POLICY RESEARCH WORKING PAPER

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The Significance of the "Europe Agreements" for Central European Industrial Exports

Bartlomiej Kaminski

The importance of the European Association Agreements signed in 1991 and 1992 has been underscored by the rapidly shifting trade patterns between the formerly socialist countries of Central and Southern Europe and OECD markets, and by the emergence of the European Union as their major trading partner.

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Summary findings

In 1991 and 1992, the European Union (EU) and the economies in transition of Central and Southern Europe — the CEE-5 (Bulgaria, the former Czechoslovakia, Hungary, Poland, and Romania) — signed the European Association Agreements. The Agreements establish a new framework for their mutual economic relationship, including the transition to a free trade regime for industrial products.

The importance of the "Europe Agreements" has been underscored by the rapidly shifting trade patterns between the CEE-5 countries and OECD markets, and by the emergence of the EU as their major trading partner.

Kaminski examines the significance of the trade concessions granted by the EU to the CEE-5 countries (1) by analyzing the incidence of EU trade barriers on imports from the CEE-5 before and after implementation of the Agreements and (2) by identifying trade flows of groups of industrial products subject to different concessions. He focuses on trade liberalizing measures for industrial products for which a free trade regime should be in place no later than five years after the Agreements are in force. (Excluded are textiles and clothing, discussed in the Uruguay Round of Trade Negotiations.)

Overall, the industrial product trade provisions of the Agreements, which affect about 80 percent of CEE-5 exports to the EU, significantly improve those countries' access to EU markets. In 1992, the first year they were in force in Hungary, Poland, and the former Czechoslovakia, the Agreements freed slightly less than 50 percent of total exports to the EU from import duties and nontariff barriers (NTBs). In terms of the 1992 composition of exports, this "free trade" share in total exports increases over five years to about 80 percent for the former Czechoslovakia, 60 percent for Hungary, and 70 percent for Poland.

Although there are significant differences in the composition of exports from CEE-5 economies affected by EU trade liberalizing measures, these are the result of varying shares of sensitive (especially agricultural) products across countries, not dissimilar of concessions from the EU.

The EU's negotiation approach, as revealed in the Agreements, was to minimize the adverse effects of opening up "sensitive" sectors: the time and the pace of transition tends to be longer and slower for groups of products with higher NTB-coverage ratios and higher average tariffs. Whether by design or not, the variation in products identified in various provisions assures a more equitable treatment of CEE-5 countries, judging from their industrial export patterns in 1990–92.

This paper — a product of the International Trade Division, International Economics Department — is part of a larger effort in the department to analyze the new trading relations developing between Central and Eastern Europe and the European Union. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Minerva R. Pateña, room R2-040, extension 37947 (37 pages). June 1994.

THE SIGNIFICANCE OF THE "EUROPE AGREEMENTS" FOR CENTRAL EUROPEAN INDUSTRIAL EXPORTS

by

Bartlomiej Kaminski
International Trade Division, The World Bank
and University of Maryland, College Park

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THE SIGNIFICANCE OF THE "EUROPE AGREEMENTS" FOR CENTRAL EUROPEAN INDUSTRIAL EXPORTS*

Bartlomiej Kaminski

I. INTRODUCTION

The European Association Agreements concluded between the EC and Central/Southern European economies (hereafter, the CEE-5[1]) set a new framework for their mutual economic relationships. To emphasize the difference from the Agreements on Association signed earlier by the EC with other countries, they are referred to as the "Europe Agreements." Recognizing the time-consuming process of ratifying the Association Agreements by parliaments of both EC members and Central European countries, it was agreed that the trade component--the so-called Interim Agreement on Trade and Trade Related Matters (hereafter, ITAs)--will be implemented before the treaty is ratified. Former Czechoslovakia (FCSK), Hungary and Poland signed the Association Agreements in December 1991, and the bilateral Interim Agreements on Trade went into force on March 1, 1992. Bulgaria and Romania concluded negotiations with the EC in 1992, and the trade provisions became operational in 1993 (Romania) and 1994 (Bulgaria).

While some details in the Europe Agreements differ, they broadly follow the same pattern. Their major provisions include: (i) the introduction of free trade in industrial goods within a period of 10 years; (ii) improved access for agricultural products, similar to that stipulated in the Lomé Convention and Mediterranean association/cooperation agreements; (iii) a commitment to harmonize economic legislation with that in the EC; (iv) the EC's financial and technical assistance (albeit no specific amounts have been indicated); and (v) the possible introduction of free trade in services. In addition, the EC committed itself to gradually eliminating tariffs and/or increasing quotas on "sensitive" products--mainly textiles, iron, and steel.

The objective of this paper is to dissect the trade provisions of the Agreements and identify the extent of change in market access in terms of tariff and non-tariff barriers as well as in terms of their current significance (using actual trade data through 1992) for CEE-5 exporters of industrial products. An important

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* I would like to thank Paul Armington, Ronald Duncan and Vikram Nehru for their suggestions and comments. I am also indebted to Maciej Lesny for his assistance in collecting and processing data for this project.

[1] These include Bulgaria, the former Czechoslovakia, Hungary, Poland and Romania.

question whether the EC should have made larger trade concessions goes beyond the scope of this paper.[2] The analysis is limited to industrial products simply because access to EC markets for agricultural products is governed by principles very different from the largely market-oriented trade policies covering industrial products. These products cover a broader group than conventionally-defined manufactures and account for around 80 percent of CEE-5 exports to the EC.

No attempt is made in this paper to attribute changes in CEE-5 exports to the EC to various provisions of these Agreements. Too short a period has elapsed following entry into force of the Agreements. Moreover, factors other than improved market access seem likely to be more important reasons for the improved export performance in OECD markets during the initial stages of the transformation. Thus, a proper causal analysis of CEE-5 export performance requires a more comprehensive framework.[3]

II. DATA, METHODOLOGY AND EMPIRICAL PROCEDURES

The improvement in market access involves reductions in restrictions against imports either through cuts in tariff rates and/or in NTBs (nontariff trade barriers). Since extensive use of NTBs often coincides with high tariffs, i.e., product groups subject to nontariff measures are also subject to relatively high tariffs (Yeats, 1979), reduction in tariffs alone may not result in improved market access. With the decline in tariffs as the result of postwar trade negotiations under the GATT, nontariff barriers have become the major instrument of protection. Thus, an assessment of the degree to which market access has changed must include NTBs.

Information on tariffs and nontariff measures affecting industrial imports from the CEE-5 was obtained from the SMART data base containing *inter alia* information on EC trade flows disaggregated to eight-digit Combined Nomenclature (CN) codes as well as tariff and nontariff measures applied by the EC

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[2] Available evidence shows that much deeper concessions would have a strong welfare-increasing effect in the CEE-5 without producing significant cost to the EC. See, among others, Messerlin (1992), Rollo and Smith (1993), and Wang and Winters (1993)

[3] For an extensive analysis of factors accountable for the improved export performance of CEE-5 economies in OECD markets, see Kaminski (1993).

to these items.[4] Industrial imports are broken down to groups identified in the Agreements in terms of the CN. For each CEE-5 country, the appropriate range of imports and of NTBs to be considered is denoted in the SMART data base. Two major indicators, extracted from SMART, are employed. The first is the proportion of imports subject to restraints, i.e., the NTB coverage ratio. The second is a simple arithmetic average of tariffs calculated over a group of tariff lines.

There are three problems with using these measures as indicators of market access before and after the entry into force of the liberalizing measures stipulated in the ITAs. The first, relating to indicators of market access, is general--not country- or region-specific. The problem is that both NTB coverage ratios and tariff averages tend to be downward biased in terms of measuring restrictiveness, albeit for different reasons. The NTB coverage ratio downplays the restrictive impact because imports of products facing NTBs are depressed, lowering their share in total imports.[5] Average tariff rates are understated, especially on imports that are subject to GSP preferential rates within limits and above them to MFN rates. (SMART does not take account of these limits.)

Second, the SMART data base has not been able to keep pace with the dramatic shift in trade patterns of the CEE-5 and the changes in their access to EC markets. Its trade data is for 1988 while its inventory of nontariff measures and tariff rates is for 1990. As a result, the data base incorporates the GSP status granted by the EC to Hungary and Poland in 1990, but not that extended to Bulgaria and the FCSK in 1991. The changes in export composition which have taken place affect more the NTB coverage ratio than the unweighted tariff rate average, as the latter is not sensitive to the size of imports but changes only when new products are added. Thus, the primary utility of these indices is that they point to areas where the reduction of tariffs or NTBs would have an impact on EC imports from the CEE-5.

Another reason for treating the results of this analysis with caution is that NTBs are often used in response to increased pressure from imports. Growing levels of CEE-5 exports have already led steel and chemical producers to urge the EC to implement trade restraint. The irony is that some provisions of the

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[4] The list of NTBs, containing 25 measures covers the major instruments used by the Community to protect its markets. SMART can be used to generate information on average tariff rates (for a range of imports from a selected country) and the percentage of imports affected by (selected) NTBS. The data base and procedures are described in UNCTAD/World Bank (1989).

[5] For a comprehensive discussion, see Yeats (1979).

ITAs make it easier to erect extra barriers against CEE-5 exports (Ostry, 1993:11). For instance, trade in steel had been governed by quantitative quotas and pricing arrangements. With the removal of these restrictions under the ITAs, CEE-5 exporters have become more vulnerable to anti-dumping actions. As a result, both the structure of NTB measures and their coverage may change as rapidly as CEE-5 exports to the EC.

The empirical procedure identifies market access before entry into force of the Europe Agreements. The trade provisions of the ITAs distinguish among various products in terms of changes in their market access over the next ten years. These products are identified by CN codes. In order to use the available trade statistics, the CN items have to be converted into SITC (Standard International Trade Classification) equivalents. The SITC. Rev. 3 classification is used, because it is more extensive and quarterly trade data are available only in the Revision 3. Since SITC. Rev. 3 is broader than other classifications, the loss of accuracy associated with moving from the very detailed CN scheme (around 9.6 thousand items) to a less disaggregated trade classification (3,118 basic headings or items) is least. Because export data for the CEE-5 are less reliable, the study uses trade statistics of the EC.

