

HUNGARY AT THE GATE OF EUROPEAN UNION

György KERÉKGYÁRTÓ

Department of Economics
Technical University of Budapest
H-1521 Budapest, Hungary
Phone +36 1 463 2242
Fax: 36 1 463 1906

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Abstract

The qualification of Hungary for the first round of entering in European Union is due to the performances reached by this country in the social, political and economic reforms. The preparation process for the membership with full powers has important tasks. First of all we have to determine our integration philosophy. In the field of economic diplomacy we have to make clear our national interests and on the basis of them go on the joining talks. But we must take into account that there are considerable differences regarding the question of the further development of European Union among the present member countries. This situation may slow down the joining process of the newcomers.

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1. The Entering Rip of Hungary

On 13 December 1997 a decision of historic importance came to light: on 30 March 1998 The European Union will start the joining talks with five Central-Eastern European countries, namely: Hungary, Czech Republic, Poland, Estonia, Slovenia and Cyprus. We may reckon on finishing the first stage of talks by the end of 1998. During this will be appraised the readiness of Hungary for the membership with full powers and will be stated the necessity to put longer or shorter transitional period in some fields. The effective joining talks may start early in 1999 and may be finished by the end of 2000. Taking into account the ratification process Hungary may be the regular member of European Union in 2002.

The qualification of Hungary for the first round of the entering is due to the fact that the European Union highly appreciate the performances reached by this country in the process of social, political and economic reforms. Regarding the social-political reforms we can state that our country from 1990 to nowadays has built up a parliamentary democracy based on the free election and multiparty system, that has a firm social-political stability. At the same time Hungary in foreign affairs has also striven for a normal, balanced co-operation with the neighbouring countries. For this reason we

concluded fundamental treaties with Ukraine, Romania and Slovakia. Unfortunately, in that with Slovakia we did not succeed to reach substantial progress in the realisation of the fundamental treaty. The Slovakian nationalistic policy has strongly limited the basic human rights of the Hungarian national minority living there, first of all in using of mother language, in the teaching and education in Hungarian language and in the field of working of Hungarian cultural institutions. This policy is a great trouble first of all for Slovakia, because reduces her chances to join to NATO and European Union. At the same time after the conclusion of fundamental treaty with Romania a breakthrough has taken place in the development of bilateral relations. Although in Romania nationalistic opposing forces also exist, who from time to time make vehement attacks against the widening of human rights of the Hungarian national minority living there but in spite of this the bilateral connections have steadily developed.

Regarding the situation of the national economy practically we finished the privatisation process establishing a property structure characterising a real market economy. The private property has a dominating role in every field of the Hungarian economy. We succeed to reach substantial progress in the stabilisation of our economy. The external debt of this country has steadily decreased and Hungary got out of the debt trap. A dynamic economic growth has started and a 4-5% growth rate of GDP/year seems to be sustainable next years. A powerful inflow of foreign direct investment continued in 1997 and by the end of November 1.9 billion \$, that strengthened further the external financial equilibrium of this country. Regarding the economic events having taken place in south-east Asian region we may reckon on further dynamic inflow of foreign direct investment next year. Although we succeed to reach the planned 18.3% inflation rate in 1997 but it is too high, and the 13-14% inflation rate planned for 1998 is also rather far from the convergence criteria of European Union. Perhaps in 1999 and 2000 we may reduce our inflation rate below 10%. A more purposeful antiinflation policy may accelerate this process. Although the number of registered unemployed people reduced a little bit but the about 10% unemployment rate is too high and a definite imagination to reduce considerably this rate is missing. After all we may say that Hungary has obtained advantages in the Central European region on the basis of achievements and we can press our advantages during the joining process.

2. Tasks and Quotation Marks of the Hungarian Preparing and Joining Process

The preparation process for the membership with full powers has important tasks. First of all we have to determine our integration philosophy. It is quite clear and unambiguous that our joining to the European Union has

no real alternative. We are able to solve our modernisation and closing up tasks – within reasonable historical perspective – only as the member of European Union.

