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COOPERATION IN THE REGION OF SOUTHEASTERN EUROPE WITHIN THE FRAMEWORK OF THE CEFTA AGREEMENT*

Abstract: *CEFTA is an agreement that presently defines a single free trade zone in Southeastern Europe. The agreement provides for the removal of trade barriers in the region, the harmonization of tariff and other administrative regulations with the standards of the World Trade Organization, introduces arbitration for dispute resolution and the rule of diagonal cumulation. As any other agreement, it is the result of compromise, which means that it has both advantages and drawbacks. Nevertheless, it is expected that it will strongly influence the mutual trade of the countries of Southeastern Europe and promote their process of integration into the European Union.*

Key words: *CEFTA, international trade, European Union, regionalization, liberalization, protectionist measures, free trade*

JEL classification: F15, O19

1. Globalization and regionalization in Southeastern Europe

Globalization and regionalization are modern-era phenomenons and, as such, are one of the main features of today's civilization. The essence of globalization is the creation of a unitary economic and political global space. Regionalization is its integral part and represents regional linking and cooperation, mostly of geographically neighboring countries.¹ In the process of the globalization and general interdependence of the modern world, protectionist measures (tariff and non-tariff barriers) represent an obstacle to the modern development

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¹ M. Božić, *Ekonomika politika*, Pravni fakultet u Nišu, Niš, 2006, p. 96.

of economy and trade. Hence, the process of the liberalization of the flows of goods, capital, services and people is the only logical path of accelerated development.

Seeing the advantages of removing trade barriers, certain countries have established regional organizations, within which they have gradually liberalized their mutual trade. In this way they additionally developed their economies and became an example of successful cooperation. The essence of regionalization lies precisely in the liberalization of mutual economic relations, which assumes the existence of markets for goods and services, the mobility of capital, technology and knowledge, possibilities for population migrations and the prominent role of organizations and institutions.² On the other hand, countries that have retained closed economies for fear of being exposed to foreign competition, have lagged further and further behind and, comparatively speaking, have become increasingly impoverished.

Serbia realized the significance of free trade and the advantages of regionalization, and thus began to take steps toward accession to the European Union (EU), which is currently the world's best institutionally organized regional association. Southeastern Europe, i.e. the Western Balkans, has been in the focus of political and economic interest of EU member countries for a number of years. Thus, as early as June 27, 2001, a memorandum of understanding, liberalization and facilitating trade conditions was adopted in Brussels, within the Stability Pact for Southeastern Europe. The memorandum was signed by Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia and Montenegro, Macedonia, Moldavia and Romania. In the meantime 32 bilateral agreements between eight countries of the region of Southeastern Europe were signed. This gave birth to the idea of making a single agreement for the entire region and, practically, legally defining a unified free trade zone on a multilateral basis. Since the structure of the previously signed bilateral agreements was very similar, it was concluded that the regulations dealing with dumping, subsidies, and state monopolies could be harmonized, but that some solutions could also be improved, such as, for example, the provisions dealing with state aid. By insisting on the formation of a unified free trade zone, the European Union, by way of the Stability Pact for Southeastern Europe, is trying to stimulate economic development and these countries' process of stabilization and accession to the European Union.

2. Regional blocs in the world and CEFTA

According to the recommendations of the EU, countries seeking membership in the Union are encouraged to create free trade zones on their territories. All the CEFTA member-states had previously signed Stabilization and Association

² D. Đukanović (prir.), S. Jelisavac, "Ekonomski aspekti saradnje međudržavnih foruma – uporedna analiza", Zbornik radova *Međudržavni forumi za saradnju u Evropi: uporedni modeli*, Institut za međunarodnu politiku i privredu, Beograd, p. 192.

Agreements with the EU; thus, CEFTA actually has the role of preparing countries for full-fledged membership in the Union.³ What is especially important is that the majority of CEFTA's foreign trade is conducted with EU countries.

As can be seen in Table 1, as one of the blocs with the smallest territorial scope, CEFTA has a relatively high gross domestic product (GDP) and could, in that sense, represent a relatively important bloc. Still, since this alliance is only a transitional step toward the EU, its short-term character limits it in the political sense.

3. Characteristics of a unified free trade zone

CEFTA is an agreement that presently defines a unified free trade zone in Southeastern Europe. As its very name says, the Agreement was initially formed between Central European states, i.e. the countries of the so-called Viszegrad Group: Poland, Hungary, and Czechoslovakia (later the Czech Republic and Slovakia). It was signed on December 21, 1992 in Kraków, Poland, and went into effect in July 1994.⁴

The member countries hoped that CEFTA would facilitate their more rapid preparation for and integration into the institutions of Western Europe and their accession to the political, economic, security and legal system of the EU (*acquis communautaire*). In the second round, the Agreement was joined by Slovenia in 1996, Romania in 1997, Bulgaria in 1998, Croatia in 2003, and Macedonia in 2006.⁵

All the state-signatories of the original Agreement, except for Croatia and Macedonia, have since joined the European Union and, thereby, left CEFTA. Under the patronage of the Stability Pact for Southeastern Europe, in the context of the Stabilization and Association Process, it was decided that the existing CEFTA was to be expanded with countries from Southeastern Europe. There was also talk of including Ukraine.⁶ In the Balkan region, a model of bilateral free trade agreements already existed within the framework of the Stability Pact for Southeastern Europe.

The new agreement, called CEFTA 2006, was initiated on November 9, 2006, in Brussels and signed on December 19, 2006, at the Southeast European prime ministers' meeting in Bucharest. The agreement was ratified on March 31, 2007, and went into force on May 1, 2007 (see Table 2).

The CEFTA 2006 agreement is the result of years of pressure on the part of the European Union and represents a harmonization of previously signed bilateral agreements on free trade between the countries of the region. The good results, in terms of lowered tariffs and trade growth, which came out of the bilat-

³ Central European Free Trade Agreement (CEFTA).

⁴ See CEFTA Agreement: <http://www.worldtradelaw.net/fta/agreements/cefta.pdf>, 22/11/2007.

⁵ For further information, see: <http://www.ukom.gov.si/cefta2003/eng/cefta/>, 22/11/2007.

⁶ <http://www.unian.net/eng/news/news-160543.html>, 22/11/2007.

Table 1: The most active regional blocs since 2004**

Regional bloc ¹	Area (km ²)	Population	GDP (PPP) (\$US)		Member states ¹
			in millions	per capita	
Agadir	1703910	126066286	513674	4,075	4
AU	29797500	897548804	1515000	1896	53
ASEAN	4400000	553900000	2172000	4044	10
CACM	422614	37816598	159536	4219	5
CARICOM	462344	14565083	64219	4409	(14+1) ³
CCASG / GCC	2285844	35869438	536223	14949	6
CEFTA	298148	28929682	222041	7675	(7+1) ³
EU	4325,675	496198605	12025415	24235	27
EurAsEC	20789100	208067618	1689137	8118	6
EFTA	529600	12233467	471547	38546	4
GUAM	810506	63764600	456173	7154	4
NAFTA	21588638	430495039	15279000	35491	3
PARTA	528151	7810905	23074	2954	(14+2) ³
SAARC	5136740	1467255669	4074031	2777	8
Unasur / Unasul	17339153	370158470	2868430	7749	12
UN and the referent country ²	Area (km ²)	Population	GDP (PPP) (\$US)		Unit of measure ⁴
			in millions	per capita	
UN	133178011	6411682270	55167630	8604	192
Brazil	8514877	188078261	1594482	9108	27
Canada	9984670	32507874	1165000	35200	13
India	3287590	1102600000	4042000	3700	35
Japan	377873	128085000	4220000	33100	47
China ⁵	9596960	1306847624	10000000	7600	33
Russian Federation	17075200	143782338	1723000	12100	89
USA	9631418	300000000	12980000	43500	50

Legenda

■ Lowest values among the observed blocs.

