

HUNGARY'S TRADE RELATIONS WITH CEFTA COUNTRIES

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Abstract

This paper studies the foreign trade relations among CEFTA countries particularly: the co-operation between Hungary and the CEFTA countries following the change of the system based on international statistics. The recent decades have resulted in profound changes both regarding the direction of foreign trade turnover (the former eastern direction has been replaced by the dominance of EU relations) and the foreign trade structure according to principal groups of goods (the exports ratio of machine industry and highly processed goods have increased significantly). Hungary is one of the investigated countries which set a clear example of positive economic changes. The economic development of the CEFTA countries, the modernisation of their industrial structures provides a firm basis for the more dynamic foreign economic relations.

Keywords: CEFTA, Visegrád Group, foreign trade structure.

The formal termination of CMEA (Co-operation for Mutual Economic Assistance) in 1991 was the result of a long process. The countries in the CMEA region tried to stabilise and modernise their economies with western credits from the 70s making use of the period of détente. Western capital enabled the maintenance of direct control and the postponement of market based restructuring for some time. The import of advanced technology and greater export possibilities in this way increased the share of western countries in foreign trade. In the 80s the tendency of 'breaking out' of the CMEA strengthened further: the scope of goods of dollar accounting even within the CMEA became increasingly larger, the turnover of goods marketable at world price decreased significantly within the CMEA even in spite of valid contracts.

By the late 80s the economic growth slowed down significantly in the countries of eastern integration but due to the increasing debt burden inflationary stress strengthened although to varying extent and payment difficulties increased: all this led to drastic decline of eastern relations.

The transfer to dollar accounting in January 1991 was the last step in the process leading to the collapse of the CMEA.

The change of the economic system caused grave recession in the transitory economies: the decline of production was concomitant with the decline

of foreign trade turnover. The stabilisation measures within the individual countries resulted in significant fall of domestic demand.

The switch to dollar accounting, the cessation of the CMEA, the introduction of duties in their trade relations, and the western import liberalisation going on in the affected countries for years all led to the elimination of markets formerly working mainly with state contracts and to the disappearance of relatively inexpensive transportation with the significant modification of the price and financial conditions. Political and not only economic factors played some role in the narrowing relations: the disintegration of the CMEA made possible 'escape' from these relations. In this way even relations based on operable economic advantages also broke up, that is the co-operation in the eastern region became restricted to an extent which was not justified by the necessary economic restructuring; on the other hand at the same time the demand for western goods and services grew and could be met as a result of import liberalisation. All this led to the shrinkage of trade among each other and significant shift in the trade turnover.

Table 1. Volume of Hungary's foreign trade between 1985 and 1990 (1985=100)

	Exports (1990)	Imports (1990)
From (to) planned and transitory economies	75.1	87.2
From (to) market economies	130.8	110.9

Source: Sándor Richter - László Tóth G.

The dynamics of eastern and western trade in exports differed significantly. Hungary's exports to the east in 1990 decreased by one quarter and exports outside the region increased by one third. The share of eastern partners decreased and those of western ones increased in imports, too.

In the early 90s among the former CMEA countries, the economic and political leaders in Poland, Czechoslovakia and Hungary recognised that these countries had common economic and political interests in their relations with the western countries and to enforce them the relations within the region should be invigorated and developed and they should co-ordinate their western relations. The above three then, following the disintegration of Czechoslovakia, the four countries signed the Visegrád Treaty in 1991 February. The EU encouragement saying that the economic development of the countries which signed associated agreements could be promoted by a free trade zone in the region influenced the trade relations among these countries.

The establishment of the Central European Free Trade Association (CEFTA) (meeting in Cracow, December 1992) was promoted by the need

to meet the above western expectation and the recognition of the negative consequences coming from the irrationally low level of relations among them.

The essence of the agreement is that duties and trade obstacles will be phased out until 2001 as the latest for industrial goods. In the case of agricultural products the extent of free trade became smaller than in the case of industrial ones. Phasing out obstacles with duties or without them is based upon global balance and mutual, identical and symmetrical advantages. The goal was to ensure the same preferences the parties individually provided for the European Community in their associated agreements. Formerly trade among them could have been developed under more favourable conditions.

