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REGULATORY AND LEGAL SUPPORT FOR THE ADAPTATION OF THE TRADE POLICY OF CENTRAL AND EASTERN EUROPEAN COUNTRIES TO THE COMMON TRADE POLICY OF THE EU

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INTRODUCTION

The adaptation of the trade policy of the CEE countries and the creation of appropriate institutional conditions for joining the EU lasted more than a decade, which is explained by the complexity of the initial conditions after several post-war decades of experimentation with the administrative-planned economy and the economic and socio-political difficulties of the transition to market economy. This was influenced by cultural and psychological peculiarities, imperfection and instability of the regulatory and legal framework, and in some cases the inconsistency of market transformations.

With the beginning of the transition (transformation) process in the late 1980s – early 1990s, the biggest obstacle was the structural problems inherited from being in a post-war socialist camp. Foreign trade within the scope of the Council for Mutual Economic Assistance (hereafter – REV) created two types of deformations. Firstly, under conditions of relative economic closure, a production structure was formed, which did not allow to compete on the world market on the basis of comparative advantages. Secondly, there were increased trade flows between the participating countries than the market conditions predicted[1]. It is estimated that in 1988, the volume of trade between the REV countries was about 10% of the volume of world trade. Therefore, the collapse of this economic entity could not but be affected by the decrease in the volume of foreign trade and the resulting decline in production. Separate calculations show that the respective GDP losses were 3.5% for Poland, and 7.8% for Hungary and the Czech Republic[2]. In Hungary, where the decrease

[1] Biessen G. Is the Impact of Central Planning on the Level of Foreign Trade Really Negative? *Journal of Comparative Economics*. 1991. Vol. 15 (March). P. 22–44; Winters L., Wang Z. K. Eastern Europe's International Trade. Manchester: Manchester Univ. Press, 1994. 189 p.

[2] Ahmad J., Yang J. Trade Liberalization in Eastern European Countries and the Prospects of Their Integration into the World Trading System. Center for Economic Studies Working Paper No. 164. Munich: University of Munich, 1998. 16 p.

in export volumes was the smallest, this indicator decreased by a quarter[3]. In Poland, heavy industry suffered the most, which led to a rapid increase in the unemployment rate[4].

Mainly, the foreign trade of the CEE countries was monopolized by the state and carried out within the framework of bilateral trade agreements concluded within the framework of the Economic and Monetary Union. After the collapse of the socialist system, the countries of the region faced the difficult task of getting rid of one-sided dependence on the countries of the former social camp and reorienting themselves to Western markets on the basis of the free conversion of their own currencies.

I. Berend[5] believes that the stagnation of production in the countries of the former socialist camp lasted from the mid-1970s and can be compared in terms of the depth and course of crisis phenomena with the "Great Depression" of 1929-1933. The reason is the inability to adapt to technical technological changes, which led to the decline of the export sectors of Eastern European countries. The obtained peripheral status is similar to the countries of Latin America, which were also never pioneers of technological innovations, and therefore could not adequately respond to the challenges of the next industrial revolution. It was claimed that Poland, Hungary, the Czech Republic, Slovenia and the Baltic countries have a positive perspective.

Necessary changes in the spirit of J. Schumpeter's theory of "creative destruction" were predicted: 1) redistribution of resources from traditional types of activities to new ones (closure of certain operating industries, use of bankruptcy procedures, opening of new modern enterprises); 2) restructuring of the production structure of those enterprises that managed to hold on to the market (rationalization of work, change of assortment and new investments)[6]. Liberal trade policy[7] limited the need for state subsidies and increased pressure in the direction of enterprise restructuring, which was supposed to

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[3] Kovács A. Economic Integration and Interdependence in Hungary. *Economic Integration and Interdependence in Central and Eastern Europe* / Z. Felméry (ed.). Budapest: Dialóg Campus, 2020. P. 113–153.

[4] Weliczko B. Economic Integration and Interdependence in Poland. *Economic Integration and Interdependence in Central and Eastern Europe* / Z. Felméry (ed.). Budapest: Dialóg Campus, 2020. P. 155–180.

[5] Berend I. From plan to market, from regime change to sustained growth in Central and Eastern Europe. *Economic Survey of Europe*. Geneva: United Nations, 2000. No. 2/3. P. 47–59.

[6] Havrylyshyn O. Growth in transition economies during 1990–1997. P. 24.

[7] It is important that the liberalization of foreign trade be complemented by measures related to (1) macroeconomic stabilization, (2) creation of a competitive environment, and (3) defining the role of the state as a guarantor of macroeconomic stability, the rule of law and property rights, and sometimes as a corrector of market mechanisms in case of market fiascos (*англ*. market failure).

simultaneously reduce inflation and overcome the anti-export orientation of the economy.

1. Prerequisites for the adaptation of the trade regime of Central and Eastern European countries to the common trade policy of the EU

Conventionally, the adaptation of the CEE countries to the foreign trade regime of the EU countries involved three stages[8]. At the first of them, various restrictions were eliminated for the CEE countries, which were in effect in relation to countries with an administratively planned economy. At the second stage, the CEE countries received preferential access to the markets of European countries within the framework of the GSP regime. Initially, such a regime for the export of industrial goods and agricultural products was received by Romania, and later by Poland and Hungary. In 1990, the corresponding benefits were extended to other countries of Eastern Europe. At the third stage, association agreements were signed and the prospect of Eastern European countries joining the EU was announced.

Some studies show that association agreements had a more favourable effect on the volume of foreign trade than the GSP regime[9]. First of all, this was explained by preferences for the export of industrial goods. According to the signed terms of association, in 1992 almost 50% of exports from Poland, Hungary and the former Czechoslovakia received such preferences, and over the next five years this figure was to increase to 80% for the former Czechoslovakia, 60 % for Hungary and 70% for Poland.