III. PRINCIPAL FEATURES OF THE ITAs

The liberalization of EC-CEE-5 trade began in the late 1980s and climaxed with the signing of the Association Agreements in 1991 and 1992. Access improved significantly following the collapse of communism in Central Europe in 1989. Some trade liberalizing measures were implemented by the EC in anticipation of the successful completion of Europe Agreement negotiations.[6] As a result, the level of restrictions on CEE-5 exports into the EC was considerably lower in 1990 and 1991 than in the 1980s and, by the same token, concessions granted in the ITAs improved market access in 1990-91.

Except for Romania which enjoyed GSP status, until around 1988 there had been no significant

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[6] For instance, Hungary and Poland were granted GSP status effective on January 1, 1990, while it was granted to Bulgaria and the FCSK in 1991. The problem with GSP status is that it is at the discretion of the importing country and subject to periodical review. Therefore, an indisputable benefit of the EAs for the CEE-5 (as can be readily seen from comparing MFN and GSP tariff rates in Table 2) is that most tariffs levied on EC imports will be at least lowered to GSP rates, thus removing uncertainty concerning GSP status in the future.

differences in access of CEE-5 countries to EC markets (i.e., for the same tariff lines).[7] GATT membership was not a differentiating factor because the EC conferred MFN status on all countries. MFN status did not mean most favorable treatment (as is the case, for instance, in the US market where GSP is the main device differentiating in terms of market access among various sources of supply). It only meant that their exports were subject to the same tariffs as EC imports from non-European industrial economies which, in turn, were considerably higher than those applied on imports from developing countries or European developed economies. Moreover, their exports were subject to restrictions imposed only on centrally planned economies. Because of the state monopoly of foreign trade, CMEA countries--including those which were GATT members--were defined as "state trading countries" exempt from GATT's Article 13, abolishing quantitative restrictions (Tovias and Laird, 1991:15). Basically, tariffs applied on EC imports from the CEE-5 were higher than on imports from developing countries and the EC used nontariff barriers against the CEE-5 with higher frequency and their types were ".. among those generally considered most restrictive (i.e., quotas, variable levies, discretionary licensing schemes, etc.)" (Olechowski and Yeats, 1982). Thus, before the collapse of central planning in the 1980s, the CMEA had been at the very bottom of the EC preferential trading arrangement (Schumacher and Moebius, 1992).[8]

The Europe Agreements (EAs) signed bilaterally between the EC and CEE-5 governments are essentially the same in terms of their structure.[9] They are composed of a preamble, 122 articles grouped in 9 chapters, and annexes containing lists of goods included in the Agreements as well as separate protocols and declarations. The preamble of the EAs sets a framework for political cooperation and acknowledges that association with the EC should be conducive to full membership of the Community. Recognizing the time-consuming procedures of ratification of the EAs by the respective parliaments, the trade component of

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[7] This analysis excludes the former Soviet Union whose exports were subject to more restrictive controls than applied against imports from other CMEA countries (see Kaminski and Yeats, 1993).

[8] It should be noted, however, that this position did not have a significantly adverse impact on their access to EC markets for at least two reasons: resort to the quantitative restrictions was limited; and, for products in which the CEE-5 had comparative advantage there were few restrictions (Pohl and Sorsa, 1992:54).

[9] As of September 1993, the negotiations between Bulgaria and the EC were not completed. For the purpose of estimating the ITAs' impact on Bulgarian industrial exports to the EC, it will be assumed that the Agreement will be similar in product coverage to that signed with Romania.

the EAs (Title III: Free Movement of Goods)--also referred to Interim Agreement on Trade and Trade Related Matters--is to become effective within a specified period of time independently of the ratification of the EAs. Until the EA is ratified, all issues related to economic relations between the EC which are not covered by the ITA would be governed by the Agreements on Trade and Economic Cooperation (signed prior to the EAs).[10]

From the point of view of conditions relevant to market access to EC markets, the ITAs are almost identical. They provide for the establishment of a free trade area (excluding agriculture) between the EC and each of the CEE-5 over the period of "... a maximum duration of ten years divided into two successive stages, each in principle lasting five years." Quantitative restrictions on industrial products are eliminated on the date of the entry into force of the ITAs except for textiles and clothing and products listed in the Treaty of the European Coal and Steel Community (ECSC). The full liberalization of access to EC markets would take six years, while barriers to EC exports will be eliminated over a longer transitional period.[11] This means that CEE-5 exports of industrial products, including textiles and steel, will have duty- and NTB-free access to EC markets. In addition, market access of agricultural products would be enhanced, especially if the EC moves ahead with the proposed reform of its Common Agricultural Policy scheme.

Recognizing the problems that CEE-5 countries face in their quest to establish market economies, the EC has accepted asymmetrical treatment as a principle in some areas. The EC has agreed to improve market access of Central Europe at a faster pace than its CEE-5 partners, and the initial reduction in protection by the EC is much larger than in the case of the CEE-5. Besides a shorter timetable for reducing trade barriers, however, the agreements allow the CEE-5 governments to unilaterally apply additional import duties but for a limited period. These duty rates, however, cannot exceed 25 percent ad valorem and cannot apply to more than 15 percent of the total value of industrial imports from the EC. Further, they can be implemented not later than three years after the establishment of a free trade area in industrial products. The ITAs also envisage a transitional period for upgrading economic legislation in the CEE-5 to EC

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[10] Hungary and Poland signed nonpreferential Trade and Cooperation Agreements in 1988. Other CEE-5 countries signed these agreements in 1989 and 1990.

[11] There are differences in transition periods envisaged for various countries: for FCSK and Poland it will last seven years and for Bulgaria, Hungary and Romania ten years.

standards. Among the regulatory measures affected are legislation on unfair competition and anti-monopolistic regulations now in force in EC countries, to be deferred by three years and legislation regulating state assistance and subsidies, patterned after EC legislation,[12] whose implementation can be deferred by five years with a provision of extension for another five years. Until these regulations are fully implemented, the GATT subsidy code would be used to assess distortions in market competition caused by monopolistic practices and state subsidies.

The use of trade restricting measures is based on full symmetry, however. As the main objective of the ITAs is to phase out custom duties and NTBs, the ITAs contain clauses securing gradual implementation of free trade in products covered by the ITAs. According to the Agreements, neither new duties nor any other charges with similar effects can be implemented once the ITA is in force. The same rule (the standstill principle) applies to quantitative restrictions with the exception of agricultural products (not included in the liberalization timetable) for which both tariffs and NTBs can be freely changed. Furthermore, in line with GATT rules, signatories may resort to various import-limiting measures including anti-dumping, safeguard clauses (only if imports cause serious damage to domestic producers or disruptions in the economic situation of a country or a region), protection against balance of payments disturbances, protective measures against disruptions in markets for agricultural products covered by the ITAs, as well as to introduce bans and restrictions permitted under GATT rules.

Products covered by the ITAs, identified by their CN code of tariff items,[13] are arranged in three groups: industrial products (listed in Chapters 25 through 97 of the CN, excluding products listed in Annex 1 of the ITAs); agricultural products (CN Chapters 1 through 24, excluding fisheries); and fisheries, covered by the EC regulation No. 3796/81 on the common organization of fishery product markets.[14] Quantitative restrictions on industrial products, except those specified in Protocols 1 and 2 of the ITAs (subject to the ECSC and MFA), are to be removed on the date of the entry into force of the Agreement. The transition

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[12] As specified in Articles 85,86, and 92 of the EC Treaty (Pohl and Sorsa, 1992:59).

[13] The CEE-5 countries are obligated by the EAs to use the Combined Nomenclature in trade with the EC.

[14] Although fishery products are mentioned in the EAs, the relevant articles contain statements quoting the EC regulation applicable to these products (listed in two separate annexes) and promise further concessions "... on a harmonious and reciprocal basis."

schedule for eliminating duties and quantitative restrictions on imports from the EC varies among CEE-5 countries--but within ten years all quantitative restrictions on imports from the EC are to be abolished. Industrial exports from the CEE-5 will benefit from free trade access to EC markets within five years with the exception of textile and clothing products (tariffs eliminated at the end of the sixth year of the Agreement, while the elimination of quantitative restrictions depend upon the outcome of the Uruguay Round).

The rules of origin (laid out in Protocol No. 4) stipulate that 60 percent of the value of goods exported under preferential treatment should consist of local or EC content. Thanks to this rule, possibilities for subcontracting have significantly expanded. On the other hand, however, the rule is quite restrictive, especially for non-EC potential investors in manufacturing activity--since in the initial stages new production capacities often have to rely on imports of parts. Some expressed concerns that the rule may keep non-EC investors out of the CEE-5 (Inotai, 1993).

The EAs envisage enhanced market access for agricultural products. Some quantitative restrictions (Regulation 3420/83) are to be abolished immediately and others will be either liberalized gradually or maintained pending the outcome of the Uruguay Round. The EAs affect five main product groups: meat, live animals, fruit, vegetables and processed agricultural products. Trade in grain is not covered by the Agreements. Agricultural exports will be permitted to increase by 10 percent in each of the next five years. Duties on listed food products will be reduced by 69 percent, and CEE-5 countries will grant similar concessions to the EC. It remains to be seen whether these provisions will help agricultural exports from the CEE-5.

To sum up, the significance of the EAs goes beyond the full establishment of a normal GATT-based trade regime. It assures the very fast movement of the CEE-5 economies to the top of the pyramid of EC preferential trading arrangements. Although the issue of EC membership is not explicitly addressed in the EAs, the Agreements do recognize that the objective of CEE-5 governments is to join the EC. Even more significantly, the way that they have been structured leaves this option open. Furthermore, the adjustment in the institutional and legal framework imposed by the Agreements has been designed to bring CEE-5 economic systems into line with the EC.

