

## Central European Free Trade Agreement: did the initiative prove its commitments?

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### Abstract

*CEFTA 2006 is an important cooperation platform providing the Western Balkan countries and the Republic of Moldova with the opportunity to share experience and build functional economic relations. It aims to improve the economic development of the states through assuring a favourable environment for trade and investments. Moreover, CEFTA is viewed as a preparatory instrument for the future European integration of the states. It has been 10 years since the formation of CEFTA. Over this period, numerous economists, politicians and researchers debated on whether the initiative proved its commitments and what the impact of CEFTA on regional economic development, and in particular, on regional trade and investments is. Therefore, to reach relevant conclusions about the researched subject, the present paper is focused on quantitative data analysis involving descriptive and econometric methods. The analysis reflects the CEFTA general economic, trade and investments performances by examining the respective indicators including GDP per capita, GDP growth rate, total trade, imports/exports and net foreign direct investments inflows. Also, several inferences based on the correlation analysis of individual countries and the average CEFTA indicators in terms of per capita GDP, exports/ imports, net FDI inflows are provided. The results obtained show that the CEFTA's primordial achievement is the de-tensioning and improvement of the political-economic evolution in the Western Balkans, followed by some trade benefits and a modest rise in the countries' FDI performance. We have reached the conclusion that the agreement is primarily beneficial to the countries' economic relations with their neighbours and the EU, having a favourable, yet, not determinative impact on economic development, trade and investments.*

**Keywords:** CEFTA, trade, investments, the Western Balkans, Moldova

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## Introduction

Central European Free Trade Agreement 2006 (hereafter CEFTA) represents an inter-governmental accord intended to foster the economic development and political stability of the Western Balkan countries and of the Republic of Moldova. Besides the fact that CEFTA establishes a free trade area between member countries, it is a preparatory instrument for European integration. Moreover, CEFTA is also viewed as an intermediation tool to meliorate the political and economic challenges the Western Balkan region is facing.

The original founding members of CEFTA were the Visegrad countries (Poland, Czech Republic, Hungary and Slovak Republic). During its evolution, several other countries joined the organization including Romania, Bulgaria and Croatia. All these countries finalized their participation in CEFTA by becoming EU member countries (Mostetschnig, 2011). As the main goal of CEFTA 2006 states is to integrate into the European Union, the efficiency of the organization is crucial in assisting the countries in mobilizing their economic and political efforts to join the European community (RCC, 2013).

Currently, CEFTA is a proactive organization acting to further promote its commitments regarding trade liberalization, removal of non-tariff trade barriers and promotion of employment through stimulating entrepreneurial activity in the Western Balkans and in the Republic of Moldova. Moreover, CEFTA has set as a defining goal the promotion of states' economic competitiveness considering the modern globalization issues (Tempera, 2011).

CEFTA has clearly demonstrated that the participating countries need economic capacity building. CEFTA is supposed to provide the right conditions to realize this objective by creating a more favourable environment for trade related activities. Thus, the reduction of non-tariff barriers to trade, facilitated bureaucratic and administrative formalities, efficient technical measures and so on are the focus. This fact has improved the trade of member states allowing them to develop more competitive economies and more comprehensive partnerships with the European Union (OECD, 2012). Furthermore, CEFTA succeeded in improving the countries' investment environment by establishing non-discriminatory principles for all participants. Moreover, besides the coordination of their investments policies, major achievements have been reported in the matter of public procurement and effective intellectual property protection (Tempera, 2011).

This study is designed to assess the impact of CEFTA on the states' economic competitiveness considering the trade and investment dimensions in the context of developing closer cooperation with the European Union. Therefore, the effect of regional trade liberalization in the context of pursuing European Union integration will be assessed.

## 1. Literature review

In order to have a better understanding of how CEFTA 2006 influenced the commercial and investment performance of the agreement's member countries, a subset of literature has been selected. Thus, according to Cieřlik *et al.* (2016), the original CEFTA proved to be an important driver of economic development for member states. It was a training mechanism preparing countries for the European Union membership. The agreement served as an efficient tool to achieve the states' economic and political goals. Thus, CEFTA provided countries with a preparatory time to meet communitarian socio-economic standards. The same benefits apply to the new generation of the agreement, yet at a different extent. Börzel and Risse (2009) assumed that despite ethnic and religious conflicts, the Western Balkan countries proved that the economic cooperation established through CEFTA 2006 can lead to political stability and enhanced regional security. Moreover, CEFTA assured a clear European integration agenda and motivated the Western Balkan countries to undertake further effort to build even more complex and efficient economic structures and relations.