At the time of signing the association agreements, import duty rates in the countries of the Visegrad Group (Poland, Slovakia, Hungary, the Czech Republic) were three times higher than those of the EU countries[10]. Potentially, this means greater gains from trade liberalization for EU countries. It was planned that the import duty rates of the EU countries would be immediately reduced by 50%, and completely – after a year. The reduction of import duty rates on other goods was to occur annually by 20% and last for 4 years. All quantitative restrictions were to be abolished immediately, except for agricultural products and some goods, such as textiles, coal and steel. Most of the import duty rates in Poland, Slovakia, Hungary and the Czech Republic

[8] Damijan J. P., Rojec M. EU Market Access and Export Performance of Transition Countries. *South East European Journal of Economics and Business*. 2007. Vol. 2. No. 2. P. 31–42. DOI: http://dx.doi.org/10.2478/v10033-007-0003-3

[9] Kaminski B. The Significance of 'Europe Agreements' for Central European Industrial Exports. WB Policy Research Working Paper 1314. Washington, DC: World Bank, 1994. 37 p.

[10] Ella V. J. The Visegrad Countries of Central Europe – Integration or Isolation. *Minnesota Journal of International Law*. 1993. Vol. 2. P. 229–269.

were to be reduced annually by 20%, starting from the third year after the signing of the association agreement. The transition to free trade in all goods, except agricultural products, was supposed to take place after 10 years.

Each association agreement contained an article providing for the submission of an anti-dumping investigation pursuant to Art. VI 09 GATT, if the goods are imported in such quantities, which creates a "serious threat" to the production of the EU country. The countries of the Visegrad Group had the right to introduce higher import duty rates to protect certain industries for a period of five years or until the end of the transition period. The maximum rate of such a protective import duty was set at the level of 25% ad valorem. The introduction of the import duty was to be preceded by consultations with EU countries.

In 1993, the list of trade preferences for CEE countries was further expanded. Gradually, in the process of European integration, the liberalization of foreign trade affected other restrictions contained in the association agreements: delays in the liberalization of trade in so-called "sensitive" goods (steel, coal, textiles, agricultural products), threats of anti-dumping investigations, withdrawal from the regime of free trade of agricultural products. Each of these cases was covered by a separate protocol. In general, it is believed that the restrictive measures of the EU prevented the increase of exports of the CEE countries. A certain conflict arose, because the CEE countries demanded the relaxation of restrictions on the export of those goods where these countries had comparative advantages, while lobbyists in the EU countries, on the contrary, demanded the strengthening of such restrictions. The corresponding background was created by the stagnation of the European economies at that time, which strengthened the arguments in favour of trade protectionism. A paradoxical situation arose, when the CEE countries received more liberal markets than the countries of Western Europe.

In addition to association agreements, incentives for trade liberalization were created by regional free trade agreements[11]. In 1993, the Central European Free Trade Association (CEFTA) was created with the participation of Poland, Slovakia, Hungary and the Czech Republic, which was joined by Slovenia in 1996. It was assumed that the CEFTA agreement will not only improve trade relations with the EU countries, but also strengthen the position in the negotiations on the terms of joining the EU[12].

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[11] Hornok C. Trade-Enhancing EU Enlargement and the Resurgence of East-East Trade. *The Foreign Policy of the European Union Assessing Europe's Role in the World* / F. Bindi (ed.). Washington, DC: Brookings Institute, 2010. P. 79–94.

[12] Ella V. J. The Visegrad Countries of Central Europe – Integration or Isolation.

In 1994, the Baltic Free Trade Agreement (BFTA) was created for similar reasons. The Baltic countries did not limit themselves to the liberalization of trade in industrial goods, but agreed on the abolition of import duties on agricultural and fishery products (1997). At the same time, Lithuania retained greater financial support for both sectors than was practiced in Estonia and Latvia.

During the 1990s, the CEFTA and BFTA agreements became the main drivers of regional liberalization of foreign trade[13]. Gradually, almost all the CEE countries joined the CEFTA agreement, but this did not limit the dependence on foreign trade with the EU countries. Although no one joined the BFTA agreement, it gradually covered such sensitive sectors as agriculture and fisheries. Between 1993 and 2001, the BFTA countries tripled their exports to the EU, while the CEFTA countries only doubled. The increase in the volume of trade between the countries of Eastern Europe contributed to the increase in trade with the EU countries.

By the end of the 1990s, the CEE countries were almost completely reorienting themselves to the markets of industrialized countries, which was accompanied by the collapse of foreign trade between the countries of the former CIS, primarily from the former Soviet Union. At the same time, there were restrictions on trade with countries from outside the EU, which were cancelled only with the accession to the EU. The import duty rates of most of the CEFTA member countries (with the exception of the Baltic countries) exceeded the level of the corresponding rates of the EU countries. Accordingly, after joining the EU, the CEFTA member countries had to reduce, and the Baltic countries – to increase, the import duty rates.

In 2000, the EU granted trade preferences to the Balkan countries: Albania, Croatia, Macedonia, Serbia and Montenegro, which was supposed to strengthen their European integration orientation. In 2005, the effect of the given preferences was extended.

In some cases, the direct effect of joining the EU for foreign trade is related not so much to the liberalization of trade legislation as to the activities of foreign investors, because the process of liberalization of foreign trade in most goods positions was completed even before joining the EU (the exception was anti-dumping duties on certain goods).

Unlike most of the countries of the former USSR, the CEE countries quickly reoriented themselves to the EU markets, which created the prerequisites for (1) overcoming significant structural deformations and (2)

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[13] Adam A., Kosma T. S., McHugh J. Trade-Liberalization Strategies: What Could Southeastern Europe Learn from the CEFTA and BFTA? IMF Working Paper No. WP/03/239. Washington, DC: International Monetary Fund, 2003. 31 p.

adapting trade legislation to the conditions of the EU's common trade policy[14]. On the other hand, the CEE countries did not lack political will for European integration, which made it possible to avoid many subjective obstacles that are still important for most of the countries of the former Soviet Union. of the European Union, including Ukraine. Usually, a significant increase in exports, which in the case of the CEE countries was encouraged by simplified access to the EU common market, is considered a sign of the successful course of foreign trade liberalization[15].

We can agree that in the course of their historical development, the CEE countries felt the negative impact of political and economic expansion by the countries of the former Soviet Union, and therefore tried to join the EU as soon as possible. According to the former Prime Minister of the Netherlands V. Kok, "membership in the EU is considered by the CEE countries as the culmination of their dreams of returning to Europe after the artificial division of the latter"[16]. The acquisition of EU membership for the CEE countries was equated with the stabilization of the economy, the development of democratic institutions and the creation of an environment for the construction of social market economies. Although the political risks appeared to be high even in the case of successful negotiations on accession to the EU, the accompanying improvement of the business climate, in particular thanks to the liberalization of foreign trade, had a positive effect to the situation[17].

