12. The Central European Free Trade Agreement (CEFTA): A Step Towards EU Membership or Genuine Cooperation?

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1. Introduction

The Central European Free Trade Agreement (CEFTA) was concluded in December 1992 to foster the trade liberalisation of the Central and Eastern European countries (CEECs) after the breakdown of trade relations among the member countries due to the disbanding of the Council for Mutual Economic Assistance (CMEA). CEFTA covers a wide range of trade-related cooperation which includes not only the reduction of tariff barriers but also intends to create favourable conditions for cooperation at the company level, transportation and infrastructure, the harmonisation of energy systems and telecommunication networks. Eventually, CEFTA is intended to be transformed into a common market with free mobility of capital and labour.

This paper reviews the progress of CEFTA since its inception and evaluates its success in terms of the deepening of regional trade relations. The results are measured against the bilateral trade flows of the individual member countries with the European Union (EU). The plan of the paper is as follows: section 2 provides a brief history of CEFTA, section 3 analyses the trade flows of the original CEFTA members, while a final section concludes.

2. The Origins and Development of CEFTA

Since the mid-1980s, the unravelling of the Soviet Union has brought great changes for the CEECs whose economies were closely intertwined within the CMEA. The Soviet Union used to be the central power of the CMEA, which function it was no more able to carry out. By this time, the member countries of the CMEA had also begun to broaden their trade relations with the world market in an attempt to boost their foreign exchange reserves. The demise of the CMEA hastened this reorientation to the world market for different reasons. First, the participating countries had traditionally adhered to a pattern of specialisation which was not based on the principle of comparative advantage so that the switch from administrative to world market prices resulted in changing patterns of trade within the former CMEA area. In particular, much of the trade in machinery disappeared and has since only partly been replaced by trade in other products, notably raw materials or less processed industrial products[2]. Second, while trade under CMEA had been tariff-free, the trade policies of the newly independent CEECs led to an extensive structure of tariffs and quotas on a whole range of products[3]. At the same time, the Europe Agreements of the individual CEECs granted tariff concessions for their bilateral trade with the EU and the European Free Trade Area (EFTA). Though, this is widely made responsible for competitive disadvantages and weight losses on each other's markets[4], we have to take into account the asymmetrical arrangement of these agreements. Third, the clearing system of the CMEA had been based on the transferable ruble as the accounting standard for the mutual trade flows. One of the features of this clearing system had been a strong reliance on trade flows to settle financial obligations, making it akin to a barter system in international exchange. The shift to dollar-based trade dispensed with a lot of those previous transactions, which in itself contributed to a reduction in the member countries' mutual trade flows. Fourth, a great depression in the CEECs by 1990-91 brought a fall-off in investment, that is in demand for machinery and equipment. In addition, the elimination of administrative barriers to imports from industrialised countries made it possible to satisfy suppressed demand for western products. Though mostly, the introduction of dollar-invoicement is made responsible for the significant trade disruptions within the confines of the former CMEA area, it has to be pointed out that the joint influence of all factors led to the described movements in trade relations.

Partly in response to this development, the heads of state of Czechoslovakia, Hungary and Poland convened in Visegrád in February 1991 to foster cooperation in political and security aspects, as well as in regional economic relations. In a follow-up meeting in Cracow in October 1991, it was decided to draw up a free trade agreement among the Visegrád-Group in an attempt to stem the reduction in mutual trade flows and improve the competitive position of these countries in the world market. As a result, CEFTA was set up in December 1992 at a formal ceremony in Cracow. The agreement went into force March 1993 one year after the Europe Agreements did. Originally, the CEFTA was confined to the Visegrád-Group, and there were no plans to extend membership to other states. Hence, CEFTA was never intended to be a successor to the CMEA. Nevertheless, it proved out that a further deepening of the cooperation would fail mainly due to the resistance of the Czech Republic so that the only way to improve CEFTA would be an extention of membership to other countries. However, the original agreement did not cover the aspects of extention. These were decided at the summit in August 1995 in Warsaw and laid down in the Supplementary Agreement to CEFTA with the addition that all European countries would have the chance to join the CEFTA

[Dangerfield (1997)]. The three requirements for becoming a member of CEFTA include the membership in the WTO, the consent of all other CEFTA members and the assignement of a Europe Agreement [see Dunay (1997)]. Membership in the CEFTA definitely ends with the accession to the EU. Slovenia is a member since 1996 and Romania since 1997[5]. The opening of accession negotiations with Bulgaria was decided at the September 1997 meeting in Portoroz. Although, Bulgaria has become a formal member in the meantime, tariff reductions will only start in January 1999[6]. Moreover, many other former CMEA states expressed their wish to join CEFTA, for example the former Soviet republics Estonia, Latvia, Lithuania, Ukraina and Belorussia, as also did Croatia and Macedonia. This fact may be seen as a proof for successful functioning of CEFTA, but there may also exist some other reasons for it. One of them could be that the EU obviously regards regional cooperation between the CEECs as a proof of their political and organisational maturity.