In the field of economic diplomacy it is an important task to make clear our national interests and on the basis of them we have to go on the joining talks. We must draw up the content and extent of the required derogation. It would be very favourable if we would be able to put our integration strategy into a complex Hungarian social-economic strategy. Sorry to say, the last one is missing at present. We have to take into account the fiscal burdens of the joining process as well. The starting of the earlier joining talks made possible to get the EU budget and structural funds. Now this linkage is missing. In the sake of reaching to EU funds we have to advance considerable investments. That is why there is a financial gap to be bridged.

3. Trade Policy Tasks, Creation of the EU Conformity

During the preparing and joining process the creation of EU conformity is an important and many-sided task. On the one hand in the field of import regulation an EU conform market and industry protection system have to form. During this we have to take into account the 'traditional' means protection: import contingents, antidumping regulation and "fine regulation", especially regarding the non tariffs means. We have to appraise the possibilities of export stimulation, the extent and effects of export liberalisation. The adaptation of common external tariffs and trade policy will radically change the attitude of Hungary against third countries. The origin regulation of the European Union and the joining of Hungary to the pan-European cumulative origin regulation system will make its effects felt already during the period of association relation. The adjustment to the European guidelines and regulations of consumer protection is also an important task. During this we have to appraise the characteristics of consumer protection in EU member countries and to take direct measures in the sake of harmonisation. This requires to establish an up-to-date, EU conform law of consumer protection and to develop the institutional system of it. Nowadays the consumer protection is on a relatively low level in Hungary.

4. Adjustment of Different Branches and Sectors of the National Economy

The fundamental target of the sectoral appraisal is to establish the preparedness of several sectors. The most hot potato questions from the point of view of the definition of extent and depth of required derogation are connected with agriculture, environmental protection, transportation and the

control of state borders. It is very likely that in the mentioned fields we will be able to adopt EU directive only after a certain transitional period.

Regarding the adjustment of Hungarian industrial companies the strengthening of micro level competitiveness has an outstanding importance. During this we have to appraise the competitiveness of the products and technologies of Hungarian enterprises. What fields are lagging behind against the EU member competitors? What kind of role may play the technology transfer and co-operation among Hungarian companies and EU member counterparts in the demolition of backwardness? The closing up of Hungarian firms in the field of standardisation and quality assurance is also very important. What about the introduction of EU directives in the field of quality assurance, standardisation and accreditation? What kind of tasks are on the agenda concerning the EU conform development of organs and institutions of product responsibility, product reliability and product certification systems? The strengthening of the competitiveness of small and medium size enterprises has also an outstanding importance.

The adjustment of our agrarian sector renders more difficult the tensions and problems existing in the common agrarian policy of European Union. About 50% of EU budget devoting to agrarian subsidy while this sector gives only 0.6% of the total EU income. It is quite clear that this disproportion is not sustainable, and the reform of common agrarian policy is inevitable. Consequently, the Hungarian agrarian sector has to adjust to the changing requirements of the common agrarian policy.

It is very likely that the free movement of labour power will be allowed for Hungary step by step only. I think that it is own best interest of the present EU members and Hungary as well. Namely, in the consequence of the total mobility first of all the qualified labour power would run out of the country that would be a great loss in the field of intellectual capital, at the same time the number of unemployed people would not reduce considerably, because the greatest part of unemployed workers is unqualified or low qualified.

The arrangement of the Economic and Monetary Union (EMU) is going on with a great impetus. The key question is the introduction of the single currency-euro. In the first round only the countries may be qualified that are able to fulfil the convergence criteria laid down in Maastricht in 1993. These are as follows:

- budget deficit no more than 3% of GDP;
- public debt no more than 60% of GDP;
- inflation rate may overstep only by 1.5% the average of three member countries having the lowest inflation rates.

The EMU timetable shows the Chart 1.

