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Regional Integration of the New Member States during the Pre-Accession Period and after Eastern Enlargement



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Summary

Regional cooperation in the CEE region started to form immediately after the extensive changes in the region after 1989 and was strongly influenced by the process of Eastern Enlargement of the EU. This influence is especially significant because of the pressure of the EU itself on the formation of regional integration in Central and Eastern Europe during the accession process. As a result of this pressure, a whole range of regional cooperation schemes have been formed in the region. Most of them have survived their countries' accession to the EU (e.g. Visegrad Group, Central European Initiative, Council of Baltic Sea States and others); however, for some the EU accession was rather critical (e.g. CEFTA).

Moreover, regionalism in the CEE region became an integral part of the Transformation Strategy of the Central and Eastern European countries. In terms of time of its creation, motives and goals, it fits into the epoch of New Regionalism. This is characterised by the exercise of progressive elements in regional cooperation, which are perceived as a way to maintain competitiveness in a globalising environment. From this point of view, the Eastern Enlargement of the EU itself is the result of the New Regionalism in Europe. On the basis of New Regionalism, selected CEE countries have become a part of the deepest regional integration in the world, and at the same time the players of the regionalism, both with and without global impact, in comparison with the bigger economic and political dimension than ever before.

The aim of this paper is to analyse the development of regional integration in Central and Eastern Europe during the enlargement process, and especially when thereafter it became purely or partly sub-regional to the main European integration scheme. On the basis of theory and practical findings about New Regionalism, this paper seeks to identify the progressive elements of the New Regionalism in the approaches and types of regional integration in CEE countries. The presence thereof can create a foundation for the CEE countries' solid and prospective position under the architecture of the European integration process. The process itself is, in the times of globalisation, exposed to strong competitive pressures. And, so far European regionalism has not responded to those pressures in a sufficient way and is therefore exposed to the risk of a loss of competitiveness on a global scale.

1. Regionalism as a part of Transformation Strategy

1.1 New regionalism, its specifics and features in Europe

Regionalism¹ as a process in the formation of regional integration in the world economy began at the beginning of the 20th century. In its development we can distinguish **three stages** during which the motives, principles and tools of the integration considerably differed. The major motive of the first stage (in the 1930s and 1940s) was not the pursuit of economic efficiency but the geopolitical expansionism of two regional powers (Germany and Japan). But even at that time, the first new agreements that came into existence were based on economic incentives and led to the liberalization of economic relations. The BENELUX, can be considered as the most significant representative of such an economic union., During the second stage, there were already overwhelming economic incentives towards regionalism. Due to this, there was a continuous growth in the number of regional agreements which gradually increased the strength of regionalism as the dominating tendency in the world economy. The most significant example of that stage is no doubt the development of the European integration process which was initiated by the establishment of a sectoral integration; from this stage the present EU evolved. The origin of the considerable integration process on the European continent triggered a strong response in the entire world economy and became an important model for the establishment of further regional integration in the world economy. Yet in CEE, the development of regionalism was hindered by a bipolar partition of the European continent.² The third stage from the 1990s onward hit the whole world economy at an unprecedented pace and led to a boom of new types of regional agreements. Moreover, it was characterized by a general change in approach to regional economic integration. Due to the fact that the regionalism of the third wave differs so much from the previous stages, a new term for it was created in the vocational literature – **New Regionalism**.³

In particular, there are **three kinds of changes** that differentiate New Regionalism from the other approaches: they are on a quantitative, qualitative and formal level. The qualitative changes relate to the fact that in the current stage, an incomparably greater number of players was included into regionalism as well as that regional tendencies capture basically the whole global economy at a time.⁴ The qualitative changes especially correspond to the necessity of regionalism to respond to the changed conditions in the time of globalisation, to the new political order of the world and to the participation of new players in regional integration (i.e. states and powers, which neither participated at the previous stages at all nor did they do so just rarely). Due to the qualitative changes, among others, the scope of regional agreements was broadened by new spheres of economic relations (intellectual property, services, investments, competitive policy or basic ecological and working standards). Herewith, the regional agreements are in line with the latest trends in international trade and they also deal with the questions, which have still not been sufficiently solved at the multilateral level. In relation to the greater scope in economic areas and security challenges of the global world, there is also an increase in the political aspect of regional agreements, which therefore more and more often includes, besides the economic dimension, also elements of political, legal or cultural cooperation (so-called agreements of the third generation). Together with the origin of new forms of regional integration, or eventually with their more frequent occurrence in the world economy new changes of regionalism come into operation. These are represented by e.g. the unusual development of bilateral agreements, the advent of balanced agreements among developed and developing economies (North-South agreements), the advent of regional integration connecting opposites (transregionalism) or by even two cases of regional integration (interregional). The consequence of formal changes is also the occurrence of

regional integration, of whole continents which then contain a number of standing regional agreements (subregionalism).

To summarise, we can say that as a result of all these changes in the development of regionalism **a New Regional Integration is coming into existence or a reformulation of the present ones** is on its way, in the sense that they are able to adequately react to the changed conditions in the world economy, namely globalisation and its economic, political and security challenges. New Regionalism reacts to economic challenges by incorporating liberal approaches leading to the development of free relations, which are nowadays the basis of national and regional competitiveness, to political and security challenges through the selection of partners for regional agreements and through the stress on political cooperation. Although some particular features of New Regionalism differ in various parts of the world economy (depending on local specifics and approaches to regional integration), the challenges of globalisation are universal, which makes it reasonable to look for new progressive elements of New Regionalism in all cases of regional integration worldwide. This also includes the EU which is considerably crippled by the new developments in regionalism.