The European Union has offered important trade preferences to the Western Balkan countries at the beginning of the 2000s. These benefits have been offered to enhance these countries' economic integration into global value chains. Namely, trade openness is seen as an important driver capable of improving economic growth in the Western Balkan region. The particular advantages that increased trade openness offers to the business environment include the greater opportunities they can find on larger markets. In this regard, CEFTA 2006 is regarded as a tool enabling participating countries to start reaping incipient benefits from larger openness to trade (Damijan *et al.*, 2006).

The establishment of CEFTA 2006 enhanced the capacities of member countries in terms of attracting FDI. This fact had a favourable impact on the countries' trade competitiveness. Alongside with the multiple economic benefits in terms of trade and investments, CEFTA improved the regional political climate bringing important image advantages to its member states. In this way, CEFTA is an excellent instrument in preparing member countries' integration in the EU and in effectively dealing with the communitarian economic competition (Družić *et al.*, 2009).

Kostovska (2009) underlined that CEFTA 2006 aimed to provide complete liberalization of trade among Croatia, Montenegro, Macedonia, Serbia, Albania, Bosnia and Herzegovina, UNMIK (Kosovo) and Moldova by 2010. It also presupposed the liberalisation of trade in services, investments and public procurement, as well as enhancement of intellectual property rights protection in member countries. Beside this goal, CEFTA is directed towards fostering political cooperation among the countries and strengthening regional security. Overall, the

agreement could be regarded as a preparatory instrument for the European Union integration of the signatory states (Hoti, 2015).

Prior to CEFTA, member states regulated their trade relations by bi-lateral arrangements. The former status-quo brought immense difficulties as customs officers were not prevented from applying different administrative and bureaucratic barriers to trade. This situation in the realities of high political instability and tensioned bi-lateral relations complicated the whole picture. Since 2006, Western Balkans countries started to build reliable economic linkages capable of assuring long term economic growth (Kikerkova, 2009). Todorovic (2008) underlined that the liberalisation of trade brought important economic benefits for the participating countries determining their trade competitiveness. CEFTA 2006 had a critical role in terms of legal, regulatory and institutional framework providing countries with multiple initiatives to cooperate.

Miteva-Kacarski (2012) concluded that, besides the benefits in trade and EU integration, the formation of CEFTA provides increased opportunities for member countries to develop capacities of coordinating efforts in tackling regional challenges such as poor performance in attracting FDI. Nevertheless, there is a range of barriers, including the invisible barriers to trade to be tackled in the future so as to fully exploit the benefits of free trade. Still, the European integration of CEFTA countries is the most important motivator determining the states to undertake further efforts in the direction of fostering cooperation.

Krizmanić (2007) highlighted that, despite the general assumption that the main goal of CEFTA is to assure liberalised trade among participating countries, the author came to the conclusion that the liberalisation of trade is only the secondary goal, the primary being to prepare member states to integrate into the European Union. CEFTA rather plays a role of regional cooperation facilitator enhancing member countries' coordination efforts to apply EU legislation and procedures on the local markets. Moreover, Begović (2011) accentuated that the general belief that trade liberalisation leads to enhanced commercial performance does not apply to CEFTA states. The author believes that free trade rather influenced negatively the capacities of countries to export. This fact occurs as a result of economic and social discrepancies among the states. Furthermore, the countries tend to rather develop commercial relations with the European Union than within CEFTA. Thus, the author concludes that the economic benefits are overrated, yet the same inference could not be applied to institutional or political ones.

Nevertheless, Mojsovska *et al.* (2011) stated that the functionality of CEFTA rather depends on the political willingness of the participating countries to exchange information and good practices than on truly economic drivers. Poor coordination and harmonisation of national policies in the area of foreign trade and investments are among the most important obstacles which reduce the efficiency of the agreement. It is required to diversify exports through systemic approaches in order to make CEFTA 2006 more functional. Vapa-Tankosić *et al.* (2011) mentioned that

the low competitiveness of domestic products and the weak export cooperation are among the impediments in fully embracing the benefits of free trade in the CEFTA region. It is imperative for CEFTA countries to re-specialise in higher value added products in order to overcome current economic difficulties.

Thus, it can be observed that the researched subject is highly debated. Some authors believe that CEFTA brought important economic benefits for the participating countries in terms of trade and investments. Others consider that economic benefits are secondary, the main goal of CEFTA 2006 being to prepare countries to integrate into the European Union in the future. The last assume that CEFTA economic benefits are overrated, the agreement being rather a platform for political cooperation rather than an efficient tool in economic policies implementation. Therefore, the present article aims at finding out the effect of CEFTA 2006 on the economic competitiveness of member countries through analysing the effect of the agreement on the states' trade and investment competitiveness.