In fact, CEFTA members have noticable fears from building any kind of integration that may signal willingness for longer term persistence or that may resemble the CMEA. For example, another payments union would have the same negative trade diversion effects as CMEA had and would probably reverse positive developments of the last few years [Richter and Tóth (1994)]. There is no attempt to bring the CEECs together to a closed economic unit, which would be suboptimal in size, because then technological growth impulses and foreign direct investment could only come from outside this unit [Körösi (1996)]. On the other side, all CEFTA members strive for full membership in the EU as soon as possible. Four of them[7] started accession negotiations in March 1998. That is why we cannot assume that they have intended longer term membership in CEFTA. They merely aim at 'normalising' relationships through creating equal conditions for intra-regional trade to trade with EU and EFTA [Köves (1995)]. Most of them regard CEFTA as a preparatory organisation for the EU membership in a competitive field. By now, CEFTA has arrived to a point where accession of four CEFTA members to the EU is moving near and it will have to think about alternatives for future strategies which consist of measurements for further deepening or enlargement. The second, that is the enlargement to the direction of less transformed countries, may hinder the realisation of the first [Dangerfield (1998)].

The CEFTA treaty rests on four basic principles:[8] (i) the agreement was supposed to cover both industrial and agricultural products and calls for the gradual elimination of tariffs and non-tariff trade barriers for industrial products no later than the end of the year 2000, (ii) tariff reductions are to be achieved for sensitive products such as agricultural products and processed food, (iii) unlike the bilateral agreements with the European Community (EC) and EFTA, CEFTA is based on the principles of symmetry and equivalence of mutual benefits, (iv) the CEFTA agreement stipulates mutual concessions which should be at least equal to those laid down in the bilateral Europe

Agreements.

The tariff reductions are to be realised at different speeds, where products are divided into three different categories. The first category consists of mostly raw materials and semi-processed goods, and is referred to as List A. In this category, tariffs have been completely eliminated at the inception of CEFTA in March 1993. The second category (List B) includes processed and manufactured products, the tariffs on which were reduced in three phases by a rate of one-third of the level in 1993 between 1995 and 1997. Finally, List C is made up of 'sensitive' industrial products. For this category, tariffs are phased out over an 8-year period which started in 1995. Special rules apply to trade in agricultural products and processed food, which are subject to quota regulations and partial tariff reductions by 50 percent during the initial 5-year period. [See Gwiazda (1996).]

During their Budapest meeting in April 1994 the representatives of the CEFTA states agreed to speed up the elimination of the remaining tariff barriers to be completed by the end of the year 1997. But even to this time, there still exist restrictions to trade in some especially sensitive products individually listed in the agreement, so that CEFTA will not lead to the creation of a free trade area earlier than 2002. Though, all additional protocols led to pacing up of tariff reductions.

Further improvements in cooperation, for example, were achieved in Brno in 1995, where the principles for extending free trade to services and for liberalising capital flows were concluded [Dangerfield (1997)]. While CEFTA was intended to be transformed into a kind of a common market with free mobility of capital and labour, there do not yet exist concrete plans to realise these longer term objectives apart from these principles aiming to adapt to the EU's internal market [9].

Moreover, the CEFTA treaty does not arrange for the creation of permanent institutions or even a secretariat. Though, Slovakia strongly supported this idea, only the establishment of a yearly rotating quasi-secretariat could be attained [Dangerfield (1997)]. This rotation leads to fluctuations in the activities of the organisation.[10] The implementation of the free trade agreement is supervised by the CEFTA joint committee, which is also the forum for consultations and the only decision-making body envisaged by the agreement. The committee is made up of the ministers in charge of foreign economic relations of the participating countries and meets at least once a year [see also Vezér and Kiss (1994)]. The actions of the committee are supported by working groups in the fields of environment protection, transportation-infrastructure, telecommunications and employment policy [Kádár (1994)].

3. Regional trade flows within CEFTA

The CEFTA countries build a subregion within Europe because of their geographical and strategic position but they are not closely interlinked with each other in an economic sense. Hence, analyses that tried to estimate the trade diversion effects of CMEA came to the unanimous result that arrangements within CMEA led to an artificial concentration of trade flows on the area. Nagy (1989) calculated exorbitant intensity of intra-CMEA trade which was to diminish from between 5 and 6 times to three times the normal value, that is the equivalence of the share of the exports of a country in the imports of the other with the share of exports of this country in the world trade, as in fact happened by 1990-91. For small eastern European countries, Collins and Rodrik (1991) estimated on the basis of historical data that orientation to the EU, especially to Germany, would have been stronger in case of market oriented development since World War II than they actually performed in 1989. Hamilton and Winters (1991) such as Havrylyshyn and Pritchett (1991) and Maurel and Cheikbossian (1997) showed on the basis of gravity modells that till 1990, trade flows between the EU and the CEECs were too low compared to the potential given by GDP, population and geographical distances so that a reoriantation to western Europe was to be expected, but still, trading potential is not yet exhausted. From this point of view one cannot be surprised by the breakdown of trade relations within the former CMEA area. Then, intra-regional trade began to increase from a rather low level after the start of CEFTA. The main characteristics of CEFTA trade are: first, a low processing grade of exchanged products. Second, a considerable part of turnover is realised with the intermediation of western European companies because of unsatisfactory banking services and lack of export financing constructions. Third, cooperations on the company level are rare, and there is little intra-regional direct investment. Nevertheless, multinational companies contribute to a dynamic revival of trade and entrepreneurial integration. [Réti (1997)]

