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Paper draft

Title:

EU trade policy and Western Balkan Countries – a way to regional trade growth

Abstract:

Economic impacts are more and more evident and appreciated among theoreticians and practitioners. Countries from West Balkans (WB) signed 2006 an agreement establishing new CEFTA as economic integration of FTA form among them. In the article theoretical and practical aspects of enhancing the expected positive development and welfare effects for the members of new CEFTA are discussed. The article argues about the potential highly positive impacts of specific pan EU – WB rules of product origin when introduced. Arguments for positive effects of such new trade based relations between the EU and countries of WB are derived from positive experiences of pan European cumulation of product origin which was extended 2005 to pan Euro Med cumulation regime. Eventual introduction of a new pan EU-WB cumulation arrangement could support faster increase of CEFTA members mutual trade and of trade with the EU. In the structure of WB exports to EU on such bases skilled labour and capital intensive content of products will increase faster. Exports quality upgrading will accelerate economic growth and welfare level in the entire WB region.

Key words:

Economic integration, CEFTA, EU, rules of product origin, origin cumulation.

Introduction

Western Balkan Countries (WBCs) are gradually moving towards implementing or signing of the Stabilization Association Agreements (SAAs) with the EU. Croatia (OJ, 330/01), Albania (OJ, 239/06) and Macedonia (OJ, 124/01) have such agreements already in force. Monte Negro signed the SAA on October 15, 2007, Serbia on April 29, 2008, while B&H have initialed such agreements with the EU on 4 December, 2007. Kosovo declared independence from Serbia by its Provisional Institutions of Self-Government Assembly of Kosovo on February 17, 2008. This (potentially) new formal structure of states in the Western Balkan (WB) region might complicate further SAA implementation with Serbia. In case of B&H

signature of the SAA in 2008 will depend on sufficient progress in four areas: police restructuring, the implementation public broadcasting and public administration reforms, and on full co-operation with the ICTY.

The purpose of SAAs is to include the WBCs into the association process with the EU. An important part within the context of SAAs' implementation, taking apart specific individual countries' obligations, is successful development of the regional Free Trade Agreements (FTA) among the states of the region. FTAs when implemented should help to increase trade among WBCs. Increased mutual trade between the WBCs has to provide two important positive developments for the member countries.

The first will be based on FTA's expected economic impacts developed between the partner countries; trade creation, trade diversion and in long ran improved economic growth based on FTA's induced increased trade growth. The second positive development of the FTAs between WBCs could be attributed to expected development of "integration experiences" which will be gradually developed among participating countries. "Integration experiences" are a necessary background to the WBCs in their accessing process towards the EU Membership. Without such experiences this counties will have more difficulties to fulfill the Copenhagen membership criteria (Membership, 1993). Especially in the areas of "functioning market economy" and ability to actually accept and implement on working terms the "spirit" of EU integration formal and informal environment. EU trade policy already (gradually) opens the EU market to the products from the WBCs. On the other side EU trade Policy at the moment is still not able to introduce a trading tool which could additionally support the multilateral trade growth among the WBCs. The trading tool which could by our opinion significantly accelerate multilateral trade among WBCs in the framework of already active FTAs is introduction of so called pan European "cumulative rule of product origin" (CRPO).

Integration theory and WBCs

With the exception of Albania other WBCs were part one state economy before 1991. All of them including Slovenia were constitutional parts – republics - of the sovereign state named Socialist Republic of Yugoslavia (SFRJ). First to leave SFRJ state structure was Slovenia (1991) who became the EU member state on May 1, 2004. Although from that time all parts

