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Post COMECON Trade. The Opening Economies of Eastern Europe

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1. Introduction

Post COMECON[1] trade has to be studied as part of the process of opening of the economies in the region. The opening of East-Central European economies after 1989 was made within different institutional structures. Poland was the first economy in the region which has cut almost all former ties within COMECON by liberalizing all prices in 1990. The remaining economies have followed that move sooner or later. The process of opening was mainly marked by the EC and into some extent by the WTO but in some cases there were moves undertaken to liberalize trade directly within a regional initiative undertaken by the interested states themselves. The decision here was undertaken by the Visehrad - 3 and in short time after the split of Czechoslovakia Visehrad-4. Opening was proceeded in phases leading to creation of regional FTA's which have liberalized trade and shown that such move, despite some negative expectations of some economists brought about positive impulses for the economies in the region. Those positive impulses were created by liberalization of trade, capital inflows, what was followed by liberalization of services, and labor-force transfers. Liberalization of agricultural products was introduced in a way in separation to the mentioned moves but was also achieved finally, after some protective moves in this sensitive area. Generally one can say that less market and more government dirigisme (government control over economy) resulted in worst results, while more market and less dirigisme has brought about quicker departure from negative results of the transformation depression. The effects of

[1] COMECON/ CMEA (both abbreviations used in literature) for Council of Mutual Economic Assistance an economic grouping in the Eastern Bloc. Organization existed in years 1949-1991. Consisted of: since January 1949: Bulgaria, Czechoslovakia, Hungary, Poland, Romania, USSR, since February 1949 additionally Albania, since 1950 – the GDR, since 1962 – Mongolia, since 1972 – Cuba, since 1978 – Vietnam. People's Republic of China attended the meetings in period 1950-1961. In 1961 the support for the SU by this state was withdrawn. Since 1964 Yugoslavia has participated in the proceedings as an associated member, being the only member with such status, while Finland, Mexico, Nicaragua, Mozambique attended the meetings as non-socialist cooperating states. In 1957 an observer status was introduced, which was used by a number of states. In November 1986 the CMEA summit was attended by Afghanistan, Ethiopia, Laos, Nicaragua, Yemen (South).

decisions undertaken in first months of transformation, resulted in the depth and scope of the reforms and have impact on the today's economic performance of the markets in the region. This statement cannot be interpreted as a support to the market and its powers itself. Before the market forces were given a chance to do the job institutional and legal arrangements had to be prepared at least in the main areas of economic and social spheres of activity.

2. Institutional ties in 1989

COMECON or CMEA (both names of the economic organization of East Central European states before 1989 are used as synonyms) has regulated trade among East Central European states in a different way than free trade agreement. Regulation of mutual trade among planned economies was regulating exchange of surpluses which were produced in the economies in question. Surpluses are usually limited in a "shortage economy", as J. Kornai has coined the name for the east central economic system[2]. Nevertheless, East Central European economies traded some goods as we can see from the past statistics. Most of the goods were those which those countries were able to produce and supply without special difficulties. Some of the economies like the USSR have specialized in raw materials (oil, gas, iron ore, coal), others have specialized in more processed products like the GDR (watches, ORWO films, shoes, cars, cameras), Hungary (electric products, cloths, wine, salami), Czechoslovakia (cars, shoes, machine-tools) and Poland (cosmetics, cars, machine-tools) etc…. All except the USSR were exchanging agricultural goods and food. The USSR imported those goods exporting in return also some industrial products like machine-tools, cars, electric products, TV sets, etc… Although when the structure of traded goods was compared it was always said that important goods exported by the USSR were exchanged for some goods of minor importance like cosmetics. Dependence of the USSR trading partners was strongly differentiated: highest in case of the former GDR and lowest in case of big/medium economy like Poland.

Usually beginning of transformation is linked with the fall of the Berlin Wall in September 1990 but transformation started a year earlier in Poland with the democratic election of the first post-communist government in September 1989. The new government has prepared package of reforms with such moves as:

- Liberalization of prices;
- Liberalization of trade;
- Convertibility
- Introduction of market institutions and reforms of those which were established earlier and could shoulder new responsibilities;
- Introduction of laws which were needed in new conditions.

[2] J. Kornai, The Economics of Shortage, Elsevier, December 1980.

Before the reforms goods were traded with use of fixed state prices. Liberalization of prizes in Poland in January 1990 has cut the Polish producers from the former external export markets, what concerned mainly those who were planned economies. Imports were still possible as remaining states have kept the fixed or controlled former prices. With liberalization of trade Poland was forced to seek export markets outside the bloc. This was part of the shock therapy applied in the Polish economy of that times. The shock was in a way reduced by the fact that imports to the Polish market from the remaining COMECON states were still conducted with use of the fixed, state prices, which have still functioned in those markets. The trade here was limited as Poland could not offer goods with matching prices. Even goods agreed in COMECON trade plans were not delivered as offered prices no longer have covered the costs.

3. Institutions engaged

Opening of the economy within regional or subregional groupings was proceeded by membership in the IMF, World Bank and WTO[3]. Agreements with the mentioned institutions traditionally have an impact on shape of the applied policies which are pointed at introduction of convertibility of the currency (according to art. 8 of IMF statute[4]), setting market institutions and laws, macrostabilization, privatization, liberalization of the economy and its external relations. They have controlled the course of changes helping to put a country back on track when it tried to change the straight forward direction of changes[5].

All ECE states became members of the mentioned intuitions in the mid 1980[6]. The membership here and signed agreements on systemic changes were concluded in certain sequencing, what shows that each of the organization was taking care for a separate problem,

[3] Poland, Czechoslovakia and Yugoslavia are funding members of the IMF and World Bank (1946), Czechoslovakia is funding member of GATT (1948), Yugoslavia joins GATT as observer (1950). Poland withdraws from IMF and World Bank in 1950. Czechoslovakia suspends her active participation in IMF and World Bank (1951) and finally is excluded in 1954. The return to IMF, WB and GATT is a slow process, which has started for ECE states in 1957 when Poland and Romania have joined the GATT as observers. Slowly in the 1970 ECE states start to come back to these organizations. In 1980 the return is full-fledged. Return to GATT is gradually made by Yugoslavia (1966), Bulgaria (1967), Poland (1967), Romania (1971), Hungary (1973). IMF and World Bank membership are restored by Romania (1972), Hungary (1982), Poland (1986).

[4] www.imf.org/external/pubs/ft/aa/aa.pdf (15.11.2008).

[5] K. Żukrowska, Determinanty przemian systemowych w Polsce. (Determinants of Systemic Changes In Poland) PISM Warszawa 1990, pp. 158, 174.

[6] The only exceptions were the three Baltic Republics and remaining CIS (Commonwealth of Independent States), ie. states that were created from the former republic of the dissoluted USSR. They have regained their sovereignty to decide about their foreign policies after the dissolution of the SU on 7[th] February 1990. The process of joining the IMF, World Bank and GATT in case of Baltic republics was postponed in comparison to the ECE what was resulted by their lack of independence. IMF membership was commenced in 1992. Membership in the remaining organizations followed after quickly.

so the consecutive move was built upon previously agreed conditions[7]. Agreements with the IMF were preceding agreements with the World Bank and the EU[8].