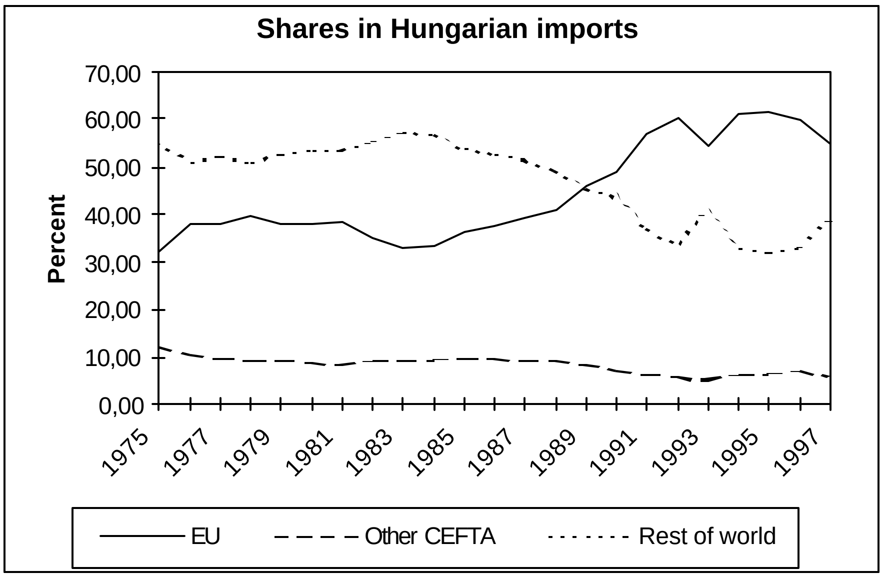
In this paper, the analysis of the regional trade flows is carried out on the basis of bilateral mutual trade data for the three original Visegrád-states and is compared with data for bilateral trade flows with the EU. Data for the Czech and Slovak Republics are aggregated for purposes of better comparison. Total trade values of these two countries that have built a customs union since January 1993 do not include intra-union trade flows. EU means the whole present EU area, that is trade values of countries that became a member after 1975 were added to trade values of the old EC. Even trade values for the former German Democratic Republic (GDR) are included, which may distort my results. On closer examination of the importance of trade with the former GDR, however, one may realise that apart from Czechoslovak imports and Polish exports this hardly conceals the direction of changes. Further, it should be taken into account that the rest of the world includes besides formerly CMEA countries, and developing countries also highly industrialised countries like the USA, Japan, and far East-Asian countries.

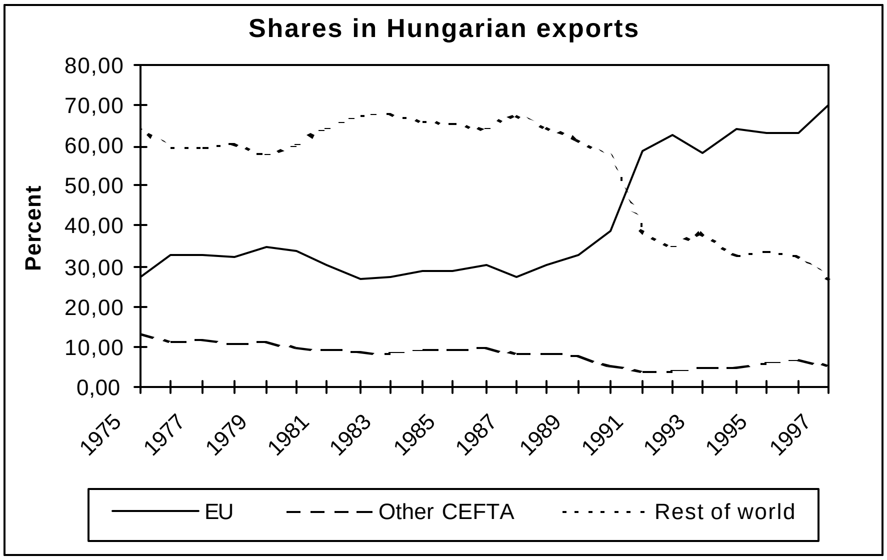
I avoided using absolut quantities as it was not possible to gather unified data concerning the level of trade flows. As a matter of fact, import values of one country from the other seldom correspond to the export values of the latter to the previous one. Of course, this fact may partially be explained by different calculation methods of exports (usually f.o.b.) and imports (usually c.i.f.).[11] Though, all trade flow data were reported f.o.b. by the former Czechoslovakia and Poland in the data base.

