

# FREE TRADE AGREEMENTS IN WESTERN BALKANS: CEFTA'S ACHIVEMENTS AND PROBLEMS

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Since the mid-nineties the Balkan states which emerged from the Yugoslav Federation disruption, have been pushed to open their economies both to western Europe and to one another. The socio-economic backwardness of the area, worsened by the civil wars and the insecurity existing in the region, led to a series of reform proposals made by major international financial institutions and supported by the EU and the USA. The liberalization of the Balkan economies was seen by the mentioned promoters as necessary to attract and steer, politically and financially, the ex-Yugoslav nations on the way to western model of society. Almost all the governments of the region agreed with this vision and began to put into practice the economic policies and reforms recommended by western states. As years passed and the remaining political and strategic obstacles (especially in Serbia) were overcome, the financial guidelines outlined some years prior, consolidated and became part of the

institutional framework of the Western Balkans countries. In this context, the free trade agreements signed in the meantime between European Union and post-soviet states in Eastern Europe were extended to Western Balkan states in order to find a more institutional and systematic way to enforce the neoliberal policies promoted in the area after the collapse of the planned economy in Yugoslavia.

When the Visegrad Group nations (Poland, Czech Republic, Slovakia and Hungary) plus Romania and Bulgaria entered the European Union (in 2004 and 2007 respectively) the previous agreements on trade fell short of meaning because of the free trade regime which comes into force automatically among EU member states. At this point (2007) the Western Balkans (that is with the exception of Slovenia) was involved in the CEFTA (Central Eastern Free Trade Agreement). This move was designed to transfer the post-soviet market economy transition model, successfully promoted in the nineties by the EU and USA, to the Western Balkans. At the centre of this strategy, we find the CEFTA. The agreement existed before 2007, but only in Croatia (from 2003) and Macedonia (from 2006), together with the Visegrad Group. Since 2007, the CEFTA expanded to include eight states: Croatia, Macedonia, Albania, Kosovo, Bosnia and Herzegovina, Moldova, Montenegro and Serbia. They are to be considered participating in this agreement as a part of the wider framework of the Stability Pact for South Eastern Europe. They now form a free trade area where the exchange of goods, services and capitals is encouraged by erasing all assorted trade and customs barriers. In fact, the CEFTA membership criteria are three: the association with the World Trade Organization, the establishment of mutual free trade agreements between all the CEFTA members and the ratification of the European Union Association Agreement. These membership terms imply that the economy of each affiliate state must be open to the other CEFTA states, to the European Union nations and to the world. The commercial and financial ties with the EU, arranged

under this framework, have been of particular importance for two reasons. First, the development of economic links were seen as a the easiest way to begin the political path towards EU membership, a decision taken by the Balkan governments already before 2007. Second, the Balkan executives were aware of the economic weakness that is typical of the area. Accordingly, they needed a stronger partner - the EU - able to help rebuild and foster the productive activities in all the Balkan country. On the other side, the EU authorities saw the opportunity to reach two essential goals that came to light with the end of the Yugoslav Federation. The first one was to become a magnet for the newly born states of the western Balkans and so preventing any further security and stability deterioration of the south eastern EU neighbourhood. The second goal was the opportunity to enlarge the already existing market of the western European countries to an underdeveloped area and boost in the middle term the economic and political critical mass of the EU.

The CEFTA in its current structure, that was agreed upon in 2007, has brought two main achievements to the area directly involved. The commercial links established in the last four years along the region, although still weak, have brought the countries nearer on cultural and human level. The bonds based on economic exchanges in the area have definitely eased the reciprocal understanding and collaboration amid the states and territories composing the historically troubled Balkans. This is above all true, and significant, given the recent civil wars that erupted during the nineties. With the new millennium, the progressive development of trade volume enhanced by the CEFTA from 2007 on, considerably diminished the probability of another conflict of any kind in the Balkans and gave the opportunity to the governments to look forward to the EU membership. Since then the Balkan states are focusing their efforts on economic and financial competition with the European Union horizon in front of them, rather than confront each other on the political, strategic and military grounds.

Moreover, the more they will be interconnected by trans-boundary economic activities, the more difficult it will be for another violent crisis in the area to arise. The second achievement reached thanks to the CEFTA in the last years, is represented by the increased swap of information, ideas, cultural issues and productive methods. The exchange of experiences and thoughts has always been an essential feature of humankind which has brought many benefits with it. The Central European Free Trade Agreement simplifies and encourage this process in the Balkans, with many positive repercussions on each state concerned as well as for the whole continent. The circulation of certain goods and services is also contributing to the progress of the poorest and most troubled area of the continent.