■ Highest values among the observed blocs.

¹ The included data is only for the most active member states.

² Including the five countries with the largest area, populace and GDP value, but not #4 in population or #5 in GDP

³ Including non-sovereign autonomous regions or other states.

⁴ Members or administrative division.

⁵ Data for China does not include data for Hong Kong, Macao, Taiwan.

Source: CIA factbook,

<https://www.cia.gov/library/publications/the-world-factbook/index.html>, 22.11.2007.

** See Appendix.

eral agreements, were a step forward; however, this was mostly a result of the fact that the comparison base was extremely low. In addition, the agreements differed among themselves, making for a complicated network of mutual trade ties. Also, a further handicap was the lack of harmonization of rules on product origin, which prevented investors from treating the region as one whole. CEFTA 2006 is a step further and represents a modernization of trade rules in the region (the inclusion of provisions on trade in services, public procurements and intellectual property protection), as well as their unification.

After the signing of CEFTA 2006, it was agreed that it was necessary for it to be ratified by at least five members before it could come into effect. The ratification acts were to be deposited with the Croatian Ministry of Foreign Affairs and European Integrations. During 2007, the agreement was ratified by Albania, the southern Serbian province of Kosovo and Metohija (UNMIK), Montenegro, Macedonia and Moldavia. Thus, CEFTA 2006 officially came into effect for the countries that had ratified it on July 26, 2007. The countries that had not ratified the agreement would continue to apply bilateral agreements with the countries in the region. Croatia was the sixth member country to ratify the agreement, and began to effectively apply it on August 22, 2007, while in Serbia and Bosnia and Herzegovina it became effective on October 24, 2007.

Table 2: *Central European Free Trade Area*

State		Accession	Withdrawal
Poland		1992	2004
Hungary		1992	2004
Czechoslovakia	Czech Republic	1992	2004
	Slovakia		
Slovenia		1996	2004
Romania		1997	2007
Bulgaria		1998	2007
Croatia		2002	-
Macedonia		2006	-
Moldavia		2007	-
Serbia		2007	-
Bosnia and Herzegovina		2007	-
Montenegro		2007	-
Albania		2007	-
Southern Serbian province of Kosovo and Metohija (UNMIK)		2007	-

Source: <http://www.worldtradelaw.net/fta/agreements/cefta.pdf>

4. Areas covered by CEFTA 2006

In order to better explain what CEFTA 2006 has brought, it is necessary to recall the characteristics of mutual trade between the agreement's signatory countries. Intraregional trade as a share of total trade with the world differed from country to country – from 0.2% (Moldavia) to 35% (B-H). Also, there was a high convergence in the export supply (labor and resource-intensive goods, low added values, low growth rates of demand on the international market). Each individual CEFTA country already had a high share of trade with the EU, 50-80%, in which Italy and Germany were dominant.

With the intention of introducing rules of behavior in trade relations, CEFTA 2006 was supplemented by separate amendments that regulated certain areas and specific procedures, all toward the goal of its simplest possible implementation.⁷ The free trade regime encompassed all industrial products and 90% of agricultural products, while for the remaining 10% the member countries could retain certain protection measures until 2010, in accordance with the rules of the World Trade Organization (WTO). The free trade zone was to be formed by December 31, 2010.⁸

Certain areas were more precisely regulated and deadlines for harmonization were defined:

- *technical trade barriers* – by 12/31/2010, the sides shall form an agreement on harmonization and mutual recognition of the procedure of harmonization assessment;
- *competition* – as of 5/1/2010, principles of competition shall start applying to all companies, including state companies and those with special and exclusive rights, with the active participation of an independent regulatory body;
- *public procurements* – by 5/1/2010, the sides shall secure non-discrimination and national treatment, which shall be subject to the review of the Joint Committee, which shall convene by 6/1/2008.
- *intellectual property protection* – by 5/1/2014, the sides shall, if they had not already done so, join the conventions in this area and begin with their implementation.⁹

⁷ Agreement on the Amendment of and Accession to the Central European Free Trade Agreement: <http://www.stabilitypact.org/trade/Cefta%20Agreement%20Amendment%20of%20and%20Accession%20to%20the%20Central%20European%20Free%20Trade%20Agreement%20-%20Preamble.pdf>, 22/11/2007.

⁸ See CEFTA 2006: <http://www.stabilitypact.org/trade/documents/tradeFINAL-joint%20declaration.pdf>, 22/11/2007.

⁹ See: <http://www.stabilitypact.org/wt2/TradeCEFTA2006.asp>, 22/11/2007.

The Agreement will lead to the harmonization of tariffs and other administrative regulations with the standards of the World Trade Organization (protection of intellectual property, public procurements, policies of contingents and limitations, protection of certain economic branches). Arbitration for the resolution of disputes shall be introduced, whose decisions shall be binding. Goods produced in one CEFTA member country will be considered as domestic, regardless of whether they were only partly or wholly produced in that country (rule of diagonal cumulation). Goods produced within the integration framework shall be labeled as *Made in SEE*, which will stimulate cooperation in intraregional production. This would make campaigns such as “let’s by Serbian (Croatian, Bosnian, Montenegrin...)” redundant.

Figure 1: CEFTA’s potential market



One of the more important issues is the so-called diagonal cumulation of origin. In practice, this originally meant that all CEFTA countries could export their products to the EU market duty-free. However, under “own products” were classified only products in which the share of domestic added value was more than 50%. Thus, a product that had 40% Chinese, 45% Serbian, and 15% Macedonian added value was an essential expatriate, i.e. without a defined origin, which means that it did not have preferential treatment vis-à-vis the EU. From now on, however, with the advent of the CEFTA agreement, the cumulation of Serbian and Macedonian added value would be allowed. This is very important, especially for textile manufacturers, where, for example, the cotton is imported from Egypt, the fabric produced in Serbia, and the shirt sewn in Bosnia.

CEFTA is an all-encompassing, modern, ambitious agreement appropriate to the current situation, and its goal is the formation of a regional free trade zone by 2010.