IV. THE IMPORTANCE OF INDUSTRIAL PRODUCTS IN CEE-5 ACCESS TO EC MARKETS

Industrial products, as defined in Chapters 25 through 97 of the CN, consist not only of manufactures but also of some agricultural materials, mineral fuels, and ores and metals. The equivalent of this group in the SITC is much broader than a standard description of manufactures. Accounting for products excluded from the provisions concerning industrial goods,[15] this group includes the following SITC.Rev.3 items: (2-21-22-29-24403-24404-2631-2632-2651-2652-26851)+3+(5-59223)+6+7+8+(9610+971).

The provisions concerning industrial products are the most significant part of the ITAs for two reasons. First, these products account for more than three quarters of EC imports from the CEE-5 (see Table 1). With 93 percent of their exports to the EC falling into this group, the FCSK and Romania had the largest share among CEE-5 countries. Bulgaria and Hungary, with strong specialization in agricultural products, had the lowest shares.

The importance of the industrial product group is further underscored by the fact that the share of industrial products in EC imports increased significantly for all CEE-5 economies in the 1988-92 period, except for Romania. Some portion of this increase in 1992 may be attributed to a 5-8 percent fall in agricultural imports caused by adverse weather conditions.[16] However, this decrease was more than offset by increased imports of industrial products triggered by the decline in domestic demand following the implementation of stabilization-cum-transformation programs and the collapse of previous intra-CMEA trade.[17]

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[15] Annex 1 of the ITAs identifies 10 six digit CN items falling into chapters 25-97 but excluded from this group: albumins (CN 3502), natural cork (CN 4501), cotton, not carded or combed (CN 520100), flax, not spun (CN 5301), and hemp, not spun (CN 5302). In terms of SITC.Rev.3., these are: 0253, 59223, 24403, 24404, 2631, 2651, 2652.

[16] The value of imports fell by 5 percent from Bulgaria, by 7 percent from Hungary, and by 8 percent from Poland.

[17] The exception was Romania whose exports continued falling (in 1992 they fell by -0.5 percent). Other CEE-5 economies recorded double digit growth rates. As a result, between 1988 and 1992 the value of industrial imports from Bulgaria increased by 115 percent, from the FCSK by 183 percent, from Hungary by 127 percent, and from Poland by 152 percent.

The link between the transformation programs and the growth in exports of industrial products is apparent in data presented in Tables 1 and 2: the share of industrial products in exports to the EC (see Table 1) increased during the first year of the program (Poland--1990; the FCSK--1991; Bulgaria--1992); and the average growth rate of industrial exports in the 1988-91 period was higher than that of non-industrial exports for the troika countries while it was lower for the two Balkan countries (Bulgaria and Romania).

Table 1: The Relative Importance of Industrial Products in CEE-5 Exports to the EC, 1988-92

	Exports of Industrial Products (value in US$ million)					Share in Total Exports to the EC (in percent)				
	1988	1989	1990	1991	1992*	1988	1989	1990	1991	1992*
Bulgaria	418	430	537	677	899	73	72	72	73	79
FCSK	2367	2515	3053	4643	6687	91	89	90	92	93
Hungary	1777	1961	2795	3331	4034	69	68	74	73	77
Poland	3092	3230	5089	6247	7793	78	75	77	81	85
Romania	2522	2649	1908	1706	1697	95	95	97	94	93

* Since Greece, as of July 1993, has not reported trade data for 1992, its annual imports estimated on the basis of first three quarters.

Source: the United Nations COMTRADE data base

Easier market access for industrial products than for agricultural products has clearly facilitated this increase in exports to the EC. As can be seen from data compiled in Table 2, industrial exports faced significantly lower tariffs than other exports in 1990. This difference was particularly large for countries which had GSP status--Hungary, Poland and Romania. The proportion of exports affected by NTBs was also substantially lower for industrial products; the NTB coverage ratio for "other" exports was around double that for industrial exports.

Although tariffs have lost much of their protective significance, the margins of preference between CEE-5 exporters and those who did not have GSP status were quite large. On average, MFN rates imposed in 1990 on imports from Bulgaria and the FCSK were around 7 percent as compared with GSP rates of 0.1 percent on imports from the other CEE-5. GSP status significantly improved CEE-5 access to EC markets, and its short-term impact on exports was larger than that of the ITAs (Inotai, 1993). As can be seen from Table 2, GSP status does not have much significance for non-industrial products.

The level of vulnerability to nontariff barriers, as measured by the share of imports subject to NTBs, reflected the differences in export baskets among CEE-5 countries. The average NTB ratio was larger for countries with higher shares of agricultural products, iron and steel, and textile and clothing in their exports. For instance, Bulgaria and Hungary had the highest NTB coverage ratios, mainly because of the high shares of agricultural products. At the other end, imports from Poland and Romania were least-affected by NTBs because of the less restrictive access for labor-intensive engineering and consumer goods as well as fuels and ores and metals.

Table 2: Pre-Agreement Market Access to the EC: Industrial Products versus Other Goods

	Index, 1991 1988=100		NTB Coverage Ratio		Simple Average Tariff Rate	
	Indust.	Other	Indust. (in percent)	Other	Indust. (in percent)	Other
Bulgaria	162	165	22.5	48.3	6.9	11.6
FCSK	196	163	24.0	52.5	7.0	11.7
Hungary	188	156	24.2	57.7	0.1	9.4
Poland	202	165	23.6	48.6	0.1	10.5
Romania	68	85	28.4	59.8	0.0	8.6

Sources: Derived from the UN COMTRADE and UNCTAD-World Bank SMART data bases.

V. THE SCOPE OF PREFERENTIAL TREATMENT OF INDUSTRIAL PRODUCTS IN ITAs

The ITAs distinguish six various groups of industrial products with different schedules of transition to free trade and different mixes of trade liberalizing measures, i.e, tariff and nontariff measures. As for the latter, quantitative restrictions on imports to the EC are abolished on the day of entry into force of the Agreements. The groups of industrial products subject to different time schedules are as follows: (i) the "one-year-delayed" free trade group (duty-free access envisaged in the second year of the ITAs); (ii) the "four-year-delayed" free trade group, i.e., at the beginning of the fifth year tariffs are eliminated; (iii) the "quota/five-year-delayed" free trade group (free trade at the beginning of the sixth year of the ITAs); (iv) the ECSC group (tariffs on steel fully are eliminated by the end of the fifth year and tariffs on coal imports

into the EC, excluding Germany and Spain, are eliminated at the beginning of the second year for the FCSK and Poland and by the end of 1995 for other CEE-5 coal exporters. Duties on imports into Germany and Spain will be abolished by the end of the fourth year of the ITAs); (v) the MFA group (quotas bilaterally negotiated and the shift to a free trade regime tied to the Uruguay Round of trade negotiations); and (vi) the "immediately" free trade group (a residual group of industrial products including items not covered by separate provisions).

While the detailed provisions are similar, there are some differences in assignment to the above-mentioned groups. For instance, tariffs on aluminum oxide and hydroxide (CN. 28182\00 and 2818300) on imports from Romania are held to a four year transition to duty-free status (group ii) whereas on imports from other CEE-5 countries these are subject to a one-year schedule (group i). The only area where there are significant differences in both coverage and tariff and quotas concessions is in the "quota/five-year-delayed" free trade group. Hungary was granted a different schedule of tariff reductions (by 10% annually, other CEE-5 countries by 15%) and quota/ceiling increases (15% per year, others 20% per year). The list of discrepancies for this group is the longest. While it is unclear whether it was intended by EC negotiators, the dispersion in shares of this group in 1991 industrial imports into the EC is significantly lower than in shares of a group including products listed in all ITAs. MFA and ECSC groups cover the same CN items. In addition, duties on coal imports into the EC (excluding Germany and Spain) from the FCSK and Poland were eliminated by the end of 1992, while on imports from other CEE-5 countries by the end of 1995 (on January 1, 1994, they will be reduced by 50%).

The Copenhagen Summit of the EC offered additional concessions. As far as industrial products are concerned, these included acceleration of custom duty elimination: (a) on products of the "four-year-delayed" group (duties are to be abolished within two years); (b) ECSC-steel products (duties are to abolished after four rather than five years); and (c) the MFA group (after five years rather than six years).

A. The "One-Year-Delayed" Free Trade Group

The "one-year-delayed" free trade group comprises products for which customs duties are reduced by 50 percent upon entry into force of the Agreement and eliminated at the beginning of the second year. In terms of eight digit CN items this is a relatively small group consisting of 92 tariff items. It includes

mainly industrial raw materials. Imports from the FCSK and Poland increased quite dramatically in the 1988-91 period, although they were very low in the base year. Since these increases were probably triggered by contraction in industrial activity during the first year of the transformation program, their future growth potential may be limited. This group accounts for a small share of total CEE-5 industrial exports to the EC (in 1991 their share was below 2 percent).

However, the fast move to duty-free access is a more significant concession than the share of these imports might indicate. First, average NTB ratios on EC imports of this group from CEE-5 countries (except for Poland) are significantly higher than on industrial products in general (see Table 3). For EC imports from Bulgaria, the ratio is by 11.8 percentage points higher, from the FCSK 16 percentage points higher, from Hungary 28.4 percentage points higher, and from Romania 24.4 percentage points higher (see Table 2 and 3). The average NTB ratio for EC imports of all industrial products from Poland is 8.2 percentage points lower than for imports falling within the one-year-delayed free trade group.

