and capital mobility and cross-border company investment were largely absent except for large Soviet-driven projects in the energy transportation infrastructure. Finally, and especially pertinent to the CEFTA context, the intra-CMEA trade of the 'five' central and east European members of CMEA was largely fixed on the USSR.

While characterising CEFTA and other post-CMEA cooperation proposals as 'reintegration' needs considerable qualification, there is no doubt that this is how the situation was construed in CEE policy-making circles.<sup>7</sup> Early debates were conducted in a particularly unfavourable context since reintegration projects were associated with risks of falling back under Soviet/Russian tutelage, sentiments which were only reinforced by the practical as well as political logic of moving closer to Western Europe (and the EU in particular). The Hungarian economist Köves explained the prevailing thinking as follows: "(j)oining Europe, as seen from Poland or Hungary, is not just joining a dynamic form of *regional* integration (the EC) in place of the defunct CMEA but integration into the *international* economy after forty years of involuntary seclusion. For these countries, Europe is not so much a continent distinct from America or Asia as one of the centres of a global economy previously blocked to them by the CMEA structure."<sup>8</sup> Indeed, the essence of the debate was not about the design of multilateral post-CMEA cooperation but whether it was even advisable.

Concrete proposals for the recovery of intra-CMEA trade came mainly from Western sources, which seemed only to further provoke reaction against the reintegration route. Eminent Western specialists, reacting to the rapid and large-scale decline in intra-CMEA trade, argued for more gradual abandonment of regional trade biases and advocated a Central and East European Economic Union (CEEU) combining preferential trade with multilateral clearing arrangements. Specialists from CEE opposed the

reintegration approach on grounds that it was neither *justified*, since the politically driven over-trading with the CMEA (mainly with the ex-USSR) had been a major cause of economic failure and therefore had to be jettisoned, nor *feasible* since the CEEU proposal could not influence the principal cause of the collapse of intra-CMEA trade — the Soviet economic crisis of 1990–91. As Toth observed, the “phenomenon called the collapse of the CMEA must, therefore, be carefully used as a general explanation to the developments in the dynamics of intra-regional trade within the CMEA. The economic disruptions in Soviet and post-Soviet markets must be separated from problems related to the complete overhaul of the trading regime, and subsequent dissolution of the CMEA.”<sup>9</sup>

The debate about small-scale (i.e. excluding the USSR) post-CMEA economic cooperation was more open, but even this option faced many (interrelated) obstacles.<sup>10</sup> These included: first, a general aversion to multi-lateral cooperation with former socialist allies, commonly referred to as ‘CMEA syndrome’; second, and closely associated with the previous point, ideas that post-CMEA integration exercises would lead to a new ‘bloc’ taking root in the east, either closing the door to EU membership or tying EU accession prospects of more ‘advanced’ states to a group schedule;<sup>11</sup> third, a lack of convincing arguments that CEE ‘reintegration’ could yield worthwhile economic benefits given that exchanges with the USSR had dominated intra-CMEA trade. This seemed especially resonant given that fast advances in the reorientation policies were made by the Visegrad countries in 1990 both in the *de facto* (rapid trade growth) and *de jure* (progress towards signing EAs) spheres; fourth, some important, and often unrecognised, political economy factors. The relatively small trade with the CMEA ‘five’ and success in diverting some of that to the EU meant a lack of significant lobbies for CEE reintegration.<sup>12</sup> Rather, the emergence of neoprotectionist sentiments in 1991 meant vested interest pressure against reopening markets to producers from the region, as Okolicsanyi explained: “[d]omestic producers had already been complaining about the liberalisation of regulations on imports coming from the EC countries, which had resulted in a number of factory closures ... state-owned firms, citing high unemployment figures, were by no means eager to confront still more competition as a result of the new free trade zone”.<sup>13</sup>

It was therefore unsurprising that CEE reintegration schemes faced “quiet opposition on the part of the governments of the respective countries”.<sup>14</sup> Nevertheless, the key influence which worked in favour of a CEE reintegration scheme came from outside and, somewhat paradoxically, it was the all-consuming desire to move forward in relations with the EU which was decisive. Though the EAs contained no articles on subregional cooperation, the negotiations for them provided opportunities for the European Commission to apply pressure. The Visegrad countries were persuaded that action on CEE reintegration would enhance their case for a rapid move to EU association and be important for progressing beyond that stage. Political cooperation in the Visegrad Group also played a vital role. As well as a vehicle for Czechoslovakia, Hungary and Poland to coordinate their eastern and western

foreign policies, the Visegrad Group also provided the forum for the trade liberalisation discussions to take place and come to fruition. Along with the fact that Bulgaria and Romania were behind in the economic and political reform process and outside the (as then perceived) 'privileged' group of CEE countries in terms of EAs, the Visegrad Group factor also helps to explain why the CEFTA project initially excluded other post-socialist states.

Once the Visegrad countries accepted that some form of economic reintegration was inevitable, three further questions remained. First, what kind of mutual integration should they pursue? The February 1991 Visegrad Declaration formally confirmed the intent to pursue reintegration but was also unclear since it was "a general reference to the need to engage in economic cooperation rather than a concrete proposal".<sup>15</sup> The issue was settled at the October 1991 Cracow summit where the Visegrad countries declared "their will to conclude agreements on mutual liberalisation of trade as quickly as possible".<sup>16</sup> One month later their ministers for foreign economic relations met in Warsaw and agreed to open negotiations and the broad principles of the trade liberalisation process. The decision to restrict reintegration to the most basic principle was often explained in terms of Visegrad countries' alternative approaches to subregional cooperation and free trade was the lowest common denominator. Clearly the neo-liberal stance of the Václav Klaus government played a big part, but there were practical limitations too. Economic transformation was still in the early stages and the Visegrad countries' overall reform strategies were differentiated meaning that some kind of cooperation taking in coordination of reform and restructuring programmes was out of the question. It is also important to note that even the negotiations for the trade liberalisation were rather prolonged (the original target was for CEFTA to commence in July 1992) because even though "the negotiations went fairly smoothly ... the very difficult economic and political conditions existing in all three countries left the actual signing of the agreement by all countries in doubt almost until the very last moment".<sup>17</sup> The background to the CEFTA negotiations included the ongoing serious transformationary recession, domestic political crises in Poland (regular changes of government) and Czechoslovakia (impending division and "temporary loss of power of President Havel, who was the main supporter of the idea of regional cooperation in Central Europe"<sup>18</sup>) and Slovak-Hungarian tensions. In sum, it was simply not feasible at that time to base reintegration on anything beyond free trade and the signing of CEFTA was a major triumph in the context of the time. The second and third questions were whether this subregional integration process could later become more advanced and what results the CEFTA framework would produce. The discussion now moves to those issues.

### **3. The Evolution of CEFTA Cooperation**

Though subregional integration in CEFTA has remained at the free trade area level, this does not mean that there was no developmental agenda. There were periods when genuine deepening of CEFTA integration came under

serious consideration and of course there has been further development in the form of widening. The content and outcomes of the developmental agenda reflected a mixture of genuine deepening imperatives, the CEFTA states' alternative approaches to subregional cooperation and practicality issues given the EU accession context. Three distinct phases in the evolution of CEFTA cooperation have been evident. The early years (1993–1995) were essentially an 'enhancement' phase which focused mainly on accelerating the trade liberalisation schedule. The Brno (September 1995) summit marked the onset of an 'enthusiastic' phase which featured several deepening initiatives and the shift to an open organisation. From late 1997 onwards the developmental agenda left the enthusiastic phase and moved into a more pragmatic mode, something which coincided with a number of CEFTA parties getting EU membership clearly in their sights. The analysis now reviews this evolution and is organised thematically across three dimensions — institutionalisation, deepening and widening.

