Non-technical Summary

The paper analyses the evolution of the trade specialisation pattern in the Central European countries that are going to join the European Union in 2004. The dynamics of trade pattern is often reflects deep structural changes in the whole economy of a particular country. It takes usually long time, comparative advantages may not change in short run. But, it may happen sudden external and internal shocks influencing production, diffusion of new technology and institutional systems. Last decade the economies of Central European countries have been considerable transformed, including transition from planned economy to market economy, increasing trade openness, FDI etc. Therefore, Central European countries represent an exceptional cases, when powerful changes in the economy should have effects on the evolution of trade pattern.

We describe the evolving pattern of Central European countries' trade using recently developed empirical procedures based around the classic Balassa index and its symmetric transformation (RSCA). Our investigations are focused on the stability of trade indices over time. One can distinguish at least two types of stability (i) stability of the distribution of the indices from one period to the next; and (ii) stability of the value of the indices for particular product groups from one period to the next.

The first type of stability is investigated in several ways. First, applying the procedure we analyse the dynamics of the RSCA index via stochastic kernels. Second is based on regression analysis of the RSCA between the beginning and the end of sample. Third, the Gini coefficient is used as a summary measure of the difference in the structure of exports between a particular Central European country and the EU.

The second type of stability that of the value of the trade index for particular product groups, is also analysed in two ways. First, we employ transition probability matrices to identify the persistence and mobility of revealed comparative advantage as measured by the B index. Second, the degree of mobility in patterns of specialisation can be summarised using indices of mobility.

Our results suggest that despite significant changes in Central European economies during transition to a market economy, the distribution of the indices remained fairly stable over the

1990s. The extent of specialisation in Central European trade exhibits a mixed trend. Our results suggest that trade pattern has converged in Estonia, Hungary, Poland and Slovenia, wihlst it polarised in Czech Republic, Latvia, Lithuania and Slovakia over the period. The stability of the indices for particular product groups displays more variation. Results suggest that the indices are stable for observations with comparative <u>dis</u>advantage, in all cases. But product groups with weak, medium or strong comparative advantage show significant variation, with a tendency to weakening comparative advantage.

Keywords: international trade, revealed comparative advantage, Central Europe