In terms of the conditions needed for the development of regionalism, the **present European continent is characterised by a number of specifics**, which distinguishes it from the rest of the world economy. Certain aspects of these specifics, which positively influence the development of regionalism in Europe, will be analyzed⁵:

Europe is in comparison to many areas of the world economy relatively **homogeneous and integrated**. This state is not only the consequence of geographical, historical and political factors, but also of the relatively long and stable development of regionalism in this region. Furthermore, the maturity of the EU's resident economies, which achieve markedly above-average figures of GDP per capita in the global context, play an important role in this. Within this context one needs to bear in mind the long-lasting bipolar separation of the continent, which created a significant impulse for the development of regional integration within the framework of systematic causes (the downfall of the bipolar world order) of new regionalism. The renewal and consolidation of political, commercial, economic and cultural relations with the Western part of the European region was therefore the major motive for the integration of the EU and the CEE countries.

Another specific feature of Europe is **the depth of integration in terms of the European Union and its dominant position in the region**. The EU is the longest existing and most dynamic exemplar of developing regional integration. Therefore it is the example of the deepest integration worldwide (by virtue of interaction of its development with the European Free Trade Association; at present this regional integration is a deep one like the European Economic Area which interconnects EU and EFTA). By vocalization of its dominant position (it occupies a significant part of the continent) in all areas the European Union calls the shots in Europe. A sound example of this dominancy is the role the EU played in both the Transformation and Association Process in the CEE countries, especially the form and pace at which they were formed, not only by the Copenhagen criteria, but also by further decisions and regulations of EU bodies.

The European Union (and under its influence also other European countries) is characterised by **economic practices that to a greater degree are in line with the top form of old regionalism than with progressive trends of New Regionalism**. A strong political motive lies behind the European integration and Europe's social-political doctrine, the peaceful order of Europe has contributed step by step to the efforts towards emancipation of Europe on the

world political scene. As the political stimulus for the European integration is at least as strong as the economic one, it could be the case that not all the steps of European integration correspond to modern economic concepts and thus to the economic trends of New Regionalism. The paternalistic role of the state in the economy nowadays becomes evident as the EU (Europe) reacts to the developments of globalisation through tightening its institutional framework of economic processes and measures. This leads to a higher form of economic integration, however, this has then not been achieved by a reconstruction of the economy. The essential structural reforms of the Member States and the reconstruction of the EU mechanisms, which in the European context are collectively marked as the Lisbon Strategy, take place only very slowly for the time being. The fulfillment of the goals of the Lisbon Strategy make a number of obstacles become apparent. Also, the transmission of progressive concepts, such as greater flexibility of the economic environment, of New Regionalism into the integration itself can be so far evaluated in the broader context of connections as absolutely positive.

Despite relatively slow advancement when carrying out internal economic reform at the present stage of European regionalism, we may discern a **number of particular features of New Regionalism.**

In terms of quantitative and formal changes, European regionalism confirms the worldwide trend – **the increase in number of regional agreements.** The end of the bipolar order on the continent led to making agreements, and the result thereof can be found in the present European cases of integration (EC-EFTA) and the regional integration in the Transforming countries and the CEE countries. The third trend of the increase in number is represented by agreements in external economic relations of the EC/EU and EFTA; the so-called transregional agreements.

The qualitative changes of European regionalism are mostly expressed in the network of regional agreements in the external relations of both groupings. These **agreements differ considerably** especially in terms of reciprocal cooperation. They appeal to various regions, to the ACP (Africa, Caribbean, and Pacific) and the Mediterranean and to Latin America and Asia.⁶ Within the existing cases of European integration we will consider, as a display of new regionalism, the **increase in the scope of integration, a move towards a higher form of integration (common market), the growth of the institutional provisions of EFTA⁷ and its predecessor EEA.** The latter represents a factual enlargement of the internal EU market by other developed countries of the region. Furthermore, from the point of view of the reaction to globalisation, it means a positive advancement in the sense of better opportunities to utilise the potential of the whole macroregion, which is generally considered one of the major motives of new regionalism in the world.

The same motive, of course in combination with some other factors, especially political ones, can be found in the case of the **Eastern Enlargement of the EU.** The process of EU enlargement is an instrument of the reaction to the global challenge, primarily because it enabled a significant expansion of markets, an increase in investment and a sharpening of regional competitiveness. But the geographical expansion itself is only a part of the transformation of the European continent; it is a reaction to accelerated global competition, and it must be accompanied by reforming measures in member economies and in the EU itself. As the Lisbon process has not sufficiently led to those goals so far, the question must be posed, whether the Eastern Enlargement can also mean a positive impulse for the necessary EU internal reform.

1.2 Regionalism as a part of the Transformation Strategy of CEE countries

The process of transformation, which meant in Central and Eastern Europe a **complex change from one social and political system** to another one, proved to be during its course, a complex combination of various kinds of changes in society and the economy. These changes were mutually complementary and no single one could function properly without the others. The basic groups of changes were institutional and structural, and needed to be carried out in the process of transformation.

The basis for **changes in the system** is the liberalization of economic quantities (prices, external economic relations), privatisation, and closely associated with this, restructuring of the banking sector. And just with the changes of the system we can claim that there is a close connection between transformation and regional integration. Namely, with the liberalization of external economic relations, renewal of the price and currency (exchange rate) mechanism, regionalism played a very important role in the transformation process of the CEE countries. It enabled the practical establishment of business and capital contacts with the West (mainly through European agreements) and also the transformation of present relations in the region that could not be completely abandoned (through regional integration in the region of CEE).