The process of accession to the EU lasted for ten years. In 1994, applications for accession were submitted by Hungary and Poland, in 1995 by Estonia, Lithuania, Latvia, Slovakia, in 1996 by the Czech Republic and Slovenia, and in 1997 by Bulgaria and Romania. However, the first "wave" of accession to the EU took place only in May 2004, when Poland, Slovakia, Slovenia, Hungary, the Czech Republic and the Baltic countries joined the EU.

The increased duration of the process of accession to the EU is explained by many reasons in a wide analytical range: the low level of GDP per capita, the specifics of political processes, cultural and psychological characteristics. In this context, we quote the words of the former finance minister of Poland, who once remarked that the process of joining the EU was much easier for the

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[14] Biessen G. Is the Impact of Central Planning on the Level of Foreign Trade Really Negative?

[15] Лазер К., Шредер К. Інтеграція Польщі в аспекті розподілу праці в ЄС: приклад для України? *Журнал європейської економіки*. 2006. Т. 5. № 3. С. 267–285.

[16] Kok W. Enlarging the European Union. Achievements and Challenges. Report to the European Commission. Brussel: European Commission, 2003. P. 18.

[17] Schadler S., Murgasova Z., van Elkan R., Kuijs L. Adopting the Euro in Central Europe: Challenges of the Next Steps in European Integration. IMF Occasional Paper No. 234. Washington, DC: International Monetary Fund, 2005. P. 18.

Czech Republic and Hungary than for Poland, as their political and economic systems were much better. It is quite logical that in 1993, certain requirements (the so-called "Copenhagen criteria") were put forward to the countries that expressed a desire to join[18]. This testified to the desire to avoid various risks (primarily political and economic), which, according to experts, could arise in case of hasty accession of new countries to the EU.

At the same time, in the 1990s, the prediction that the CEE countries would follow the path of rapid growth of technological exports like Asian countries did not come true[19]. Development on the basis of the Iberian model seemed more likely, when territorial proximity to the EU countries combined with the attraction of FDI and export-oriented development of processing industries provides the necessary prerequisites for macroeconomic stabilization, development infrastructure and investments in the development of human capital, and on this basis – the dynamics of economic growth at the level of Spain and Portugal[20]. In fact, thanks to the increase in sales on the domestic market, it is possible to achieve the necessary economy in the scale of production, and this will increase competitiveness to such a level that exports will become profitable. It is no less important that the attraction of FDI is accompanied by the improvement of technologies.

In all CEE countries, the formation of market infrastructure was complicated not only by inherited deep integration into the post-Soviet economic space, but also by the slow pace of liberalization and transformation of national economies and foreign trade, significant discrepancies between domestic and world prices, high energy and resource-intensive production, technological lagging behind developed countries and lack of active innovative, scientific-technical and structural policy, imperfection and instability of the regulatory and legal framework, a high degree of monopolization of the economy, etc. Foreign trade policy was under the influence of inconsistent and systematically uncoordinated market transformations[21]. One of the first strategic steps was the joining of the CEE countries to the WTO, which made it possible to conduct trade cooperation with WTO member countries on more mutually beneficial terms.

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[18] Волес В., Волес Г. Творення політики в Європейському Союзі. Київ : Основи, 2004. С. 640.

[19] Квайзер В., Вінценц Ф. Інтеграція України у світову економіку. Яким чином, як швидко та навіщо? *Україна на шляху до Європи*. Київ : Фенікс, 2001. С. 91–105.

[20] Eichengreen B., Kohl R. The External Sector, the State, and Development in Eastern Europe. *Enlarging Europe: The Industrial Foundations of a New Political Reality*. Univ. of California Press, 1998. P. 169–201.

[21] Пітер ван дер Гук М. Європа у період 1990-х рр. і на сучасному етапі. *Журнал європейської економіки*. 2003. Т. 2. № 1. С. 46–59.

2. The importance of joining the WTO

In the broad aspect of the implementation of systemic transformations of national economies in the conditions of entering the market of goods and services according to the rules and principles of the WTO, it determines changes in the macroeconomic plan and functional character, that is, it means the creation of such conditions for the national producer that increase the efficiency of its foreign economic activity.

In the narrower aspect of systemic transformations, the entry into the WTO involves changes at the microeconomic level – for individual companies participating in foreign economic activity. It is not only about reducing import duty rates and simplifying customs procedures, but also about abandoning currency control and manipulation of the exchange rate.

Traditionally, the advantages of foreign trade for the transitional economies of Eastern Europe were considered in the context of: a) inhibition of inflation after price liberalization with the help of more intense foreign competition; b) destruction of internal monopolies; c) compensation for the "transitional" reduction in domestic demand through access to foreign markets; d) exchange of technologies[22]. For example, for Bulgarian enterprises, it was found that foreign trade is an important source of growth based on the productivity of production factors, which, in turn, positively depends on reorientation to markets EU countries[23]. In 1990–1992, the increase in exports was a source of stimulation of solvent demand in Poland, Slovenia and Hungary[24]. In the future, this facilitated the process of solving employment problems in Poland. At the time of accession to the EU, 70% of employment in Poland was in the private sector[25], 70% of foreign trade was in EU countries, and inflation was reduced to 2%[26].

The main source of competitive pressure was international competition caused by the liberalization of foreign trade, and internal competition arising from the emergence of new firms[27]. However, the opening for foreign trade of

[22] Квайзер В., Вінценц Ф. Інтеграція України у світову економіку. С. 98–99.

[23] Zaghini A. Trade Advantages and Specialisation Dynamics in Acceeding Countries. ECB Working Paper No. 249. Frankfurt: European Central Bank, 2003. 48 p.

[24] Grosser I. Shared Aspirations, Diverging Results. *Economic Transformation in East-Central Europe and in the Newly Independent States* / G. Hunya (ed.). Boulder, CO: Westview Press, 1994. P. 13–74; Kaminski B. Hungary's Integration into EU Markets: Production and Trade Restructuring.

[25] Kwiatkowski E. Integracja z Unia Europeska rynek pracy w Polsce.