of ex SFRJ have politically and economical gradually more and more separated, while some of them were even at war, there are still substantial business and production structural backgrounds which could strongly accelerate multilateral trade, economic and business activities among present WBCs. Prime Ministers of South Eastern European countries and territories – WBCs - have signed a new Central European Free Trade Agreement (CEFTA) on December 19, 2006 in Bucharest. This marks the conclusion of ambitious negotiations launched on April 6 of the same year. Although the EU is not a party to this new Agreement, the European Commission has provided continuous political, technical and financial support, at every stage of the trade liberalization process in South Eastern Europe. EU Enlargement Commissioner Olli Rehn said: "The CEFTA complements the EU's Stabilization and Association Agreements for the countries of the Western Balkans". CEFTA was initially established as a regional FTA in 1992 by Poland, Hungary, Czech and Slovak Republic aiming to promote mutual trade and integrate of the member states into the EU membership. Slovenia joined in 1996, followed by Romania (1997), Bulgaria (1998), Croatia (2002) and Macedonia (2006). All the parties (2004), except Croatia and Macedonia (including Bulgaria and Romania in 2007) left CEFTA due to their membership in EU. April 2006 – Prime ministers of WBCs agreed to use CEFTA as the model to incorporate existing bilateral FTA's. In the paper we try to explain how it is possible to rationally expect more favourable and accelerated trade growth among WBCs on the bases of new CEFTA agreement?

Still existing remains of common economic background together with many similarities in language, general culture, and business attitudes make successful future increase of trade and business among WBCs rather realistic option. Introduction of the FTA framework provided by agreement on new CEFTA could substantially improve the chances for accelerated trade growth in the region. Obviously for sustainable accelerated trade and economic cooperation in the WB region many accumulated negative memories and feelings will have to be rationally solved and properly controlled. If this is not the case then the accession towards the EU and economic cooperation progress in the region could be seriously delayed. When focusing on formal conditions for the accelerated multilateral trade and economic progress in the region then broader understanding of the FTA's impact is important to understand how CEFTA structure in relation to the EU accession process could be most effective.

Theory of economic integration describes economic conditions which make trade growth and economic progress more or less intensive for the member states. Theoretical attitudes and

integration practices have changed through time. At the beginning theory (Viner, 1950) considered economic integration agreements among states as a second best solution compared to the theoretically appreciated absolutely free trade environment. Then integration theory developed through different stages (Krauss,1972), focusing on production, consumption (Meade 1955, Lipsey 1957) and trade. Actual changes in the structure and nature of international trade especially from 1970s onwards, characterized by increasing part of trade in highly differentiated product, combined by growing part of intra-industry trade, helped to develop new interest and reasoning about economic integrations specifics and economic impacts.

Table 1: WBCs¹ trade partners 2007

Export			Import			Export plus Import		
Partners	Mio €	%	Partners	Mio €	%	Partners	Mio €	%
World	15	100,0	World	32	100,0	World	47	100,0
1 EU	9	62,9	1 EU	20	60,6	1 EU	29	61,3
2 Bosnia Herzeg.	1	8,8	2 Russia	3	9,1	2 Russia	3	6,6
3 Croatia	1	4,3	3 Turkey	2	5,0	3 Croatia	2	4,5
4 Serbia Montenegro	1	3,5	4 China	2	5,0	4 Bosnia Herzeg.	2	3,9
5 Bulgaria		2,3	5 Croatia	1	4,6	5 Turkey	2	3,8
6 USA		2,2	6 Bosnia Herzeg.	1	1,7	6 China	2	3,6
7 Russia		1,3	7 Bulgaria	1	1,6	7 Bulgaria	1	1,8
8 Turkey		1,1	8 USA		1,3	8 Serbia Montenegro	1	1,7
9 Switzerland		0,8	9 Switzerland		1,2	9 USA	1	1,6
10 Macedonia		0,8	10 Libya		1,0	10 Switzerland	1	1,1
11 Romania		0,7	11 Japan		1,0	11 Romania		0,9
12 Albania		0,6	12 Romania		1,0	12 Libya		0,8
13 China		0,6	13 Korea		0,9	13 Macedonia		0,8
14 Singapore		0,4	14 Serbia Montenegro		0,8	14 Japan		0,8
15 United Arab Emir.		0,4	15 Macedonia		0,8	15 Ukraine		0,7
16 Panama		0,4	16 Ukraine		0,8	16 Korea		0,6
17 Japan		0,4	17 Brazil		0,8	17 Brazil		0,6
18 Ukraine		0,4	18 India		0,4	18 Albania		0,3
19 Libya		0,4	19 Indonesia		0,3	19 Algeria		0,3
20 Saudi Arabia		0,4	20 Algeria		0,3	20 India		0,3

Source: DG TRADE, 28-jul-08, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111477.xls

¹ WBCs according to DG Trade in 2007 were: Albania, B&H, Croatia, Macedonia and Serbia. Serbia data include data for Montenegro which is in 2008 already an independent state and for Kosovo which declared independency from Serbia and is recognized by about 30 countries among which are not all the EU members.