Chart 1

EMU timetable

Early 1998 – Preparation

- Decide which countries qualify for monetary union on the basis of economic performance for 1996 – 1997
- Establish the European Central Bank and the network of national banks

January 1st 1999–Launch

- Fix national exchange rates against the euro 'irrevocably'
- Central banks begin to use euro, as do inter bank and foreign exchange markets
- Issue new government debt in euros

July 1 2002

- Withdraw old currencies
- euro becomes sole legal tender

Source: European Commission

Concerning the introduction of EMU is a hot potato question the relationship between the countries that on January 1st 1999 will within EMU's 'euro block' and those will be outside. Presumably, the one currency 'hard core' will benefit from lower interest rates than the non-qualifiers – who might react by so called competitive devaluation. There is risk that the tension between 'ins' and 'outs' will then undermine the EU's single market. From our point of view it is an important question in this respect whether Hungary will be able to fulfil the above mentioned criteria. At the same time we have to take into account the effects related to Hungarian financial sector. It is quite clear that the financial sectors of the present EU member countries will radically transform: substantial liberalisation of money and capital markets have taken place that induces the Hungarian financial sector to harmonise and liberalise in the field of capital investments, loan and security markets, financing of companies and in the movement of personal incomes and wealth.

The regional development is also a very important field from the point of view of the preparation of Hungary for EU membership with full powers. European Union decided five main objectives in this respect. These are as follows:

- One: To assist those regions whose development is lagging behind.
- Two: To revitalise regions affected by serious industrial decline.
- Three: To combat long term unemployment.
- Four: To integrate young people into job market.
- Five: To adjust agricultural structures and develop rural areas.

We have regions lagging behind and affected by serious industrial decline in fairly large quantities. Szabolcs-Szatmár-Bereg County is typically fit into the fifth objective. Borsod-Abaúj-Zemplén County is affected by serious industrial decline, and there are many other territories of this country where the basic infrastructure is missing: road network, sewer system, telecommunication system, without them any development is inconceivable. We must learn from Austria, who is more developed as we are, notwithstanding about 70% of Austrian territories ranged to the territories lagging behind from several point of views. This way they can get considerable development resources from the different structural funds of European Union. Of course we also have to mobilise our internal resources for the mentioned objectives because the common financing is an important condition to get to the EU structural funds.

The harmonisation of the Hungarian legal system is also an imposing task. Austrian lawyers counted that about 14 thousand laws and rules of laws regulate the activity of European Union. All of these we have to adopt entering EU. That is why already during the preparing period we must take harmonisation steps in the field of market control and competition law, industrial proprietary rights, the legal protection of intellectual products, regulation of labour relations, and so on.

5. Preparation of the Human Sphere for the Joining to European Union

In the preparation of the human sphere we can see some delay. To know the whole Hungarian society with the tasks of joining process is an extraordinary important point of view. The experience of latest public opinion researches showed a fantastic lack of information even among companies regarding European Union. That is why through all communication channels and on every level of teaching and education we must transmit this knowledge.

Technical University of Budapest decided to start a special postgraduate course entitled: 'European integration engineering expert' in the framework of its own existing wide spectrum study program going on for postgraduate degree. The four semesters (4 x 120 hours) education program has a modular structure, this way it is suitable to transmit or acquire the general and special engineering knowledge related to European Union. The fundamental target of the curriculum is the teaching and training the certificated engineers who will obtain adequate knowledge to take part in the harmonisation of the activity of their specialities, in the preparation of joining talks or rather in the whole joining process. The curriculum is based on the combination of the basic course and special courses closing with a special paper by the end of the second academic year. The planned structure of the special postgraduate education:

1. semester: Basic course of European Studies: External conditions of the Hungarian national economy. The community law of European Union and the harmonisation of the legal systems.
2. semester: General engineering EU knowledge: European and international standardisation. Quality assurance. System of product responsibility. Audit, accreditation, certification. European guidelines and regulation of consumer protection.
- 3.-4. semester: Faculty or professional specific EU integration special courses:

- Environmental economics and management
- EU conform regional and urban development
- EU integration energy expert
- Preparing Hungary for EU membership with full powers
- Foodstuff and pharmaceutical directives and regulation
- Transportation aspects of EU integration
- Construction engineering on the basis of EU codes

If we will win the competition for the Centre of European Studies we would like to start five modules for graduate students as well. These are as follows:

1. The basic course of European Studies
2. The integration of energetic systems
3. Environmental directives and management of EU
4. Transportation aspects of the joining to European Union
5. EU conform regional and urban development

Over and above that we will start near 30 short target group courses (20-30 hours) for businessmen and managers, media experts, officials of local authorities and secondary school teachers. We announced many EU oriented research topics in the framework of our accredited Ph.D. programs this year.