## **2. Methodology and data**

In this research, we intend to identify the influence of CEFTA on the participating countries' economies taking into account the trade and investments areas. Thus, to reach relevant conclusions and findings, we decided to apply the quantitative analysis of statistical data based on two steps. Thus, the first step uses descriptive statistics based on which the performance of CEFTA countries in terms of four indicators is analysed. Firstly, the general evolution of CEFTA countries' GDP per capita and the GDP growth rates is assessed. In this way, it is possible to identify the predominant economic trends. Secondly, the evolution of CEFTA states' imports is evaluated and, thirdly, exports. These quantitative indicators provide a fundamental basis to underline relevant observations regarding the countries' performance in terms of commercial exchanges and trade. Relying on imports and exports, the states' balance of trade is found. Consequently, the indicators of imports and exports provide a summative picture of countries' external competitiveness. Fourthly, the states' net FDI inflows performance is determined. It is a prominent indicator of countries' internal competitiveness motivating or not the higher participation of the states in international commercial exchanges. Therefore, the first step creates a comprehensive picture of how the general economic performance of CEFTA countries has evolved. At the same time, the present research committed to calculate several relevant correlation coefficients (and namely, Pearson correlation coefficient) to identify the measure of the strength of the association between the countries' indicators. Specifically, it is aimed to assess the correlation coefficient between CEFTA countries' GDP per capita, GDP growth rate, exports, imports and net FDI inflow. In this way, it is possible to point the extent and direction of

interdependence between CEFTA states' performance in terms of economic development, trade, and investments.

### 3. Results

#### 3.1. CEFTA 10 years on: general overview of the countries' economies

In order to better understand the impact of CEFTA agreement on the participating countries, it is necessary to examine the evolution of basic macroeconomic indicators, characteristic for every participating economy. The first analysed indicator will be the GDP per capita. This indicator shows the overall economic performance registered by each country (Table 1). An increase of this indicator is a representative signal of well performing economy, while a drop expresses an economic slowdown.

It can be noticed that Montenegro has the highest value of GDP per capita (see Table 1). The lowest values of this indicator are characteristic for Kosovo and the Republic of Moldova. Thus, according to GDP per capita, the western Balkans countries are more likely to integrate in the European Union in the nearest future. This indicator is a relevant sign of countries' economic readiness to face the common market competition. Croatia's EU integration in 2013 proved the openness of the community for new EU members' accession.

**Table 1. GDP per capita by CEFTA member state (PPP, current international \$)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Montenegro</b>	10523	12483	13920	13128	13440	14216	13813	14624	15055	15486
<b>Macedonia</b>	9155	9672	10791	11305	11678	11641	11892	12812	13517	13908
<b>Serbia</b>	9890	10453	11893	11802	11813	12572	13000	13668	13699	13482
<b>Albania</b>	7067	7658	8769	9342	9304	9640	10361	10412	11167	11305
<b>Bosnia and Herzegovina</b>	7330	8025	8796	8687	8942	9422	9705	10116	10427	10510
<b>UNMIK (Kosovo)</b>	6390	6982	7248	7487	7767	8223	8541	8915	9199	9712
<b>Moldova</b>	3200	3394	3737	3544	3846	4179	4227	4701	5010	5039

Source: World Bank<sup>1</sup>

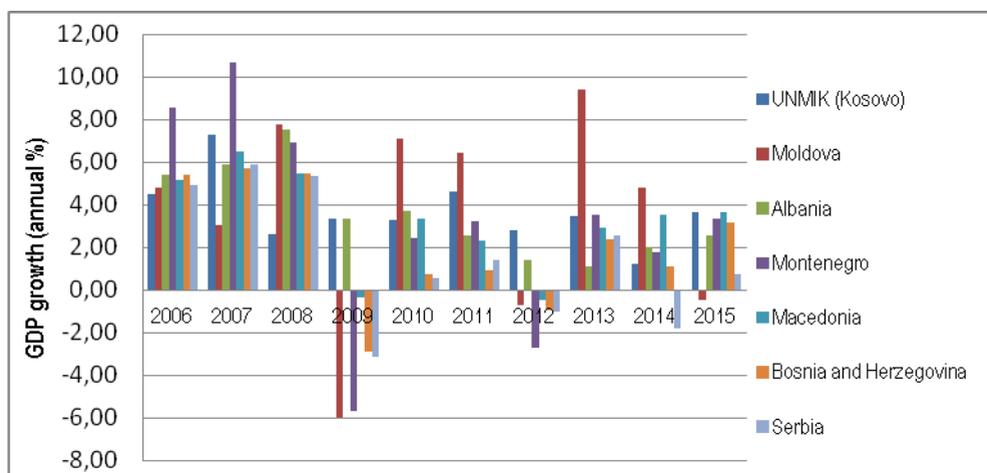
In order to foster European Integration, countries should successfully fulfil the EU's requirements. Thus, the economic policies of CEFTA member states should be oriented towards improving the population's living standards and business environment (Minić *et al.*, 2015). Also, the states will not be able to integrate into