In the three years since the most recent form of the CEFTA that we are considering here, has been implemented, the commercial exchange in the region interested has soared to a large extent. This is particularly true if compared with a decade earlier performance and notwithstanding the global financial crisis that occurred at the same time. This has been possible because of the (still incomplete) removal of obstacles to trade (such as easing of border transit procedures, harmonization of taxation policies and coordination of customers services), and thanks to the driving force of the EU free market policies and capital investments in the area. Even though the volume of trade between CEFTA countries has increased lately, it must be noted that each Balkan state still strongly orients its trade flows towards EU nations, outside CEFTA area. Almost all CEFTA member have one or more EU states as its major trading partners. This situation is slowly changing and the amount of goods and services exchanged amongst CEFTA components is slightly and steady growing. Taking into consideration the negative intervention of the economic crisis on EU demand (and thus on CEFTA exports) and its side effects on the Balkans economies, the business outcome of the free trade agreement has been reduced. The quantitative advance made until now in

the field of commerce will keep its pace in years to come, and will gradually enhance the overall economic strength of the CEFTA area and its member states. The jump of the last three years in terms of imports and exports inside the CEFTA area has been smaller than the one registered between the former and the EU. Anyway, for a long time to come the main economic, financial and political partner of CEFTA will remain the EU states. The perspective of an EU membership and the inadequate productive structure, will keep Bruxelles at the top of the economic development of the western Balkans.

The deepening of trade connections and the augmented commercial exchange within the CEFTA and the Balkan region, are going to continue in the next decade. At same time, similar trend are expected for what regards the CEFTA-EU economic and financial relations. This foreshadows several problems ranging from financial stability to environment, from labour market to sovereignty.

Deregulation of the capital market is a major feature of the free trade agreement and comprises foreign direct investments in the region as well as the flow of money in and out of every national stock exchange. It is intended to boost the productive activities and to allow the entrance of funds from abroad to each domestic market in the Western Balkans. The expected result is enhanced competition and more means for improving the countries otherwise scarce industrial output. The financial liberalizations have led to a strong dependence of those states on outside capital. The choices of economic policies are therefore heavily restricted by the financial interests originating far removed from the territories where they take place. This situation brings a series of short term ventures, which are attracted by the prospect of exploiting poor working conditions and almost non-existent taxation regimes. Additionally, the nearly complete freedom of movement enjoyed by world and regional capital, all the way through Western Balkans, is leading to a growing role of the virtual economy. The

same that has recently caused so much damage on a global level. The unrestricted movement of capital promoted by CEFTA, can also drag the weak local economies into the vicious circle of global financial markets at a time when many nations are experiencing deep social and economic troubles because of it.

The rising volume of exchange that is being registered in the Western Balkans (both between the region and the EU and inside the region itself) during the last years, is the ultimate objective of the CEFTA. By pursuing this purpose, the agreement is increasing the transportation needs of every country, together with the intensity and frequency of cargo movement through the area concerned. What's more, as a consequence of the agreement, the commercial convoys to and from the European Union are enlarging their scope too. This model was followed in the past by all the western nations, but is nowadays revealing its unsustainable and harmful nature if projected on a wider scale and in the medium term. As the sought after path is one of continuing increase of cross-border transportation of goods among the Balkans states and with EU nations, the CEFTA brings to light one of its key negative aspects: the environmental degradation due to emissions, and fast and heavy resource consumption. This explains the inherent failure deriving from its own structure, in a context of an urgently needed reduction in green-house emissions and a stop in natural resources depletion.

The CEFTA is inspired by the World Trade Organization, as a result of which it strictly honours the ensuing policies created. It follows that market forces and competition push down the benchmarks for labour rights and environmental standards in order to attract foreign capital. This also allows them to face the rivalry coming from neighbouring countries and from other world regions. By enforcing CEFTA, the reach of the free market in the Balkans has been enlarged, worker's rights and the welfare state have been neglected in favour of economic competition laws and thin social

expenditure. This, of course, is aimed at stimulating a dynamic productive system, but it leaves a great deal of problems behind it. This system keeps the region as a source of cheap labour and loosely regulated basin, which can be exploited to reach the desired productive competitiveness on a global level. The CEFTA offers a development model that has been spreading in Europe since the nineteen-nineties, oriented towards unrestricted free market action. In the Balkan region (as everywhere), this pattern is taking away economic and political sovereignty from the states involved, by imposing certain financial and social policies necessary to compete on the global market. Social, environmental and sanitary regulations are labelled as barriers against free trade and therefore forbidden (explicitly or not) by CEFTA and other agreements. This poses great problems for people's sovereignty over their land and future. The free trade agreement in question tends to decrease the role of policy, leaving market economy as the only leading force able to affect the societies destiny. Moreover, the "dumping" effect on working laws and social regulations, caused by CEFTA, risks to keep citizens in a subordinate and subjugated position and cause the upholding of the present structural inequalities and lack of rights visible in the region.

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