Agreement signed with IMF to stabilize the economy was opening the door to the agreement with the World Bank and could be followed by an agreement with GATT/WTO and finally with the EC. Some of the ECE states were members of GATT or observes in GATT earlier what has accelerated the whole procedure of membership negotiations and signing agreements on stabilization. Reduction of external debt procedure which was applied by Poland additionally has engaged in the process Paris (creditors with state guarantees) and London (private creditors) Clubs[9].

4. Relations within regional blocs: EEC/EU, EFTA, CEFTA

Before 1989 East Central European states approached the EEC to establish mutual agreement on access to the Common market. The EC agreed but it was decided that this could have been done one by one, individually not with a group of states. The position of COMECON was simple: a bloc has to conduct talks with a bloc. Individual talks give smaller chances than bloc approach. The argument of the EC was also simple and clear: the EC has powers to negotiate trade conditions as a bloc, while COMECON has not obtained such rights. The EC has such rights within common trade policy which was established still within the Treaty of Rome of 1957 and finalized with creation of common customs in foreign trade with third countries.

Finally, after exchange of opinions concerning conditions of mutual negotiations, it was decided that the East Central European states will negotiate their future relations with the EC individually, one by one. When such agreements were already concluded and waited for ratification in 1989 a round of new negotiations started[10], they were pointed at reaching higher level agreement leading to association with the EC and creation of the FTA. In other words a first generation agreement between the East Central European states never was ratified and never came into life. Before the procedure of ratification was concluded the East Central European states have started negotiations concerning a higher ranking agreement, which is a second generation agreement. The difference between first and second generation agreements with the EC was meaningful. The second generation agreements were introducing

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[7] K. Żukrowska, Szerokie otwarcie. Polska gospodarka w aktywnym otoczeniu międzynarodowym (Wide Opening. The Polish Economy In Active International Environment), Volumen Warszawa, 1994, p. 40-79.

[8] Again exception here was made for the CIS in case of which agreement with the EU was not proceeded by the membership in the WTO. The negotiations here last until now. Russia and some of the remaining CIS until today have still some of the prices controlled by the state.

[9] Poland was at beginning the only state in the group to sign an agreement reducing debts by 50%. Hungary, having higher per capita debts as well as in relative terms measured as share in GDP or external trade turnover did not use such opportunity. Negotiations of debt relief in case of Poland were considered to be an additional stimuli in applying radical macrostabilization measures.

[10] First these negotiations were unofficial, with time passing turning into official talks on association with the EC.

liberalization of trade into the mutual relations between a country and the EU, while the first generation agreements were traditionally leading towards establishing relations, calling into life some of the common institutions and leading towards some political declarations as well as exchange of statistical information and data. This was so unless the end of the Cold War, when such sequencing was broken and accelerated. This was the case with East Central European states like Poland, Czechoslovakia (still at that time), Hungary, Bulgaria and Romania. Also such acceleration can be seen in case of Russia and remaining CIS (Commonwealth of Independent States). In their case a first generation agreement has introduced some decisions concerning liberalization in mutual trade. In both cases the agreements liberalizing trade were asymmetric. This means that they have reflected the asymmetry in development and less developed economies have been opening their markets for exports from the EC market later in comparison with trade going the opposite direction. In other words the EC market was opening quicker and earlier for exports from East Central European states than in the opposite direction.

Negotiation of Europe Agreements[11] were concluded with the first East Central European states in December 1991. This resulted in replacement of the formerly concluded agreements of first generation by a new second generation agreement. Europe Agreements similar as Trade and Cooperation Agreements fall into the category of second generation agreements. Nevertheless, they were tailored individually for the new group of European trade partners. There were also some differences among the agreements as far as institutional agreements were concerned. Only the Europe Agreement[12] with Poland embraced a separate part on trade called Interim Agreement which could have been introduced into life without the requirement of being ratified. This solution was applied by the EU afterwards also in establishing first generation agreements with the former Soviet Republics within PCA (Partnership Cooperation Agreements). Other states did not include such a condition as they preferred to apply solutions which were introducing more protective approach to their trade with the EU.

There were three institutions established within the framework of the Europe Agreement. Those were following: Association Board, Committee of Association, and Parliamentary Commission (consisting of representatives from the national Parliament and European Parliament).

Table 1. Agreements signed by East Central European states with the EU, application for membership and group of negotiation and date of membership

[11] Europe Agreements consisted of: Preamble, political dialogue, general regulations, free flow of goods, flow of labor force, payments, capital, competition and other decisions concerning economy, economic cooperation, cultural cooperation, financial cooperation, institutional decisions, attachments, protocols, common declarations, exchange of letters.

[12] Dz. U (Journal of Law) 94.11.38 1994-06-17 with applied afterwards changes.

Country	Type of agreement	Date of signing	Date when creation of FTA started	Group starting negotiations and year of membership
Czech Republic	Europe Agreement	Approved 23 June 1993, 4 October 1993	1 February 1995	I Group 2004
Bulgaria	Europe Agreement	Approved 18 May 1992, signed 8 March 1993	1 February 1995	II Group 2007
Estonia	Trade Agreement and Related Matter	11 May 1992, 18 June 1994	1 January 1995	I Group 2004
Hungary	Europe Agreement	16 November 1991, ratified 13 December 1993	1 February1994	I Group 2004
Latvia	Trade Agreement and Related Matter	18 July 1994	1 January 1995	II group 2004
Lithuania	Trade Agreement and Related Matter	18 July 1994	1 January 1995	II Group 2004
Poland	Europe Agreement	16 December 1991	1 February 1994	I Group 2004
	Interim Agreement	16 December 1991	1 February 1992	
Romania	Europe Agreement	18 June 1990, signed 22 October 1990 for 5 years	1995	II Group 2007
Slovenia	Europe Agreement	5 November 1992, signed 5 April 1993	1 September 1993	I Group 2004
Slovakia	Europe Agreement	4 October 1993	1 February 1995	II Group 2004

Source: Annual Reports on the EU Activities, consecutive years, 1991-1994.

With March 1992, when Interim Agreement went into life 45,6% of trade between Poland and the EU was liberalized. Free trade was achieved in January 1996 except clothes and textiles. With 1 January 1997 limits were eliminated in mutual trade between the two markets. Advancement of the reforms and their evaluations in yearly prepared reports by the Commission decided about the group within which each of the ECE state started their negotiations with the Commission as well as date of the membership. Most advanced states were included into so called Luxembourg Group[13], less advanced were in Helsinki Group[14].

[13] Luxembourg Group embraced states which were invited to start their membership negotiations as first from the ECE candidates. The decision was made on the EU summit in December 1997, taking place in Luxembourg.

