Towards greater economic integration

Central and Eastern Europe: trade, investment and assistance of the European Union

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Introduction

Over the last decade, the countries of Central and Eastern Europe have lived through a time of major political, economic and social upheavals. This period of change has quite understandably led to enlargement of the European Union (EU) being seen as one of the most important challenges facing both current and prospective EU member nations at the dawn of the twenty-first century.

The "Agenda 2000" report underlines the fact that the European Union and the European Commission must devise a global response to this goal by clearly stating the opportunities that lie ahead for the European Union and its policies.

Between 1989 and 1993, the Central and Eastern European countries (CEECs) underwent an initial phase of macroeconomic changeover, moving from the old system towards more open societies, overcoming a number of stubborn hurdles along the way.

Since 1993, a range of fresh opportunities have opened up to them, not only in purely political terms but also where industry and the economy is concerned.

Throughout this time of change, the European Union has been by their side every step of the way, driven on by a commitment to achieving, in the near future, the historical integration of the continent through peaceful means.

The enlargement process was, at the outset, a wholly new phenomenon and we had no experience of a similar situation on the same scale to fall back on. The project is proving to be a lot more successful than had originally been anticipated.

The EU's approach can be broadly broken down into three different areas: removing trade barriers, promoting investment and providing growing financial support.

Enhancing these ties is a way of addressing some key priorities over the short term (such as help with balance of payments, emergency aid to see out the economic and social crisis), as well as the medium/long term (transfer of know-how, promoting investment).

The aim of this brochure is to shed light in a wholesale and relatively novel way, if we compare it with the weighty reports that have been drawn up in the past, on the economic policy pursued by the European Union. It sets out basic facts and figures which give an insight into the changes that have taken place in the space of the last ten years.

The EU today accounts for close to two thirds of the candidate countries' foreign trade. In spite of recent upheavals on the international financial markets, the CEECs are now making impressive progress in terms of attracting foreign direct investment capital, even though they were starting more or less from scratch. European aid has been constantly on the rise and now makes up nearly three quarters of all western aid.

As far as the forthcoming enlargement is concerned and particularly in view of the pre-accession strategy, the current goal of the European Union is to press on with and strengthen its present approach, paying special attention to breaking down trade barriers and promoting trade, private-sector investment and increasing aid, in accordance with the guidelines set out in the "Agenda 2000" document.

Summary

Bilateral economic relations between the European Union and the countries of Central and Eastern Europe can broadly be subdivided under three main headings: trade, foreign direct investment and financial assistance. In all three of these areas, the European Union and its Member States are the major partner of the CEECs.

The European Union is both the biggest customer and the leading supplier as far as the CEECs are concerned. The foreign direct investment by firms from EU Member States accounts for over three quarters of the cash flowing into the region. The EU and its Member States also provide the lion's share of financial support to the CEECs within the framework of the pre-accession strategy.

The term Central and Eastern European countries (CEECs) covers the ten countries that have applied for EU membership: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Trade between the European Union and the countries of Central and Eastern Europe

The European Union is the Central and Eastern European countries' number one trading partner, absorbing 57 billion Euros' worth of exports out of a total of 97 billion Euros (1997). The EU accounts for somewhere in the region of 60% of all CEEC imports and exports. By way of comparison, the United States accounts for only a fraction of the CEECs' foreign trade (some 3% of both imports and exports). The involvement of Japan is even less significant.

From the European Union's point of view, the CEECs are also becoming more important trading partners. Seven of the candidate countries, which belong to the EU's top fifty trading partners, account for 8% of European Union imports and 10% of its exports.

The European Union's trade policy focuses on breaking down all barriers to trade and on asymmetric access to markets. Asymmetric access means that the EU is opening up its markets more rapidly than the CEECs, who are in need of extra time to adapt. This approach has meant that, from early 1995 onwards, the CEECs were entirely free to sell their industrial products on EU markets (except for a number of specific areas, such as coal, steel and textiles, which have since also had the same treatment extended to them).

The Europe Agreements signed with each of the CEECs are set to lead to the disappearance of all trade barriers for industrial goods within ten years of their being signed. EU Member States have had free access to CEEC markets for their industrial products since 1 January 1998.

Foreign direct investment in the countries of Central and Eastern Europe

Foreign direct investment tends to play a vital role in the economic development of a nation.

In the CEECs, foreign direct investment flows started from extremely low levels. By 1997, they were in the region of 40 billion Euros across the ten CEEC candidate countries as a whole. Progress has been particularly impressive in Hungary, Poland and the Czech republic, where investment growth has been continuous.

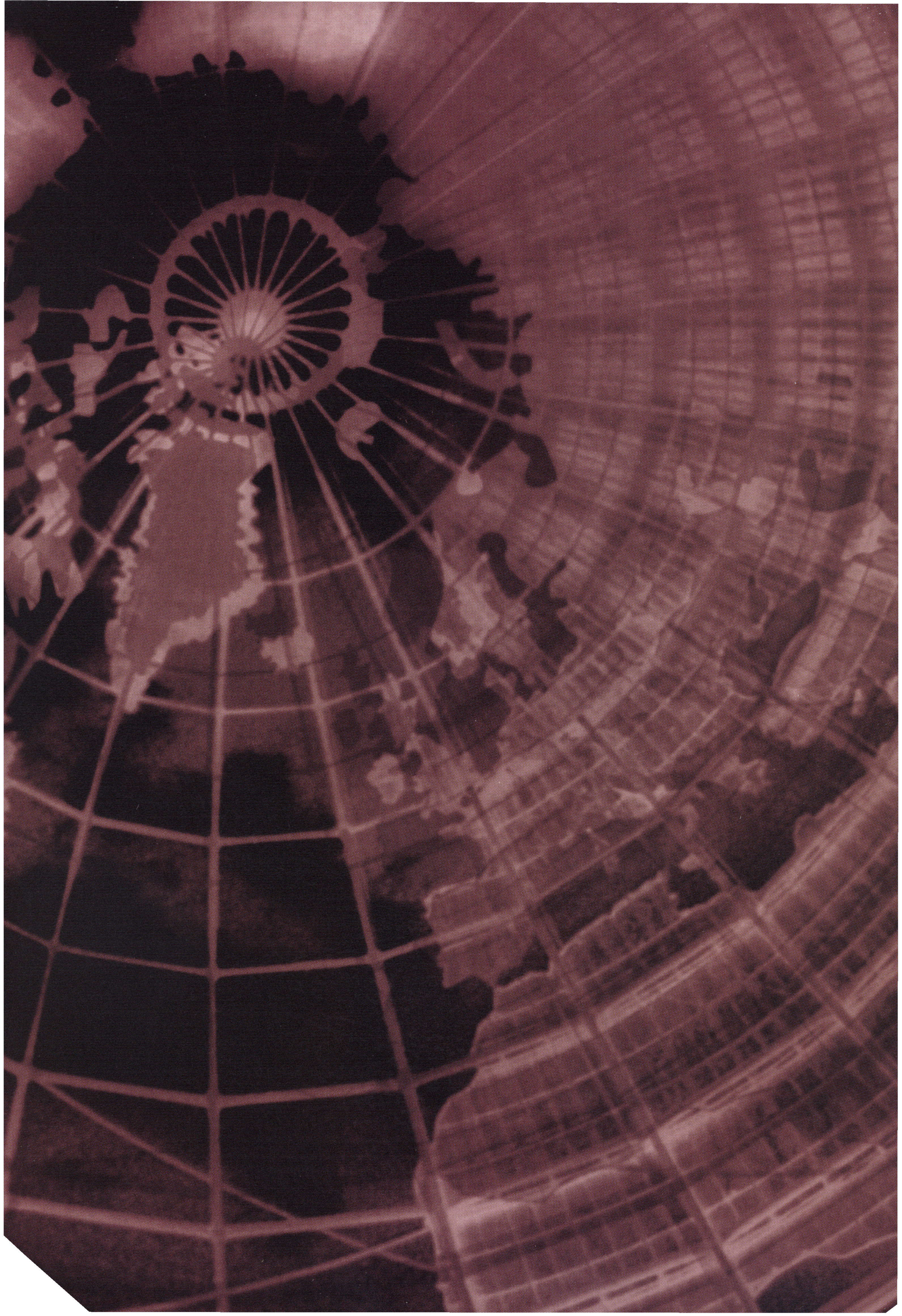
Firms from Member States of the European Union have made a major contribution to turning the economies of the CEECs around and have been responsible for over three quarters of the capital flowing into the region from large western investors. Of all the European companies operating in the area, German firms have been the most active. In value terms, multinational companies from North America come second after the Germans, whereas Japanese firms have made extremely few inroads into the CEEC markets.

Financial assistance for the countries of Central and Eastern Europe

Between 1990 and 1997, the European Union and its Member States provided almost three quarters of all financial assistance to the CEECs. A similar degree of EU involvement is to be found when it comes to aid. This dynamic approach can be seen in all areas of aid (technical assistance, infrastructure, food aid, emergency aid, etc.).

Leaving bilateral assistance to one side, more than 7.5 billion Euros have been deployed between 1990 and 1998 by the EU through the Phare programme. The EIB (European Investment Bank) has, in turn, provided lending packages worth over 8 billion Euros over the same period. To a large extent, this money has been spent on funding infrastructure projects.

The EU is constantly looking to improve the assistance it provides and to adjust it to changing requirements. As part of the pre-accession strategy, the Phare programme has seen its budget swell to over 1.5 billion Euros, to which should the added the new allocation of 1 billion Euros a year targeted at structural interventions in the fields of transport and the environment, with a further 500 million Euros going to farming. This means that pre-accession support will have doubled by the year 2000. Over and above this aid, the EIB provides two three-year loan packages worth close to 3.5 billion Euros each.



Enlargement of the European union

The CEEC candidates to the European Union

THE CEEC CANDIDATES TO THE EUROPEAN UNION (1997)

Country	SURFACE AREA (1000 Km²)	POPULATION (in millions)	POPULATION DENSITY (pers/Km²)	GDP per capita in PPP (EUR=100)	CONTRIBUTION OF FARMING TO GDP [1]	CONTRIBUTION OF FARMING TO OVERALL EMPLOYMENT [1]	GROWTH RATE OF GDP	SHARE OF EU IMPORTS IN TOTAL IMPORTS	SHARE OF EXPORTS TO THE EU IN TOTAL EXPORTS
Bulgaria	111	8.2	75	23	12.8	23.4	-6.9	41.0	44.1
Czech Republic	79	10.2	130	63	2.9	4.1	+1.0	61.5	59.9
Estonia	45	1.4	33	37	8.0	9.2	+11.4	59.1	48.6
Hungary	93	10.1	109	47	5.8	8.2	+4.4	62.4	69.9
Latvia	65	2.4	38	27	7.6	15.3	+6.5	53.2	48.9
Lithuania	65	3.7	57	30	10.2	24.0	+5.7	47.7	36.7
Poland	313	38.6	124	40	6.0	26.7	+6.9	63.0	63.5
Romania	238	22.5	94	31	19.0	37.3	-6.6	52.5	56.6
Slovakia	49	5.3	110	47	4.6	6.0	+6.5	39.5	45.0
Slovenia	20	2.0	100	68	4.4	6.5	+3.8	67.4	63.6

Source: European Commission services.

[1] 1996.

The EU enlargement process

Enlargement has become one of the most crucial challenges that the European Union will have to face as it enters the twenty-first century. Enlargement also offers a not-to-be-missed historical opportunity to consolidate still further the integration of Europe through peaceful means, by extending our area of stability and prosperity to new members.

The Treaty of Paris (1951) establishing the European Coal and Steel Community (ECSC) and the Treaties of Rome (1957) establishing the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) were signed by the six founder members: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. The European Community has been through four different enlargements since then:

1973 Denmark, Ireland and the United Kingdom

1981 Greece

1986 Portugal and Spain

1995 Austria, Finland and Sweden

The fifteen Member States of the European Union are currently involved in an enlargement process encompassing thirteen other countries: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Cyprus, Malta and Turkey.

The ten candidate countries from Central and Eastern Europe

Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia have all applied to join the EU.

At the Copenhagen European Council in June 1993, the Heads of State and Government of the Member States of the EU judged that the candidate countries would have to be in a position to satisfy a certain number of demanding political and economic conditions. The "Copenhagen criteria" determined that all applicants would have to be able to provide guarantees of:

- the existence of stable institutions underpinning democracy, the rule of law, human rights, respect for minority groups and their protection;
- the existence of a viable market economy and the means to deal with competitive pressure and market forces within the Union; and
- the ability to undertake the obligations that come with membership, such as meeting the targets set down by political, economic and monetary union.

Furthermore, the Madrid European Council, held in December 1995, agreed that the candidate countries should also improve their administrative structures.

The Commission's opinions on the requests submitted by the ten candidate countries from Central and Eastern Europe were presented in July 1997. The Commission came out in favour of commencing negotiations with the Czech Republic, Estonia, Hungary, Poland and Slovenia.

The enlargement process

In December 1997 in Luxembourg the European Council took a number of historic decisions on enlargement of the European Union and defined the general process concerning enlargement in a way that would cover all countries wishing to become members of the European Union.

Enlargement is an ongoing process, operating on a large scale and based on integration. Each candidate country will proceed at its own pace, in accordance with its own degree of readiness.

The enlargement process has three aspects

1. *The European conference*

   This conference provides a multilateral forum which brings together all the countries wishing to join the European Union and which share its values and goals.

2. *The accession process*

   The accession process, which involves the ten Central and Eastern European countries, as well as Cyprus, was launched on 30 March 1998. It aims to bolster the pre-accession strategy which will give the candidate countries a chance to conform, as far as possible, with the "acquis" of the European Union (i.e. the body of existing Community legislation) prior to joining.

   The strengthened pre-accession strategy is based, inter alia, around accession partnerships, identifying a range of short-term and medium-term priorities which are to serve as a guide for the ten CEECs as they prepare for accession. These partnerships are intended to employ all the different forms of assistance to the CEECs under a single umbrella framework.