Regionalism can be also seen as a part of the **institutional changes**, i.e. changes relating to the formulation and enforcement of legal and institutional frameworks in the social and economic spheres, because the very regional agreements often created the essential frameworks for the external segment of transformation. Initially, it was the European agreements with their strong institutional architecture, the tried and trusted rules of the Western world, that were applied to the CEE countries' international trade.. However, regional integration itself in the region of CEE eventually created a significant institutional framework of international trade with partners.

For the future development the most important feature was the relation between **structural changes** in the process of transformation and regionalism. Their content was mainly the reconstruction of the unsatisfactory structure of the economy to a modern and competitive one in both the domestic and external business environment. Just here, the regional agreements played a crucial role and set the export orientation of economies, which significantly influenced the structure of the economies on the condition that they were open. They also contributed to the consolidation of economies that was a condition for attracting foreign investment, which was necessary for the success of the transformation. The structural changes and reforms are even today (in transforming economies and developed economies) an essential part of the economic and political strategy. Their aim is to raise or maintain competitiveness in the global environment.

2. Regional Integration in the CEE countries in the pre-accession period

Regional integration in the CEE region began to be established directly after the end of bipolarity as a direct part of the transformation process in both the political and economic sense. As the broadly understood return to Europe was the main goal of the foreign policy of all countries in the region, their attempts at regional cooperation were closely connected also to the process of integration into the Western integration schemes.

The European Union especially has thus influenced the formation of regional cooperation in the CEE region greatly; both in a positive and negative way. No matter whether the main agenda of the CEE integration addressed economic or political issues, all integration was positively influenced by the efforts of the EU to support the creation of formal, as well as

informal, integration processes in the CEE in the pre-accession period. These efforts were mainly motivated by the EU's interest in mutual relations between potential new members that would foster their position in the competitive environment of the internal market. On the other hand, the influence of the EU on the integration processes had at least two negative aspects. Firstly, in spite of the fact that the EU fostered the regional cooperation in CEE and had an interest in its creation, in the already established regional cooperation, the CEE countries were not fully fledged partners for the EU in the Eastern Enlargement process. It remained a strictly bilateral process, the EC as a one part and individual candidate countries as the other; both in political and economic terms. Due to this fact, regional cooperation in CEE remained just a tool of mutual cooperation, even though in matters connected with the preparation for EU membership; but was not connected directly to the accession process. Secondly, EU membership was the number one priority for all candidate states and their regional cooperation was thus affected by different priorities, and negotiating positions during the accession process. In light of these facts, most projects of regional cooperation in CEE stagnated sooner or later during the pre-accession period, and so, its effects were (at least in some aspects) not as significant as they could have been.

Similar to the nature of both the transformation process and EU accession, the challenges that the regional cooperation in the CEE region tried to address were economic and political. Because of this, two types of regional integration efforts came into being in the CEE region during the accession process: **forums for political cooperation**, the main objective of which was to address matters of political, cultural and social cooperation on the way into the EU. Secondly, **regional economic integration** that had the goal of liberalizing mutual economic relations. Within both groups, two types of cooperation can be identified further. The first one is a group of integration efforts between the CEE countries and EU members or the EU as a whole, the latter is the cooperation among CEE countries. Individual types of integration are displayed in Table 1.

2.1 Political Cooperation in the CEE region

The **Central European Initiative (CEI)** was established in 1989 as an intergovernmental forum for economical, political and cultural cooperation with the main goal to assist the transitive economies converging on the EU. After the South-East enlargement of the CEI in the late 1990s, its scope changed; however, its main goal, to support Central and Eastern European states' preparations for potential full membership in the EU, has remained. The beginning of the CEI lies in the days after the dramatic events in Berlin in November 1989 when the representatives of Italy, Austria, Hungary and Yugoslavia signed the agreement on mutual cooperation – the so-called Quadrilateral Cooperation. When this agreement was signed, only Italy was a member of the EU and thus the Initiative was often seen as an effort by Italy to gain a moderating role within the EU in the process of Central and Eastern Europe's stabilization. The CEI was successful during several waves of the enlargement process in the 1990s and its last enlargement took place in 2000 when Serbia and Montenegro became members.

The CEI and its relationship to EU institutions is a good example of the development of the EU's approach to regional integration in Central and Eastern Europe. Similar to other cases of integration in the region, the CEI defined its relationship to dominant integration in Europe as purely complementary rather than competitive. Nevertheless, the CEI for a long time was unsuccessful in its efforts to establish permanent contacts with the European Commission. For this especially the Member State Italy (e.g. at the Florence summit in 1996) made a great effort. The Commission held several meetings, nevertheless, the results achieved were

negligible, mostly due to the above mentioned, individual approach to the candidate states. However, the Commission reduced the possibility of effective cooperation within the CEI, and the CEI thus insisted on establishing regular meetings, which it announced at the summit in Trieste with an Action Plan on regular political dialogue between the CEI and the EU.⁸

Table 1 – Regional Integration in CEE in the pre-accession period

Typology of agreement		Agreement	Member States
Regional forum (for political, cultural and social cooperation)	Between EC/EU or EU member states and CEE countries	Central European Initiative (CEI)	Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Italy, Macedonia, Moldova, Poland, Romania, Serbia and Monte Negro, Slovakia, Slovenia, Ukraine
		Council of Baltic Sea States (CBSS)	Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russian Federation, Sweden, European Commission
	Among CEE countries	Visegrad Group (V4)	Czech Republic, Hungary, Poland, Slovakia
		Baltic Council	Estonia, Lithuania, Latvia
Economic integration (FTA/CU)*	Between EC/EU or EU member states and CEE countries	European Agreements	EC and individual candidate countries
	Among CEE countries	Central European Free Trade Agreement (CEFTA)	Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, Romania, Croatia, Macedonia**
		Baltic Free Trade Agreement (BAFTA)	Estonia, Lithuania, Latvia
		Czech Republic – Slovakia Custom Union	Czech Republic, Slovakia

Source: Individual web pages of the agreements and <http://www.europa.eu.int/>.

