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## Deepening CEFTA integration

**The Secretariat of the Central European Free Trade Agreement (CEFTA) announced the strengthening of cooperation between the CEFTA member states, which include the Western Balkans (WB6). Greater competitiveness and attractiveness of the region will positively affect trade with EU countries, especially with Germany and Italy, but also Russia, China, and Turkey. The declaration on the strengthening of CEFTA is a clear political signal that WB6 will adjust to the European Commission's expectations, presented in the Economic and Investment Plan for the Western Balkans. The effective implementation of the adopted assumptions remains a challenge.**

On November 10, 2020, at the Berlin Process' virtual summit, Western Balkan leaders agreed to strengthen economic cooperation under CEFTA and the relevant Action Plan. Its aim is to increase the attractiveness and competitiveness of the region and further integration with the EU market. This initiative meets the European Commission's expectations, set out in the recently published Economic and Investment Plan for the Western Balkans, which emphasizes the development of economic ties within the region. The Western Balkans is inhabited by almost 18 million people and as such is a reflection point for regional entrepreneurs to the EU market. CEFTA experts indicate that further regional economic integration may generate an additional 6.7% of GDP.

**Regional integration.** The action plan adopted in Sofia sets out the steps towards the ultimate establishment of the Common Regional Market and the Regional Trade Area. The development of the digital economy and industry will be a priority, as well as stimulating investment and innovation. In line with the leaders' assumptions, CEFTA will play an active role in the creation of the Regional Trade Area. These activities involve:

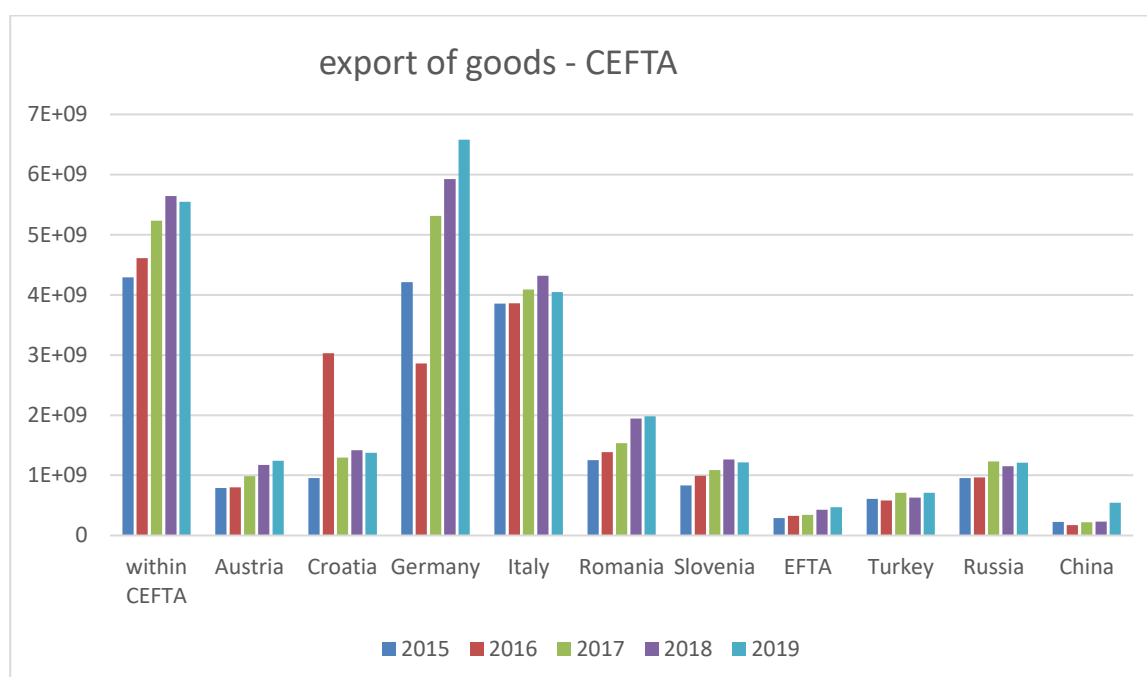
- Reducing waiting time on BCPs/CCPs by 30% by implementing a set of measures that includes extension of the Green Lanes and simplification of the procedures supported by the Systematic Electronic Exchange of Data SEED+.
- Reducing the trade costs and bureaucracy by mutual recognition programs.
- Facilitating e-commerce by ensuring access to all markets in the region.
- Providing a fast track toward a single EU market.