   A second key feature of this strategy is the twofold increase in financial support targeted at priorities associated with accession. Financial support is to be made available through a reoriented Phare programme and through new programmes for the environment and transport, as well as for farming and rural development. An additional "catch-up" facility has been devised to help those countries which are not quite ready to begin negotiations. A wide range of Community programmes will gradually be extended to embrace the candidate countries, covering areas such as education and training, the environment, research and culture. These programmes will help to make a large number of different sectors in the candidate countries aware of the way the EU works.

   Finally, an assessment procedure has been set up involving the drawing up of progress reports with respect to each candidate country as it prepares for EU membership. The first of these reports came out on 4 November 1998.

3. *Accession negotiations*

   Talks began on 31 March 1998 with six of the countries recommended by the European Commission (Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia). Negotiations with these countries are being held within the framework of bilateral accession conferences between the Member States and each of the candidate countries.

The strengthened pre-adhesion strategy

In order to avoid transitional periods when the CEECs become members of the EU the Union has made a firm commitment to strengthening the pre-accession strategy, agreed at the Essen European Council.

The strengthened pre-accession strategy has two overriding objectives: bringing together the many different types of aid provided by the European Union and uniting them within a single framework – the accession partnerships – and making the candidate countries fully aware of the policies and procedures of the European Union by giving them the chance to take part in Community programmes.

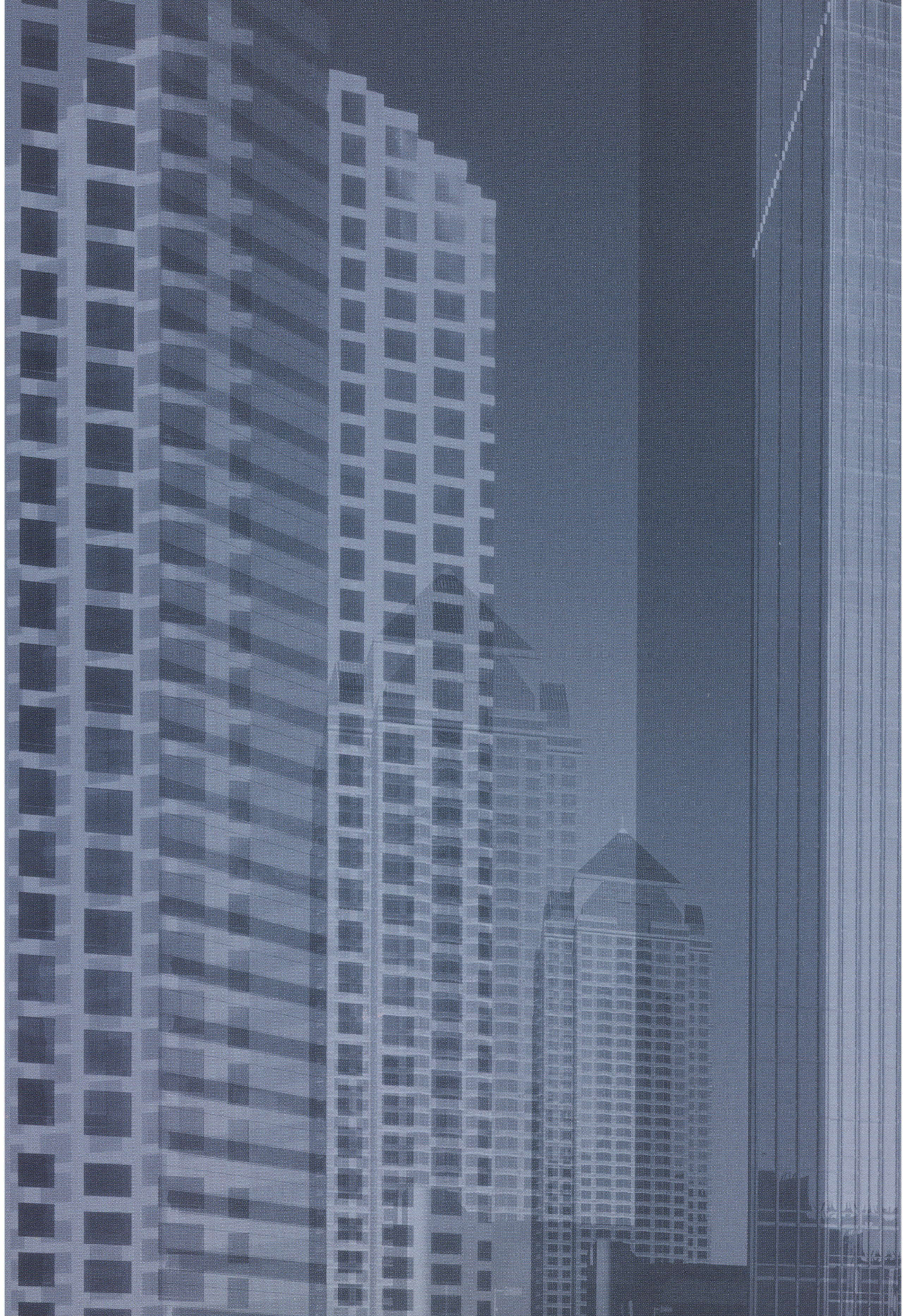
The accession partnerships will provide the foundations on which the strengthened strategy can be built; they are set to focus on specific commitments made by the candidate country in question, especially as regards democracy, macroeconomic stability, nuclear safety and a national programme to assimilate existing Community legislation. The accession partnerships will enable the Community to make optimum use of all the means available to it to prepare the candidate countries for accession, i.e. resources from the Phare programme, and new forms of assistance, as well as loans from the EIB, the EBRD and the World Bank. The implementation of the Phare programme will be subject to strict conditionality as regards future membership.

Pre-accession aid will comprise three separate strands from January 2000 onwards: the Phare programme with 1.5 billion Euros every year, support for agricultural development worth some 500 million Euros per year and structural assistance totalling 1 billion Euros annually and whose prime objective will be to help the candidate countries to approach European standards in terms of infrastructure, particularly where the environment and transport are concerned.

The Phare programme is set to focus in future on improving administrative and legal capacity in all sectors and on investment projects linked to taking the Community acquis on board in areas not covered by the two other instruments (70% of the Phare programme budget will be allocated to funding investment). All in all, almost three billion Euros every year in non-repayable aid will be available. Over and above this, we must bear in mind the special effort being made by the European Investment Bank by means of its loans (seven billion Euros over three years).

The candidate countries are to take part in Community programmes in areas such as education (Socrates), training (Leonardo da Vinci), research, culture, the environment and SMEs and the single market.

The European Commission will draw up regular reports on the progress made. These reports may contain recommendations to the Council concerning the possibility of commencing negotiations. The European Commission did not make any such recommendations in the documents published on 4 November 1998. The next set of reports will be adopted in October 1999.



Trade

The CEECs' place among the main trading partners of the European Union

The European Union is the leading trade figure on the world stage. The two other vast market economies, i.e. the United States and Japan, not forgetting Switzerland, make up its three principal trading partners.

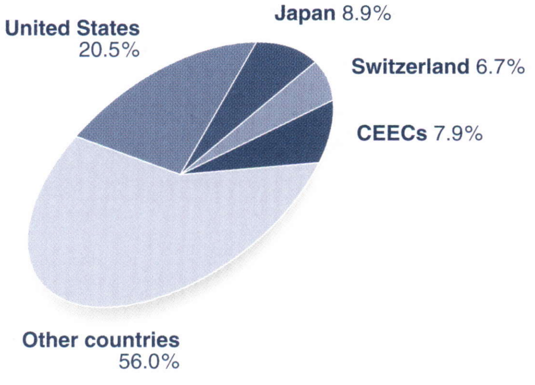
The countries of Central and Eastern Europe can stake claims to varying positions on the trade league table according to the relative size and weight of their economies. It is important to bear in mind, however, that seven of the ten CEEC candidates to the European Union can be found among the European Union's top fifty trading partners where imports are concerned, while six of them feature in the top fifty ranking for exports.

In 1997, the combined EU market share of these CEECs was 7.9% for imports and 9.9% for exports.

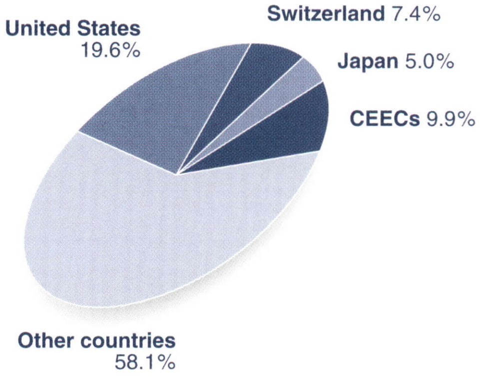
In general terms, the CEECs' share of the European Union market has continued to rise in recent years. In the same way, imports to the EU from the seven CEECs that do the most business with the European Union increased by 2.8% of the EU total in 1997 as against 1992. Over this same period, EU exports to the six leading CEECs have risen by some 3.8% of the EU total figure.

Poland comes in fifth, behind the United States, Switzerland, Japan and Russia as a marketplace for European goods.

EU imports coming from
(in 1997)



EU exports to
(in 1997)



THE EUROPEAN UNION'S MAIN PARTNERS IMPORTS/EXPORTS (% of total)

Classification in 1997	Imports from	1992	1996	1997
1	United States	20.0	19.4	20.5
2	Japan	12.2	9.0	8.9
3	Switzerland	8.1	7.3	6.7
8	Poland	1.7	2.1	2.1
13	Czech Republic	1.4 (1)	1.7	1.8
14	Hungary	1.1	1.5	1.7
29	Slovenia	0.4	0.7	0.7
30	Romania	0.3	0.6	0.7
34	Slovakia	-	0.6	0.6
42	Bulgaria	0.2	0.3	0.3

Classification in 1997	Exports to	1992	1996	1997
1	United States	19.3	18.3	19.6
2	Switzerland	10.2	8.2	7.4
3	Japan	5.4	5.7	5.0
5	Poland	2.2	3.2	3.5
10	Czech Republic	1.8 (1)	2.2	2.2
14	Hungary	1.3	1.6	1.9
29	Slovenia	0.3	0.9	0.9
33	Romania	0.5	0.7	0.7
35	Slovakia	-	0.6	0.7

Source: Eurostat.

(1) Czechoslovakia as a whole.

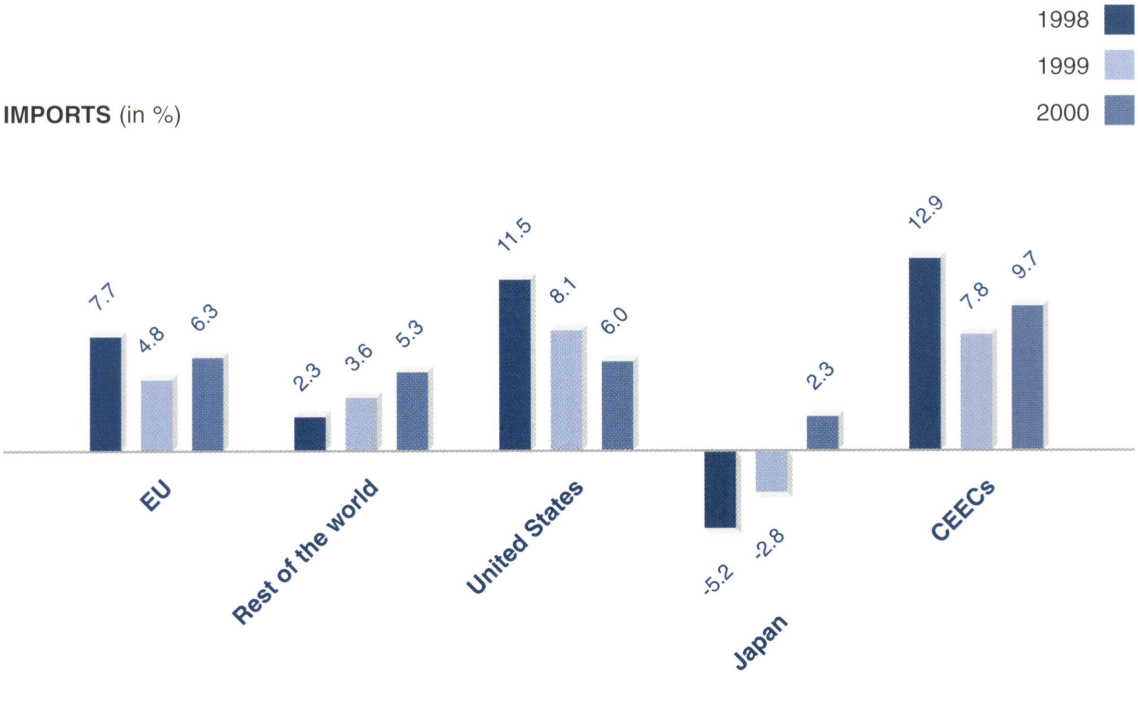
Forecast volume growth in international trade of the CEECs

Prospects for growth in CEEC international trade are reasonably healthy. While a slight slowdown is forecast with respect to 1998, a 10% year-on-year growth figure ought to be attainable in 2000 where both exports and imports are concerned. This would mean a significantly higher rise than that anticipated for trade with the European Union, which should be in the region of 5 or 6%.

Nonetheless, different trends are discernable among the CEECs themselves. One, which stands out, is the forecast of a potential slowdown in export and import growth for Hungary where the figures had, up until now, been very high. This change would bring the growth and development patterns for the Hungarian and Polish economies more into line with one another. Poland may see its exports level out with respect to the rate achieved in 1998. In the Czech Republic, export growth is likely to undergo a significant slowdown over the course of 1999 and this trend is set to continue into the year 2000.

The relatively high growth rates forecast for the CEECs are a sign of the buoyancy of their economies. They have a good deal of ground to make up both in terms of investment products and consumer goods. Moreover, the fundamental shift in their economies towards that of the EU in recent years means that they are likely to remain relatively unscathed in the wake of the financial crisis in Russia, although with a number of notable exceptions (such as Lithuania, which has traditionally carried out a large proportion of its trade with the New Independent States [NIS]).