The advantages that CEFTA 2006 brings to its member countries and to the region as a whole are as follows:

- *The establishment of political stability.* Prior to CEFTA 2006, relations between countries in the region were partial, i.e. not all the countries had active political and economic relations (see Diagram 1). This agreement can be an instrument of economic and, subsequently, political stabilization.
- *The stimulation of the strengthening of economic cooperation and, subsequently, on the basis of this, exports to the EU,* which is the region's most important trade partner (diagonal cumulation of rules of origin). CEFTA represents a new framework for a stronger linking of the region's economies.
- *The facilitation of easier cross-border joint production,* thanks to the implementation of the protocol *on the cumulation of product origin in the region.* This will allow a more efficient and more economical transformation of economic capacities and avoid their irrational overlap. Future inclusion into pan-European and Mediterranean cumulations will secure easier tariff regimes for goods exported to the EU, EFTA members and the Mediterranean countries.¹⁰
- *The stimulation of foreign investmenti,* the prospect of easier access to a market of about 30 million consumers; in addition, the Agreement provides for the creation of stable, transparent and favorable conditions for investors, accompanied by a gradual coordination of investment policies, which can result in increased investment inflows.
- *A much clearer definition of trade rules* than was the case with the previous 32 bilateral free trade agreements. The Agreement allows easier implementation for the region's businesses, foreign investors and the local administrations. The Agreement provides for harmonization, transparency, stability and predictability, all of which is greatly conducive to trade.
- A new, more efficient *dispute-resolution mechanism* (consultations, recommendations of the Joint Committee, mediation, arbitration, the WTO mechanism) protects against arbitrary measures, which increases legal security in mutual trade.
- It sends a positive signal that the region is constructing an attractive and stable environment and an improved framework for mutual investments, as well as for foreign direct investments (FDI), especially *greenfield* investments, as the privatization process winds down. A greater inflow of investments allows for the modernization of production, the application of new technologies, knowledge, modern marketing and management, a better quality of goods and services and, thus, of exports to countries in the region and beyond.¹¹

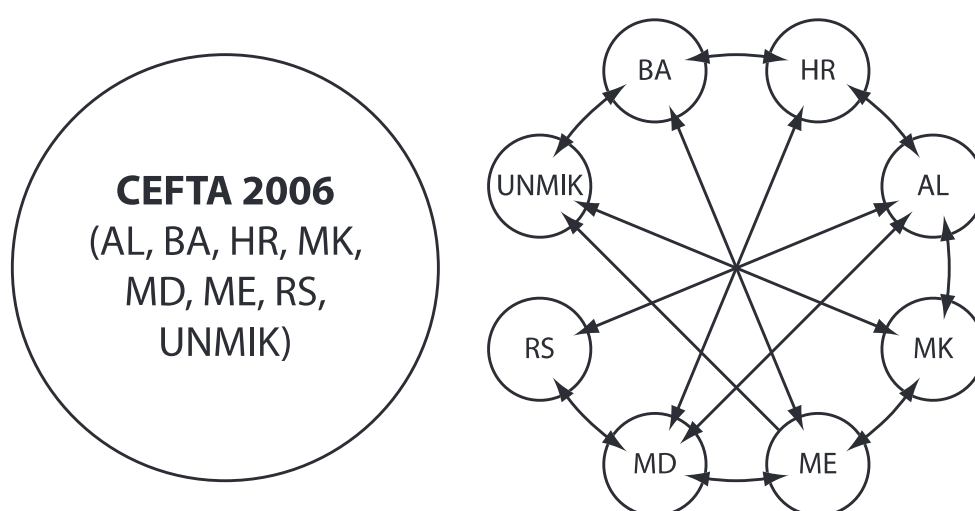
¹⁰ EFTA – *European Free Trade Agreement*.

¹¹ See: http://www.bilaterals.org/article.php3?id_article=6746&var_recherche=EU+welcomes+signing+of+new+Central+European+Free+Trade+Agreement, 22/11/2007.

- *Facilitates the introduction of modern and stable conditions for the regulation of trade* in the region, including new areas; demands strict respect of WTO rules, and provides WTO accession support for the countries that are not yet members (RS, B-H).
- *Facilitates the process of integration into the EU* through harmonization with the legal structures and standards of the EU. The Union supported and emphasized the signing of CEFTA 2006 as one of the priorities of its regional policy vis-à-vis the Western Balkans; free trade in the region, by way of a single agreement, is mentioned as one of the conditions in the draft Stabilization and Association Agreement between Serbia and the EU. As additional confirmation that CEFTA is good preparation for accession to the EU stands the fact that Slovenia, Poland, the Czech Republic, Slovakia, Hungary, Bulgaria and Romania, as CEFTA members, became full-fledged members of the EU; of course, this was neither the only nor the most important prerequisite.¹²

A necessary condition for the success of CEFTA 2006 is that all the countries that have accepted the Agreement should have the same obligations and fulfill all the accepted provisions. It is not enough to accept provisions only on paper, for the sake of satisfying the international community: it is necessary to genuinely carry out the principles of free trade, in order to secure the region's more rapid economic development and its convergence with the European Union. We believe that all the countries are aware of the fact that the road to the EU market, WTO membership, the size of foreign investments, etc. greatly depend on the individual implementations of CEFTA 2006.

Diagram 1: CEFTA – Advantages



¹² Belgrade Chamber of Commerce, Trade Association, *The CEFTA 2006 Agreement*, April 2007: www.kombeg.org.yu, 28/08/2007.

5. CEFTA – possibility or threat

CEFTA is expected to contribute to increased regional trade, to allow the signatory countries to participate in a multilateral trade system under the same conditions for all producers, allow the expansion and modernization of the free trade domain and the opening of a larger market for investments (since investors will look at the attractiveness of a unified region, rather than that of small individual countries).

The CEFTA 2006 agreement contains modern regulations wholly harmonized with the rules of the World Trade Organization. Except for the usual provisions regarding free trade, the text of the Agreement also covers some new forms of cooperation, such as links in the area of trade in services, stimulation and protection of investments, etc. The Agreement also contains modern provisions on protecting competition in the marketplace and intellectual property. As an important novelty, the Agreement contains a detailed dispute-resolution mechanism, which includes arbitration, all with the purpose of ensuring the best possible implementation. The Joint Committee's implementation of the Agreement is to be aided by the Secretariat, an administrative body seated in Brussels. Differently from the base CEFTA agreement of 1993, this agreement contains modern provisions that are wholly in accordance with the rules of the World Trade Association. The goal was to help countries which are not yet members of that organization (Serbia, Montenegro, Bosnia and Herzegovina, the southern Serbian province of Kosovo and Metohija) to adjust their trade systems to global trade rules as soon as possible.

CEFTA 2006 – topical framework of the Agreement

1. Liberalization of trade in goods, (chapters I, II, III, IV), based on CEFTA + bilateral agreements
 2. Modernization of trade rules (rules of origin, competition, etc.), (chapter V), based on the EU *acquis*
 3. New trade areas (services, investments, public procurements, intellectual property), (chapter VI), based on WTO provisions
 4. Rules on functioning, (chapter VII)¹³
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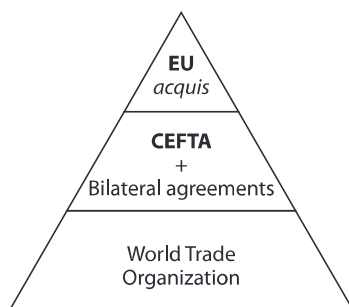
Countries with weaker economies need more time in order to develop their economic potentials and become more competitive, which is why integration within the region of Southeastern Europe is very useful. However, attractiveness to foreign investors depends on the implementation of the Agreement, and it is expected that the rules of this joint agreement will be much more consistently respected than were the previous bilateral agreements, as it will be wholly harmonized with the rules and discipline of the World Trade Organization.

¹³ Per Magnus Wijkman, *A Reader's Guide to 'CEFTA 2006'*, Expanding Trade and Investment in South Eastern Europe, Friedrich Ebert Stiftung, Brussels, 18-21 April 2007, str. 9.

As the Western Balkans are attractive to many Western countries, the Agreement opens the way for the latter's greater participation in our market. The exclusivity of the Serbian market lies in its current Free Trade Agreement with the Russian Federation, the only such agreement signed by Russia with a non-CIS country.