Notes: * FTA stands for free trade agreement and CU represents custom union.

** Macedonia became a member of CEFTA after the Eastern Enlargement.

The Council of the Baltic Sea States (CBSS) was not influenced by the Eastern Enlargement so much as its membership is much broader. However, new challenges and approaches to its

existence and its activity will be examined further, together with similar changes in the activity of the CEI.

Concerning the political cooperation between the CEE countries only, two forums with many similar features were established in the early 1990s . The **Visegrad group (V4)** was established in 1991 as a regional forum for facilitating political, security and cultural relations among its members. One of the most successful projects of the V4 countries was the establishment of the Central European Free Trade Agreement (CEFTA) in 1993, however, it diminished the economic impetus of the V4 cooperation. After an initial dynamic period, the activity of the V4 stagnated mainly due to the conflicts and differing approaches to integration of its members. Its main activity focused on fostering cultural cooperation, education and on efforts for closer relations with Western European institutions. In 1998, V4 activity was revived by the final preparations for NATO membership and EU enlargement.

The **Baltic Council** was established in 1993. Similar to the V4, the EU had an impact on it, furthermore the Baltic Council was also specifically influenced by the institutional arrangement of the Nordic Council. This is understandable especially due to the geographical and cultural proximity of both regions. Its activity focused mainly on the creation of a free trade area, visa policy, transportation, education and military cooperation. Even though some ambitious projects such as a customs or military union were not successful due to external factors, the Baltic cooperation prospered and achieved concrete results through the creation of the Baltic Free Trade Agreement (BAFTA) in 1994.

Common features of both integration projects can be summed up as follows:

- they were both established in the relatively homogeneous sub-regions of the CEE on the basis of similar reasons associated especially to the transformation and association processes,
- they are both characterised by a relatively weak institutional structure based entirely on intergovernmental cooperation and formally they are labelled as regional forums for political cooperation,
- they both formed the basis for the creation of the most important projects of economic cooperation between the CEE countries,
- as opposed to the economic integration projects, they both survived their respective countries' accession to the EU because of the fact that they were complementary to the exclusive policies of the EU. However, their current role in the decision-making mechanism of the EU is not certain (and will be examined further).

2.2 Economic Integration in the CEE region

With regard to the economic integration projects, the most important phenomenon of economic cooperation between the CEE countries and the EU was represented by the **European Agreements**. These were association agreements between the EU/EC and particular candidate countries in the CEE region. The European Agreements (both interim and final) became the basic instrument of CEE stabilisation and association to the EU, as they were the most eminent tools of meeting the economic standards of the Copenhagen Criteria, formulated during the 1990s .

The main features of the European Agreements were:⁹

- gradual creation of free trade areas for industrial goods,
- elimination of quantitative restrictions for agricultural commodities ,
- liberalisation of trade in services,

- preparation for the free movement of capital and workers,
- legal and technical harmonisation,
- broad economic cooperation.

As a result of such a broad institutional arrangement between the CEE countries and the EC/EU, the relations between CEE and Western Europe were better institutionalised than the mutual economic relations of the CEE countries. Especially after the breakdown of the Council for Mutual Economic Assistance (CMEA or COMECON), the general trend of international trade reorientation was supported. In this situation, a great part of the trade relations in the CEE region were eliminated and trade became strongly oriented to the West. On the other hand, trade reorientation was a spontaneous process with a marked psychological background, which represented especially the will of most CEE countries to establish (not only) economic links with the prosperous markets of the EU. The European Agreements were thus just a part of the reaction to the demands from the CEE countries.

Table 2 displays the process of trade reorientation in the CEE region during the Pre-Accession period. It shows that the Western European countries (here referring to all advanced economies in the region) were important trade partners of the CEE countries even before the COMECON collapsed. This was naturally caused by the gradual economic development in the centrally planned economies of the CEE region, as well as by the competitiveness and external demand in Western Europe. Subsequent increases in both import and export flows are, however, illustrative especially for the Visegrad countries. In the example of the Czech Republic, more than a sevenfold increase in the absolute amount of both exports and imports to and from Western Europe can be observed between 1989 and 2004, which accounts for a rise from 50% and 47% to 80% and 85% in the relative share of imports and exports, respectively. For other Visegrad countries (and Romania) these trends were very similar already from 1989 to 1995. For the other CEE countries, a firm orientation of trade (and especially of exports) to Western Europe can be seen with an increase from 1995 to 2004. Generally, Western European trade partners are dominant exporters, as well as, import destinations for most CEE countries today; for many CEE countries both export and import shares of Western Europe amount to 80% or more.

All in all, the European Agreements constituted firm economic and institutional ties between the CEE region and the EU, which was one of the important factors that enabled a relatively fast conclusion (at least for some of the CEE countries) of the Eastern Enlargement process. Additionally, the European Agreements represented a progressive and modern instrument of broad economic integration and contributed strongly to the stabilisation and prosperity of the open economies of the CEE region, which especially was the case for the Visegrad countries.