To perform the tasks given as the goal of the CEFTA was to make up for two opportunities missed earlier: formerly, in 1991 when the CMEA switched to the system of hard currency and introduced world market prices and in March 1992 when provisional association agreements with the European Community came into force change-over to free trade could have prevented loss of time.

The following table shows the direction of Hungary's foreign trade:

Table 2. The share of some groups of countries in Hungarian foreign trade between 1985 and 1993 (%)

	Exports		Imports			
	Countries in the Visegrád Group	Other eastern partners*	Countries in the European Community	Countries in the Visegrád Group	Other eastern partners	Countries in the European Community
1985	9.5	46.2	15.8	9.7	43.0	21.2
1989	8.3	35.6	24.8	8.5	33.1	29.0
1990	5.8	28.1	32.2	7.1	27.9	31.0
1991	4.2	19.2	45.7	6.0	22.2	41.1
1992	4.0	19.3	49.8	5.9	23.6	42.7
1993	4.7	21.8	46.0	5.0	23.9	41.0

*Other eastern partners: Visegrád Group, Bulgaria, Romania and the Soviet Union

Source: Sándor Richter-László Tóth G: 1994

It shows clearly that since 1985 the share of the countries in the former eastern integration decreased continuously both in imports and exports. The same is true of the share of the countries in the Visegrád group which in 1993 fell to almost half of the 1985 level in both respects. On the other hand, the share of the European Community countries increased spectacularly

in foreign trade; the exports in the given period tripled and the imports doubled.

What justifies, causes and explains the rapid growth of turnover to the EU in Hungary and the other Central and Eastern European countries?

- the need to adopt modern technology in industrial restructuring in the region,
- relating to the former one, the effort of the EU investors to modernise the CEFTA companies, to change their profile sometimes to wind them up,
- to take the products of auxiliary, subsidiary, assembly and co-operation activities they provide to EU markets, especially in the field of machine industry,
- to market other, mainly agricultural, light industrial, industrial semi-processed products in developed countries to mitigate the lack of hard currency in the eastern countries,
- within the CEFTA and rather towards the CIS – with some exaggeration – one can say the ‘principle of the rest’ prevails that is what one cannot sell on the market of the demanding Union will be sold in the region. Mineral raw materials, energy, a significant part of agricultural products and secondary, tertiary processed products are imported from there.

Table 3. Share of some regions in Hungary’s foreign trade in 1996 (%)

	Exports	Imports
CEFTA	8.8	7.8
EU	62.3	59.0
Russia	5.0	12.7

Source: Hungarian Foreign Trade Yearbook, 1996

The 1996 figures indicate the continuation of the tendency mentioned with the analysis of the previous table (significant increase of the share of EU countries), and in the case of the Visegrád Group, currently CEFTA (still without Slovenia) the reversal of the former process, stagnation in exports (around 4% between 1991 and 93), decrease in imports (from 6% to 5%) since in both respects significant increase in share was experienced between 1993 and 96 (the exports grew from 4.7% to 8.8%, the imports from 5% to 7.8%). They also reflect the advantages from free trade, that the duties of products on the list of accelerated elimination of duty were cancelled immediately and those of ordinary ones were cancelled in three steps (between 1995 and 1997). (The duties of the goods on the list of

slow elimination of duty will be cancelled until 2001 by annual reduction according to the Agreement).

It is interesting to compare the CEFTA figures with those of Russia; in exports the share of the 'integration partners' exceeds that of Russia but in imports Russia represents 5% higher share clearly because of the still high raw material and energy imports. In the first 11 months of 1997 64.9% of all imports from Russia was energy.

This paper has concentrated on the analysis of the trade relations between Hungary and the CEFTA but it is worth comparing what role the small Central European 'integration' plays in the foreign trade turnover of the partner countries.