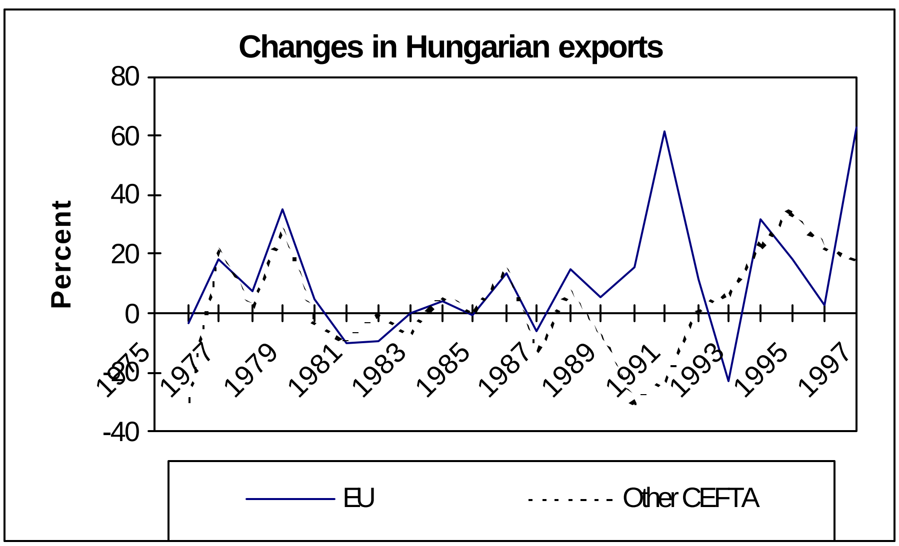
The first part of the figures show the importance of groups of trading partners measured by shares in the respective country's trade during the time from 1975 to 1997. I chose this method to eliminate effects of changes in total trade flows. Maurel and Cheikbossian (1997) point to the shortcomings of this simple procedure which does not consider changes in the real GDPs[12] used as proxies for the importer and exporter capacities of the country. In fact, I did try to test the influence of growth on trade flows between 1982 and 1996 by comparison of percentage changes in real GDP and trade flows, but no clear influence could be discovered. Hence, one cannot say with conviction that positive or negative growth had pro-trade or anti-trade effects, quite to the contrary, a reversed relationship should evenly be supposed, that is the loss of sales markets led to several bankruptcies. Hungary experienced depression between 1990 and 1993, where the most serious fall in real output occured by 12 percent in 1991. In this year, total and EU imports and exports as well as CEFTA imports increased whereas CEFTA exports decreased.[13] Nevertheless, trade with the other CEFTA countries seem to be more sensitive to income changes than trade with the EU. In case of the former Czechoslovakia, with the same depression period, the year 1991 brought a sharp fall in output and imports in all relations, though, exports to the EU increased. Poland recovered very fast, real growth was again positive in 1992. During the two years of depression, imports first fell sharply in all relations then increased spectacularly. Exports did not show the same development as exports to the EU grew while exports to the CEFTA countries first fell then increased less spectacularly.

The second part of the figures, where percentage changes in trade values with other CEFTA countries and the EU are plotted, tries to give an insight into the reasons for the observed developments by pointing out the differences between these two directions.