### *Institutionalisation*

CEFTA has no permanent institutions. Debates over whether it was necessary to create some were most intense in the 1995–1996 period and there were two proposals of real note, including the Polish plan for the creation of common financial institutions and the push for establishment of a CEFTA secretariat, which came predominantly from the Slovak side. At the 1995 summit, former Polish Premier Oleksy suggested "a Central European bank which would deal not only with accounting in mutual trade but also joint investment".<sup>19</sup> A year later, at the Jasna summit there was a follow-up suggestion for regular co-ordination meetings between commercial and central bank representatives. As well as the connection to discussions about possible capital liberalisation, these proposals were influenced by Western intermediaries' involvement in intra-CEFTA trade at that time. Since CEFTA customers were unable to offer similar credit lines, part of the profit in intra-CEFTA trade was leaking out of the subregion and financial cooperation could have been potentially useful in that respect. However, these schemes came to nothing with the Czech government especially critical of both ideas. During the Jasna summit Václav Klaus denounced the latest idea as "the remnants of the idea of the creation of a sort of joint CEFTA bank which has really gained no support among other member states ... [w]e cannot imagine why we should add another one to the existing system of banks — a new Comecon bank. We cannot order commercial banks to meet. It is their own business".<sup>20</sup>

The proposal for a permanent secretariat for CEFTA was first put forward by Slovakia at the Brno summit. This was a more practical suggestion to ease some organisational and administrative problems of CEFTA cooperation and less easy to dismiss on grounds of ideology or similarity with CMEA methods. But even a modest unit to co-ordinate meetings and perform the essential secretarial functions was ruled out. The 1995 summit agreed that Slovakia would submit a more detailed proposal to the 1996 summit. This

they duly carried out, but it was firmly rejected in favour of a solution based on the principle of a rolling secretariat (see below). This issue came back onto the agenda in 1999 and the Czech government, now more amenable to sub-regional political cooperation, agreed that a modest ‘information centre’ could be formed in Bratislava. This time the veto came from Hungary and the issue was buried once and for all.

The prevailing anti-institutionalist sentiment to some extent reflected the legacy of a lengthy experience with the extensively bureaucratic and ineffective CMEA, neoliberal/anti-interventionist inclinations of the Czechs during the Klaus era and concerns about how institutionalisation might be interpreted in the west. The largesse of the 1996 Slovak proposal (to cost \$1.3 billion in its first year) and suspicions that the Slovak agenda was politically motivated and oriented to developing CEFTA as an alternative rather than a complement to EU integration further reinforced the negative attitudes. Finally, it would not have gone unnoticed that the main purpose of CEFTA — to stimulate trade growth — had been far from impeded by lack of institutions.

As a functional substitute for institutions, the main administrative tasks are carried out by (small) teams of national government officials who share the burden of organising the main meetings, preparing documentation etc. according to the rotating CEFTA chair.<sup>21</sup> Decision-making power rests formally with the annual summit of CEFTA Prime Ministers though this is really a ‘rubber stamping’ process with the main responsibility for overseeing the implementation of CEFTA and the airing and attempted resolution of disputes lying with the CEFTA Joint Committee. This body consists of Ministers responsible for external economic relations whose own regular meeting usually reaches decisions and resolutions for formal approval at CEFTA summits. The Joint Committee is serviced by national teams of experts who work on the detailed and technical aspects of CEFTA business. CEFTA has no supranational features though some aspects reflect the EU intergovernmental style. As well as CEFTA summits, the EU Council of Ministers’ practice is reproduced in the change of personnel attending ministerial level meetings according to the policy area under discussion. As well as the Joint Committee, regular meetings of agriculture ministers and periodic meetings of ministers responsible for finance and government procurement have taken place under the aegis of CEFTA.

### *Integration ‘Deepening’ in CEFTA*

*The ‘enhancement’ phase.* The principle of moving cooperation beyond the confines of the Cracow Treaty was contained in Article 33 of the agreement which states that the parties can make proposals “to develop and deepen the relations established by the Agreement by extending them to fields not covered thereby”.<sup>22</sup> The first phase of further development focused on the speed and scope of tariff and quota elimination, with a proposal to amend CEFTA appearing before the agreement had even been signed. A separate Joint Declaration signed alongside the Cracow Treaty committed the parties



to “immediately start to discuss the reduction of the transitional period to five years”.<sup>23</sup> By the end of 1995, various ‘Additional Protocols’ to CEFTA had reduced the transition period to free trade in industrial products from eight to four years and replaced the objective of partial liberalisation of agricultural trade with complete liberalisation.<sup>24</sup> These changes mean that intra-CEFTA trade gained temporary preferential treatment over imports from the EU.

Various reasons lay behind the willingness to accelerate the liberalisation process. The Czech and Slovak sides were keen to further exploit their surplus positions in CEFTA and saw the CEFTA market as one way of offsetting decline in mutual trade while the Polish and Hungarian sides recognised that the disintegration of Czechoslovakia could create additional opportunities for their producers. Also, after 1993 the CEFTA states began experiencing negative trends in their overall external balance and were realising that access to the EU market was more complicated than they had anticipated. Difficulties of exporting agricultural products to the EU were particularly important for Hungary’s attitude to the CEFTA and post-socialist market in general, as Kiss noted: “as the EU — in spite of signing the Association Agreement — failed to provide an expanding market, Hungary’s main endeavour became to regain the lost Eastern European markets, including the markets of the neighbouring countries. In order to achieve this goal Hungary revitalised her traditional relations”.<sup>25</sup> Additional early moves to enhance the cooperation included co-ordination of positions in the World Trade Organisation (WTO) and joint conferences to promote foreign direct investment (FDI) in the CEFTA area. The agenda also included discussion of ways to improve the efficiency of CEFTA, such as the proposal to establish procedures for settling disputes by arbitration.

*The ‘enthusiastic’ phase.* During 1995, with the scope for further acceleration of the trade liberalisation schedule becoming exhausted and some important external impulses coming into play, initiatives in line with the Article 33 category came onto the CEFTA agenda and generated debates about a serious upgrading of the *de jure* framework for integration. The climate for progress was also positive because it was no longer feared that CEFTA cooperation could somehow impede EU accession endeavours and the CEFTA governments leaders (some now led by former communists who were much less biased against cooperation with former CMEA partners) were keen to build on the useful outcomes achieved. In this context, the CEFTA cooperation went into an ‘enthusiastic phase’ and considerable deepening rhetoric surfaced. The second CEFTA summit (Brno, September 1995) included proposals for free trade in services, free movement of capital and even free movement of labour. These moves were clearly influenced by developments in the broader context for CEFTA cooperation. The European Commission’s White Paper of May 1995 (Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal market of the Union) broadened the potential boundaries of CEFTA cooperation and encouraged discussion of incorporating the ‘four

freedoms'. Impending OECD membership, particularly for the Czech Republic (the advocate of capital and services liberalisation), was also a key factor as Richter pointed out at the time: "it is worth mentioning that, although the liberalisation of capital movements was not addressed in the CEFTA Document, the compliance with the OECD Codes of Liberalisation of Current Invisible Operations and Capital Movements will leave no room for restrictions in intra-CEFTA capital movements once all the five CEFTA members have become members and when the transitional restrictions are lifted".<sup>26</sup>

On the progress of these proposals, free movement of labour did not gain unanimous approval and the existing bilateral arrangements were retained.<sup>27</sup> No details were released as to the reasons why this issue did not even merit a feasibility study but several factors probably played a part. First, significantly uneven V4 unemployment levels, where the Czech Republic stood out with a very low rate of around 3 per cent at that time against the 11 per cent to 13.5 per cent range for the others, may have acted a disqualifier on grounds of lack of appropriate economic convergence.<sup>28</sup> Second, substantial cross border movement of people, including illegally and for seasonal work, was already a reality. To the extent that illegal movement of people was perceived as problematic, countries (such as the Czech Republic) without borders with the former USSR or Balkan countries would have had quite different interests in the free movement of people. Third, the proposal was a Polish one and, at that time, Poland was stressing a need for CEFTA countries to "coordinate their economic policies in relations with the European Union and other international organisations. Such a coordination, especially as regards the EU, would eliminate unnecessary competition and would strengthen the bargaining positions of the CEFTA nations".<sup>29</sup> Not all CEFTA countries accepted the logic of a collective approach to the EU and the Czech Republic and Hungary — inclining towards a competitive race for EU membership — in particular would have reasons for thinking that it unwise to risk involvement in such a big step in formal subregional integration at that stage. Finally, there may also have been a fear that free movement of labour in CEFTA might well result in substantial migration which could also set EU accession hopes back by demonstrating what would happen when the higher wages and social security benefits of the EU were on offer as a result of free movement of people in the enlarged EU.<sup>30</sup>