Table 4. Share of CEFTA turnover in the foreign trade of the individual countries in 1996 (%)

	Exports	Imports
Czech Republic	22.8	14.7
Poland	6.1	5.8
Slovenia	5.4	6.5
Slovakia	41.4	29.8
Hungary	8.7	7.8

Source: CESTAT Statistical Bulletin 1997/1
Budapest, 1997. Central Statistical Office

The explanation for the outstanding Czech and Slovak figures is given by the special situation of the two countries within the CEFTA: the two countries signed a customs union on January 1, 1993; some 80% of Slovakia's CEFTA turnover is Czech and 65% of the Czech Republic is Slovak. This is the explanation for the high share - compared to the other countries - of the Czech and Slovak exports and imports. The figures of Poland, Slovenia and Hungary do not differ significantly: in the case of Hungary and Poland there was CEFTA surplus, in the foreign trade of Slovenia import surplus in 1996. The weight of the CEFTA countries in the total Hungarian exports was 8.7%, in the imports 7.8% in the late 1996. The role of free trade in Hungary's foreign trade is better seen if the figures of the following table are analysed.

Hungarian exports to CEFTA countries increased by 27.9%, the imports by 10.6% a year. In the case of the Czech Republic and Slovakia in the bilateral relations there was import surplus, in the trade with Poland and Slovenia export surplus. On the whole the negative 1996 foreign trade balance in the CEFTA relations was settled with significant surplus by 1997.

Regarding trade with the European Union in the same period exports increased by 15.8%, imports by 13.9%. The most important trading partners

Table 5. Hungary-CEFTA foreign trade turnover in 1996 and early 1997 according to countries of origin/destination (million \$)

	Exports			Imports			Balance	
	1996	1997	%	1996	1997	%	1996	1997
Czech Republic	130.5	145.9	111.8	227.1	247.6	107.7	-96.7	-98.6
Poland	167.1	224.6	134.3	135.9	154.9	114.0	31.2	69.6
Slovakia	106.2	131.6	124.0	165.2	185.9	112.5	-59.1	-54.3
Slovenia	98.4	140.3	142.6	42.8	46.0	107.4	55.5	94.3
Total	502.2	642.4	127.9	571.0	531.4	110.6	-68.3	11.0

Source: Central Statistical Office

were the Czech Republic and Poland.

Above one could see what role the CEFTA partners play in our trade, the following table shows what weight Hungary in the foreign trade turnover of the 'free trade partner countries' has.

Table 6. Hungary's share in the foreign trade of individual CEFTA countries (%)

	Exports		Imports	
	1993	1995	1993	1995
Czech Republic	2.2	2.1	1.4	1.1
Poland	4.7	4.9	0.9	1.2
Slovakia	4.5	4.6	1.4	2.2
Slovenia	1.4	1.4	2.5	2.8
CEFTA total	12.8	13.0	6.2	7.3

Source: Figures calculated on the basis of national statistical yearbooks

Hungary's role in the trade of certain CEFTA countries was quite low and did not change significantly between 1993 and 95: in the case of the Czech Republic certain decline was experienced in both respects, Hungary, however, gained ground in the imports of Slovenia and rather in that of Slovakia.

The Central and Eastern European countries first of all wanted to strengthen their economic relations with the European Union. The result of the positive response of the Union was the association agreement with three Central European countries (the Czech Republic, Poland, Hungary). It came into force in the early 1992. The parts of the Agreement on trade policy laid down the principles which were used later for the conclusion of

the Central European Free Trade Association (December 1992). The goal of the agreements is that after 10 year transitory period, free trade zone should be established for the industrial products and the stipulations hindering the turnover of agricultural produces should be lifted significantly.

With the enactment of the agreements the duties of industrial products, the non tariff and quantitative barriers decreased significantly. As a result the role of the Union countries grew significantly in the turnover of these countries.

So far the macrostructure of our foreign trade has been looked at according to geographical direction: the figures have indicated significant decline with the eastern partners and stagnation between 1985 and 91 but by 1996 the share of CEFTA in foreign trade increased by 4.1% in exports and by 2.8% in imports.

The following tables show the change in the mezo (sectoral) structure of foreign trade. The changes in the export and import structure indicate the transformation of the production structure in the region between 1991 and 97.