[26] Belka M. How Poland's EU Membership Helped Transform its Economy. Occasional Paper Washington, DC: Group of Thirty, 2013. No. 38. 61 p.

[27] Україна на шляху до європейської інтеграції: економічна безпека, переваги вибору / В. Нижник, А. Філіпенко, С. Писаренко та ін. Хмельницький : Хмельн. нац. ун-т, 2008. 307 с.

previously relatively closed countries is usually accompanied by fears due to possible negative consequences from the inability to produce goods for export, the decline of local industry in particular due to foreign competition, an increase in the level of unemployment[28]. The symmetry of benefits from foreign trade can be seen in the fact that there are incentives to increase exports to EU countries, and on the other hand, the goods of European manufacturers are becoming more affordable. The latter can mean both the creation of appropriate anti-inflationary pressure and the "capture" of the domestic market by imports (with a simultaneous stimulating effect for the economies of "old" Europe).

In this context, accession to the WTO serves as a kind of preparatory measure that helps adaptation to an even more liberal economic environment of the EU. In both cases, the liberalization of foreign trade should contribute to an increase in the volume and diversification of exports as a factor in improving the dynamics of income – GDP and industrial production.

A. Filipenko notes that the economic dimension of joining the WTO has several important aspects that are useful in the context of European integration: a) diversification of exports, increasing their volumes, increasing the pace of development of export-oriented industries and economic growth in general; b) optimization of regulatory mechanisms; c) improvement of the country's institutional and economic system, formation of a highly competitive environment, activation of investment processes, initiation of structural changes in the economy based on the innovation model and through the implementation of comparative and competitive advantages[29]. However, the economic sphere of the country is also negatively affected, in particular due to the intensification of competition, the elimination of benefits and subsidies for the production sector and the population.

Economic losses usually include costs of: a) the public sector for qualified personnel of government units and material resources for the national producer; b) of the private sector for changes in the field of technical requirements for products in order to comply with WTO standards or for the service sector – regarding regulatory norms; c) for accelerated economic restructuring. On the other hand, an increase in unemployment may mean a redistribution of resources and be accompanied by the formation of a large number of small and medium-sized enterprises, which will contribute to the formation of a competitive export sector; at the same time, changes in employment can serve as an indicator of the speed and success of market transformations[30].

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[28] Сакс Д., Пивоварський О. Економіка перехідного періоду. Уроки для України. С. 275.

[29] Філіпенко А. Головні виміри співробітництва та майбутнього членства України в СОТ. *Вісник Львівського університету. Сер.: Міжнародні відносини*. 2004. Вип. 13. С. 177–179.

[30] Denizer C. Stabilisation, Adjustment and Growth Prospects in Transition Economies. WB Policy Research Working Paper No. 1855. Washington, DC: World Bank, 1997. 23 p.

Among other possible negative consequences of the accession of the CEE countries to the WTO, the following are noted: a high probability of a reduction in the volume of domestic production of a number of goods due to the appearance of cheaper imported substitute goods; problems of attracting investments in certain industries, insufficient protection against competition from foreign producers; due to the low competitiveness of some national goods and services, a reduction in the production of certain types of products, a reduction in the volume of services, a decrease in revenues to the budget, and an increase in unemployment are possible.

The standard set of expectations regarding the benefits of joining the EU included: 1) receiving economic and social benefits from the expansion of foreign trade thanks to access to the EU common market and additional financial assistance from the more developed countries of "old" Europe; 2) significant increase in FDI volumes; 3) formation of a stable political and socio-economic environment. The individual interest of each candidate country in joining the EU was facilitated by the provision of national, political and economic interests, based on the level of its own socio-economic development and political goals.

Orientation of foreign trade of the CEE countries to Western markets required new investments, updating of technologies and retraining of personnel, changes in transport infrastructure, strengthening of the national currency, reorientation of industrial policy, etc., that is, changes in the country's economic strategy[31]. Deregulation of the economic environment became a necessary prerequisite for the transformation of foreign trade policy.

D. Odling-Smy and R. van Rooden's observation that an increase in investments is not enough for economic growth is relevant; it is necessary to supplement them with a powerful increase in production efficiency[32]. Labor productivity is more important than new investments, and the "early recovery" of the CEE countries involved an increase in efficiency rather than an increase in capital and labor resources[33]. In the spirit of liberal and institutional policy, there were proposals to stimulate foreign trade with the help of improving the quality of products, improving the infrastructure, attracting FDI and providing preferential loans to exporters[34].

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[31] Кровяк А. Интеграция Польши и Украины в европейскую экономическую систему. Донецк : Дон. нац. ун-т, 2006. С. 55.

[32] Одлінг-Смі Д., ван Рооден Р. Зростання в Україні – уроки для з інших країн із перехідною економікою. *Україна на роздоріжжі: економічні реформи у міжнародному порівнянні* / А. Зіденберг, Л. Хоффманн (ред.). Heidelberg: Physica-Verlag, 1999. P. 9–21.

[33] Гаврилишин О. Зростання у перехідних економіках протягом 1990–1997 років… С. 25.

[34] Plowiec U. Proeksportowa strategia rozwoju w procesie przemian systemowych w polskim handlu zagranicznym. *Dynamika transformacji polskiej gospodarki*. Warszawa: Poltext, 1997. P. 45–58.

3. Experience of individual countries

From the point of view of the comprehensive characteristics of all aspects of adaptation of the trade regime – economic, political and structural – the experience of Poland, which is traditionally considered as an example for Ukraine, deserves increased attention. Similarities are created not only by socio-economic parameters, but also by the vicissitudes of political life and mental peculiarities. It is important that after the reorientation to the Western markets, Poland retained significant volumes of foreign trade with our country.

In Poland, the opening of the economy for foreign trade flows became an element of the "shock therapy" program, which received significant foreign aid. In July 1989, at the EU summit in Paris, the European Commission received a mandate to coordinate financial assistance to Poland and Hungary within the framework of the PHARE program (the Poland / Hungary Assistance for Economic Restructuring), which was financed by the EU, the OECD and the IMF In 1990, Czechoslovakia, Romania and Bulgaria were added to this program. Loans from the EBRD (European Bank for Reconstruction and Development), which was established on April 15, 1991, became another source of financial assistance.