Free movement of services and capital were rather neutral in that they were more in tune with broader OECD/WTO obligations and developments and less a replication of the EU's deeper integration features. Though the response to these other proposals was positive and working parties were convened to tackle the questions of how to proceed, the complexity of these issues, along with growing congestion of the CEFTA agenda, eventually led to the decision to set aside their implementation at the CEFTA level and wait for the necessary harmonisation to happen in the EU accession context. Clearly the difficulties of implementing these higher levels of integration in the setting of ongoing transformation were underestimated. Ambitions to

liberalise services trade, ran up against different rates of progress in privatisation, for example, and would also have proved difficult to achieve given the reluctance to introduce free movement of labour.<sup>31</sup> CEFTA did prove however to be a useful vehicle for at least some experimentation with higher levels of integration at the subregional level and for sharing experiences in the relevant aspects of economic transformation needed for the move to EU membership. The CEFTA governments no doubt felt that even discussing a potential transformation to a common market would pay dividends for their EU credentials. The Brno summit Declaration confirmed: “the intention of their governments to develop mutually advantageous economic and trade cooperation, to extend the areas of trade liberalisation and to remove trade barriers. They are convinced that such an approach will have a positive effect on the preparation of their countries for entrance into the European Union”.<sup>32</sup>

*The ‘pragmatic’ phase.* After late 1997 the attitudes to CEFTA cooperation took a markedly more pragmatic and ‘hard-headed’ direction. Three factors in particular put the brakes on, the first and most obvious reason of which was the EU decision to open membership negotiations with four CEFTA members. Commitment to existing obligations within CEFTA remained strong, but it was now less a case of how rhetoric about CEFTA cooperation could support the attempts to move to EU candidate status and more to do with making sure that CEFTA cooperation remained productive but did not waste energy and resources by duplicating developments which would eventually come with EU membership. Moreover, it was necessary for CEFTA to avoid developments — external as well as internal — which could be incompatible with the run-in to EU membership.

A second factor in the onset of pragmatism was the publication, in 1998, of the internal review of CEFTA’s first five years of operation. Amongst other things, this report drew attention to aspects of the Cracow Treaty yet to be implemented. It recommended that these be prioritised in order to further boost CEFTA trade and integration and ensure that the obligations of the CEFTA treaty would be fulfilled by the 2001 deadline. Though this involved measures which go beyond the ‘classic’ concept of free trade, rather than ambitious attempts to introduce new layers of integration, it meant addressing those non-tariff barriers already included in the CEFTA Treaty via duplication of certain EA articles. Thus, subsequent CEFTA summit and Joint Committee business focused on Articles 23 and 24, which cover rules on state aids and government procurement markets respectively, and also on non-tariff barriers falling under the category of ‘technical’ barriers’ — covering mutual recognition of certificates and test results for industrial and agricultural products.

On the implementation of these non-tariff barrier measures, the CEFTA experience seems to demonstrate that serious progress on even this restricted deepening agenda is inevitably compromised in the subregional context. Any rules and regulations must duplicate arrangements already in place with the EU because of the requirement for them to be compatible with those of the

EU and lack of prior experience in dealing with more advanced aspects of integration. Independent solutions at the CEFTA level were never really likely and, moreover, some of these areas have proved difficult to resolve even in the EU negotiations. For example, following Poland's failure to meet the end-1999 deadline for submitting its state aid law package to the EU, one state aid legislation adviser commented that "(t)he problem is that public aid is so untransparent and so unorganised that nobody even knows the size of it".<sup>33</sup> Meanwhile Polish Parliamentary deputies complained that the draft law "is just too bureaucratic for small businesses to cope with" while the government's view was that parliament was "dragging its feet, hobbled by the various industrial lobbies who all want keep their own types of aid sacrosanct".<sup>34</sup> Even Hungary had "a last-minute row with Brussels over state aid for industry. At issue are the tax breaks Hungary has granted to foreign groups including General Electric of the US, Japan's Sony and Volkswagen, the German motor group".<sup>35</sup>

State aids harmonisation discussions were in reality more a case of collating available information on pre-existing regimes within the CEFTA countries and sharing experience about competition policy negotiations with the EU. These are useful exercises, particularly for the latecomers to the EU accession negotiations (Bulgaria and Romania), but nevertheless very different to intra-CEFTA harmonisation. It was the same result for the work on Article 24, which stipulates that companies across CEFTA should get 'national treatment' when bidding for CEFTA government contracts. In October 2000 the CEFTA Joint Committee received the report outlining the findings of the Bulgarian team tasked with responsibility for assessing the extent to which the obligations on government procurement were being met and on the compatibility of national legislation with the provisions of Article 24. The main conclusion was that further analysis was needed and the next stage would be to examine the possibility for developments to ensure transparency, free access and full reciprocity. This work was still ongoing as CEFTA began its winding-up process.<sup>36</sup> Finally, some tangible progress on the question of mutual recognition of certificates and test results for industrial goods has been in evidence, as noted in the September 2002 CEFTA summit Declaration. However, this was also essentially a by-product of EU accession as the vehicles for mutual recognition within CEFTA are the *Protocols on European Conformity Assessment* (PECA) which were doing the same job between the EU and the new members based on the usual pattern of the latter adopting EU legislation. This solution was both logical and necessary as "the scale of changes to legislation and infrastructure in conformity assessment in these countries is huge".<sup>37</sup>

In all these integration-deepening areas the essential point is this: when parties to subregional cooperation are on their way to much deeper mutual integration in the framework of a more developed, regional organisation as is the EU, attempts to duplicate the higher echelons of economic integration at the subregional level are unlikely to succeed. Waiting for these issues to be resolved at the EU level seems not to be a question of choice. Moreover, the potential danger of letting mutual integration get ahead of the current level

of integration with the EU is shown by the example of the Czech and Slovak Republics where much deeper mutual integration was inherited from the pre-1993 period. The implication of separate EU accession timetables, which looked likely for several years, included cancelling the customs union, suspending free movement of labour, potential introduction of visa regimes and generally a very disruptive reversal of integration. At the same time, the attempts to deepen CEFTA integration were not wholly unproductive. For one thing, discussing these issues always creates the chance that relevant experience in dealing with the EU on these issues can be disseminated. It is also interesting that in certain aspects of the *acquis* — for example free movement of labour — the new members did not request that the same transition periods that they have negotiated with the EU15 should apply to each other.

The third determinant of the pragmatic phase was the agricultural trade issue and, in so far as CEFTA cooperation had an ‘Achilles heel’, this was it. All went reasonably well until 1998 when massive agricultural trade disputes erupted in the setting of certain conjunctural factors. This highlighted the difficulty of attempting intra-CEFTA agricultural trade liberalisation in the context of differences in farm/agricultural support systems.<sup>38</sup> At the 1999 CEFTA summit both representatives of the two leading antagonists in the CEFTA agricultural trade disputes recognised the roots of the problem. Discussing the latest failure to make progress on resolving agricultural trade disputes, for Poland Jerzy Buzek said it was “difficult to talk about a complete opening of markets when the subsidy systems are different” while for Hungary Viktor Orban’s view was that “[t]he root of the problem is that we don’t have a common agricultural policy”.<sup>39</sup> Orban also “added that because all CEFTA members aspired for European Union membership and would have to adopt the EU’s Common Agricultural Policy, they did not wish to set up different rules for their regional group”. The ensuing series of trade disputes (mainly concerning cereals, pork and dairy products) blighted CEFTA cooperation and featured actions which overturned CEFTA rules, complicated enlargement negotiations, led to the cancellation (in August 1998) of the objective of complete agricultural trade liberalisation and made the agricultural trade issue a perennial source of friction at summits. At subsequent CEFTA meetings much time and energy was spent in attempting to deal with numerous cases of ‘illegal’ import control measures. Though public airing of rebukes and counter-rebukes took media attention, strong efforts to tackle problems were made, beginning with the 1999 (Budapest) CEFTA summit decision to convene a Subcommittee on Agricultural Trade. Its task was to examine ways to improve application of CEFTA provisions and co-ordinate intra-CEFTA liberalisation with the impending incorporation into the Common Agricultural Policy. Progress eventually came in March 2001 when Hungary and Poland reached a bilateral compromise that “closed a two-year war between the countries over trade tariffs on agricultural products”.<sup>40</sup> This paved the way for the ‘Separating Compromise’ approved at the 2001 Bucharest summit which effectively ended the multilateral approach by agreeing the following formula: “the economically more advanced Hungary, Czech Republic and Slovakia will continue liberalising

trade among themselves and abolishing tariffs ... (t)he other, less developed, four members (Bulgaria, Poland, Romania and Slovenia) will be allowed to defend local producers of agricultural goods by keeping some trade barriers in force".<sup>41</sup>