The figures of the table lead to the following conclusions:

- the ratio of *machine and transportation facility* exports has increased significantly in all CEFTA countries compared to 1991, Hungary's has doubled.
- the trend in the ratio of *food, livestock, drink and tobacco* exports is the reverse, it has gradually decreased: has fallen to almost half in Hungary, the Czech Republic and Slovakia.
- the export ratio significantly decreased in *non-food agricultural produces* in Hungary and Poland. The same was experienced in Slovenia between 1995 and 97.
- the export ratio of *mineral fuels* has changed differently: decreased in Poland and the Czech Republic which is rich in coal, stagnated in Hungary specialised on products obtained from processing imported petroleum, and in the given period the export ratio of these products grew almost fivefold in Slovakia which also has significant petroleum processing basis.
- the export share of *different processed products* did not change significantly in any of the countries between 1991 and 97: some decrease in the ratio was experienced only in Hungary and Poland (especially at the expense of textile, clothing and shoes).

The table indicates the following:

- the most significant changes in imports occurred also in *machine industry*, the ratio of the products increased in all the investigated countries, in Poland almost doubled,
- except for Hungary the imports of *chemical products* increased everywhere, to the greatest extent in Poland,

Table 7: The structure of the exports of the CEFTA member states

(Main groups of products in % of total exports according to SITC nomenclature)

Groups of goods	Czech Republic			Hungary			Poland			Slovakia			Slovenia		
	1991	1995	1997 ^a	1991	1995	1997 ^a	1991	1995	1997 ^a	1991	1995	1997 ^a	1991	1995	1997 ^a
1.) Food and livestock, drinks and tobacco	8.8	5.5	4.9	23.1	20.3	12.1	12.6	9.9	10,3	7,5	5,9	4,1	-	3,8	3,6
2.) Non food raw material except for fuel, animal and vegetable oil, fat and wax	5.9	5.4	4.8	7.4	5.5	3.8	9.2	4.7	3.6	4.7	2.3	5.0	-	5.2	2.1
3.) Mineral fuel, lubricant and similar materials	5.5	4.3	3.6	2.9	3.2	2.9	10.7	8.2	7.3	1.1	4.2	5.2	-	1.2	1.2
4.) Chemical goods and similar products	9.0	9.3	9.0	12.6	11.8	9.1	9.2	7.7	8.0	12.0	13.5	11.6	-	10.5	11.0
5.) Machine and transportation facilities	30.4	30.4	37.2	22.2	25.6	44.1	18.5	21.1	21.4	22.4	18.8	26.8	-	31.4	34.1
6.) Processed products grouped primarily according to materials; different processed products	39.5	45.1	40.5	31.7	33.6	28.0	33.9	48.3	49.4	52.3	52.6	47.2	-	50.7	48.0
7.) Others	0.0	-	-	0.1	-	-	5.9	-	-	0,0	-	-	-	-	-

a: first six months

Source: Figures calculated on the basis of national statistical yearbooks

Table 8: Structure of the imports of CEFTA member states
(Main groups of products in % of total exports according to SITC nomenclature)

Groups of goods	Czech Republic			Hungary			Poland			Slovakia			Slovenia		
	1991 ^a	1995	1997 ^b	1991	1995	1997 ^b	1991	1995	1997 ^b	1991	1995	1997 ^b	1991	1995	1997 ^b
1.) Food and livestock, drinks and tobacco	6.9	6.3	6.9	5.5	5.3	4.3	12.5	8.8	8.2	-	8.0	7.9	-	7.4	6.9
2.) Non food raw material except for fuel, animal and vegetable oil, fat and wax	9.5	4.8	4.0	3.8	4.4	3.3	5.4	6.1	4.8	-	6.9	4.9	-	6.2	5.4
3.) Mineral fuel, lubricant and similar materials	29.8	7.8	9.0	15.1	11.7	11.0	18.9	9.1	9.0	-	17.5	8.3	-	6.6	17.6
4.) Chemical goods and similar products	19.8	11.8	12.3	12.9	14.2	12.2	9.5	15.0	14.9	-	13.6	12.5	-	12.1	12.2
5.) Machine and transportation facilities	28.0	37.1	37.9	29.5	30.8	38.4	19.5	29.9	35.4	-	28.9	33.2	-	33.8	33.9
6.) Processed products, grouped primarily according to materials; different processed products	15.9	32.2	29.9	33.1	33.6	30.8	34.1	30.9	28.4	-	27.5	24.1	-	28.4	33.2
7.) Others	0.1	-	-	0.03	-	-	-	-	0.0	-	-	-	-	-	-

a: first six months

b: together with Slovakia

Source: Figures calculated on the basis of national statistical yearbooks

- just as in exports the decline of the ratio of *food products* is similar especially in Poland.
- the significant decrease of the ratio of *mineral fuels, lubricants and similar materials* in imports (e.g. in the Czech Republic to one third, in Poland to half) is probably caused by the significant increase in the quantity and value of the other goods – especially products from machine industry and highly processed products.

