

**FROM DISINTEGRATION  
TO REINTEGRATION**



# FROM DISINTEGRATION TO REINTEGRATION

*Eastern Europe and the  
Former Soviet Union  
in International Trade*

Edited by  
Harry G. Broadman



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# Contents

<i>Foreword</i>	<i>xvii</i>
<i>Acknowledgments</i>	<i>xxi</i>
<i>Acronyms and Abbreviations</i>	<i>xxiii</i>

<b>Overview</b>	<b>1</b>
Coming “Full Circle?” The Reemergence of Eastern Europe and the Former Soviet Union in International Markets	7
The Region’s Openness to Trade Today: How Does It Compare with the Rest of the World?	21
How Have the Region’s Countries Opened Trade and Increased International Integration? The Role of Trade Policy	24
Beyond Trade Policy: The Pivotal Role of Behind-the-Border Reforms in the Region’s International Reintegration	29
Conclusion: Policy Agenda, Reform Linkages, and Action Plan	39

## **PART I**

### **THE TRADE RECORD OF EASTERN EUROPE AND THE FORMER SOVIET UNION SINCE THE TRANSITION**

<b>1 Introduction</b>	<b>51</b>
Scope of the Study	54
Structure of the Study	55

<b>2 Trade Patterns and Performance of Eastern Europe and the Former Soviet Union since the Transition</b>	<b>61</b>
Introduction	61
Regional Dichotomy in the Growth of Merchandise and Services Trade Flows	62
Bifurcation in the Destinations and Origins of the Region's Trade Flows	70
Bipolar Clustering in Product Concentration, Commodity Composition, and Factor Intensity	78
Sub-Regional Variation in Sources of Intertemporal Change in the Region's Export and Import Market Shares	88
A Dichotomy in the Interactions between Trade Intensity and Domestic Competition and Governance	93
Uneven Development of Trade-Facilitation Infrastructure and Institutions	94
Intraindustry Trade and Global Production-Sharing Networks: Can FDI Enable Mobility between the Two Poles?	96
How Does the Region's Openness to Trade Compare with That of Other Regions?	100
Conclusions	109

## **PART II**

### **THE ROLE OF THE TRADE REGIME**

<b>3 Trade Policies and Institutions</b>	<b>121</b>
Introduction	121
Trade Policy	124
Institutional and Other Domestic Constraints	136
Global Integration	151
Conclusions	174

## **PART III**

### **THE INFLUENCE OF "BEHIND-THE-BORDER" POLICIES AND INSTITUTIONS**

<b>4 Roles of Domestic Competition and Governance in the Region's International Integration: A "Two-Way" Street</b>	<b>185</b>
Introduction	185
Interrelationships between Competition, Market Structure, and International Integration	187

Variation in International Integration among the Firms of the Region	189
Impacts of Entry and Exit Barriers on International Integration	193
Market Dominance and International Integration	198
Transactions with the State	201
Property Rights Protection and Contract Enforcement	203
Governance and Corruption	204
Impact of Competition and Governance on Firm Performance in the Region	207
Institutional Capacity for Competition and Governance	209
Conclusion	218
<b>5 Trade-Facilitation: Challenges and Opportunities in Eastern Europe and the Former Soviet Union</b>	<b>225</b>
Introduction	225
Trade Facilitation Conditions across the Region	227
Assessing Trade Gains for the Region from Domestic Capacity Building	259
Moving Forward on the Trade-Facilitation Agenda in the Region	273
<b>6 Services Trade and Investment in Eastern Europe and the Former Soviet Union</b>	<b>281</b>
Introduction	281
Shifts in the Structure of Services in the Region	284
Trade in Services in the Region	286
FDI in Services in the Region	296
Policy Stances and Reform Progress	297
Trade Agreements: EU Accession, Regional Cooperation, and the WTO	315
Services Reforms and Growth Performance	323
Conclusions	325
<b>7 Linkages between Foreign Direct Investment and Trade Flows</b>	<b>337</b>
Introduction	337
International Production and Distribution Networks	339
FDI: The Driver of Network Trade Expansion	351