These considerable agriculture trade difficulties should not necessarily be taken as an indicator of failure of CEFTA or even as partial failure. Substantial liberalisation trade was achieved and overall growth of agricultural trade occurred despite the protectionism.<sup>42</sup> Also, liberalisation of agricultural trade is rarely straightforward and a fairer verdict on CEFTA in this respect is that full liberalisation was essentially overambitious and compromised by the EU accession-related constraint on any schemes to make the national agricultural support systems more compatible. Finally, the CEFTA countries managed, albeit after some delay, to take a pragmatic way out through this vexing issue, representing a kind of triumph in terms of the politics of subregional cooperation.

*Political cooperation in CEFTA.* Before turning to CEFTA widening, what about the question of deepening in the *political* sense? The question of whether CEFTA could play a more direct role in co-ordinating the member countries' approach to the EU was often raised in the literature and in official circles. At the first CEFTA summit in Poznan in November 1994, for example, there was approval of "a declaration calling for 'consultations' on joining the European Union".<sup>43</sup> Also, prior to the 1995 summit it was reported that "(w)ith regard to West European institutions, Warsaw arrived here with the proposal to co-ordinate the activities of the countries of Central and East Europe in their contacts with the European Union, NATO, the Organisation for Economic and Cooperation and Development as well as other international institutions".<sup>44</sup>

However various factors prevented CEFTA from developing this role. First, rather than being lined up as a political instrument in its own right CEFTA essentially provided a forum for attempts to revive the Visegrad Group (inactive between 1993 and 1998). Second, the Czech Republic's steadfast refusal to engage in formal subregional political cooperation prevailed, particularly within CEFTA, which they stressed was pure economic cooperation. During the 1994 summit "(p)leas for close co-ordination of these efforts, made repeatedly by Hungarian Premier Gyula Horn, went unheeded by the Czech prime Minister Václav Klaus, who is in favour of each country entering the union separately".<sup>45</sup> Third, as noted earlier, until the post-AGENDA 2000 period at least, the instincts of the CEE countries were essentially competitive rather than co-operative. It was only during the phase of the negotiations proper that some common ground on bargaining positions crystallised. Fourth, the CEFTA countries were subdivided between the 'Luxembourg' and (as it was to become in 1999) the 'Helsinki' groups.<sup>46</sup> Accession-related cooperation was pursued in more suitable subregional fora, including the reconvened Visegrad Group and regular co-ordination meetings of Luxembourg group representatives. Finally, even these associations were prone to disruption. Despite top

agenda items including the EU proposals for farm and regional subsidies for candidates, the Czech Republic and Slovakia stayed away from the February 2002 Visegrad Group summit in protest at “remarks by Victor Urban, the Hungarian Prime Minister, suggesting that the Benes decrees were incompatible with EU membership”.<sup>47</sup> Given all this, and arguments that the EU side had a strategy of negotiating simultaneously though separately, a direct role for CEFTA during the accession negotiations phase was clearly neither likely nor necessary.

Finally, a slightly different situation prevailed for Croatia. As a latecomer to integration with the EU, Croatia used all available instruments to fast-track its EU membership. CEFTA accession negotiations put Croatian officials in close working contact with the new EU members and in the environment of full CEFTA membership these contacts extended to regular institutionalised high-level meetings. Croatia stood to gain from the fact that the CEFTA countries “exchange information and share experience gained in accession negotiations”<sup>48</sup> and, probably more importantly, once fully in CEFTA Croatia had, even if only for a relatively short time, a key vehicle to garner new EU members’ support for its effort to get candidate status. The decision by the European Commission, announced in April 2004, to recommend commencement of membership negotiations will be taken as vindication of the Croatian strategy, including the CEFTA tactic.

### *Enlargement Issues*

Though the Cracow Treaty had no provisions for enlargement, suggesting that some or all founder members did not envisage extending CEFTA beyond the V4, pressures for CEFTA enlargement soon asserted themselves. The spread of bilateral free trade agreements across parts of the CEE region after 1993 served as key pathways to CEFTA, and Czech and Slovak agreements with Slovenia signed at the end of 1993 were particularly important. By July 1995 Slovenia had signed free trade agreements with all four CEFTA founders, and its *de facto* accession to CEFTA was complete.<sup>49</sup> The Slovenian situation had already prompted the discussion of enlarging CEFTA at the 1994 summit and the CEFTA treaty was amended accordingly during the 1995 summit. Article 39a states that CEFTA is open to any European country which (a) is a WTO member, (b) has free trade arrangements with the EU, (c) has signed free trade agreements with all CEFTA countries and (d) whose candidacy has the unanimous approval of the existing member states. CEFTA applicants must send an official membership request to the Foreign Ministry of the CEFTA chair country. This is transmitted to the CEFTA Joint Committee and its decision is then considered by the next summit which, where applications are successful, will give the go-ahead for negotiations to begin.

*Motivations for CEFTA enlargement — the member states.* All CEFTA countries would have seen enlargement as a factor which further enhanced their EU membership credentials by demonstrating that the CEFTA countries

were not only capable of mutual cooperation but were also responsible subregional players in CEE. Widening CEFTA also fitted in with national interests. For example: the Czechs' neoliberal stance and willingness to develop free trade agreements with all comers; Hungary's interest in Romanian accession to CEFTA, important economically and politically; Poland's eastern agenda and its endorsement of Baltic states' candidacy and sponsorship of Ukraine; Slovakia's attempts to increase the significance of CEFTA as compensation for their compromised integration with the EU process and promotion of enlargement accordingly. The CEFTA newcomers have all had similar agendas, Slovenia with regard to Croatia, Romania and Moldova, Bulgaria and FYR Macedonia.

*Motivations for CEFTA enlargement — the candidates.* Grela noted that “[i]nterest in CEFTA springs from both political and economic sources. First there is fear of marginalisation and a new division in Europe. Secondly, there are trade and financial considerations”.<sup>50</sup> Politically, CEFTA has represented one vehicle for the non ‘avant garde’ CEE to stay in touch with the leading group. As Mayhew wrote, “the associated countries which feel they may be in the slower track for accession look for the maximum level of contact with the candidates which are considered to be on the fast track”.<sup>51</sup> As an example of this, at the time of Romania's accession to CEFTA Calin Tariceanu (then Romanian Minister for Industry and Trade) said that: “politically speaking, CEFTA is a good training school with a view to adherence to the European Union, as well as a signal for NATO”.<sup>52</sup> For the non-associated CEE, interest in CEFTA was a lifeline to the European integration process and a symptom of ‘the syndrome of the deserted’ described by Madej as “a peculiar fear of loneliness in the time of transformations”.<sup>53</sup>

The likely economic impact of CEFTA membership, as indicated by pre-existing levels of trade, seemed small in many cases or relatively high only due to the importance of one particular CEFTA market. The political significance of CEFTA membership may have been uppermost in the thoughts of CEFTA aspirants. For example, once Lithuania and Latvia had the green light for opening EU membership negotiations at the 1999 EU Helsinki summit, their interest in CEFTA evaporated. Croatia, which acceded on 1 March 2003, is another case in point. Data on Croatia's recent trade with CEFTA reveals that this is only significant with Slovenia and there had been a free trade agreement between the two since 1997. In 2001 Croatia's exports to CEFTA amounted to 12.1 per cent of overall exports, made up of 9.1 per cent for Slovenia, 1.2 per cent for Hungary and 1.8 per cent for the rest of CEFTA.<sup>54</sup> Given the timing of Croatia's accession to CEFTA there really seems to be no conclusion other than that this was a predominantly political move.

