



**BOOSTING TRADE AND INVESTMENT IN SEE**  
**TRADE LIBERALISATION - THE REGIONAL APPROACH**

**Summary Progress Report**  
**MAY – NOVEMBER 2005**



## **I. NEED FOR REGIONAL TRADE LIBERALISATION PROCESS IN SEE**

All governments in South Eastern Europe (SEE) are engaged in the restructuring of their economies and strengthening of their economic institutions. These are necessary for their more effective integration into the world economy, which, in turn, is essential for their long-term growth and economic prosperity. These small economies must dramatically boost trade and investment (foreign and domestic) if they are to secure the necessary, capital, technical and managerial inputs and thereby generate higher employment opportunities in the region.

Integration in the world economy has three aspects: a regional one, that involves the economic relations between each other; a European one that involves primarily relations with the European Union (EU), by far the most important trading partner and source of direct investment; and a global one, that involves SEE countries' trade relations with the rest of the world. Each country is at a different stage in each of these three aspects of integration and also faces different problems and challenges, some of which are unique to each country. But all face the necessity to strengthen the capacity of trade related domestic institutions and improve policies so as to further integration into the world economy.

Trade flows among the countries of the region are low - albeit rising with the implementation of the bilateral free trade agreements (FTAs). Trade has been disrupted and distorted by conflicts; and the delays in structural reforms have also affected the supply side and reduced the opportunities for export product diversification. Fragmented markets and opaque trade regimes have hindered trade both among the countries and with third parties such as the EU. In addition, given that market size is one of the key determinants for foreign direct investment (FDI), improving the trade regime throughout the region is of benefit to all countries concerned.

Developing and implementing a clear and consistent trade policy is a fundamental requirement for a market economy and for instilling confidence in the business community, both domestic and foreign. Such policies cannot be developed in isolation. Rather, they must take account of a range of other economic policies and also the demands of integrating into the European and global economy for example through the Europe Agreements and the Stabilisation and Association Agreements as well as accession to international bodies such as the WTO.

In addition to tariff policy, trade policy must also address a range of non-tariff barriers such as quality standards, sanitary and phytosanitary standards (and mutual recognition of same), customs procedures, licensing, regulatory regime for trade in services and so on. It is also vital that the trade regime is effectively communicated to the various agencies responsible for its implementation and to the business community who, after all, should respond to an efficient and transparent policy.

The sheer scale of the issues to be addressed places a considerable burden on the relatively small administrative structures in SEE. Thus, developing a regional trade liberalisation policy combines the benefits of improving the intra regional trade regime with a more efficient and effective mechanism for enhancing the overall trade and investment climate in the region



## **II. ROLE OF THE STABILITY PACT'S TRADE WORKING GROUP**

The Stability Pact's Trade Working Group (TWG) brings together senior trade policy officials from SEE, international organisations (EC- DG Trade, WTO, World Bank, UNECE) and bilateral donors (Germany, Hungary, Norway, Slovenia, Switzerland, UK and USA). The Group is currently chaired by Albania and has at its disposal a small part-time secretariat comprising a WT II expert and international experts financed by the UK's Department for International Development (DfID).

This grouping of regional and international technical expertise has resulted in the development and implementation of a regional trade liberalisation strategy. The first building block of this strategy was the Memorandum of Understanding on Trade Liberalisation and Facilitation of June 2001, which has resulted in the negotiation and entry into force of 30 bilateral free trade agreements (FTAs) throughout the region.

As outlined in the MoU and in subsequent Ministerial Statements, the role of the Group is to facilitate the development of trade policy, monitor its implementation and to explore options for further liberalisation. The diverse membership of the Group means that it provides SEE with a forum that delivers technical, political and financial support for the elaboration and implementation of a trade policy that is based on best international practice, but tailored to the specific circumstances of the region and fully in line with SEE's international commitments.

## **III. HIGHLIGHTS OF ACHIEVEMENTS – MAY TO NOVEMBER 2005**

The key event during this period was the joint Trade and Investment Ministerial meeting held in Sofia on 9 and 10 June. This meeting was organised by the SP's Trade Working Group and Investment Compact initiatives to emphasise the interrelationship between trade liberalisation and an environment conducive to investment.

The main feature of the Ministerial Declaration on Trade endorsed by all SEE countries and territories was the commitment to the development of a single free trade agreement for the region. Ministers charged the SP Trade Working Group with conducting detailed exploratory talks with a view to launching negotiations in early 2006 and concluding the agreement in mid 2006. Ministers also agreed to the implementation of a programme to reduce and eliminate non-tariff barriers and to further work to harmonise regulations dealing with trade in services.

In addition to the Ministerial meeting, the Trade Working Group held two regular quarterly meetings during the period. The TWG meeting held in Chisinau on 4 May largely served as a preparatory meeting for the Ministerial meeting but also provided an opportunity for the Group to discuss the continuing difficulties in implementation of some bilateral free trade agreements. The meeting also discussed the difficulties in the final negotiations concerning the revision of the former Yugoslav Republic of Macedonia and Serbia and Montenegro agreement and an interim FTA between former Yugoslav Republic of Macedonia and UNMIK/Kosovo. Both of these agreements have now been finalised.

