

CEFTA 2006 – TOOL FOR ECONOMIC INTEGRATION OF THE WESTERN BALKAN COUNTRIES

CEFTA-2006 – SREDSTVO ZA EKONOMSKU INTEGRACIJU ZEMALJA ZAPADNOG BALKANA

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Abstract: *The first multilateral trade agreement between the Western Balkan countries, CEFTA-2006, brought two important things for the region: proponing the process of trade liberalization and trade facilitation between the countries. The aim of this paper will be first, to present the expectations that came out from CEFTA-2006 agreement considering trade liberalization and trade facilitation with special explanation of the rules of origin; and second, to present some of the results of the implementation of the agreement.*

Key words: *CEFTA-2006, trade liberalization, trade facilitation, rules of origin*

Sažetak: *Prva multilateralna trgovinska pogodba između zemalja Zapadnog Balkana, CEFTA-2006, donijela je dvije značajne karakteristike regiji: unapređivanje procesa trgovinske liberalizacije i trgovine između zemalja. Cilj ovog truda je prvo, prezentirati očekivanja od CEFTA-2006 u odnosu trgovinske liberalizacije i trgovine sa specijalnim naglaskom na pravila podrijetla, i drugo, prezentirati neke rezultate od implementacije ove pogodbe.*

Ključne riječi: *CEFTA-2006, liberalizacija trgovine, trgovina, pravila podrijetla*



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1. Introduction

Before the signing of CEFTA-2006, the trade between the Western Balkan countries was regulated with 32 bilateral free trade agreements. This meant that different levels of trade liberalization were negotiated between those countries and different trade facilitation procedures were applied when the goods were crossing borders.

With the signing of CEFTA-2006 complete trade liberalization (or complete free trade zone) should be done by the end of 2010 (31.12.2010). As far as the trade facilitation is concerned, the signing of this multilateral agreement meant greater Customs cooperation, facilitation of the tariff procedures and formalities and facilitation of the transit procedures thus providing fast flow of goods [1]. Very important aspects of CEFTA-2006 were the new possibilities considering the rules of origin. For the first time, for the countries of the Western Balkan, the CEFTA-2006 agreement allowed diagonal cumulation of origin of the goods through two ways of cumulation: so-called Intracefta cumulation and expanded cumulation of origin (comprising the CEFTA-2006 countries, EU, EFTA and Turkey).

The aim of this paper will be first, to present the expectations that came out from CEFTA-2006 agreement considering trade liberalization and trade facilitation with special explanation of the rules of origin; and second, to present some of the results of the implementation of the agreement.

2. Trade Liberalization under CEFTA 2006

The main purpose of CEFTA-2006 is establishing free trade area in a transitional period in conformity with the relevant rules and procedures of the WTO. The trade in industrial goods is agreed to be liberalized with progressive reduction and abolishing of all customs duties at the end of 31 December 2008. As of 1 January 2009 the trade in industrial products among the CEFTA-2006 countries will be done with no customs duties on import and export, no quantitative restrictions, and no customs fees.

The liberalization of agricultural goods is agreed to be done no later than 1 May 2009. At the end of this transitional period the trade with agricultural goods between the CEFTA-2006 is supposed to be done without tariffs, quotas, and export subsidies. The countries have agreed to apply the provisions of WTO Agreement on Sanitary and Phytosanitary Measures relating to application of sanitary and phytosanitary measures [1].

The member countries have also agreed to identify and eliminate unnecessary existing technical barriers to trade according the provisions of WTO Agreement on Technical Barriers to Trade. The harmonization of the technical regulations and standards and the mutual recognition of conformity assessment procedures should be done before 31 December 2010.

The agreement also defines the rules and procedures for application of contingent protection measures when a member country will find itself damaged by an action of another member country. The agreement thus allows application of Anti-dumping, Countervailing and Safeguards measures to be applied when a member country will

suffer serious injury from import of another member country. The application of these measures is agreed according WTO rules and procedures.