Figure 1: Shares and changes in Hungarian trade flows



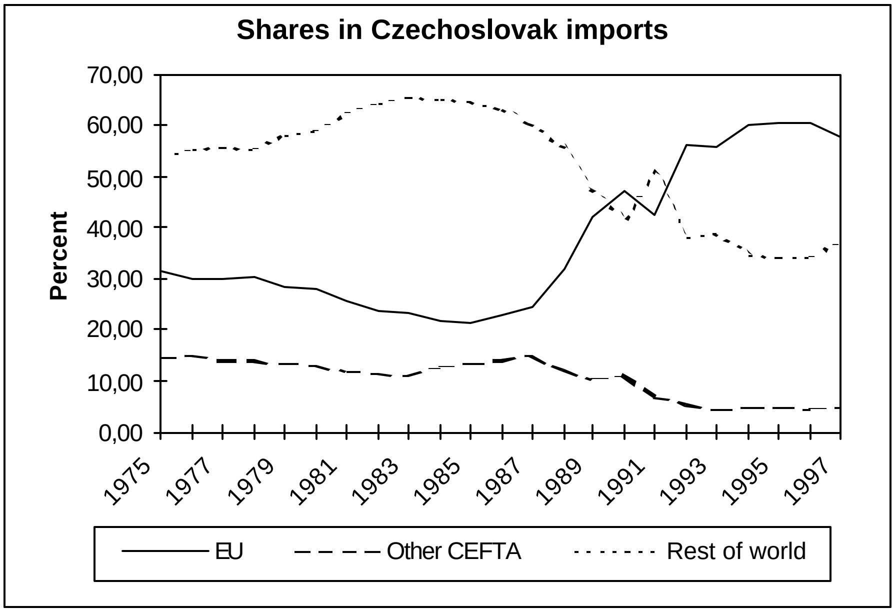


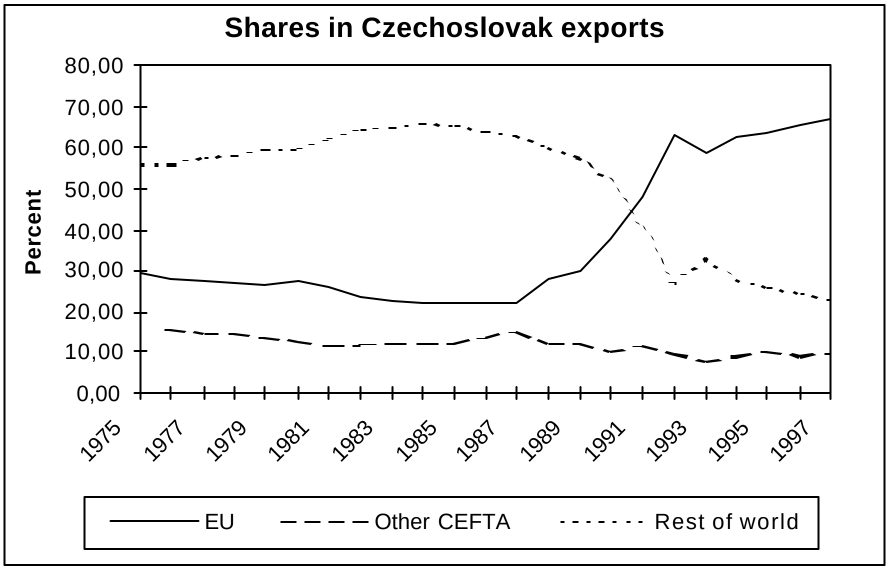


Source: International Trade Statistics Yearbook, U.N.; Direction of Trade Statistics, IMF; Monthly Statistics of Foreign Trade, OECD; own calculations

Figure 1 makes clear that even though there may have been an attempt by Hungary to reorientate to the EU since the mid-1980s, this endeavour was merely realised in gains of imports from the EU since 1985 whereas exports to the EU first remained relatively stable then gained weight by about 5 percent in 1990. Since then, the importance of the EU grew rapidly to a share of about 60 percent of both imports and exports. The most obvious changes occurred in 1991 and 1994, when imports grew by over 50 respectively 30 percent and exports grew by over 60 respectively 30 percent. By 1996, growth of trade flows with the EU did not exceed the growth of total trade values. In 1997, the EU could again strengthen its position in exports to a share of 70 percent through a growth rate of more than 60 percent, but importance in imports fell to 55 percent. 1990 brought also a notable loss in the importance of the other CEFTA countries, that is the former Czechoslovakia and Poland, as trading partners for Hungary. During the 1980s, weights of these two states stagnated around 9 percent. Imports have fallen since 1987 and then recovered in 1994. The breakdown in exports occurred between 1987 and 1991, but since 1993, the other CEFTA countries have been gaining weight. Trade with this region grew much faster than total and EU trade in 1996, but this development stopped by 1997, when the importance of this region fell from about 7 to below 6 percent in both exports and imports. The share of the other CEFTA countries was higher in 1996 than in 1990, but did not reach the level of 1989 and earlier.