New interest in forms and effects of economic integration was additionally accelerated by the impacts of non-tariff barriers (NTBs) use intensified especially after GATT's efforts to reduce and control the use of import tariffs. To some theoreticians and politicians the idea of economic integration still recently can be understood and interpreted as a new form of trade discrimination. Some economists use terms like a "discriminatory", or a "trading blocks" agreement (El-Agra, 2004, p.1) to describe different forms of economic integration. New CEFTA being stimulated in its creation by the EU could not be described as "discriminatory" to the EU. As against the third countries if there are really any discriminatory impacts of CEFTA than they are limited due to the fact that most of trade and economic relation of WBCs is directed to the EU – over 60 % in 2007 (see table 1).

Approximately additional 11% of all trade is executed actually among members of the WB region. With Bulgaria and Romania who are already members of the EU total trade account to 2,7%. Taking this two additional facts together brings total trade of WBCs with third world countries to the level of 24,8% only.

Newer theoretical and practical analytical findings of the economic integration impacts prove existence of the wider range of integration impacts on member countries. Understanding other, except trade integration impacts is relevant for better interpretation of the past EU developments, together with its present efforts to extend its enlargement efforts towards WBCs. Today in the EU case is not any more possible to describe the real reasons for integration among states simply by saying that it is a result of some political or some second best economic activities and decisions. Theory and practice realise and show that once so called "discriminatory trading arrangements" in fact tend to be welfare-increasing for their members. It is generally appreciated that in fact they are not the second best solution, provided they are regionally-based and fairly open to new membership. These elements are important for WBCs to appreciate and understand the expected benefits they can achieve by successful working of the newly created economic integration - the new CEFTA.

By regionally-based concept of economic integration the welfare success of the integration is related to the assumption that (expectedly) similarly developed states from the region with cultural and other similarities are better suited to utilise open access to the partners' markets. Such assumptions and tested results of economic integration effects are obviously rather well provided in the case of the WBCs. Obviously the expected positive results of economic

integration are a great deal depending on the adequate adjustments and reactions of the business community of the integrated countries. Integration environment develops entirely new competitive environment for businesses. It develops increased competitiveness on the each member’s national market. Increased competition on national market is result of duty free access (FTA) of the companies from partner countries. Simultaneously (see Fig. 1) companies from observed integration member country due to FTA achieve improved competitive position on the markets of integration partner countries.

Fig. 1: Change in the relative competitive position for a company from economic integration or outside it – effects of FTA²

		Market of interest to the observed company		
		A	B	C
Position of A’s company relative to comp. from:	B	-	+	0
	C	-	0	+
	R	0	+	+
<hr/> <hr/>				
Position of R’s company relative to comp. from:	A	(+)	-	-
	B	-	(+)	-
	C	-	-	(+)

If companies are willing and able to utilize all improvements in their relative competitive position on partners’ markets than the welfare effects of integration could be rather substantial. In the case of WBCs the actual utilization of relative competitive position improvements on partners’ markets could be to some extent delayed due to existence of negative emotional sediments based on atrocities which happened among this nation during

² A, B, C are member states of the economic integration. R are states outside the economic integration. Upper part of the Fig. 1 shows the change of competitive position of any company from state A against companies from B, C, or R on its national market (A) or on partners’ markets (B, C) or on other countries (R) markets. Lower part of the Fig. 1 explains change of competitive position on respected other markets after introduction of economic integration for companies from R.