<sup>1</sup> Data available online at: <http://data.worldbank.org/>.

the European community unless these countries meet EU productivity standards and get prepared to face the EU's internal competition.

The countries' performance in terms of GDP per capita goes in tandem with their annual GDP growth rate, the later providing clear evidence of a country's economic performance, macroeconomic climate and market conjuncture. The GDP growth rate expresses the change in the value added produced by a country in comparison with the previous period, taking into consideration the public and private sector. Therefore, by examining annual GDP growth, it is possible to assess the general performance of CEFTA states (Figure 1).

**Figure 1. GDP growth rate by CEFTA states (annual %)**



Source: own representation

Until 2009, all countries registered positive rates of growth of GDP; nevertheless, the recovery from the crisis was uneven for CEFTA countries (figure 1). This fact is a result of different economic policies and principles which have been promoted since 2009. In this regard, it is necessary to mention the economic growth of the Republic of Moldova which was the highest in the region for the following years including 2010, 2011, 2013 and 2014.

### 3.2. CEFTA trade performance

The analysis of trade relations' evolution is one of the cornerstones of the present paper. Thus, the CEFTA states' total trade is assessed and the countries' weights in terms of exports and imports are calculated. In this way, the general trade dynamics in CEFTA region can be noticed and consequently, the countries which have the largest shares in terms of trade can be identified (Table 2). At the same time,

the trade by countries is analysed to assess the influence of CEFTA on individual commercial performance (Annex 1). This double perspective will offer an opportunity to see the complete picture of regional trade evolution.

The first analysed indicator is the evolution of the total trade of the region and the weights of states' in the cumulated balance of exports and imports. This allows us to generally assess the influence of regional integration on the countries' commerce (see Table 2). By observing the data, it can be mentioned that since the re-enforcement of CEFTA agreement in 2006, the cumulated commercial exchanges of CEFTA countries have increased by almost 140% in 2007 and 204% in 2008 compared to 2006. In the period 2007-2015, the total CEFTA trade has increased by almost 15% (despite the high variation in some years). This is a considerable achievement for the region as a whole. In terms of countries' exports and imports share, the indicators vary. Serbia registers the highest share both in exports and imports (48% and 41% respectively), followed by Bosnia and Herzegovina (16% and 17%), Macedonia (14% and 13%), Albania (9% and 10%), the Republic of Moldova (7% and 9%), Kosovo (3% and 6%) and Montenegro (5% and 5% respectively) (Table 2).

**Table 2. Total trade of CEFTA countries (USD billion, %)**

	Total trade by CEFTA state (USD billion)					Export share in total CEFTA (%)		Import Share in total CEFTA (%)	
	2007	2009	2011	2013	2015	2007	2015	2007	2015
Macedonia	8,8	8,1	11,7	11,4	11,4	14,2	13,5	10,3	12,7
Albania	7,8	9,1	10,5	9,7	8,2	9,7	8,5	10,6	9,9
Bosnia & Herz.	13,2	13,1	16,4	16	14,3	16,8	15,4	17,7	16,9
Moldova	5,8	5,4	8,3	9,1	6,9	6,8	6,8	8	8,6
Montenegro	4,8	4,1	4,8	4,6	4,2	6,2	4,7	6,3	4,8
Serbia	32,4	29,5	38,4	42,2	38,3	43,7	47,7	42,2	40,9
UNMIK (Kosovo)	3,1	3,9	5,2	4,7	4,4	2,6	3,4	4,9	6,2
Total	75,9	73,2	95,3	97,7	87,7	100	100	100	100

*Source:* Own processing with World Bank data

It is necessary to underline that among all CEFTA 2006 countries only Serbia managed to increase its share in the cumulated balance of exports. As regards imports, it can be pointed out that, in 2015, only Macedonia, Moldova and Kosovo increased their shares in comparison with 2006. Therefore, it can be concluded that even if the countries increased their exports and imports in total value, only Serbia succeeded in enlarging its weight in the cumulated CEFTA exports. Moreover, Serbia managed to decrease its imports as compared to other countries. Thus,

CEFTA favoured more Serbia than other countries in enhancing commercial competitiveness over the researched period.