*Enlargement and the ‘Pragmatic’ Phase of CEFTA Evolution.* Factors which stalled CEFTA deepening after 1997 also impacted on the enlargement process. CEFTA became increasingly inward-looking due to already mentioned problems of agricultural trade, attention to the inactivated aspects of the CEFTA treaty and, at least among the CEFTA bureaucrats, a



degree of ‘enlargement fatigue’ following the complications of the Romanian and Bulgarian accessions (completed by mid-1998 but in motion during 1997). The opening of EU negotiations was also crucial for the enlargement dynamic and while openness to new members was still emphasised, a more cautious approach to widening prevailed after 1997. One clear signal of this was the absence of guests at the 1998 Budapest summit, a situation which continued until the 2002 Bratislava meeting attended by Croatia. Though this was justified on grounds that summits’ efficacy would be improved by increasing the time available to devote to matters arising in CEFTA cooperation, the new stage in the EU enlargement process was also relevant. Mindful of the need now to harmonise external relations with those of the EU and to avoid agreements needing to be undone upon EU entry, CEFTA states became more discerning when it came to bilateral free trade agreements. Those countries which looked to override this constraint because of specific national interests faced the additional pressure of falling foul of certain countries being at that time ‘off-limits’ for EU relations priorities (e.g. Hungary and its free trade negotiations with Croatia in 1999).

The CEFTA door eventually re-opened with the advent of Stabilisation and Association Agreements (SAAs) for FYR Macedonia and Croatia in 2001, though few would have predicted any changes to the CEFTA line-up especially as the application and negotiation stages would push the next enlargement point even closer to the CEFTA downsizing date. Yet Croatia remained persistent and the existing members held true to their obligation to admit candidates which meet the entry conditions. In fact, only Croatia itself achieved this before CEFTA downsized on May 1 2004. Whether CEFTA can expand in the post-EU enlargement context is discussed in the final section.

#### 4. Outcomes of CEFTA Cooperation

##### *Intra-CEFTA Trade*

The specific purpose of CEFTA is “to promote trade expansion in order to develop the parties’ economic relations”.<sup>55</sup> The liberalisation of subregional trade via CEFTA, and the early moves to shorten the transition period to free trade has clearly paid off. Table 1 contains data on trends in intra-CEFTA trade between 1993 and 2001 — that is from the year of activation to the point of complete liberalisation. It shows that the V4 all registered strong increases in both exports to and imports from CEFTA and good progress in *de facto* integration has clearly occurred. Czech exports grew by 359 per cent and imports by 425 per cent while for the other Visegrad countries the respective figures were: Hungary 496 per cent and 307 per cent; Poland 363 per cent and 449 per cent; Slovakia 334 per cent and 429 per cent.<sup>56</sup> The CEFTA newcomers’ experience has been rather mixed. Romania has posted strong export and import growth though this has concentrated mainly on Hungary. During its shorter period of CEFTA membership Bulgaria has experienced relatively rapid import growth on the import side but has failed to match that on the export side (though with a promising surge in 2001

Table 1. Intra-CEFTA trade, 1993–2001 (\$US million)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	Index 2001/93 1993=100
<b>Bulgaria</b>										
Export						207	178	193	247	119*
Import						275	354	568	550	200*
<b>Czech Republic</b>										
Total CEFTA:										
Export	3489	3258	4348	4944	4816	5199	4709	4891	5678	163
Import	2746	2718	3883	3886	3622	3657	3901	4106	4582	167
Excluding Slovakia:										
Export	655	925	1343	1824	1927	2392	2491	2670	3008	459
Import	497	594	900	1236	1369	1581	1924	2180	2611	525
<b>Hungary</b>										
Export	462	565	757	1163	1387	2039	1961	2289	2753	596
Import	655	900	982	1254	1378	1766	2025	2418	2668	407
<b>Poland</b>										
Export	680	823	1245	1481	1659	2026	2227	2662	3149	463
Import	682	919	1624	2161	2585	2974	3070	3462	3744	549
<b>Romania</b>										
Export				294	342	369	597	848	808	275*
Import				541	642	1040	928	1202	1537	284*
<b>Slovakia</b>										
Total CEFTA:										
Export	2716	3057	3778	3656	3357	3397	3027	3570	3795	140
Import	2483	2226	2757	3225	2915	3122	2641	2727	3329	134
Excluding Czech Rep:										
Export	406	555	767	918	999	1233	1190	1514	1761	434
Import	208	268	424	543	563	732	760	856	1100	529
<b>Slovenia</b>										
Export			403	451	480	588	622	692	741	184*
Import			634	616	688	725	851	920	967	153*

\* = Index 2001/Year before entry into CEFTA (Slovenia joined in 1996; Romania in 1997, Bulgaria in 1999); Bulgaria is included in the figure for other CEFTA from 1999 onwards except for Romania which includes trade with Bulgaria from 1998 onwards.

Source: Dangerfield, M. (2000).

given that, by end 2000, exports to CEFTA had actually fallen by 7 per cent since joining). Slovenian trade with CEFTA has grown steadily but comparatively modestly, demonstrating a relatively less intense engagement with the

Table 2. Intra-CEFTA trade as % of total trade 1995–2001 (\$US million)

EXPORTS	1995	1996	1997	1998	1999	2000	2001
Bulgaria	–	–	–	4.9	4.4	4.0	4.8
CR	6.2	8.3	8.6	9.2	9.5	9.2	9.0
Hungary	5.9	7.4	7.3	8.9	7.8	8.1	9.0
Poland	5.4	6.1	6.4	7.2	8.2	8.4	8.7
Romania	–	–	4.1	4.4	7.0	8.2	7.0
Slovakia	8.9	10.4	11.3	11.6	11.6	12.8	13.9
Slovenia	–	5.4	5.7	6.5	7.3	7.9	8.0
IMPORTS	1995	1996	1997	1998	1999	2000	2001
Bulgaria	–	–	–	–	6.4	8.7	7.6
CR	3.4	4.5	5.1	5.6	6.9	6.8	7.2
Hungary	6.4	6.9	6.5	6.9	7.2	7.5	7.9
Poland	5.6	5.8	6.1	6.3	6.7	7.1	7.4
Romania	–	–	5.7	8.8	9.2	9.2	9.9
Slovakia	4.8	4.9	5.5	5.6	6.7	6.8	7.5
Slovenia	–	6.5	7.4	7.2	8.4	9.1	9.5

Note: All data for Czech and Slovak Republics excludes mutual trade; Bulgaria, Romania and Slovenia covered from year of entry into CEFTA.

Source: Dangerfield, M. (2000).

CEFTA market and perhaps the effects of non-participation in the CMEA. However, whereas overall Slovenian exports were relatively static between 1998 and 2001, exports to CEFTA managed to grow by 26 per cent over that time.<sup>57</sup> In addition to the picture given by overall trade trends, Table 2 shows that, apart from Bulgaria, by end 2001 exports to CEFTA were growing faster than total exports and that imports from CEFTA outpaced total imports in all cases.

As for trade balances (Table 3), the Czech and Slovak Republics have been the consistent surplus countries. Hungary's position — always somewhat unstable due to significant agricultural exports to CEFTA — has oscillated somewhat, moving from a deficit to surplus by 1998, suffering a reversal thereafter and then recovering again by 2001. Poland and Slovenia have had relatively stable deficit positions while Romania and Bulgaria experienced deteriorating positions during their time in CEFTA. The significance of trade balance figures has to be placed in the context of the size of the overall value of intra-CEFTA trade and is best assessed in the light of data on export/import coverage. As Table 4 shows, over the period 1995–2001 Poland, the Czech Republic, Slovenia and Hungary have, in ascending order, improved their position. Romania has remained more or less stable, while Slovakia and Bulgaria have experienced fairly major reversals. As of 2001 only the Czech Republic, Slovakia and Hungary (just) had positive export/import coverage.