Second, with the exception of the Balkan countries, CEE-5 exports of this group expanded rapidly in the 1988-91 period. The average growth rate was substantially higher than the average for CEE-5 all industrial exports, especially in the case of exports from the FCSK and Poland. Moreover, exports from these countries crowded out other suppliers, as their share of these EC markets increased from 0.1 percent (both for the FCSK and Poland) in 1988 to 0.4 percent for the FCSK and 0.6 percent for Poland in 1991. While it is unlikely that such a rapid expansion is sustainable over the medium-term, the elimination of trade barriers has significantly improved their competitive position.

Table 3: The "one-year-delayed" Free Trade Group: Exports to the EC and Pre-ITAs Market Access

	Exports 1991	Share in Industrial Exports, 1991	Index, 1991 1988=100	NTB Coverage Ratio	Simple Average Tariff Rate	Range of tariff rates Max--Min
	(US$ mln)		(in percent)			
Bulgaria	10	1.4	93	33.3	5.1	6.0-0.0
FCSK	53	1.1	400	40.0	4.4	18.3-0.9
Hungary	23	0.7	126	52.6	3.0	7.0-0.0
Poland	27	0.4	500	15.4	6.2	18.3-0.0
Romania	1	0.0	60	40.0	2.0	3.2-0.0

Sources: See Table 2.

But the evidence is inconclusive yet. In 1992 the 50 percent margin of tariff preference had some impact on imports from the FCSK and Poland but not on imports from Hungary. The value of imports from the FCSK and Poland increased by 60 and 85 percent respectively while that from Hungary fell by 10 percent. The two Balkan countries--with no preferential access in 1992--recorded contractions by 17 percent (Bulgaria) and 26 percent (Romania).

B. The "Four Year-Delayed" Free Trade Group

This group contains products for which tariffs are reduced by 20 percent on the day of entry into force of the ITAs, and then lowered by 20 percent annually so that they are fully eliminated at the end of the fourth year. There are significant differences in the list of products specified in Annex IIb of each ITA. The ITA between the EC and the FCSK contains the smallest number of items (3 eight digit CN items), while the list in the Polish ITA is the most extensive containing 16 CN items. Leaving aside the variation in products appearing in respective Annexes IIb of the ITAs, they all are primary intermediate goods, i.e., lightly-processed, resource-intensive products such as ferro-manganese (with a carbon content of less than 2 percent), ferro-silicon, unwrought aluminum, and zinc and lead alloys. Excluding Romania, the group accounts for a minuscule share of CEE-5 exports to the EC. In the 1988-91 period EC imports of these products from the CEE-5 were highly volatile.[18]

A quick perusal of data compiled in Table 4 suggests that duties levied on this group are relatively low and the NTB coverage ratio varies significantly across CEE-5 countries with imports from the FCSK subject to full coverage and those from Romania enjoying "NTB-free" access. However, this group has limited potential for growth. The provisions of the ITAs are not likely to provide stimulus to exports with the possible exception of Romania once its economy rebounds. Although the growth rates of EC imports from the FCSK and Poland were impressive, EC imports of these from the region fell in the 1988-92 period. Moreover, neither a one time upswing in Bulgarian exports to the EC in 1989 (their value almost tripled) nor steady growth in Hungarian exports until 1990 were sufficient to compensate for the contraction in

[18] EC imports from Bulgaria increased by 164 percent in 1989 and subsequently contracted in the 1990-92 period. Imports from the FCSK increased by 28 percent in 1989, by 127 percent in 1990 and by "only" 8 percent in 1991. The value of imports from Hungary increased in both 1989 and 1990 (by 22 and 36 percent respectively) and fell by 36 percent in 1991. Imports from Poland fell in 1989 (-6.4%), tripled in 1990 and doubled in 1991.

Romania's exports. Among the CEE-5, Romania used to be the most important supplier of these products to the EC. However, Romanian exports collapsed in the 1988-91 period, with its share in EC imports falling from 1.9 to 0.4 percent. The share of the CEE-5 fell, however, from 2.3 percent to 1.6 percent.

Table 4: The "Four-Year-Delayed" Free Trade Group: Exports to the EC and Pre-ITAs Market Access

	Exports 1991	Share in Industrial Exports, 1991	Index, 1991 1988=100	NTB Coverage Ratio,	Simple Average Tariff Rate	Range of tariff rates Max--Min
	(in US$ million)			(in percent)		
Bulgaria	1	0.1	132	20.0	3.3	6.2-0.0
FCSK	2	0.1	312	100.0	3.1	6.2-0.0
Hungary	17	0.5	107	40.0	3.6	6.2-0.0
Poland	49	0.8	593	13.3	3.3	6.0-0.0
Romania	27	1.6	21	0.0	3.2	6.0-0.0

Sources: See Table 2.

During the first year of the ITAs, exports of these products fell (with the exception of those from Poland which continued to expand by 18 percent). Despite a 20 percent reduction in tariffs, the value of exports from the FCSK fell by 38 percent and from Hungary by 35 percent. The contraction in exports from Bulgaria (-52%) and Romania (-77%) was even larger.

C. The "Quota/Five Year-Delayed" Free Trade Group

The trade liberalizing measures in the ITAs for this group of industrial products are a mixture of cuts in custom duties and increases in tariff quotas and ceilings. Custom duties are suspended within the limits of tariff quotas to be increased annually. The ITAs contain different stipulations concerning the annual growth rate of tariff quotas: 15 percent for imports from Hungary, and 20 percent for imports from other CEE-5 countries. Simultaneously, custom duties on imports in excess of quotas are to be reduced progressively to zero by the end of the fifth year. The schedule of reduction in these customs duties, beginning on the day of entry into force of ITAs, calls for annual cutbacks of 15 percent on imports from Bulgaria, the FCSK, Poland and Romania and 10 percent on imports from Hungary. ITAs share the same stipulation that all duties be scrapped by the end of the fifth year, however.

The group subject to these provisions is the largest in terms of CEE-5 imports into the EC, accounting for between one fourth and one third of their industrial imports (see Table 5). It includes products of most industrial sectors (organic and inorganic chemicals, some leather products, cork and wood products, glass, some steel products not covered by the ECSC, copper and copper products, electric machinery, optical goods, plastics, footwear, clothing accessories, furniture, motor vehicles, toys, etc.). Furthermore, the group is the most diversified in terms of coverage in separate ITAs. In contrast to other groups, there are substantial differences in the lists of items in the individual Agreements. Lists for Hungary and Poland are more extended in terms of the number of CN items.[19]

Table 5: The "Quota/Five-Year-Delayed" Free Trade Group: Exports to the EC and Pre-ITAs Market Access

	Exports 1991	Quotas for 1992	Share in Industrial Exports to the EC	Index 1991 1988=100	NTB Coverage Ratio,	Simple Average Tariff Rate, percent	Range of tariff rates Max-Min
	(in million of US$)		(in percent)				
Bulgaria	111	n.a*	16.3	243	18.8	8.6	25.8-0.0
FCSK	1230	379	26.5	213	20.6	8.7	25.8-0.0
Hungary	810	484	24.3	175	21.0	0.0	0.0-0.0
Poland	1477	575	23.6	213	21.7	0.0	0.0-0.0
Romania	516	366*	31.4	83	23.7	0.0	0.0-0.0

* for 1993

Sources: See Table 2 and ITAs (Annex 3).

Pre-ITAs market access was better for this group than for all industrial products. The NTB coverage ratio was lower (by 2-4 percentage points) than for all industrial products (see Table 2 and 5). The average tariff rate was higher than that on all industrial products for Bulgaria and the FCSK,[20] but lower for other CEE-5 countries. For the reasons discussed in Section II, the "real" average tariff rate for the latter

[19] The total group, including items specified in all ITAs, covers 678 eight-digit CN items of which 677 are subject to GSP rates.

[20] Imports from these two countries enjoyed GSP status in 1991. Hence, the average rate reported in SMART would be near zero, as almost all items in this group had GSP treatment.

countries was higher depending on tariff quota utilization.[21]

It is difficult to assess the extent to which the ITAs improve market access for this group of industrial products. First, for some products the EC sets quotas and for others ceilings--imports below ceilings and within quotas are duty free. This is an important distinction, complicating assessment of a "liberalized" component in this group. Duties on imports of products exceeding quotas are imposed automatically whereas duties on those exceeding ceilings are levied only if domestic EC producers demand it. As a result, it is impossible to predict the size of "above ceiling" imports that will be subject to tariffs.

Second, one should note that this group on average faces higher MFN tariffs (applied on "above quota" imports) than industrial products in total. Since the base for tariff reductions envisaged in the Agreements is about 50 percent higher than the average on industrial products,[22] the margins of preference for CEE-5 exporters are substantial. Taking into account that tariff rates are the same for large clusters of CN items, one may assume that the simple average tariff rate will be falling in line with the schedule of tariff reductions for this group.

Third, the ceiling or quota "utilization" ratio varies across different products. If quotas were set in a fixed relationship to previous export performance, then the duty-free component of this group during the first year of the ITAs would be equal to the total value of quotas.[23] But this is not the case: neither growth rates of quotas/ceilings were set in the ITAs in any relationship to import growth rates nor quotas or ceilings reflected earlier levels of imports. For instance, average growth rates of imports from both the FCSK and Poland in the 1988-91 period were around 12 percentage points higher than scheduled annual increases in quotas (20%) and from Hungary were 6.1 percentage points higher than the scheduled increase

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[21] SMART keeps track only of duties levied upon imports not exceeding tariff quotas and ceilings. Imports exceeding these limits were subject to MFN rates independently of their GSP status.

[22] For imports exceeding quotas or ceiling, the simple average MFN tariff rate is around 9 percent, while average tariffs on all industrial products are about 6 percent.

[23] Had the free trade component been equal to quotas, it would have been the largest for Hungary and Romania (with 69 percent of imports falling into the free trade component), followed by Poland (38 percent) and the FCSK (30 percent). This means that only 31 percent of Hungarian and Romanian imports into the EC in 1991 would be subject to MFN rates, while the same ratios for the FCSK and Poland would be 70 percent and 62 percent respectively. However, this should not suggest that Hungary and Romania have obtained a better deal from the EC than other CEE-5 governments.