To face the massive trade reorientation and to re-establish the economic links between the CEE countries was one of the key reasons for the economic integration of the CEE countries. Additionally, these efforts were also supported by the EU as the prosperous economic links in the CEE region (and in the future between new Member States) were seen as a prerequisite for the successful and sustainable existence of the region both at the EU's borders and in internal market competition. The most successful project of economic integration between the CEE countries is the **Central European Free Trade Agreement (CEFTA)**, which was initially established between the Visegrad countries, but went through several waves of enlargement. CEFTA was successful, especially in the liberalisation of industrial goods. It was established in 1997 with the aim of creating a free trade area. Concerning other projects of economic liberalisation (e.g. agricultural production, services, capital, cooperation in external trade relations), the integration progress was very limited

especially because of the view about full EU membership and different approaches of the CEFTA member states to the transformation strategy.

Table 2 – Trade between candidate countries of the EU and Western Europe

Country	1985		1995		2004	
	Millions of USD	% of total trade	Millions of USD	% of total trade	Millions of USD	% of total trade
Export						
Bulgaria	1 762,8	63,26	2 199,1	42,13	5 280,2	57,95
Czech Republic	6 617,0	46,90	13 974,3	81,35	46 559,7	85,43
Estonia	..	..	1 293,3	70,29	5 556,1	77,79
Hungary	4 749,0	49,05	9 371,3	72,86	44 302,4	80,87
Latvia	..	..	755,6	58,86	3 709,4	79,67
Lithuania	..	..	1 453,6	53,72	6 476,9	73,87
Poland	6 818,4	50,38	18 045,0	78,82	50 371,7	80,23
Romania	5 096,1	45,95	4 814,0	59,72	16 123,8	72,46
Slovakia	..	..	7 230,1	84,28	21 693,6	86,18
Slovenia	..	..	6 156,8	73,39	9 958,6	67,73
Import						
Bulgaria	3 751,9	72,93	2 394,4	43,78	8 432,1	60,47
Czech Republic	7 839,7	50,48	17 597,9	76,60	55 623,6	79,89
Estonia	..	..	1 863,7	73,20	6 523,6	66,21
Hungary	5 035,6	56,67	11 015,1	71,14	43 540,1	73,20
Latvia	..	..	1 194,8	66,00	5 399,3	71,44
Lithuania	..	..	1 917,7	52,56	7 134,0	58,62
Poland	6 342,3	55,84	21 512,8	74,06	66 644,7	76,83
Romania	2 606,0	26,19	6 078,3	58,52	24 271,5	73,00
Slovakia	..	..	6 756,4	70,03	23 609,8	82,64
Slovenia	..	..	7 571,9	78,50	15 468,1	82,06

Source: UNCTAD Handbook of Statistics, <http://www.unctad.org/>.

Notes: Data for the Czech Republic are for Czechoslovakia in 1989.

Even though CEFTA could not stop the trade reorientation, it did contribute to the preservation of economic links between the CEE countries during the transformation process. When taking a look at the example of the Czech Republic again, however, in this case the CEFTA benefits were more expressive, especially due to the inclusion of trade with Slovakia. Table 3 further suggests that an increase in the Czech Republic's trade with other CEE countries took place, which was, however, not more significant than the increase in trade with Western Europe (stagnation or decrease can be observed during this period, too). From 1993 to 2002, the foreign trade of the Czech Republic with other CEE countries almost doubled, as did the trade with CEFTA. Despite the continuous decrease in the relative weight of trade with the CEE region and the Commonwealth of Independent States (this trade relation was specifically influenced by the energy supplies from CIS states) on the overall trade of the

Czech Republic, the dynamics of foreign trade relatively prevailed in the Eastern direction, especially after 1999.

Table 3 – Foreign Trade of the Czech republic between 1993 and 2002, in CZK mil.

Country / Group of Countries	1993	1995	1997	1999	2000	2001	2002
Imports							
CEE and CIS	130 614	169 977	197 188	188 364	261 383	275 579	244 538
CEFTA	86 541	109 452	125 278	127 589	159 071	174 115	160 166
Slovakia	67 746	78 424	72 514	60 893	74 582	74 569	69 228
Total	426 084	665 740	859 711	973 169	1 241 924	1 386 319	1 325 279
Exports							
CEE and CIS	137 519	160 186	210 937	198 145	236 420	268 922	259 203
CEFTA	109 848	125 784	159 477	161 653	189 360	215 697	207 076
Slovakia	83 200	79 480	91 790	75 329	86 056	101 926	96 553
Total	421 601	566 171	709 261	908 756	1 121 099	1 269 634	1 250 439

Source: Statistics Yearbook of the Czech Republic on-line, <http://www.czso.cz/>

Notes: 2002 data are preliminary.

Trade with Slovakia increased less rapidly, however, for example, Czech exports to Slovakia increased by a quarter in the same period. Slovakia thus remains the second most important trading partner of the Czech Republic after Germany. The success of the CEFTA project is, however, proven also by the interest of other CEE countries in joining CEFTA during the pre-accession period. Also, CEFTA was seen as a preparation for economic integration within the internal market of the EU. Moreover, CEFTA itself became a part of the European economic integration architecture by the signing of a protocol that enabled the accumulation of origin between the states of CEFTA, EU, EFTA and the Baltic States.¹⁰

Within CEFTA, the **Czech Republic – Slovakia Customs Union** existed as a special part of the CEFTA agreement. This Customs Union represents the deepest integration between the CEE countries (all the others reached the level of a free trade area). However, at the same time, it represents a project of economic disintegration, as it is connected with the division of Czechoslovakia in 1993. Also, efforts were made to perpetuate a monetary union between these two states but only the project of the Custom Union was successfully realised. Despite numerous disputes between both trade partners, the Union contributed to the preservation of mutual economic and trade links. During the entire pre-accession period, Slovakia remained in second position as one of the Czech Republic's trade partners.