Bilateral free trade agreements in Southeastern Europe that preceded CEFTA had already brought foreign trade growth to all the signatory countries. Since they are all now parties to the single, multilateral CEFTA 2006 agreement, it is expected that trade cooperation will continue and that its scope will grow. It is estimated that, thanks to that document, it will be easier for companies to do business in Southeastern Europe, since export and investment procedures will be additionally simplified. On the other hand, this will be a sort of a test of competitive ability, since CEFTA 2006 represents "Europe redux" and partly reflects the relations and ways of doing business on the European market.

Diagram 2: *Pyramidal diagram depicting the foundations of CEFTA 2006*



In addition to replacing and transferring all the concessions from the 32 bilateral agreements on tariff-free trade between the countries in the region, the multilateral CEFTA 2006 introduces new areas:

- trade in services – gradual liberalization is anticipated;
- public procurements – by May 1, 2010, all parties to the Agreement will secure non-discrimination and national treatment;
- investments – stable conditions for investors will be secured and investment policies shall be coordinated.¹⁴

6. Possible negative effects and obstacles

A single free trade agreement, in the form of a revised CEFTA, will facilitate the further trade integration of Southeastern Europe. Nevertheless, as with every other agreement that "strips" the state of some prerogatives of sovereignty, this agreement also has negative consequences for internal economic development. Paradoxically, both CEFTA and other accession processes of Southeastern

¹⁴ Belgrade Chamber of Commerce, Trade Association, *The CEFTA 2006 Agreement*, April 2007: www.kombeg.org.yu, 28/08/2007.

Europe into the European Union erect short-term trade barriers, despite the fact that, in the long term, they are opening the way to a unitary market.

Joining a regional integration can lead to a sudden growth of imports, which affects uncompetitive products and leads to further consequences for a country's trade balance of payments. Also, as a rule, such agreements bring reductions in customs revenues. And, finally, due to increased imports and reductions in product costs in the amount of customs duties, certain sectors will experience increased competition.

In order to avoid the said negative effects, countries most often resort to measures of protecting the domestic economy. Domestic protection measures are carried out in accordance with WTO measures and laws on foreign trade in cases of:

- dumping and subsidized products whose imports bring serious damage to domestic production;
- exaggerated growth of imports, threatening production, employment and domestic sales;
- exceptional situations and growth in agricultural imports, if these cause serious disruptions on the market.

Another possible obstacle to the implementation of CEFTA 2006 are *non-tariff barriers*. Fortunately, the Agreement provides for organized activity toward the elimination of non-tariff barriers, through the work of three subcommittees:

- *Subcommittee for non-tariff and technical barriers*, whose task is to identify and eliminate non-tariff barriers, and cooperate with other similar organizations, especially with the OECD Investment Committee and the CEFTA Permanent Forum of Chambers of Commerce;
- *Subcommittee for the cooperation of customs organs, including rules of origin*, which simplifies and facilitates customs procedures and formalities ("single counter: and regional data harmonization), and acquaints business people with rules of origin;
- *Subcommittee for agriculture, including sanitary and phytosanitary measures*, which facilitates trade in agricultural products, harmonizes rights in that field and strives to implement further liberalization.

7. Trade problems that are solved within CEFTA 2006 – examples

Besides the numerous advantages CEFTA 2006 brings, it was not possible to avoid certain problems during negotiations between the agreement's signatories. One of the typical disputes was the situation in 2006, when B-H violated bilateral agreements with Serbia and Croatia and raised tariffs on the import of meat and meat products, and milk and dairy products. It should also be recalled that

on July 31, 2007, B-H postponed ratification of CEFTA, one of the reasons being that the agricultural lobby demanded that the 40% import tariff for meat and milk be raised to 100 percent. Still, the B-H delegation succeeded in imposing Article 23.bis into the Agreement, which is not too precise and offers the possibility for countries to introduce certain protection measures in case of market disruptions, although for not more than 200 days. In any case, in order to avoid such problems in the future, strict rules of the game were established.

The Joint Committee of all the CEFTA members has the task of overseeing the implementation of the agreement and resolving all open issues. A country that does act in accordance with the agreement can expect sanctions in the form of denial of economic privileges. CEFTA serves as preparation for EU accession and any departure from the rules worsenes that country's integration prospects. The signatory countries are candidates or potential candidates for entry into the EU, and if they do not adhere to the Agreement, they will be punished in a certain way in terms of their accession period. CEFTA provides for three government-level subcommittees and three work groups at the chamber of commerce level, which will be responsible for diagonal cumulation, non-tariff barriers and agriculture. In Serbia's exports to the countries in the region, agriculture's share equals between 40 and 50 percent, which is why CEFTA is very important for our country. All the CEFTA countries, with the possible exception of Moldavia, are important partners for us in the trade of agriculture and food products, especially countries of the former Yugoslavia – Croatia, B-H and Macedonia.

By signing this agreement, in the light of future accession to the World Trade Organization and other international organizations and the future signing of other international agreements, questions regarding the position of the domestic tobacco and tobacco products industry and excise taxes on tobacco products have been raised. This has created a need to carry out necessary changes in the domestic laws in the direction of harmonization with WTO and CEFTA rules.

Serbia and Croatia have not yet agreed upon the terms of the CEFTA agreement dealing with cigarette tariffs, but negotiations between the two states are still in process and heading in the direction of compromise. The ratification of CEFTA, negotiations on entry into the WTO and other international organizations, and the forming of other international agreements directly require the removal of the existing differential tax treatment of domestic and imported cigarettes and the removal of obligatory buy-outs or the obligatory production of domestic processed tobacco. The fulfillment of these demands, without the appropriate adjustment of the legal framework in the area of taxing, production and sales of tobacco and tobacco products would bring into question all the results achieved thus far, especially the stability of public revenues and the sustainability of investments into the domestic tobacco industry.

On March 22, 2007, the Government of the Republic of Serbia adopted a plan of action for the implementation of the CEFTA agreement in the tobacco

industry, which equalizes the excise taxes on domestic and imported cigarettes and raises import duties on cigarettes to 57.6%. This plan also introduced stimulation to tobacco producers for the import of raw materials for the production of tobacco products, in the form of a 10% tariff reduction on raw material imports. This plan of action was adopted in order to secure equitable and stable conditions for the development of the domestic tobacco industry, the preservation of its market share relative to the import segment, a stable economic position for the producers and processors of raw tobacco, greater productivity in this agricultural branch, stable fiscal revenues from the sales of tobacco and tobacco products and the harmonization of national laws with laws of the EU and the rules of the WTO.¹⁵ In this way, the problem with Croatia on the issue of the tobacco industry was resolved.

The tobacco industry is an important economic branch in Serbia as well as in other countries in the region, with an established practice of protecting domestic producers; tobacco product consumers are a source of large tax revenues, while tobacco production and processing employs large numbers of people, some of them in underdeveloped regions. Also, having in mind that the tobacco industry's chain of production and sales employs about 130,000 people, which represents 6% of total jobs in the Republic of Serbia, or 11% in the economy, the fact that over one billion euros have been invested in the tobacco industry over the past several years, as well as the fact that the industry generates exceptionally high excise revenues – the failure to adopt the necessary changes in the domestic legal system would bring extremely damaging consequences to the Republic of Serbia. However, CEFTA 2006 must not stand in place for the sake of the tobacco industry but must move forward, both out of political and economic considerations. It is necessary to change the Law on Tobacco in order to enable the domestic producers to break out of the local market and expand into the regional one, if they so choose. It would be best to harmonize the tobacco market in the CEFTA 2006 region, in terms of market transparency and fairness.