(15%).[24]

Most quotas set in the ITAs with the Visegràd countries are the same independently of their past export performance.[25] For instance, the Polish quota for polyethylene is the same as that for the FCSK and Hungary, while its exports to the EC in 1991 were a small fraction of other CEE-3 exports (see Table 6). This lack of a link between tariff quotas and past export performance is especially manifest in the case of cars. The tariff quota of US$ 91 million set for motor vehicle imports (CN.87032110 through 8703909) from the FCSK (ECU 80.483 million as compared with ECU 125 million for the other two countries) is about one third lower than that for Hungary, even though in 1990 FCSK imports into the EC were much larger than Hungarian ones (US$ 84 million as compared with US$ 2 million).[26] It is worth noting that actual imports from the FCSK were significantly larger than quotas for all products listed in Table 6 (especially for wire of iron or non-alloy steel whose share of quota was only 6 percent). However, this did not prevent FCSK producers from increasing exports of these products in 1992--the only exception in the sample was polyethylene whose imports into the EC declined during the first year of the ITA.

Without a detailed analysis of export capacity for each tariff quota/ceiling group, which goes beyond the scope of this paper, no firm judgment can be passed on the extent of EC concessions. Some insights can be derived from the sample of products presented in Table 6, however. This sample, accounting for 30-35 percent of the total value of quotas and for 18 to 29 percent of troika exports of these products to the EC in 1992, is quite large and, therefore, representative for this group.[27] The duty-free component varies

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[24] This should not suggest that the ITAs do not contain significant concessions. In fact, market access for these products will move to duty-free trade over a five-year period.

[25] Examples of different tariff quotas or ceilings *inter alia* include: the FCSK has lower quotas for acids and salts (CN. 2981400--ECU 210,000 as compared with ECU 368,000 for Hungary and Poland), for leather clothing and apparel accessories (CN.4203100, 42032100, 42032991, 42032999, 42033000,42034000--ECU 4.3 million as compared with ECU 6.6 million). The FCSK and Hungary have smaller quota for fibreboards (CN.4411--ECU 4 million versus ECU 7 million for Poland). The quotas for Bulgaria and Romania are on average around 5 percent higher than for the CEE-3.

[26] On the other hand, it could have been purely accidental that the Polish quota (the same as the Hungarian) was close to the value of its imports into the EC in 1988 (US$ 145 million) and 1989 (US$ 128 million).

[27] Latecomers--Bulgaria and Romania--are not included, simply because their respective Agreements with the Communities went into force a year later.

Table 6: Trade Measures Applied to Selected Items of the "Quota/Five-Year-Delayed Free Trade" group

	FCSK	Hungary	Poland	MFN(simple)average tariff rate in %
Passenger Motor Vehicles (SITC.Rev.3.7812)				10.0
Tariff Quota (million of US$), 1992	91	141	141	
Imports (million of US$), 1992	272	25	259	
1991	210	3	39	
"Utilization ratio" in percent), 1992	299	18	183	
Duty free component (in percent), 1992	33	100	55	
Polyethylene (SITC. Rev.3.57112)				12.5
Tariff Quota (million of US$), 1992	15	15	15	
Imports (million of US$), 1992	20	30	1	
1991	34	31	1	
"Utilization ratio" (in percent), 1992	132	201	7	
Duty free component (in percent), 1992	76	50	100	
Furniture (SITC.Rev.3.8213)				5.6
Tariff Quota (million of US$), 1992	78	0	78	
Imports (million of US$), 1992	121	66	242	
1991	61	54	192	
"Utilization ratio" (in percent),1992	156	n/a	311	
Duty free component (in percent), 1992	64	0	32	
Apparel and Clothing made of non-textiles (SITC.Rev.3.8481+89477)				8.5
Tariff Quota (million of US$), 1992	5	8	8	
Imports (million of US$), 1992	11	29	6	
1991	8	24	10	
"Utilization ratio" (in percent) 1992	234	386	82	
Duty free component (in percent), 1992	43	26	100	
Glazed Ceramics (SITC.Rev.3.66245)				8.8
Tariff Quota (million of US$), 1992	4	4	4	
Imports (million of US$), 1992	28	7	.3	
1991	13	7	.7	
"Utilization ratio" (in percent), 1992	637	152	7	
Duty free component (in percent), 1992	16	66	100	
Wire of Iron or non-alloy steel (SITC.Rev.3.67811-12)				5.3
Tariff Quota (million of US$) , 1992	2.2	2.2	2.2	
Imports (million of US$), 1992	35	2	5	
1991	33	3	6	
"Utilization ratio" (in percent), 1992	1644	80	248	
Duty free component (in percent), 1992	6	100	40	
Memorandum: (A) Share of the sample in:				
- total imports of the group (in percent), 1992	30	18	27	
1991	29	16	16	
- total quotas for the group (in percent), 1992	51	35	43	
(B) Share of duty free imports (in percent), 1992	40	34	47	

Source: see Table 5.

widely for products and countries.[28] This suggests that the EC was concerned mostly with protecting domestic markets and ignored the interests of CEE-5 producers. Nonetheless, CEE-5 countries have obtained significant concessions. As can be seen from Table 5, a substantial proportion of imports of products had duty-free access to EC markets. Its share in exports for this sample was between 34 and 47 percent. Furthermore, the margins of preference provided in the ITAs for some exporters are quite substantial. For instance, MFN tariffs on polyethylene and cars are relatively high (10 and 12.5 percent, respectively): since CEE-3 suppliers of these products had free access to EC markets for a very significant proportion of their exports (between 33 and 100 percent), this has undoubtedly given them a substantial competitive edge over MFN suppliers.

Finally, in terms of 1992 exports to the EC, tariff and ceilings/quotas seem to be on average less "restraining" on cars than on other products. This conclusion can be drawn from comparing shares of passenger car quotas in total quotas with the shares of these exports in exports of this group. Tariff ceilings and quotas applied against exports of this group focus on passenger motor vehicles, accounting for 47 percent of the FCSK's value of quotas for this group, for 79 percent of Hungarian quotas, and for 55 percent of Polish quotas. Their shares in exports of this group are 16 percent for the FCSK, 3 percent for Hungary and 14 percent for Poland, suggesting that quotas/ceilings free trade component of their exports is considerably larger in products which are not listed in Table 6.

C. The MFA Group

The ITAs contain a special protocol addressing market access for textiles and clothing (CN 50 through 63 excluding 520100, 5301, 5302[29]) subject to the MFA restricting "... the volumes of most imported textiles and clothing products into North America and Western Europe from developing countries"

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[28] The "duty-free" component is equal to the sum of quotas (if the value of imports exceed the tariff quota) or the value of exports (if it is lower than quota). Excluding cars, the duty free share raises for the FCSK from 40 to 48 percent, and falls for Hungary from 34 to 22 percent and for Poland from 47 to 40 percent.

[29] This is the equivalent of SITC. Rev.3. (26-2632)+(65-65911)+(84-8481-84812-84813).

(Hamilton and Martin, 1990:2).[30] The MFA group contains 1,296 eight digit CN items, of which 188 are subject to GSP rates (0 percent).[31] Textiles and clothing products rank second in terms of shares in industrial product exports. Tariffs for these products are to be gradually eliminated by the end of the sixth year: in each year they will be reduced by one seventh of the level prior to entry into force of the ITAs.

Market access for these products is governed by quantitative restrictions rather than tariffs. Average tariffs for countries having GSP status are close to zero. The maximum rates are higher for Bulgaria and the FCSK, simply because other CEE-5 countries did not export any items subject to this rate. NTB trade coverage ratios for these products, which are the highest among the groups of industrial products, will not be affected by the ITAs. Protocol 1 of the ITAs, containing provisions applying to trade in textile and clothing products, provides that quotas will be negotiated bilaterally and new arrangements will be implemented "... as soon as the future regime governing international trade in textile products has emerged from the multilateral negotiations of the Uruguay round."(Protocol 1, Article 3.2). Quantitative restrictions will be abolished over half of the period decided in the Uruguay Round negotiations.

Since the MFA restricts the volumes of imports through quotas, exports can increase by filling previously underutilized quotas or obtaining increases in quotas. The increase in CEE-5 exports to the EC was the result of a combination of these two factors with the latter having probably a larger influence. The CEE-5 had exported well below their quotas throughout much of the 1980s.[32] With a quota utilization rate lower than 90 percent in the 1980s, they were not binding for around 30 percent of MFA quotas (Erzan and Holmes, 1992). In 1990 and 1991 the EC signed bilateral agreements increasing quotas and market access for re-imports into the EC. CEE-5 economies (excluding Romania) took advantage of the improved market

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[30] Although technically they were not qualified as developing countries, CEE-5 economies have been subject to the provisions of the MFA.

[31] This relatively small share confirms the observation that GSP schemes, unilaterally granted by industrial countries, as a rule exclude major textile and clothing products (see, e.g., Erzan, Holmes and Safadi, 1992)

[32] For instance, the EC quota utilization rates in 1982 were 65 percent for Bulgaria, 79 percent for the FCSK, 43 percent for Hungary, 35 percent for Poland, and 73 percent for Romania (Trella and Whalley, 1990:19).

access, as their exports increased dramatically in this period.[33] Taking into account that MFA imports from these countries increased in 1990 by at least one third (see footnote 32), this expansion would not have occurred without increases in EC quotas.[34]

Table 7: The MFA Group: Exports to the EC and Pre-ITAs Market Access

	Exports 1991	Share in Industrial Exports, 1991	Index 1991 1988=100	NTB Coverage Ratio,	Simple Average Tariff Rate	Range of tariff rates Max--Min
	(in US$ million)			(in percent)		
Bulgaria	142	20.9	227	90.6	10.8	17--0.0
FCSK	630	13.6	202	87.6	10.7	17--0.0
Hungary	712	21.4	175	85.1	0.1	9.3-0.0
Poland	1099	17.6	258	88.8	0.0	8.6-0.0
Romania	480	28.2	96	86.2	0.1	9.3-0.0

Sources: See Table 2.

