Georgi Ranchev

Free Trade Zone in Southeast Europe: Achieving Genuine Regional Economic Integration

Research Paper

Center for Policy Studies Budapest
International Policy Fellowships 2002

Table of Contents

Free Trade Zone in Southeast Europe: Achieving Genuine Regional Economic Integration

Overview

On 27 June 2001 seven countries in Southeast Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and FR Yugoslavia signed in Brussels a Memorandum of Understanding on the establishment of a Free Trade Zone in the region by the end of 2002 on the basis of bilateral trade agreements. As of 4 March 2003, all bilateral free trade agreements (FTAs) have been negotiated and we can consider the above process successful.

Although the implementation process is well underway, the public perceptions on the economic implications of the regional trade liberalization processes are still skeptical. A number of questions remain open for discussion among the governments of these countries, the experts and the society. *What is the "big picture"? Can we find similar examples in Europe? What are the specific implications for each country? What can be learned from the experience of other countries facing similar developments? How long it will take to catch up with the EU Member States and is this a problem itself?*

The present research focuses on a number of very important aspects of the trade liberalization in Southeast Europe: a strategy to avoid internal pressures against free trade, case studies on the trade relations of Bulgaria with the SEE countries and the experience of CEFTA, the role of tax incentives as a prerequisite for growth in foreign direct investment and an analysis of the perspectives for social cohesion.

The author argues that the dynamics of mutual consent achieved in the process of negotiations of the SEE framework of FTAs should be maintained. One the most sensitive mutual problems that request special attention is the struggle for sustainable economic growth. In order to achieve this objective the SEE governments must develop a common agenda to sustain and even accelerate the present economic growth rates. One possible solution to the mutual problems experienced by the seven SEE governments can be the creation of *a roadmap of SEE countries for achieving sustainable growth*. The roadmap for sustainable growth can be the next step after the liberalization of trade towards achieving genuine regional economic integration.

Part One

Trade relations of Bulgaria with the SEE countries: a case study

Part One: Introduction

The anticipated effects of trade liberalization among the seven SEE countries can be considered as rather diverse. Trade liberalization means not only changes in the business environment, which leads either to new export opportunities or to increased external competition for a number of industry sectors. It means also changes in social and cultural attitudes. Trade liberalization has many faces and by looking at the region as a whole some specifics of trade relations may be omitted or underestimated in the analysis of the anticipated effects.

In this part a detailed analysis of the trade between Bulgaria and the other six countries participating in the Free Trade Zone is analysed in details. The case study is based on up-to-date trade information referring the following aspects:

- Current status of trade relations;
- Analysis of bilateral trade flows for the preceding five years;
- Major commodities traded and share of total import/export;
- Outlining the tendencies in trade flows.

On the basis of this analysis conclusions are drawn with regard to the specific effects of the Free Trade Zone on the Bulgarian economy.

Trade Relations between Bulgaria and Albania

Trade Relations and Turnover

Currently the free trade agreement between Bulgaria and Albania was signed on 26 March 2003 with a transition period till 1 January 2007. The trade flows between both countries are shown in Table 1.

Table 1: Bulgarian Trade with Albania for the period from 1997 until 2001 in USD'000

	1997	1998	1999	2000	2001
Export	22,400	24,900	32,800	23,981	27,277
Import	90	90	30	70	89
Turnover	22,490	24,990	32,830	24,051	27,366
Balance	22,310	24,810	32,770	23,910	27,188
Change (%)*	n.a.	**11**	**46**	**7**	**22**

Source: Ministry of Economy of Bulgaria and author's calculations

*Change in trade turnover (export plus import) as compared to trade turnover in 1997.

Major Commodities

The major groups of commodities traded currently between both countries are:

- Electricity;
- Wheat;
- Vegetable oils;
- Chemical products;
- Finished goods;

The share of the top 5 commodities in the trade between both countries for 2001 is shown in the following tables.

Table 2: Major groups of commodities exported to Albania

Groups of Commodities	**USD'000**	**%**
Total export	27,277	100.0
Electricity	3,504	12.9
Wheat	3,255	11.9
Sunflower oil	2,281	8.4
Electrical transformers	1,232	4.5
Polymers of ethylene	1,039	3.8

Source: Ministry of Economy of Bulgaria

Table 3: Major groups of commodities imported from Albania

Groups of Commodities	**USD'000**	**%**
Total import	89	100.0
Printing machines	23	27.0
Coffee	18	20.2
Vegetables	14	15.7
Non organic acids	13	14.6
Waste plastic materials	7	7.9

Source: Ministry of Economy of Bulgaria

Analysis of Trends

Although significant fluctuations in the turnover between Bulgaria and Albania have been observed, the balance of trade was always positive for Bulgaria. According to the Bulgarian Ministry of Economy, Bulgaria is one of the major foreign trade partners of Albania and ranks fourth in the foreign trade of the country after Italy, Greece and Germany.

The structure of Bulgarian export for the last several years remains almost unchanged. As outlined above the major share of Bulgarian export to Albania consists of food products with an average annual value of USD 7 million. The export of vegetable and animal oils as well as chemical products exports decrease in value, while the trend in the export of machines and equipment is positive. Import from Albania is still insignificant.

The governments of both countries have set up a number of joint commissions aiming at intensification of the trade relations, as the most active one is the Commission for trade economic cooperation.

It can be anticipated that with the development of railroad transport within transport corridor VIII and the finalization of railroad: Sofia – Skopie - Tirana – Duras, the potential for intensification of trade flows between Bulgaria and Albania will be increased due to reduced transportation costs.

Trade Relations between Bulgaria and Bosnia and Herzegovina

Trade Relations and Turnover

Currently the free trade agreement between Bulgaria and Bosnia and Herzegovina is only initialled and remains to be concluded. The trade flows between both countries are shown in Table 4.

Table 4: Bulgarian Trade with B&H for the period from 1997 until 2001 in USD'000

	1997	1998	1999	2000	2001
Export	3,899	10,694	8,592	9,035	10,097
Import	220	153	40	257	474
Turnover	4,110	10,847	8,632	9,292	10,571
Balance	3,679	10,541	8,551	8,778	9,623
Change (%)*	n.a.	**163**	**110**	**126**	**157**

Source: Ministry of Economy of Bulgaria and author's calculations

*Change in trade turnover (export plus import) as compared to trade turnover in 1997.

Major Commodities

The major groups of commodities traded currently between both countries are:

- Metals and ores;
- Chemical products;
- Finished goods;

The share of the top 5 commodities in the trade between both countries for 2001 is shown in the following tables.

Table 5: Major groups of commodities exported to Bosnia and Herzegovina

Groups of Commodities	**USD'000**	**%**
Total export	10,097	100.0
Iron products	1,014	10.0
Ammonia and ammonia spirit	845	8.4
Paper	557	5.5
Sports cloths	516	5.1
Chemicals	433	4.3

Source: Ministry of Economy of Bulgaria

Table 6: Major groups of commodities imported from Bosnia and Herzegovina

Groups of Commodities	**USD'000**	**%**
Total import	474	100.0
Lead ores	229	48.1
Iron ores	61	12.9
Package materials	32	6.8
Aromatic substances	14	3.0
Washing machines	14	3.0

Source: Ministry of Economy of Bulgaria

Analysis of Trends

Official statistics for the trade flows between Bulgaria and B&H exists since 1996 as the trade with B&H is in compliance with the Dayton agreement.

The structure of import from B&H includes mainly raw materials – i.e. lead and ferrous ores as the total value of import is still rather low. The statistics for the last several years show a steady increase in the value of Bulgarian exports of beverages and finished goods (especially paper, textile products and iron products). The opposite trend (decrease) is present with regard to the export of Bulgarian chemical products.

As it can be seen since 1997, the trade turnover has almost doubled in value, although the trade balance is strongly in favour of Bulgaria.

As a major obstacle to further intensification of trade flows between both countries can be pointed out the complex political and economic situation in Bosnia & Herzegovina. Unemployment in the country although slightly decreasing is about 40% and the government relies heavily on financing from abroad. On the other hand the political deadlock (between the two entities) hinders the genuine economic activity and distracts foreign direct investment, which result in a low level living standards and respectively low purchasing power.

Trade Relations between Bulgaria and Croatia

Trade Relations and Turnover

The free trade agreement between Bulgaria and Croatia was in effect as of 1 January 2003 till 1 March 2003 when Croatia joined CEFTA. The trade flows between both countries are shown in Table 7.

Table 7: Bulgarian Trade with Croatia for the period from 1997 until 2001 in USD'000

	1997	1998	1999	2000	2001
Export	14,289	6,766	5,833	4,848	5,739
Import	10,120	5,764	2,263	3,719	2,308
Turnover	24,420	12,530	8,097	8,567	8,047
Balance	4,169	1,002	3,570	1,129	3,431
Change (%)*	n.a.	**(49)**	**(67)**	**(65)**	**(67)**

Source: Ministry of Economy of Bulgaria and author's calculations

*Change in trade turnover (export plus import) as compared to trade turnover in 1997.

Major Commodities

The major groups of commodities traded currently between both countries are:

- Mineral oils and shale oil;
- Foodstuffs;
- Vegetables;
- Chemical products;
- Finished goods;

The share of the top 5 commodities in the trade between both countries for 2001 is shown in the following tables.

Table 8: Major groups of commodities exported to Croatia

Groups of Commodities	**USD'000**	**%**
Total export	5,739	100.0
Oil and shale oil	2,338	40.7
Processed vegetables	349	6.1
Pipeline appliances	282	4.9
Sheep meat	255	4.4
Perfumes and toilet water	172	3.0

Source: Ministry of Economy of Bulgaria

Table 9: Major groups of commodities imported from Croatia

Groups of Commodities	**USD'000**	**%**
Total export	2,308	100.0
Oil cakes	349	15.1
Spare parts for vehicles	269	11.7
Processed oils	234	10.1
Fruits	78	3.4
Appliances	59	2.6

Source: Ministry of Economy of Bulgaria

Analysis of Trends

FTA between Bulgaria and Croatia was signed on 4 December 2001 with a transition period till the beginning of 2003. The FTA lasted only 2 months and was repealed with the entry of Croatia into CEFTA. Although the trade turnover has decreased during the last 4 years, the balance of trade remains largely in favour of Bulgaria.