- + Improvement in relative competitive position of a company
- Decrease in relative competitive position of a company
- 0 No actual change in relative competitive position of a company
- (+) Might be a positive or negative change in relative competitive position of a company

nineties. Additionally companies and their managements were used to non proper market environments during the SFRJ period. Privatization processes and market forces development in many of these countries were delayed substantially or were performed in the extremely specific way which in many case still today not provide the actually “normal” competitive market environment. One of the expected impacts of the FTA beside trade increase is increase in foreign direct investments (FDI) to the integration partners. In case of New CEFTA such effect is as well postponed and less intensive due to remaining regional tensions creating specific business and political high risk environment. Assessment of general trade and investment risks in the WB countries is often giving higher negative ratings in the case of institutions and business coming from outside the region of ex SFRJ. Additionally WBCs are small countries and CEFTA is actually yet not providing the integrated economic space.

CEFTA impacts and problems

Expected positive integration effects of new CEFTA will be delayed and reduced at least for two reasons. Present production structure of the WBCs generates mostly exports of low capital (CI) and low skill (SI) intensive products to EU market and as well to the world. Major part of trade is directed to the EU, mutual trade is does not high. So the second reason for delayed and reduced integration results is based on missing tool which could stimulate trade among CEFTA members. Later it’ll be argued that EU rules of origin with certain adjustment could substantially support the accelerated mutual trade among CEFTA partners.

Table 2: Share of capital and skill labour intensive products in the WBCs exports (%) in relation to gross official wages in €in 2005

	CI+SI (%)	Official wages
Albania	10.9	165
B & H	33.2	408
Macedonia	35.2	348
Serbia & Montenegro	46.8	307
Croatia	39.3	841

Source: Kathuria, Sanjay, 2008 (adjusted)

Wages in the case of WBCs appear out of line with Skill Intensity (SI) of their exports (2005). Such situation probably is not long term sustainable. If not changed the illogical relation may lead to further deterioration of the welfare level in the WB countries. The increase of SI products in the WBCs exports seems rather urgent and necessary for the economic and political stability of the region. The necessary change in the export quality structure depends on many factors. Among them are most important the growth of intra-industry trade between countries and capital formation and investments. Intra industry trade is growing fast world wide (Kumar, 2003). Economic integration is expected to support such growth which makes CEFTA more attractive for its members. Till 2006 integration was not created and partially for that reason in the case of WBCs intra-industry trade development was slow. Changes over 1996-2005 period measured for WBCs in percentage of manufactured exports in parts and components changed only from 6% to 11%. While the same data for examples in case of Slovakia were increased from 13% to 21% (Kathuria, 2008). Establishing of CEFTA will probably at least partially support increase of intra-industry trade and by that as well the level of SI exports. CEFTA activities will gradually help as well to increase FDIs based on better economic performance of the area coupled with expected improved political and economic stability. Except for Albania other WBCs have rather low level of their SI products exports as well due to some historic production structure conditions which in economical fragmented region substantially decrease options for products upgrading.

Export structure is dominated by lower skill intensity products partially because production and business relations which were established among industries (intra-industry trade) during SFRY period were practically completely broken. In SFRY times the concept of economic development was based on the idea that businesses/productions from different Republics have had to cooperate meaning that some parts of the final product were produced in one of the republics, some other in another and finally this parts were put together in the third republic. CEFTA implementation theoretically opens chances that EBCs start to reproduce such economic cooperation and that way improving the level of intra-industry trade and potentially could as well improve their exports on the bases of higher level of SI and CI products. Such positive developments could be additionally accelerated by the idea of integration openness to new members. CEFTA enlargement as EU's in the past could bring additional positive results based on economics of scale impacts related to intra-industry trade growth. Both concepts: increased regional trade cooperation and regional (potential) integration

enlargement are incorporated in full as well into the EU enlargement and deepening of integration development policy. In the case of EU specific trade policy elements (tools) were used so as to enhance the potential welfare and other development impacts of economic integration. CEFTA could theoretically do the same but the results will be no match to the effects which are known from the EU practices. It is the fact that majority of WBCs trade and export is focused on the EU market. Export growth of higher CI and SI content products to the EU market could grow fast only if having free access to the EU market. As motioned above higher CI and SI products export could be result of increased intra-industry trade in the region – still partially based on old SFRY production structure ruts. The problem is how such products which are producers in different countries of CEFA could finally – from the country of the finalizing producer – enter the EU market free of import tariffs and of other import barriers. The dilemma is answered only by knowing and understanding the EU trade policy practice regarding the **definition and use of the rules of product origin**.