On the supply side, it is noteworthy that EC's expanding imports of textiles and clothing from the CEE-5 coincided also with the implementation of transformation-cum-stabilization programs, which provided a boost to MFA exports. For instance, the value of MFA imports from Bulgaria rose by 87 percent in 1992 (the first full year of the program in place), from the FCSK by 53 percent in 1991 (and 46 percent in 1992), from Hungary increased by 43 percent in 1990 (by 24 percent in 1992), and from Poland by 74 percent in 1990 (35 percent in 1992). Overall, between 1988 and 1992, the value of MFA imports into the EC from Bulgaria increased by 324 percent, from the FCSK by 194 percent, from Hungary by 116 percent, from Poland by 248 percent, and from Romania by 32 percent.[35]

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[33] It is apparent when comparing the annual rates of growth of MFA imports into the EC in 1989 and 1990. The rate of growth of imports from Bulgaria rose from 8 percent to 52 percent, from the FCSK from (-)1.2 to 33 percent, from Hungary from 3.5 to 43 percent, and from Poland from 4.1 to 71 percent. The value of imports from Romania fell by 1.6 percent.

[34] For instance, in 1992 the average utilization ratio for Polish imports of textiles and clothing product into the EC was 33 percent (Dunin-Wasowicz, 1993:18).

[35] As a result, its share in their industrial imports into the EC increased especially in the case of Balkan countries where it almost doubled--for Bulgaria, the share rose from 15 percent in 1988 to 29 percent in 1991 and for Romania from 20 percent to 39 percent (this was the only group of industrial products discussed here that recorded an increase in 1992).

Whether this expansion is sustainable will depend on domestic developments and continued improved access to EC markets. As for the former, there is one important factor pushing to expand supply capacities. This sector is particularly attractive to private entrepreneurs, because of the low labor cost combined with the sector's low average capital intensity in a situation of capital shortage and deficient financial markets. The EC may choose not to erect barriers to CEE-5 exports, simply because EC producers have increased MFA exports to CEE-5 countries. Furthermore, the experience of many developing countries suggest that quotas have not been effective in preventing flexible and innovative firms from expanding exports.[36]

D. The ECSC Group

The ECSC product group, accounting for a significant share (albeit rapidly declining) of CEE-5 exports (from Bulgaria a 12 percent of industrial exports in 1991, from the FCSK 14 percent, and from Poland 12 percent), was not treated uniformly in terms of concessions granted by the EC. The new rules of market access, laid out in Protocol 2 of the ITAs, effectively divide the ECSC group into three subgroups: steel products, coal products (including some manganese and iron ores) imported by Germany and Spain and coal products imported by other EC countries.

Steel: This subgroup includes 554 eight digit CN items of which 522 are subject to GSP zero rates (Its equivalent is SITC. Rev.3. 2821+28221+67-67151-67682). The average tariff rate is in the mid-range. With NTB coverage ratios ranging between 57 and 75 percent, this group is the second most "NTB-driven" among industrial product groups identified in the ITAs (see Table 8). The share of this group in industrial imports into the EC varies across CEE-5 countries: in 1991 it was around 11 percent for Bulgaria and the FCSK, and 5-6 percent for the remaining countries. With the exception of the FCSK, the value of imports from other CEE-5 countries fell precipitously in 1991, following a very substantial increase in 1990, but picked up again in 1992 despite the contraction in EC import demand for steel products.

The ECSC protocol grants both nontariff and tariff concessions. As far as nontariff barriers are

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[36] For an extensive discussion, see Global Economic Prospects and the Developing Countries (1992) and Cable (1990).

concerned, all quantitative restrictions are eliminated on the date of entry into force of the ITAs. Customs duties levied on steel products are to be eliminated after five years.[37] Taking into account that almost all CN items falling in this group are subject to GSP rates, tariff concessions are not significant.

Table 8: The "Steel" ECSC Sub-Group: Exports to the EC and Pre-ITAs Market Access

	Exports 1991	Share in Industrial Exports, 1991	Index 1991 1988=100	NTB Coverage Ratio,	Simple Average Tariff Rate	Range of tariff rates Max–Min
	(in US$ million)			(in percent)		
Bulgaria	77	11.4	227	74.6	5.4	10–0.0
FCSK	489	10.5	202	64.4	5.6	10–0.0
Hungary	139	4.2	175	58.2	0.0	3.2-0.0
Poland	280	4.5	258	57.4	0.1	4.0-0.0
Romania	61	3.6	96	68.2	0.0	0.0-0.0

Sources: See Table 2.

This should not imply that all NTBs will disappear (to the contrary, other instruments have gained prominence as quantitative restrictions had been removed), or that all tariffs will indeed decline according to the schedule. Steel industries in both the EC and CEE-5 countries have significant surplus capacity, providing strong pressures to export and to protect domestic markets against foreign imports.[38] While the market share has remained low (3.6 percent of EC imports in 1992), penetration by CEE-5 steel imports increased dramatically between 1988 and 1992 with Poland and the FCSK each doubling their share in EC imports.

This export success triggered calls for protectionist measures. In 1993, responding to complaints from domestic steel producers about the "flood" of cheap imports from Eastern Europe, the EC approached Hungarian and Polish governments to impose voluntary restraints and set quotas on imports of some steel products (steel coils, sheets, wire rod, strip, and cut lengths) originating in the Czech Republic and Slovak

[37] At the beginning of the first year of ITAs the duties are reduced to 80 percent of the basic duties and further lowered to 60, 40, 20, 10 and 0 percent (of the basic duties) at the beginning of the second, third, fourth, fifth and sixth years, respectively.

[38] It is estimated that the CEE-5 steel industry works at around 50 percent of its former capacity (Peel, 1993).

Republic above which punitive tariffs (from 25 to 30 percent) will be imposed.[39] In addition, in November of 1992 temporary anti-dumping duties were imposed on seamless steel and iron tubes imported from the CEE-3 countries.[40]

These developments under the new ITA regime show that the Agreements have not deprived the EC of trade management instruments. The removal of quantitative restrictions have exposed CEE-5 steel producers to other, equally potent trade-restraining measures. Given the political clout of steel industries in the EC as well as the dramatic increase in imports from the CEE-3--fueled largely by the redirection of sales from domestic markets and the CMEA--the EC's recourse to these measures comes as no surprise.

Coal: This group, consisting of 14 eight digit CN items, embraces coal products, iron ore and concentrates, iron and steel wastes (slags and scalings), and manganese ores and concentrates. Except for the FCSK and Poland, other CEE-5 countries are not significant net exporters of these products. There were no EC-wide NTBs affecting CEE imports in 1990, but tariffs were significantly larger than the average tariff on industrial products (see Table 9).

Concessions granted by the EC vary among the CEE-5 countries and they have not been granted by all EC member countries. Except for Germany and Spain, EC duties on imports from the FCSK and Poland are to be eliminated within a year, whereas those on imports from Bulgaria, Hungary and Romania will be reduced by 50 percent on January 1, 1994 and abolished by the end of 1995. Germany and Spain will maintain duties until the end of the fourth year of the ITAs. As can be seen from Table 9, this differentiation in treatment affects mainly imports from the FCSK (the share of Germany is almost 100 percent) and to a lesser extent Poland (55 percent of EC imports goes to Germany and Spain).

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[39] The quotas, set for the 1993-95 period, will change in terms of 1991 imports (1991=100) according to the schedule: 1993=135; 1994=145; 1995=160. Thus, prohibitive tariffs will not apply annual increases in imports of less than 7 percent in 1993, of less than 8 percent in 1994, and of less than 10 percent in 1994. In the case of coils, 1991 levels may be exceeded by 100 percent in the 1993-95 period (International Trade Reporter, May 1993, p.831).

[40] The investigation was initiated in December 1991. The rates varied between 30.4 percent on these imports from the FCSK, 21.7 percent on imports from Hungary and 10.8 percent on imports from Poland. See Eleventh Annual Report from the Commission to the European Parliament on the Community's Anti-Dumping and Anti-Subsidy Activities (1992), Commission of the European Communities, Brussels, 28 October 1993.

Table 9: The "Coal" ECSC Sub-Group:[1] Exports to the EC and Pre-ITAs Market Access

	Exports, 1991		Share in Industrial Exports, 1991		NTB Coverage Ratio,	Simple Average Tariff Rate	Range of tariffs Max--Min
	(a)[2]	(b)[2]	(a)	(b)			
	(in US$ million)		(in percent)				
Bulgaria	1	0	0.1	0	0	4.2	8.3--0.0
FCSK	1	140	neg.	3.0	0	5.9	8.3--0.0
Hungary	3	1	0.1	neg.	0	2.0	2.0--0.0
Poland	268	285	4.3	4.6	0	4.3	8.3--0.0
Romania	0	0	0	0	0	0.0	0--0.0

[1]/ This subgroup includes SITC.Rev.3. 27862+281+321+(322-3223).
[2]/ (a) The EC excluding Germany and Spain.
(b) Germany and Spain only.

Sources: See Table 2.

Exports of coal products are not likely to increase significantly in the near future. Increases in efficiency of energy use will reduce domestic consumption, however, coal production is not likely to expand and may even contract as many coal mines in the region face bankruptcy. In contrast to steel products, there was little (if any) redirection of sales from the CMEA. The FCSK and Poland were established suppliers of coal to EC markets well before the collapse of the CMEA. They both sought to minimize coal shipments to their former CMEA partners, simply because coal was more marketable in hard currency markets than low quality manufactured goods. Thus, the contraction in FSU import demand affected raw materials less than manufactures and there was no explosion in exports to OECD markets as in many industrial products.