Although many agree that CEFTA will raise the levels of trade, investments and employment, it is still too early for evaluations. An additional limitation for the achievement of good results is the small share of intraregional trade as a share of trade with the world: the CEFTA countries export a maximum of 30% of their goods to the region, since the European Union is the most important trade partner for almost all of them, led by Germany and Italy. There is also the problem of the high overlap of goods that the CEFTA countries can offer to their neighbors. Still, the CEFTA agreement helps producers in the region to find partners in the EU and to export their joint products without tariffs and limitations to the market of the EU 27.

¹⁵ Conclusion on the action plan for the implementation of the CEFTA agreement, "Official Gazette of the RS," no. 29/2007, pp. 1-2.

8. Free trade in the region

The European Union is the most important and the biggest trade partner of the countries of Southeastern Europe.¹⁶ It is also the main source of foreign direct investment into the region. Thus, the process of strengthening trade relations between the Southeastern European economies forms an important part of the EU's broader strategy regarding economic growth and strengthening stability in the region. The experiences coming out of economic liberalization in Southeastern Europe represent an important step toward the countries' economic cooperation, which brings them a step closer to EU membership. Regardless of the fact that it is not a party to the Central European Free Trade Area, the European Union has supported these negotiations and continues to extend consistent political, technical and financial support at every step toward the liberalization of Southeastern Europe.

Table 3. *EU trade with SEE countries in billions of euros, in the 2000-2005 period*

Country	EU exports			EU imports			Total trade (exports + imports)		
	2001	2005	Growth (%)	2001	2005	Growth (%)	2001	2005	Growth (%)
Albania	1.114	1.320	18%	336	459	37%	1.451	1.779	23%
Bosnia and Herzegovina	2.047	2.703	32%	696	1.324	90%	2.743	4.027	47%
Bulgaria	4.436	7.133	61%	3.741	5.282	41%	8.177	12.415	52%
Croatia	7.042	10.371	47%	3.128	3.968	27%	10.169	14.340	41%
FYRO Macedonia	1.409	1.340	-5%	693	954	38%	2.102	2.294	9%
Moldavia	508	797	57%	258	363	41%	766	1.160	51%
Romania	12.103	21.789	80%	10.135	15.278	51%	22.238	37.067	67%
Serbia and Montenegro	3.179	4.945	56%	1.266	1.744	38%	4.444	6.688	50%
Western Balkans	14.791	20.679	40%	6.119	8.449	38%	20.909	29.128	39%
Total	31.838	50.398	58%	20.253	29.372	45%	52.090	79.770	53%

Source: Comext; Serbia and Montenegro: 2004 data.

In 2005, total trade between the EU and Southeastern Europe (SEE) equaled 79 billion euros, which represents a growth of 53% relative to 2001 (see Table 5). All the observed countries experienced growth in trade with the EU during the 2001-2005 period. The largest growth in trade with the EU was achieved by Romania (+67%) and Bulgaria (+52%), which leads to the conclusion that the effects of trade and economic integration carried out by these two countries within the process of accession to the European Union were positive.

¹⁶ The observed countries of the region were: Albania, Bosnia and Herzegovina, Bulgaria, FYRO Macedonia, Macedonia, Croatia, Moldavia, Romania and Serbia (including Kosovo).

The European Union offered free access to its market to the Western Balkan countries beginning with 2001 and, since then, these countries' exports to the EU have grown by more than a third.

Mutual trade between the Southeastern European countries has grown thanks to the forming of bilateral free trade agreements (see Table 6). In 2004, regional trade reached the sum of 3.5 billion euros, which represents a growth of 33% compared to the 2.6 billion euros in 2002. Croatia's exports to the countries in the region reached 227 million euros within two years (2002-2004), which is a growth of 27%. Even better results were achieved by Romania, whose exports to the countries in the region reached 244 million euros (47%). All the observed countries experienced growth in exports to other countries in the region of Southeastern Europe.¹⁷

It is interesting to note that the countries that achieved the highest growth rates in bilateral trade with the EU are also those that have most developed their trade within the region. This fact shows us that greater trade in the region and greater trade with the EU are mutually complementary.

Table 4. *Trade between the SEE countries in millions of euros, in the 2002-2004 period*

Country	Exports to SEE			Exports to the world		
	2002	2004	Growth (%)	2002	2004	Growth (%)
Albania	13	15	15%	348	426	22%
Bosnia and Herzegovina	164	267	63%	874	1.174	34%
Bulgaria	570	727	28%	5.942	7.204	21%
Croatia	839	1.066	27%	5.111	6.215	22%
FYRO Macedonia	421	512	22%	1.101	1.196	9%
Moldavia	65	98	51%	680	967	42%
Romania	519	763	47%	14.634	17.560	20%
Serbia and Montenegro	60	70	17%	1.519	1.673	10%
Total	2.651	3.518	33%	30.209	36.415	21%

Source: Commission calculations based on IMF (DOT) data.

The creation of a Southeast European free trade area has turned the newly-formed trade zone into a quite respectable market and an attractive region for a greater engagement and inflow of foreign capital and investments. It is, thus, justified to expect that the implementation of the free trade agreement will expand and improve the structure of the exchange of goods and lead to the establishment of balanced trade between the region's countries, which would bring a gradual reduction and elimination of the current foreign trade deficit, as well as a reduction in the number of intermediaries in trade, which had resulted in increased margins and, thereby, unjustifiably high prices; in addition, this will contribute

¹⁷ European Union, *A New Regional Agreement to Develop Trade in South Eastern Europe*, MEMO/06/502, Brussels, 19 December 2006, p. 1.

to higher levels of economic cooperation, to the overcoming of technological backwardness, an increased competitiveness of domestic products, a lowering of production costs and respect for international standards.

In the first place, each country expects that the new CEFTA agreement will result in greater exports into countries that have joined CEFTA, as well as a better position for domestic companies on those markets due to the obligation of all new members to apply the modern provisions that have been built into the agreement. A growth in visible trade between the region's countries can also be expected, due to their similar economic structures and complementary economies. Also to be expected is a greater attraction of foreign direct investments, due to the broader possibilities of placing goods onto the markets of the signatory countries as well as third markets. The new agreement allows for the development of higher forms of economic cooperation, such as, for example, the establishment of long-term production cooperations, the forming of joint-venture companies by residents of the signatory countries, etc.

Another advantage of forming a free trade zone is the possibility of a direct flow of goods and services, by reducing the number of middlemen in trade, which in the final instance leads to a reduction in margins as well as the end prices of goods and services. An eventual reduction in technological backwardness and dependence, and in production costs, along with respect for international standards, could lead to trade in goods of a higher level of technological processing and, thus, to greater competitiveness in third markets.

9. The role of trade and investments

Trade is a very important stimulating mechanism for the generation of national growth and prosperity. It provides local companies access to global markets and knowledge in general. On the other hand, increased trade gives consumers a wider choice of goods and competitive (lower) prices.