**Table 3.** Trade balances with CEFTA 1995–2001 (\$US million)

	1995	1996	1997	1998	1999	2000	2001
<i>Bulgaria</i>				-68	-176	-375	-303
CR	465	1058	1194	1542	808	785	1096
<i>Hungary</i>	-225	-91	9	273	-64	-129	85
<i>Poland</i>	-379	-680	-926	-948	-843	-800	-595
<i>Romania</i>		-247	-300	-671	-331	-354	-729
<i>Slovakia</i>	1021	431	442	275	386	843	466
<i>Slovenia</i>	-231	-165	-208	-137	-229	-228	-226

Source: Dangerfield, M. (2000).

Since the purpose of this section of the article is to highlight positive results of CEFTA cooperation in order to support the overall argument that it has been an important aspect of the EU pre-accession process, the intention is to identify rather than explain some of the main patterns of intra-CEFTA trade. In any case a full analysis of the development of intra-CEFTA trade would merit a substantial study in its own right. Moreover, it is important to be clear that, like any trade and integration framework, the *de jure* processes of tariff removal and elimination of quotas etc. are only facilitating devices. The extent to which trade responds in a dynamic way will depend on various factors, such as geographic proximity, whether countries have traditionally been active in each others' markets and also critically on supply-side factors. In the CEE context, key supply-side determinants of economic restructuring and improvements in competitiveness have reflected the pace, quality and consistency of reforms and also whether significant inflows of FDI have occurred.

The FDI issue does merit some discussion here due to the fact that there has been a two-way relationship between CEFTA and FDI flows. Standard

**Table 4.** Export/Import Coverage in CEFTA 1995–2001 (%)

	1995	1996	1997	1998	1999	2000	2001	Index 2001
<i>Bulgaria</i>	-	-	-	75	50	34	45	60
CR	112	127	133	142	121	119	124	111
<i>Hungary</i>	77	93	101	116	97	95	103	138
<i>Poland</i>	77	69	64	68	73	77	84	109
<i>Romania</i>	-	54	53	35	64	70	53	98
<i>Slovakia</i>	137	113	115	109	115	131	114	83
<i>Slovenia</i>	64	73	70	81	73	75	77	120

Note: Index 2000 compares 2000 value with 1995 or year prior to CEFTA entry in the case of Bulgaria and Romania. A score of over 100 indicates an improved export/import coverage situation; less than 100 indicates a deterioration.

Source: Dangerfield, M. (2000).

economic theory assumes that formation of free trade areas stimulates further FDI into the economic space created. Many official endorsements of CEFTA have made this assertion, including ones from European Commission officials: “the Union strongly supports the Central European Free Trade Area (CEFTA) ... [a]s trade barriers fall, foreign direct investment should increase, with further gains to productivity and investment”.<sup>58</sup> Various authors have provided empirical evidence that CEFTA has had an FDI-inducing effect, for example Rudka & Mizsei, Handl and especially Elteto & Sass whose study based on survey data found that “the main aim of the investment had become not simply to supply the local market (initially through imports and later through local production) but to supply the regional market as well. For some products, production capacity was established with the express purpose of producing for the regional (CEFTA) as well as the local market”.<sup>59</sup>

At the same time, FDI inflows have influenced intra-CEFTA trade developments. For example, Hungary’s position as the leading recipient of FDI inflows has contributed to strong performance in intra-CEFTA trade, as shown by its steady improvement in export coverage and dynamic structural changes in its exports to CEFTA. There has also been the link between FDI and modernisation and diversification of the export structure, something which was already in evidence by the mid 1990s according to the UNECE which noted that exports of CEE countries were being accelerated by “new productive capacities in a number of sectors which came into operation as a result of 1991–1996 greenfield investments by multi-national companies.”<sup>60</sup> Given that, by the end of the first five years of CEFTA operation, modernisation of the commodity structure of intra-CEFTA trade was evident in the form of above average increases in shares of SITC categories 7 (machinery and equipment) and 8 (miscellaneous manufactures), the modernising impact of FDI inflows was showing up in intra-CEFTA trade too.<sup>61</sup> Agricultural trade has also felt the effect of significant FDI influence too. According to Kiss, the “increase of the Hungarian agricultural and especially food exports can also be explained by the activity of foreign capital and MNCs [Multi National Companies] in Hungary”.<sup>62</sup>

Finally, though this phenomenon remains essentially embryonic, outward FDI from various of the CEFTA countries increased markedly after the mid 1990s. Svetlicic & Jaklic show that this has been especially true of Hungary, Poland, the Czech Republic and Slovenia and that “[m]ost affiliations have been established in other TEs [Transition Economies].”<sup>63</sup> Though previous experience of these markets and historical and cultural proximity were identified as the two main factors at work, rather than CEFTA, subregional integration can only have helped these processes which will no doubt proceed apace in the context of EU membership.

### *Political Dimensions of CEFTA Cooperation*

Even though no formal political role was possible, CEFTA cooperation itself has generated various useful political by-products. Theoretical reference points for assessing the political role of subregional integration activities

include, of course, ‘commercial liberalism’ which holds that free trade frameworks give rise to interdependencies via cross border trade and investment and these sub-state relations are part of a broader process of forming ‘security communities’. In addition, research conducted into the role of post-Cold War subregional cooperation in Europe has stressed their contributions to so-called ‘soft’ security issues (economics, organised crime, environment) and their role as devices to alleviate tensions created by divisive patterns of EU and NATO enlargement.<sup>64</sup>

CEFTA’s political contributions would seem to be mainly to do with ‘soft’ security and the furthering of economic interdependence in particular. The more pan-European and inclusive subregional organisations (e.g. Central European Initiative, Black Sea Economic Cooperation) clearly have been more suitable vehicles for these soft security functions. Nevertheless, it can be argued that CEFTA has made a range of political contributions.

First, CEFTA has acted as an important forum for top-level political dialogue between the members states’ officials, especially useful for those states whose bilateral political relations have been somewhat strained. Between 1993 and 1998, CEFTA also acted as a useful surrogate for the dormant Visegrad Group. Second, CEFTA acted as a vehicle for re-activating diplomatic activity between the former CMEA partners (for accession negotiations for example). Third, the CEFTA factor also contributed to the resolution of complications in relations between existing and potential future members of CEFTA. Ukraine and Lithuania for example had strong incentives for consolidating their relationship with Poland, their ‘sponsor’ in CEFTA. Matters such as debts remaining from the break-up of the CMEA also needed to be resolved so as to obtain the necessary unanimous approval needed to enlarge CEFTA. For example, Bulgaria’s accession necessitated reaching agreement on its transferable rouble denominated debts to certain of the CEFTA states.<sup>65</sup> Fourth, though CEFTA fell some way short of forging a regional identity, the member states’ mutual political relations could only have been enhanced by the shared experience of a successful subregional cooperation project and the bonding and confidence-building usually entailed. At the Portoroz (1997) summit, for example, former Hungarian Premier Gyula Horn stated that the “fact that this Central European free trade zone — for after all this is what CEFTA represents — has become an enormously dynamic market and that trade among members has continued to grow is a great achievement in itself”.<sup>66</sup>

Finally, CEE leaders often express the view that CEFTA has served as a ‘training ground/fitness centre’ for EU integration. Beyond the basic opportunity to practice trade liberalisation, the implementation of CEFTA has also yielded “practical experience of the modalities of voluntary multilateral cooperation”.<sup>67</sup> This helps prepare for operating in organisations with bigger and more complicated agendas and demonstrates suitability to join those organisations on the assumption that “a good record of cooperation at sub-regional level will help, not handicap, states which otherwise meet the conditions for membership”.<sup>68</sup> This can be seen as a generic quality of post-Cold War subregional initiatives, though it might be the case that CEFTA has a

higher grading in this respect due to its focused agenda, shaky early foundations and potential to generate really testing problems (*viz.* 1998 agricultural trade disputes).