Therefore, the listed elements of the plan aim to remove obstacles to economic integration, especially trade in the region. Therefore, its implementation will have a positive impact on the increase in trade turnover within CEFTA and, thus, strengthening ties with the EU.

**Commercial trends within CEFTA.** Recent years' trends show that although trade of the CEFTA countries is developing, it is the share of trade between them and the EU that is constantly increasing. According to official CEFTA statistics, the value of goods exported within the CEFTA, i.e., between WB6 countries, fell from EUR 5.645 billion in 2018 to EUR 5.547 billion a year later. The remaining target countries, mainly Germany and China, recorded an increase in imports (y / y) from CEFTA countries, from EUR 5.9 billion to EUR 6.5 billion and from EUR 229 million to EUR 543 million, respectively. Exports of goods from CEFTA to Austria, Romania, EFTA, Turkey, and Russia also increased. At the same time, exports to Slovenia, Italy, and Croatia, traditionally the most

important regional CEFTA trade partners, decreased. In the medium term, i.e., from 2015 onwards, these trends are even more visible (see graph below).

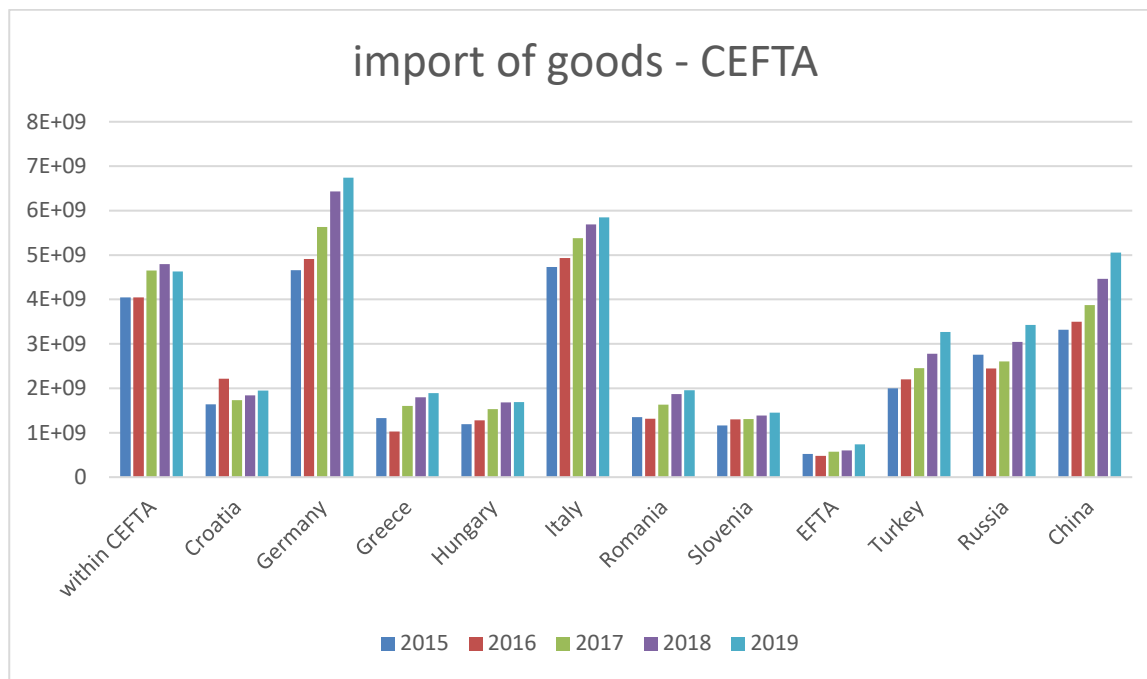
The share of exports within CEFTA decreased between 2015 and 2019 from 18% to 16%. At the same time, the percentage share of Germany and the rest of the EU (excluding Italy and Croatia) increased from 18% to 20% and from 34% to 39%, respectively. The overall share of CEFTA exports to the EU increased during this period from 73% to 75% and its value increased from EUR 16.981 billion in 2015 to EUR 25.213 billion (48%) four years later.