IMPORTS (in %)



FORECAST VOLUME GROWTH IN INTERNATIONAL TRADE
(in %)

	1998 [1]	1999	2000
IMPORTS FROM THE EU	**7.7**	**4.8**	**6.3**
of which Germany	5.6	4.0	5.3
IMPORTS FROM THE REST OF THE WORLD (- THE EU)	**2.3**	**3.6**	**5.3**
the United States	**11.5**	**8.1**	**6.0**
Japan	**-5.2**	**-2.8**	**2.3**
the CEECs	**12.9**	**7.8**	**9.7**
of which Bulgaria	5.8	6.0	7.0
the Czech Republic	10.0	5.0	8.3
Estonia	6.5	4.3	5.8
Hungary	23.6	14.4	12.8
Latvia	9.5	7.7	6.5
Lithuania	9.8	-11.5	9.3
Poland	16.1	15.0	14.0
Romania	10.9	-2.6	-1.0
Slovakia	6.7	0.9	4.6
Slovenia	6.5	4.9	6.4

Source: European Commission services. DG II.

[1] Estimates.

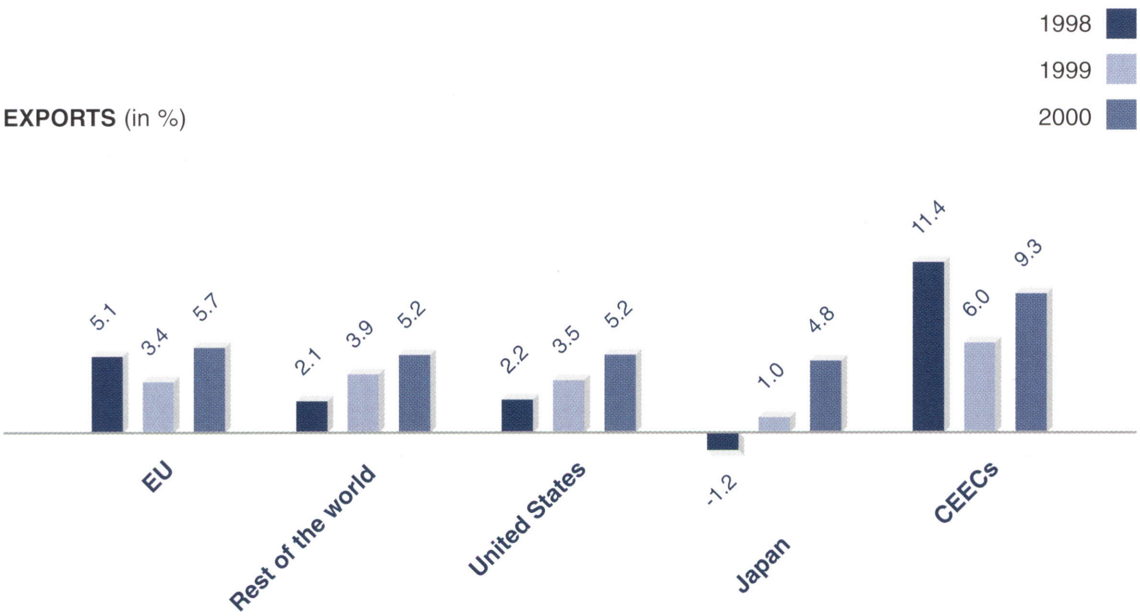
FORECAST VOLUME GROWTH IN INTERNATIONAL TRADE
(in %)

	1998 [1]	1999	2000
EXPORTS FROM THE EU	**5.1**	**3.4**	**5.7**
of which Germany	5.9	3.0	5.5
EXPORTS FROM THE REST OF THE WORLD (- THE EU)	**2.1**	**3.9**	**5.2**
the United States	**2.2**	**3.5**	**5.2**
du Japan	**-1.2**	**1.0**	**4.8**
the CEECs	**11.4**	**6.0**	**9.3**
of which Bulgaria	-7.7	-7.9	5.0
the Czech Republic	15.4	5.4	8.0
Estonia	10.1	5.1	7.3
Hungary	21.8	12.3	13.1
Latvia	8.9	8.1	8.8
Lithuania	8.5	-12.9	9.3
Poland	11.0	9.0	12.1
Romania	-0.3	0.6	3.0
Slovakia	8.3	6.0	7.0
Slovenia	7.0	4.6	6.0

Source: European Commission services. DG II.

[1] Estimates.

EXPORTS (in %)


1998
1999
2000
5.1
3.4
5.7
2.1
3.9
5.2
2.2
3.5
5.2
-1.2
1.0
4.8
11.4
6.0
9.3
EU
Rest of the world
United States
Japan
CEECs

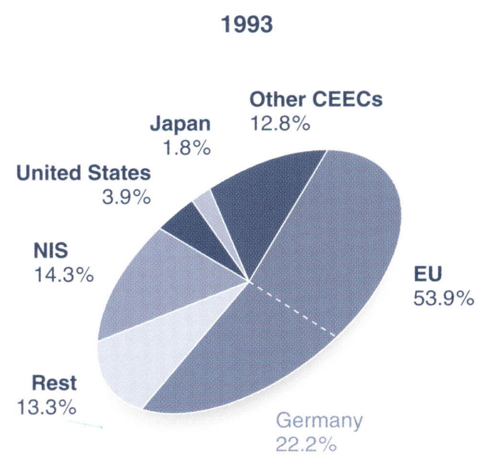
The structure of foreign trade of the CEEC candidates to the EU

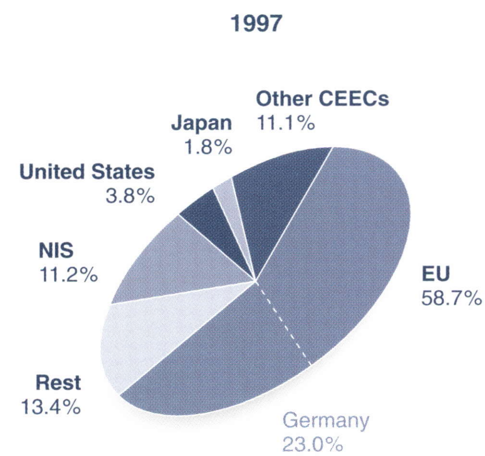
The European Union is by far the main trading partner of the countries of Central and Eastern Europe. Between 1993 and 1997, the volume of trade between the EU and seven of the CEECs – Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia (plus Croatia) – increased twofold. By 1997, the European Union accounted for 60% of the CEECs' total overseas trade figures. By way of comparison, trade with the other CEECs only accounts for some 13% of the region's overall foreign trade figures, whilst the share of the NIS is in the region of 10%. This means that the CEECs do four times more business with the EU than they do amongst themselves and six times more trade than with the NIS. Trade between the CEECs and the United States or Japan has yet to take off to any great extent. A significant trading relationship with the United States only exists for certain specific sectors and for a limited number of countries.

Germany is still the European Union Member State that does the greatest volume of business with the CEECs, responsible for 24% of all imports and 30% of all exports. With respect to 1993, Germany's share of CEEC exports has risen by 4%. Some way behind, Italy ranks as their second biggest trading partner from the EU, followed by France and Austria.

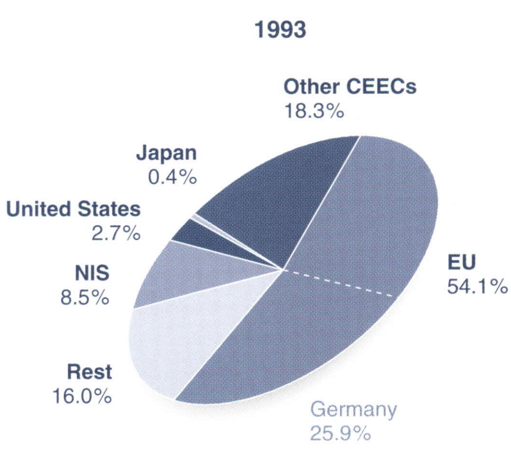
If, for 1997, we reintroduce the three Baltic States that have applied to join the EU (Estonia, Latvia and Lithuania), for which relevant data was not available in 1993, the CEECs' foreign trade is focused to a greater extent on the market of the EU than that of the NIS. The CEECs do more trade (by volume) with the EU than with the NIS.

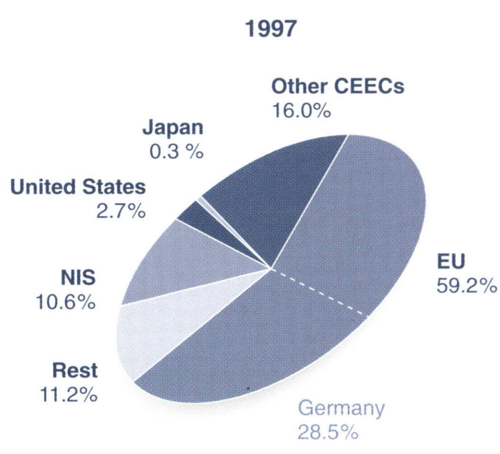
CEEC IMPORTS





CEEC EXPORTS





THE STRUCTURE OF FOREIGN TRADE OF THE CEEC CANDIDATES TO THE EU[1]

	1993		1997		1997[2]	
	Bn €	%	Bn €	%	Bn €	%
IMPORTS						
from other CEECs	8.0	12.8	13.1	11.0	14.5	11.1
the rest of the world	54.3	87.2	106.3	89.0	116.1	88.9
of which the European Union	**33.6**	**53.9**	**70.7**	**59.2**	**76.6**	**58.7**
of which Germany	13.8	22.2	28.3	23.7	30.0	23.0
Italy	4.9	7.9	11.7	9.8	12.0	9.2
France	2.5	4.0	6.1	5.1	6.4	4.9
Austria	3.9	6.3	6.2	5.2	6.3	4.8
NIS	**8.9**	**14.3**	**12.0**	**10.1**	**14.6**	**11.2**
of which Russia	7.4	11.9	10.0	8.4	12.1	9.3
Ukraine	0.8	1.3	1.4	1.2	1.5	1.1
United States	**2.4**	**3.9**	**4.7**	**3.9**	**5.0**	**3.8**
Japan	**1.1**	**1.8**	**2.2**	**1.8**	**2.3**	**1.8**
TOTAL	62.3	100.0	119.4	100.0	130.6	100.0
EXPORTS						
to other CEECs	9.5	18.3	14.6	16.2	15.6	16.0
the rest of the world	42.3	81.7	75.6	83.8	81.6	84.0
of which the European Union	**28.0**	**54.1**	**54.4**	**60.3**	**57.5**	**59.2**
of which Germany	13.4	25.9	27.0	29.9	27.7	28.5
Italy	3.9	7.5	7.3	8.1	7.4	7.6
France	1.9	3.7	3.4	3.8	3.5	3.6
Austria	2.4	4.6	5.1	5.7	5.1	5.2
NIS	**4.4**	**8.5**	**8.0**	**8.9**	**10.3**	**10.6**
of which Russia	3.0	5.8	4.6	5.1	6.1	6.3
Ukraine	0.7	1.4	1.9	2.1	2.2	2.3
United States	**1.4**	**2.7**	**2.4**	**2.7**	**2.6**	**2.7**
Japan	**0.2**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
TOTAL	51.8	100.0	90.2	100.0	97.2	100.0

Source: Eurostat.

[1] The six CEEC applicant States for which foreign trade figures are available for 1993, these being: Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovenia (plus Croatia) and Slovakia, for which 1994 figures have had to be used.
[2] List of the CEECs in 1993, plus the three Baltic States.

The CEECs' trade balance

In almost all instances, the CEECs' trade balance is negative. This situation does not, broadly speaking, pose a huge problem as most CEECs are going through a period of economic expansion and so a trade deficit is quite typical. The only real concern revolves around making sure this deficit can be financed, i.e. ensuring that the countries involved have sufficient funds coming in and enjoy surpluses in other areas of their balance of payments.

Several of these States have a sizeable trade deficit, such as Poland and the Baltic States and these deficits have tended to increase from 1995 onwards, reaching nearly 15 billion Euros or 12% of GDP in Poland by 1997, 18% of GDP in Lithuania, 20% in Latvia and over 30% in Estonia. In Latvia, Poland, Estonia and even Lithuania, this trend can largely be put down to imports of goods which serve to make the economy more competitive and which should, over time, lead to a stabilisation of the trade balance.

THE CEECs' TRADE BALANCE IN 1997 (in M €)

	Exports	Trade balance	Trade balance in % of exports
Bulgaria	3,126	+276	+8.8
Czech Republic	20,084	-3,883	-19.3
Estonia	2,567	-1,329	-51.7
Hungary	16,842	-1,882	-11.2
Latvia	1,429	-972	-68
Lithuania	3,382	-1,552	-45.9
Poland	22,707	-14,600	-64.3
Romania	7,434	-2,512	-33.8
Slovakia	7,754	-1,298	-16.7
Slovenia	7,382	-869	-11.8

Source: Trade balances, Eurostat.

EU trade with the CEECs

There was a marked increase in trade between the EU and the CEECs over the course of 1997 with respect to the previous year. The European Union enjoys a trade surplus with all its partners from Central and Eastern Europe, except for Bulgaria.

The average year-on-year increase in trade for 1997 with respect to 1996 was +23% for EU exports and +20% where imports from the CEECs were concerned.

Of the European Union countries, Germany continues to play a leading role, accounting for 42% of all EU exports and 47% of imports. Italy comes in second overall, quite a way behind the Germans, yet ahead of Austria, France, the United Kingdom, the Netherlands and the Belgium-Luxembourg economic union. Sweden, Finland, Spain and Denmark are a little further behind.

In 1997, Poland, the Czech Republic and Hungary between them provided a market for 69% of EU exports to the CEECs, as well as accounting for 66% of EU imports from the CEECs. There was a notable increase in EU exports to Poland (+26%) and Hungary (+36%) between 1996 and 1997.

Trade with the three Baltic States has taken off quite dramatically. The European Union has substantially increased its sales to these countries since 1996. Nonetheless, given their size, their influence over the trade figures for the CEEC region as a whole remains relatively minor.