### 5. CEFTA Beyond the Fifth EU Enlargement

The last CEFTA summit (Brdo pri Kranju, Slovenia, 7–8 November 2003) passed with headlines such as “the members of the Central European Free Trade Agreement (CEFTA) have more or less said goodbye to this agreement”.<sup>69</sup> This farewell party for the EU new members did not even really qualify as a summit since only three out of eight Prime Ministers attended, showing that, for the departing states at least, CEFTA was consigned to the past. This meeting was preceded by some minor procedural steps to expedite impending downsizing of CEFTA. The Joint Committee meeting (Bled, Slovenia on 4 July 2003) amended Article 41 to the effect that EU accession automatically triggers exit from CEFTA and also modified Article 42 to enable Bulgaria to replace Poland as CEFTA Depositary.<sup>70</sup>

More substantial issues arose out of the transfer of trade arrangements between the new EU members and remaining CEFTA states from CEFTA to EA/SAA trade provisions, mainly because of the more advanced level of liberalisation of agricultural trade achieved in CEFTA. This was not a trivial issue as was pointed out in a recent bulletin from the Croatian Ministry of European Integration: “Currently, Croatia has bilateral agreements on free trade with six acceding countries which will cease to apply when, on 1 May this year these countries become EU members ... It is very important for the Croatian economy to gain absolutely free access to the market of the six acceding states for sensitive products such as milk and dairy products, live cattle and beef, pigs and pork. In the negotiations, Croatia is trying to achieve an increase in export quotas, given that quotas for the export of fish products to the EU are limited, while there are no limitations in exports to the market of the six previously mentioned states, where products can also be exported at zero customs rate.”<sup>71</sup> By 1 May 2004 corrective renegotiation of the relevant EAs and SAA had resulted in new protocols to the relevant bilateral agreements in which the most important export concessions for the remaining CEFTA states were retained at a cost of further opening agricultural markets to the wider EU (though not in line with the full CEFTA concessions). The negotiations for Croatia in particular were delicate and far from straightforward and included 200 product groups. Thus the passage from CEFTA to EU provisions seems set to proceed smoothly in the case of industrial products trade but less so in the agricultural sphere. Yet this could be seen as a symptom of deeper, universal problems of agricultural trade liberalisation, which in the CEFTA case unavoidably led to differentiated bilateral arrangements according to the preferences of the member states and the varied political sensitivities at work. Avoidance of future disruption of trade relations on account of EU membership for some was therefore largely inbuilt to the CEFTA framework.

What of the future of CEFTA? Bulgaria, Romania and Croatia plan for it to continue, having “expressed the conviction that the Central European Free Trade Agreement had a future at least for a medium term period” and FYR Macedonia is likely to accede sometime later this year.<sup>72</sup> The main debate at present is on the question of whether CEFTA could or should further expand into the SAP zone and in doing so perhaps transform into a South East European Free Trade Area (SEEFTA). Croatia has been a keen advocate of expanding CEFTA, though this has been essentially a strategy to pre-empt emergence of a discrete regional economic association for the SAP area. Officials of the Stability Pact for South Eastern Europe (SP), on the other hand, are in the process of assessing the possibility of expanding CEFTA into the SAP in line with the declaration of the second annual meeting of the Ministerial Conference of the SP *Working Group for Trade Liberalisation and Facilitation*, (Rome, 13 November 2003) which advocated the need “to consider the modalities of gradually going beyond the network of bilateral free trade agreements in South Eastern Europe”.<sup>73</sup>

Apart from the essentially political motivations of the two main protagonists, there are good reasons to doubt whether CEFTA can become a vehicle for more advanced subregional economic integration in the SAP zone. This is because such a scenario would rely on a paradox. On the one hand a strengthening of the CEFTA framework — given that it too has had significant bilateral components — would be needed in order for it to offer significantly more than the current SAP-wide network of free trade agreements but this would be at odds with the weakening of the CEFTA accession criteria that would be needed in order for it to be able to admit new members from the SAP zone (other than Macedonia) within the necessary timescale. There seems to be no obvious economic case for expanding CEFTA into the SAP area and the role CEFTA played in terms of a vehicle for top-level political dialogue is not relevant in the SAP case (due to the many fora currently available for this). Moreover, the European Commission’s April 2004 recommendation that membership negotiations with Croatia be opened should finally allay Croatian fears of involvement in any hypothetical Balkan economic union and make future scenarios for CEFTA far less relevant for Croatian policy. Either way, a revived role for CEFTA in SEE seems unlikely. CEFTA looks destined to gradually wither away and how long this takes will depend on whether the remaining members meet their target date for EU entry.

## Conclusions

The CEFTA cooperation has generated a range of useful political and economic benefits for the participating states. Economically, by facilitating impressive expansion of mutual trade and adding to reasons why multinational companies decided to invest in CEE, both of which have also amounted to important groundwork for the *de facto* dimensions of mutual integration which will come with EU membership. In the political sphere CEFTA cooperation has met with EU preferences on mutual integration and



has in various ways been a force for improving neighbourly relations in the subregion. The story of CEFTA cooperation is a counterbalance to those whose portrayals of the relations of certain of the participating states have tended to emphasise disputes and anti-cooperative behaviour. The widening success of CEFTA — clearly possible because the integration parameters have been set at the lowest common denominator (in practice free trade but in principle within the parameters of the current level relations with the EU) — has meant that these political as well as economic benefits have included countries at varying stages in the EU accession process. A more complicated or advanced integration agenda would not only have probably failed but also have restricted the diffusion of the benefits of the subregional activity, while a more diluted or broad-based one would probably have achieved less effective results.

What does the CEFTA experience offer in terms of lessons for other subregional integration programmes? First, there is the need to embed trade liberalisation in the broader disciplinary framework of WTO membership and EAs or at least to ensure that free trade agreements strictly conform to those standards. Second, agricultural trade liberalisation should proceed cautiously because of the potential for trade disputes — which should certainly not be unnecessarily risked in case of the SAP countries, for example. Third, subregional integration will tend to parallel the mode of integration the participating countries have with the EU; this means what is being undertaken in practice and not what is being prepared and worked towards. In the case of the EU candidates this means that the basic free trade model will prevail.<sup>74</sup> Even where countries have achieved more intensive mutual integration outside of EU membership this has either been a unique result of state dissolutions (e.g. division of Czechoslovakia) or has been a secondary process based on the implementation of EU rules and usually in the context of a policy of staying outside the EU proper (e.g. the European Economic Area). Fourth, by ensuring that the integration being implemented at the subregional level does not breach that existing with the EU during the pre-accession period, other favourable consequences for the EU membership endeavour are guaranteed. As the CEFTA example shows, subregional cooperation will not in any way act as a drag on the EU membership prospects of the more advanced candidates. Moreover, in the event of differentiated EU accession timetables for the various participants — inevitable in the SAP zone — it means that the problem of disrupting or reversing integration (as would have applied in the case of the Czech and Slovak Republics, for example) will not arise. Thus the CEFTA experience provides evidence that the occasional rhetoric which surfaces on the subject of economic unions for SEE is practically as well as politically unacceptable.

Historically the EU aspirants from post-socialist Europe have shown (at least initial) reluctance to engage in mutual cooperation and have equated it with a hindrance to EU membership prospects. On the basis of the above they can only gain from the endeavour, though any subregional integration which somehow runs ahead of that achieved at the level of EU relations

should be neither expected nor encouraged. An intriguing question for the future is whether a different story may unfold in the case of the putative 'United Economic Space'. If this project proceeds, it looks set to do so not only without an anchor in the EU enlargement process but as a result of this anchor being withheld. In both the CEFTA and SEE subregions the EU membership prospect played a key role both in motivating the participants and providing guidelines for the form and limits of the subregional integration projects. Yet the EU may still turn out to be a catalyst should the YEP group opt to develop their relations with the EU to a level similar to, say, the EEA, as their own mutual integration will have to be compatible with those arrangements. Also, if the YEP integration scenario develops beyond free trade, any model other than a single/common market route is hard to imagine, irrespective of whether the EU is directly involved or not. There is also the possibility that the YEP project could fail because of the reform and transformation deficiencies which so far prevail. Either way, it seems inevitable that the EU will exert a strong influence on the process and prospects of subregional cooperation beyond its new eastern frontiers as well.