There is a positive interdependence between trade and investments, which facilitates economic growth and greater employment. This mutual influence comes about thanks to three factors:

- Liberal trade regimes stimulate investments, because they lead to specialization and increased rates of production, which are very important, especially for small economies.
- Presently, in most cases direct foreign investments are more motivated by possibilities for increasing productivity than by needs to enter local markets. Therein lies the explanation why multinational companies are relocating the labor-intensive portions of their chain of production to transitional economies or developing countries. Local companies in transition

economies can benefit from such a development by taking on the role of subcontractors, i.e. domestic suppliers.

- Trade and foreign direct investments can bring greater competitiveness to the exports of domestic entrepreneurs through knowledge and technology transfers.¹⁸

Table 5. *Real GDP growth rate (%) in SEE countries*

Country	2004	2005*	2006**
Albania	6.7	5.5	5.0
B-H	6.0	5.8	5.0
Bulgaria	5.7	5.5	6.0
Croatia	3.8	4.3	4.6
FYRO Macedonia	4.1	4.0	4.0
Moldavia	7.3	7.1	3.5
Montenegro	3.7	4.1	5.5
Romania	8.4	4.1	6.5
Serbia	9.3	6.3	6.5
SEE average	6.9	4.7	5.9

* Estimate ** Projected

Source: EBRD Transition Report 2006.

Table 6. *Trade balance (in millions USD) of the SEE countries*

Country	2004	2005*	2006**
Albania	-1586	-1868	-2160
B-H	-2832	-3123	-3107
Bulgaria	-3643	-5399	-6504
Croatia	-8350	-9296	n/a
FYRO Macedonia	-1112	-1052	-1100
Moldavia	-758	-1162	-1641
Montenegro	-518	-640	-645
Romania	-6611	-9873	-13125
Serbia	-6643	-5563	-6000

* Estimate ** Projected

Source: EBRD Transition Report 2006.

¹⁸ Anthony O'Sullivan, *The Economic Situation in South East Europe and the Role of Trade and Investment*, OECD, CEFTA 2006 – Expanding Trade and Investment in South Eastern Europe, A Seminar for Parliamentarians from South Eastern Europe, Brussels, 19. April 2007, p. 13.

Gross domestic product growth was strong in all Southeast European countries. This growth is being negatively affected by the jump in energy prices but, regardless of this, it is expected that the gross national product will continue to experience strong growth in the observed countries.

The trade balance, or the trade balance deficit of the Southeast European countries, shows us that their export competitiveness is still quite weak. Even though intra-SEE trade is growing, most of the trade flows are still in the direction of EU countries.

Foreign direct investments are especially important for the countries of Southeastern Europe. The reason for this is that a sudden and successful transition toward a market economy, as practice has shown us, is not possible without the knowledge and capital of foreign investors. From the above data we can see that the distribution of foreign direct investments to the countries of Southeastern Europe is varied. The greatest inflow of foreign direct investments is enjoyed by Bulgaria, Romania, Croatia and Serbia, while the region's other countries lag significantly behind these four. It is expected that such a trend will continue in the future. Of course, the biggest investors come from the EU-15 countries.

Table 7. *Net inflow of foreign direct investments (in millions of EUR)*

Country	2003	2004	2005*	2006**
Albania	142	232	212	280
B-H***	306	343	240	456
Bulgaria	1656	1944	1838	2400
Croatia	1546	610	1207	n/a
FYRO Macedonia	77	109	78	240
Moldavia	57	104	180	152
Montenegro	35	44	379	119
Romania	1725	4458	5270	6922
Serbia	1088	676	1185	2800
Total	6631	8520	10589	14576*

* Estimate ** Projected *** Excluding capital transfers for reconstruction

• Including data for Croatia for 2005

Source: EBRD Transition Report 2006.

10. Serbia's place in regional trade

Serbia readily awaited the signing of this free trade agreement. Experts predicted that the signing of CEFTA 2006 would increase competition on the Serbian market and allow the signatory countries the free placement of their prod-

ucts (except for agricultural products, which were to retain the quota regime). In this way, the Western Balkans would become significantly more attractive to foreign investment. This would also open the door for an eventually greater engagement on the part of businessmen from the EU as well as other investors.

It is believed that the CEFTA agreement will be good for Serbia and that it will lead to an increase in trade. Serbia is already profiting from Bulgaria's and Romania's entry into the EU, as the same trade regime now applies toward them as toward other countries of the Union, i.e. Serbia exports without any barriers while their exports to Serbia are tariffed, putting them in a relatively less favorable position.

The Serbian parliament ratified CEFTA 2006 on September 25, 2007, with 137 MPs (out of 250) voting in favor. In practice, entry into the SEE free trade zone has allowed domestic businessmen to sell their goods duty-free to a market of 25 million people.

Before CEFTA was implemented in Serbia, cigarette excise taxes were equalized, excise taxes on fruit juices were removed, mandatory buyout of tobacco was abolished, quantitative limitations on oil and oil derivatives were removed, as were export subsidies for agricultural products. The dispute regarding oil imports was resolved when all the signatory countries, including Croatia, accepted the continued monopoly of NIS (Naftna industrija Srbije – Serbian Oil Industry) on oil imports for an indefinite time (in accordance with WTO rules).

Also, some of the provisions from the bilateral free trade agreements, dealing with levels of liberalization, were taken over:

- total liberalization with B-H, Macedonia, Montenegro and UNMIK;
- 97% liberalization with Moldavia – with only 8 product groups on tariff quotas (wine, cigarettes, tobacco);
- partial liberalization with Croatia and Albania:
- from 1/1/2007, total liberalization of trade in industrial products,
- partial liberalization of trade in agricultural products (10% of tariff positions with Croatia and 24% with Albania), and further liberalization by 5/1/2009.

It should also be pointed out that the share of domestic exports to the region's countries has been falling. Since the signing of most of the bilateral agreements (middle of 2004), the significance of this part of the world has been falling, as exports to the region have grown more slowly than total exports (see Tables 8 and 9).

The region's 2003 share of 36.2% of total exports fell for the first nine months of 2006 to 30.7%. In the same period, the share of imports grew slightly, from 6 to 7.7%. The reason for this is that the region's countries have technologically dated industries, compete with each other for exports to the EU and, in fact, do not have much to offer to each other. Serbia's trade with the countries in the

region is primarily made up of food products, agricultural raw materials, electrical power, non-ferrous metals, textiles and chemical products, which resembles the trade profile of developing countries. The most frequent forms of cooperation are pure buy-sell transactions, while higher forms of business cooperation are negligible.

The most important Serbian export products to CEFTA

- Significance for the placement of agricultural and food products (50% of total exports to the world are directed toward CEFTA), exports increased by 30%, along with a higher import rate, accompanied by a significant surplus (beer, corn, bisquits, processed meats, water, flour, cooking oil, milk)
- Petroleum oils
- Electrical energy
- Metal products – refuse, strips
- Medicines
- Furniture
- Paper, cardboard

The most important Serbian imports from CEFTA

- Petroleum oils
 - Coke and coal
 - Processed wood
 - Electrical energy
 - Rods, wires, pipes, metal constructions
 - Medicines
 - Glass containers
 - Agricultural products – wine, cigarettes, tomatoes
 - Paper
-

If we look at the results of Serbia's trade with the CEFTA countries in the 2004-2006 and 2006-2007 periods, we will observe great improvement in the field of exports.¹⁹ Namely, the economic indicators for the 2004-2006 period are:

- after the EU, the second-ranked trade partner,
- growth of total trade by 37.5%,
- export growth rate is lower – 8.5% - than the import growth rate – 13.7%,
- a net trade surplus,
- surplus – with Albania, B-H, Macedonia,
- deficit – with Croatia and Moldavia.²⁰

¹⁹ Source: Ministry of Economy and Regional Development of the RS: www.merr.sr.gov.yu, 19/11/2007.