1998 served to endorse the trends already observed throughout 1997, with EU exports rising by +14% and imports from the CEECs increasing by +19%. Exports to Bulgaria and imports from Slovakia displayed the steepest growth curves. While the European Union's trade surplus rose somewhat, the cover rate for EU exports/imports fell significantly. Throughout 1997 and 1998, trade integration between the EU and the CEECs continued to blossom.

EU TRADE WITH THE CEECs IN 1997

		1997		
			Growth rate 97/96	Imp. EU/ Exp. EU
		M €	%	%
Bulgaria	Imp. EU	2.083	22	
	Exp. EU	1.842	8	113
	Balance	-241		
Czech Republic	Imp. EU	11.740	20	
	Exp. EU	15.841	13	74
	Balance	4.101		
Estonia	Imp. EU	1.498	38	
	Exp. EU	2.388	41	63
	Balance	889		
Hungary	Imp. EU	11.596	31	
	Exp. EU	13.578	36	85
	Balance	1.981		
Latvia	Imp. EU	1.278	14	
	Exp. EU	1.533	38	83
	Balance	255		
Lithuania	Imp. EU	1.309	20	
	Exp. EU	2.151	47	61
	Balance	841		
Poland	Imp. EU	14.197	16	
	Exp. EU	25.049	26	57
	Balance	10.852		
Romania	Imp. EU	4.420	23	
	Exp. EU	5.013	13	88
	Balance	593		
Slovakia	Imp. EU	3.979	16	
	Exp. EU	4.807	20	88
	Balance	828		
Slovenia	Imp. EU	4.662	9	
	Exp. EU	6.311	17	74
	Balance	1.649		

Source: Eurostat (Comext - EEC Special Trade Domain), 1998.

EU TRADE WITH THE CEECs IN 1998

		1998		
		M €	Growth rate 98/97 %	Imp. EU/ Exp. EU %
Bulgaria	Imp. EU	2.230	7	
	Exp. EU	2.426	31	92
	Balance	196		
Czech Republic	Imp. EU	14.662	25	
	Exp. EU	17.112	8	86
	Balance	2.450		
Estonia	Imp. EU	1.756	17	
	Exp. EU	2.684	12	65
	Balance	928		
Hungary	Imp. EU	14.464	24	
	Exp. EU	16.747	23	86
	Balance	2.283		
Latvia	Imp. EU	1.385	8	
	Exp. EU	1.806	18	77
	Balance	421		
Lithuania	Imp. EU	1.409	7	
	Exp. EU	2.375	10	59
	Balance	966		
Poland	Imp. UE	16.107	13	
	Exp. UE	28.063	12	57
	Balance	11.956		
Romania	Imp. EU	5.122	16	
	Exp. EU	6.275	25	82
	Balance	1.153		
Slovakia	Imp. EU	5.361	35	
	Exp. EU	5.673	18	95
	Balance	311		
Slovenia	Imp. EU	5.224	12	
	Exp. EU	6.726	6	78
	Balance	1.502		

Source: Eurostat (Comext - EEC Special Trade Domain), 1998.

CEEC-rest of world trade (excluding CEECs) sector by sector

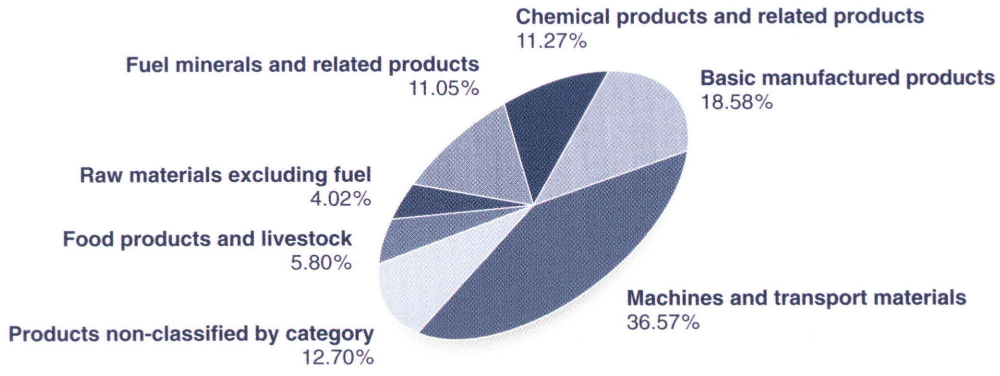
The CEECs understandably have a somewhat uneven trading relationship with the rest of the world. The CEECs import 42% more goods and services from the rest of the world than they export. This situation is better appreciated in the light of the growth in investment and, as a result, the increase in imports in the context of overhauling and modernising these nations' production systems.

As far as imports are concerned, machines and material for the transport sector continue to be the most important item with 36% of the total. This means that the CEECs are in the process of acquiring up-to-date infrastructures and production systems, which should, in turn, lead to these countries becoming all the more competitive. The basic manufactured goods sector is the second largest (18%), followed by chemical products and fossil fuels, which each account for 11% of the total.

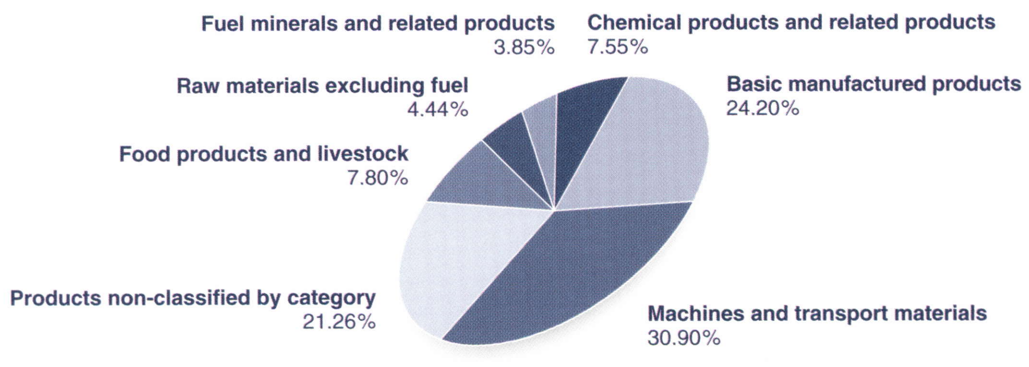
Where CEEC exports are concerned, the leading area is once again machines and material for the transport sector (30%), ahead of basic manufactured goods (24%). It must be said, however, that the goods processed and sold by the CEECs are not necessarily comparable to those that they buy in from abroad.

CEEC-REST OF THE WORLD TRADE (EXCLUDING CEECs) SECTOR BY SECTOR IN 1997

TOTAL SECTOR IMPORTS (in %)



TOTAL SECTOR EXPORTS (in %)



CEEC-REST OF WORLD TRADE (EXCLUDING CEECs) SECTOR BY SECTOR 1997 (in M €)

IMPORTS	Food products and livestock	Raw materials excluding fuel	Fuel minerals and related products	Chemical products and related products
BULGARIA	261	363	1,305	427
	6.64%	9.24%	33.21%	10.87%
CZECH REPUBLIC	1,001	771	1,746	2,233
	4.85%	3.74%	8.46%	10.82%
ESTONIA	488	145	318	322
	13.23%	3.93%	8.62%	8.73%
HUNGARY	604	371	1,472	1,803
	3.49%	2.15%	8.51%	10.43%
LATVIA	182	71	274	210
	9.29%	3.62%	13.99%	10.72%
LITHUANIA	323	194	690	414
	7.94%	4.77%	16.97%	10.18%
POLAND	2,346	1,465	3,138	4,608
	6.74%	4.21%	9.02%	13.25%
ROMANIA	392	434	1,799	789
	4.23%	4.68%	19.42%	8.52%
SLOVAKIA	356	234	828	690
	5.55%	3.65%	12.90%	10.75%
SLOVENIA	383	343	500	817
	5.34%	4.78%	6.97%	11.39%
TOTAL	6,336	4,391	12,070	12,313
	5.80%	4.02%	11.05%	11.27%

Source: Eurostat (Comtrade).

Basic manufactured products	Machines and transport materials	Products non-classified by category	Total	
641	631	302	3,930	**BULGARIA**
16.31%	16.06%	7.68%	100.00%	
3,656	8,370	2,865	20,642	**CZECH REPUBLIC**
17.71%	40.55%	13.88%	100.00%	
664	1,301	451	3,689	**ESTONIA**
18.00%	35.27%	12.23%	100.00%	
3,318	7,532	2,191	17,291	**HUNGARY**
19.19%	43.56%	12.67%	100.00%	
355	582	285	1,959	**LATVIA**
18.12%	29.71%	14.55%	100.00%	
689	1,306	451	4,067	**LITHUANIA**
16.94%	32.11%	11.51%	100.00%	
6,582	12,867	3,778	34,784	**POLAND**
18.92%	36.99%	10.86%	100.00%	
2,245	2,520	1,086	9,265	**ROMANIA**
24.23%	27.20%	11.72%	100.00%	
701	2,230	1,380	6,419	**SLOVAKIA**
10.92%	34.74%	21.50%	100.00%	
1,447	2,598	1,085	7,173	**SLOVENIA**
20.17%	36.22%	15.13%	100.00%	
20,298	39,938	13,874	109,221	**TOTAL**
18.58%	36.57%	12.70%	100.00%	

CEEC-REST OF WORLD TRADE (EXCLUDING CEECs) SECTOR BY SECTOR 1997 (in M €)

EXPORTS	Food products and livestock	Raw materials excluding fuel	Fuel minerals and related products	Chemical products and related products
BULGARIA	268	268	309	689
	6.86%	6.86%	7.91%	17.64%
CZECH REPUBLIC	451	669	453	990
	2.96%	4.38%	2.97%	6.49%
ESTONIA	342	296	120	143
	15.74%	13.62%	5.52%	6.58%
HUNGARY	1,429	387	271	965
	9.54%	2.58%	1.81%	6.45%
LATVIA	160	373	14	63
	12.63%	29.44%	1.10%	4.97%
LITHUANIA	445	209	90	295
	17.42%	8.18%	3.52%	11.55%
POLAND	2,427	664	1,251	1,474
	11.74%	3.21%	6.05%	7.13%
ROMANIA	306	306	411	489
	4.41%	4.41%	5.92%	7.05%
SLOVAKIA	139	189	81	320
	3.04%	4.13%	1.77%	7.00%
SLOVENIA	149	119	14	493
	2.46%	1.96%	0.23%	8.12%
TOTAL	6,116	3,480	3,014	5,921
	7.80%	4.44%	3.85%	7.55%

Source: Eurostat (Comtrade).

Basic manufactured products	Machines and transport materials	Products non-classified by category	Total	
1,177	430	765	3,906	**BULGARIA**
30.13%	11.01%	19.58%	100.00%	
4,144	6,064	2,486	15,257	**CZECH REPUBLIC**
27.16%	39.75%	16.30%	100.00%	
409	538	325	2,173	**ESTONIA**
18.82%	24.76%	14.96%	100.00%	
1,901	7,278	2,741	14,972	**HUNGARY**
12.70%	48.61%	18.31%	100.00%	
291	132	234	1,267	**LATVIA**
22.97%	10.42%	18.47%	100.00%	
415	598	502	2,554	**LITHUANIA**
16.25%	23.41%	19.65%	100.00%	
5,420	4,569	4,873	20,678	**POLAND**
26.21%	22.10%	23.57%	100.00%	
2,004	917	2,505	6,938	**ROMANIA**
28.88%	13.22%	36.10%	100.00%	
1,513	1,486	845	4,573	**SLOVAKIA**
33.09%	32.50%	18.48%	100.00%	
1,696	2,208	1,390	6,069	**SLOVENIA**
27.95%	36.38%	22.90%	100.00%	
18,970	24,220	16,666	78,387	**TOTAL**
24.20%	30.90%	21.26%	100.00%	

Trade between the CEECs

Levels of trade between the CEECs themselves have remained relatively low, in spite of the European Union's frequently repeated wishes to the contrary.

This fact can be put down to several factors:

- the disappearance of exchange mechanisms, as had existed within Comecon;
- the demand for technologically advanced investment and consumer goods, which their regional partners are not yet in a position to supply them with;
- the tendency to view all forms of regional integration as less than ideal solutions and as alternatives to membership of the European Union.

Within the three geographical areas taken into consideration - the Baltic States, the member countries of the Central European Free-trade Agreement (with the exception of Romania and Bulgaria which were not members at the time) and the Balkans - trade is underdeveloped, although there is an upturn in value terms (except in the Balkans).

Leaving aside the special case of the Czech Republic and Slovakia, inter-regional trade accounts for a mere fifth or tenth of the volume of trade done with the European Union.

TRADE BETWEEN THE BALTIC STATES

	1994					1997				
Imports in Bn €	**Other Baltic States**	**% Other Baltic States / World**	**EU 15**	**% EU 15 / World**	**World**	**Other Baltic States**	**% Other Baltic States / World**	**EU 15**	**% EU 15 / World**	**World**
Latvia	0.10	9.5	0.43	40.7	1.04	0.27	12.3	1.12	51.3	2.18
Lithuania	0.09	4.3	1.34	67.7	1.98	0.26	5.1	2.89	56.5	5.11
Estonia	0.06	4.0	0.89	63.5	1.40	0.12	3.2	2.48	65.7	3.77
Exports in Bn €										
Latvia	0.07	8.1	0.50	60.7	0.83	0.17	11.7	0.77	52.3	1.47
Lithuania	0.19	11.0	1.19	69.9	1.71	0.26	9.3	1.57	57.1	2.75
Estonia	0.15	13.6	0.53	47.9	1.10	0.26	10.9	1.46	60.2	2.42

Source: Eurostat COMEXT (IMF World Trade Domain).