The structure of commodities traded between both countries consists predominantly of oil products, agricultural products and various types of finished goods including: spare parts, cosmetics, medicines, chocolate products, and electrical appliances. For the last several years the share of organic chemical products exported to Croatia constantly increases, as opposed the decrease in the value of Bulgarian machines, food products, beverages and mineral oils. The major part of import from Croatia relates to oil products while the Croatian import of finished goods (mainly textiles) show steady increase.

Undoubtedly the level of trade turnover is below the expectations of the governments of both countries and any future positive developments in the trade relations are expected after the establishment of the Free Trade Zone, especially with regard to industrial goods.

Trade Relations between Bulgaria and Macedonia

Trade Relations and Turnover

Currently the free trade agreement between Bulgaria and Macedonia became effective as of 1 January 2000. The trade flows between both countries are shown in Table 10.

Table 10: Bulgarian Trade with Macedonia for the period from 1997 until 2001 in USD'000

	1997	1998	1999	2000	2001
Export	97,400	97,800	105,100	110,300	112,300
Import	26,100	37,900	24,300	25,800	19,500
Turnover	123,500	135,700	129,300	136,100	131,800
Balance	71,200	59,900	80,800	84,500	92,800
Change (%)*	n.a.	**10**	**5**	**10**	**7**

Source: Ministry of Economy of Bulgaria and author's calculations

*Change in trade turnover (export plus import) as compared to trade turnover in 1997.

Major Commodities

The major groups of commodities traded currently between both countries are:

- Food and live stock;
- Mineral oils, shale oil and similar products;
- Chemical products;
- Finished goods;
- Metals.

The share of the top 5 commodities in the trade between both countries for 2001 is shown in the following tables.

Table 11: Major groups of commodities exported to Macedonia

Groups of Commodities	**USD‘000**	**%**
Total export	112,307	100.0
Oil and shale oil	15,635	13.9
Electricity	12,755	11.4
Iron scrap	5,074	4.5
Wood materials	4,202	3.7
Copper materials	3,962	3.5

Source: Ministry of Economy of Bulgaria

Table 12: Major groups of commodities imported from Albania

Groups of Commodities	**USD‘000**	**%**
Total import	19,542	100.0
Iron products	3,131	16.0
Lead ores and concentrates	2,280	11.7
Plaster products	1,899	9.7
Fruits	1,048	5.4
Oil gas and carbon hydrates	800	4.1

Source: Ministry of Economy of Bulgaria

Analysis of Trends

As of 1 January 2000, a free trade agreement between Bulgaria and Macedonia has entered into force. The agreement, which is in compliance with the provisions of GATT and WTO, provides for the liberalization of trade between the countries with a maximum 5-year transition period. Special provisions with regard to agricultural and fishery goods exist as mutual concessions are exchanged.

Notwithstanding the positive trade balance of the trade of Bulgaria with Macedonia for the reviewed periods from 1997 till 2001, we can not conclude that the free trade agreement has lead to a dramatic increase in the value of the goods traded – i.e. trade creation.

The share of Bulgarian foods exported to Macedonia increases as for the year 2001it reaches overall 14% of the total export. The major share of Bulgarian export (more than 70%) consists of industrial goods (chemical products, oils and processed goods), however their value for 2001 decreases as compared to the year 2000. The import from Macedonia of foods and beverages decreases as well as the value of imported metal ores and scrap. The value of iron products imported in Bulgaria increases slightly.

In August 2002, due to the increased pressure from the Bulgarian farmers, the government increased the base customs duties on vegetables from Macedonia. Although there are still discussions whether such amendments to the trade regime are in breach with the existing free trade agreement, the Macedonian government plans to apply counter measures with regard to Bulgarian cheese and yellow cheese (see Bachvarova, 2002).

Trade Relations between Bulgaria and Romania

Trade Relations and Turnover

Bulgaria and Romania are members of CEFTA. The trade flows between both countries are shown in Table 13.

Table 13: Bulgarian Trade with Romania for the period from 1997 until 2001 in USD'000

	1997	1998	1999	2000	2001
Export	65,820	52,640	54,030	84,600	125,670
Import	56,740	58,030	71,080	230,180	172,130
Turnover	122,560	110,670	125,110	314,780	297,800
Balance	9,080	(5,390)	(17,050)	(145,580)	(46,460)
Change (%)*	n.a.	**(10)**	**21**	**157**	**143**

Source: Ministry of Economy of Bulgaria and author's calculations

*Change in trade turnover (export plus import) as compared to trade turnover in 1997.

Major Commodities

The major groups of commodities traded currently between both countries are:

- Mineral oils, shale oil and similar products;
- Electricity;
- Chemical products;
- Finished goods;
- Metals.

The share of the top 5 commodities in the trade between both countries for 2001 is shown in the following tables.

Table 14: Major groups of commodities exported to Romania

Groups of Commodities	**USD'000**	**%**
Total export	125,670	100.0
Oil and shale oil	27,169	21.0
Iron semi products	11,393	8.8
Unprocessed zinc	8,244	6.3
Wheat and mixtures	5,755	4.4
Electricity	4,839	3.7

Source: Ministry of Economy of Bulgaria

Table 15: Major groups of commodities imported from Romania

Groups of Commodities	**USD'000**	**%**
Total import	172,130	100.0
Oil and shale oil	55,242	32.0
Oil gas and hydrocarbons	30,029	17.4
Unprocessed aluminium	5,820	3.3
Refrigerators	4,657	2.7
Fertilizers	4,240	2.4

Source: Ministry of Economy of Bulgaria

Analysis of Trends

The trade turnover between Bulgaria and Romania after the collapse of the Council for Mutual Economic Assistance showed a sharp decrease within the period from 1992 till 1998. This fact can be explained by the undergoing processes of transformation of both economies on free market terms and general reorientation of trade preferences mainly towards European Union counterparts.

Since the entry of Bulgaria in CEFTA in 1999, the trade relations between Bulgaria and Romania are strongly intensified. According to the Bulgarian ministry of Economy, Romania is the most important trading partner of Bulgaria among the CEFTA countries.

The trade balance between Bulgaria and Romania for the reviewed period remains largely in favour of Romania with a peak in the year 2000. The Bulgarian export to Romania consists mainly of industrial products (almost 75%) including oils, chemical products and non-ferrous metals, as the decrease in 2001 in the export of these commodities as compared to 2000 is approximately 3%. The import from Romania also consists mainly of industrial goods, which decrease in value in 2001 mainly due to the reduction of the import of Romanian oil and oil products.

The project for the construction of the second bridge over the Danube has produced a lot of discussions within the local political elites and between both governments. The Romanian government has challenged on a number of occasions the cost effectiveness of the project. Nevertheless with a secured support from the Stability Pact the project is once again high on the agenda, however its precise effect on the intensification of trade between both countries is still unclear.

Trade Relations between Bulgaria and Serbia and Montenegro

Trade Relations and Turnover

Currently the free trade agreement between Bulgaria and Serbia and Montenegro is only initialled and remains to be signed off. The trade flows between Bulgaria and Serbia and Montenegro (for the period in question FR Yugoslavia) are shown in Table 6.

Table 16: Bulgarian Trade with Yugoslavia for the period from 1997 until 2001 in USD'000

	1997	1998	1999	2000	2001
Export	124,319	95,530	162,235	374,466	212,577
Import	36,949	37,310	15,333	22,970	20,498
Turnover	161,268	132,840	177,568	397,436	233,075
Balance	87,370	58,220	146,902	351,496	192,079
Change (%)*	n.a.	(18)	10	146	45

Source: Ministry of Economy of Bulgaria and author's calculations

*Change in trade turnover (export plus import) as compared to trade turnover in 1997.

Major commodities

The major groups of commodities traded currently between both countries are:

- Electricity;
- Foodstuffs;
- Mineral oils, shale oil and similar products;
- Chemical products;
- Finished goods;
- Metals.

The share of the top 5 commodities in the trade between both countries for 2001 is shown in the following tables.

Table 17: Major groups of commodities exported to Yugoslavia

Groups of Commodities	**USD'000**	**%**
Total export	212,577	100.0
Electricity	57,898	27.2
Oil and shale oil	39,433	18.6
Refined copper	13,019	6.1
Fertilizers	4,903	2.3
Bread and pastry products	4,639	2.2

Source: Ministry of Economy of Bulgaria

Table 18: Major groups of commodities imported from Yugoslavia

Groups of Commodities	**USD'000**	**%**
Total import	20,498	100.0
Oil gas and hydrocarbons	2,984	14.6
Lead ores and concentrates	2,342	11.4
Soy-bean oil and fractions	1,403	6.8
Unprocessed wood	1,122	5.5
Iron products	964	4.7

Source: Ministry of Economy of Bulgaria

Analysis of Trends

Although significant fluctuations of trade turnover between Bulgaria and FR Yugoslavia (now Serbia and Montenegro) can be observed within the reviewed period the balance of trade has been always positive for Bulgaria.

The peak in the Bulgarian export for the year 2000 is explained by the proximity of the Bulgarian market and the disruption of the Serbian economy after the Kosovo crisis in 1999. For these reasons a number of Yugoslav companies and individuals crossed the Bulgarian border and purchased food staffs (mainly milk products, wheat products and vegetables), beverages and live animals. A drastic increase in 2000 was also observed with regard to metal products, coal, mineral oils and oil products.

In the year 2001, there is a logical turn and the Bulgarian export of oil related products decreases significantly. On the other hand the value of exported food products increase and reaches in 2001 10% of the overall export. The share of industrial goods in the import from Yugoslavia reaches 70% of the overall import, while share of import of machines and equipment is reduced.