The division into two groups of the candidates can be considered as one of the methods to manage the queue. This solution helped those states which were lagging behind in first group to accelerate their negotiations as well as helped to accelerate changes in the second group as it was creating a chance to join the first group on the date of accession. Such processes stimulating changes could be clearly seen in case of formerly one state, which was in the accession divided into two autonomous states, which was the case with Czech Republic and Slovak Republic. Finally both have joined the EU on the same date of 1 May 2004, while date of the start of negotiations reflected the advancement of transformation changes in both states what resulted in differentiation of dates starting negotiations. Bulgaria and Romania where in the second group to start negotiations and they concluded their membership negotiations with the second group, while the membership date in their case was postponed till 1 January 2007. Remaining states from the second group such as already mentioned Slovakia together with Latvia, Lithuania and Malta were accepted in the first group of ECE enlargement.

Table 2. Schedule of reduction of tariffs liberalizing trade of industrial goods for EU imports from Poland introduced by Europe Agreement (as % of basic tariffs applied at beginning of each year)

Group of goods	1992	1993	1994	1995	1996	1997	1998
Textile product (protocol 1)	71	71	57	43	29	14	0
Steel products (protocol 2)	80	80	40	20	10	0	0
Minerals and chemicals (attachment IIA)	50	0	0	0	0	0	0
Non-ferrous metals (attachment IIA)	80	60	40	0	0	0	0
Other goods, known as sensitive (attachment III)	85	70	55	20	0	0	0
Remaining industrial products	0	0	0	0	0	0	0

Source: Dz U (Journal of Law) 1994, no 11, pos. 38, Attachment.

The two tables reflect the asymmetry of opening of the two markets Polish and the EU as well as sequencing of opening in different field of traded goods.

Table 3. Schedule of reduction of tariffs liberalizing trade of industrial goods for the Polish imports from the EU introduced by the Europe Agreement (as % of basic tariff at beginning of each year)

Groups of goods	1992	1993	1994	1995	1996	1997

The negotiations started formally in April 1998. The Group embraced following states: Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus.

[14] The Helsinki Group was recommended to start negotiations with the Commission on conditions of membership in December 1999. Negotiations started in February 2002. The Group consisted of Bulgaria, Latvia, Lithuania, Romania and Slovakia from the ECE region and additionally Malta.

Textiles (protocol 1)	100	80	60	40	20	0
Steel products (protocol 2)	100	80	60	40	20	0
Raw materials and investment equipment (attachment IVa)	0	0	0	0	0	0
Remaining industrial products	100	80	60	40	20	0

Source: DzU (Journal of Law) 1994, no 11, pos. 38, Attachment.

Turnover of all the ECE states with the EU was asymmetric. For example the share of the EU market in the Polish trade was over 60%, while the Polish exports in the EU trade was climbing from 1,2% to 4,2% in 2003. In the first years of relations, when the conditions of Europe Agreements were applied both classical occurrences known well from trade theory were noted. In 1992 the total effect of liberalization in Poland was estimated at 128,4 million ecu, of which the divergence effect was estimated at 63,5 million of ecu, while the creation effect at 64,9 million ecu.

The Europe Agreements embraced also some protection clauses in case of unforeseen turbulences that could happen during the process of liberalization[15]. None of those clauses were used as there was not need to apply them. The whole process of liberalization was controlled and proceeded smoothly.

When the Commission has institutionalized the EC relations with the East Central European states, time came for the CIS. First talks on institutional settlements deciding about future relations with a former soviet republic and the Commission started in 1994[16]. The first state here was Russia, who was followed in short time by Ukraine. The Talks on conditions setting the institutional ties between the EU and CIS were preceded by two first common strategies launched by the EU within its new foreign policy tools, introduced by the Maastricht Treaty (art. J 2 replaced by art 12 in title V in the Amsterdam version of TEU)[17].

Table 4. PCA agreements signed between Russia and CIS with the EU

State	Date of introduction of the agreement into life
Armenia	1 July 1999

[15] Protection clauses: against disequilibrium in balance of payments, clause concerning textiles and clothes, protection clause for agriculture products, antidumping clause, general protection clause based on XIX GATT (1994) art 30, clause against market shortages, clause on general exceptions.

[16] M. Dobroczyński, M. Lipiec-Zajączkowska (ed.), Wschód jako partner Unii Europejskiej (East as a Partner of the European Union), Wydawnictwo Naukowe Wydziału Zarządzania UW, Warszawa 2005, p. 33-49.

[17] The Union shall pursue the objective set out in art. 11 by defining the principles of the general guidelines for the common foreign and security policy; deciding on common strategies; adopting joint actions; adopting common positions; strengthening systemic cooperation between Member States in the conduct of policy.

Azerbajdjan	1 July 1999
Byelorussia	Signed in March 1995
Georgia	1 July 1999
Kazakhstan	1 July 1999
Kyrgyzstan	1 July 1999
Moldova	1 June 1998
Russia	1 January 1997
Turkmenistan	Signed in May 1998
Ukraine	1 May 1998
Uzbekistan	1 July 1998

Source: www.europa.eu.in

There was no liberalization among the ECE and the CIS until the moment when the ECE states became members of the EU. This means that in period between dissolution of the CMEA and the EU membership of the ECE states trade between the CIS and the ECE was regulated by national policies and applied in each case customs. Trade with remaining states in the region were regulated either by regional agreements or by bilateral agreements or by GATT/WTO decisions on liberalization. A year after signing Europe Agreements East Central European states have signed two additional agreements in the region. These were the agreements with the EFTA and a new FTA agreement embracing formerly three countries from the region: Czechoslovakia, Hungary and Poland. Both agreements were structured in a same way as the Europe Agreements. CEFTA was an initiative of Visehrad but should not been considered as a synonym to Visehrad as it often happens. Visehrad is a political initiative of formerly three and after the divorce of Czechoslovakia in two autonomous states of four states (Czech Republic, Hungary, Poland, Slovak Republic).

4.1. Symmetry and asymmetry of opening

The conditions of liberalization of trade within the three agreements were symmetric only in case of agreements which were concluded by countries representing equal level of development[18]. This was the case with Europe Agreements, Agreements on Trade and Cooperation. Asymmetric liberalization was also introduced within agreements signed with EFTA. Symmetry characterized liberalization within CEFTA. Asymmetry introduced sequencing in mutual market opening. More developed economies opened first for imports

[18] S. Parzymies, Europejskie struktury współpracy (European Structures of Cooperation), PISM, Warszawa 2002, s. 201-214.

from abroad, less developed markets opened with a delay. Opening introduced gradual reduction of customs following the pattern of non-sensitive, sensitive and very sensitive goods.

In case of symmetric opening the three groups of goods were taken into account in the process of opening both for imports and exports. Opening of the ECE markets started in different periods after having the agreements signed. Some countries were quicker with the ratification, in the case of others the process was longer. The Polish Europe Agreement embraced a part called the Interim Agreement. This part of the agreement dealt with trade liberalization, and could have been taken out from the whole text of the Agreement and put into life before the procedure of ratification started. This was done in case of the Polish Europe Agreement but it was not followed by remaining East Central European states. This was part of the shock therapy applied in this country.