²⁰ Source: *ibid.*

For 2006, the trade results were the following:

- ranked according to size of exports to CEFTA (as against total exports to the world):
- B-H (2), Montenegro (4), Macedonia (6), Croatia (8), Albania, Moldavia – the highest export growth rate was toward Albania and Croatia;
- ranked according to size of imports:
- B-H (8), Croatia (10), Macedonia (19), Montenegro, Moldavia and Albania;
- Share of CEFTA in Serbia's total exports is 30%, and in imports 8%.

In 2007, exports were twice the size of imports, and the export growth rate (44%) was slightly higher than that of imports (38%). The index of export growth relative to the same 2006 period is higher than the index of import growth in trade with Albania, Moldavia and Montenegro, while deficits were registered with Croatia and Moldavia. CEFTA's share in Serbia's total exports in 2007 was 32%, and 7.8% of total imports. The share of consumer goods was 40% of exports and 20% of imports vis-à-vis CEFTA.

Table 8. *GDP (PPP) per capita, USD*

Croatia	17 100
Bosnia and Herzegovina	9 163
Serbia	8 100
FYRO Macedonia	7 645
Albania	6 259
Montenegro	5 028
Moldavia	2 962
Southern Serbian province Kosovo & Metohija	1 800

Source: <http://www.worldtradelaw.net/fta/agreements/cefta.pdf>

11. Serbia's future within CEFTA

In Serbia, the following effects of the CEFTA are already evident: a sharp growth in imports and its effects on uncompetitive products and further effects on trade and the country's balance of payments, reduced customs revenues, increased competition in certain sectors. Serbia succeeded in resolving all problems during negotiations (tobacco, meats, oil), which means that there are no open questions for Serbia within CEFTA.

Serbia has to urgently solve the problem of its product standard and quality, as the domestic companies are not doing particularly well in that regard. The state

needs to stimulate companies to raise the level of product quality and certification. It might be possible to eventually create a general program of certification.

Serbia could initiate an action for the simultaneous registration of new products in all the CEFTA 2006 countries, which would serve to protect intellectual property. Specifically, a system of international product registration should be created within CEFTA 2006, with the intention of simplifying their protection in multiple countries and making the process more economical. The goal of this system would be to create, on the basis of a single international registration, the possibility of simultaneous product protection in multiple countries.

The state, and especially the chamber of commerce and other associations, need to launch a great project of educating businesses: informing the business community about the rules of CEFTA 2006 and the WTO, regulations, regimes for specific products, standards. It is necessary to aid businesses in all processes of integration and to inform in detail all interested parties, by creating some form of information system. In addition, timely information about state policy is necessary, in order to allow for a period of adjustment. Specifically, it would be good if the web sites of the chamber of commerce or the ministry for foreign economic relations would post the complete list of tariffs applying to Serbia and all the other CEFTA 2006 countries, along with the dynamic for lowering them in the coming years. This would be of significant help to the economy, at a relatively small cost.

The government of the Republic of Serbia could form a section within the ministry for foreign economic relations tasked exclusively with overseeing the implementation of this agreement in the other signatory countries, to which businesses could directly apply and report all trade limitations imposed on Serbian products by other countries, in violation of the Agreement. As for the implementation of the Agreement itself, the creation of a work group for certain products and of an eventual subcommittee for investments should be considered.

Since, in the end, all the CEFTA 2006 countries will adjust to the standards and regulations of the EU, Serbia should choose the direction of harmonization within CEFTA 2006. The Republic of Serbia needs to continue working on the resolution of all open questions (the implementation of protective measures, Kosovo and Metohija, oil and oil derivatives, and the tobacco industry) through dialogue with interested parties and through compromise.

It would be advisable to expand the existing mechanisms of aid to domestic companies that are in accordance with WTO rules. In that sense, the experiences of the chamber of commerce and various non-governmental organizations in the implementation of such programs could prove quite valuable.

12. Agenda of development possibilities

Differently from the bilateral agreements that preceded it, CEFTA 2006 anticipates a gradual liberalization in the service trade, in addition to requiring improvements in the field of intellectual property protection, public procurements and investments. These are the fields in which the greatest changes will take place in the coming years.

The Agreement stipulates a May 1, 2010 deadline for the securing of equal treatment of all bidders in public procurements, which means that Serbia will have to change the law that protects domestic companies. Also, by May 1, 2014, in the domain of intellectual property protection, it is necessary to achieve international standards from the TRIPS agreement, which means that all the parties to the CEFTA agreement will have to join the conventions in this field and implement them.

When it comes to investments, the deadlines are not precise, but it is expected that all investors will have equal treatment. In addition, according to the CEFTA agreement, beginning with May 1, 2010, principles of competition will apply for all companies, including public corporations and those with special and exclusive rights, accompanied by the appropriate activity of an independent regulatory body.

The end of 2010 is the deadline for the formation of a free trade area in Southeastern Europe, and it will be established when at least 90 percent of trade is liberalized. The ten percent of goods that will continue to be protected will be agricultural products that each country protects individually. Certain areas are more precisely regulated, which means that technical trade barriers will also be harmonized through multilateral agreements on the harmonization and mutual recognition of the procedure on harmonization assessment. In later phases, the integration of the signatory countries into the market and structures of the European Union, as well as the tempo of that process in various countries, will also have great influence.

The creation of a free trade area is the fundamental goal that guided the CEFTA signatory countries. This specifically means respect for the basic principles upon which free trade agreements are made, which are:

- the liberalization of at least 90% of the value of mutual trade and tariff items in a transition period not longer than six years;
- the implementation of preferential rules on product origin (the principle of bilateral cumulation of product origin);
- the implementation of transparent and non-discriminatory measures in the field of public procurements, state aid and state monopolies;
- harmonization of laws with the legal system of the European Union, before all in the area of customs procedure, rules of competition, the tax

and banking systems and agriculture-related laws (the so-called phyto and veto agreements);

- protection of intellectual property in accordance with EU and WTO standards;
- harmonization of domestic laws with WTO rules in the areas of anti-dumping, compensatory and other protective measures.²¹

On September 28, 2007, a ministers' conference was held in Ohrid, FYRO Macedonia, on the occasion of the inauguration of the agreement on free trade in the region – CEFTA. Representatives of the member countries adopted a series of key decisions, which were to secure CEFTA's effective implementation. Among the decisions adopted by the ministers was the establishment of a high-level sub-committee, which would deal with the most important issues having to do with implementation in the field of agriculture, inspections cooperation and customs.

The statements of the high-level representatives at this gathering were very optimistic. It was judged that the signing of the CEFTA agreement would double the mutual trade of the parties to the Agreement, while the door was also opened for greater trade with other countries. The highest EU and Serbian representatives agreed that CEFTA, in fact, represented the region's preparation for accession to the EU, emphasizing that Brussels was directly interested in the successful implementation of the agreement, i.e. in supporting it financially, as well as that the implementation of CEFTA is exceptionally important for Serbia, since more than 30% of domestic exports go to neighboring countries.