EU trade policy and EU “rules of origin” for increased WBCs exports

All economic integrations provide free access to partner markets only for products which actually originate from partner’s country. Origin is the "economic" nationality of goods in international trade. There are two kinds, non-preferential and preferential.

Non-preferential origin of a product confers to the origin of products subject to all kinds of commercial (border) policy measures (such as anti-dumping measures, quantitative restrictions) or tariffs and quotas. It is also used for statistical purposes. Other provisions, such as those related to public tenders or origin marking, are also linked with the non-preferential origin of the goods. In addition, the EU's export refunds in the framework of the Common Agricultural Policy are often based on non-preferential origin. Preferential origin confers certain benefits on goods traded between particular countries, namely entry to the EU at a reduced or zero rate of duty and eventually free of other entry barriers. In either case, an important element in determining the origin of goods is their tariff classification. Goods in trade are identified in the EU by a code number in the Combined Nomenclature (CN) and before trying to determine their origin it is essential that their CN code has been properly identified. Movement of goods within Customs unions, in fact EU is even higher form of

economic integration – internal market - is not based on their originating status but on the fact that they comply with provisions on free circulation. However, some products in trade with the countries concerned do not fall within the scope of the customs union but remain subject to a preferential treatment based on origin.

Non-preferential rules are used for all kinds of commercial policy measures, like, for instance, anti-dumping duties and countervailing duties, trade embargoes, safeguard and retaliation measures, quantitative restrictions, but also for some tariff quotas, for trade statistics, for public tenders, for origin marking, and so on. In addition, the EU's export refunds in the framework of the Common Agricultural Policy are often based on non-preferential origin.

There are two basic concepts to determine the origin of goods namely '*wholly obtained*' products and products having undergone a "*last substantial transformation*".

If only one country is involved the "wholly obtained" concept will be applied. In practice this will be restricted to mostly products obtained in their natural state and products derived from wholly obtained products.

If two or more countries are involved in the production of goods, the concept of "last, substantial transformation" determines the origin of the goods.

In general the criterion of last substantial transformation is expressed in three ways:

- **by a rule** requiring a change of tariff (sub) heading in the HS nomenclature;
- **by a list** of manufacturing or processing operations that do or do not confer on the goods the origin of the country in which these operations were carried out;
- **by a value added** rule, where the increase of value due to assembly operations and incorporation of originating materials represents a specified level of the ex-works price of the product.

When two or more countries are involved in the production of a good – that could be as explained above rather often the case in CEFTA integration environment - , the origin of the good must be determined in accordance with Article 24 of Council Regulation No 2013/92 (CC). Article 24 CC states: "Goods whose production involved more than one country **shall be deemed to originate in the country where they underwent their last, substantial, economically justified processing or working in an undertaking** equipped for that purpose

and resulting in the manufacture of a new product or representing an important stage of manufacture". This might cause problem with free access to the EU market for goods coming from the countries with which EU wants to establish a specific trade relations. In that case such countries are as well CEFTA members who may use so called preferential product origin provisions on bilateral bases only.

Preferential origin is conferred on goods from particular countries³, for instance CEFTA members, which have fulfilled certain criteria (generally a signing the SAA with the EU) allowing preferential rates of duty to be claimed. While the provisions of the individual arrangements may vary in certain details, most preferential origin arrangements have a number of common provisions. Each individual arrangement has its own legal base. EU introduced in the past a number of different arrangements with regard to applying preferential rules of origin.