Following this it should be said that despite the fact that Europe Agreements were signed before the regional Agreement on free trade, CEFTA became a free trading market earlier in comparison with end of creation of the FTA with the EU[19]. This was important as it increased the attractiveness of the regional market for FDI inflows, caused by elimination of borders for trade between CEFTA members, which in majority were small economies, looking at their national borders, number of inhabitants and size of GDP. A FTA with the EU was created in 1997 (with exception of car production, steel production, and energy), while FTA within CEFTA was established since January 1996, what has given a year advance in comparison with the EU. Looking at the beginning of reduction of tariffs it should be said that Poland has eliminated all barriers by 1 January 1995 with the EU while on 29 February 1992 1/3 of the customs was eliminated.

4.2. Sequencing of opening

States prefer to open up with economies representing similar or same level of development. Such a move is easier to conduct than opening with an economy representing higher level of development. Such an approach finds only limited support in practice but is backed by numerous arguments in theoretical visions from the past. What can be considered as advantageous in opening with equals? Mainly the size of the market, which increases attraction of such market for inflows of foreign capital. Traditionally economies representing similar level of development enjoy similar branch structures of their economies. What can be

[19] K. Żukrowska, CEFTA: Training for integration, in: Sh. Page (ed) Regions and development: Politics, Security and economics, EADI Book Series 23, Franck Cass, London, 2000, s. 227-240.

considered as disadvantages? Economies representing same, but low level of development, have limited supply in capital, their economic structure reflects relatively low engagement in production based on advanced technologies, traditionally labor is engaged in production which is source of low value added, etc. All mentioned features in a way can be considered as positive features of such a move as it creates competition among similar producers with similar types of products suplying the market. Nevertheless, opening with an economy representing higher level of development brings stronger impulses as differences in costs and productivity are bigger here than in case of economies representing similar level of development. Such a move can be considered as stimulating branch changes in both economies, those more advanced and those less advanced. In case of more advanced economies the production factors will move towards production which creates more value added and uses more skilled human capital, while lower added value production which uses less skilled value added capital will move to less developed economies. In such circumstances both economies will gain as far as the gains are measured by structural (qualitative) changes, increase in wealth and ability to create jobs[20].

If researchers foresee difficulties in pursuing opening of the economy it is better to create a customs union, which consists of economies which represent a similar level of development. Such a structure can help with further arrangements concerning opening with markets representing higher level of development. In such case sequencing firstly with same, low level of development markets after with advanced market economies is a technical solution. Generally, the bigger is the market to open up the weaker are the impulses from the external environment. Such statement can be considered as positive. Nevertheless, when the market impulses are weakened (no matter what type of protection one applies for such purpose) the reaction of the economy to adopt to new situation are longer and thus bring upon additional social costs. The opposite can be said about a strong shock in case of a relative small market. Recovery here is quicker and more effective. Size of the market can be considered as a cushion which does bring comfort in short time but in longer can strangle the economy, by introducing crawling changes which blow up the costs of such process and do not show positive results which help to cheer up the voters and make them approve the changes as well as politicians who have introduced them.

4.2.1. EEC/EU

All states in the region have signed agreements liberalizing trade with the EC. Liberalization of prices conducted in different years as well as difference in scope of introduced changes

[20] K. Żukrowska (Ed.), Zróżnicowanie rozwoju jako impuls prowzrostowy w gospodarce światowej (Differentiation of development as stimulus of growth In Word economy). SGH, Warszawa 2008. .

decided that regional markets have lost interest at the beginning of the transformation. States in the region competed with each other on the EU market. Without regional liberalization such process could have continued until the date of membership in the EU. Acting together, the region could influence the speed of structural changes and enhance competitiveness. Membership in the EU of ECE states has expanded trade liberalization of the ECE with markets which enjoyed free access to the market. They have also gained access to third markets within the common trade policy conducted by the EU. This has resulted in more liberalized access to EFTA (four liberties have replaced free transfers of goods), to CIS (liberalization within PCA), with Mercosur, Mexico, Mediterranean Basin States, Cotonou ACP states, as well as with Chile, Japan and USA. Australia and New Zealand.

4.2.2. EFTA

Agreement with EFTA was a natural move of some of the future members of the EU as EFTA (except Switzerland) since 1994 form EEA (European Economic Area) which introduces four liberties to the EFTAns same as it is introduced since 1987 to the EU member states. The law decides that a good imported by one of the economies belonging to EEA can be sold in the remaining economies without need to pay any additional customs. The difference between the EU and EFTAns is that the EU has common customs duties while the EFTAns have their national trade customs policies. This fact can create interesting solutions for trade in the future, what means that such an observation can be important. For instance a country with national customs can eliminate them (suspend temporarily or reduce to zero) diverging all imports through own market. What is also important that all states included into to the customs union, what means that they follow common trade policy of the EC are obliged to apply the customs which are agreed by the Commission. This move helps them to take difficult, from the political point of view, decisions which traditionally require long negotiations in the national parliaments. As practice shows such decisions which liberalize trade are wealthy for countries in question but traditionally are perceived as moves which have impact on importing unemployment[21]. Such opinion is far from being true what does not have any impact on changing it. Today trade creates a multiplier effect which increases the number of jobs in both economies engaged in exchange. Moreover intra-branch trade created new type of guarantees that with slow down of the rates of growth the turnover will not be totally eliminated, as it could happen in pattern of inter-branch model of cooperation.

[2121] Statement deeply rooted in theories coined back in the 1930. (J. Robinson). This was a period of national protective economies, where once taken decisions could have been cancelled and politicians could easily return to old policies and practices, which were imposed within different protective measures.

Agreements between EFTA and some East Central European states were signed between 1990-1993. Czechoslovakia has signed A Goteborg Declaration on Cooperation on 13 th June 1990. This Declaration was replaced in short by a FTA agreement which was signed on 20th March 1992 and went into life on 1 July 1992. Poland has signed a FTA agreement with EFTA on 10th of December 1992 and the agreement went into life on 1 September 1994. Agreement between Hungary and EFTA was signed on 29th March 1993 and went into life on 10th of October 1993. Bulgaria has signed an agreement on free trade with EFTA on 29th March 1993 and the document was activated on 1 July 1993.