The potential for trade between Bulgaria and Serbia and Montenegro is still not fully utilized. However, any positive trends in trade intensification can be anticipated after a certain degree of political stabilization of Serbia and Montenegro is present. The lack of political stability hinders the perspectives for quick economic progress in Serbia and Montenegro as well as foreign direct investments, which are a major prerequisite for further intensification of trade and social cohesion.

Conclusions

Most important trade partners in SEE: a Bulgarian perspective

If the trade partners of Bulgaria within the SEE regions are to be ranked on the basis of trade turnover, the following results can be observed for the year 2001:

Table 19: Most important trade partners on the basis of turnover (USD'000) for 2001

Countries	**Balance**	**Turnover**	**Rank**
Romania	(46,460)	297,800	**1**
FR Yugoslavia	192,079	233,075	**2**
Macedonia	92,800	131,800	**3**
Albania	27,188	27,366	**4**
B&H	9,623	10,571	**5**
Croatia	3,431	8,047	**6**

Source: Ministry of Economy of Bulgaria and author's analysis

As it can be seen from the data in Table 19, the most important trading partners of Bulgaria within the region are Romania, Yugoslavia and Macedonia. Trade turnover with Albania, B&H and Croatia is still insignificant and trade opportunities are to be further explored.

The way ahead

Future trade liberalization in Southeast Europe will be largely in favor of Bulgarian export to the countries in the region. The further reduction or eliminations of trade barriers will provide for more opportunities for Bulgarian companies looking for expansion in Southeast Europe.

As remaining obstacles to trade can be pointed out: lack of sufficient infrastructure, customs duties, non-tariff obstacles, low purchasing power of end consumers in the region, general political and economic instability present in some of the SEE partner countries.

Although a number of infrastructure projects are well under way successful finalization of these projects can be expected in the medium term. The struggle for better living standards and against the instability will remain a major challenge for the policy makers in these countries in the medium and long run. On the other hand, unilateral changes in existing trade regimes have to be made only after consultations between the relevant governments in order to avoid misunderstandings (for example the conflicts between Bulgaria and Macedonia).

Part Two

Successes and failures of trade liberalization in CEE: the case of CEFTA

Part Two: Introduction

In order to estimate precisely the effects of trade liberalization in Southeast Europe, a comparative survey of another trade block of similar type (CEFTA) is analyzed as well. The common features of the two groups of countries are numerous as the following three can be considered the major ones:

- Undergoing changes in the political and economic structures;
- Regional trade liberalization; and
- Orientation towards integration with the EU.

This part of the research focuses on the economic implications of the liberalization of trade of this group of seven countries: Bulgaria, Czech Republic, Hungary, Slovakia, Slovenia, Poland and Romania. Special attention is paid to the trends in the foreign trade relations of Bulgaria with the other CEFTA members. Undoubtedly, the CEE countries have joined CEFTA with the presumption that regional trade integration will facilitate the process of accession to the EU. On the other hand, some representatives of the political elite within CEFTA countries feared that such regional economic integration would divert the scarce economic resources from the main goal - European Union membership.

Such fears can now be observed in Southeast Europe as well. The objectives of the present comparative survey relate to the *successes* achieved during the 10-year history of CEFTA and the reasons for the *failures*. In addition, the level of tax and customs harmonization in these countries with respect to EU requirements will be analyzed.

Based on the above analysis, clear conclusions whether such fears are justified can be drawn with regard to the establishment of the Free Trade Zone in Southeast Europe.

A brief history of CEFTA

On 15 February 1991 senior government officials from Czechoslovakia, Hungary and Poland met in the Hungarian town of Visegrad and adopted the "Declaration on Co-operation Between the Republic of Poland, the Czechoslovak Federal Republic and the Republic of Hungary on the Path for Advancing Towards European Integration". The main objective of the declaration was to joint efforts for achieving integration of participating countries in the European Union. The Visegrad declaration became the milestone for the process of trade liberalization in the CEE. Mutual consent on the establishment of a free trade area on the basis of the Visegrad declaration was finally reached in October 1991.

The Central European Free Trade Agreement was formally signed on 21 December 1992 in Krakow, Poland. All the founding members had already signed association agreements with the EU and they considered CEFTA as a vehicle for accelerating the preparation for achieving EU membership. The agreement entered into force as of the beginning of 1993. Subsequently, in 1996 Slovenia joined CEFTA. Romania became member in 1997 and Bulgaria in 1999. Croatia is the most recent member of CEFTA as of 1 March 2003.

CEFTA economic implications: Bulgarian perspective

In order to consider properly the anticipated effect from the establishment of a free trade zone in Southeast Europe, it is necessary to consider the outcomes of trade liberalization as a result of the formation of CEFTA.

Recent empirical studies suggest that the formation of trade block of South-South type will benefit at first to a greatest extend the countries, whose economies are stronger (see Blomstrom & Kokko, 1997). In the case of CEFTA these countries were the Czech Republic, Poland, Hungary, Slovenia and to a certain degree Slovakia. The slow performers within CEFTA were (and still are) Bulgaria and Romania.

On the other hand, Bulgaria and Romania together with Croatia are the front-runners within the emerging free trade zone in Southeast Europe.

For the purposes of this research, the trends of trade dynamics of Bulgaria with CEFTA countries are reviewed in order to forecast the likely outcomes of the trade liberalization within Southeast Europe especially for Albania, Bosnia and Herzegovina, Macedonia and Serbia and Montenegro.

As discussed above, Bulgaria has joined CEFTA as of 1 January 1999. Thus, we will focus our attention on the trade dynamics of trade relations of Bulgaria with CEFTA countries for a time period covering 5 years (from 1998 till the 30 June 2002).

Table 20: Bulgarian Balance of Trade with CEFTA from 1999 till 30 June 2002 in USD'000

	1998	1999	2000	2001	30 June 2002	Trend*
Czech Republic	(80,400)	(82,800)	(101,200)	(94,000)	(42,600)	Status quo
Hungary	(5,100)	(25,600)	(32,800)	(47,000)	(32,700)	Negative
Poland	13,600	(44,500)	(61,700)	(71,900)	(22,200)	Positive
Romania	(5,390)	(17,040)	(145,580)	(46,460)	5,450	Positive
Slovakia	(4,300)	(22,100)	(35,200)	(29,100)	(12,500)	Status quo
Slovenia	15,300	15,300	100	(17,400)	(3,500)	Positive
Total CEFTA	(66,290)	(176,740)	(376,380)	(305,860)	(108,050)	

Source: Ministry of Economy of Bulgaria

*Trend relates to changes in balance of trade for the first half of 2002 multiplied by 2 as opposed to 2001. Change of less than 20% is considered as maintenance of status quo. The highlighted boxes show, the year within which trade was almost completely liberalized with Bulgaria.

On the basis of the above information we can identify the following three general dimensions of the trade dynamics of participation of Bulgaria in CEFTA:

- **First Stage: Entry into the free trade zone**. In this stage (1999) free trade is established and business entities start to realize the benefits in terms of reduced trade costs. Negative trade balance increases as opposed to 1998 when trade was not liberalized.

- **Second Stage**: **Trade creation**. In this stage (2000) trade accelerates to the benefit of more developed economies and economies having best comparative advantages. Bulgaria realizes a huge negative balance of its trade with CEFTA countries.

- **Third Stage**: **Catching up**. In this stage (2001 and 2002) Bulgaria starts to catch up and negative trade balances decrease and in most of the cases the trends are positive.

Given the above, we can presume that weaker economies are likely to experience a "free trade shock" in the initial stages of liberalization of trade with stronger economies.

CEFTA: Successes and Failures

Successes and failures

Successes and failures of the 10-year long history of CEFTA are overlapping in a number of ways and produce a mixed picture of skepticism, humble enthusiasm and half smiling faces. In the year 2002 it seemed that trade barriers within CEFTA do not exist any more. "What a success!" – the optimists would say, "But achieved for almost 10 years" – the skeptics would claim.

Undoubtedly, achieving a high level of trade liberalization within CEFTA countries can be claimed a success. The main objective of formation of CEFTA – acceleration of accession to the European Union is closer than ever. The Czech Republic, Hungary, Poland, Slovakia and Slovenia are expected to join the EU in 2004, while Bulgaria and Romania has received roadmaps identifying the route of the prospective membership after 2006. On the other hand, CEFTA has been for all its members a useful exercise preparing them for entering the common market of the EU and strengthening their administrative capacity.

The main failure of CEFTA itself was the lack of enthusiasm in achieving fast track trade liberalization. The officials within CEFTA member states seemed to underestimate the political and economic effects from the formation of this new trade block and mutual efforts have not achieved spectacular results. Liberalization of trade on agricultural products was remarkably slow, which contributed to the perception of CEFTA as half-success.

The reasons

The reasons for the failure of some of CEFTA objectives can be summarized in the following way:

- Fears within the political elites of allegations with CMEA (Council for Mutual Economic Assistance).
- Fears that regional economic integration will be one of the reasons for delayed EU membership;
- Fears that scarce administrative resources will be diverted in a less beneficial direction in terms of political and economic outcomes;
- Lack of understanding on the effects of free trade on economic performance on a macro level and the functioning of market economy in transition periods;
- Lack of experience in dealing with trade negotiations in free market conditions.

The above list is of course not exhaustive. Within the years of functioning of CEFTA government officials had various prejudice related to the operation of the free trade block, depending on their personal preferences and driven by the dynamics of the political agenda.

However, from the current standpoint we can claim that none of fears (reasons) underlying the slow pace of trade liberalization was completely justified. CEFTA has not been perceived as an alternative of EU membership by the EU member states and fears from allegations with CMEA were overestimated.