Following the endorsement by Ministers of the preparation of a single free trade agreement for the region, the Secretariat to the TWG has devoted considerable time to reviewing options and preparing for the quarterly meeting that took place in Turkey on 29 and 30 September. A series of background papers as well as illustrative text for



sections of a single FTA were prepared and discussed. Progress has been made in securing agreement on key issues but some obstacles remain. Substantial follow-up is required before the next meeting scheduled for early December. The on-going trade disputes with Bosnia and Herzegovina were also discussed extensively at the meeting. The progress made in implementing the procedure to reduce non-tariff barriers including the appointment of NTB focal points by each country/territory was also highlighted.

Provision of technical assistance under the auspices of the Trade Working Group continued throughout the period, events included the finalisation of the EU and Swiss sponsored studies on NTBs, the US government sponsored workshops on customs co-operation held in conjunction with the World Customs Organisation in April and October, the EC-financed workshops on trade in financial services held in May and October and the EFTA sponsored seminars on rules of origin also held in October

#### **IV. FUTURE CHALLENGES**

The major challenge facing the TWG in 2005/2006 is to prepare and then facilitate the conclusion of *the single FTA*. In the immediate future, the Group's concern is to finalise the exploratory talks regarding the most appropriate structure and content for the single FTA.

The basic objective of a single agreement is to boost foreign trade and direct investment in the countries of South Eastern Europe, by simplifying the trade regime and improving transparency for business and enabling better administration of trade and trade related regimes by governments.

It should also lay down solid foundations for full ownership of the regional trade liberalisation process by the adherents to the Memorandum of Understanding on trade liberalisation and facilitation and contribute to the development of each participant's relations with the EU and its full integration into the international trading system (WTO).

The Group has agreed that:

- The Single FTA should be concluded by summer 2006 to enter into force 2007
- Negotiations will be under the auspices of TWG – exact format to be finalised but involvement of international community is seen as valuable
- The FTA must be an inclusive, modern agreement based on the text of CEFTA
- The process followed should seek to minimise transaction costs for all in terms of time required and procedures to be followed
- The draft illustrative text should be largely agreed December 2005
- The report to Ministers on the principles underpinning the agreement and recommending launch of negotiations will be submitted in January 2006

The exact process to be followed has yet to be finalised. However, it is clear that this is an ambitious undertaking and while there is agreement on many aspects of the future agreement a number of difficult issues will have to be addressed including a decision on whether this will be an enlargement of CEFTA or a new agreement based on CEFTA, how to ensure that eligibility criteria are inclusive but require prospective members to meet strict trade policy criteria, the scope of the agreement in terms of new trade policy areas such as intellectual property and the institutional framework required to ensure that the agreement can be fully and efficiently implemented.

Other challenges to be addressed by the Group in 2005/2006 include



### ***Resolution of Trade Disputes***

The main mechanism for the resolution of bilateral trade disputes is the Joint Committee of the relevant FTA. The TWG monitors the outcome of Joint Committee meetings and can offer its good services to facilitate resolution of disputes. The Group has expressed growing concern over the past 8 months or so regarding the unilateral suspension by Bosnia and Herzegovina of parts of its FTAs with Serbia and Montenegro and Croatia. Failure to follow the agreed procedures for dispute resolution damages the credibility of agreements as well as trade flows. Bosnia and Herzegovina is due to report to the next meeting of the Group on the steps it has taken to resolve the outstanding issues.

### ***Implementation of the Procedure to Reduce and Eliminate Non-Tariff Barriers to Trade***

While the primary responsibility for this procedure lies with the countries themselves, the Trade Working Group has an overall monitoring role and should, if necessary, seek to mobilise assistance for specific obstacles. The first reports from countries on their proposed programme to tackle certain NTBs have been submitted and will be the subject of review and discussion. NTBs cover a range of issues and many other bodies are involved in working on these including the World Bank's Trade and Transport Facilitation Programme (TTFSE), the EC's Customs and Financial Assistance Offices and several bilateral programmes. Therefore co-ordination and co-operation with these bodies is required.

### ***Implementing Preferential rules of origin***

The SEE countries have expressed their determination to implement diagonal cumulation of origin within the region. The Working Group is intensifying its efforts to help the countries to identify steps to be taken in order to apply diagonal cumulation of origin, including the mediation and co-ordination of any necessary technical assistance.

At a political level, governments individually and the Stability Pact for South Eastern Europe will continue to express their interest to the European Commission and relevant bodies in a rapid extension to qualified SEE countries of pan-European diagonal cumulation, in line with the contents of the "Thessaloniki agenda for the Western Balkans".

### ***Promotion of the Free Trade Process***

As implementation of the network of bilateral free trade agreements is now underway and a single FTA is in the offing, it becomes increasingly urgent for countries to inform the regional and international business communities of the new trade opportunities. This requires efforts at local, national, regional and international level and co-operation with a range of other programmes and institutions. Making the best use of scarce human and financial resources for this purpose is a key task for the TWG in the coming year if it is to ensure that its efforts to dramatically improve the trade environment are to be successful – i.e. they are to result in increased trade flows.