4.2.3. CEFTA

Originally CEFTA was created as an initiative liberalizing trade among three members of the Visehrad Group: Czechoslovakia, Hungary and Poland[22]. After the velvet divorce of Czechoslovakia in 1993 (1 January) there were four member states of CEFTA. There were no plans to enlarge that grouping. The first enlargement was made in result of division of Czechoslovakia into two independent states: Slovak Republic and Czech Republic. Several states from the region applied for membership. Decision to enlarge CEFTA was taken in 1995 in Brno. CEFTA expanded since that time. The first enlargement was made in 1996 when Slovenia was included. This move has opened the doors of CEFTA for other members. Consecutively in 1996 – Romania has joined, in 1999 – Bulgaria, and in 2002 - Croatia. Trade within the regional integration was concluded into addition to integration with the EU. In other words liberalization with market representing a higher level of development was established and conducted in advance in comparison of the regional trade. The share of the ECE trade with the countries from EC region was ca 60%. Trade with CEFTA did not exceed 1-2% as average, exception was the case of Czech and Slovak Republics which were one market within one state at the beginning of the process of systemic changes. In their case the share of CEFTA trade was above 22%. The liberalization of trade within CEFTA has given quite big impulse for mutual trade increases which were growing by 8% in yearly terms and were quickest developing trade relations in world at that time. The process was stimulated by the FDI flows into the region as well as by fact that all the markets in the region were traditionally economic partners in the region and with systemic changes they have broken economic ties which were established in the past. When the core states of CEFFTA have joined the EU the organization was still expanding by growing in numbers of member states but the role of this organization in the region has diminished. This fact also points at need to liberalize trade with markets representing higher level of development. Lower costs of

[22] K. Żukrowska, CEFTA: Training for integration, in: Sh. Page (ed) Regions and development: Politics, Security and economics, EADI Book Series 23, Franck Cass, London, 2000, s. 227-240.

production stimulate thus flow of capital and have impact on trade which changes its structure including more and more advanced technologically products. CEFTA in 2006 was enlarged by Macedonia, while in 2007 a number of states from the region have joined. This embraced: Bosnia, Herzegovina, Serbia, Schwartze Negre, Albania and Kosovo (UN Temporary Mission in Kosovo).

Table 5. Individual solutions applied In Poland presented at background of solutions used In Czech Republic and Hungary

Country and strategy of transformation	European Agreement	Protection	Privatization	Exchange rate policy	Changes In the budget
Poland – shock therapy	Interim Agreement, meaning that liberalization started relatively early	Application of most customs was suspended	Rozłożona w czasie	With fix Exchange rate a dollar peg, replaced In marketization of the policy by a basket limited to 2 currencies US$ (45%) & euro (55%)	Privatization d incomes to the budget and forced its restructuring
Czech Republic – gradualizm	Liberalization commenced with the entrance into life of the Agreement (February 1995)	Liberalization follows the agenda of Europe Agreement	Quick „coupon"	Exchange rate pegged to DM, replaced by the euro, when EMU was launched	Quick privatization created revenues to the budget restructuring
Hungary – gradualizm	Liberalization started with entrance into life of the agreement (February 1994)	Liberalization follows the agenda of Europe Agreement	Privatization with high rate of presence of foreign investors	Fixed Exchange rate – pegged to DM – replaced by euro after EMU launching	Quick privatization created revenues to the budget restructuring

Source: own arrangement

Each of the country of the region has conducted its own strategy of changes. In theory one can find two different models of transformation, one based on protectionist measures, while the second one on intensifying competition and opening of the economy. The first was giving impression of stability, but such view was temporary as protection on first stage of changes was leading towards postponed shock which was less tolerable by the citizens than a shock which has resulted from first days of transformation. The main difference here is that economy is politicized, and all decisions result in approval or disapproval of the political decisions by the voters. Each burden, no matter how big it is in scale, results in disapproval of the government which has imposed measures which have brought about those burdens.

Burdens of transformation are measurable and immeasurable. Liberalization of prices causes inflation, inflation melts down the savings forced formerly by the market on which demand was higher than supply. Keeping the markets closed causes higher level of prices as equilibrium between number of goods and demand for them is reached in conditions of limited supply. With opening of the economy the supply increases what results in lower prices of the equilibrium between the supply and the demand.

Opening of the economy has also an additional role to play in a transforming economy as in more advanced stages it helps to control the hiking costs of production. Without imports the blowing up costs of the new business can be considered as main source of inflation. Imports help to control the costs halting this growing tendency. Each planned economy was a shortage economy, according to Kornai's writing. Nevertheless, the shortages differed. In some states they were smaller in other higher. Smaller shortages resulted in better supplied markets and smaller gap between supply and demand, as well as smaller enforced savings and finally a smaller inflationary overhang. Smaller shortages in practice with some postponement in decisions to open up the economy resulted in bigger fall of production (in sense of its depth and length), higher unemployment, higher and longer inflation. Finally, curves of growing inflation and falling dynamics of production fluctuated, while in case of shock therapy the production was falling till the moment when the inflation was high, when only inflation was controlled the production started to grow and the period of transformation depression was the shortest[23].

4.3. Capital

Liberalization of capital inflows was made in individual economies in the region following different patterns. Generally following patterns could be found hear[24]:

- Autonomous decisions;
- OECD membership;
- Within the Uruguay Round decisions;
- Within bilateral agreement

[23] OECD yearly published reports on transformation of individual states of ECE. OECD. Paris 1989-12007.

[24] J. Ziemiecki, K. Żukrowska, Konkurencja a transformacja w Polsce. Wybrane aspekty polityki gospodarczej, SGH, Warszawa 2004, p. 58.

- Within Europe Agreements.

Three countries from the group have joined the OECD, namely it was Czech Republic (December 1995), Hungary (March 1996) and Poland (November 1996). Such an agreement was introducing reciprocity in liberalization of capital flows what embraced long-, medium-, and short-term capital flows. Estonia has decided to open up its economy for capital flows without reciprocity, making the decision on opening autonomously. It should be explained that reciprocity is important when a country starts to export capital, while all transforming economies were mainly importers of capital, not exporters. This can be illustrated by the statistics of capital flows. Opening was important as it supported investments as well as brought in high technologies and know-how. Most of the foreign capital inflows were attracted by privatization[25]. Green-grass investments were relatively rare and their number increased with the perspective of membership, which was proving long-term stabilization of the economy and politics as well as offered access to the biggest market of the world.

Table 6. Inflow and outflow of the capital in ECE economies (mln US$), FDI stocks (mln US$) and as share of the fixed capital (%), FDI's share in GDP (%)

Country	Inflow			Outflow			FDI stocks				Share of fixed capital	Share of GDP
							Inward			Outward		
	2005	2006	2007	2005	2006	2007	1990	2000	2007	2007	2007	2007
Bulgaria	3923	7507	8429	306	175	265	112	2704	36508	599	71,6	92,3
Czech Republic	11658	6013	9123	-19	1467	1334	1363	21644	101074	6971	21,6	57,7
Estonia	2879	1674	2482	627	1105	1531	-	2645	16594	5873	36,6	78,0
Hungary	7709	6790	5571	2205	3622	4116	570	22870	97397	18282	19,3	70,5
Latvia	713	1664	2173	128	173	232	-	2084	10493	776	24,6	38,6
Lithuania	1032	1840	1934	343	290	600	-	2334	14679	1565	19,0	38,3
Poland	10363	19198	17580	3388	8888	3353	109	32044	114192	1964	18,7	33,8
Romania	6483	11366	9774	-30	423	-62	-	6951	4072	917	25,5	36,7
Slovakia	2107	4165	3265	157	368	384	282	4746	40702	1609	16,7	53,6
Slovenia	577	645	1426	644	902	1569	1643	2893	10350	6123	10,8	22,5

Source: World Investment Report. Transnational Corporations and Infrastructure Challenge. UN, New York, Geneva 2008, p. 253, 257.