The PHARE program provided for the provision of food aid, funds for the restructuring of the agricultural sector, environmental projects, employee retraining programs and investment promotion, but the main instrument was a deeper liberalization of trade with EU countries than was foreseen by previous free trade agreements[35]. In fact, Poland and Hungary gained the same access to the markets of the EU countries as the GATT member countries. Moreover, the abolition of all specific quotas for imports into EU countries was accompanied by accelerated liberalization of the general quota mechanism[36].

Back in 1995, the majority of trade barriers to the promotion of Polish goods to the CEFTA and EU markets were removed and a course was taken to liberalize industrial imports, which allowed in the 1990s to achieve the highest rate of GDP growth among all CEE countries[37]. In 2000, the process of complete elimination of protectionist barriers to imports was completed. In matters of trade in agricultural products, a gradual and selective reduction of import duty rates was further applied. Germany immediately became Poland's

[35] Kennedy D., Webb D. Integration: Eastern Europe and the European Economic Communities.

[36] Marko D. E. A Critical Review of Market Access in Central and Eastern Europe...

[37] Чеботар С. Польська економіка на межі тисячоліть: труднощі, успіхи, перспективи. С. 43.

main trading partner. CEE countries accounted for about 18% of foreign trade volumes.

Similar to other CEE countries, the liberalization of foreign trade and the rapid growth of Poland's economy contributed to an increase in domestic demand for goods and services. Most Polish economists believe that the initial impulse to increase demand was provided by exports, later by an increase in investments, and already in 1996–1997 aggregate demand grew at the expense of domestic consumption, and on the basis of increasing labor productivity[38]. An important factor was the receipt of significant funds from the EU budget.

It was a big surprise that Poland turned into a net exporter of food products to EU countries for the first time in a decade. At the same time, the range of food exports expanded significantly, to which, in addition to traditional items (fruits, vegetables, confectionery), beef, poultry and dairy products were added ducts Polish manufacturers win competition with European manufacturers thanks to lower prices and compliance of their products with European sanitary requirements. The increase in demand for Polish food products abroad was facilitated by labor migration from Poland, which became another favourable consequence of European integration, despite some critical assessments of this phenomenon.

Slovakia activated the European vector the latest of all the CEE countries – only at the end of the 1990s. In part, this could be explained by the backwardness of the economic structure after the disintegration of Czechoslovakia, but the main ones were political problems.

In 1997, the EU and NATO countries rejected Slovakia's application for accession based on political considerations. According to the rating of political freedoms from the American organization. The Freedom House, the indicator for Slovakia (3.80) is at the same level as for Macedonia and Moldova. Slovakia began to be seen more and more as an abnormal country (eng. the deviant country) in Eastern Europe. Such were the consequences of the rule of the charismatic leader V. Mečiar (Vladimír Mečiar) and his party HZDS in 1994-1998, which was characterized by a tendency towards authoritarianism in political life and protectionism in economic policy[39]. For example, V. Mečiar actively used the argument about the "sale" of Slovakia to foreign investors from EU countries in his political rhetoric. After the unsuccessful referendum on joining NATO and the presidential elections in May 1997, Slovakia began to be considered as an example of so-called

[38] Чеботар С. Польська економіка на межі тисячоліть: труднощі, успіхи, перспективи. С. 149.

[39] Malova D. Transformation Experiences in Slovakia**:** Governing Uncertainty. Berlin: Friedrich Ebert Stiftung. 2017. 12 p.

"illiberal democracy" in Central Europe. The country looked unstable and unable to fulfill the political conditions for joining the EU.

A certain paradox was that at the end of its term, V. Mechiar's government did review its own priorities in favor of European integration and even submitted an application for joining the EU, but there was a lack of real changes in domestic policy that were expected European partners. Such changes began only after the victory of the broad pro-European coalition in the 1998 parliamentary elections. The newly elected Prime Minister M. Dzurinda (Mikuláš Dzurinda) immediately rejected the "third way" strategy for Slovakia, as it was promoted during the prime ministership of V. Mečiar, and started vigorous liberal economic reforms. In a few years, it was possible to consolidate the political system on a democratic basis, improve the international image of the country, and carry out the necessary transformations in the banking and tax systems, the sphere of public administration, etc.

Slovakia's "return to Europe" was marked by radical institutional changes that made it possible to fulfill the requirements for joining the EU in a short period of time. In 2002–2006, the foundations were laid for the maximum attraction of FDI, which was to become the main driving force of the country's economic growth. For this purpose, the priority of the fastest possible introduction of the euro and numerous benefits for foreign investors (tax holidays, subsidies for opening factories in depressed regions, etc.) was announced.

Increasing the volume of foreign trade was defined as the main priority in economic policy, which clearly contrasted with the previous "third way" policy. During the governments of V. Mechiar, export was not considered a significant factor of economic growth, and priority was given to public sector enterprises, which were supposed to ensure the stability of the self-sufficient national economy. In 1999–2004, liberal economic policy and a change in foreign policy rhetoric to pro-European made it possible to increase the volume of investments and radically improve the macroeconomic situation. Since the beginning of 2009, Slovakia was the first of the CEE countries to introduce the euro, which was already a significant success.

The EU had a significant influence on the formation of the political agenda in Slovakia[40]. First, it led to a change in the ruling coalition after the 1998 elections, which resulted in radical changes in domestic and foreign policy. Secondly, the requirements for changes in all areas – economic, political, institutional – were much more serious when compared with the requirements for other candidate countries for joining the EU.

[40] Henderson K. EU Influence on Party Politics in Slovakia. Paper delivered to the EUSA conference (Austin, Texas, 31 March – 2 April 2005). 2005. 24 p.

A few years ago, it seemed that the differences between Slovakia and the Czech Republic, which for a long time had much better economic indicators, gradually disappeared, but recently it has been noted that the period of coordination of the goals of the market and socially oriented economy (2006-2015 y.) was replaced by a period of corruption and clientelism[41]. This reduces trust in Slovak institutions and democratic procedures. If in the past the EU served as a kind of "anchor" for economic, political and social transformations, today the corresponding mechanisms seem insufficient without reliable support from pro-European Slovak political forces.