## Notes

1. All CEE new members except Slovenia were CMEA members (indirectly in the case of the Baltic States).
2. The SAP Process covers Croatia, FYR Macedonia, Bosnia and Herzegovina, Serbia and Montenegro and Albania. For more on intra-SAP economic cooperation and also on the links with the CEFTA experience see Uvalic, M. (2003) and Dangerfield, M. (2003).
3. See 'Deal for Ukraine boosts Russian plans for regional economic bloc', *Financial Times*, 21 April 2004.
4. *ibid.*
5. See 'Europe must take a wider view of the future', *Financial Times*, 30 March 2004.
6. 'Hard' goods were saleable outside the CMEA and for convertible currency. 'Soft' goods were in excess supply in the CMEA and usually not saleable outside it.
7. Earlier proposals included the Central and East European Union (CEEU), outlined later in this section, and the Soviet-sponsored Organisation for International Economic Cooperation (OIEC) which was abandoned when it became clear that the CMEA would be abolished rather than reformed.
8. Köves, A. (1992), p. 93.
9. Toth, L. (1994), p. 16.
10. See Dangerfield, M. (2000) for a more thorough account of the reintegration versus reorientation debates and the full story behind the birth of CEFTA.
11. A problem not helped by the Visegrad countries all seeing themselves as ahead of not only Bulgaria and Romania in the EU membership race but also, for varying reasons, of each other too.
12. See Richter, S. (1997). In contrast to the Soviet trade issue for which vested interests affected by the collapse of the Soviet market represented a "large and influential group of economic agents with a vital interest in this trade" (Köves, A. & Oblath, G. (1994), p. 16).
13. Okolicsanyi, K. (1993), p. 21.
14. Köves, A. (1992), p. 91.
15. Dangerfield, M. (2000), p. 33.
16. *Declaration of Cracow* (1991), p. II. For the full text of the Declaration see <http://www.visegrad-group.org>.
17. Rudka, A. & Mizsei, K. (1995), p. 14.
18. Rudka, A. & Mizsei, K. (1995), p. 14.
19. BBC, *Summary of World Broadcasts*, 13/9/95, A/2.

20. BBC, *Summary of World Broadcasts*, 16/9/96, C/4.
21. Bulgaria holds the CEFTA chair in 2004.
22. CEFTA, *Central European Free Trade Agreement*, Cracow, 21/12/92, p. 17.
23. *ibid.*, p. 2.
24. This objective was formally abandoned in August 1998.
25. Kiss, J. (1999), p. 88. While it is true that the Soviet market was the core one during the CMEA period, as Kiss also shows, Hungary succeeded in substantially increasing agricultural exports to the CEFTA area to the extent that Hungary became the only CEFTA member for which agricultural goods were the most important component of exports to CEFTA.
26. Richter, S. (1997), p. 12.
27. There was free movement of labour between the Czech and Slovak Republics in the framework of their bilateral agreements that were quite separate from the CEFTA provisions.
28. Unemployment data taken from World Economy Research Institute (1997), p. 30.
29. Kopec, U. (1996), p. 80.
30. Richter, S. (1997) argued that by rejecting free movement of people — which would not have encouraged significant migration — CEFTA countries in fact missed a great opportunity to demonstrate to the EU countries that their own fears on this front were greatly exaggerated.
31. This failure to liberalise cross-border trade in services is hardly surprising when the meagre progress of the EU itself in this sphere is taken into consideration. In May 2003 the European Commission stressed the need to “tear down barriers in the service sector, which accounts for 70 per cent of EU gross domestic product but only 20 per cent of cross-border trade” (*Financial Times*, 5 May 2003).
32. BBC, *Summary of World Broadcasts*, 14/9/95, A-1.
33. Koza, P. (2000), p. 43.
34. *ibid.*, p. 43.
35. *Financial Times*, 12/11/02.
36. The author is most grateful to officials from the Slovak Ministry of Economy for their advice regarding the state of play in both Articles 23 and 24 and for providing a copy of the press information released following the Bratislava summit.
37. DTI (2000).
38. Notably the collapse of the Russian market and the diversion of both exports from CEFTA and EU producers onto the CEFTA market.
39. *The Budapest Sun Online*, 28/10/99.
40. *The Budapest Sun Online*, 29/3/01.
41. *RFE/RL Newslines — Southeastern Europe*, 12/10/01.
42. See Kiss, J. (1999).
43. *RFE/RL Daily Report*, Slovak Selection, 28/11/94.
44. BBC, *Summary of World Broadcasts*, 13/9/95, A/1.
45. *RFE/RL Daily Report*, Slovak Selection, 28/11/94.
46. The ‘Luxembourg Group’ was used to denote the five original ‘fast-lane’ CEE candidate states — the Czech Republic, Estonia, Hungary, Poland and Slovenia — which, together with Cyprus, received their invitations to begin EU membership negotiations in December 1997. Invitations to begin membership negotiations were issued to the other five CEE candidates at the December 1999 Helsinki meeting of the European Council. Thereafter the original ‘slow-lane’ EU candidates — Bulgaria, Latvia, Lithuania, Romania and Slovakia — were referred to, at least for a while, as the ‘Helsinki Group’.
47. *Financial Times*, 23–24/2/2002.
48. *CEFTA Press Information*, 2002, 4.
49. Slovenia’s EA was influential as it referred to the need for Slovenia to pursue subregional cooperation with other associated states.
50. Grela, M. (1997), p. 142.
51. Mayhew, A. (1998), p. 355.
52. Romanian News Agency, April 1997.
53. Madej, Z. (1997), p. 100.
54. All data taken from Dangerfield, M. (2003).
55. *CEFTA: Central European Free Trade Agreement*, Cracow, 21 December 1992, p. 2.
56. Figures for the Czech Republic and Slovakia exclude their mutual trade.

57. CESTAT *Statistical Bulletin* (2001), II.
58. Avery, C. & Cameron, F. (1998), p. 20. Also, when discussing the reasons why Croatian entry to CEFTA was seen as a strategic priority, the former Croatian Minister of Economic Affairs Nenad Porges explained that “a small market such as ours cannot interest large American corporations. However, we have to bear in mind that Croatia’s absolute priority is to join CEFTA, which means a wider Central European market, and that means that American arrival is more assured” (*Banka International*, 1 March, 1998).
59. Elteto, A. & Sass, M. (1998), p. 12.
60. UNECE (1998), p. 132.
61. Dangerfield, M. (2000). SITC refers to the UN’s Standard International Trade Code.
62. Kiss, J. (1997), p. 17.
63. Svetlicic, M. & Jaklic, A. (2003), p. 661.
64. Cottey, A. *et al.* (1996); Bremner, I. & Bailes, A. (1998).
65. On 17 September 1998 Poland and Bulgaria reached agreement on a payments timetable for Bulgaria’s DEM 123.6 billion to Poland and “settlement of this debt to Poland was part of Bulgaria’s preliminary agreement for Central European Free Trade Agreement membership.” *Central European Business Weekly*, 25/9–1/10/98, p. 11.
66. BBC, *Summary of World Broadcasts*, EE/3025 C/2, 16/9/97.
67. Cottey, A. *et al.* (1996), p. 21.
68. Bailes, A. (1997), p. 30.
69. BBC *Monitoring Service*, 8/11/03, ‘Slovene press says most members have “said goodbye” to CEFTA’, (Accessed via <http://www.FT.com>, 10/11/03).
70. Details of the amendment to the CEFTA treaty concerning Articles 41 and 42 were kindly provided by the Slovak Ministry of Economy.
71. *Euroforum* (Newsletter of the Ministry for European Integration, Croatia), February 2004, p. 6. The six new members mentioned were the CEFTA 5 plus Lithuania with which Croatia also had a free trade agreement.
72. ‘Slovenia: CEFTA’s past activities assessed as very successful’. *BBC Monitoring Service*, 7/11/03. FYR Macedonia formally applied to join CEFTA on 15 April 2004. (Accessed via <http://www.FT.com>, 10/11/03).
73. *Euroforum* (Newsletter of the Ministry for European Integration, Croatia (2003), p. 22.
74. Even though a case for a customs union could be made, problems would arise in the case of those countries which have particular preferences for trade liberalisation with specific countries which are not shared by the other members because, for example, they may at the time have been contrary to strategies of aligning third party relations with those applying for the EU. In addition, as in the case of the other deepening measures mentioned in this paper, the approach to the EU has been exerting an indirect harmonisation effect in the field of external economic relations too.

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