CEFTA: present and future

Looking back at the protocols of the summits of CEFTA member states, one can conclude that most of the time the senior officials have discussed not the trade liberalization process but have mainly addressed the prospects for European Union membership of their own countries. The Czech Minister of Agriculture Jan Fenci commented the results of the Warsaw summit in 2000 in the following way: “CEFTA is the Central European Free Trade Agreement, but I am afraid that of late we have forgotten about free trade somewhat”. Now CEFTA can be perceived as the club of the future members of the European Union from Central and Eastern Europe. For the remaining several months CEFTA will continue to be the quite place where EU accession trade related problems would be discussed.

What will be the future of CEFTA after 2004? Will it become an organization of three members: Bulgaria, Croatia and Romania, or it will continue to attract new members? The doors are open for prospective candidates but they will not be exactly from Central Europe. The answer to these questions is hard to predict prior to the meeting of CEFTA countries in the autumn of 2003 in Slovenia. The following two scenarios seem the only alternatives with regard to the future of CEFTA:

- Closing down of CEFTA after the entry into the EU of the Czech Republic, Hungary, Poland, Slovakia and Slovenia. In this case, Bulgaria, Croatia and Romania can conclude separate bilateral free trade agreements.

- CEFTA opens for new members mainly from the SEE countries as the free trade zone in Southeast Europe is restructured.

Given the fact that the establishment of the Free Trade Zone in SEE is almost finalized, the closing down of CEFTA is the more likely option. In addition, the shift towards Southeastern Europe or the so-called Western Balkans will create misunderstandings about the abbreviation CEFTA itself.

Level of Tax and Customs Harmonization

For the purposes of the current analysis we will analyze the level of tax and customs harmonization of the Czech Republic, Hungary, Poland, Slovakia and Slovenia. The level of tax and customs harmonization of Bulgaria and Romania has been analyzed in a separate section of the research.

General remarks

All five countries are at the final stage of the accession into the European Union. The chapters on taxation and customs union are currently closed although the countries continue to align the tax and customs legislation with the *acquis*. Given the stage of negotiation the following measures should be implemented by all candidate countries prior to joining the European Union:

- Further harmonization of VAT legislation and introduction of the concept of intra-community supplies;
- Further harmonization of excise duty rates;
- Compliance with the Code of Conduct for Business Taxation;
- Further harmonization of customs legislation and preparation for the customs union;
- Strengthening the administrative capacity.

Generally, the Czech Republic, Hungary, Poland, Slovakia and Slovenia are progressing steadily in harmonizing the internal legislation with regard to taxes and customs duties. The process of harmonization, however is likely to accelerate by the end of 2003 as of 2004 all five countries are supposed to join the EU.

Summary of the European Commission reports

Although, the progress of the countries is substantial, in his remarkable speech of 9 October 2002, Romano Prodi has stressed that one of the major weaknesses of the candidate states relate to inadequate preparation for implementation of the *acquis* amongst all with regard to customs services and taxation.

For the purposes of the current research the level of harmonization of all five countries will be analyzed on the basis of the regular European Commission reports on the progress towards accession for 2002. The countries will not be ranked according to the level of tax and customs harmonization achieved, as the level of alignment is more or less sufficient for entry into the EU.

The following represents a summary of the most important areas that still have to be amended by the relevant countries prior to accession according to the EC:

- Level of excise duty rates – applies to: Poland and Slovakia,
- Reduced VAT rates and special schemes – applies to: Czech Republic, Hungary, Poland, and Slovakia.
- Computerization of customs administrations should be finalized – applies to: Czech Republic, Poland and Slovakia.

The Commission’s technical assessments with regard to potentially harmful tax measures are currently ongoing in all five candidate states. In general, Slovenia has received the highest estimation on the level of tax and customs harmonization as opposed to Slovakia, whose report was marked with a considerable number of recommendations.

CEFTA vs. Free Trade Zone in SEE

Irrespective of whether CEFTA will continue to exist or not, some of the fears that can now be observed within Southeast Europe strongly resemble the initial fears upon the establishment of CEFTA in 1993. Even worse, as far as CEFTA members are more economically developed and politically stable in comparison to most SEE states, the process of EU integration, which once again is the main objective of the SEE states, cannot be foreseen to accomplish within 10-15 years (except for Bulgaria, Romania and may be Croatia).

This fact brings much more fears within the political elites of the most eager members of the Free Trade Zone in Southeast Europe, than in the CEFTA case. Most concerned are currently Bulgaria and Romania, whose accession to the European Union seems closer.

The fear from delay in the EU membership due to the increase of the group of "second wave" of accession countries – i.e. with Albania, Macedonia and Croatia would have cemented the undergoing liberalization of trade in the region as regards to Bulgaria and Romania. The presence of such a fear explains the slow pace of the negotiations of Bulgaria and Romania with Albania, Bosnia & Herzegovina and Serbia and Montenegro. In fact, the first meetings of the representatives of Bulgaria and Romania with the respective officials from Albania and Bosnia & Herzegovina were scheduled for October 2002, with the clear notion that the free trade agreements will not be concluded by the end of 2002 as per the provisions of the Memorandum of Understanding.

Fortunately, the final declaration of the Copenhagen Summit as of 13 December 2002, secures the entry of Bulgaria and Romania into the European Union in 2007 if both countries complete their preparation for accession. Although, the guarantee made by the European Union is quite vague it will inevitably calm down the political uncertainty in the region and will make the governments of Bulgaria and Romania more cooperative with the other SEE partners.

In summary, the lessons learned from the 10-year history of CEFTA should be considered carefully in view of the prospective establishment of the Free Trade Zone in Southeast Europe. Although the internal political fears cannot be completely alleviated, the European Commission and international financial institutions should carefully monitor the related processes and take proper action in order to avoid the breaking up of the group of SEE countries. Prospective NATO membership of Romania and Bulgaria will undoubtedly add pressure and the existing interest on the formation of the Free Trade Zone will be hardly balanced without external reassurance.

Part Three

Foreign Direct Investments and Tax Incentives

Part Three: Introduction

The relationship between foreign direct investments (FDI) and tax incentives are subject to a continuing debate. Experts from the international financial institutions support the notion that the tax incentives lead to the erosion of the tax base and create macroeconomic instability, which does not lead to a substantial increase in FDI (see Tanzi & Zee 2000, Sorsa 2003).

However, even in the European Union a number of tax incentives exist, and the Member States are somewhat reluctant to eliminate the grounds for tax competition among themselves. This fact sharply contradicts the requirements of the EU towards the appropriate tax policies in EU candidate countries. In addition, in six of the seven SEE countries of the Free Trade Zone (excluding Albania) there exist a number of corporate tax incentives, which have not actually attracted significant FDI inflows by the moment.

Undoubtedly, given the present economic status of the seven SEE countries, only substantial FDI can lead to higher economic growth rates and successful economic reforms. In this part of the research the following issues are discussed in more details, in order to outline specific conclusions on the relationship between FDI and tax incentives in the region relevant to the prospects of regional trade liberalization:

- Analysis of the main factors influencing FDI in Southeast Europe;
- Existing tax preferences in the SEE countries;
- Impact of tax preferences on FDI inflows;
- Timing analysis of the introduction of tax incentives.

Main factors influencing FDI in SEE

If you ask a potential foreign investor what would be crucial in making a decision to choose between investments in one country to another within a region of developing countries, the list can be rather exhaustive. However, usually the short list will include the following main factors:

- Political stability;
- Macroeconomic stability;
- Low labour costs and availability of skilled labour;
- Favourable infrastructure;

- Good administration;
- Tax incentives;
- Stable regulatory environment;
- Lack of competition in the country;
- Former business contacts;
- Good local market and strategic geographic location.

In addition to this list, especially for the SEE countries, the potential investors consider the EU and NATO membership prospects as another crucial factor.

In the year 2002, KPMG Bulgaria has performed a survey on foreign investment in Bulgaria. The survey was nation-wide and presents the perceptions of the top management of companies investing in Bulgaria. The stable political environment was considered by respondents (59%) to be the most important factor for future foreign investment. The second most important factor was the EU membership prospects (47%), followed closely by skilled labour (46%). Positive regulatory environment (39%) and tax incentives (38%) were also highly ranked by respondents. The relatively high significance of tax incentives as a factor important for future investments is a little bit surprising given the fact that very few respondents (6%) have listed this factor as crucial for choosing Bulgaria as target to their initial investments. All the above factors have shown sharp increase in significance (from 12% to 20%) compared to the results of KPMG's Survey for the year 2000.

Although the results are not representative for the rest of the SEE countries they provide a general idea of the importance of the above factors for doing business in the region and of the most common preferences of a potential foreign investor. Undoubtedly with further economic and political stabilization within the SEE countries some factors may become more important than others, but the list will remain more or less unchanged.

Existing tax preferences in SEE countries

The following table provides general information on the existing tax rates within the SEE countries and availability of tax preferences:

Table 21: SEE-7 Tax Systems in 2002

	Corporate Rate	VAT	Double Tax Treaties	Tax Holidays
ALB	25	20	16	n.a.
B&H	30/10*	n.a.	1	Yes
BUL	23.5	20	51	Yes
CRO	20	22	30	Yes
MAC	15	19/5	23	Yes
ROM	25	19	67	Yes
S&M**	20	n.a.	20	Yes

Source: Investment Guide for Southeast Europe 2003/ Seeurope.Net.

Notes: * The lower rate applies for Republika Srpska

** As of March 2002, Serbia and Montenegro apply separate tax legislation. The information above refers to FR Yugoslavia.

The corporate income tax rates for most the seven SEE countries have been reduced substantially in align with the global trends for lowering the corporate tax burden observed worldwide. If we compare the corporate tax rates available in the year 2000 with the 2002 rates we can see that Albania has reduced the rate from 30% to 25%, Bulgaria from 28% to 23.5%, Croatia from 35% to 20%, Serbia and Montenegro from 25% to 20%.

A number of tax incentives have continued to exist in the SEE countries except for Albania as some of the most interesting examples include:

- **For Bosnia and Herzegovina:** Exemption from payroll taxes for first employment of persons registered as unemployed; 5 years corporate tax exemption for foreign subsidiaries.