Why Some Countries Got Involved and Others Are Yet to Tap into Networks	364
Lessons for Countries Left outside Global Production Chains	370

## **PART IV**

### **CONCLUSIONS**

## **8 Policy Agenda, Reform Linkages, and Action Plan 377**

<i>Bibliography</i>	385
<i>Index</i>	401

### **Boxes**

1.1 Trade under Central Planning	52
2.1 Quality of Foreign Trade Statistics for the Region	63
3.1 Turkey's Trade Policies and Institutions	126
3.2 Russo-Ukrainian Trade Wars	130
3.3 The Interrelationships between Trade, Growth, and Poverty Reduction in the Region	137
3.4 The General Agreement on Trade in Services (GATS)	144
3.5 Transit Problems in the CIS	150
3.6 Least Developed Countries (LDCs) and Transition	152
3.7 Moldova's Free Trade Arrangements	162
3.8 Harmonization of FTAs in Southeastern Europe: The Options Ahead	165
4.1 Arrears as Constraints on Firm Performance in SEE	197
4.2 The "Home-Grown" Construction Sector in SEE: Evidence from Business Case Studies	203
4.3 Using Prepayment to Reduce Contractual Risks in Bosnia and Herzegovina	205
4.4 Market Dominance and Anticompetitive Pricing in Serbia and Montenegro	211
4.5 Economic Incentives in Turkey	214
4.6 Free Economic Zones in the Kyrgyz Republic	216
5.1 Examples of Development Assistance in Trade Facilitation in the Region	247

5.2	E-Commerce: Promoting Paperless Trading in East Asia	258
6.1	Modes of Trade in Services as Defined by WTO	288
6.2	The EBRD Reform Indexes	298
6.3	Foreign Participation in Russia's Banking System—Experiences and Perspectives	302
6.4	Challenges in Water Reform in Albania	307
6.5	Benefits and Challenges to a Regional Energy Market in SEE and Turkey	308
6.6	The Gains from Foreign Direct Investment in Service Sectors	310
6.7	Dual Pricing of Russian Natural Gas	314
6.8	The EU <i>Acquis</i> Spans All Services	317
6.9	The Incentive for Services Reform in Turkey in the Context of EU Accession	318
7.1	The Diamond Global Value Chain	345
7.2	Case Study from the Furniture Network	346
7.3	Production Sharing in East Asia	349
7.4	Automotive Components Clusters in the Czech Republic and the Slovak Republic	352
7.5	Empirical Evidence on FDI Spillovers	364

## Figures

1	Eastern Europe and the Former Soviet Union's Merchandise Exports and Imports as a Share of GDP PPP, 1994–2003	8
2	Eastern Europe and the Former Soviet Union's Share of Total World Merchandise Exports	10
3	Shares of Intra-Regional Merchandise Exports in Eastern Europe and the Former Soviet Union	11
4	Export Intensity of Businesses Is Greater in the More Advanced Countries of Eastern Europe and the Former Soviet Union	15
5	Corruption Perception Index and International Integration, 2003	16
6	Trade and FDI Inflows Are Complements in Eastern Europe and the Former Soviet Union	19
7	Openness in the Region's Merchandise Trade	21
8	Openness in the Region's Services Trade	22
9	Trade Openness and Transition: A Mutually Reinforcing Relationship	29
10	Export Levels and Cost of Entry in the Region, 2003	31