To have a more comprehensive understanding of CEFTA influence on the development of participating states in terms of commerce, the trade of CEFTA as a group with external partners is analysed. For 2014, the main trade destination of CEFTA products and services was the European Union, with a share of almost 30%, while intra CEFTA destination accounted for 19%. The other major exporting partners were Italy and Germany with shares of 17% and 16% respectively, as well as Romania, Russian Federation and Turkey (CEFTA, 2016b). One of the factors that determined the decreasing intra-CEFTA exports is the fact that almost all CEFTA countries signed association agreements with the EU, including free trade agreements, which opened the huge EU market for CEFTA countries' products. Additionally, Croatia joined the EU in 2013, this contributing more to the decrease of intra-CEFTA exports (CEFTA, 2016b; OECD, 2013).

The EU is also the main trading partner of CEFTA states in terms of imports with a share of 33%. Intra-CEFTA imports account for 10% of the total. Other important import partners are China (8%), Russia (7%) and Turkey (5%) (CEFTA, 2016b).

In conclusion to this section, it can be mentioned that the EU is by far the most important commercial partner of CEFTA countries, both in imports and in exports. This is the reason why the European community pays important attention to developing mutually convenient relations with these states, as they are regarded as potential new members of the EU community. Nevertheless, all CEFTA participating countries still show relatively low levels of exports competitiveness, all countries registering trade deficits (Annex 1). CEFTA agreement fostered the trade flows of the participating countries, but did not increase the intra-CEFTA trade as expected (CEFTA, 2016a). In order to enhance their competitiveness, countries need to promote effective coordinated investment and trade policies that will foster their trade efficiency and integrate them into the global value chains.

### **3.3. Foreign direct investments by CEFTA countries**

The increased regional cooperation and integration leads inevitably to redirecting investments to the most profitable economic areas. The integration of countries under CEFTA fostered the investment potential of the states through coordinating investment policies and trade creation (Mostetschnig, 2011). In this context, one of the goals of the present paper is to assess the influence of CEFTA on the foreign direct investments (FDI) attracted by the countries.

In order to be more efficient in attracting FDI, states need to integrate, as the combined economic potential creates a much more favourable macroeconomic environment for conducting economic activities. Due to regional integration, artificial restrictions to capital flow and trade which considerably reduce economic

costs are removed (OECD, 2010). Also, a larger market offering more possibilities for potential investors is formed in the integrated zone. Moreover, the possibility to coordinate investment policies between countries considerably increases capital efficiency (UNCTAD, 2013). Also, integration is beneficial due to its complementarity character allowing the creation of more efficient supply-chains between states. In order to assess the extent to which the regional integration fostered the potential of CEFTA states in attracting FDI, it is necessary to examine table 3.

**Table 3. The net FDI inflows by CEFTA states during 2006-2015 & 1996-2005, (USD billion)**

	1996-2005	2006-2015
<b>Macedonia</b>	1,64	3,84
<b>Albania</b>	1,49	10,01
<b>Bosnia and Herzegovina<sup>2</sup></b>	2,67	3,55
<b>Moldova</b>	0,83	3,41
<b>Montenegro<sup>3</sup></b>	0,69	2,26
<b>Serbia</b>	5,69	29,97
<b>UNMIK (Kosovo)<sup>4</sup></b>	0,19	0,56
<b>Total per region</b>	13,2	53,6

*Source:* Own calculations and processing with World Bank data

By examining table 3, it can be observed that since the establishment of CEFTA 2006, the participating countries have managed to increase the FDI net inflows by 306% in comparison with the previous period. The region as a whole attracted nearly \$53.6 billion investment during 2006-2015 and only 13.2 billion within 1996-2005 (World Bank, 2016).

CEFTA countries have registered impressive growth of net FDI inflows since 2006. The CEFTA state with the largest growth rate of this indicator is Albania (+571%), followed by Serbia (+427%). The Republic of Moldova managed to increase net FDI by almost 311%. All the other countries succeeded in increasing their volume of FDI by rates ranging between 134% (Macedonia) and 228% (Montenegro).