- **For Bulgaria:** Corporate tax relief for companies investing in underdeveloped regions and 60% corporate tax exemptions for agricultural producers; VAT incentive for the import of goods for large investors (for 2003).

- **For Croatia:** Various tax incentives for operation within free zone as the profit tax rate can be reduced by 50% from the normal rate to full corporate tax exemption for 5 years in case of large investments; Special customs exemption benefits; Companies registered in a region under special government protection can reduce their corporate tax rate to 7%, 3% or 0% for a 10 year period depending on the levels of investment and number of employed personnel.

- **For Macedonia:** Subsidiaries of foreign companies may be exempt from corporate taxation for a period of 3 years; Investment credits and accelerated depreciation are also available.

- **For Romania:** Reduced corporate tax rate of 5% for export oriented companies; Customs duties and VAT exemption for specific imports of equipment, know-how, installations, transport vehicles, raw materials, etc. where related to investment exceeding USD 1 million; 50% corporate tax reduction for reinvested profits; Accelerated depreciation.

- **For Serbia and Montenegro:** For Serbia accelerated depreciation may be used, full corporate tax exemption for investments in concessions as well as various forms of tax credits; For Montenegro as of 2002 a progressive corporate tax rate was introduced with a top rate of 20%.

Generally, most of the existing tax preferences in the SEE countries can be considered rather complex and their application is not straightforward.

Impact of tax incentives on FDI inflows

Do the countries of Southeast Europe need tax incentives in order to attract FDI? Most of the politicians and the businesses would answer undoubtedly – yes. However as at can be seen from the data in the table bellow the levels of FDI for the region, as a whole does not look rather encouraging. Although most of the countries in the SEE (except for Albania and Bulgaria) at that time have offered more or less generous tax preferences this has not lead to a kick off start of FDI inflows. Romania, whose tax legislation is arguably the most aggressive in terms of tax preferences, has maintained from 1999 till 2001 almost the same levels of FDI. The most attractive SEE destinations were and still are Bulgaria, Croatia and Romania whose share in the total FDI for the region for 2001 was approximately 77%. Nevertheless it should be noted that the share of these top three countries in regional FDI is decreasing for the analyzed period from 92% in 1998, to 91% in 1999 and 86% in 2000.

Table 22: SEE-7 Foreign direct investment from 1998 till 2001

				FDI (USD million)
	1998	**1999**	**2000**	**2001**
ALB	45	43	143	207
B&H	56	154	147	130
BUL	620	819	1,002	694
CRO	933	1,479	868	1,447
MAC	118	27	170	443
ROM	2,031	1,023	1,009	1,157
S&M*	113	112	n.a.	165
Total	**3,916**	**3,657**	**3,339**	**4,243**

Source: Investment Guide for Southeast Europe 2003/ Seeurope.Net, Southeast Europe Online and UNECE secretariat

Notes: * The information above refers to FR Yugoslavia

Tanzi and Zee (see Tanzi & Zee 2000) argue that "the cost effectiveness" of tax incentives on FDI is generally questionable. They claim that the most preferable strategy for sustained investment promotion is to secure stable and transparent legal environment as well as functioning institutions and facilities. In principle, not all tax incentives are equally effective. Accelerated depreciation is considered having the most comparative advantages, followed by investment allowances and tax credits. Tanzi and Zee consider tax holidays and investment subsidies as the least meritorious, while indirect tax incentives should preferably be avoided.

Timing analysis

In a recent article Pirita Sorsa (Sorsa, 2003), an IMF representative for Bulgaria claims that "it is better to improve the overall business environment and maintain clear, predictable and transparent rules for all businesses" than to grant tax incentives or establish special economic zones.

Generally, the positive effects from investment incentives are related to reduction of regional disparities, boost of spending on education and research and development. However, according to the author of the article, the following important disadvantages should be carefully considered prior to launching aggressive investment incentives in a developing country:

- Eroded tax bases, which increase the tax burden for other businesses;
- Support for potentially unprofitable activities;
- Increased opportunities for corruption and favor-seeking from governments;
- Fair competition may be undermined as some firms are favored over others –large against small or capital versus labor intensive;
- The administration of investment incentives may be expensive and undermine the limited capacity of the tax administration to cope with other important functions.

The timing analysis of the FDI inflows in Ireland (the most cited example of a country benefiting in terms of FDI from tax incentives) suggests that the bulk of foreign investors have come the mid-1990s when the Irish economy was stabilized, while the most generous tax incentives were introduced in the early 1980s. Undoubtedly, the existing tax incentives according to Mrs. Sorsa have accelerated the processes but firstly a stable administrative framework was created, EU accession processes had been intensified, infrastructure and education had improved.

In the mid-1990s Bulgaria has launched a number of tax incentives, which have not lead to any substantial FDI inflows. The limited tax revenues, the deep banking crisis and hyperinflation had resulted in a deep macroeconomic, social and political crash. As discussed in the previous section although a number of tax preferences exist in most of the SEE countries as long as some of them had not undertaken substantial macroeconomic reforms FDI is limited compared to most CEE countries. The global economic recession, low growth rates in Europe and the USA are likely to even further limit the will of foreign investors to come to Southeast Europe.

Most of the recent empirical studies outline that the perfect timing for granting some limited tax incentives and thus attracting new FDI inflows is only after a certain degree of macroeconomic stability is already in place, the rules are transparent and country's education system is fine tuned.

Is this the case in Southeast Europe? Hardly so. Most of the countries in the region are still going through painful economic reforms, social expenses are high and tax revenues below expected levels. GDP growth rates within SEE look encouraging but local and foreign businesses are struggling with the low purchasing power of consumers, complex legal environment and furthermore the tax administration is not fully operational.

Given this analysis it seems unlikely that there is a quick fix to the current situation at all. *What can the SEE governments do then for their countries to become more attractive to foreign investors?*

Conclusion

The lowering of the trade barriers as a result of the formation of the Free Trade Zone will most likely lead to more acute tax competition among the SEE governments. Substantial customs revenues will no longer be available as their value will most likely be reduced over the coming several years. In addition, the world economic situation is not improving at the anticipated speed and GDP growth rates within the Euro Zone (the main trading partner of the SEE countries) are likely to remain rather low. Thus, even if foreign investors are granted a full corporate tax exemption (and most of the SEE countries do) large foreign investments can hardly be attracted in the short run.

A way out of the situation is the gradual reduction of the most generous tax incentives, focusing of the efforts of SEE governments on macroeconomic reforms, intensified capacity building of tax and customs administration and further educational reforms. As long as the corporate income tax rates are already rather low and tax preferences are wide spread (see Table 21), the SEE governments should avoid the temptation of continuing tax competition. Instead of engaging in even more aggressive tax competition the governments should try to coordinate from now on their tax legislative reforms as far as they are to become equal partners within the Free Trade Zone.

Part Four

High Achievers and Slow Performers in Southeast Europe

Part Four: Economic growth and living standards

GDP growth rates among the countries of Southeast Europe are rather diversified and have changed quite a lot over the last five years. For 1997, Albania, Bulgaria and Romania have experienced negative growth rates. In the year 2000, Albania and Serbia and Montenegro (FR Yugoslavia) showed very high levels of GDP growth, Bosnia & Herzegovina, Bulgaria and Macedonia maintained a modest level of GDP growth, while Romania and Croatia are a little bit lagging behind. The following table provides information for GDP growth rates in the seven SEE countries from 1997 till the year 2000:

Table 23: SEE-7 GDP growth rates from 1997 till 2000

	GDP real change (%)			
	1997	1998	1999	2000
ALB	(7.0)	8.0	7.3	7.8
B&H	37.0	10.0	10.0	5.0
BUL	(5.6)	4.0	2.3	5.4
CRO	6.8	2.5	(0.9)	2.9
MAC	1.4	3.4	4.3	4.5
ROM	(6.1)	(4.8)	(1.2)	1.8
S&M*	7.4	2.5	(17.7)	6.4

Source: wiiw database incorporating national statistics 01/2003

Notes: * Data for FR Yugoslavia

For the year 2001, growth in terms of GDP as compared to 2000 levels has slowed down in Albania and Bosnia & Herzegovina and has increased in Romania and Serbia and Montenegro (FR Yugoslavia). On the other hand Macedonia has experienced a negative GDP growth rate for 2001. Bulgaria and Croatia have maintained relatively similar growth rates as compared to 2000 at approximately 4%.

Table 24: SEE-7 GDP and growth rates for 2001

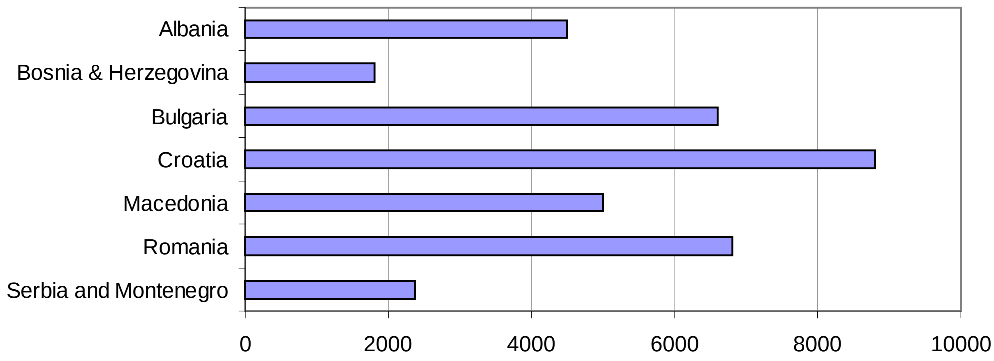
	GDP (USD million)	**GDP real change (%)**
ALB	4,186	6.5
B&H	4,638	2.3
BUL	13,555	4.0
CRO	19,533	3.8
MAC	3,426	(4.6)
ROM	39,714	5.3
S&M*	10,500	6.2
SEE – 7	**95,552**	**4.5**

Source: wiiw database incorporating national statistics 01/2003

Notes: * Data for FR Yugoslavia

However, it should be noted that high growth rates do not represent automatically better living standard for the average population. If we analyze the GDP per capita estimated at purchasing power parity (PPP), we will see that only Croatia maintains a comparatively high level of this ratio – approximately USD 8,800. For Serbia and Montenegro the ratio does not exceed USD 2,500. Albania's GDP per capita is USD 4,500, while Bulgaria and Romania levels are below USD 7,000.