[25] Transition Report. Integration and regional cooperation. EBRD, London 2003, p. 23.

The above statistics indicate interesting trends: in less developed economies the share of FDI in fixed capital formation as well as in GDP is relatively higher in comparison with more developed economies in this group. Economies representing higher level of development start to export capital earlier than those who are less developed what in turn decides that stocks of exported capital are higher in their case and have stronger impact on stimulating imports from national market to the market hosting the investments. Ratings evaluating risks of investments and profitability of them in each market are strongly relying on macrostabilization factors, behavior of the capital and stock markets, exchange rates fluctuations. Decisions in this area are more and more transparent what directly shows that an open economy, applying measures prescribe to stabilize inflation, lower taxes and limit presence of the state in the economy as well as stable situation from the political point of view can be considered as a better choice for investors in comparison with an economy which is politically and economically unsecure. Stabilization in the two areas are strongly dependent one on another. Stable economy has strong impact on the political choices and stability, while weaknesses on the opposite can easily be considered as sources of tensions.

FDI flows (imports and exports) are both important for the economy, similarly as short and medium term capital flows. Their role in a catching up economy is very important especially in conditions when an economy is a catching up economy, with limited supplies of the capital as well as advanced technologies but well supplied in human capital of high quality. Capital liberalization gains importance with diversification of development among economies in a region as capital moves from more to less developed economies which start to produce high-tech manufactured goods using imported licenses, and making profits of scale of production differences in costs of production, low taxes, access to markets representing higher level of development in which production is sold with higher margin of profitability[26].

[26] The antidumping procedure introduced within GATT/WTO and followed ie. by the EU forbids to sell goods using lower prices abroad than on national market. Such a law is advantages for less developed economies. Investors seeking higher profits move their production to low costs economies what increases on one hand turnover, while on the other one decreases the unit costs as well as technological input per unit of the manufactured goods. Moving production from developed economies to less developed economies enables sales of high tech goods in highly developed economies as well as in developing economies. Such a solution makes a big difference in new approach to the division of labor. Post industrial economies become net exporters of technologies and net importers of manufactured goods. Such a process has impact on macroeconomic policies and indicators. It stimulates development and growth of employment in catching up economies, it also has strong impact on terms of trade, resulting in “closing the scissors” of terms of trade. Such a tendency along with liberalization affects strongly the catching up strategies of less developed economies. It is also advantages for developed economies which move their production factors to more value added type of production. In long perspective, which will result in a growing labor costs trend in developing and catching up economies a new division of labor can be expected, where production will be conducted by robots, not by people. The economy as a whole will be more service oriented and postindustrial. In other words the current stage is considered to be a

4.4. Labor-force and services

Neither the EU nor formerly CEFTA market were fully liberalized as far as labor and services are concerned. The scope of opening changes here with advancement of integration as well as with proves that moves of labor international do not damage the labor importing nor labor exporting economy. Moreover, production costs as well as lack of liberalization of services (non-tradables) can be a serious source stimulating inflationary raise of prices. Most of the economies of the EU suffer of lack of labor force. All mentioned arguments put pressure on changing the attitude towards a more relaxed policy towards labor movement in the region as well as in relations with the third states. Nevertheless, this process cannot be considered neither as abrupt nor as advanced.

Tabela 7. Transitional periods introduced by EEA states for labor transfers from Poland

L.p.	State	Applied transitional period
1	Austria	7-year limit for access to labor market
2	Belgium	2- year limit for access to labor market
3	Denmark	2- year limit for access to labor market
4	Finland	2- year limit for access to labor market
5	France	5- year limit for access to labor market
6	Greece	2- year limit for access to labor market
7	Spain	2- year limit for access to labor market, bilateral agreements are applied
8	Netherland	2- year limit for access to labor market
9	Germany	7- year limit for access to labor market
10	Norway	2- year limit for access to labor market and simplified procedure for getting so called work permits
11	Portugal	2- year limit for access to labor market
12	Szwitzerland	7- year limit for access to labor market
13	Italy	2- year limit for access to labor market and bilateral agreement with each of the New MS individually

Source: own arrangement.

Labor-force and services were liberalized in limited way within the Europe Agreements. The ECE countries could invest in economies of the EC member states and this was one of the official ways to be self-employed. Some of the member states offered limits for workers from abroad. This was the case with Germany, Spain, Norway. With accession the labor market has opened up for the new member states but some of the countries have protected their labor market by introducing transition periods. Similar solutions were applied after the 2007 enlargement. In solutions applied here one can see specific gradualism, which can be

transitional period which helps to accumulate national capitals, develop infrastructure and create institutions and laws.

illustrated by the fact that in 2004 enlargement transition periods were applied to a limited number of new member states and states applying those transitional periods have individually decided about their length as well as about possibilities to prolong those periods after the termination of their first period of application. Specific gradualism was also observed with 2007 enlargement, when the Old EU member states (before 2004) kept their labor markets closed for workers from Bulgaria and Romania, while the new member states (those of 2004 enlargement) have opened their markets for labor from the two newest members. This move can be explained by differences in level of incomes resulting from level of average salary (differences in average salaries between old and new member states) as well as per hour costs of labor.

Table 8 . Labor costs [x] in the EU member states, change in % and non-wage labor costs

Country	**Labor costs in euros**	**Change of labor costs in %**	**Non-wage labor costs [xx]**
EU average	22.80	3.4	36
Denmark	35.00	3.6	20
Sweden	33.40	3.5	50
Belgium	33.10	3.7	45
Luxembourg	32.70	1.9	-
France	31.90	3.3	50
Netherlands	29.29	2.5	31
Germany	29.10	1.0	32
Austria	28.50	3.2	39
Finland	28.30	3.0	28
Great Britain	27.90	4.9	28
Ireland	25.50	-	-
Italy	24.50	-	-
Spain	18.30	4.2	45
Portugal	9.60	6.2	30
Poland	6.70	14.5	25
Romania	3.90	30.2	37
Bulgaria	2.10	16.9	27
Hungary	9.5	17.3	40
Czech Republic	7.54	12.9	39

Lithuania	11.2	11.5	40
Estonia	10.8	18.3	36
Latvia	9.4	21.5	27
Slovenia	7.7	24.2	20

[x] for each our worked in 2007.

[xx] per 100 € gross wages

Śource: Spiegel on line. International. EU Labor Costs Comparison: Germany Becoming More Competitive. (22.04.2008). www.spiegel.de/international/business/0,1518,549003,00.html

Presented data show that wages in ECE economies tend to grow quicker in comparison with the rate of growth of per hour costs of labor in old member states. This illustrates the catching up tendency but at the same time it also leads to additional questions, concerning relations between rate of growth of productivity and raise of hourly labor costs, if the second finds foundation in the first? If not the raise of costs can be considered as source of economic instability in longer run. The same question can be asked when one makes comparisons between the costs of labor and their rate of growth in the EU, USA and China. The level of average labor costs in US is US$ 19 and the productivity in American economy inclines to grow. The same can be observed in China, although the level from which the costs of labor start to grow here are very low. The hourly cost of labor in China in 2007 was 0.57$ per hour. Interesting tendency can be also observed in case of non-salary labor costs, which are relatively high in some old member states as well in some new member states, although their average level is higher for the EU than the average of salary-costs per hour.