Another project of economic integration in a relatively homogeneous subregion was the **Baltic Free Trade Area (BAFTA)**, which came into effect in 1994. In 1997, it was extended to include agriculture. The factual effects of the BAFTA, however, remained modest especially due to the similar export orientation of its member states. Furthermore, BAFTA did not lead to major growth of intra-trade. On the other hand, BAFTA also represented

institutionalised cooperation in the field of economic transformation and additionally, it prepared its members for the environment of the EU.

3. Regional Integration in the CEE countries after the Eastern Enlargement

The finalization of the Eastern Enlargement for the ten new Member States of the EU meant a marked change for their projects of regional cooperation. Similar to the pre-accession period, the EU enlargement had a different effect on the various types of regional integration of the new EU Member States. The general conclusion can be drawn that for the political cooperation in the region, the changes evoked by the Eastern Enlargement did not have a major impact because these cases of integration did not collide with the exclusive competencies of the EU even though all their member countries had become EU members. However, the scope of their activities was changed by the Enlargement; they could continue to exist either within the EU or its periphery. For the economic integration, the effects of the Eastern Enlargement were different. They depended on the number of members that joined the EU. Subregional economic integration to a lesser extent than that of the EU (a monetary union with elements of an economic union) could not exist next to the exclusive competencies provided by the EU's Common Trade Policy.

3.1 Political Cooperation in the CEE region after the Eastern Enlargement

The Eastern Enlargement meant less noticeable changes for the project of political cooperation between the EU Member States and the CEE states, i.e. for the **Central European Initiative** and the **Council of Baltic Sea States**. These integrations were, even before the Eastern Enlargement had been completed, peripherally subregional to the EU. After the Eastern Enlargement, only the ratio of members to non-members of the EU changed. For example, concerning the CEI members, 7 of 17 CEI members are simultaneously members of the EU; additionally, Bulgaria, Romania and Croatia are candidate states today. Nevertheless, also the position and activity of these subregional cases of integration went through several changes after the Enlargement. On the one hand, the Enlargement strengthened the position of the EU members in the CEI, and on the other hand, it eliminated some of the communication problems between the CEI and the European Commission, which were caused by the individual approaches to all candidate states and by the overall strategy of the Enlargement. Elimination of these barriers showed the significance of the CEI for the EU's relations with South-Eastern Europe. The long-term efforts on stabilization and convergence of South-Eastern Europe are thus an important momentum today, to which the CEI can contribute.¹¹

The subregional cases of integration in the periphery constitute a contemporary contribution to the external strategies of the EU and to the relations with its neighbours. The CEI can actively contribute to the New Neighbourhood Policy, which is targeted among others on Belarus, Ukraine and Moldova which are members of the CEI. The CEI members from the Balkan are addressed by the Stabilization and Association Process. The other three members of the CEI are candidate states of the EU today, which offers the possibility for the CEI to ease their Association Process, too. However, the experience with the Eastern Enlargement suggests that the Association Process is fully in the hands of the Commission. Similarly, the CBSS can today actively contribute to the Northern dimension of external relations, to a whole range of EU activities addressing the environment of the Baltic Sea and to the crucial EU-Russia relations.

The coexistence of numerous initiatives in the areas mentioned above can, however, lower the effectiveness of individual action, to which especially the CEI pays special attention. The current Action Plan of the CEI for 2004-2006 faces a new situation. After the Eastern Enlargement, reforms were initiated that focused on the concentration of activities in fewer areas than it is the case today. For every area of the CEI's activity, two priorities were set that were determined according to whether they could be addressed by the CEI more effectively than by any other institutions in the region. Furthermore, every activity of the CEI was additionally complemented by cooperation with other regional or multilateral institutions (e.g. EBRD, EU, the Council of Europe or OECD).¹²

For exclusive political cooperation between the CEE countries that became EU members, the situation is slightly different. However, also these integration projects can exist further within the scope of the EU. Both the **Visegrad group** and the **Baltic Council** became purely subregional due to the main European integration process. The reason that they continue to exist is that their scope does not collide with the exclusive competencies of the EU. Political cooperation, cooperation in education, culture or cooperation on further projects of integrating into the EU, especially into the European Monetary Union and the Schengen System, are not excluded by membership of the EU, and can thus create the scope of work of purely subregional integration efforts today. Especially because of the fact that the European decision-making mechanism is a complicated combination of political negotiations at different levels, subregional integration can become a tool for strengthening the position of the group of Member States within the architecture of the European integration. The main opportunity of both the V4 and the Baltic Council to multiply their strength within the EU decision-making process is by creating stable coalitions among EU members. Especially as the Visegrad group has 58,¹³ votes in the European Council which is comparable to the tandem of Germany and France.

The ability of subregional groups to act as a platform for a common position and as a interest coalition of course depends crucially on the ability of its member states to negotiate the common position. Based on the past experience with the different positions of individual member countries during their EU accession process, it is likely that a common position will be difficult to find, especially in the key questions on Europe's future. On the other hand, there is a whole range of local issues about which the countries of a particular subregion can find a common position and try to express it at the European level. For example during the Ukrainian crisis the Visegrad countries tried to speak as one voice. In particular, the CEE countries have a common experience concerning subregional integration, the Transformation and Association Process, which was utilized both by them and by the EU during the continuous process of EU enlargement and Neighbourhood Policies.