Figure 2: Shares and changes in Czechoslovak trade flows

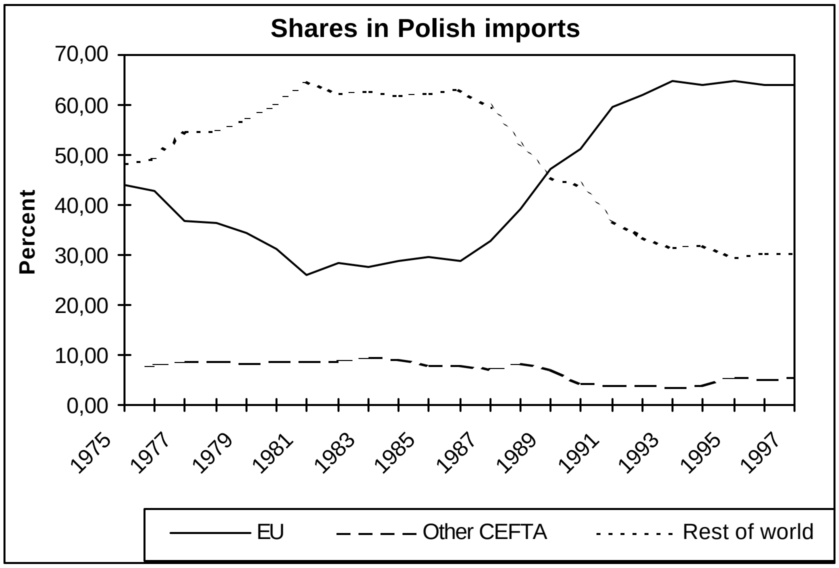


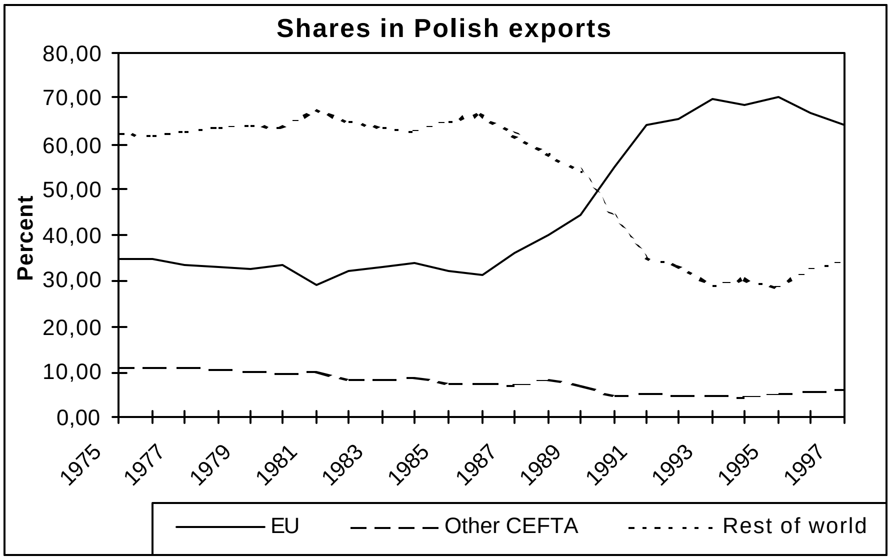


Source: International Trade Statistics Yearbook, U.N.; Direction of Trade Statistics Yearbook, IMF; Direction of Trade Statistics, IMF.; Monthly Statistics of Foreign Trade, OECD; own calculations

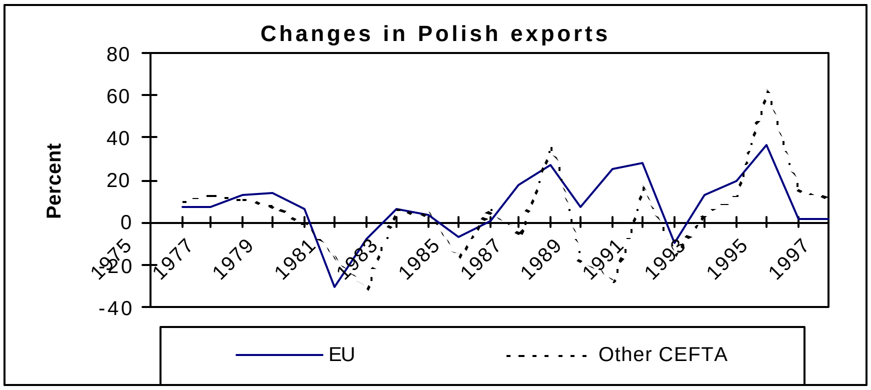
Figure 2 shows a more clear picture for the former Czechoslovakia, where an effort to reorientation has been performed by gains of importance for the EU trade and by losses for trade flows with the other CEFTA countries, that is Hungary and Poland, since 1988. Since then, foreign trade has declined until 1991 resulting in an even more serious fall in CEFTA trade. Willingness to reorientate was made most clear in 1992 as imports from the EU grew spectaculously by nearly 60 percent and exports to the EU increased by more than 35 percent whereas trade with CEFTA declined. By 1997, exports to the EU seem to still be brightened to more than 65 percent of total exports, while the growth of EU imports to more than 60 percent was stopped by 1997. In 1996, trade with other CEFTA countries lost weight after initial gains in 1994 and 1995, when exports to the CEFTA states grew stronger than total and EU exports. The increase of CEFTA imports exceeded that of EU only in 1995. 1997 brought recovery in both exports and imports with slight gains in importance. The level of 1989 and earlier was not hit here either.

Figure 3: Shares and changes in Polish trade flows





Shares in Polish exports
80,00
70,00
60,00
50,00
40,00
30,00
20,00
10,00
0,00
Percent
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
EU
Other CEFTA
Rest of world



Source: International Trade Statistics Yearbook, U.N.; Monthly Statistics of Foreign Trade, OECD; own calculations

Shares in polish import and export shown in Figure 3 perform a reorientation to the EU in imports such as exports since 1987, whereas a notable breakdown in trade with other CEFTA countries, that is the former Czechoslovakia and Hungary, occured in 1989 and 1990 by an about 30 respectively about 50 percent decrease in imports and a nearly 20 respectively 30 percent fall in exports. Shares of trade flows with CEFTA states fell continuously between 1989 and 1994 to under 5 percent of total trade values. While the weights of imports from the EU have remained nearly unchanged since 1993, imports from other CEFTA countries have regained importance since 1994 but remained on a very low level, that is between 5 and 6 percent. Exports to CEFTA countries have grown faster than EU exports since 1995, so that the EU has lost weight since 1996 after achieving its highest level of importance of about 70 percent of total exports between 1993 and 1995. The growth of exports to CEFTA first exceeded total export growth in 1995, in 1996 and 1997, though less strong, this expansion continued. The share of CEFTA exports arrived at slightly above 6 percent by 1997. Since 1990, the importance of the other CEFTA countries have remained below that of 1989 and earlier.