Table 3: Arrangements list of EU rules of origin

EU Preferential Arrangements

- EFTA countries
- Central and Eastern European Countries Central
- Western Balkan countries (WBCs)
- Mediterranean Countries
- Other countries and territories

EU Autonomous preferential arrangements

- Overseas Countries and Territories
- Generalized System of Preferences
- Western Balkan countries (WBCs)
- Ceuta and Melilla

Source: http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_779_en.htm

In the case of the WBCs who are integrated within CEFTA Eu applies two different approaches. WBCs in the group of Preferential Arrangements are only two states from the region: FYR Macedonia and Croatia, both on the bases of active Stabilization and Association

³ Rules proving the origin of a product from a particular country in Europe fall into three main categories:
Percentage rules: A product is considered originating if the cost of materials and components imported from outside a free-trade area does not exceed a specified percentage of its ex-works price. In EU case often 40%.
Sufficient transformation: A product is considered to be "sufficiently transformed", and therefore originating, if its tariff heading (a four digit code) under the Harmonized System of the World Customs Organization is different from those of its imported contents.

Processing requirements: A product is considered originating if specified minimum processing operations have been carried out within the exporting country.

To claim the relevant preferential treatment based on the product origin the most commonly used is a EUR 1 Certificate (ATR Certificate for goods exported to Turkey under the EC's Customs Union arrangements with that country). The EUR.1 is recognized as a certificate of origin in the external trade in legal sense. It is issued by relevant (agreed) institution/authority of the exporting state.

Agreements (SAA - OJL 84,20/3/2004, p.13 and OJL 26, 28/1/2005, p.3). Both have on the bases of SAA in the Protocol No. 4 given the right to bilateral cumulation of rules of origin only. In relation to the logic of ex SFRY production and intra-trade relations this probably is not the best solution to utilize the preferential trade relations with the EU defined in the SAA and in the specific Accession Protocols (OJL 388, 29/12/2004, p.3 and OJ L 26, 28/1/2005, p. 222). Such bilateral cumulation solution is not really supportive to mutual trade development in the scope of CEFTA. The situation is more complicated due to the fact that other WBCs are in another group of the EU rules of origin - autonomous preferential measures (Table 3.). In this group are: Albania, B&H, Serbia and Montenegro including Kosovo, who is declared in 2008 an independent state. Council Regulation (EC) No 2007/2000 of 18 September 2000 (OJL 240, 23/09/2000, p.1) introduced exceptional trade measures for countries and territories participating in or linked to the European Union's Stabilization and Association process (SAAP). Countries included are listed above. Regulation (EC) No 2007/2000 provides for unlimited duty-free access to the Community market for **nearly all products originating in the countries and territories benefiting** from the Stabilization and Association process. Last change of the Council Regulation was on May 11, 2005. Beside some changes in quantities of products which can be exported to EU from Croatia, Macedonia, B&H, Serbia and Montenegro the major change is relating to Montenegro who signed on October 15, 2007 with the EU the SAA. The amended Council regulation so anticipates implementation of SAA provisions after ratification of all EU members by stating: "Montenegro will remain beneficiary of Regulation (EC) No 2007/2000 insofar as that Regulation provides for concessions which are more favourable than the concessions existing under the contractual regime" (Eur-lex, May 2008). The same amended Council regulation mentions as well Kosovo in a exclusively formal point 5, stating that "by Commission Regulation (EC) No 1398/2007 [3], Montenegro and Kosovo [4] have been removed from the scope of application of the Council Regulation (EC) No 517/94 of 7 March 1994 on common rules for imports of textile products..... On such bases article 3 of Regulation (EC) No 2007/2000 has therefore become obsolete and should be deleted" (Eur-lex, May 2008). That Kosovo is going to be a separate custom territory from EU regulation point is seen from the same Council regulation where in Article 1 is stated "... the customs territories of Serbia **or** Kosovo... ".

Obviously enough EU has problems with defining the implementation of preferential rules of origin for different WBCs in the same manner. The problems are result of different level of

contractual relations between the EU and countries in the region. Additionally the region is in the sense of defined “state custom territory” rather unstable due to the recent formation of new states in the region. However the different treatment of the countries in the region is not the major obstacle to faster trade increase within CEFTA or between CEFTA members and the EU. The basic problem is that EU applies in relation to WBCs only the so called bilateral definition of rules of origin when giving preferential status to regional exports based on SAA or on application of autonomous measures.

