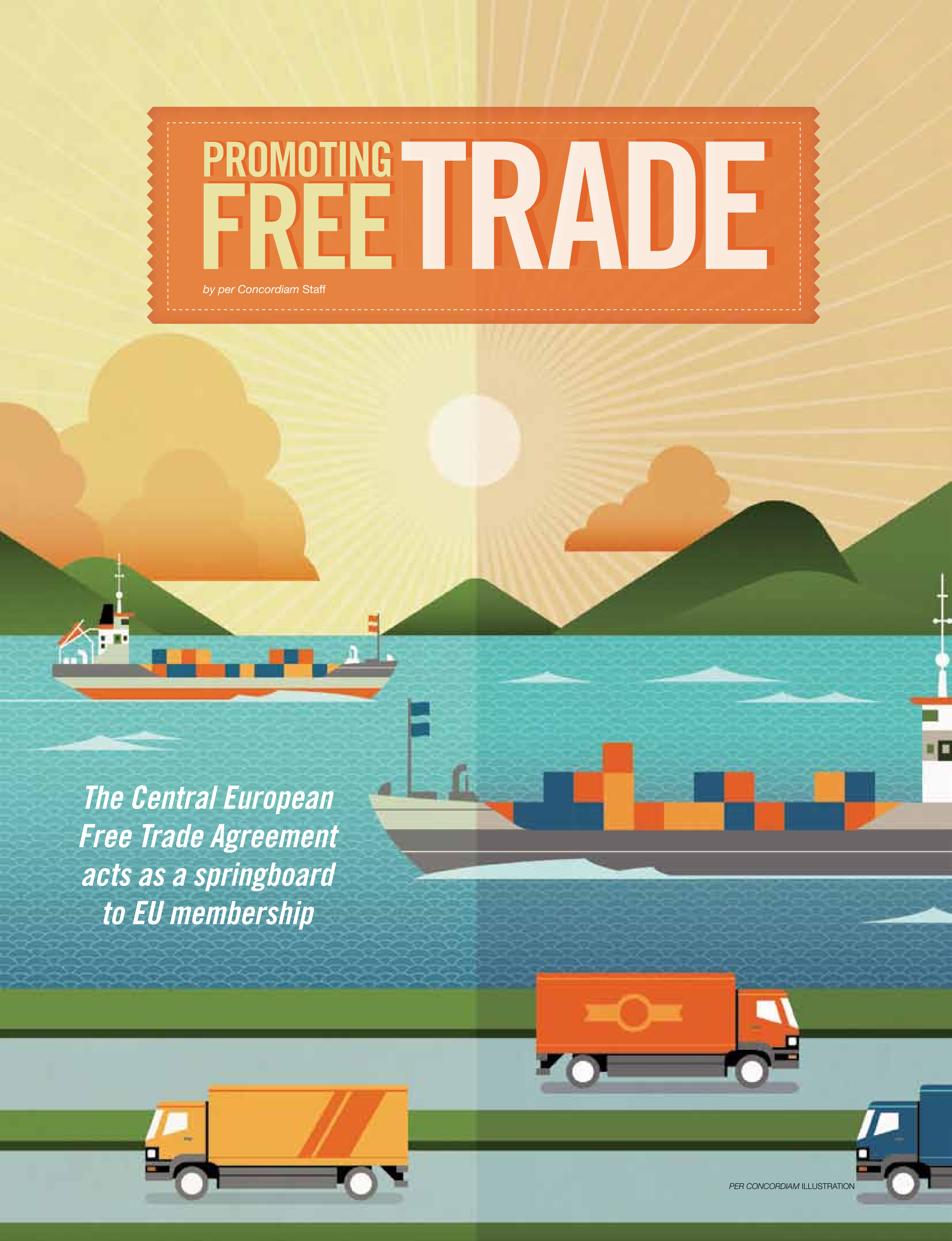
PROMOTING FREE TRADE

by per Concordiam Staff

The Central European Free Trade Agreement acts as a springboard to EU membership



PER CONCORDIAM ILLUSTRATION

In December 1992, representatives of the new democratic governments of Hungary, Poland and Czechoslovakia met in Krakow, Poland, to sign the Central European Free Trade Agreement (CEFTA). Those were exciting times for nations that had suffered nearly a half century of Soviet rule. But they were also times fraught with economic uncertainty and the inherent dangers of societal unrest and instability. CEFTA was implemented to facilitate integration of the three countries into Western European institutions and consolidate democratic government and free market economic reforms.