All figures above[14] provide a proof for the thesis that returning of the CEFTA founders to the EU started earlier than 1991, the year that is widely regarded as the turning point. Quite to the contrary, responses made clear by percentage changes in trade flows, though maybe concealed by partly higher world market prices, show that serious breakdown in CEFTA trade can rather be observed at least one year earlier. Namely, gaines of weight for the EU trade have been observed since 1987 respectively 1988. Shares of CEFTA trade fell nearly over the entire period. This development may only have been worsened by the shift to dollar-based trade. It could be the achievement of CEFTA that a loss of weight in CEFTA trade in total trade was stopped by 1994, the first full year where CEFTA was in force. By 1996, growth of trade values within CEFTA seems to be exhausted, as growth rates were again diminishing in this year. Yet still, two digit changes of trade values, which were with the exception of Hungary stronger than in relation to the EU, could be stated in most cases even in 1997.

The next question to deal with is the trade diversion and trade creation effects of the CEFTA arrangement compared to those of the Europe Agreements. I tried to detect these trade effects by comparing relative changes of trade flows in both directions to total change. Then one may speak of trade diversion if trade values in one direction grew stronger than total trade while trade in another direction diminished, as trade flows were obviously diverted from the latter to the first. Trade creation describes the increase in total trade induced by new trade policy arrangements which we may discover by the contribution of trade growth in one direction to the increase of total trade while trade flows in all other directions are kept unchanged. I calculated indicators for trade effects that show which part of the rise in total trade values can be explained by the changes in trade values in one direction when weights are considered.

$$M_{ji} = \frac{\left(\hat{m}_{ij} - 1\right) \cdot \dfrac{m_{ij}}{m_i}}{\hat{m}_i - 1}$$

where M_{ji} indicates the effects of region *j* on the imports of country *i*, m_{ij} means the imports of country *i* from region *j.*

$$X_{ji} = \frac{\left(\hat{x}_{ij} - 1\right) \cdot \dfrac{x_{ij}}{x_i}}{\hat{x}_i - 1}$$

where X_{ji} indicates the effects of region *j* on the exports of country *i*, x_{ij} means the exports of country *i* to region *j.*

Negative values signal contradictory development of trade in one direction to total trade. In case of total trade reduction this means an increase of trade values in one direction, but then we may hardly speak of trade creation effects, though, otherwise trade destruction would have been even worse. We should rather speak of trade diversion to this region. The other way around, negative values show clearly that trade flows were conducted away from the affected region. In case of total trade growth positive values above the unit may signal trade diversion effects, that is more than 100 percent of increase in total trade occurred due to the rise of trade in one direction so that trade in other relations must have fallen. Values between zero and one mean that the increase of trade in one direction contributed to trade growth but the effect was not strong enough to redirect trade flows from other regions. This very simple method does not consider the effects of trade on home production and substitution effects in consumption. An analysis of these would require calculation with detailed data including output, consumption, and trade in various product groups such as respective price indices, which goes beyond the scope of this paper.[15]

Table 4: Trade effects[16]

HUNGARY	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Import effects of EU	-1,21	0,94	-0,64	***0,11***	1,15	0,69	***0,22***	***0,37***
Import effects of other CEFTA	0,66	***0,03***	0,13	***0,00***	0,14	0,10	0,28	***0,02***
Total import change (%)	-1,95	31,5	-2,58	13,1	16,1	6,26	4,81	31,00
Export effects of EU	-	5,69	1,43	0,78	1,00	***0,58***	***0,61***	0,96
Export effects of other CEFTA	4,48	-0,15	***0,01***	-0,02	0,06	0,10	0,72	***0,02***
Total export change (%)	-0,39	6,40	5,11	-	20,1	20,2	2,20	45,30

CZECHOSLOVAKIA	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Import effects of EU	***0,23***	1,21	1,67	***0,55***	0,89	0,62	0,61	-3,25
Import effects of other CEFTA	***0,08***	0,52	***-0,01***	***0,02***	0,06	0,06	***0,03***	0,93
Total import change (%)	-	-5,38	19,7	22,5	18,8	39,0	37,4	0,77
Export effects of EU	***-0,06***	-0,97	5,96	***0,30***	0,86	0,69	0,78	0,91
Export effects of other CEFTA	0,18	***-0,04***	-0,33	***-0,02***	0,18	0,16	***0,05***	0,15
Total export change (%)	-	-8,46	3,97	17,3	20,1	25,1	24,6	6,39

POLAND	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Import effects of EU	***0,33***	0,79	1,79	0,83	***0,57***	0,68	***0,60***	0,63
Import effects of other CEFTA	0,11	0,04	***-0,02***	***0,01***	0,08	0,14	0,05	0,08
Total import change (%)	-	90,2	2,40	18,5	13,7	34,9	28,3	13,92
Export effects of EU	11,3	1,92	***0,54***	1,35	***0,62***	0,78	***0,13***	***0,21***
Export effects of other CEFTA	-1,19	0,09	0,07	***0,02***	***0,03***	0,10	0,13	0,14
Total export change (%)	1,19	9,37	-	6,66	22,4	32,9	6,93	5,37

Source: International Trade Statistics Yearbook, U.N.; Direction of Trade Statistics Yearbook, IMF; Direction of Trade Statistics, IMF; Monthly Statistics of Foreign Trade, OECD; own calculations

* Values in italics and bold stayed behind the importance of the region in trade flows.