TRADE BETWEEN THE COUNTRIES OF CENTRAL EUROPE

	1994					1997				
Imports in Bn €	**Others**	**% Others / World**	**EU 15**	**% EU 15 / World**	**World**	**Others**	**% Others / World**	**EU 15**	**% EU 15 / World**	**World**
Poland	0.68	3.8	11.84	65.3	18.13	2.28	6.1	22.78	61.1	37.31
Hungary	0.82	6.8	7.47	61.5	12.15	1.22	6.5	11.22	59.9	18.72
Czech republic	2.36	19.0	6.74	54.3	12.41	3.20	13.4	12.02	50.5	23.80
Slovakia	2.09	34.1	2.04	33.4	6.11	3.43	28.0	5.10	41.7	12.25
Slovenia	0.38	5.6	4.32	64.1	6.75	0.61	7.4	5.42	65.7	8.25
Exports in Bn €										
Poland	0.55	3.8	10.03	69.2	14.49	1.46	6.4	14.08	62.0	22.71
Hungary	0.64	7.2	5.73	64.4	8.90	1.22	7.3	11.58	68.7	16.84
Czech republic	2.89	24.6	6.29	53.4	11.77	4.25	21.4	11.57	58.3	19.84
Slovakia	2.61	46.4	1.97	35.0	5.63	2.81	36.1	3.53	45.3	7.78
Slovenia	0.26	4.3	3.82	62.8	6.08	0.42	5.7	4.62	62.5	7.38

Source: Eurostat COMEXT (IMF World Trade Domain).

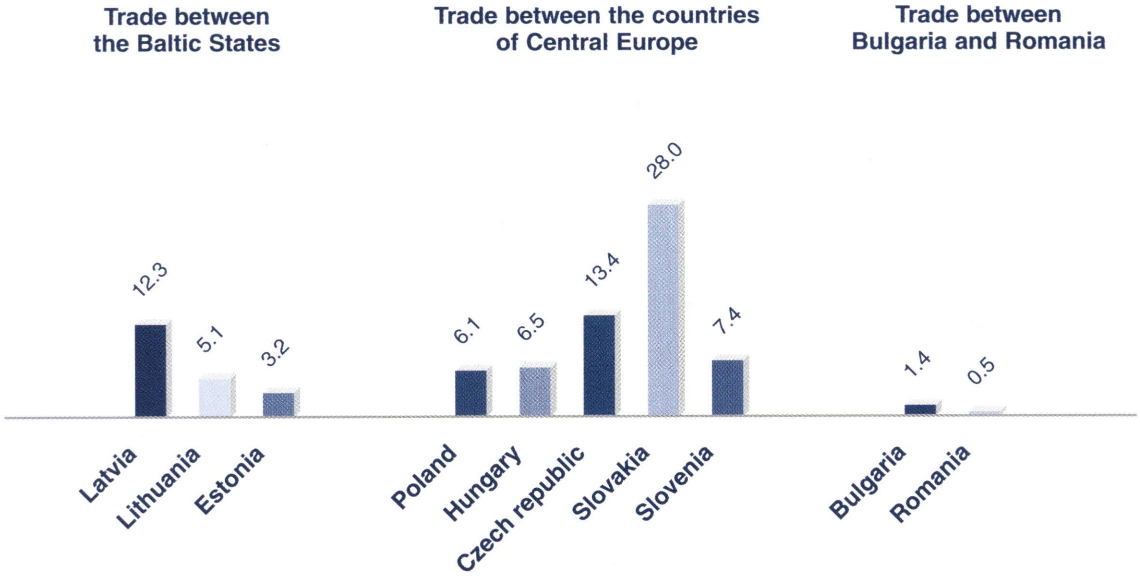
TRADE BETWEEN BULGARIA AND ROMANIA

Imports In Bn €	1994 Other country	1994 % Other country / World	1994 EU 15	1994 % EU 15 / World	1994 World	1997 Other country	1997 % Other country / World	1997 EU 15	1997 % EU 15 / World	1997 World
Bulgaria	0.10	2.4	2.00	50.9	3.93	0.05	1.4	1.38	40.4	3.42
Romania	0.05	0.9	2.62	48.2	5.44	0.04	0.5	4.54	50.8	8.93
Exports In Bn €										
Bulgaria	0.05	1.7	1.31	46.6	2.82	0.05	1.4	1.64	43.3	3.80
Romania	0.09	1.7	2.50	48.2	5.18	0.05	0.7	4.06	54.9	7.40

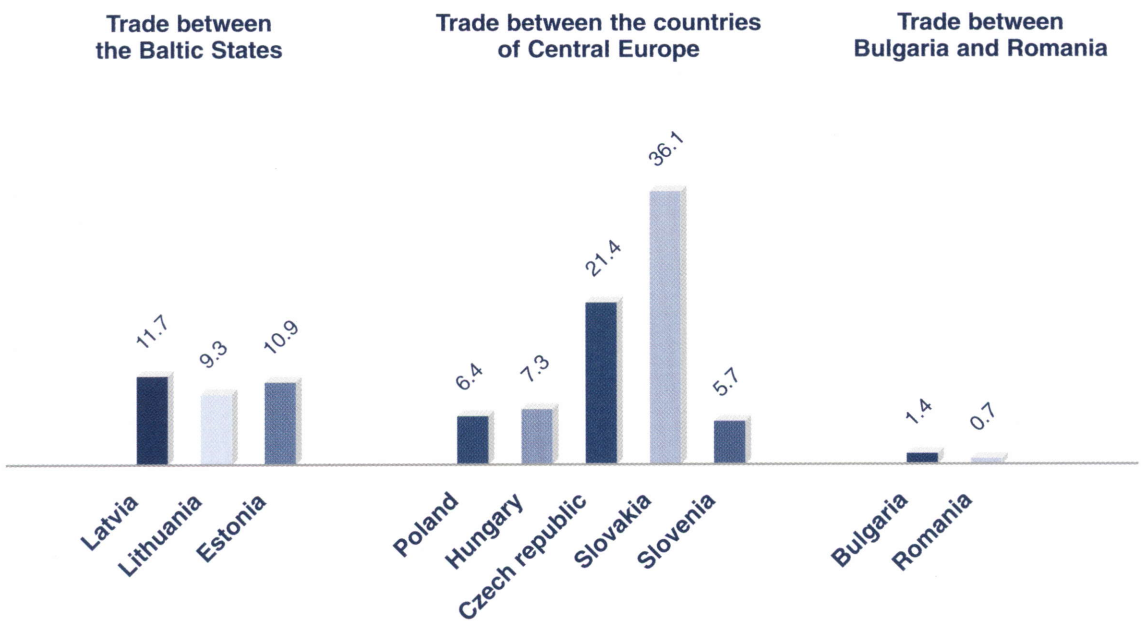
Source: Eurostat COMEXT (IMF World Trade Domain).

TRADE BETWEEN THE CEECs AS PART OF THEIR INTERNATIONAL TRADE (1997)

Imports (in %)



Exports (in %)



The Europe Agreements and trade

1. **The Europe Agreements** are the most far-reaching Agreements that the European Union has ever signed with other countries. They cover not only trade matters but also the political dialogue between the two parties and co-operation in economic and cultural areas. All in all, they provide a framework for the gradual integration of the CEECs into the EU.

The trade-related elements of the Europe Agreements aim to establish a preferential trading area over a period of no more than ten years on a basis of reciprocity, although applied in an asymmetric fashion (which means that the EU will eliminate trade barriers more quickly than the CEECs).

2. **Asymmetry** is not a feature of all areas; there are sectors where the terms of the Europe Agreements are applied at the same time for both sides: for example, as regards new entitlements or measures having an equivalent effect. Such measures may no longer be brought in by either side from the time the Europe Agreements enter into force.

3. **Customs duties applicable to imports into the European Union** on manufactured goods coming from Central European countries have been scrapped since the Interim Agreements entered into force. In accordance with the conclusions of the Copenhagen European Council, held in June 1993, residual duties on sensitive core goods coming from the CEECs were removed on 1 January 1994 and residual duties on industrial products affected by the consolidation of the Generalised System of Preferences (GSP) were eliminated on 1 January 1995.

4. **Customs duties applicable to imports into the CEECs** on manufactured goods from the European Union have only applied to a restricted list of products since the entry into force of the relevant Interim Agreements.

As far as other products are concerned, customs duties are to be gradually scaled down in accordance with a timetable agreed in advance. This will lead to the associated countries involved scrapping all residual import duties on industrial products from the European Union by 1 January 2000.

5. The Agreements provide for gradual liberalisation in **trade in farm produce**, processed farm produce and fisheries.

6. Specific arrangements have been made in **different industries**:

- **textiles**: the European Union has succeeded in dismantling trade barriers. Import duties were eliminated on 1 January 1997, while quantitative restrictions disappeared on 1 January 1998. For the CEECs, the same regime is applied as for industrial goods, except for a limited number of products for which trade barriers were removed immediately;
- products covered by the **ECSC Treaty**: the European Union has abolished all duties and quantitative restrictions on ECSC products from the CEECs. Customs duties are set to fall gradually in the CEECs before finally disappearing altogether at the same pace as for other industrial goods (except where Hungary is concerned). All quantitative restrictions have been lifted;
- **the car industry**: Poland has been granted special status (dismantling of tariff barriers spread over a longer period) for a certain number of products.

7. Quantitative restrictions and measures having an equivalent effect on goods imported from the CEECs into the European Union were repealed when the Interim Agreements entered into force.

The same approach was adopted concerning imports of goods from the European Union into the countries involved, except for a number of products which were expressly mentioned in the annexes to the Europe Agreements. Prior to 1 January 2002, all restrictions will have been lifted.

8. Quantitative restrictions on exports and measures having an equivalent effect on goods leaving the European union bound for the CEECs were repealed when the Interim Agreements entered into force.

Quantitative restrictions and measures having an equivalent effect with respect to goods from the CEECs were also removed when the Interim Agreements came into force, except for a number of products which were expressly mentioned in the annexes to the Europe Agreements.

9. In accordance with the Agreements, the parties may take **emergency measures** under certain exceptional circumstances:

- in the case of **fledgling industries** or sectors going through a period of restructuring or encountering serious problems, especially when these problems are causing acute social strife, such urgent steps may be envisaged and may take the form of higher tariffs for a limited period of time;
- **appropriate measures** (which shall hinder the smooth functioning of the Agreement as little as possible) may be taken when large volumes of imports of certain goods or particular circumstances may entail serious difficulties for national producers on the territory of one of the contracting parties or unwelcome distortions in the economic situation of a given region;
- such steps may also be allowed in the event of **re-exporting** to another country, if the exporting country maintains for the products concerned quantitative restrictions on exports or customs duties or measures having an equivalent effect or when there is a danger of shortages of vital goods for the exporting country;
- the Agreement does not provide for any bans or restrictions on imports and exports of goods in transit that are justified on moral or public security grounds, for reasons of health and human life protection and to protect plant and animal life. In the same way, the protection of national artistic, historical and archaeological treasures is not covered and neither are rules governing intellectual, industrial or commercial property or regulations concerning gold and silver. However, such restrictions should not have the effect of creating **a means of discrimination "through the back door"** affecting trade between the parties;
- in the event of serious **balance of payments** difficulties or other specific concerns, steps may be taken in line with the conditions laid down by the WTO (including measures governing imports which must be for limited periods of time and may not exceed what is technically necessary). A disassociation timetable must be submitted at the earliest possible opportunity;
- where the **farm industry** is concerned, if imports from one of the parties which enjoy concessions as part of the Agreements are provoking serious market distortions for the other party, both sides should immediately instigate a dialogue with a view to finding a suitable solution so that the party affected may take the steps it deems appropriate;
- without prejudice to the concessions of the Europe Agreement concerning farm produce, the terms of the Agreement may not hamper either the CEECs' or the European Union's ability to pursue their own **farm policy**.

10. The parties may only implement **anti-dumping measures** under the terms established by the WTO. The Europe Agreements contain a certain number of clauses on the procedures to be observed in the field of appeals against anti-dumping clauses.

EUROPE AND INTERIM OR FREE-TRADE AGREEMENTS WITH THE CEECs

	EUROPE AGREEMENTS		PUBLISHED IN THE O.J.	INTERIM AGREEMENTS
	Signed	In force		In force since*
Poland	16.12.91	01.02.94	OJ L 348 (31.12.93)	01.03.92
Hungary	16.12.91	01.02.94	OJ L 347 (31.12.93)	01.03.92
Czech Republic	04.10.93	01.02.95	OJ L 360 (31.12.94)	01.03.92
Slovakia	04.10.93	01.02.95	OJ L 359 (31.12.94)	01.03.92
Romania	01.02.93	01.02.95	OJ L 357 (31.12.94)	01.05.93
Bulgaria	08.03.93	01.02.95	OJ L 358 (31.12.94)	31.12.93
				Free-Trade Agreement in force since*
Estonia	12.06.95	01.02.98	OJ L 68 (09.03.98)	01.01.95
Latvia	12.06.95	01.02.98	OJ L 26 (02.02.98)	01.01.95
Lithuania	12.06.95	01.02.98	OJ L 51 (20.02.98)	01.01.95
Slovenia	10.06.96	01.02.99	OJ L 51 (26.02.99)	01.01.97

* Expired upon entry into force of Europe Agreements.

Foreign direct investment

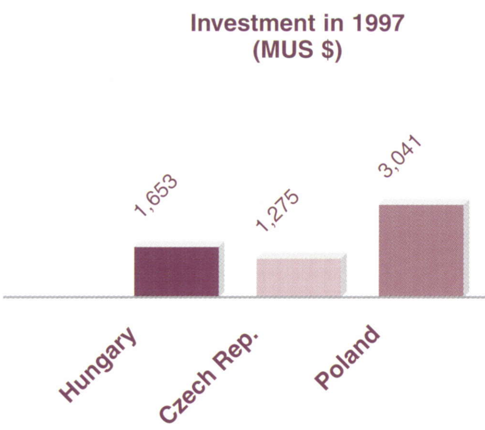
Foreign direct investment in the CEECs by recipient country

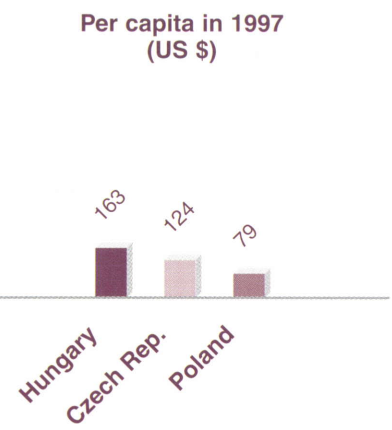
The countries of Central and Eastern Europe as a whole attracted practically no foreign direct investment whatsoever in the early 1990s. Direct investment, in the main, took place between developed economies; outside the OECD only South-East Asia (including China) and, to a significantly lesser degree, South America (notably Argentina), attracted sizable amounts of investment capital. Africa and the Eastern Europe/NIS area were more or less overlooked altogether. In the space of a few years, there has been a remarkable turnaround where certain CEECs are concerned, as a result of privatisation policies and a return to growth.