Because WBCs are integrated in the new CEFTA so called cumulative rules of origin for the integrated partners could really bring them substantially better economic and welfare results in the future. As already explain due to historic reasons and production structure in the region such cumulative regional rules of origin may substantially stimulate an increase of trade within CEFTA. Additionally regional cumulation could increase exports of SI and after some time as well of CI products to the EU market. In 1997 a specific unification of rules of origin - **The Pan-European Cumulation System (PECS)**⁴ - was introduced between the EU and EFTA members and included as well transitional or Central and East European countries (who from 2004 and 2007 are members of the EU). By unification of origin rules duty-free trade in **industrial goods** across the European continent was successfully created. PECS amend countries’ various FTAs provisions in the field of product origin rules, by substituting them with a common set of rules of origin. Value of goods could thus be **cumulated between different European countries** (diagonal cumulation⁵) without prejudicing the duty-free status of end products. The concept of cumulation among above listed countries, to whom in 1999 Turkey was added (EU-Turkey customs union was effective in 1996), have helped to substantial increase of mutual trade together with all integration expected positive welfare and economic growth results. The scope and effect of the PECS régime are enormous. For each of its thirty-two participating countries trade covered by the PECS is a very significant portion

⁴ Pan-European cumulation régime evolved into the new system of **pan-Euro-Med cumulation** of origin. Pan-Euro-Med system is an extension of the previous system of it’s operates between the EU and EFTA Member States, and Turkey. In addition, the Faroe Islands and the signatories to the Barcelona Declaration have been added to the system. These are: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority of the West Bank and Gaza Strip.

⁵ **Diagonal Cumulation**

If several countries, having free trade agreements amongst themselves, adjust these agreements and use identical rules of origin, they can agree on the possibility of diagonal cumulation. This allows products originating in all of the participating partner countries to be considered as originating materials. The possibility of using diagonal cumulation is one of the advantages of the pan-European cumulation zone and the pan- Euro-Med cumulation zone.

of its total trade. Together the PECS countries are responsible for over 42 % of world trade and have an aggregate population of more than 554 million.

The success of the PECS regime suggests that similar attitude could be beneficial as well in case of the New CEFTA members. During Slovenian presidency of the EU (spring 2008) some proposal on working level were tabled. In reports of achievements of the presidency yet is not possible to see eventual success of such working proposals. However if EU honestly wishes that improved and sustainable economic situation in the WBCs region after CEFTA introduction will bring peace and political stability then no doubt is rather necessary to consider how specific cumulation rules of origin régime for CEFTA countries could be introduced in the not too far future.

Conclusion

Effects of Economic integration were debated in the past broadly. Experiences of the EU members and of transitional countries that joined EU including the EFTA members prove that economic integration could substantially support mutual trade growth and on such bases provides increase in general welfare level of the member states.

In the last decade of 20th century and in the beginning of 21st century the West Balkans region was economically, politically and in all other aspects highly unstable and partially dangerous for peace and prosperity in the broader European framework. Different EU and UN initiatives brought mixed results in improving economic and political stability of the region. Among such initiatives are especially important those which open chances for cooperation based on common interests of the peoples in the region. When such cooperation transparently brings more economic advantages to individuals and to nations becomes generally appreciated and supported and could last sustainably for a long period. In fact such attitude was used and implemented by Jean Monnet when he worked on the concepts of the first integration after the second World War in Europe – The European Steel and coal Community.

Establishing of new CEFTA (2006) for the countries in the WB region presents no doubt a good step forward in direction where more trade and business cooperation together with enhanced economic progress in the region is possible. As was explained in the text in the future positive economic results of CEFTA could be substantially enhanced if agreement on specific EU-WB cumulation rules would be introduced. Expected positive results and rational

for such EU approach to the cooperation with the WB region could be substantially supported by the recorded results achieved within the similar system - The Pan-European Cumulation System - which EU and partners successfully use and used to bust mutual trade and welfare increase among the partner countries.

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