<sup>2</sup> Due to the fact that the data regarding FDI flows for the period of 1996 – 1998 was unavailable, the data for the next 8 consecutive years for each period was taken into account. Therefore, the first column considers the 1998-2005 period, the second 2008-2015

<sup>3</sup> Due to the fact that the data regarding FDI flows for the period of 1996 – 2001 was unavailable, the data for the next 4 consecutive years for each period was taken into account. Therefore, the first column considers the 2002-2005 period, the second 2012-2015.

<sup>4</sup> Due to the fact that the data regarding FDI flows for the period of 1996 – 2003 was unavailable, the data for the next 2 consecutive years for each period was taken into account. Therefore, the first column considers the 2004-2005 period, the second 2014-2015

Therefore, it can be stated that the regional integration of these states under the “umbrella” of CEFTA considerably improved the investment attractiveness of participating countries. The regional integration led to the reduction of political and military tensions in the region and to strengthening regional stability. The increasing interdependence among member states led to much deeper economic cooperation, establishing a favourable climate for economic activities. In this regard, the efforts of the EU, which systematically provided the necessary technical and financial support to CEFTA states to accelerate their economic competitiveness, should be noted (OECD, 2009).

### 3.4. Calculating correlations

By analysing the information provided in table 4, it can be underlined that the evolution of GDP per capita within the period of 2005-2015 was similar, the positive relationship being strong. Since correlation analysis is a measure of the strength of association between the variables, it can be underlined that, on the overall, the evolution of GDP per capita in all countries of CEFTA followed a parallel tendency. These observations are doubtful due to the fact that the evolution of GDP tends to have a high degree of rigidity, the extent of change being insignificant as to reaching relevant conclusions from performing correlation analysis.

**Table 4. Correlation coefficient calculated between countries' GDP per capita**

	Montenegro	Macedonia	Serbia	Albania	Bosnia and Herzegovina	Kosovo	Moldova
Montenegro	x						
Macedonia	0.92	x					
Serbia	0.93	0.95	x				
Albania	0.92	0.98	0.97	x			
Bosnia and Herzegovina	0.95	0.98	0.99	0.98	x		
Kosovo	0.91	0.97	0.95	0.97	0.98	x	
Moldova	0.90	0.96	0.94	0.94	0.97	0.98	x

Source: Own calculations based on World Bank data

Accordingly, we decided to undertake a correlation analysis of the GDP growth rate, to identify the extent the economic development in the CEFTA states is determined by similar dynamics. Information regarding the correlation coefficients calculated between the GDP growth rate registered by CEFTA countries is provided in table 5. Unlike the previous results presented in table 4, these correlations are less strong than the previous ones; yet, they are still significantly pronounced. This fact

highlights that the economic development of all CEFTA states pursued a rather regional tendency. At the same time, it is important to mention that Moldova tends to distance from the rest of CEFTA states, its correlation coefficients being less solid, this country following rather a different tendency from Albania and Kosovo (and somehow Macedonia), the correlations with the other CEFTA states not exceeding 0.6. This fact underlines the idea that Moldova is following the overall development trends of the rest of CEFTA nations at a less extent, yet the tendencies being close to those.

**Table 5. Correlation coefficient calculated between countries' GDP growth rate**

	Albania	Bosnia and Herzegovina	Moldova	Macedonia	Montenegro	Kosovo	Serbia
<b>Albania</b>	x						
<b>Bosnia and Herzegovina</b>	0.66	x					
<b>Moldova</b>	0.10	0.57	x				
<b>Macedonia</b>	0.61	0.85	0.57	x			
<b>Montenegro</b>	0.57	0.78	0.56	0.90	x		
<b>Kosovo</b>	0.71	0.57	0.07	0.47	0.61	x	
<b>Serbia</b>	0.67	0.92	0.59	0.81	0.82	0.64	x

*Source:* Own calculations based on World Bank data

By examining table 6, it can be explicitly noticed that the CEFTA countries followed similar development tendencies in terms of exports. The extent of the change in the exports' dynamics is strongly inter-correlated among countries. This fact stresses the idea that the strength of association of exports is significant enough to allow underlining that the regional as a whole pursued a rather similar direction of development in terms of exports. Nevertheless, it should be underlined that Montenegro is an exception. This country's export dynamics is out of the regional tendencies and trends. A possible exemplification of this observation could be linked to the state's economic structure and the policies promoted. Thus, being the smallest country analysed, with a population of less than 630 thousand people and a strong touristic potential, it oriented towards developing other industries as compared to the rest of the CEFTA states.