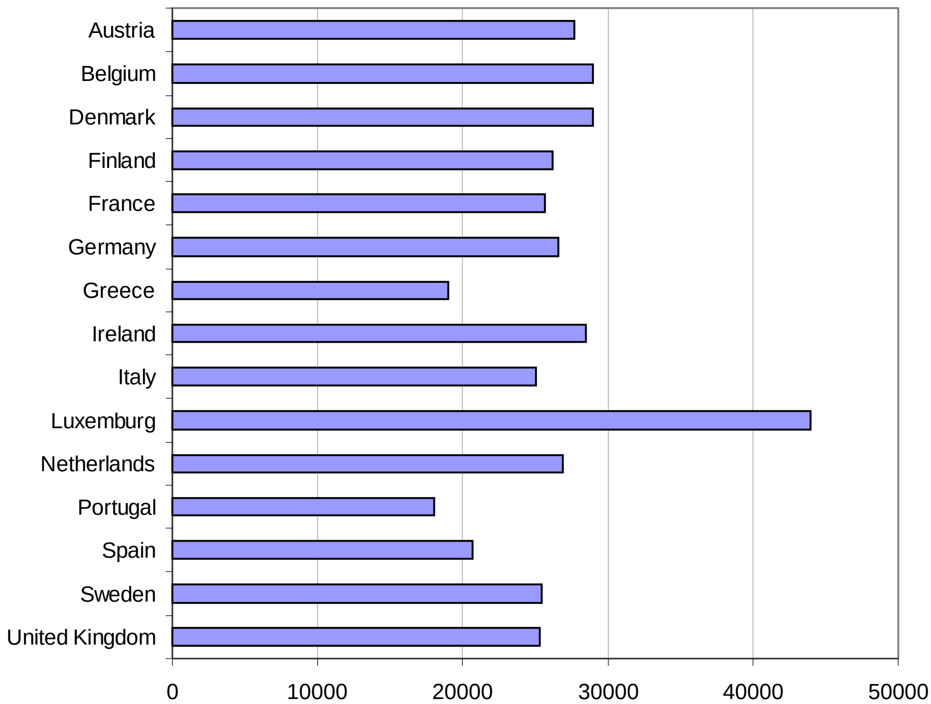
Table 25: SEE-7 GDP per capita PPP in USD'000



Source: CIA – The World Factbook 2002
Note: Data for Bosnia & Herzegovina and Romania for 2001.

If we compare the levels of the GDP per capita in terms of PPP with levels of the current EU Member States such comparison will look rather disappointing.

Table 26: EU-15 GDP per capita PPP in USD'000



Source: CIA – The World Factbook 2002

How the Free Trade Zone in SEE affects economic growth?

If the present levels of the growth rates are preserved, it is not very likely that these countries will soon catch up even with the poorest EU Member States. *What is the effect of liberalization of trade in Southeast Europe on GDP growth rates?* The following table presents information on SEE intra regional trade:

Table 27: SEE-7 intra regional trade for 2001 in USD million

	Export to SEE	**Import from SEE**	**Balance**
ALB	8	74	(66)
B&H	343	893	(550)
BUL	500	216	284
CRO	788	249	539
MAC	497	419	78
ROM	366	227	139
S&M	547	414	133
SEE – 7	**3,049**	**2,492**	**557**

Source: wiiw database incorporating nationals statistics 01/2003 and author's calculations

The balance of trade for the SEE seven countries is positive USD 557 million. If we calculate the weight of intra regional trade balance to overall GDP (as per Table 23 above) the weight will be 0.58% (USD 557 million/ USD 95,552 million).

Based on this figure we can estimate the additional effect of trade liberalization on GDP growth rate: the weight of SEE intra regional in SEE – 7 GDP (0.58%) is multiplied by the SEE – 7 GDP real change (4.5% as per Table 23 above). Thus, the average effect of SEE trade liberalization on future GDP growth rate of each SEE country is approximately 0.026%.

Although the figure is based on 2001 figures of import, export and GDP for the seven SEE countries when trade among SEE countries was not fully liberalized, in the subsequent analysis it will be used as the minimum addition to the estimated GDP growth rates of the countries. It can be anticipated that the impact of future liberalization of trade among SEE countries will further increase the ratio through increased weight of intra regional trade on GDP. However even if intra regional balance of trade doubles in value in the medium run the ratio's value is not likely exceed 0.05%.

It should be noted that the establishment of the Free Trade Zone itself in combination with the SEE cheap labour cots would be an additional incentive for foreign investors, which can ultimately boost economic growth due to the increased intra regional trade. Nevertheless, the real effect from the creation of the Free Trade Zone on regional economic developments can only be estimated within a period of 3 to 5 years from the start of the free trade in Southeast Europe.

Is cohesion with the EU Member States possible?

The present research findings suggest, that the process of catching up (cohesion) of the levels of GDP per capita (PPP) with the present levels within the EU may take up a significant number of years even generations.

The following table provides a general idea of how long it will take for each SEE country to catch up with the *poorest* EU Member State – Portugal considering three scenarios of average annual GDP growth in SEE: slow performers (GDP growth 2%), moderate performers (GDP growth of 4%) and high achievers (GDP growth of 8%). The anticipated effect of SEE trade liberalization in terms of additional 0.026% annual GDP growth is also considered to obtain a full picture of the impact of the Free Trade Zone on the cohesion process.

Table 28: SEE years of cohesion with present level of GDP per capita (PPP) of Portugal

	Slow performers (GDP growth 2.026%)	**Moderate Performers** (GDP growth 4.026%)	**High Achievers** (GDP growth 8.026%)
ALB	2072	2038	2021
B&H	2118	2061	2033
BUL	2053	2028	2016
CRO	2039	2021	2012
MAC	2067	2035	2020
ROM	2052	2028	2016
S&M	2104	2054	2029

Source: Author's calculations

Note: Portugal's GDP per capita in terms of PPP for 2002 is USD 18,000. The starting (base) year is 2003.

The results look rather unpleasant even for the 2007 EU accession countries: Bulgaria and Romania. The high level of base GDP of Croatia gives undoubtedly the country a steady lead as compared to the other SEE countries.

If we try to calculate the anticipated year of cohesion of arguably the *richest* EU Member State the outcome will be even more discouraging:

Table 29: SEE years of cohesion with present level of GDP per capita (PPP) of Luxembourg

	Slow performers (GDP growth 2.026%)	**Moderate Performers** (GDP growth 4.026%)	**High Achievers** (GDP growth 8.026%)
ALB	2117	2061	2033
B&H	2162	2084	2044
BUL	2098	2051	2028
CRO	2083	2044	2024
MAC	2111	2058	2031
ROM	2096	2050	2027
S&M	2149	2077	2041

Source: Author's calculations

Note: Luxembourg's GDP per capita in terms of PPP for 2002 is USD 44,000. The starting (base) year is 2003.

Given the above, in case the GDP growth rate in the region slows down it may take from 80 to 145 years to the region to catch up with the present level of Luxembourg's GDP per capita (PPP).

If we base our calculations on present level of GDP real change (see Table 23), the years to cohesion with Portugal and Luxembourg can be summarized in the following way:

Table 30: SEE years of cohesion with 2001 GDP growth with Portugal and Luxembourg

	GDP growth rates (%)	**Portugal**	**Luxembourg**
ALB	6.526	2025	2039
B&H	2.326	2103	2142
BUL	4.026	2028	2051
CRO	3.826	2022	2046
MAC	(4.6)	n.a.	n.a.
ROM	5.326	2022	2039
S&M	6.226	2037	2051

Source: Author's calculations

Note: To the actual GDP growth rate for 2001 (see Table 23) is added the effect of the Free Trade Zone on each SEE country's GDP growth. The starting (base) year is 2003.

Obviously, the higher growth rate a country maintains the quicker cohesion with a more developed state will be achieved. A web based simulation model is developed to estimate the years in which each country can achieve a reasonable level of living standards in terms of GDP per capita (PPP). The simulation model also considers the long-term economic effects of the establishment of the Free Trade Zone in Southeast Europe as a separate process. For more calculations on your own, please follow the link: www.policy.hu/ranchev

Conclusion

Undoubtedly, cohesion of SEE countries with the current European Union Member States will not be achieved in the short run as desired by most local politicians pressed by the electoral limits. However, the struggle for sustainable growth within the SEE should proceed further and be stimulated by the international community and financial organizations. The slow down of the economic growth in the euro zone represents an additional challenge to the SEE – 7 countries. On one hand cohesion date seems closer, on the other hand as the EU is the main trading partner of the countries in Southeast Europe the recession in the EU may have a spill over effect on the region as a whole. So far, the global economic crisis has not affected significantly the seven SEE countries – growth rates are above the average ones within the euro zone and projections for the economic development still look encouraging. As FDI on a global scale is decreasing and investors become more and more precautious, the impact on SEE FDI inflows and their input on medium and long term GDP growth are definitely uncertain.

Although, the direct impact of the establishment of the Free Trade Zone on GDP growth and finally on the acceleration of cohesion is not significant, the liberalization of trade has indirect effects which will contribute to sustainable growth in SEE. Such effects should by no means be underestimated – increased regional security, minimization of trade costs, creation of a single market of over 55 million people, which can attract fresh FDI inflows, etc.