The success of the Czech Republic is traditionally explained by the implementation of deep structural reforms, which made it possible to quickly move to the trajectory of sustainable economic growth and solve promising problems. Despite the deformation of the post-war period, which largely eliminated comparative advantages in the industrial sector, in 1989 the Czech economy was in a much better condition than the economies of neighbouring countries[42]. Inflation and the budget deficit were not high, and the highly qualified workforce attracted the attention of private investors. On the other hand, the former Czechoslovakia at the end of the 1980s had the largest public sector of all the CEE countries, which was clearly dominated by large monopolistic enterprises[43]. Under such conditions, privatization seemed to be a priority task.

Large-scale privatization of the first half of the 1990s resulted in a rapid increase in the share of the private sector in the economy from 2% in 1990 to 70% in 1997. At the same time, FDI volumes grew: from 2% of GDP in 1993 to 5% of GDP in 1995[44]. Since the beginning of the 1990s, foreign trade has become an important factor in economic growth, and Germany has become the main trading partner[45].

The transition process was not without problems. Since the growth rate of wages exceeded the corresponding indicator for labor productivity, this affected the increase in production costs and worsened the competitiveness of exports. A significant part of the enterprises was privatized with the help of bank loans, which led to the deterioration of the financial condition of such enterprises.

[41] Malova D. Transformation Experiences in Slovakia**:** Governing Uncertainty.

[42] Weiner E. Market Dreams: Gender, Class, & Capitalism in the Czech Republic.

[43] Svejnar J., Uvalic M. The Czech Transition. The Importance of Microeconomic Fundamentals. WIDER Research Paper No. 2009/17. Helsinki: World Institute for Development Economics Research, 2009. 19 p.

[44] Koyame-Marsh R. The Complexities of Economic Transition: Lessons from the Czech Republic and Slovakia. *International Journal of Business and Social Science.* 2011. Vol. 2. No. 19. P. 77–85.

[45] Svejnar J., Uvalic M. The Czech Transition. The Importance of Microeconomic Fundamentals.

What's worse, the banking sector was dominated by state-owned banking institutions that were not distinguished by high efficiency. Although the Czech Republic introduced so-called "second generation" reforms in 1996–1997, this did not help to avoid crisis phenomena. An excessive increase in private consumption and problems with the functioning of privatized enterprises materialized in the balance of payments crisis (1997). And although some economists saw the cause of the crisis phenomena in a decrease in demand for exports, in fact it was derived from insufficient competitiveness of Czech manufacturers. Privatization was not without corruption. Insider trading, manipulation of the value of securities, abuse in investment funds, etc., became widespread[46]. The funds for the "rescue" of Czech banks amounted to 10% to 20% of GDP (according to various estimates). The Czech Republic was the only CEE country to experience a recession in the second half of the 1990s.

However, the crisis phenomena did not lead to the curtailment of liberal market reforms[47], which made it possible to return to the trajectory of sustainable economic growth after only two years. The main factor was the privatization of state banks with the participation of foreign banking institutions[48]. As a result, by 2005, the share of foreign banks in the assets of the banking system reached 96%.

The experience of Hungary is quite controversial. On the one hand, this country was the first in the region to launch successful political and economic reforms. Hungary received membership in the IMF back in 1982, and in 1988 it was the first of the CEE countries to receive a standby loan[49]. In 1986, the bankruptcy law was adopted, and the following year, the creation of a two-tier banking system began (the single state bank was divided into a central bank and three commercial banks). In 1988, Hungary introduced value-added tax (VAT), and in 1989, price liberalization began. Hungary was the first to refuse import licensing, mainly for its own reasons for liberalizing the trade regime, rather than for the negotiation process with EU countries[50].

Back in the 1980s, FDI was allowed in Hungary, which contributed to the attraction of investors with a world name, such as the Japanese automobile

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[46] Svejnar J., Uvalic M. The Czech Transition. The Importance of Microeconomic Fundamentals.

[47] Weiner E. Market Dreams: Gender, Class, & Capitalism in the Czech Republic.

[48] Svejnar J., Uvalic M. The Czech Transition. The Importance of Microeconomic Fundamentals.

[49] Kovács A. Economic Integration and Interdependence in Hungary.

[50] Kennedy D., Webb D. Integration: Eastern Europe and the European Economic Communities.

company Suzuki or the American Corporation General Electric[51]. In 1988, Hungarian enterprises received the right to foreign trade operations, and the system of several exchange rates was successfully unified – for the first time among the CEE countries[52]. Since the beginning of 1990, the program of creating a market economy has been continuously implemented. As early as 1989, EU countries accounted for 34% of foreign trade, and by 1997 this figure had increased to 70%. Like other CEE countries, Germany has become the main trading partner. Between 1989 and 1992, export volumes increased by 84%[53]. Export growth slowed somewhat in 1993, but later in 1994–1997, this indicator increased by 132%.

In 1991, more than 90% of all prices were liberalized, but this did not help the expected rapid inhibition of inflation. However, the main problem was the high budget deficit, which was largely created by state sector enterprises. The corresponding losses increased from 2.6% of GDP in 1990 to 14.2% in 1993, and in 1994 they decreased only slightly to 7.5% of GDP. Part of the budget deficit was monetized. Although a very harsh bankruptcy procedure was introduced in 1992, it did not help to solve financial problems in the real sector. A significant budget deficit and high inflation affected the deterioration of the current account balance. In 1994, the budget deficit grew to 8.4% of GDP, and the current account balance grew to 9.5% of GDP.

In 1995, it was necessary to implement a financial stabilization program called the Bokros plan – on behalf of the Minister of Finance L. Bokros (Lajos Bokros). Its elements were: the devaluation of the forint currency, the introduction of a temporary import duty at the level of 8% for all goods (except for investment goods), the reduction of employment in state-owned companies, the introduction of tuition fees in higher educational institutions, as well as the Re-privatization of state-owned enterprises. Foreign banks received the right to purchase Hungarian banks without any restrictions (the pre-privatization "cleaning" of the banking system cost about $4 billion).

Although economic revival was observed after joining the EU, mainly thanks to the increase in exports, serious macro-economic problems arose again in 2006, but they had a macro-economic basis rather than being the consequences of foreign policy liberalization. trade Despite the increase in taxes and some expansion of the tax base, the state debt continued to grow –

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[51] Žídek L. Evaluation of Economic Transformation in Hungary. *Review of Economic Perspectives–Národohospodářský Obzor*. 2014. Vol. 14, issue 1. P. 55–88. DOI: https://doi.org/10.2478/revecp-2014-0004

[52] Додамо, що 1972 р. в Угорщині було дозволено створювати спільні підприємства з іноземними компаніями [Kovács A. Economic Integration and Interdependence in Hungary]. Першою це зробила німецька компанія Siemens 1974 р.