11	Gains from Improving Trade Facilitation in Eastern Europe and the Former Soviet Union	36
2.1	The Region's Merchandise Exports and Imports as a Share of GDP, 1994–2003	66
2.2	Shares in World Merchandise Trade of the Region's Countries, 1990–2003	67
2.3	The Region's Shares in World Trade in Services	70
2.4	Global Destinations of the Region's Merchandise Exports	71
2.5	Global Distribution of the Region's Merchandise Imports	74
2.6	Intra-Regional Distribution of Merchandise Exports	76
2.7	Intra-Regional Distribution of Merchandise Imports	77
2.8	Changes in Product Concentration of the Region's Merchandise Exports in Global Markets	79
2.9	Factor Intensity of Merchandise Exports and Imports in the Region, 1996 and 2003	82
2.10	Trade and FDI Inflows in the Region Are Complements, 1995–2003	97
2.11	Merchandise Trade Openness in the Region, 1994–2003	101
2.12	Services Trade Openness in the Region, 1994–2003	101
2.13	Trade Openness and Behind-the-Border Reforms in the Region: A Mutually Reinforcing Relationship	108
3.1	The Myriad of Regional Trade Agreements Resembles Spaghetti Bowls	162
4.1	Export Intensity of Businesses Is Greater in the More Advanced Countries	191
4.2	Number of Competitors and Operations Abroad	192
4.3	Export Levels (2003) and Cost of Entry in the Region	194
4.4	Severity of Entry Barriers in the Region, Domestic Firms, 2002	195
4.5	Severity of Entry Barriers in the Region, Foreign Firms, 2002	195
4.6	Arrears and International Integration in the Region	197

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4.7	Size of Subsidies by Sub-Region, 2002	198
4.8	Market Share and International Integration	199
4.9	Market Share and Price Sensitivity in the Region, by Ownership Category, 2002	200
4.10	Competition and Horizontal Integration in the Region	201
4.11	Commercial Ties with the State of the Region's Firms	202
4.12	Greater Trade Openness and Reduced Corruption in the Region: A Two-Way Relationship	206
4.13	Frequency of Bribes by Sub-Region, 2002	207
4.14	Index of Competition Policy Development and Implementation in the Region	212
4.15	Comparative Efficiency of the Bankruptcy Process	213
4.16	Capacity and Demand for Judicial Reforms in the Region	217
5.1	Land Transit Costs in Central Asia	229
5.2	Paved Roads	232
5.3	Origin of Imports Carried by Rail and Roads, 2002	233
5.4	Destination of Exports Carried by Rail and Roads, 2002	233
5.5	Private Participation in the Telecommunications Sector, 2004	235
5.6	Telephone Main Lines	235
5.7	Internet Hosts	236
5.8	Telephone Lines in the Caucasus	240
5.9	Internet Hosts in the Caucasus	240
5.10	Private Participation in Ports and Airports Sector, 2004	242
5.11	Private Participation in Transport Sector, 2004	243
5.12	Rail Liberalization Index, 2004	243
5.13	Importance of Technical Regulations in Exporting to the EU, the United States, Canada, and Japan	244
5.14	Telephone Lines in the EU-8	245
5.15	Internet Hosts in the EU-8	245
5.16	Private Sector Participation in the Telecommunications Sector	246
5.17	Telephone Lines in SEE	250

---

5.18	Internet Hosts in SEE	250
5.19	Telephone Lines in the Russian Federation, Belarus, Moldova, and Ukraine	254
5.20	Internet Hosts in the Russian Federation, Belarus, Moldova, and Ukraine	254
5.21	Average Days Required for Customs Clearance by Sea	255
5.22	Degree of Private Sector Participation in Infrastructure, 2004	256
5.23	Technical Regulations and Standards	257
5.24	Private Participation in the Telecommunications Sector, 2004	259
5.25	Internet Hosts in the Region	259
5.26	Benchmark Comparisons of Trade-Facilitation Indicators	263
5.27	Benchmarking EU Accession and Candidate Countries against the EU-8	264
5.28	Benchmarking Port Infrastructure, Port Facilities, and Inland Waterways	265
5.29	Benchmarking Port Efficiency to the Value of GDP per capita	266
5.30	Benchmarking Customs Regimes to the Value of GDP per capita	266
5.31	Benchmarking Regulatory Policy to the Value of GDP per capita	267
5.32	Benchmarking IT Infrastructure to the Value of GDP per capita	267
5.33	Shares of Regional Trade Gains from Collective Action	269
5.34	Trade Gains from Removing Barriers in Trade Facilitation	270
5.35	Relative Trade Gains from Regional Action and the Rest of the World	271
5.36	Shares of Global Trade Gains from Collective Action	272
5.37	Global Comparison of Trade Flows from Trade-Facilitation Improvements	273
5.38	Global Comparison of Share of Gains from Improvements across Trade-Facilitation Areas	274
6.1	Changes in the Share of Services in GDP and Employment	285
6.2	Labor Productivity	285
6.3	Change in Value Added per Worker	286