The agreement was an early centerpiece of the Visegrád Group, an alliance formed by Hungary, Poland and Czechoslovakia at a historic February 1991 meeting on the banks of the Danube River in Budapest. In 1335, at another historic meeting 50 kilometers north in Visegrád, Hungary, Hungarian King Charles I of Anjou, Bohemian King John of Luxembourg and Polish King Casimir III resolved territorial disputes and forged a 50-year alliance at the Congress of Visegrád. The medieval rulers established Visegrád as a center of regional diplomacy where the rulers and their successors gathered for decades to discuss matters of state.

Hungarian Prime Minister József Antall, Polish President Lech Wałęsa and Czech President Václav Havel — democratic successors to those kings — shared a conviction about the benefits of liberal democracy and free trade. They believed that achieving economic reform and social transformation, with the goal of European integration and eventual European Union (EU) accession, would be easier through joint efforts. The desire to overcome historic animosities and move forward in a spirit of cooperation led them to adopt Visegrád as a symbol.

Membership has evolved during its 20-year history. The original Visegrád Group members left CEFTA in 2004 when they joined the EU. Later members — Slovenia, Romania, Bulgaria and Croatia — also left the organization upon achieving EU membership. Current member states are Albania, Bosnia-Herzegovina, Kosovo, Macedonia, Moldova, Montenegro and Serbia.

With all of its former members in the EU and most of its current members on their way to EU accession, the question has arisen whether the agreement is redundant. Before the adoption of the latest manifestation, CEFTA 2006, the organization appeared to be nearing the end of its usefulness. Bulgaria and Romania were about to join the EU and withdrew, leaving Croatia as the sole remaining member.

The EU proposed the alternative of a "Balkan Free Trade Zone" primarily composed of former Yugoslav states. Croatia objected, according to the Southeast European Times, "complaining that it was reminiscent of the former Yugoslavia and would slow Croatia's road to EU accession by lumping it together with other states that are not as far along in the process." As an alternative, CEFTA was expanded with the addition of Albania, Moldova and the other countries. Croatia withdrew in 2013 with its admission to the EU.

The agreement has evolved to meet the emerging challenges of its member states, but the central premise of the agreement remains — to facilitate economic development in the region by expanding trade and encouraging investment. CEFTA 2006 was ratified by the current member states in 2007 with a promise to "expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid."

To reach CEFTA objectives, prospective member states must meet specific criteria set forth in the Poznan Declaration of 1994. These criteria are: 1) membership in the World Trade Organization (WTO); 2) an EU Association Agreement with provisions for full membership; and 3) consent from all member states in the form of bilateral free trade agreements with each other. However, the criteria have grown more flexible: Kosovo was allowed accession absent WTO membership to avoid economic isolation, and the EU Association Agreement provision was downgraded to no longer require "full membership."

The agreement can be most useful in encouraging greater economic cooperation in the strife-torn Balkans, home to all but one of its current members, by upholding the principles of free trade and the rule of law. Its structures include subcommittees on agriculture and sanitary issues, customs and technical and nontariff barriers to trade. There are also working groups on technical barriers to trade, trade in services and customs risk management.

Some have questioned the continuing relevance of CEFTA. But according to a 2012 EU Center for Economic Development report, it has "played a significant role in goods and services trade expansion, and in investment influx increase. That was made possible on the grounds of commonly accepted fair, stable and predictable rules, elimination of barriers, and introduction of international standards and harmonization of national trade policy elements. Even more, thanks to the involvement and support of a number of European institutions in agreements drafting, these documents turned out to be an essential pre-accession tool for the countries in the region."

That so many former members have achieved the goal of EU accession is the best proof of the agreement's relevance. Further expansion to include Georgia is possible after that country signed an EU Association Agreement in November 2013. Ukraine, which backed out of signing its own association agreement just days before the meeting, is another potential member when it resolves internal political and foreign policy issues. CEFTA may have a limited shelf life, but it likely won't expire until all Central European countries have made the structural and economic reforms necessary to meet the stringent demands of EU membership. □