[53] Kovács A. Economic Integration and Interdependence in Hungary.

up to 65% against 50% of GDP in 2001[54], which required an appropriate response. For comparison: in Poland and the Czech Republic, the public debt did not exceed 50% and 30% of GDP, respectively.

Similar to Hungary, Romania also showed signs of liberalization of trade with the Western countries even in the times of REV. The country was the first of the countries of Eastern Europe to sign a full-fledged trade agreement with the EU in 1980, which differed from the previous minimalist agreements on technical standards and trade individual goods[55]. In 1975, the USA granted Romania MFN status, and also helped in obtaining IMF loans[56]. However, the country's leadership soon changed its course and decided to pay off the foreign debt early, which reached $11 billion in 1980. Moreover, in 1988, Romania renounced the MFN status, which was quite soon They began to consider it as a means of foreign interference in political life.

After the overthrow of Nicolae Ceausescu's regime in December 1989, the transition to a market economy turned out to be extremely inconsistent, which was the result of weak institutions, a lack of financial resources, and distrust of the new operating conditions among the general public. This was also influenced by the previous orientation of the economic policy on increasing exports and the maximum restriction of imports to service the foreign debt. In 1990-1992, Romania experienced a significant decline in production: in industry by 40.5% in 1990 and by 37.9% in 1991, in agriculture by 21.8% and 18.8%, in accordance. Starting from 1993, the economy of Romania began to recover, but in 1997-1999, production declined again. However, this did not prevent the EU's decision to start negotiations on joining the EU (December 1999). For its part, this gave impetus to the policy of financial stabilization and structural transformations in the Romanian economy.

In general, the CEE countries, while preparing for EU membership, tried to strengthen the external orientation of the economy, which made it possible to maintain a fairly high rate of GDP growth, but not all problems were solved. Despite the significant growth of the Grubel–Lloyd index for individual countries in 1993–2003 (Poland – 85%, Romania – 61%, the Czech Republic – 55%, Slovakia – 43%, Slovenia – 37%, Hungary – 35%, Bulgaria – 20%), the share of intra-industry trade at the time of joining the EU was low: the Czech Republic – 50%, Hungary and Slovenia – 40%, Poland – 35%, Slovakia –

[54] Horvath J. 2008 Hungarian Financial Crisis.

[55] Marko D. E. A Critical Review of Market Access in Central and Eastern Europe…

[56] Băhnăreanu C. Economic Integration and Interdependence in Romania. *Economic Integration and Interdependence in Central and Eastern Europe* / Z. Felméry (ed.). Budapest: Dialóg Campus, 2020. P. 181–219.

30%, Romania and Bulgaria – 30%[57]. On the other hand, even at the end of the 1990s, the corresponding indicator of the CEE countries was recognized as the highest among other countries – trade partners of the EU[58]. From 80% to 90% of intra-industry trade was the so-called vertical exchange of similar goods of excellent quality, which favourably depended on the nomenclature of goods, labor intensity of goods, economies of scale of production and FDI. The horizontal exchange of substitute goods also depends on FDI, the nomenclature of goods and the degree of concentration in industry, and conversely – on the indicator of labor intensity, but most of all – on the individual characteristics of individual countries.

The accession of the CEE countries to the EU extremely complicated both the legislative processes of the EU and the decision-making processes of its various bodies and, as a result, caused an additional burden on the institutional structures of the EU and affected its foreign trade policy. In addition, the accession of new countries led to the deepening of the internal heterogeneity of the EU.

In the process of all previous expansions, countries with approximately the same socio-economic development, models of political and socio-economic organization joined the community. The main feature of the fifth enlargement is that countries that are at the stage of economic transformation join the EU, and their development is much lower than that of EU member states.

In one of the studies, domestic experts quite positively evaluate the experience of association agreements with the EU, which were signed by the CEE countries in the 1990s. According to the index of the complexity of the economy, which characterizes the country's competitiveness through the flow of export goods, the Czech Republic was in 13th place in 1995, and in 2008 it moved to 8th place, immediately behind Singapore, Hungary – from 23rd on the 14th, Slovakia – from the 18th to the 15th. But Poland remained in 25th place. Instead, Bulgaria moved from 35th to 40th place. For comparison: Ukraine was in 41st place in 1995, and in 2008 it became 42nd. An increase in the index of complexity in the CEE countries (except Poland) means that the economy produces more goods with a higher added value, which ensure an increase in labor productivity.

CEE countries that signed association agreements during the 1990s have a higher overall index of global competitiveness than countries that did not sign

[57] Molendowski E. Handel wewnetrzgaleziowy krajow CEFTA z panstwami Unii Europejskiej. *Gospodarka Narodowa*. 2006. Rok XVII. No. 5–6. S. 75–92.

[58] Aturupane C., Djankov S., Hoekman B. Determinants of Intra-Industry Trade Between East and West Europe. WB Policy Research Working Paper Washington. DC: World Bank, 1997. No. 1850. 31 p.

such an agreement (countries of the post-Soviet camp). The signing of the association agreement leads to the establishment of uniform rules, standards and approaches to economic development, which is ensured through the formation of uniform approaches at the legislative level. In the future, the harmonization of the legislation of the countries that have signed the association agreements leads to the improvement of the business environment, which leads to a change in the indices of complexity and global competitiveness of the economy.

The conclusion of the experts of the International Centre for Prospective Studies (hereinafter referred to as ICPD)[59] seems to be hasty, that during the expansion of the EU, the countries of "old" Europe became less complimentary and competitive due to the expansion of the network of trading partner countries. The accession of the CEE countries to the EU should not be considered as a one-sided process. In addition to the benefits for the new member countries of the integration entity, this contributes to increasing the effectiveness of the foreign trade policy of the entire EU through the expansion of the European market, which will enable the "old" EU countries to obtain additional economic advantages. The economic growth of the CEE countries as a result of joining the EU has contributed and will continue to contribute to the increase in foreign trade volumes, which gives advantages to exporters from the "old" EU countries.