Hungary, with over 15 billion US$ by the end of 1997 and, not too far behind, Poland and the Czech Republic, have managed to attract overseas investment capital to an impressive degree. Estonia has had similar success, while 1998 proved to be a highly satisfactory year for Poland. While the results may not be on a par with what we find in the large OECD countries, they are nonetheless beginning to reach significant levels.

1997 marked the start of a new dynamism as far as foreign direct investment was concerned across the region as a whole.

It is especially interesting to note that the way investment flows have been developing has not been affected by the fact that negotiations for EU membership have, for the time being, been opened with some countries and not others. In 1997, Romania, Bulgaria, Lithuania and Latvia enjoyed a significant upturn in foreign direct investment.



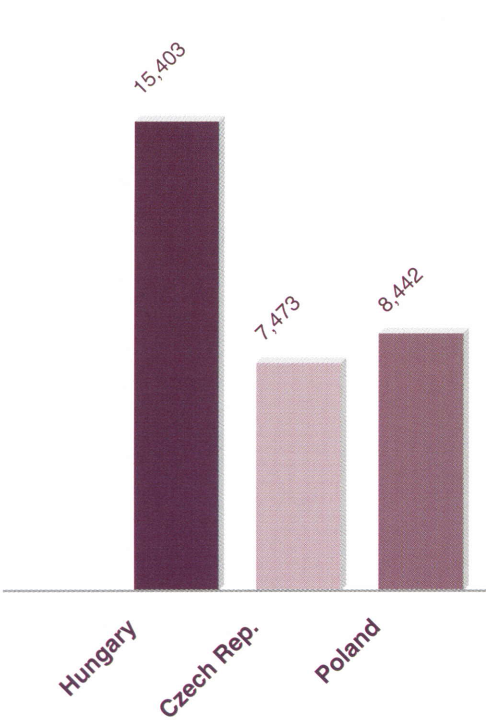


FOREIGN DIRECT INVESTMENT IN THE CEECs BETWEEN 1989 AND 1997

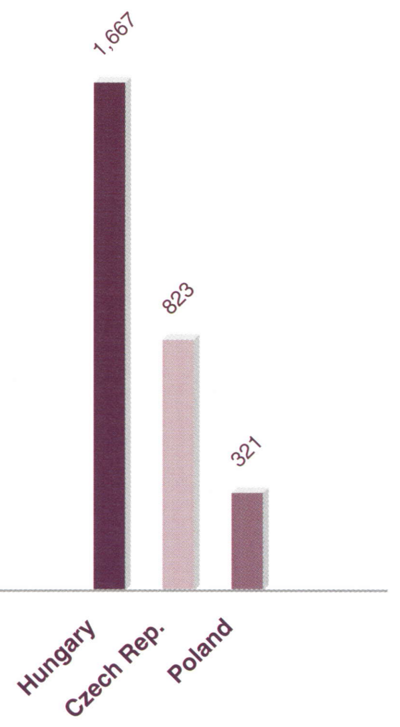
	Investment in 1997 (MUS $)	Per capita in 1997 (US $)	Total at 1/1/98 (MUS $)	Total per capita (US $)
Hungary	1,653	163	15,403	1,667
Czech Republic	1,275	124	7,473	823
Poland	3,041	79	8,442	321
Slovenia	295	148	1,074	639
Estonia	130	90	810	695
Slovakia	84	15	1,003	227
Romania	1,224	54	2,470	149
Bulgaria	497	60	922	147
Latvia	515	206	1,058	543
Lithuania	328	89	471	344

Source: EBRD (Report on transition 1998).

Total at 1/1/98 (MUS $)



Total per capita (US $)



Foreign direct investment in the CEECs by country of origin

The European Union is by far the principal source of foreign direct investment in the CEECs. However, as opposed to what we find for trade or assistance, the United States, or at least firms of North-American origin, are also heavily involved in the process.

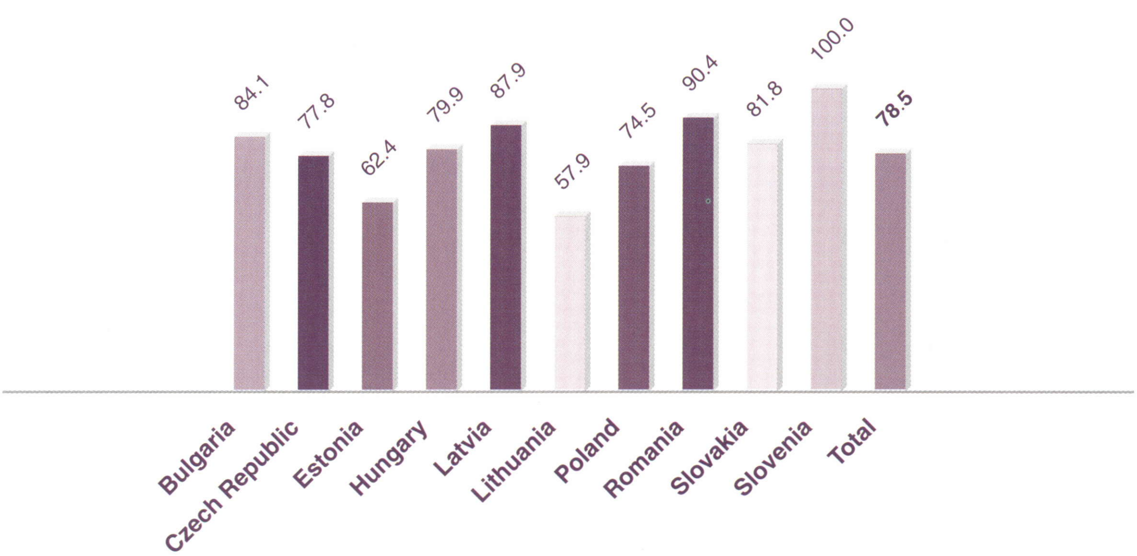
Taken on a purely national basis, investment from Germany and the United States far outweighs that from other EU Member States, like the Netherlands, France, Italy, and Austria. For certain countries, however (especially the Netherlands and the United States), it hard to be entirely sure where exactly investment capital has come from; so many North-American and Dutch companies are by their very nature multinational companies.

It is worth noting that there is a dearth of Japanese investment capital flowing into the region as a whole; very often, Japanese firms arrive in the wake of Korean companies.

We also find geographical differences when it comes to investment between the Member States of the European Union. Whereas the Scandinavian nations tend to focus their efforts on the Baltic sea area, the Germans are far more interested in Central Europe and the Italians in the Balkans. Austrian capital is much more likely to head towards its immediate neighbours, too.

Investments from Germany, the United States and France tend to be large-scale deals carried out by big companies. On the other hand, Italian investments, of which there are many, are often made by SMEs.

FDI in the CEECs by EU 15 (appraisal in %)



INITIAL FOREIGN DIRECT INVESTMENT IN THE CEECs BETWEEN 1987 AND 1996 (appraisal by value in %)[1][2]

	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	Total
Austria	-	7.4	3.0	7.0	-	2.1	4.9	2.6	11.9	7.5	6.2
France	-	3.8	4.3	7.9	-	1.0	12.9	6.0	26.4	5.4	7.8
Germany	21.4	38.4	1.7	49.5	0.2	6.0	15.4	12.9	29.2	11.2	33.5
Italy	0.9	3.5	1.5	4.8	-	-	8.5	8.6	6.7	67.5	6.4
Netherlands	8.4	15.7	0.7	3.5	2.2	0.5	11.6	16.4	2.0	-	9.4
United Kingdom	21.9	3.4	7.4	2.3	35.1	12.0	7.7	6.2	3.3	7.9	4.9
Total EU 15	**84.1**	**77.8**	**62.4**	**79.9**	**87.9**	**57.9**	**74.5**	**90.4**	**81.8**	**100.0**	**78.5**
United States	**15.8**	**21.2**	**37.5**	**18.2**	**12.0**	**42.0**	**25.0**	**9.6**	**18.1**	**-**	**20.5**
Japan	**-**	**0.8**	**-**	**1.8**	**-**	**-**	**0.4**	**-**	**-**	**-**	**0.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: European Commission calculations made on the basis of data collected by Milan's Bocconi University.

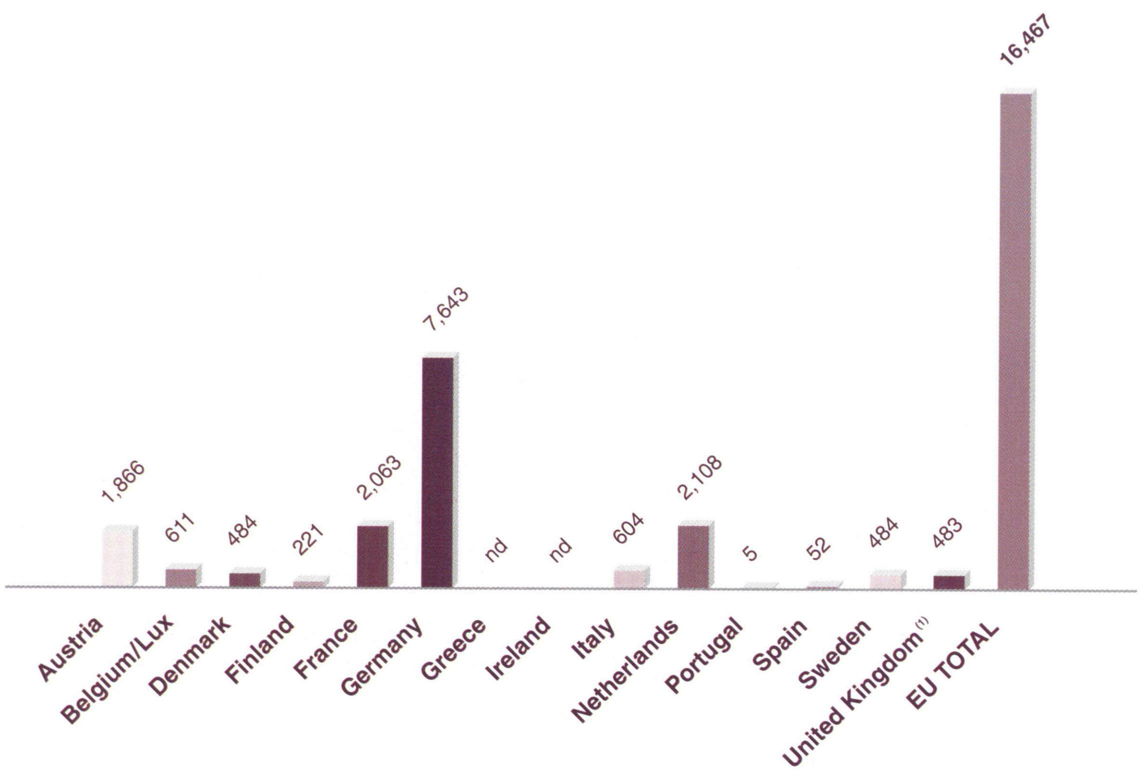
(1) This table does not claim to be fully comprehensive; its methodology (surveys) has meant small investments have not been taken into account.

(2) Foreign direct investment from countries outside the EU. the United States and Japan have not been taken into account (for example, South Korea).

Direct investment flow from the EU to the CEECs

Research carried out by UNECE covering the whole of the European Union over the period spanning 1992-96 produced slightly different results but nonetheless endorsed the Bocconi University's broad conclusions upon which the previous table is based. Among EU investors in the CEECs, Germany is seen to stand out over and above the rest, followed by the Netherlands (or Dutch firms), France and Austria.

Direct investment flow from the EU to the CEECs between 1992 and 1996 (in M €)



Source: UNECE, CNUCED.

(1) 1992-1995.

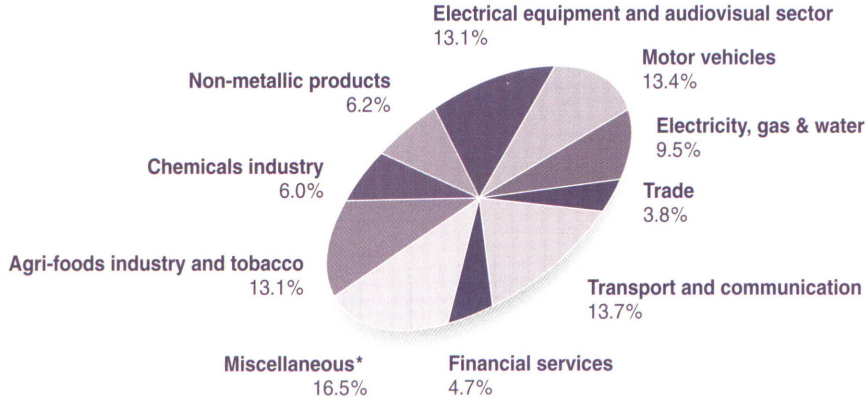
Leading industries for foreign direct investment in the CEECs

Foreign direct investment in the CEECs as a whole is now relatively diversified and spread throughout the various sectors of the economy. Given that the CEECs (unlike the NIS) are not major producers of raw materials, most investments are targeted, in the form of buy-outs through privatisation or through the introduction of funds ex-nihilo, at intermediate processing industries, with the main emphasis being on the car and electrical industries and, to a slightly lesser extent, in the fields of communications, agri-foods, electricity, gas and water.

Overall, the manufacturing sector receives the lion's share of initial investments (in the region of two thirds of the total). This sector is far ahead of both retail and wholesale trade, the financial sector, agriculture and the mining industry.

