

PART I: THE OPPORTUNITIES

POLITICAL RENAISSANCE

The past five years have witnessed many political and economic changes in the region covered by the Central European Free Trade Agreement (CEFTA).¹ These formerly communist countries have undergone a gradual process of political rebirth to become free democratic states. Hungary, Poland, and the Czech Republic have already joined the OECD, and all five countries are seeking full membership in the European Union (EU) and NATO.

The Central European Free Trade Agreement was signed in December 1992 by ministers representing the Czech Republic, Poland, Hungary, and Slovakia. Although applied since March 1, 1993, the Agreement has been in legal effect since July 1, 1994. Following a 1995 amendment to allow for the admission of new members, Slovenia joined CEFTA on January 1, 1996.

CEFTA's fundamental objective is to promote economic cooperation through the mutual liberalization of trade. The Agreement envisages the gradual removal of tariff and non-tariff barriers affecting industrial products, leading to the full elimination of such barriers by the end of the transition period in 2001. The establishment of preferential tariffs with respect to trade in agricultural products is also planned.

Canada intends to develop its political and trade relationship with the CEFTA countries taking into account the region's transformation, its openness to Canadian business interests, and its potential as a partner and interlocutor in Europe.

Efforts being made to ensure political stability will allow these governments to focus on economic reconstruction and transformation. The challenges facing them include achieving consensus on social policy, handling issues such as restructuring of firms and bankruptcies, and redefining property ownership. Government, employers, and labour are having difficulty reaching consensus on these issues, as some elements of society insist that benefits accruing from economic transformation be distributed in a more equitable and socially just manner. Political stability also has a direct bearing on business development and foreign investor confidence.

ECONOMIC OVERVIEW

Despite a slow start, the transition towards a free market economy has led to rapid economic expansion, private sector growth, and a significant increase in foreign direct investment. The main outcome of privatization efforts has been the creation of a private sector which last year represented between 60% (Poland) and 70% (Czech Republic) of the Gross Domestic Product (GDP) in these countries.