The changes of production costs decide on one hand on the wealth of the state, competitiveness of it economy, attractiveness for national and foreign investors. Nevertheless, the real advantage of an economy over its competitions in the region or market can be calculated when also change of productivity and prices are taken into account. When productivity level is low and additionally followed by low rate of growth, the catching up in labor costs can be considered as source of tensions in the future. Some of the negative results in this area can be eliminated by changes in raw materials, energy and food prices as well as industrial goods prices followed by services. If the outcome of grow of prices in comparison with labor force prices is positive this can be used as an countermeasure or compensation towards growth of costs of labor, if not again this can be seen as an additional obstacle to growth. Openness of markets here can serve as one of the measures which helps to converge economies with different macroeconomic indicators, nevertheless, when this is supposed to happen, there is need to apply specific policy controlling this process. Such policy of coordination of the convergence processes can be clearly seen in the EU, namely in the consecutiveness of the opening ie. for the foreign labor force.

4.5. Agricultural products

Trade in agricultural products was considered to be liberalization more in sensitive area of trade exchange. In other words liberalization in this area was postponed but proceeded. Full liberalization of trade in this area could cause perturbing effects on markets of the EU as well as the ECE countries. In the EC of the 1990's agricultural production was heavily subsidized. The share of expenditures on CAP (Common Agricultural Policy) were cut down within the McSharry Reform as well as by introduction of SEA (Single European Act), nevertheless it was still high and it could help to reduce the agricultural production differences between the member states. Reducing slowly the engagement in agricultural production, where it was relatively high like in case of France, Greece, Spain and Portugal. In ECE states the protection policy of agricultural market was criticized and some economies have reacted to that by introducing protective measures towards the food and agriculture exports from the EU. The specifity of application of customs in case of subsidized exports is that it enables higher exports from a market which supports exports by subsidies. This is so, when prices of agriculture products on such subsiding exports market are higher than world prices and also higher than prices on the partner country's market. Subsidies in such conditions allow a bigger number of countries to export on a market where prices are raised by application protective measures. Such a solution is well admitted by farmers as it shows that their interests are taken into account while the government imposes protection. Nevertheless, in reality they intensify competition in this specific segment of the market. This prepares the producers for tougher competition in the future, when economies are liberalized and access to the markets is given also to markets and producers who represent similar level of development and costs. Such a move helps, with general approval, to make the sector more competitive and select the winners and losers in a natural selection process.

A different move, like fi. application of subsidies on the side of the EU partner economy would result in changing signals from the market, making the sector more competitive, than in reality it was and moving some investments into that type of production. One can ask a question: would that be bad and if so why? The negative effect of such move would be caused by the fact that first, such a move requires money from the budget and the budget is under constraint looking for possibilities to reduce expenditures as well as looking for ways to cut the tax burdens put on the tax payers within their obligations imposed by CIT (Corporate Income Tax) and PIT (Personal Income Tax) as well as indirect taxes. Moreover, it would have created false competitive advantages for the farmers, which will confront them with bigger difficulties after accession to the EU market, when the subsidies are eliminated. Such false signals could attract investments in a sector which has limited share of value added and higher value added sectors decide about the speed of catching up. Finally, it would postpone competition shock till the moment when full liberalization of the agriculture market is achieved.

What Poland has done here being a relatively big agricultural supplier and having relatively high employment in agriculture sector in comparison with the EU old member states as well as with the new ones. With signing the Europe Agreement Agricultural products and food were treated separately to industrial goods and went through liberalization according to specific stages and groups of products.

In 1995 a tariff protecting agricultural market was imposed. This has intensified competition on the Polish agricultural market. This was followed by liberalization of agricultural trade with countries from the region within CEFTA, namely Czech Republic, Slovak Republic and Hungary[27]. Finally, with the EU membership the subsidies applied within CAP policy in case of exports to foreign markets were lifted what has increased access of the exported food and agricultural products to the EU market. Poland, similar as remaining EU members was embraced by CAP policy, including export subsidies. CAP was applied in a progressive manner increasing gradually the payments to the level of old member states. CAP was applied in a progressive manner increasing gradually the payments to the level of old member states, starting by 40% of the applied level[28]. Such policy resulted in gradual increase of farmers incomes. First source of the rising incomes can be seen in higher levels of agricultural products and food prices on the internal market, second in the CAP transfers, third in export subsidies. In this area also gradual income increase can be seen, as it was the case with industrial, manufacturing and services salaries, presented in an accumulated manner as hour costs changes of the labor force in EC new and old member states.

Table 9. Schedule approved in Europe Agreement for the Polish imports of agriculture goods

Group of products	Conditions of liberalization
I group – attachment Via – ia. ducks, pork meet and tins, potato starch	Reduction of compensatory payments by 50%, within limits increased by 10% in yearly terms for 10 years
II group – attachment VIIb – ia. alive horses, pork meet, game meet, honey, soft fruit, some vegetables, apple juice	One-step reduction of tariffs by 30% to 100%, elimination of quantity ceilings. For fruit minimal prices are being set.

27 S. Parzymies, Europejskie struktury współpracy (European Structures of Cooperation), PISM, Warszawa 2002, s. 201-214.

28 K. Żukrowska, J. Stryjek (Ed.), Polska w UE (Poland In the EU). SGH, Warszawa 2004.

III group – attachment Xa – ia. joung slaughter live-stock	Reduction of compensatory payments and tariffs by 20% in the first year, 40% in second year and 60% in next years, with qualitative ceilings increasing by 10% in yearly terms
IV group – attachment Xc – ia. potatoes and part of vegetables, fruits (except gr II), dried fruits, jams, mushrooms	Reduction of tariffs by 20% during first three years for growing contingences by 10% in yearly terms
IV group – protocol 3 – agricultural products, processed	Gradual reduction of customs tariffs for part of the goods, also reduction of burdens as changing element of (MOB) in three yearly rates of 20% each within the frames of the contingent

Source: DzU (Journal of Law) 1994, no 11, pos. 38, Attachment.

On 1 of March 1992 tariffs were reduced for 280 goods what was 24,8% of the Polish imports. This reduction in details covered reduction of 10% in most cases from 35 to 25% or from 25 to 10%.

5. EU membership

Membership treaty was negotiated in 31 chapters, which embraced specified fields of mutual relations. The most controversial chapters concerned capital flows between the member state and the EU, namely the finances and budget chapter (29), agriculture (7), regional policy and coordination of the structural instruments (22)[29]. All those chapters were closed on the last day on which the whole accession treaties were signed. Practically negotiations of those listed chapters lasted nearly three years, commencing in 2000 and ending on 13th December 2002.