The most economically developed countries (Hungary, the Czech Republic and Poland) attract investment capital right across the board, including the sectors mentioned above. The other side of the coin is that, the more limited a country's economic fabric is, the more the few investment projects that do materialise tend to focus on one or two specific areas which often have little to do with the main driving forces of the economy and are solely representative in terms of fringe elements that can contribute little in the way of trade benefits to the economic climate.

Total



LEADING INDUSTRIES FOR FOREIGN DIRECT INVESTMENT IN THE CEECs (1987-96) (by value in %)[1]

	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	Total
Agri-foods industry and tobacco	40.5	11.7	18.9	10.0	6.6	7.5	20.2	7.3	10.7	-	**13.1**
Chemicals industry	-	6.8	3.5	3.1	-	3.7	5.3	10.4	40.5	40.3	**6.0**
Non-metallic products	-	8.3	9.7	0.4	-	15.0	14.5	0.8	-	-	**6.2**
Electrical equipment and audiovisual sector	-	4.3	1.0	26.3	-	4.7	8.9	3.7	21.7	-	**13.1**
Motor vehicles	9.4	34.9	-	2.9	-	-	6.9	-	12.6	15.6	**13.4**
Electricity, gas & water	-	0.1	2.0	26.6	-	-	0.4	-	-	-	**9.5**
Trade	-	2.1	11.7	3.0	6.0	36.7	6.7	3.1	2.5	-	**3.8**
Transport and communication	34.9	15.8	27.0	13.1	80.1	-	3.4	37.5	-	-	**13.7**
Financial services	-	1.1	12.3	0.7	7.0	-	11.7	4.6	9.1	1.7	**4.7**
Miscellaneous*	15.2	14.9	13.9	13.9	0.3	32.4	22.0	32.6	2.9	42.4	**16.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* of which agriculture and the mining industry.

Source: European Commission calculations made on the basis of data collected by Milan's Bocconi University.

(1) In certain cases, overall minor industries that are not specified account for the majority of foreign direct investment, such as with Slovenia for textiles and BTP construction.

Promoting investment

The European Union supports foreign investment in the CEECs in a number of different ways.

The European Union is fully aware how important foreign investment is and has consequently made it a key part of the pre-accession strategy.

The EU helped to devise and launch investment promotion offices in the CEECs. In view of the lack of experience in the countries in question as regards setting goals and identifying target sectors to attract foreign capital, the EU provided help in setting up this strategy and the policy that the CEECs were so sorely in need of. Among the other services provided through the Phare programme (see chapter IV), there was institutional assessment, help with marketing, research, and training and provision of equipment.

The Phare programme to support joint ventures (JOP) is intended to assist productive investments from the EU in the CEECs, while a new strand is set to promote co-financing of investment in SMEs. By prioritising co-operation between partners from the EU and the CEECs, local operators are encouraged to contribute to moves to develop productive investments and the market economy.

The Member States also sponsor a good deal of initiatives involving a range of different instruments concerning the CEECs, such as bilateral agreements on promoting investments and measures to eliminate dual taxation.

The investments required for the CEECs to assimilate the body of existing Community law are clearly sizeable. Pre-accession will act as a catalyst to mobilise funds from the International Financial Institutions (IFIs). This is the thinking behind the agreement signed by the European Commission with the EBRD and the World Bank aimed at strengthening co-operation and facilitating co-financing. New partners have since signed up to this agreement. The deal means that one Euro provided through the Phare programme frees up eight Euros from the IFIs and candidate countries to be invested in projects.

As part of the strengthened pre-accession strategy, 70% of the Phare programme's budget will be allocated to funding investment so as to assist the CEECs in taking on board the Community acquis.

Nonetheless, it is worth bearing in mind that the possibilities that investment promotion offers the international institutions are limited. Surveys carried out on overseas businessmen have shown that encouraging direct investment is a task that should basically be left to Central and Eastern European governments. Indeed, if these national authorities are unable to guarantee a sufficiently stable legal framework and an environment conducive to business, foreign firms will be reluctant to invest.

Furthermore, the needs of the candidate countries are too great for the task of aligning with European standards to rely exclusively on EU aid, EIB and IFI loans or on a financial struggle by the countries in question. Firms from Member States of the European Union should be investing even more than they do at the moment in the candidate countries. Where else in the world are they currently likely to come across yearly growth rates of 6 or 7%? The private sector should, for instance, be showing greater interest in the field of the environment, which offers a whole new market. It is the job of the candidate countries to introduce a legal framework (contracting out public services, for instance) which will enable the private sector to help meet the challenge of satisfying European standards by means of investments that State budgets will not be able to finance on their own.

In this light, the CEECs have already made huge progress as regards bringing down barriers to trade and to investment. The European Union is behind their efforts one hundred per cent.

Assistance

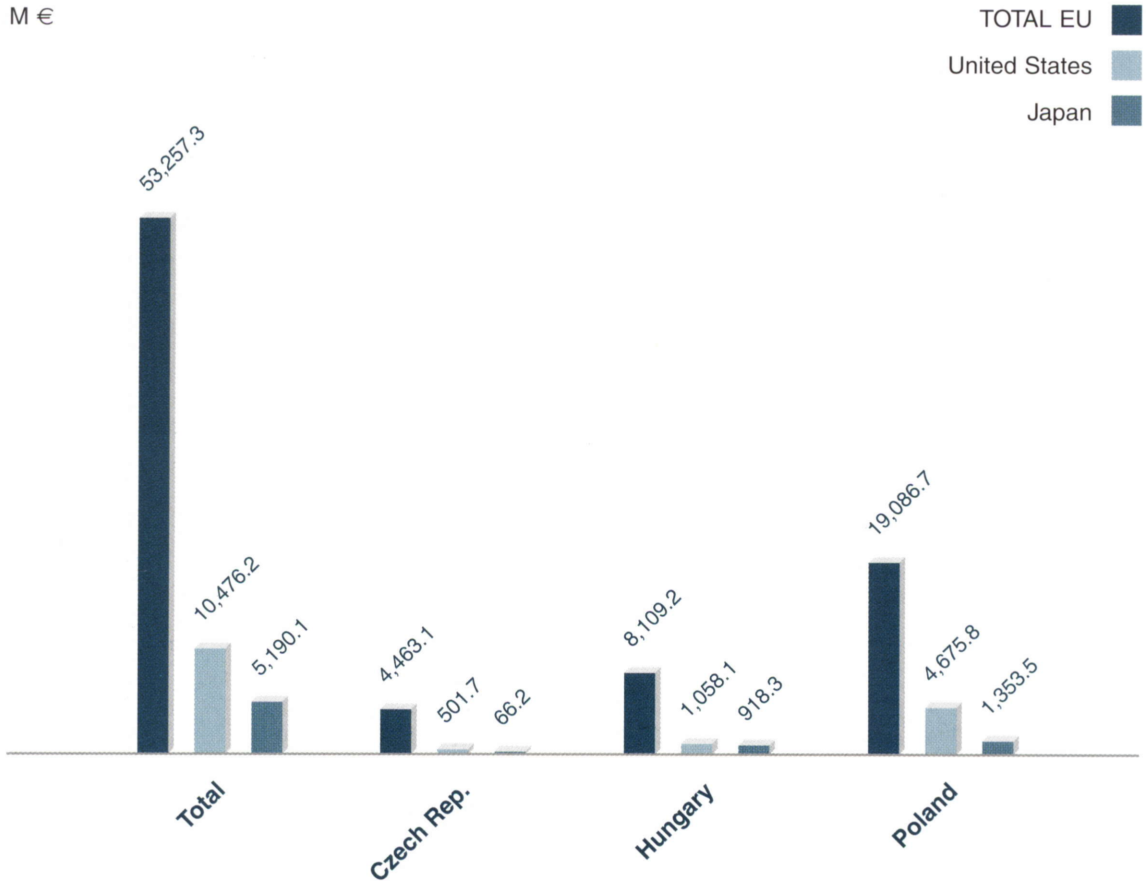
Overall EU assistance to the CEECs compared to the other major donors

Taking the co-ordination of western aid as a whole within the framework of the G-24, the EU is by far the largest provider of various forms of assistance - loans and grants - to the CEECs right across the board. All in all, taking into account total funding received from the European Union, together with the contributions of the individual Member States, the EU pumped more than 53 billion Euros into this group of countries between 1990 and 1997. The United States, on the other hand, managed a little over 10 billion Euros, while Japan provided a mere 5 billion Euros. The EU and its Member States make up some 72% of all G-24 funding.

Of the EU nations, Germany, France and Austria are the three principal sources of grants and loans. Germany alone has been responsible for some 18 billion Euros, i.e. more support for the CEECs than the United States and Japan put together.

We must, however, bear in mind that these different contributions are extremely varied in their make-up. The financial packages in question cover straight grants and loans, including macroeconomic balance of payments loans and export credits. The overall figure may, therefore, be slightly misleading.

Poland is the prime recipient of assistance from all countries involved which, to a certain extent, must be attributed to its sheer size and weight of population. Its geographical location as an immediate neighbour of Germany is another key factor and goes a long way towards explaining why a third of all German aid is funnelled towards this one country. For the same reason, the largest slice of Austrian money spent on the CEECs finds its way to Hungary.



OVERALL EU ASSISTANCE TO THE CEECs COMPARED TO THE OTHER MAJOR DONORS (1990-1997)

M €	**EU TOTAL**, *of which*	EU ONLY [1]	GERMANY	FRANCE	AUSTRIA	**UNITED STATES**	**JAPAN**	**G-24 TOTAL** [2]	**IFIs**
Bulgaria	2,146.5	1,396.0	307.8	149.2	75.6	432.4	363.9	3,157.7	2,503.9
Czechoslovakia (90-92)	3,639.2	701.0	1,607.7	580.5	292.9	476.4	239.2	4,749.7	1,575.0
Czech Republic (93-)	4,463.1	1,513.5	1,832.3	265.8	653.9	501.7	66.2	5,077.7	958.6
Estonia	718.3	299.5	67.6	26.5	1.7	49.7	53.8	862.9	417.2
Hungary	8,109.2	2,763.2	2,982.7	725.3	784.4	1,058.1	918.3	10,320.1	4,592.7
Latvia	699.5	339.0	74.2	28.3	3.1	104.6	53.8	905.5	604.8
Lithuania	1,127.9	465.8	189.3	44.1	4.9	158.8	53.9	1,394.5	601.6
Poland	19,086.7	3,557.3	7,843.3	3,604.2	679.5	4,675.8	1,353.5	26,939.2	7,733.7
Romania	5,207.2	2,145.5	1,383.7	898.8	229.0	671.1	130.4	6,389.4	4,350.3
Slovakia (93-)	1,618.0	634.3	595.6	121.8	176.8	123.6	125.5	1,906.2	472.3
Slovenia (92-)	984.3	319.5	393.3	40.3	174.7	101.6	1.2	1,105.5	306.6
Regional/non-specified	5,457.4	1,934.3	668.5	202.2	1,157.1	2,122.4	1,830.4	9,998.5	646.7
Total	53,257.3	16,068.9	17,946.0	6,687.0	4,233.6	10,476.2	5,190.1	72,806.9	24,763.4

Source: G-24 secretariat, 1998.

[1] European programmes, EIB, ECSC, etc.
[2] Of which Australia, Canada, Iceland, New Zealand, Norway, Switzerland, Turkey, excluding the IFIs (IMF, World Bank, EBRD).

Sector-by-sector EU assistance to the CEECs compared to assistance from the other major donors

Europe provides a large amount of assistance to the CEECs, giving five times more than the United States and nearly ten times more than Japan. The EU, together with its Member States, in fact supplies close to three quarters of all G-24 funding.

European credit appropriations relating to restructuring of debt, as well as economic infrastructure and services, is a high priority. The United States plays a major role in terms of grants targeted at encouraging civil society and the democratic process, an area which, for the most part, tends to be somewhat overlooked.

Food aid and emergency aid has understandably dwindled over the course of the decade, as the economic situation in the CEECs has become more healthy.

The nations with a strong commitment to the CEECs, such as Germany, have generally been obliged to take on board a sizeable share of debt restructuring.

SECTOR-BY-SECTOR EU ASSISTANCE TO THE CEECs COMPARED TO ASSISTANCE FROM THE OTHER MAJOR DONORS (1990-1997)

in %	**EU TOTAL**, *of which*	EU ONLY (1)	GERMANY	FRANCE	AUSTRIA	**UNITED STATES**	**JAPAN**	**G-24 TOTAL (2)**	**IFIs**
Social infrastructure and services	5.0	10.0	2.0	0.0	2.6	3.4	0.4	4.4	3.4
Economic infrastructure and services	14.6	37.1	1.0	0.2	10.8	3.5	21.8	12.8	21.0
Productive sectors	7.9	11.7	0.3	1.8	10.8	2.4	0.3	6.3	16.8
Multi-sectors	35.3	4.6	61.8	42.8	64.5	41.6	30.0	35.4	1.6
Overall aid for programmes	7.9	15.4	2.5	7.2	3.3	8.0	21.6	9.6	51.0
Restructuring of debt	15.9	0.0	26.1	34.1	3.2	16.7	10.3	16.4	0.0
Food aid	2.3	4.8	0.0	0.1	0.2	15.4	0.5	4.2	0.0
Emergency aid	4.2	9.6	1.2	0.0	1.9	5.3	0.5	4.1	0.5
Civil society and democratic process	0.2	0.1	0.0	0.0	0.1	1.0	0.0	0.3	0.0
Non-specified	6.7	6.7	4.9	13.7	2.6	2.8	14.7	6.5	5.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: G-24 secretariat, 1998.

(1) European programmes, EIB, ECSC, etc.
(2) Of which Australia, Canada, Iceland, New Zealand, Norway, Switzerland, Turkey, excluding the IFIs (IMF, World Bank, EBRD).

The Phare programme: money allocated by country and by sector

The Phare programme is the European Union's financial instrument that was devised to support the CEECs as part of their transition process and was introduced in 1989. The total amount of money made available to the candidate countries alone was, by the end of 1998, in the region of 7.9 billion Euros (to which should be added more than 900 million Euros for non-candidate countries).