In November 2007, a summit of prime ministers of the CEFTA signatories was held in Skopje, FYRO Macedonia, at which a document on greater regional cooperation in free trade was signed.

CEFTA 2006 – chronology of events

Sofia, June 2005 – At a Southeast European ministers' conference, a decision was brought to establish a unified agreement on free trade in Southeastern Europe, at which time the working group on trade within the Stability Pact for Southeastern Europe was given the mandate to prepare future steps.

Zagreb, November 2005 – Amendments to existing criteria for CEFTA membership were adopted, the so-called Zagreb Declaration, enabling all countries and territories of South-eastern Europe to join the Agreement.

Berlin, February 14, 2006 – Romania, as the presiding country of the CEFTA agreement, and supported by other CEFTA members, proposed measures that would ease and simplify the creation of a unified free trade agreement, by way of simultaneously broadening and amending the CEFTA agreement. It was concluded that the negotiations would take place under the auspices of the working group for trade of the Stability Pact for Southeastern Europe.

²¹ D. Jovović, "Sporazumi o slobodnoj trgovini u regionu Jugoistočne Evrope", *Ekonomski anali*, no. XLVIII, Ekonomski fakultet, Beograd, 2004, p. 235.

Brussels, March 28, 2006 - The Stability Pact for Southeastern Europe informs the ministers on the feasibility of a unified free trade agreement, including the principles underlying the system and a draft text. It was recommended that agreement should be reached by way of simultaneously broadening and amending the CEFTA agreement, and that the countries in question should gain formal mandates for future negotiations.

Bucharest, April 6, 2006 - A high-level political meeting was held in order to formally initiate the process of broadening and amending CEFTA. The prime ministers of the Southeast European countries adopted a Joint Declaration. The European Union Presidency, the European Commission and the Stability Pact for Southeastern Europe supported the Joint Declaration on the principles of the future CEFTA 2006.

June-November 2006 - In this period, four rounds of technical negotiations were held, under the presidency of the Stability Pact for Southeastern Europe and with the support of the European Commission, which brought about the agreement's acceptance on the part of eight Southeastern European countries, on November 9, 2007, in Brussels. The possibility of signing the new agreement along with the others on December 19 was offered to Bosnia and Herzegovina and Serbia.

Bucharest, December 19, 2006 - After seven months of intense negotiations, all the countries of Southeastern Europe, including the southern Serbian province of Kosovo and Metohija (UNMIK), signed the new and amended CEFTA agreement, thus creating a free trade zone in Southeastern Europe.

July 26, 2007 - CEFTA 2006 goes into effect for five Southeast European countries: Albania, FYRO Macedonia, Moldavia, Montenegro and the southern Serbian province of Kosovo and Metohija (UNMIK).

August 22, 2007 - CEFTA 2006 goes into effect in Croatia.

September 24, 2007 - The Serbian parliament and the House of Nations of Bosnia and Herzegovina ratified CEFTA 2006.

Ohrid, September 28, 2007 - The first CEFTA 2006 ministers' conference.

Skoplje, November 21, 2007 - Summit of the signatory countries, adoption of the CEFTA 2006 Declaration and the signing of a document on greater regional cooperation in free trade.

Source: The Stability Pact for South Eastern Europe, Internet,
<http://www.stabilitypact.org/pages/events/detail.asp?y=2007&p=576>, 05/10/2007.

13. Conclusion

Free trade agreements are quite current in today's world. It is estimated that just about every country in the world is a member of one or several regional free trade agreements, and there are more than 300 such agreements in force today. Another new trend is the forming of interregional agreements. About 70 percent of the world's trade takes place within the framework of free trade agreements, while in Europe this figure exceeds 80 percent.

The goal of signing the agreement on the Central European Free Trade Area is the advancement and improvement of the overall trade and economic rela-

tions between the countries of Southeastern Europe. CEFTA 2006 is supposed to lead to a harmonization of the development of economic relations through the development of trade, faster development of commercial activities, rising standards of living and better employment opportunities. Other important effects of this agreement for each of its signatories are expected rises in productivity and the achievement of financial stability, all on the basis of principles of the market economy and trade liberalization, in accordance with the provisions of the General Agreement on Tariffs and Trade (GATT, 1994), and the agreement on the establishment of the World Trade Organization.

CEFTA 2006 secures:

- full accordance with the rules of the World Trade Organization;
- the free trade of all industrial products and a large number of agricultural products (up to 90%);
- modern trade-related regulations;
- innovative clauses regarding new trade issues (i.e. protection of intellectual property rights);
- mechanisms for a successful implementation of the agreement and dispute resolution;
- a step closer to accession to the European Union.

It is not unimportant that joint CEFTA products will appear not only on the regional market but on other markets as well, thus providing access to a large number of consumers. In addition, through cooperation, the countries of the region will strengthen and increase their efficiency and adopt international standards.

The Southeast European countries' trade deficits tell us that their competitiveness is still quite weak. Even though intra-SEE trade is still growing, most of the trade flows are still directed toward countries of the European Union. The establishment of a Southeast European free trade area is turning the region into a very respectable market, an attractive area for the greater engagement and inflow of foreign capital and investments. It is, thus, justified to expect that the implementation of the free trade agreement will result in the improvement in the structure of trade and the establishment of a balance in intraregional trade, which will open the way for a gradual reduction and removal of the existing foreign trade deficit, a reduction in the number of trade intermediaries, which have been responsible for higher margins and unjustifiably high prices, as well as the development of higher forms of economic cooperation, reduction in production costs and respect for international standards.

It is also necessary to take measures toward the removal of non-tariff barriers and a general improvement in the infrastructure necessary for strengthening regional ties. Paradoxically, the process of accession of the SEE countries to the European

Union is creating short-term obstacles to trade but, in the long term, it is leading toward a unitary market. Advances in economic development, and the improvement of social and political conditions in Southeastern Europe are a function of cross-border cooperation, especially the cooperation of the business community.

The countries that have achieved the highest growth rates in bilateral trade with the European Union are also the ones that have most developed their trade within the region of Southeastern Europe. This tells us that greater trade in the region and greater trade with the EU are mutually complementary.

The processes of integration in the region of Southeastern Europe are very important for our country. Accession to CEFTA 2006 is one more step bringing Serbia closer to entry into the European Union. Serbia must be an active participant in these processes, must work on finding solutions to its own benefit in its relations with other countries, submit proposals to other countries, resolve open issues, participate in dialogues, develop good neighborly relations and, especially, develop economic relations. This is the best way for it to realize its own developmental goals and move a step closer to joining the European Union, as well as shedding the status of a developing country.

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Appendix

AGADIR – The Agadir Agreement for the Establishment of a Free Trade Zone between the Arabic Mediterranean Nations.

AU – African Union.

ASEAN – Association of Southeast Asian Nations.

CACM – Central American Common Market.

CARICOM – Caribbean Community.

CCASG/GCC – Cooperation Council for the Arab States of the Gulf (CCASG), also known as The Gulf Cooperation Council (GCC).

EurAsEC – Eurasian Economic Community – EurAsEC or EAEC.

EFTA – The European Free Trade Association.

GUAM – The GUAM Organization for Democracy and Economic Development.

NAFTA – The North American Free Trade Agreement.

PARTA – The Pacific Islands Forum.

SAARC – The South Asian Association for Regional Cooperation.

Unasur/Unasul – The Union of South American Nations.