However, the future position of both subregional forums within the EU is not certain today, as their actions and declarations made directly after Eastern Enlargement show that both the V4 and the Baltic countries have an interest in a continuation of their integration projects. As expressed in the reformulated Visegrad Declaration of May 2004, the V4 wishes to cooperate further with an unchanged institutional background in the following four fields:¹⁴

- within the V4: to strengthen culture, education, infrastructure and cross-border cooperation, including the Schengen cooperation,
- within the EU: to consult and cooperate in current issues, and to contribute to further development, especially in the field of the Common Foreign and Security Policy, Justice and Home Affairs, continuous integration into the EMU and in projects of economic cooperation in the European Economic Area,

- with other partners: other CEE countries and NATO are quoted as the main partners for other projects of common interest,
- with NATO and other institutions: to strengthen the transatlantic relations and to support various projects of the Council of Europe, OSCE and other multilateral bodies.

Similar considerations of the Baltic Council activities were expressed at its 10th meeting which took place just after the Eastern Enlargement. Here a reform was introduced, which aims to decrease the number of areas of mutual cooperation in defence, energy, internal affairs, transportation and telecommunications and the environment. The Baltic Council wishes to become a Forum of Mutual Cooperation and Coordination of Baltic States according to the terms of cooperation of the EU. It wishes to do so in matters of regional policy, agriculture, transportation, defence, similar to the V4 declaration, the NATO relationship is emphasized, and the future development of European integration.¹⁵

All in all, as a result of the Eastern Enlargement the number of purely subregional integration has increased to three: the Benelux, the Visegrad Group and the Baltic Council. However, the subregional integration of the CEE countries is very different when compared to the economic union Benelux as all these cases of integration can serve as a platform for common positions of relatively homogeneous subregions within the decision-making mechanisms of the EU. Apart from the ad hoc coalitions based on current negotiation positions of member states can become more stable interest coalitions in cases of issues related to regional development or the external position to neighbouring countries. It is relevant for the future of Europe that when the new members have a firm position within the EU's decision-making procedures, they can utilize their historic experience of the transformation process and structural reform. The continuation thereof also at the European level is crucial for strengthening Europe's competitiveness in a globalised world economy.

3.2 Economic Cooperation in the CEE region after Eastern Enlargement

Due to the institutional aspects of the EU explained above, the shallow economic integration projects of the CEE countries cannot survive their countries' accession to the EU. In light of this fact, none of the CEE's cases of economic integration will become subregional to the EU. However, this does not mean that all the projects of economic integration in the CEE region, have lost their significance .

Nevertheless, those cases of economic integration, which were formalised as free trade areas or custom unions and whose members have become EU members in the meantime, have been abandoned by their member states. Furthermore, their trade regimes are governed by the common rules of the EU today, i.e. by the internal market principles. This applies to the **Baltic Free Trade Agreement** and to the **Custom Union between the Czech Republic and Slovakia**, which did not go beyond the formal integration framework of the EU and finally, it disappeared altogether after its members' accession to the EU. The Free Trade Regime and Custom Union were replaced by the common rules of the EU. Similarly, all the **European agreements** between EC/EU and the new Member States were replaced by internal market rules. For the trade regimes this change generally means a step towards deeper integration and further liberalisation, however, for example, for industrial goods, liberalisation had been completed already by the European Agreements. In this respect, the Eastern Enlargement represents a step towards the consolidation of regional trade regimes and, thus, towards the elimination of systemic risk of subregionalism, as several agreements on trade liberalisation were replaced by a common and unique trade regime. As a basic instrument of economic accession, the European Agreements remain in force for those countries that have candidate

status and are waiting for further enlargement waves (e.g. Romania, Bulgaria, Croatia or Macedonia).

Slightly different is the example of the **Central European Free Trade Agreement** as not all of its members became EU members in May 2004. The membership of the Czech Republic, Slovakia, Poland, Hungary and Slovenia in CEFTA was overturned by EU accession, which made CEFTA a trilateral agreement between Bulgaria, Romania and Croatia – three candidate countries of the EU. For them, CEFTA remained a useful agreement for the liberalisation of trade, which is often seen as a suitable preparation for the conclusion of the accession process, within which similar actions towards full liberalisation of economic relations have to be executed. This fact is supported by the latest CEFTA enlargement which was finalized in February 2005, when Macedonia signed the agreement on CEFTA accession.¹⁶ When the ratification process is completed in all four member countries of CEFTA, Macedonia will become a full-fledged member of the Central European Free Trade Agreement, which is seen as the *entrance hall* of the EU.¹⁷ Next to the increase in trade with other CEFTA countries, Macedonia sees its CEFTA membership, above all, as “a part of the country’s trade integration related to its accession to the EU, as an instrument for regional cooperation and proof of political and organizational maturity of the aspirant countries for EU membership”.

However, CEFTA is not a subregional process for the EU, rather it represents a proven project of shallow economic integration on its Eastern border, which can, in the context of the continuing process of the EU’s enlargement become a tool for countries’ preparation for full EU membership and for participation in its complex system of regional relations. Any associated country with significant trade relations to CEFTA members can become a member of CEFTA after meeting its criteria for membership. These were stated in the Poznan Declaration as:¹⁸

- membership in the WTO, which is seen as a general prerequisite for the enforceability of free trade area regulations,
- a signed EU Association Agreement and
- CEFTA members’ approval, which is usually preconditioned by existing trade relations with current members.