It was assumed that after the expansion to the east, the EU will grow economically as a result of the formation of a more favourable economic environment[60], which in the field of foreign trade in goods and services will positively affect: the creation of new opportunities for the development of strategically important innovative markets; increase in profits of potential consumers; increasing demand for European goods and services; growing demand for locally adapted goods and services; diversification of foreign economic and foreign trade activities[61].

Another advantage of the promotion of the EU's foreign trade to the east was the acquisition by the "old" EU countries of additional competitive advantages in the CEE countries, namely: access to natural resources; geographic expansion of the economic environment; strengthening the position of the euro as a result of the orientation of new members to join the

[59] Вплив створення зони вільної торгівлі з ЄС на економіку України. С. 123.

[60] Трощинський П. Наслідки розширення Європейського Союзу на схід. *Вісник Київського національного університету імені Тараса Шевченка*. 2005. № 73. С. 52–53.

[61] From Thought to Finish. European Affairs. EU Enlargement. Window of Opportunity. Ernst and Young, 2002. P. 10.

Eurozone; deeper integration of capital markets; reduction of costs due to the location of individual productions in the CEE countries.

However, not all economists agree with this opinion. Thus, D. Long considers such logic to be contradictory, since in the short term the expansion of the market will certainly have a positive effect on the economic growth of the "old" EU member states, but the countries of the "new" Europe will be able to take advantage of the expanded market only over time, in measure of successful implementation of economic reforms[62].

The Polish economist M. Horynya claimed that the process of European integration created several threats: insufficient development of the export sector, insufficient financing opportunities for significantly increased import volumes, the impossibility of financing a significant current account deficit with the inflow of FDI in the long term[63]. what perspective. Selective stimulation of exports in certain sectors is inappropriate, because it leads to discrimination of internally oriented industries, as well as adverse external effects: "war" of subsidies, protectionist actions in response, reinvestment in export industries, distortion of investment "signals". In fact, it is necessary to increase the efficiency of both sectors – export-oriented and domestic – with the help of consolidation of enterprises and strengthening of competitive foundations in the economic environment.

Among other factors, liberalization measures are facilitated by a smaller budget deficit. On the eve of joining the EU, the study of the correlation of the cycles of business activity of the CEE countries and the EU-15 countries testified that there are still differences in terms of aggregate demand and supply, but the most developed countries (Poland, the Czech Republic, Slovenia, Hungary) practically do not differed from small EU economies such as Greece or Portugal, and this significantly reduces losses from a fixed exchange rate and economic policy coordination[64].

CONCLUSIONS

The liberalization of foreign trade under the conditions of European integration should increase its reliability and irreversibility, which under other

[62] Long D. The Why and How of EU Enlargement. Working Paper № 16. Vancouver: The Univ. of British Columbia, 1997. P. 2.

[63] Gorynia M. Polityka prokonkurencyjna w warunkach integracji z Unia Europejska. *Gospodarka Narodowa*. 2000. Rok XI, no. 11–12. S. 86–101.

[64] Frenkel M., Nickel C. How Symmetric Are the Shocks and the Shock Adjustment Dynamics Between the Euro Area and Central and Eastern European Countries. ECB Working Paper No. 02/222. Frankfurt: European Central Bank, 2002. 232 p.

conditions is excessively dependent on internal political factors[65]. Since the abolition of restrictions on free trade between EU countries is one of the most transparent demands that leave no room for discussion, this prevents the use of the issue of the liberal trade regime in political struggle. First of all, it is important for countries where the interests of politicians and big business are closely intertwined, which is used to monopoly profits and does not have the skills of competitive struggle, which will be inevitable after the relaxation of import restrictions.

Although the CEE countries did not have such a strong connection between business and politics, as is characteristic of the countries of South-Eastern Europe, and even more so of the former Soviet Union, the process of adapting the trade regime of the CEE countries to the common trade of EU politics turned out to be quite complex (and not problem-free). Despite the advantages of economic integration with the EU countries as a means of increasing competitiveness, "market drag" of the traditionally large stock of theoretical knowledge into innovations, useful from a commercial point of view, as well as access to the best educational prospects, potential limitations arose in the form of the state of political institutions (legislative, executive, judicial), the spread of bureaucratic barriers and corruption, structural problems, insufficient contacts with Western Europe[66]. All this is well known from modern Ukrainian experience.

In general, under the conditions of the European integration process, studying the features of the liberalization of foreign trade and its impact on the main economic indicators, together with the attraction of foreign investments, is of practical interest. The experience of the CEE countries is useful, as it allows you to see the balance of advantages and disadvantages of foreign trade liberalization with a significant advance and minimize possible challenges, which are not difficult to identify on the basis of a preliminary examination of the relevant problem: a) deterioration of the export-import balance of goods and services; b) slow technological complication of export; c) the possibility of underestimation of the domestic market at the expense of hypertrophied orientation to foreign markets.

SUMMARY

The adaptation of the trade policy of the CEE countries and the creation of appropriate institutional conditions for joining the EU lasted more than a

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[65] Papazoglou C., Pentecost E., Marques H. A Gravity Model Forecast of the Potential Trade Effects of EU Enlargement…

[66] Гаврилишин Б. Україна між Сходом та Заходом, Північчю та Півднем: геополітичні можливості та обмеження. *Україна на шляху до Європи*. Київ : Кондор, 2001. С. 22–23.

decade, which is explained by the complexity of the initial conditions after several post-war decades of experimentation with the administrative-planned economy and the economic and socio-political difficulties of the transition to market economy. This was influenced by cultural and psychological peculiarities, imperfection and instability of the regulatory and legal framework, and in some cases by the inconsistency of market transformations.

In general, under the conditions of the European integration process, studying the features of the liberalization of foreign trade and its impact on the main economic indicators, together with the attraction of foreign investments, is of practical interest. The experience of the CEE countries is useful, as it allows you to see the balance of advantages and disadvantages of foreign trade liberalization with a significant advance and minimize possible challenges, which are not difficult to identify on the basis of a preliminary examination of the relevant problem: a) deterioration of the export-import balance of goods and services; b) slow technological complication of export; c) the possibility of underestimation of the domestic market at the expense of hypertrophied orientation to foreign markets.

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