Source: CEFTA.

The value of imports within CEFTA fell from EUR 4.795 billion in 2018 to EUR 4.63 billion a year later. However, this part of import increased in the medium term – in 2015 its value amounted to EUR 4.042 billion. The remaining CEFTA partner countries recorded an increase both in y/y and in the framework of five years compared to 2015.

The import dynamics of the CEFTA countries in 2015–2019 show similar trends to the exports. The share of imports within CEFTA fell from 11% to 9%, and from Italy, by 2% to 11%. Meanwhile, imports from Germany increased from 12% to 13%, while the share of imports from Croatia remained at the same level of 4%, and imports from the rest of the EU increased from 36% to 40%. The share of imports from Turkey and China also slightly increased by 1%, to 6% and 10% respectively.



Source: CEFTA.

The analysis of foreign trade data from the last four years shows a clear increase in the importance of the European Union. Germany and Italy remain the most important CEFTA trading partners. Trade with China, Russia and Turkey also shows similar dynamics. Trade under CEFTA generally shows an upward trend, although its percentage is falling. The benefits of implementing the plan can be expected to be proportional to CEFTA's trade share.

Serbia remains the largest beneficiary of CEFTA, with a clear trade surplus of over EUR 2 billion a year, despite the almost two-year embargo imposed by Kosovo on Serbian products, as a result of which Serbia lost around EUR 0.5 billion. Serbian exports to CEFTA markets increased from EUR 2.61 billion in 2015 to EUR 3.05 billion in 2019. While imports only increased from EUR 689 million in 2015 to EUR 978 million in 2019. CEFTA countries also remain the second-largest trade partner of Serbia after Germany.

Other CEFTA member states also favour regional integration. They see it as an opportunity for economic expansion and improvement of the political image, both at home and abroad.

**Obstacles and challenges.** The success of the new initiative is threatened by administrative and bureaucratic constraints, as well as the lack of political will and energy to pursue this type of endeavour. CEFTA is one of many integration initiatives (along with, for example, the mini Schengen or the Transport Community) that encounter such obstacles. The greatest motivation for the leaders of individual countries is the opportunity to present themselves in the international arena and the relatively low regulatory and legislative effort. Therefore, solving the problem of excessive bureaucratic burdens at the borders within CEFTA is costly for them, and thus not very profitable.

Technically, the biggest problem remains the inability to coordinate individual countries' actions with the aim of economic integration in the region. Plans and actions follow the political calendar and are limited by the above-

mentioned administrative constraints. Therefore, one country's regulatory effort will not bring the expected benefits (trade development) if similar activities are not carried out in another country or CEFTA countries.

In addition, the WB6 region continues to be plagued by many fundamental political conflicts, the clearest example of which is the dispute between Kosovo and Serbia, which hinders the development of economic cooperation in the region. The opponent of the agreement is Kosovo, which is a sales market for regional products, recording a significant trade deficit. The value of Kosovar exports on the CEFTA market amounted to EUR 165 million, while the value of Kosovar imports from CEFTA countries EUR 503 million.

**Conclusions.** Further economic integration of the region within CEFTA will bring positive results through political and institutional rapprochement of WB6 with the European Union. The adoption of the plan is an important and positive signal of the will to economic cooperation in the region and to adapt to the trends set by the European Union. CEFTA and the initiatives developed around it also bring the WB6 countries closer to Poland and the Three Seas Initiative. The development of trade routes alternative to the centre-periphery line will certainly have a positive impact on the economic development of the region and its perception by foreign investors. From an economic perspective, the most important beneficiaries of the new plan will be Germany and Italy, as well as other EU countries involved in the WB6 region (Austria, Croatia, Romania, Slovenia) and China.