**Table 6. Correlation coefficient calculated between countries' exports**

	Albania	Bosnia and Herzegovina	Moldova	Macedonia	Montenegro	Serbia	Kosovo
<b>Albania</b>	x						
<b>Bosnia and Herzegovina</b>	0.87	x					
<b>Moldova</b>	0.96	0.90	x				
<b>Macedonia</b>	0.77	0.82	0.85	x			
<b>Montenegro</b>	-0.07	-0.21	0.02	-0.05	x		
<b>Serbia</b>	0.79	0.93	0.86	0.90	-0.25	x	
<b>Kosovo</b>	0.87	0.82	0.86	0.78	-0.24	0.62	x

Source: Own calculations based on World Bank data

By analysing table 7, analogous observations may be outlined and namely, on the overall, the dynamics of imports within CEFTA tend to follow similar tendencies. This fact points to the fact that imports, and, therefore, consumption of goods and services in the region, evolved alike. Yet, Montenegro, as in the previous case, is an exception, its import trends being rather different from the rest of the group, this fact being determined by the country's economic structure and policies. However, it should be noted that Montenegro registers strong correlations with Bosnia and Herzegovina as well as Serbia. This fact can be explained by multiple similarities which exist among these neighbouring states in terms of consumption and import structure, geographical location, natural conditions.

**Table 7. Correlation coefficient calculated between countries' imports**

	Albania	Bosnia and Herzegovina	Moldova	Macedonia	Montenegro	Serbia	Kosovo
<b>Albania</b>	x						
<b>Bosnia and Herzegovina</b>	0.82	x					
<b>Moldova</b>	0.88	0.86	x				
<b>Macedonia</b>	0.90	0.78	0.91	x			
<b>Montenegro</b>	0.44	0.68	0.21	0.14	x		
<b>Serbia</b>	0.62	0.91	0.74	0.73	0.73	x	
<b>Kosovo</b>	0.93	0.69	0.89	0.94	-0.23	0.33	x

Source: Own calculations based on World Bank data

Table 8 provides information regarding the calculated correlations between CEFTA states considering net FDI inflow dynamics. As it can be noticed, tendencies in net FDI inflows are less congruent as compared to the previous indicators. Nevertheless, the correlations are fairly strong to underline that on the overall the evolution of CEFTA states in terms of FDI is similar. Explicit exceptions are Albania and Montenegro whose dynamics tend to pursue a different evolution pathway. This fact can be explained by the specific peculiarities of their socio-economic environment. Montenegro has a distinct economic structure, population, geographical conditions resulting in peculiar advantages, determining FDI flow. In the case of Albania, a different tendency in FDI as compared to the rest of CEFTA could be explained by the socio-economic environment, infrastructure, connectivity as well as policies promoting specific economic interests.

**Table 8. Correlation coefficient calculated between countries net FDI inflows**

	Albania	Bosnia and Herzegovina	Moldova	Macedonia	Montenegro	Serbia	Kosovo
Albania	x						
Bosnia and Herzegovina	-0.43	x					
Moldova	0.17	0.68	x				
Macedonia	0.01	0.59	0.45	x			
Montenegro	0.28	0.15	0.42	0.07	x		
Serbia	-0.10	0.55	0.57	0.68	0.28	x	
Kosovo	0.26	0.50	0.67	0.72	0.49	0.71	x

*Source: Own calculations based on World Bank data.*

Summarizing the information regarding the degree of association between each CEFTA state with the rest, it can be mentioned that the dynamics of the GDP per capita, GDP growth rate, exports, imports follow similar trends in all CEFTA states several exceptions being visible, i.e. Moldova in terms of GDP growth rate, Montenegro (exports, imports). This fact can occur as a result of specific countries' policies, economic structure and socio-economic environment. At the same time, it is important to mention that countries tend to register rather different trends in terms of net FDI inflows. This fact is a direct consequence of the states' heterogeneity in terms of FDI attractiveness, which is determined by countries' size, population, economic opportunities, legislative framework, infrastructure, economic policies.

## Conclusions

CEFTA 2006 had a favourable impact on the melioration of political and economic relations in the Western Balkans by improving the business climate. It has led to the de-tensioning of states' bi-lateral relations previously affected by inter-ethnic conflicts and territorial disputes. Moreover, CEFTA 2006 is regarded as a preparatory instrument for the future European integration of the Western Balkan countries and the Republic of Moldova. Thus, the best performing countries in terms of economic development, human rights protection, functional democracy and institutions could accede to the EU. CEFTA is meant to provide the countries with the opportunity to embrace the European Union experience and advice in order to be able to face the communitarian economic competitiveness. This fact is proved by Croatia which integrated into the EU in 2013 after previously being a member of CEFTA since 2002. Nevertheless, CEFTA countries do not meet the integration criteria since they face a multitude of difficulties in terms of institutional efficiency and economic effectiveness. However, Serbia, Montenegro, Albania and Macedonia have the status of EU candidates and are to integrate in the foreseeable future. In terms of economic development, trade and investments, CEFTA had a favourable impact on countries' performance, yet not a determinative one since economic development is led by internal policies and economic climate while the states' trade is mainly oriented towards the EU. Furthermore, CEFTA's impact on net FDI inflows is positive yet, mainly indirect because it has an ameliorative effect on the relations with neighbouring countries, not determining states' internal economic structure. Therefore, it could be underlined that CEFTA is beneficial for countries because it fosters cooperation although it has a limited impact due to weak states' coordination in terms of commercial, investments and economic policies.