The Phare programme has developed in order to match the changing needs of the EU's partner countries. At the outset, technical assistance made up a large part of its funding, to help with the implementation of transition policies (support for institutional reform). Subsequently, the focus shifted towards legislative and administrative measures aimed at getting a market economy up and running, as well as promoting investment.

The most sizeable chunk of Phare money to date has gone on support for infrastructure and the private sector.

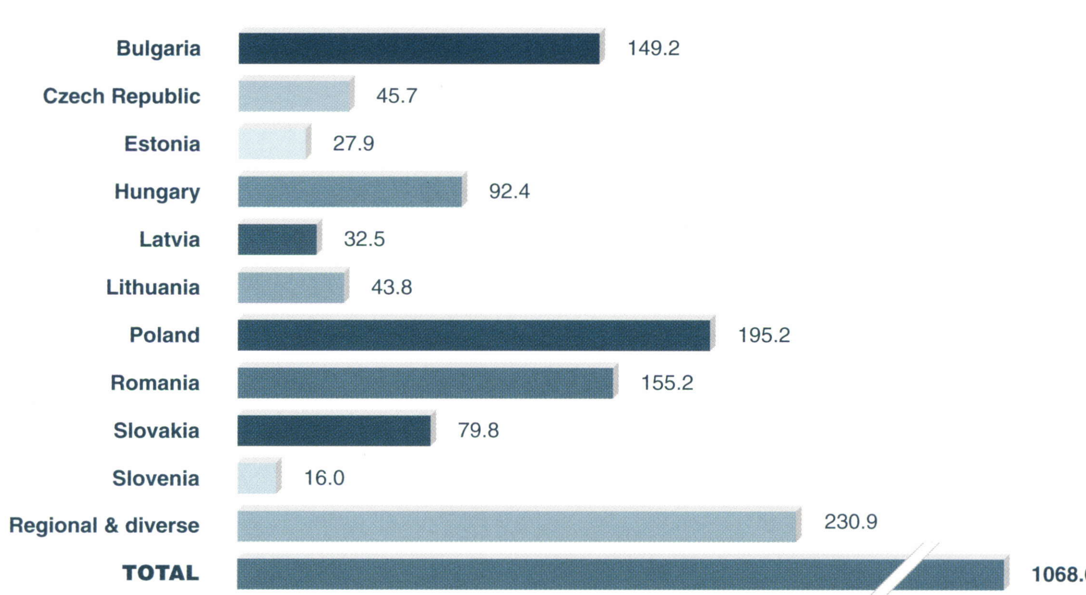
Following the Essen European Council, held in December 1994, the Phare programme came within the framework of the pre-accession strategy. The focus on promoting investment became even more pronounced thereafter. From 1997 onwards, support through the Phare programme has been channelled towards enlargement, with special emphasis being placed on the development of institutional capacity and investments aimed at facilitating the integration of the Community acquis.

The number one goal of the Phare programme is now to prepare the candidate countries for membership by focusing its contribution on the two key areas linked to the integration of the Community acquis: the development of institutional capacity will receive a 30% share of the budget, while 70% will be set aside for financing investment.

The effectiveness of the Phare programme is set to be enhanced by developments in its management methods:

- Focusing of projects on the priorities for the implementation of the acquis, as scheduled in the accession partnerships;
- More effective spending policy;
- Significant increase in project size;
- Drive for decentralisation of management towards beneficiary countries.

Country-by-country Phare programme funding in 1998 (in M €)



PHARE - MONEY ALLOCATED BY COUNTRY AND BY SECTOR BETWEEN 1990 AND 1998 (in million Euros)

M €	Public administration and public-sector institutions, approximation of legislation, civil society and democratic process	Agricultural restructuring	Education, training and research	Humanitarian aid, food aid and emergency aid	Infrastructure (energy, transport, telecommunications)	Consumer protection, environment and nuclear safety	Private sector, restructuring, privatisation, financial sector	Social progress and employment, public health	Integrated regional measures and other measures (cross-sector, general technical assistance, etc.)	Total	%
Bulgaria	54.4	56.0	79.3	44.9	269.1	80.4	92.5	51.8	18.6	747.0	9%
Czech Republic	48.6	7.5	33.0	0.0	203.0	7.2	35.0	35.2	20.3	389.8	5%
Estonia	39.1	3.0	17.9	0.0	42.4	9.3	21.2	2.9	27.0	162.8	2%
Hungary	84.3	94.5	136.4	0.0	125.8	104.7	195.9	41.0	81.4	864.0	11%
Latvia	41.9	0.8	18.5	0.0	44.7	10.6	41.3	12.6	36.2	206.6	3%
Lithuania	49.1	4.5	27.5	0.0	87.3	8.3	53.9	7.2	34.2	272.0	3%
Poland	128.6	210.0	240.3	0.0	569.6	131.2	313.2	54.2	84.5	1,731.6	22%
Romania	101.8	84.9	141.2	80.3	172.4	48.4	170.9	36.4	135.6	971.9	12%
Slovakia	45.0	14.6	34.2	0.0	39.8	18.5	69.7	18.9	12.5	253.2	3%
Slovenia	20.4	1.0	19.5	0.0	23.3	5.9	32.2	6.4	22.6	131.3	2%
Multi-country programmes former Czechoslovakia horizontal programme	259.7	0.0	235.5	88.7	342.8	316.1	271.9	81.5	622.0	2,218.2	28%
Total	**872.9**	**476.8**	**983.3**	**213.9**	**1,920.2**	**740.6**	**1,297.7**	**348.1**	**1,094.9**	**7,948.4**	**100%**
%	**11%**	**6%**	**13%**	**3%**	**24%**	**9%**	**16%**	**4%**	**14%**	**100%**	

Source: Phare, European Commission services.

EIB funding in the CEECs by country and by sector

The vast majority of EIB loans go to help fund work intended to bring infrastructure up to standard, in areas such as communication and energy. These two fields received 5,043 and 1,129 million Euros respectively between 1991 and 1998. The priority transport corridors programme, adopted in March 1994, accounts for a good deal of spending in this area (483 million Euros in 1996 alone, for example). Energy and communication between them receive over 75% of all EIB funding in the CEECs. It is worth noting the share given over to telecommunications, a sector which, up until 1995, received a sizeable portion of all funding. However, in recent years its share has been on the wane (in 1998, only one major project saw the light of day in Poland on the Bank's own resources under the heading of the pre-accession facility).

The countries which receive most loans are Poland, the Czech Republic and Hungary or, in other words, those countries which belong to the first group with which accession negotiations have been initiated. Poland alone received over a third of all EIB loans between 1991 and 1998, a fact that can be put down to the weight of population of this particular country.

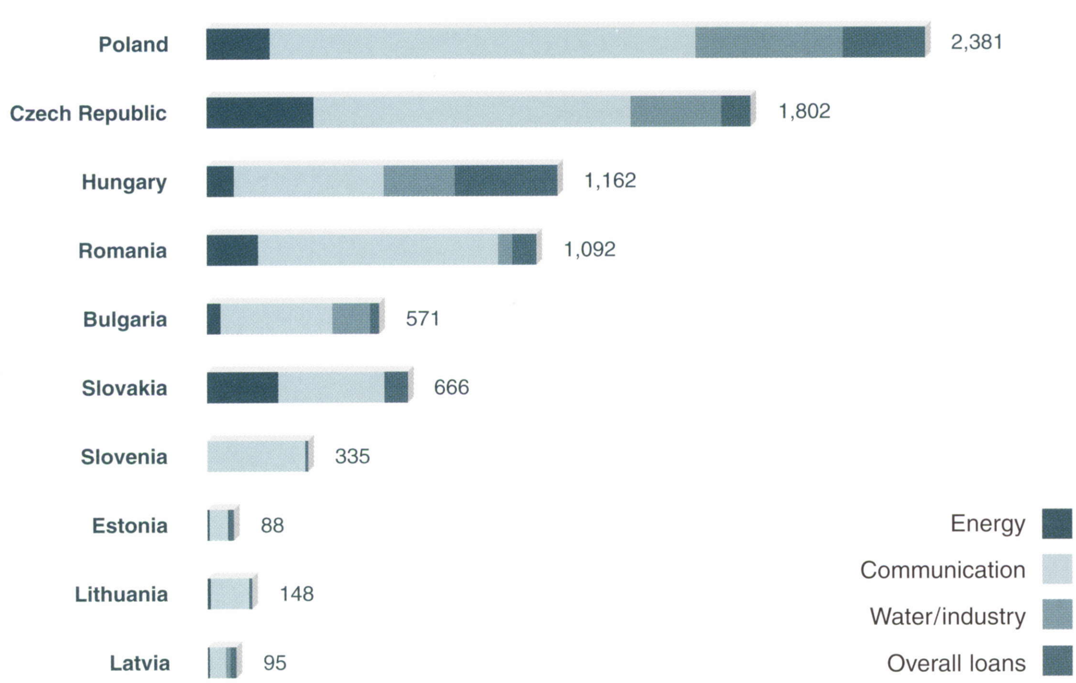
1998 saw a sharp rise in EIB funding in the CEEC candidate countries, with a total figure in the region of 2.3 billion Euros (as against 6 billion for the 1991-97 period).

This increase is due to the need to adapt the economies of the countries in question to the obligations imposed by accession, in terms of infrastructure, administrative measures, etc. The extra funding has been made possible thanks to the new pre-accession facility which provides for loans to be granted to the CEECs on the EIB's own resources without being secured by the European Union budget, and which has seen a near twofold increase in the funds available every year for loans to the CEECs. These increased opportunities to finance investment will support the CEECs in their efforts, to become full Member States of the European Union.

EIB FUNDING IN THE CEECs BETWEEN 1991 AND 1998, INCLUDING LOANS MADE IN 1998 ON THE BANK'S OWN RESOURCES

M €	Energy	Communication	Water/ industry	Overall loans	Total
Poland	210	1,410	488	273	2,381
Czech Republic	355	1,050	300	97	1,802
Hungary	90	497	235	340	1,162
Romania	170	795	47	80	1,092
Bulgaria	45	371	125	30	571
Slovakia	236	352	0	78	666
Slovenia	0	325	0	10	335
Estonia	7	61	0	20	88
Lithuania	10	128	0	10	148
Latvia	6	54	15	20	95
Total	**1,129**	**5,043**	**1,210**	**958**	**8,340**

Source: EIB annual report 1995, 1996 et 1997.



EIB FUNDING IN THE CEECs IN 1998 SECURED BY THE BUDGET OF THE EUROPEAN UNION

M €	Energy	Communication	Water/ industry	Overall loans	Total signatures
Poland	0	0	110	0	110
Czech Republic	0	0	0	20	20
Hungary	0	60	0	0	60
Romania	0	425	0	10	435
Bulgaria	0	100	125	0	225
Slovakia	51	0	0	0	51
Slovenia	0	0	0	0	0
Estonia	0	0	0	0	0
Lithuania	0	40	0	0	40
Latvia	0	34	0	0	34
Total signatures	**51**	**659**	**235**	**30**	**975**

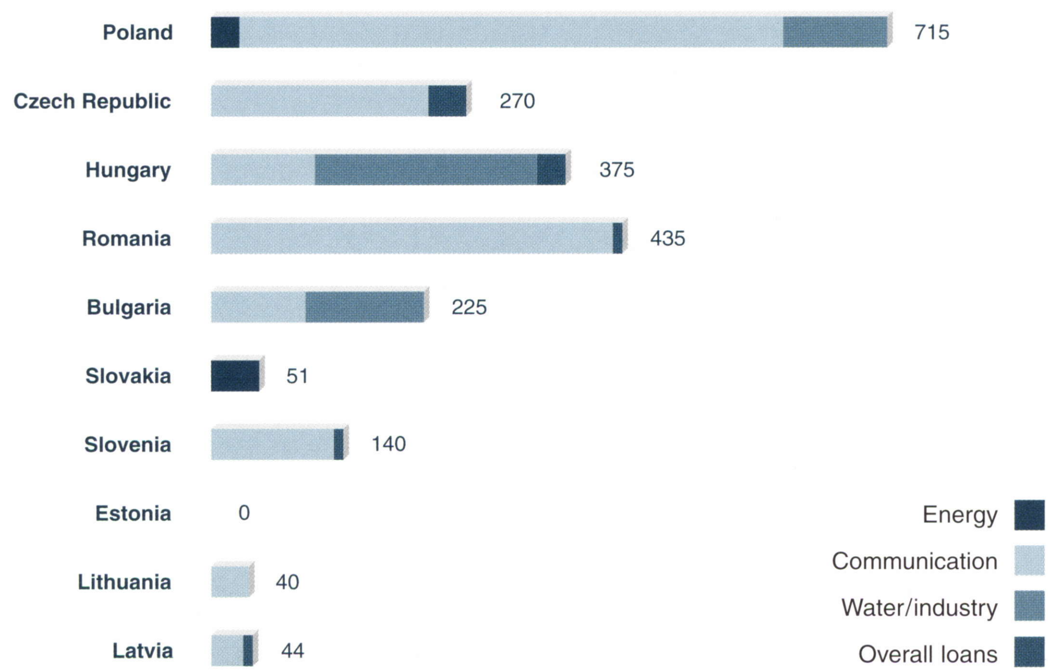
Source: EIB, European Commission services.

EIB FUNDING IN THE CEECs IN 1998 ON THE BANK'S OWN RESOURCES NOT SECURED BY THE BUDGET OF THE EUROPEAN UNION

M €	Energy	Communication	Water/ industry	Overall loans	Total signatures
Poland	30	575	0	0	605
Czech Republic	0	230	0	20	250
Hungary	0	50	235	30	315
Romania	0	0	0	0	0
Bulgaria	0	0	0	0	0
Slovakia	0	0	0	0	0
Slovenia	0	130	0	10	140
Estonia	0	0	0	0	0
Lithuania	0	0	0	0	0
Latvia	0	0	0	10	10
Total signatures	**30**	**985**	**235**	**70**	**1,320**

Source: EIB, European Commission services.

TOTAL EIB FUNDING IN THE CEECs IN 1998 (in M €)



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