Other provisions of CEFTA-2006 agreement refer to achieving progressive liberalization and mutual opening of the services markets of the member countries; maintaining stable, favorable and transparent conditions for investors; ensuring progressive and effective opening of the government procurement markets; as well as ensuring adequate and effective protection of intellectual property rights in accordance to international standards, in particular WTO TRIPS agreement.

Taking into consideration what was already mentioned the complete free trade area among the CEFTA-2006 members is to be completed by the end of 2010 (31 December 2010) [1].

3. Trade Facilitation within CEFTA 2006

In the field of trade facilitation, the expectations from CEFTA-2006 rely upon unifying customs and transit procedures and formalities and thus providing fast and easy movement of the goods through border lines. The biggest expectations concerning this matter refer to the simplification of the rules of origin of goods. The rules of origin under CEFTA- 2006 base upon the European Union system of Pan Euro Mediterranean rules of origin (with slight differences) and apply diagonal cummulation of the origin. With the diagonal cummulation of origin agreed in the CEFTA- 2006 there are two basic ways that the origin cummulates between the member-countries.

First, there is INTRA CEFTA cummulation of origin which means diagonal cummulation of origin between the countries that have signed the agreement. This means that a product can be produced in one country of the agreement with resources and materials from any other country from the agreement and that product can obtain the status of a "product with origin" and further more obtain preferential treatment when exported in the countries of the agreement. This cummulation became applicable with the completion of the ratification of the agreement because all CEFTA 2006 countries are included in the cummulation zone with one agreement. This cummulation of the origin was not possible previously when the countries had signed bilateral free trade agreements between themselves.

The second type of cummulation which is agreed with CEFTA 2006 is the so-called extended cummulation of origin where the diagonal cummulation is applicable to the countries of EU, EFTA and Turkey. For the application of this extended cummulation of origin there are some limitations and conditions. This cummulation can be applied only if the countries from CEFTA 2006 harmonize the protocols for origin with EU, EFTA and Turkey. Up until now this cummulation is not completed and can be partially applied. The table below gives an overview of the possible application of the Extended CEFTA cummulation of origin.

Diagonal cummulation between:	Applied from:
1a) EU/Macedonia/Albania	26.07.2007
1b) EU/Macedonia/Albania/Croatia	22.08.2007
1c) EU/Macedonia/Albania/Croatia/Montenegro	01.01.2008
1d) EU/Macedonia/Albania/Croatia/Montenegro/Bosnia and Herzegovina	01.07.2008
2) EU/EFTA/Turkey/Macedonia/Croatia	22.08.2008
3a) Turkey/Croatia/Macedonia/Bosnia and Herzegovina	22.11.2007
3b) Turkey/Croatia/Macedonia/Bosnia and Herzegovina/Albania	01.05.2008
4a) EU/Turkey/Macedonia/Croatia/Albania	01.05.2008
4b) EU/Turkey/Macedonia/Croatia/Albania/Bosnia and Herzegovina	01.07.2008

Table 1: Groups of countries where Extended CEFTA cummulation of origin is applicable [2]

The data in the Table shows that only Croatia and Macedonia have completed the necessary harmonization and can use the possibilities from the application of the extended CEFTA cummulation. The other countries should do the rest of their obligations in order to have a complete zone of extended cummulation of origin.

This type of extended cummulation of origin has another limitation. According the CEFTA 2006 agreement materials from EU, EFTA countries and Turkey can be used by the CEFTA 2006 countries to produce a product which can be exported like “product with origin” only on the markets of the CEFTA 2006 member-countries. This product does not obtain preferential origin to be exported on the markets of EU, EFTA countries or Turkey. This means that the extended CEFTA cummulation can be defined as a one-way cummulation between the CEFTA 2006 countries with application of resources and materials from EU, EFTA countries or Turkey [2].