6. The Enlargement of the European Union

'Enlargement is both political necessity and historic opportunity' said the European Union leaders in Madrid in December 1995. 16 July 1997 in Strasbourg the chairman of the European Commission, Mr. Jacques Santer handed over the so called country's studies and document packs containing the EU's enlargement strategy. According to the Brussels Commission the European Union will start the joining talks with five Central-Eastern European countries-notably Hungary, Czech Republic, Poland, Slovenia, Estonia and Cyprus. The Commission pointed out the joining date of new members in 2002, but it is a working hypothesis only. The present economic situation of some Central-Eastern European countries shows the Chart 2.

Chart 2

Main economic indicators of some Central-Eastern European countries

Countries	Growth of real GDP 1997	Inflation rates 1997	GDP/cap. (\$) 1996	Monthly wages (\$) 1996	Ratios of Gross External Debt to Export 1996	Foreign direct invest- ment \$million 1991-96
Czech Republic	4.5	8	8200	316	60	6.368
Estonia	4.4	17	-	255	11	859
Hungary	2.0	18	6700	246	201	12.767
Poland	5.5	16	5600	329	112	4.862
Slovenia	4.0	8	-	-	30	650
Slovak Republic	6.0	6	-	256	49	687
Romania	-1.5	109	1270	100	98	1.379

Source: World Economic Outlook May 1997, and OECD, WIW

As you can see from the Chart 2 the biggest problem is that the Central - Eastern European countries are just too poor. If all the countries that have signed association agreements as a prelude to membership - Hungary, Poland, Czech Republic, Slovenia were to join the Union, its population would rise by 30%, but newcomers would have only a quarter of the purchasing power of the present EU average. Moreover, a fifth of their workers have jobs in agriculture, compared with 6% of today's EU workforce. The EU's agricultural area would increase by 40%.

More poor people would mean more beneficiaries of the 'structural funds', especially in the category made available to areas with GDP/cap. less than 75% of the Union average - a level that will take most applicants at least 20 years to reach. More farmers will more subsidies from that common agricultural policy (CAP). Since the CAP accounts for about half of EU's budget and the structural funds for another 30%, those who put more into the budget than take out - notably Germany, Britain, The Netherlands and France - are worried. So too, for different reasons are net beneficiaries. New, poorer members will lower the EU's average income and so disqualify some of present region that get handouts.

Italy is afraid of the joining of new members because Puglia land and Sardinia island may fall out of promoted areas that would be a fairly great outlay for the two parts of the country, which are living almost only from tourism. The entry of new members would turn the mechanism of benefits from the structural funds upside down. Without the changing of the present criteria the nowadays poorer member countries would be at disadvantage

opposite newcomers. Similarly, the 'cohesion' countries – Spain, Portugal, Ireland and Greece – have to make clear that they are not ready to give up any of their share of the structural funds. That is why EU's present poor might delay the entry of the Central-Eastern European countries.

Germany that regards the Eastern enlargement of EU as own interest has claim the redistribution of budget burdens and the substantial decrease of German payment for the budget. Germany fulfils more than half of net payment, meanwhile its proportion in EU's GDP altogether 25%. According to an internal document Germany in the last five years paid by D-Mark 13 billion more than proportionally had to be. Moreover, since joining of East German lands Germany fell into the midfield of EU regarding the GDP per capita, nevertheless bears much greater burdens than the richer Denmark or Luxembourg.

No wonder, then, that the EU's rich and poor alike fear the arithmetic of enlargement. By some estimates, if policies will remain unchanged, enlargement will mean a 60% increase in EU's budget which would be politically unpalatable. But to keep enlargement cheap, concession may be needed from new members. They may have to consent to subsidies less generous than those apply the EU's poorer members now, which could threaten make them second-class EU citizens.

Summarising what has been said we can state that beyond the mentioned difficulties the permanent changes of EU's internal mechanism and institutional system make the preparation of Hungary heavier and we do not know exactly what we should adjust to.

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