Membership in the EU has lowered the external taiffs of all new members states with third countries, who had better access to the EU market than previously to the ECE economies markets. This was the case with the developed economies like the US or Japanese markets, as well as with the developing economies which had specific agreements with the EU within Lomé V Convention (1999) and after Cotonou Agreement (2000). Similar effects were noted in relations with Mexico, Chile, Mercosur, Mediterranean Basin states as well as CIS. Moreover, the membership in the EU has brought also full access to the former COMECON markets which were not part of CEFTA and became members in the EU with 1 May 2004. This was the case with Estonia, Lithuania and Latvia. Access was also more liberal to the markets of former Yugoslav republics, which have signed agreements with the EU. In general the membership in the EU was a move which has intensified competition but the main source of that was not liberalization with the EU member states, which was achieved before the

[29] K. Żukrowska, J. Stryjek (Ed.), Polska w Unii Europejskiej, SGH, Warszawa 2004, s. 365.

accession but with the third states markets with which the EU has liberalized its trade within special individual or regional agreements.

ECE economies were prepared for more intensive competition in the transitional period of their association with the EU within Europe Agreements or trade and cooperation agreements. Those economies which have applied protectionists measures in their trade policies preparing to that move have experienced a postponed shock. Those who have applied a policy which gradually was intensifying competition on the market were better prepared for that confrontation what can be measured by their trade results and size of the current account deficit share in the GNP.

6. Measuring openness of the economy

Openness of the economy was always a subject causing discussion concerning accurateness of applied indicators. Most of the indicators were worked out in period when national economies were protected by high fences of tariffs and non-tariff barriers from remaining economies. Today most of the formerly applied measures are still in use but economies no longer are protective to such extent as they were, when those measures were first applied. Moreover, the economies are internationalized as far as production capital, what is followed by internationalization of the remaining production factors. This means that we can divide indicators which are applied in attempts to measure the scope of openness into two categories, using as an criterion scale of adequacy: into traditional and current measures. Way of presenting the state of openness can be used a criteria of second type in this area. Here we can present a descriptive approach, a mathematical approach or quantitative approach, or a mixed approach. Third criteria which can be applied here is based on type of analysis, taking into account fields in which real competitiveness can be measured, ie.: not competitiveness of the national economy but competitiveness of a region, market or company and product. According to the discussion in the literature a national economy cannot be considered as background for competitiveness analysis, what can considered as correct field of analysis is a product, a company or a region. Countries have parts (regions) which are competitive or less competitive, the average outcome of such measure is a result of mathematical calculation based on differentiated measures and indicators. More precise measures are given by smaller entities. In such circumstances it is questionable what mathematical calculations show, when they try to measure whole national economies with their political borders. This can be used as a specific background for further analysis but not as a efficient measurement. In such circumstances we can divide the indicators of openness into traditional and new, current ones.

Traditional indicators which measure scope of economy openness are following[30]:

- Share of trade turnover in GDP;
- Coverage of import by export;
- Value of trade turnover per capita;
- Competitiveness indicators;
- Level of intra-branch trade.

Currently used indicators should reflect changes in the national economies, concerning structure of the economy, its size, number of citizens, productivity, rate of productivity growth, quality of human capital, communication, administration, infrastructure, etc.

Such indicators embrace:

- Share of trade turnover in the industrial production;
- Share of non-tradables turnover in industrial production;
- Share of budget deficit in industrial production;
- Share of non-salary costs in total costs of the labor;
- Share of external capital transfers (ie. FDI, portfolio investments, EU structural transfers, British rebate transfers, etc.) in the industrial production.

Having those differentiated measures one can come closer to a real picture of openness f the economy in comparison with the information given by traditional indicators. Traditional indicators still can be used as measures showing a tendency in the economy, which integrates its own market with foreign markets but cannot be used as a sole and efficient measure. In other words current indicators, illustrating the dynamism f the economy should be applied here and considered as more efficient. This assumption is additionally proved in next chapter. It also gains support in the context of comparisons made between ranking of the national economies concerning competitiveness, which are prepared by two main competitiveness

[30] P.H. Dembiński, Economic and financial globalization: what the number say, New York: United Nations, 2003.

centers such as World Economic Forum and IMD (Institute of Management and Development), scope of openness of their economies measured according to the newly prepared indicators and results in foreign trade. All three mismatch, what enforces additional questions.

7. Openness of the economy, competition and competitiveness

In all studies characterizing competitiveness, openness is considered as one of the criteria used in the analysis. Nevertheless, the formula to evaluate openness does not fully cover the scope of problems which decide about the fact that the economy is opened or closed. Besides, it is not said straightforward that competitiveness is shaped by competition and competition is resulted by openness. In other words economies which are competitive increase their indicators by false picture of competitiveness, ie. achieved by direct or indirect support of the state. Further, not all protection measures are included into the analysis. Finally, structural changes of the economies, which move their production factors from industrial engagement towards more service oriented type of production also give temporary false vision of the changing economy. It is enough to look at disinvestment processes which can be seen in some advanced market economies, ie. Switzerland.

8. Conclusions

Liberalization of the Post-COMECON trade brings interesting practical and theoretical findings concerning symmetry of the process as well as sequencing. Those conclusions can be drawn when this trade is studied in different institutional and geographical dimensions, ie. with the EU, EFTA and CEFTA and after the EU membership within EEA and CIS, Mediterranean, Latin America, USA, Japan, and other countries.

Differences in development among states in a globalized economy show that catching up strategies are closely linked with the process of opening of the economy. In current conditions opening cannot be limited to reduction of customs tariffs but it also includes harmonization of law and institutions, elimination of other trade barriers as well as non tariff barriers. It also embraces exchange rate policy and liberalization of capital flows. Importance of the conducted exchange rate policy as well as exchange rate regime shows that a perfect situation would be when economies would use one currency. Arguments in favor of such solution can be also found in case of growing current account deficits in economies which are biggest investors aboard. Single currency is obtained in stages leading from free trade, through single market and reaching a free trade area with one currency. This is obtained by regional liberalization (about 300 FTAS and custom unions in world economy functioning and being negotiated), sub-regional liberalization (ie. Mexico - EU, US-Korea, EU-Chile, EU-MEDA, etc.) as well as global moves towards more liberalized economies (GATT/WTO). Economies are more interdependent what gives guarantees that economic ties are not used as channels to practice power relations. Interdependence confronts contradicting interests and enforces states to seek solutions which take those interests into account. There are limited prospects to stop the process of opening of the national economies, what is also resulted by interdependence. Finally, scale of capital flows caused by streams of trade, labor moves and remittances, FDI, create a situation in which deficits cause problems for those who enjoy surpluses on their current account. This also can lead to a conclusion that opening has to continue, leading to a creation of single internal market on scale of the world economy, where surpluses in some of the economies will be leveled by deficits in the others, helping to stabilize exchange rates which also have an impact on process of opening of the world market consisting of national or regional markets, which are opened into different extent. Single market seems to be a must as well as single world currency.

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