On the other hand, CEFTA will exist only when at least two of its members remain outside the EU. As long as CEFTA is enlarged before its members join the EU, CEFTA can be a tool for its members’ preparation for full accession. Ukraine for example expressed its wish to become a CEFTA member, however, the existence of CEFTA is certainly limited by the ongoing process of the Eastern Enlargement. Thus, the EU’s influence on regional integration of its periphery is still of importance for the existence of CEFTA even today.

4. Conclusion

Regional integration in the CEE region is an important aspect of the CEE countries’ transformation and association strategy, which was, however, determined by the process of Eastern Enlargement of the EU. During the pre-accession period, both economic and political projects of regional cooperation were created in the region to support mutual cooperation in various fields in order to meet the EU accession criteria and transformation strategy. Especially in the external economic relations of the CEE countries, the role of economic integration projects was crucial; the European Agreements created a highly institutionalised framework of mutual relations between the EU and CEE countries, which determined also the pace of the external transformation and foreign trade orientation. The Western-oriented approach, both in economic and political relations was the key element

of the external strategy of all CEE countries. Their mutual relations were somehow affected by the lack of common agreement and overshadowed by the efforts of individual countries to negotiate the best possible entry position with the EU. Also, the mutual cooperation of the CEE countries was supported by the EU especially in the economic field, as it was seen as a way of strengthening the region's position within the competitive environment of the internal market.

The Eastern Enlargement brought about marked changes to the development of regional cooperation in the CEE region, which especially applied to the projects of economic cooperation that were taken over by the common rules of European trade policy and by the internal market. Economic relations in the CEE region advanced to the common market level and are thus today governed better than in the era of particular free trade efforts. On the other hand, projects of economic cooperation in the pre-accession period (and especially the CEFTA) supported the mutual trade and investment cooperation in the region, which could only be utilised within the EU. Projects of political cooperation continue to exist and even though their goals and priorities have changed, their main objective remains the creation of a platform for a stronger and more self-confident position of the new member countries within the decision-making mechanisms of the EU.

Both the economic and political dimensions of regionalism of the new Member States of the EU represents a unique historical experience, which can, in the near future, positively influence similar reform processes at the European level. Today, when the future of the European integration process is considered, a strong position with firm regional priorities is ever more important. However, a common position among the CEE countries will be difficult to reach. Their common experience with the economic transformation and the structural reforms can be utilized especially in the debate about European competitiveness in a globalised world, which is currently particularly threatened by the lack of activity on the part of both individual Member States and the EU institutions (at least in implementing the Lisbon Strategy, which can be seen as the first step in strengthening the EU's future position).

Notes

- 1) Regionalism can be defined as that trade, i.e. economic policy of a state, which leads to the liberalization of relations between two or more countries and thus contributes to their closer links and mutual integration. For more details see e.g. Cihelková, E. Nový regionalismus: teorie a projevy ve světové ekonomice. [New Regionalism: Theory and Trends in the World Economy]. In Politická ekonomie, 6/2004, p. 807-822.
- 2) Council for Mutual Economic Assistance (CMEA or COMECON), which regulated the economic relations among the majority of the Eastern block states (CEE countries included), applied to the very first elements of Integration but with regard to the specifics of the applied development strategy that cannot be considered as a regional integration based on principles of economic efficiency and market integration. The most striking specifics of the functioning of the CMEA system can be summarised in the following: an official doctrine based on self sufficiency of the Eastern block, monopoly on foreign trade and non-existence of efficient price mechanism. See closer: Cihelková, E. Vnější ekonomické vztahy Evropské unie. [External Economic Relations of the EU]. Praha : C. H. Beck, 2003.
- 3) In general, New Regionalism represents a contract barter of the rights among a limited number of business partners concerning their access to their national markets and based on preferential trade agreements.
- 4) Up to January, 2005 there were 312 Regional Trade Agreements registered at GATT/WTO (170 are running at present) and it is estimated, that a further 65 agreements are working, but not registered at WTO. Since the establishment of the WTO there were 196 new agreements registered (132 of which functioned normally in April,2005) and it is estimated that by the year 2008 the number of valid agreements will be close to 300. According to: Crawford, J., Fiorentino, R.: The Changing Landscape of Regional Trade Agreements. WTO Discussion Paper. Geneva : WTO, 2005.
- 5) Processed on the basis of CIHELKOVÁ, Eva, HNÁT, Pavel. Adaptace evropského regionalismu na globální podmínky. [Adaptation of European Regionalism to Global Conditions]. Současná Evropa a Česká republika, 2005, roc. X, c. 2, s. 111-126.
- 6) More closely to external economic relations of the EU see e.g. Cihelková, E. Vnější ekonomické vztahy Evropské unie. [External Economic Relations of the EU]. Praha : C. H. Beck, 2003.
- 7) Vaduz Convention from the year 2002 is the first reformulation of establishing document of EFTA. As a response to the establishment of EEA it led to the origin of a common market within the EFTA and it also incorporated the articles of Agreement on EEA.
- 8) CIHELKOVÁ, E. HNÁT, P. Subregionalism within the EU with Special Regard to the Groupings of which the Czech Republic Is a Member. Prague Economic Papers, 2006, No. 1, pp. 50-62.
- 9) CIHELKOVÁ, E. Vnější ekonomické vztahy Evropské unie [External Economic Relations of the European Union]. Prague : C. H. Beck, 2003. Text in Czech. pp. 570-576.
- 10) CEFTA, <http://www.cefta.org/>.
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- 12) CEI Plan of Action, <http://www.ceinet.org/>.
- 13) Current number of votes of V4 members as to the Treaty of Nice; <http://www.europa.eu.int/>.
- 14) Visegrad Declaration, <http://www.visegradgroup.org/>.
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