6.4	Bilateral Telecom Traffic, 2002	295
6.5	Services Reform Index, 2004	298
6.6	Central Bank Independence	300
6.7	Financial Sector Performance	301
6.8	Index of Infrastructure Reform, 2004	304
6.9	Infrastructure Reform, by Country and Sector, 2004	305
6.10	Telephone Services	305
6.11	Utility Privatization Proceeds in the Region, by Sub-Region, 1992–2003	309
6.12	Utility Privatization Proceeds by Sector for the Region, 1992–2003	309
6.13	Cross-Subsidization in the Electricity Sector in the Region and Turkey	313
6.14	WTO Market Access Commitments in Services Trade Liberalization, by Mode	321
7.1	FDI and Exports of Producer-Driven Network Products	356
7.2	FDI Stock per capita and Share of Skilled Labor and Capital-Intensive Exports in 2003	360
7.3	Export Intensity of Domestic and Foreign Firms in the Slovak Republic, 1996–2001	363
7.4	Export Intensity of Domestic and Foreign Firms in Lithuania, 1996–2001	363
7.5	Quality of Governance over 1996–2002 and Cumulative FDI Inflows in the Years 1990–2003 (\$)	368

## Tables

1	Importance of Competition from Imports to Businesses of Eastern Europe and the Former Soviet Union	14
2	The Region's Actual vs. Theoretical Trade Openness	23
2.1	The Region's Merchandise Trade Flows, 1990–2003	64
2.2	Shares in World Trade of the Region's Countries, 1990–2003	66
2.3	The Region's Trade in Services: Exports and Imports	68
2.4	Global Geographic Destination of the Region's Merchandise Exports	72

2.5	Global Geographic Origin of the Region's Imports	75
2.6	The Structure of the Region's Exports by Major Product Category, 1996 and 2003	80
2.7	Factor Intensity of Merchandise Exports by Country in the Region, 1996, 2000, and 2003	84
2.8	Factor Intensity of Merchandise Imports by Country in the Region, 1996, 2000, and 2003	86
2.9	Role of Demand, Export Competitiveness, and Product Diversification in Intra-Regional Merchandise Trade	89
2.10	Role of Demand, Export Competitiveness, and Product Diversification in Merchandise Trade between the Region and EU-15	91
2.11	Changes in Market Share of the Region's Imports, by Major Product Category and by Source of Imports	92
2.12	Trade in Parts and Components in the Region, 1996–2003	98
2.13	Stock of Foreign Direct Investment in Countries in the Region, End–2003	99
2.14	The Region's Merchandise Trade Openness in Comparison with That of Other Regions, 1994–2003	102
2.15	Actual vs. Theoretical Trade Openness in the Region	103
2.16	Gravity Model Bilateral Trade Openness Realization Ratios (Sub-Regional)	105
2.17	Gravity Model Bilateral Trade Openness Realization Ratios (by Country)	106
3.1	WTO Members in the Region (as of December 2005)	124
3.2	Average Applied Tariffs and Bound Rate by Country or Group in the Region in the Most Recent Available Year	125
3.3	IMF NTB Trade Restrictiveness Ratings: 1997–2003	131
3.4	Number and Share of Antidumping Investigations by Initiating Country, 1995–2003	132
3.5	Timetable of Accessions to the WTO	153
3.6	Antidumping: Share of Affected Economies in Total Cases Relative to Share in World Exports in Percentages and Ratios	158