The results for the period of 1990 to 1997 are shown in Table 4. They indicate that trade with the EU was in fact able to divert exports from the CEFTA area. Such movements can be observed for Hungarian exports between 1990 and 1992, for Czechoslovak exports in 1992, and for Polish exports in 1990 and 1991. This development can, however, only be explained by the Europe Agreements in the case of Czechoslovakia, as they went into force not earlier than March 1992. The arrangement of these agreements on the principle of asymmetry first forces CEFTA countries to liberalisation of their imports from 1997 so that import diversion effects, which we can observe mainly between 1990 and 1992, must have had other reasons. The import effect indicators show that an expected increase in imports from the EU due to the import liberalisation in 1997 did not appear. In the case of Czechoslovakia we can even state a contradictory development.

The CEFTA arrangement did not divert trade from the EU, though, the last mentioned case comes close to such a conclusion. The evidence shows that while the agreements with the EU did also have significant trade creation effects, that is mainly over 50 percent of increase in exports was induced by exports to the EU. But we must note that the effects often stayed behind the importance of the EU in the trade relations of the CEFTA countries and did not make clear any connection to the Europe Agreements. The performance of CEFTA with the exception of Hungarian exports in 1996 and Czechoslovak imports in 1997 is rather poor. However, an increase in the values of the trade effect indicators, which in most cases point to a stronger contribution of CEFTA trade to trade growth than could be expected by its weight in the trade flows of the member countries, can be observed since 1994. This fact may be attributed to CEFTA and may signal its positive influence on intra-regional trade. Though, the orientation of the CEFTA members is prevailed by the EU, CEFTA can also be regarded as an important factor for the opening up of these economies during the last few years.[17]

4. Conclusions

The empirical results seem to support the widespread critical view of economists concerning the CEFTA arrangement. The data show that there is no political attempt to artifically boost intra-regional trade by creating preferential conditions for trading partners within CEFTA. The aim of the arrangement was merely to create the same conditions as for EU and EFTA trade, as I have already pointed out by the description of the principals of CEFTA. The prior strategy of all CEECs in international relations is clearly the accession to the EU. To create ‘normal’ relations within the CEFTA area, though also very important, is only secondary. Nevertheless, the effects of trade liberalisation were strong enough to stem further diminishing of trade relations between the CEFTA members.

Although, CEFTA is only a temporary organisation, the achievements of continuous liberalisation are discernible. The political willingness for further improvements in cooperation within the area is promising. Additionally, positive attitude on the part of the industrial countries, especially the EU, makes a membership desireable for other countries.

Notes

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2. It goes beyond the scope of this paper to deal with changes in the structure of trade. The most recent analyses concerning this topic are provided by Richter (1997) and Réti (1997).
3. Messerlin (1997) calculated a very high level of protection in the CEECs in terms of weighted averages of tariffs which were higher than in the EU.
4. See for example Réti (1996).
5. The treaty with Slovenia was signed in November 1995 and with Romania in July 1997.
6. The treaty was signed in July 1998.
7. The Czech Republic, Hungary, Poland and Slovenia.
8. These four principles had not been made public by that time, but are listed and discussed in Vezér und Kiss (1994).
9. Proposals by Poland to allow for free movement of labour have not yet been adopted [Dangerfield (1997)]. The liberalisation of sevices may also be hampered by this area being that problematic in all relations at the time. Though, complete elimination of restrictions can be expected by the end of 2004 [Réti (1998)]. Free movement of capital may be restricted by not yet satisfactory banking reforms.
10. To avoid this, a small secretariat might be formed soon.
11. This is also pointed out by Tóth (1994).
12. It is widely claimed by economists that GDP data of the CEECs do not give satisfactory information about the capacity of the economy especially if official exchange rates are used to convert the values measured in home currencies into dollars.
13. CEFTA countries mean in the following the original three members, that is (former) Czechoslovakia, Hungary and Poland. I will mention them by this definition even concerning trade flows before 1993.
14. By a look at the figures we notice immediately a strong negative correlation between the trade shares of the EU and the rest of the world. Correlation coefficients for the period of 1975-1997 amount to about -0,99.v
15. There exist several studies which tried to estimate the trade effects of integration, most of them focused on European integration. An overview of these studies is provided e.g. by Hine (1994).
16. See also Réti (1998).

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