So, is distant cohesion date really a problem for the SEE countries? The author is of the opinion that the short answer is - not at all. As long as the countries sustain their growth rates and continue their economic reforms cohesion will come sooner or later. The problem really is how to sustain the economic growth. In order to maintain the present GDP growth rates and even to exceed them, each SEE country should develop *a roadmap for achieving sustainable growth* on the basis of an analysis of their relative strengths and weaknesses. The deepening of trade liberalization in the region will continue to be high on the agenda of the struggle for sustainable growth and is for sure a comparative strength rather than a weakness.

Part Five

Avoiding the Traps

Part Five: The Free Trade Zone in SEE is already a fact?

The process of the establishment of the Free Trade Zone in Southeast Europe is almost finalized. The following table provides information on the existing (concluded) Free Trade Agreements (FTAs) among the SEE – 7 countries that have signed the Memorandum of Understanding.

Table 31: Existing SEE-7 FTA network as at 4 March 2003

	ALB	**B&H**	**BUL**	**CRO**	**MAC**	**ROM**	**S&M****
ALB		YES*	YES	YES	YES	YES	YES*
B&H	YES*		YES*	YES	YES.	YES*	YES
BUL	YES	YES*		CEFTA	YES	CEFTA	YES*
CRO	YES	YES	CEFTA		YES	CEFTA	YES
MAC	YES	YES	YES	YES		YES	YES
ROM	YES	YES*	CEFTA	CEFTA	YES		YES*
S&M**	YES*	YES	YES*	YES	YES	YES*	

Source: Stability Pact
Notes:
* Only initialed according to latest information
** Serbia & Montenegro started negotiation process when it was known as FR Yugoslavia

As at 4 March 2003, out of 21 FTAs necessary for the completion of the Free Trade Zone in SEE, only six FTAs have been agreed (initialed) but are not signed yet. The remaining 12 FTAs and the three agreements within CEFTA are formally signed and most of them already apply. Undoubtedly, the small delay in the establishment of the Free Trade Zone of several months cannot cast a shadow on this huge success.

For less than 2 years the seven countries signatories to the Memorandum of Understanding have finalized the negotiation process. Within these two years the international financial institutions, the European Union and especially the Stability Pact have intensified gradually their pressure on the SEE – 7 governments and the final objective was reached. *The question is: what comes next?*

The next steps: avoiding the traps

In his speech at an investment promotion event organized by the Serbia Foreign Investors Council and the OECD within the framework of the Stability Pact, Mr. Erhard Busek - Special Coordinator of the Stability Pact hailed the formal completion of the negotiation process (see Stability Pact press release of 4 March 2003). However, Mr. Busek explained that the political act of negotiations is only the beginning. Implementation, promotion and dispute settlement are now the challenges ahead. "At the end of the day" Busek said, "individual businesses and traders must know about the new free trade regime and the governments duty will be to instruct its customs and export authorities accordingly".

The business community and the society are just beginning to realize the impact of the Free Trade Zone. No doubt, the undergoing process of trade liberalization will lead to the formation of interest groups, which will try to influence the implementation process in order to preserve some of the existing tariff and non-tariff barriers.

Thus the main objective of the seven SEE governments, in addition to further deepening of the trade liberalization process, will be the withstanding of the pressure from the affected corporate interests. The current practices (see trade relations between Bulgaria and Macedonia in Part One of the present research) show that the SEE governments cannot be considered immune from such attempts. However, such trade conflicts should be avoided as much as possible in order to keep the fragile balance achieved between the SEE – 7 governments, the international financial institutions and the society.

On the other hand, the SEE governments are doing nothing or almost nothing to spread the news of the establishment of the Free Trade Zone within their own countries. It seems that the Free Trade Zone in Southeast Europe has received much more international attention instead of intra regional interest. So there is much to be done by the public authorities with regard to the promotion of the new terms of trade within the SEE countries.

It should be noted that the formal completion of the framework of the FTAs necessary for the operation of the Free Trade Zone does not necessary entail full trade liberalization. The speed of achieving full trade liberalization is one of the most important steps that must be taken in the following several years. The monitoring of the speed of the process will remain once again much a responsibility for the Stability Pact and the European Union.

Achieving genuine regional economic integration

The establishment of the Free Trade Zone in Southeast Europe should be considered as one of the most important stages for achieving genuine regional economic integration. *Will such integration be achieved prior to the entry of the seven SEE countries in the European Union or afterwards?* This is a question that remains open for debate.

However, the SEE countries should build upon the success of the Free Trade Zone project the milestones of their future cooperation. Undoubtedly, all SEE countries should continue their efforts to develop stable business environment, more attractive conditions for foreign direct investments, sound macroeconomic policies and social reforms.

The dynamics of mutual consent achieved in the process of negotiations of the framework of FTAs should be maintained. One the most sensitive mutual problems that request special focus is the struggle for sustainable economic growth. The SEE governments must develop a common agenda to sustain and even accelerate their economic growth. High levels of economic growth are among the most important prerequisites for social cohesion with the European Union Member States and prospective accession into the Union. Thus the common goal and problems should be dealt through mutually coordinated efforts.

The roadmap for sustainable growth

One possible solution to the mutual problems experienced by the seven SEE governments can be the creation of a roadmap of SEE countries for achieving sustainable growth. Such roadmap for sustainable growth can be the next step after the liberalization of trade towards achieving genuine regional economic integration.

The roadmap can focus on the following major prerequisites for achieving sustainable growth:

- Setting strict limits for budget deficits;
- Streamline measures to attract foreign investments including developments in infrastructure and legislative environment;
- Coordinate tax and customs reforms;
- Focus on local educational, health and social security reforms;
- Setting up a working group of SEE experts to monitor the reforms regularly;
- Exchange of information on the progress made and problems solved;

The above ambitious objective can be achieved only through the coordinated efforts of the seven SEE governments and sustained support from the EU and the international financial institutions. Given the shifted international priorities, i.e. the Iraq crisis, it seems that the focus on the economic and political developments in the SEE region is gradually drawn away. This fact represents a significant challenge to the practical implementation of the efforts in creating of the roadmap.

In order to secure a continued attention from the EU and the international financial organizations, a highly reputable organization should champion the idea, create and monitor developments. Although the creation of a *roadmap for sustainable growth* is not explicitly listed as one of the current six core objectives of the Stability Pact (local democracy and cross border cooperation; media, energy, trade and investment; fighting organized crime; managing and stabilizing population movements) it is undoubtedly in line with most of its activities.

Undoubtedly, the Stability Pact for Southeast Europe can undertake the crucial role of coordination of the sustainable growth efforts. Moreover, such a new focus can help the Stability Pact remain one of the most essential instruments for assuring continued political attention from the international community to the SEE region.

Bibliography

General References

The following resources contain information of relevance to many of the topics covered in the present report.

Eur-Lex: Community Legislation in Force: Contains information of the relevant EU tax and customs legislation in force available at: http://europa.eu.int/eur-lex/en/lif/index.html

European Commission, DG Enlargement: contains information of the processes of the EU accession of Central and East European countries available at: http://europa.eu.int/comm/dgs/enlargement/index_en.htm

European Commission, DG External Relations: contains information of the processes of the EU relations on SAP with South East European countries available at: http://europa.eu.int/comm/dgs/external_relations/index_en.htm

European Commission, DG Taxation and Customs Union: contains information about the current activities taking place in the EU with regard to customs and taxation issues available at: http://europa.eu.int/comm/dgs/taxation_customs/index_en.htm

CIA –The World Factbook 2002: contains information on levels of GDP per capita for SEE and EU countries available at: http://www.cia.gov/cia/publications/factbook/fields/2004.html

SEEurope Net: is a menu driven database, containing current tax and investment information on SEE countries available at: http://www.seeurope.net/en/

SEERECON: is a menu driven database, containing information on projects for SEE countries supported by the World Bank and the European Commission available at: http://www.seerecon.org/

Stability Pact Database: official web site of the Stability Pact for SEE available at: http://www.stabilitypact.org

World Customs Organization: official web site available at: http://www.wcoomd.org/ie/En/en.html

The World Bank: is a menu driven web site containing country specific data available at: http://www.worldbank.org/data/countrydata/countrydata.html

The Vienna Institute for International Economic Studies – WIIW: is a menu driven base available at: http://www.wiiw.ac.at/

Specific References

1. Bachvarova, Boryana. "Skopie threats with counter duties the cheese because of the vegetables, "Capital", issue 36, September 2002 (in Bulgarian).

2. Berov, Luben. "The Economy of Bulgaria and the Former Socialist Countries: Ten Years Later 1989-1999", 1999 (in Bulgarian).

3. Blomstrom, Magnus and Kokko, Ari. "Regional Integration and Foreign Direct Investment: A Conceptual Framework and Three Cases", Policy Research Working Paper No. 1750, The World Bank, 1997.

4. Chavdarova, Maria. "Balkan Countries: Politics, Economy, International Relations", 1999 (in Bulgarian).

5. Council Regulation (EC) No 2007/2000 of 18 September 2000 amended by Council Regulation (EC) 2563/2000 of 20 November 2000.

6. De Bonis, Valeria. "Regional Integration and Factor Income Taxation", Policy Research Working Paper No. 1849, The World Bank, 1997.

7. De Bonis, Valeria. "Regional Integration and Commodity Tax harmonization", Policy Research Working Paper No. 1848, The World Bank, 1997.

8. Jovanovic, Miroslav. "European Economic Integration: Limits and Prospects", Routledge, 1997.

9. KPMG Bulgaria, "Foreign Investment in Bulgaria", Survey, 2002.

10. Lechmanova, Natalie. "Central European Dilemma: EU or CEFTA integration", thesis, The American University of Paris, 1998.

11. Liber Amicorum Leif Muten. "International Studies in Taxation: Law and Economics", 1999.

12. Prodi, Romano. "Enlargement – the final lap", speech delivered at the European Parliament, Brussels, 9 October 2002.

13. Puga, Diego and Venables, Anthony J. "Trading Arrangements and Industrial Development", The World Bank Economic Review, Vol. 12, No. 2, May 1998.