4.1	Channels of Entry and Effect on Domestic Market Structure (Concentration)	188
4.2	Importance to the Region's Businesses of Competition from Imports	190
4.3	Export Intensity	191
4.4	Export Propensity by Sub-Region	192
4.5	Determinants of Business Profitability in the Region, 2002	209
5.1	Central Asian Republics: Sea Access by Road	228
5.2	Time Taken to Clear Goods at Selected Inland Terminals	230
5.3	Central Asia Railways, 2002	231
5.4	Customs Productivity in the Caucasus Compared with Southeastern Europe	237
5.5	Reduction of Waiting Time at the Borders' Crossing Points and Inland Clearance Terminals	248
5.6	Recipients of Bribes	249
5.7	Average Amount of Bribes	249
5.8	Summary of Major Constraints and Challenges in the Sub-Regions	260
5.9	Regional Trade Gains from Collective Capacity Building	268
5.10	Global Trade Gains from Collective Capacity Building	271
6.1	Share of Services in Foreign Exchange Receipts, 1996 and 2003	289
6.2	Exports of Services as a Share of GDP	290
6.3	Imports of Services as a Share of GDP	290
6.4	Sectoral Intensity of Exports	291
6.5	Total Export-related Activity	292
6.6	Inward FDI Stock by Sector, Selected Countries in the Region	292
6.7	Indicators of Regulatory Effectiveness in the Region, by Country, 2004	312
6.8	Results of Some Simple Growth Regressions	324
7.1	Share of Clothing in Exports of Manufactured Goods Excluding Chemicals, 1992–2002	343
7.2	Evolving Significance of Furniture Network Trade: Share in Manufactured Exports	347
7.3	Dynamics of Producer-Driven Network Trade and Its Share in Manufactured Goods Excluding Chemicals of HP-7, 1996–2003	354

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7.4	Overview of Trade in Producer-Driven Networks in 1996, 1999, and 2003	355
7.5	Trade in IT Network in Comparative Perspective and Exports of Automotive Parts in 1999 and 2003	357
7.6	Producer-Driven Networks' Exports of HP-7 in Percentage of Imports of Networks' Products, 1995–2003	361
7.7	Stock of Foreign Direct Investment per capita, end-2003	366

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## Foreword

Price liberalization was one of the very first reforms undertaken by many countries of Eastern Europe and the Former Soviet Union at the start of their transition from centrally planned to market economies a decade and a half ago. In the case of tradable goods, this meant opening up domestic markets to international prices and liberalization of the countries' trade policy regimes. In short order, external tariffs were lowered, and import quotas and other nontariff barriers (NTBs) were reduced or eliminated. At the same time, the CEMA (Council for Mutual Economic Cooperation), the central planning institution that had administratively governed these countries' trade with the rest of the world—as well as trade among themselves—was dismantled. This was often accompanied by other fundamental reforms, such as macroeconomic stabilization and privatization. These reforms revealed that many enterprises were uncompetitive at international prices and resulted in countries losing guaranteed outlets for their products, precipitating what has come to be known as the “transition recession.” The recovery was characterized by an expansion of exports and the ignition of economic growth. In turn, this brought about higher incomes and reduced poverty for many people of the Region. The early—and bold—actions on the trade front proved to be critical down payments that facilitated the integration of these countries into the world economy.

Indeed, the transition from central planning to market systems could not have occurred without greater openness to international trade. This study, *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*, finds that over the past 15 years, the Region as a whole has experienced rapid trade flows and today trades largely in line with other regions of the world at comparable levels of income.

It appears that two new intra-Regional trade blocs are emerging, however. One largely comprises the eight new European Union (EU) member countries, which are increasingly trading with the most advanced economies in Europe and enjoying relatively high national incomes. The other bloc is generally populated by economies of the Commonwealth of Independent States (CIS), many (though not all) of which are still dominated by commodity trade, exhibit increasingly centralized and segmented trade patterns reminiscent of the planning era, and are significantly poorer, although the Russian Federation and Ukraine have experienced considerable international integration and are middle-income economies. Most of the seven countries in South-eastern Europe lie somewhere in between these two blocs, but are increasingly aligning themselves with the former. While these trends are surely evident, as the study shows, the increasing bifurcation of trade in the Region is by no means predetermined. As has happened elsewhere, countries that have not only opened trade but also systematically implemented complementary domestic or “behind-the-border” policies have been more effective in leveraging international integration to raise growth rates.