From the perspective of the present research, several research limits can be highlighted. Firstly, it is less clear how the previous inter-ethnic, political and territorial disputes have affected the efficiency of policies coordination among the countries in the field of economic development, trade and investments cooperation. At this point, a question occurs: do the previous disputes reduce CEFTA's capacities to consolidate the region, and if so, what is the extent? Secondly, it is important to assess the role of the European Union in the consolidation of CEFTA, if the European Union stops supporting the organization, do the states continue to develop economic relations under CEFTA? Thirdly, it is important to assess why some of CEFTA states succeed in having higher economic efficiency, trade and investments competitiveness while others stagnate.

The present research only begins to identify the development tendencies in the CEFTA region. Some questions which have been exposed remain unanswered, particularly related to the role of the EU in the consolidation of CEFTA, the extent of CEFTA states' economic interdependency and degree of coordination as well as the future perspectives of CEFTA in the context of deepening individual countries'

cooperation with the European Union. Therefore, these directions need further research to have better comprehension of the subject matter.

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**Annex 1. Exports, Imports and Trade Balance by CEFTA state (USD billion)**

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Macedonia</b>	Export	2,55	3,61	4,26	3,00	3,61	4,79	4,33	4,69	5,38	4,89
	Import	3,77	5,20	6,82	5,13	5,46	6,93	6,52	6,67	7,37	6,53
	Balance	-1,23	-1,59	-2,56	-2,14	-1,86	-2,14	-2,19	-1,98	-2,00	-1,64
<b>Albania</b>	Export	1,87	2,46	3,28	3,06	3,32	3,78	3,56	3,68	3,73	3,11
	Import	4,07	5,34	6,73	6,03	5,78	6,71	5,85	6,01	6,24	5,07
	Balance	-2,20	-2,88	-3,45	-2,97	-2,46	-2,93	-2,30	-2,33	-2,51	-1,96
<b>Bosnia and Herzegovina</b>	Export	4,52	4,29	5,17	4,43	5,09	5,98	5,57	6,13	6,32	5,59
	Import	8,15	8,95	11,40	8,62	8,79	10,42	9,60	9,84	10,51	8,66
	Balance	-3,62	-4,66	-6,23	-4,19	-3,70	-4,44	-4,04	-3,71	-4,19	-3,07
<b>Moldova</b>	Export	1,32	1,75	2,15	1,72	1,96	2,74	2,71	3,04	2,93	2,48
	Import	2,93	4,07	5,37	3,70	4,20	5,57	5,67	6,03	5,86	4,43
	Balance	-1,60	-2,32	-3,22	-1,99	-2,24	-2,83	-2,96	-2,99	-2,93	-1,94
<b>Montenegro</b>	Export	-	1,58	1,82	1,44	1,50	1,93	1,71	1,84	1,84	1,71
	Import	-	3,17	4,25	2,71	2,58	2,92	2,72	2,74	2,75	2,45
	Balance	-	-1,59	-2,43	-1,28	-1,08	-0,99	-1,01	-0,90	-0,91	-0,74
<b>Serbia</b>	Export	-	11,15	14,12	11,24	12,59	15,51	14,73	18,53	19,18	17,34
	Import	-	21,28	26,91	18,27	18,86	22,93	21,84	23,64	24,02	20,96
	Balance	-	-10,13	-12,79	-7,03	-6,27	-7,42	-7,11	-5,11	-4,84	-3,63
<b>UNMIK (Kosovo)</b>	Export	0,51	0,67	0,80	0,92	1,10	1,33	1,18	1,22	1,44	1,24
	Import	1,95	2,46	3,12	2,96	3,22	3,82	3,40	3,46	3,73	3,18
	Balance	-1,44	-1,79	-2,32	-2,05	-2,12	-2,49	-2,22	-2,24	-2,28	-1,94

Source: Own calculations with World Bank data