4. Results from the implementation of CEFTA-2006

Although, only two years have passed from the application of CEFTA 2006 (its implementation started at the end of 2007) and the data for 2009 aren't published by the writing of this paper, the first signals from this multilateral trade agreement between the Western Balkans countries indicate that there is a positive influence over the growth of the trade between the countries in the region. Since 2006 when the agreement was signed, up until 2008, the export within the region of Western Balkan countries grew from 25% to 29%. The European Union still remains the most important trading partner and encompassing around 60% of the Western Balkan countries export plays dominant role in their foreign trade exchange [8].

What can be noticed from the data on the realized export from the Western Balkan countries is bigger growth of the index of intraregional trade compared to the index

of export growth to the European Union in 2007 and 2008 as years when the agreement was in force [2]. Another aspect that should be pointed out from the implementation of the CEFTA 2006 agreement is the differences among separate countries. For example, Albania has biggest index of export growth in CEFTA 2006 countries which can be appointed to the least developed trade relationships before signing this agreement. For Macedonia, it can be acknowledged that after the full implementation of the CEFTA 2006 agreement the country has experienced growth of the trade with the Western Balkan countries, although the European Union still plays growing and dominant role. These first results for the growth of trade of the CEFTA 2006 countries point out the positive influence of this agreement but not enough to overpass the role of the European Union as a strong and dominant centre for the trade relations of these countries. In a way, these results can be expected if we take the experience from the original CEFTA agreement.

		Serbia & Montenegro	Croatia	CEFTA - 2006	EU	B & H	Alb.	Mold.
2000	Export	25,34	3,61	/	/	/	/	/
	Import	9,10	2,76	/	/	/	/	/
2001	Export	23,07	5,05	/	/	/	/	/
	Import	9,33	2,74	/	/	/	/	/
2002	Export	22,09	5,30	/	53,75	1,64	1,24	/
	Import	9,30	2,77	/	57,84	0,72	0,05	/
2003	Export	20,10	4,85	/	57	1,74	1,28	/
	Import	9,25	2,76	/	55,85	0,51	0,17	/
2004	Export	20,77	4,79	/	57,18	1,99	1,41	/
	Import	8,47	2,25	/	50,28	0,40	0,14	/
2005	Export	22,51	3,97	/	53,08	2,47	1,35	0
	Import	8,02	2,28	/	44,51	0,72	0,28	0
2006	Export	23,24	5,18	32,8	55,24	2,7	1,69	0
	Import	7,52	2,10	10,64	43,85	0,71	0,31	0
2007	Export	/	/	29,55	65,06	/	/	/
	Import	/	/	11,74	49,51	/	/	/
2008	Export	/	/	35,56	59,52	/	/	/
	Import	/	/	11,19	47,94	/	/	/

Table 2: Foreign trade exchange of the Republic of Macedonia with the trading partners (in percentage of the whole export/import of RM)

The limited growth of the intraregional trade between the CEFTA 2006 countries can also be addressed towards the limited capacities of the economies of these countries. The ambiguous results from the implementation of CEFTA-2006 agreement may be result of the limited trading capacities of the Western Balkan countries and complementary export structures where intra-industry trade prevails in low value added sectors (base metals, textiles, footwear, skins and leather)[3].

5. Conclusion

Although the possible gains from CEFTA-2006 are obvious concerning the formation of a free trade zone for industrial and agricultural products, and especially in the part for the diagonal cummulation of origin, the results show that trade liberalization and trade facilitation are necessary but not only condition for growth of the export competitiveness and for further economic growth. The Western Balkan countries need to do more in respect of changing their economic, both industrial and agricultural policies, or as widely known make improvement in the structural reforms of their economies in order to become competitive not only for the CEFTA-2006 markets, but also on the European and other markets in the world.

It can be concluded that there are still challenges for bigger use of the preferences agreed with the CEFTA 2006 agreement, especially considering the completion of the possibilities from the diagonal cummulation of origin, respect of the agreed provisions and their better implementation. The possibilities of the diagonal cummulation of the origin can be used for intensification of the export production of products with extended production phases and bigger value added. Only if these preconditions are fulfilled the effects from CEFTA 2006 can come into full effect and can make this agreement an important chain for promoting the economic development in the region.

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