E. The "Residual" Free Trade Group

The residual group is subject to free trade upon entry into force of the ITAs. This group consists of products falling into CN 25-97 minus products identified in the five groups discussed above including imports below ceiling or falling within tariff quota. It includes 5,078 eight digit CN items of which 4,362 (68 percent of "free-trade" items) have been subject to GSP rates. As a result, average tariffs for this group are below the average for all industrial products. CEE-5 exports of this group were less affected by NTBs than any other group of industrial products specified in the ITAs--the average NTB coverage ratio of between

3.4 and 3.8 percent is significantly lower than for any other group except for coal products (see Table 10). Hence, the largest concessions made by the EC pertained to the "least sensitive" markets in terms of protection offered to domestic producers.

The residual group accounts for a large share of CEE-5 industrial exports to the EC. As can be seen from Table 10, in 1991 the country share of this group was between 32 percent (Romania) and 50 percent (Hungary). If exports below tariff ceilings and quotas which are duty free during the first year of the ITAs are included, then the free trade component--in terms of 1991 export baskets--goes up by 13 percentage points for Romania (to 47%), by 11 percentage points for the FCSK (to 55%) and Poland (to 54%), by 10 percentage points for Bulgaria (to 53%), and by 9 percentage points for Hungary (to 58%).

Table 10: The "Immediate Free Trade" Group: Exports to the EC and Pre-ITAs Market Access

	Exports 1991	Share in Industrial Exports, 1991	Index 1991 1988=100	NTB Coverage Ratio,	Simple Average Tariff Rate	Range of tariff rates Max--Min
	(in US$ million)	(in percent)				
Bulgaria	293	43	132	3.6	5.6	37.9-0
FCSK	2074	44	188	3.8	5.7	39.7-0
Hungary	1680	50	218	3.7	0.0	14.0-0
Poland	2707	41	190	3.8	0.1	14.0-0
Romania	602	32	57	3.4	0.0	6.2-0

Sources: See Table 2.

Imports of the "residual" products from CEE-5 countries increased more slowly than other industrial groups. Between 1988 and 1991 the share of this group in CEE-5 industrial imports declined except for imports from Hungary it increased by almost 7 percentage points from 42 to 49 percent (see Table 11).[41] It is noteworthy that better export performance, as evidenced by the declining share of a free trade "residual" group in CEE-5 industrial exports, in "more protected" than in "less protected" markets also indicates that access to sensitive markets did not significantly restrain imports in the 1988-91 period--except for steel

[41] A possible explanation is that Hungary's strategy of economic development under central planning had been less biased in favor of heavy industry, i.e., steel and chemicals, than other socialist economies. Since steel and chemical products (both accounting for a very sizable share of CEE-5 imports into the EC) in the EC as a rule enjoy a higher level of protection than other products, Hungary's export basket--with a lower share of steel and chemical products--had a higher share of products less vulnerable to EC protectionist measures.

Table 11: Composition of CEE-5 Industrial Exports to the EC, by ITA groups, 1988-92

		"One Year Delayed"	"Four Year Delayed"	"Quota/ Five Year Delayed"	"Multi-Fibre Arrangement"	"Steel"	"Coal" (excluding Germany and Spain)	"Coal" (Germany and Spain)	"Free Trade Residual"
Bulgaria									
	1988	2.5	0.2	10.9	14.9	9.6	0.1	0.0	61.7
	1989	2.1	0.4	12.8	15.7	14.2	0.0	0.0	55.0
	1990	1.4	0.3	13.6	19.1	17.3	0.3	0.0	47.9
	1991	1.4	0.1	16.3	20.9	11.4	0.1	0.0	49.6
	1992	0.9	0.0	14.0	29.5	8.0	0.2	0.0	47.4
FCSK									
	1988	0.6	0.0	24.4	13.2	12.6	0.1	2.8	46.4
	1989	0.7	0.0	25.3	12.3	13.6	0.1	2.7	45.3
	1990	0.5	0.1	24.2	13.5	14.2	0.0	3.0	44.4
	1991	1.1	0.1	26.5	13.6	10.5	0.0	3.0	45.2
	1992	1.3	0.0	25.9	13.7	10.4	0.0	2.3	46.4
Hungary									
	1988	1.0	0.9	26.1	22.9	6.9	0.1	0.0	42.1
	1989	1.5	1.0	25.7	21.5	6.5	0.2	0.0	43.6
	1990	1.0	0.9	24.9	21.5	6.7	0.1	0.1	44.7
	1991	0.7	0.5	24.3	21.4	4.2	0.1	0.0	48.9
	1992	0.5	0.3	23.7	21.8	3.6	0.0	0.0	50.1
Poland									
	1988	0.2	0.3	22.4	13.8	4.2	9.5	3.5	46.2
	1989	0.3	0.2	22.9	13.7	6.0	8.7	3.2	45.0
	1990	0.5	0.4	23.7	15.2	5.4	6.0	3.9	44.9
	1991	0.4	0.8	23.6	17.6	4.5	4.3	4.6	44.2
	1992	0.7	0.7	24.4	19.0	4.3	3.7	3.5	43.6
Romania									
	1988	0.1	5.1	25.7	19.9	4.2	0.0	0.0	45.1
	1989	0.2	5.2	23.1	19.3	4.0	0.0	0.0	48.2
	1990	0.1	2.7	28.0	26.4	4.4	0.0	0.0	38.5
	1991	0.0	1.6	31.4	28.2	3.6	0.0	0.0	35.3
	1992	0.0	0.4	30.4	39.0	6.7	0.0	0.0	23.5

Sources: Calculated from data in the United Nations COMTRADE data base and the Interim Trade Agreements.

products whose rate of growth was below the average rate of growth of EC industrial imports from all CEE-5 economies. Imports of chemical products, falling mainly in the "quota/five-year-delayed" group, expanded at higher rates than the average for all industrial products and their share also increased.

VI. TIME PROFILE OF ATTAINING FREE TRADE IN INDUSTRIAL PRODUCTS

Assuming that the measures liberalizing trade in industrial products are implemented according to the schedule set in the ITAs, one may estimate the effect of the pace of transition on industrial products in terms of 1992 export baskets. Since the ITAs signed with the troika economies in December 1991 went into force on March 1, 1992, some portion of their imports were free of tariff and nontariff restrictions in 1992. The share of freely traded industrial products was larger than the "residual" group--which accounted for 46 percent of industrial imports from the FCSK, 50 percent of industrial imports from Hungary, and 44 percent of industrial imports from Poland--because some products falling into the "quota/five-year-delayed" group obtained unrestrained access to EC markets.[42] Including below quota imports would raise the share of freely trade products quite significantly for three countries: to 54 percent for the FCSK and Poland, and to 57 percent for Hungary.

Table 12 presents estimates of the shares of freely-traded in industrial products in terms of 1992 export baskets. These shares were tabulated on the basis of the following assumptions: (i) all relevant provisions of the ITAs will be applied as scheduled; (ii) below-quota/ceiling imports into the EC equal 50 percent of imports of the "quota/five-year-delayed" free trade group as in 1992; and (iii) textiles and clothing trade will be conducted on the basis of bilateral quotas.

The time path of attaining duty-free trade in industrial products and the share of the free trade component is determined by the shares of exports of different groups, the share of industrial exports in total exports of that country to the EC, and differences in liberalizing provisions concerning the rate of growth in tariff quotas/ceilings on exports. The time path towards free trade has two jumps: the first occurs during the first year of the Agreements when around 50 percent of products obtain free access to EC markets; the

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[42] For the reasons discussed earlier, free trade shares calculated for the sample presented in Table 6 are used to estimate the free trade portion of this group. For the Balkan countries--which signed the ITAs a year later and for which no data are available to match their imports with quotas or ceilings--we used the average of the troika coefficients.

second in the sixth year of the ITAs when the remaining tariffs are removed (this increases this share to 100 percent if duties on MFA products are removed).

The duty-free trade component is the largest in Czechoslovak and Polish exports to the EC. Although industrial products accounted for 93 percent of Romanian imports (see Table 1), the free access for its imports is smaller due to the large share of MFA products which increased from 28.2 percent in 1991 (see Table 7) to 39 percent in 1992. In terms of their share in industrial exports, the Visegràd countries benefit more from fully liberalized access to EC markets than Romania and to a lesser extent Bulgaria because of the lower proportion of MFN products in their exports.

Table 12: Share of Duty-Free Goods in CEE-5 Industrial and Total Exports to the EC, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	(share in industrial imports, in percent)						
Bulgaria	54	54	57	58	59	60	61
FCSK	59	63	65	67	71	86	86
Hungary	62	64	66	67	68	78	78
Poland	56	63	65	66	72	81	81
Romania	39	39	42	44	46	48	61
CEE-5	58	69	70	70	71	74	80
	(share in total imports, in percent)						
Bulgaria	43	43	45	45	46	47	56
FCSK	55	59	61	62	66	80	80
Hungary	48	50	51	52	53	60	60
Poland	47	53	55	56	61	69	69
Romania	36	36	39	41	43	45	57
CEE-5	44	59	60	60	61	63	69

Note: In computing the duty-free shares, the commodity composition of flows in 1992 is applied to the anticipated customs status of each item in all subsequent years.

Source: See Table 6.

Another factor responsible for the different transition paths is related to the different provisions for quota/ceiling increases. Until 1995 the share of liberalized products is the largest for Hungary's exports to the EC. In 1993-94 the difference between the FCSK and Poland on the one hand, and Hungary on the other, decreases thanks to the faster increase in duty-free quotas/ceilings for the former countries. In

addition to the different pace in quota increases, the FCSK and Poland move ahead because of the elimination of duties on their coal imports into Germany and Spain in 1996.