Table 9. Foreign trade structure of the European Union in 1995 (Main groups of goods in % of total exports according to SITC nomenclature)

	Exports	Imports
1.	6.8	7.9
2.	2.4	7.4
3.	2.3	11.9
4.	12.8	7.9
5.	44.7	31.8
6.	29.2	30.2
7.	1.2	2.8

Source: EUROSTAT

Comparing the joint export and import structure of the European Union and the CEFTA countries the following conclusions can be drawn:

The differences are significant in the ratio of *machine industry*; machine industry exports in the EU countries are far higher than in most of the CEFTA countries and in this respect only Hungary reaches the EU average. At the same time all the CEFTA countries precede the index of the EU countries in machine industry imports just through imports from the EU.

With privatisation and the accompanying restructuring, the machine industry of the CEFTA is being modernised or is becoming the supplier of spare parts and components to the machine industries of highly developed countries. In this way machine industry exports which had been based on relatively cheap labour (towards the EU) are based on the co-operation of companies which were privatised and modernised by western capital and now are almost on their technical level.

The essence of the former standard CMEA co-operation was: raw material, energy imports from CMEA partners, exports of semi processed and ready made products (especially from light and food industries) to western markets. The current effort of the countries in the region is to be able to export the products of machine industry modernised by working capital imports and co-operation agreements just as the highly processed products to EU market.

If we look at the partner countries playing important role in the foreign trade of CEFTA countries the following are experienced¹:

- both in exports and imports in all CEFTA countries, except for Slovakia. Germany with the most highly developed economy of the EU is the first among the 5 most important partners: in the case of Slovakia because of the special economic relations with the Czech Republic its former associated republic is the first and Germany is the third in imports and second in exports. In the Czech Republic which is more developed and open to the west, Germany is the first in both relations and Slovakia is the second.
- the former dominant partner. Russia (Soviet Union) preserved its eminent (first, second) place only in imports in the case of most CEFTA countries for well-known reasons. Russia in exports is among the first five important partners only for Poland and Hungary;
- geographical proximity, neighbourhood is also an important, influential factor in foreign trade partnership: according to figures, turnover with direct neighbours in general is relatively more significant than with distant ones: in this way in the case of the Czech Republic in addition to Slovakia, Austria and Poland, in the case of Hungary, Austria, in the relations of Poland, Germany and Russia, with Slovakia, the Czech Republic, Austria and Russia and at last in the case of Slovenia, Italy, Austria and Croatia are among the first five places (Italy, however, is among the leading foreign trade partner of almost all CEFTA countries).
- in addition to the above ones Great Britain, France and the Netherlands are also among the first five partners;
- besides the Czech – Slovak relations a CEFTA country appears among the partners only in one case: Poland in the Czech and Slovak exports.

During the five year existence of the CEFTA, as a result of lifting the duties and duty like restrictions and the economic growth beginning in the region there has been noteworthy increase in the trade relations among them which started from a very low level although the volume of foreign trade is still low.

Regarding the future of the CEFTA there are several possibilities to increase its role and make its operation more effective; one is the *horizontal expansion* of the CEFTA that is the gradual inclusion of all Central and East European countries in the free trade zone; the other possibility is the *vertical development* of the organisation enlarged with Romania from July 1, 1997, that is the replacement of the current, mostly bilateral relations with overall multilateral agreements and practices. Being aware of the national endeavours in the region the first option does not seem to be realistic since

¹On the basis of the data of Hungarian Foreign Trade Statistical Yearbook, 1996.

the Central European countries expecting integration into the European Union give top priority to the western relations in their economic policy.

In the near future the co-operation probably will remain on the level of free trade, no effort seems to indicate any shift towards integration that is to extend liberalisation, e.g. in the field of the movement of labour and capital.

The CEFTA countries in the development of their relations should try to make their co-operation fully exploit the opportunities in their trade, to facilitate their integration into the European Union and to decrease the related uncertainties and risks.

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