14. Ranchev, Georgi. "The combination of services - infrastructure - taxes is a struggle for foreign investments ", PARI Daily, August 2001 available at: http://www.policy.hu/~ranchev/article3.html

15. Ranchev, Georgi. "One of the magic solutions for the Balkans: will the Free Trade Zone become true", Leader Dnes, issue 3, 2001 available at: http://www.policy.hu/~ranchev/article2.html

16. Schiff, Maurice and Winters, L. Alan. "Dynamics and Politics in Regional Integration Arrangements: An Introduction", The World Bank Economic Review, Vol. 12, No. 2, May 1998.

17. Schiff, Maurice and Winters, L. Alan. “Regional Integration as Diplomacy”, The World Bank Economic Review, Vol. 12, No. 2, May 1998.

18. Sorsa, Pirita. “Special Investment Incentives May Come at a High Cost to the Economy”, Capital, issue No 9, 8-14 March 2003.

19. Stability Pact, Press Release of 4 March 2003, “Negotiations on Free Trade in Southeast Europe Completed – Full Implementation Begins Mid 2003”, PR2003/007.

20. Tanzi, Vito and Zee, Howell H. “Tax Policy for Emerging Markets: Developing Countries”, IMF Working Paper, March 2000.

21. Vamvakidis, Athanasios. “Regional Integration and Economic Growth”, The World Bank Economic Review, Vol. 12, No. 2, May 1998.

22. Venables, Anthony J. “Regional Integration Agreements: A Force for Convergence or Divergence?”, Policy Research Working Paper No. 2260, The World Bank, 1999.

23. Winters, L. Alan and Chang, Won. “Regional Integration and the Prices of Imports”, Policy Research Working Paper No. 1782, The World Bank, 1997.

24. World Bank. “The Road to Stability and Prosperity in Southeastern Europe: a regional strategy paper”, 2000.

25. World Bank and IMF, “Building Peace in South East Europe: Macroeconomic Policies and Structural Reforms since the Kosovo Conflict”, joint paper, October 2001

Full text of the Memorandum of Understanding on Trade Liberalisation and Facilitation

Brussels, 27 June 2001

Ministers,

REPRESENTING the Republic of Albania, Bosnia and Herzegovina, the Republic of Bulgaria, the Republic of Croatia, the Federal Republic of Yugoslavia, the Republic of Macedonia and Romania (hereafter the Signatory Countries), on the occasion of their meeting on trade liberalisation and facilitation within the context of the Stability Pact for South Eastern Europe, held in Brussels on 27 June 2001;

HAVING REGARD to the pledge, made by signatories to the Stability Pact in Cologne on 10 June, 1999, to foster "economic co-operation in the region and between the region and the rest of Europe and the world, including free trade areas";

RECALLING the Declaration of the Zagreb Summit on 24 November, 2000, in which Heads of State or Government of the Republic of Albania, Bosnia and Herzegovina, the Republic of Croatia, the Federal Republic of Yugoslavia, and the Republic of Macedonia undertook to establish regional co-operation conventions providing for a regional free trade area; and the SEECP Action Plan for regional economic co-operation, agreed at the Fourth Summit in Skopje on 22 and 23 February, 2001, in which Participating Countries (the Republic of Albania, Bosnia and Herzegovina, the Republic of Bulgaria, the Federal Republic of Yugoslavia, the Hellenic Republic, the Republic of Macedonia, Romania and the Republic of Turkey, reaffirmed that "further liberalisation of trade, undertaken also by the countries of the region will better serve their national economies";

RECOGNISING the primacy of the multilateral trading system as compared with regional initiatives, in the fields of trade facilitation and liberalisation that are mentioned below; the importance of WTO membership and compliance with WTO rules as well as the importance of liberal trade regimes in order to foster economic development; and the relevance of the EU Stabilisation and Association process and the EU enlargement process in this context;

DETERMINED to liberalise and facilitate trade further among the Signatory Countries and to advance the accession to the WTO of Bosnia and Herzegovina, the Federal Republic of Yugoslavia, and the Republic of Macedonia;

CONVINCED that these measures will enhance the ability of the region to attract investments and further the prospects of its integration into the global economy;

HAVE today adopted this Memorandum of Understanding on Trade Liberalisation and Facilitation.

*****

The Signatory Countries agree to:

1. Develop further the network of Free Trade Agreements on trade in goods between the Signatory Countries, in compliance with WTO rules and in accordance with the process and commitments relevant to each country's individual relationship with the EU. To this end, the Signatory Countries will:

1.1. Refrain, upon signature of this Memorandum, from taking any new trade restrictive or distorting measure, that would go beyond that which is necessary to address specific and sensitive situations in compliance with WTO rules, thereby establishing a base line for the negotiation and, if applicable, the revision of Free Trade Agreements.

1.2 Negotiate mutually beneficial Free Trade Agreements between themselves, with a view to signing the agreements, covering products originating in the parties, by the end of 2002, in accordance with the following principles:

1.2.1 Export duties or charges having equivalent effect shall be abolished upon entry into force of each agreement. Quantitative restrictions on imports or exports and measures having equivalent effect shall also be abolished.

1.2.2 Import duties or charges having equivalent effect shall be abolished on at least 90% of the parties' mutual trade by value and of HS tariff lines by the end of the transitional period.

1.2.3 Import duties or charges having an equivalent effect on a large majority of goods should be preferably abolished upon entry into force of each FTA; those on sensitive goods would be progressively reduced during a transitional period of not more than 6 years.

1.3 Review existing bilateral Free Trade Agreements already concluded between the Signatory Countries and ensure that they are compatible with the principles set out in paragraphs 1.2.1 to 1.2.3 by the end of 2002.

1.4 Ensure that all these Free Trade Agreements enhance integration of the Signatory Countries into EU structures. The Signatory Countries which are candidates for accession to the EU will conclude, as a first priority, free trade agreements with those Signatory Countries with which the EU has concluded SAAs, where such agreements do not yet exist; agreements with the other Signatory Countries will be negotiated in line with obligations undertaken in the framework of the accession negotiations and in conformity with this Memorandum. Candidates for accession to the EU will ensure that existing and new agreements mirror, to the extent possible, the current scope and level of liberalisation of EU arrangements.

2. Set in motion, upon signature of this Memorandum and within the context of the Stability Pact Working Group on Trade Liberalisation and Facilitation, the Procedure to Eliminate Quantitative Restrictions and Measures with Equivalent Effect on Trade, agreed by the Signatory Countries to identify, review and eliminate such measures, in particular those which are not compatible with WTO provisions.

3. Include in the Free Trade Agreements an appropriate common set of preferential rules of origin furthering the objectives of this Memorandum.

4. Ensure that provisions in the Free Trade Agreements regarding the application of antidumping, countervailing and safeguard measures, are consistent with WTO rules. Include provisions related to public procurement, state aid and state monopolies in the Free

Trade Agreements in order to ensure further liberalisation, transparency and non-discrimination in trade between the Signatory Countries.

5. Simplify customs procedures, especially at border crossings; harmonise legislation, documentation and procedures with those of the EU; engage in mutual assistance between customs administrations and other agencies concerned with the cross-border movement of goods, vehicles and persons; and harmonise methodologies for the collection of trade statistics. To this end, they shall continue to conclude appropriate agreements, in addition to existing arrangements, where possible on a regional basis.

6. Include in the Free Trade Agreements a clause foreseeing the future liberalisation of trade in services, in accordance with GATS Article V. The Signatory Countries request the Stability Pact Working Group on Trade Liberalisation and Facilitation to commission an assessment of the current situation in their countries concerning trade in services and of prospects for regional co-operation in this area.

*****

The Signatory Countries intend to take additional steps to liberalise and facilitate trade. To this end, they will:

7. Ensure that trade legislation and regulations relating to plant, animal and human health, safety and environment are compatible with the provisions of WTO, EU and other relevant international bodies, bearing in mind the Signatory Countries’ current and future obligations in their contractual relationships with the EU.

8. Co-operate in moving towards the implementation of standards, technical regulations, conformity assessment, testing, metrology and accreditation systems that are compatible with European and international principles. The Signatory Countries shall endeavour to participate in the work of relevant international organisations, exchange technical and methodological information in the field of quality control of production processes and take other measures aimed at improving quality. They will pursue mutual recognition and similar arrangements between themselves and partners, which are consistent with the provisions of the WTO and will promote co-operation among their standards and accreditation bodies.

9. Harmonise legislation on company law, company accounts and taxes and banking law with that of the EU. The Signatory Countries will also harmonise their competition law with that of the EU. They will further strengthen, where necessary, the enforcement capacity of relevant Authorities, including competition or similar bodies, and establish such Authorities where none exist.

10. Upgrade their legislation in the field of intellectual property protection in compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and other related international agreements. They will develop and implement appropriate enforcement measures in order to combat piracy and counterfeiting effectively.

Maintain an open trade regime toward the rest of the world, pursue further multilateral trade liberalisation within the WTO and conclude Free Trade and other trade agreements with neighbouring and other interested countries.

*****

To ensure achievement of the undertakings outlined above, the Signatory Countries:

12. Request the Stability Pact Working Group on Trade Liberalisation and Facilitation to review progress in the above undertakings regularly and propose measures required to fulfil the provisions of this Memorandum. The Working Group should also be used by Signatory Countries to inform each other about developments in the bilateral free trade agreements and other trade-related measures.

13. Appeal to WTO members to support, assist and facilitate early accession to the WTO of Bosnia and Herzegovina, the Federal Republic of Yugoslavia, and the Republic of Macedonia.

14. Call upon the international community to provide technical and financial assistance to facilitate for the Signatory Countries to meet the above undertakings. They stress the importance of the realisation of trade facilitation and promotion projects that will benefit all Signatory Countries.

15. Agree to meet again within twelve months of the date of signature of this Memorandum and subsequently on a regular basis, to review progress, to adopt measures to implement this Memorandum and to develop further trade and investment.

SIGNED at Brussels, on 27th day of June in the year two thousand and one.

(Followed by signature)