To be sure, virtually all of the countries in the Region still need to pursue further trade policy reforms, and some require fundamental liberalization of their trade regimes. In this regard, early accession to the World Trade Organization (WTO) for the 10 countries in the Region that currently are not members would be beneficial, especially to take advantage of the present Doha Round negotiations. By the same token, benefits would arise from regional trade agreements (RTAs) that create rather than divert trade. The bigger—and largely Region-wide—unfinished agenda, however, concerns behind-the-border reforms. The most critical of these are enhancing domestic interenterprise competition and governance, developing trade-facilitating infrastructure, and deregulating the services sectors. While meeting these challenges will require policy reforms (such as improving market access in agriculture) by developed countries and support for technical assistance (for example, in customs reform) from international donors, the lion’s share of actions will need to come from the Region’s countries themselves.

This study, part of a new series of regional studies, is intended as a contribution to the World Bank's goal to work more effectively with our partners in the Region to foster economic growth and reduce poverty through greater integration into international commerce. It complements two recent studies on growth, poverty, and inequality and on job opportunities in the Region. Forthcoming reports on migration and infrastructure will look at other key economic and social opportunities and challenges for the Region. I hope that this series of studies will stimulate debate, promote better understanding, and spur action to bring about prosperity for all.

*Shigeo Katsu*  
*Vice President*  
*Europe and Central Asia Region*



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## Acronyms and Abbreviations

AD	antidumping
ATC	Agreement on Textiles and Clothing
BEEPS	Business Environment and Enterprise Performance Survey
BiH	Bosnia and Herzegovina
BIS	Bank for International Settlements
BOO	build-operate-own
BOP	balance of payments
BOT	build-operate-transfer
BRSA	Banking Regulatory and Supervisory Agency
CAP	Common Agricultural Policy
CEE	Central and Eastern Europe
CEFTA	Central Europe Free Trade Area
CGE	computable general equilibrium
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Cooperation
CPI	corruption perception index
DfID	Department for International Development (U.K.)
EAP	East Asia and the Pacific
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia

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ECOSOC	Economic and Social Council of the UN
EFTA	European Free Trade Association
EPZ	export processing zone
EU	European Union
EU-8	Eight new EU-member countries
EU-15	European Union before the 2004 enlargement
FBiH	Federation of Bosnia and Herzegovina
FDI	foreign direct investment
FSU	Former Soviet Union
FTA	free trade agreement
FYR	former Yugoslav Republic (of Macedonia)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GOST	Committee of the Russian Federation for Standardization, Metrology, and Certification
GSP	generalized system of preferences
GTAP	Global Trade Analysis Project
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IT	information technology
LAC	Latin America and the Caribbean
LRMC	long-run marginal cost
MENA	Middle East and North Africa
NAFTA	North American Free Trade Agreement
NTBs	nontariff barriers
OECD	Organisation for Economic Co-operation and Development
P&C	parts and components
PPP	purchasing power parity
ROW	rest of the world
RTA	regional trade agreement
SAA	Stabilization and Association Agreement
SAM	Serbia and Montenegro
SAR	South Asia Region
SEE	Southeastern European
SMEs	small and medium enterprises
SOE	state-owned enterprise
SSA	Sub-Saharan Africa
TBT	technical barriers to trade
TRIMs	trade-related investment measures

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UN	United Nations
UNMIK	United Nations Mission in Kosovo
UNDP	United Nations Development Programme
U.S.	United States
USSR	Union of Soviet Socialist Republics
VAT	value added tax
<i>WDI</i>	<i>World Development Indicators</i>
WTO	World Trade Organization

*Note:* All dollar amounts are U.S. dollars (\$) unless otherwise indicated.