A. Copenhagen Summit Concessions

The concessions granted by the EC summit in Copenhagen in June 1993 are significant for two reasons. First, the EC explicitly recognized the aspiration of the CEE-5 countries to acquire membership status, although no specific timetable was agreed upon. Second, it granted the CEE-5 further trade concessions for industrial products. The significance of the latter is that they accelerate the transition to free access to EC markets by a year.[43] Specifically, these new concessions provide for abolishing tariffs: (i) on steel products after four rather than five years; (ii) on the "four-year-delayed" free trade group after two instead of four years; and (iii) on the MFA group in five years rather than six years.[44] Other concessions provide for an increase in the growth rate of tariff-free quotas/ceilings by 10 percentage points over the ITAs' rates of 15 percent (Hungary) and 20 percent (others) per annum and accelerates the elimination of tariffs by two years on the "five-year-delayed" free trade group.

How meaningful are these concessions? Table 13 highlights the differences between the ITA schedule and the schedule as modified by the Copenhagen Summit (again using the 1992 actual commodity composition of flows as weights). Within the next two years (1994-95), the net gain for former troika countries, as measured by the increase in share of products obtaining duty-free access to EC markets, amounts to 2-3 percentage points. The gains for Bulgaria and Romania are negligible except for 1997. However, one should also take into account an accelerated increase in margins of preference, especially for the "quota/five-year-delayed" group: although the new provisions do not have a large impact in terms of increasing the liberalized share of exports, they increase the competitive position of the countries, particularly of the Visegràd group. The accelerated schedule of reductions in tariffs on textiles and clothing may have a similar impact, assuming that CEE-5 quotas are not binding. The major benefits of the Copenhagen concessions are realized in the fifth year of the ITAs when the duty-free component increased

[43] In addition, the EC summit offered concessions on imports of farm products (levies and duties are to be reduced by 60 percent in two and a half years).

[44] In addition, the EC has pledged to improve rules concerning "outward processing."

by 6-13 percentage points. (If one includes MFA products, this share increases substantially for all CEE-5 countries.[45])

Table 13: The Significance of the Copenhagen Concessions: Net Change in "Liberalized" Imports, Relative to the ITA Schedule.

	1993	1994	1995	1996	1997	1998
		(in million of US dollars)				
Bulgaria	n.a.	6	10	11	83	0
FCSK	87	131	148	841	0	0
Hungary	48	87	103	245	0	0
Poland	95	200	218	499	0	0
Romania	n.a.	6	0	114	0	0
CEE-5	229	431	479	1710	83	0
		(share in industrial imports, in percent)				
Bulgaria	n.a.	1	1	1	9	0
FCSK	1	2	2	13	0	0
Hungary	1	2	3	6	0	0
Poland	1	3	3	6	0	0
Romania	n.a.	0	0	0	7	0
CEE-5	1	2	2	8	1	0

Note: The changes in customs status in each future year are weighted according to the commodity composition of flows in 1992.

Source: See Table 6.

B. Reliability of Duty-Free Share Estimates: How "Free" is a Free Trade Regime?

The estimates of the free trade share in CEE-5 exports to the EC are based on assumptions that: (i) once tariff and nontariff measures are removed these products will continue to enjoy free access to EC markets; and (ii) the export baskets will remain essentially unchanged over the next four to five years. The threat of managed trade--to borrow an apt phrase from Ostry (1993)--is writ large in the ITAs whose provisions contain a rich array of loosely defined safeguard clauses and, thus, "...open to virtually

[45] The reason for not taking account of the concessions on textiles and clothing products (duty-free access to EC markets after five years instead of six years) is that MFA trade remains managed. Its future is tied to the Uruguay Round. Including MFA products raises the net gain as follows: for Bulgaria (29%), FCSK (14%), Hungary (22%), Poland (19%), and Romania (39%).

unconstrained administrative discretion" (Ostry, 1993:14). It is impossible, however, to predict how these administrative powers will be used. On the one hand, the period following the implementation of the ITAs in March 1992 witnessed numerous attempts at reversing the liberalization but they were mostly limited to imports of steel products.[46] For instance, the EC levied provisional anti-dumping duties on steel tubes from the FCSK and Poland in August 1992 and imposed quantitative restrictions on some types of steel originating in Czech and Slovak Republics in April 1993.

On the positive note, expanding ties with the CEE-5 are also likely to mobilize lobbies in favor of further trade liberalization. Indicative of this development is Thomson's successful intervention to increase the EC quota on imports of cathode-ray tubes from Poland: Thomson has invested in a factory producing these goods in Poland (The Economist, May 1, 1993:55). Moreover, EC exports of sensitive products to some CEE-5 countries have increased significantly, making them vulnerable to retaliatory measures--measures already considered by some CEE-5 governments.[47] Thus, although the ITAs leave a lot of room for a retreat to protectionism, its occurrence on a significant scale does not seem to be a likely development.

CEE-5 export baskets will undoubtedly change in response to opportunities offered by the ITAs, but not significantly within the next three or four years. Change in export baskets calls for modifications in technologies and distribution networks. This in turn calls for capital outlays.[48] Investment activity was down throughout the region in the 1989-92 period. Although there was quite a significant shift in the composition of imports (see Table 11), it did not have a substantial impact on estimates of the free trade component with the exception of imports from the Balkan countries. Comparison of estimates of liberalized trade under the ITAs, in terms of 1991 and 1992 export baskets to the EC, supports this view. The

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[46] The other product, affected by an anti-dumping investigation, was ferro-silicon imported from Poland. Provisional anti-dumping duties, imposed in May 1991, were converted into definitive anti-dumping duties on December 18, 1992 (see Eleventh Annual Report from the Commission to the European Parliament on the Community's Anti-Dumping and Anti-Subsidy Activities, p.61).

[47] Officials have often stated publicly that "... they reserve the right to retaliate in the case of any decision hurting (...) their exports." International Trade Reporter, August 18, 1993:1379.

[48] At present, capital is scarce: one may expect that foreign direct investment will increase once uncertainty associated with market access in the EC is reduced.

difference is negligible for the FCSK, Hungary and Poland.[49] The estimates for Bulgaria and Romania seem to be much less reliable, as the composition of their exports to the EC has been undergoing a significant change. In 1992 it changed rather significantly towards sensitive products and, as a result, estimates in terms of 1991 export baskets yield a much higher proportion of products with free access.[50]

VII. CONCLUSION

The ITAs substantially improve access to EC markets for CEE-5 exporters by immediately eliminating tariffs on some industrial products and gradually reducing tariffs on others, although its short-term impact is significantly lower than that of granting GSP status. The largest increase in the share of liberalized imports occurs upon entry into force of the Agreements. In 1992, the first year of the ITAs for the Visegràd countries, around 60 percent of their industrial exports obtained duty-free access to EC markets. The equivalent shares for Bulgarian and Romanian exports in 1993 were 54 and 39 percent, respectively. In the subsequent five years the share of duty-free exports registers steady growth (in terms of 1992 exports) and jumps sharply in the sixth year, i.e., once all trade liberalizing measures are in effect.

These estimates tend to underrate the extent of improvement in market access for industrial products originating in CEE-5 countries. In estimating the liberalized component, no account is explicitly taken of tariff reductions which increase margins of preference for CEE-5 products. These are quite significant in spite of the EC's insistence on only gradually improving access to markets for sensitive products. Note that annual tariff reductions granted in the ITAs range between 14.3 percent (MFA products) and 50 percent (the "one-year delayed" group) of the basic MFN rate. Furthermore, the decisions taken at the Copenhagen summit cut by one fifth the time it will take to reach the top of the EC preferential trade pyramid, now occupied by EFTA countries. These reductions translate into a competitive edge over other suppliers. These concessions will assure the CEE-5 of a significant advantage over potential competitors from other former CMEA countries with comparative advantage in many similar products because of similarities of investment

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[49] Depending on the year, it varies between (-)1 and (+)1 percentage point for the Visegràd countries. economies.

[50] The difference between estimates in terms of 1992 and 1991 export baskets is enormous for Romania, ranging between (-)22 percentage points in 1992 and (-)17 percentage points in 1998. For Bulgaria, the estimates in terms of a 1992 export basket are by 4 percentage points lower in 1993-97 and 8 percentage points lower in 1998.

patterns under central planning. It will also give them an advantage over exporters from Mediterranean countries which benefit from preferential arrangements with the EC.

While it is impossible to predict the extent to which bilaterally negotiated quotas on imports of textile and clothing product will be binding for CEE-5 producers, they were not limiting in the 1990-92 period. Annual reductions in tariffs on products covered by the MFA by one seventh of initial rates will increase the attractiveness of imports from CEE-5 countries. This situation, combined with recently expanding EC exports of textiles and clothing to some CEE-5 countries (especially Poland), may assure that quotas will not become binding. If one assumes that they are not binding, then the liberalized share of industrial products in the seventh year of the ITAs increases significantly.

The threat of the EC's retreat into protectionism is writ large in the Agreements. There are no provisions that would prevent an increase in managed trade through informal agreements and anti-dumping threats. This danger is particularly present in "traditional" industrial sectors (mainly steel). It should be reduced to some extent once institutional provisions concerning the rules of competition and subsidies in CEE-5 countries are in force.

In all, this research does not give support to often-expressed views, both in Central/Eastern Europe and in the West, that trade liberalizing concessions offered in the ITAs do not benefit CEE-5 economies.[51] It does not support the opinion that the ITAs "..have turned out to be disappointingly limited" (The Economist, May 1-7, 1993:56). No doubt an immediate abolition of all tariff and nontariff barriers on imports from CEE-5 economies would yield higher benefits than those offering duty-free access to around 50 percent of their exports. But given the political underpinnings of the EC trading regime, more relevant standards of reference are their market access before the collapse of central planning and in comparison to other countries. Measured against these frames of reference, the ITAs provide for a rapid extension of liberalized market access for industrial imports from this region.

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[51] See for instance Marsh and Barber (1993) and Pomfret (1993).

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