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Legal Harmonisation in the Countries of Central and Eastern Europe (with a focus on Hungary and the EU) as a necessary precondition for EU membership – with special attention to social policies and Labour Law

„The approximation of laws of the member states is necessary for the proper functioning of the common market.”¹

INTRODUCTION

The main aim of this paper is to discuss the changing social-labour policies of the Central and Eastern European countries (CEEC) and refute the claim of many Western countries that CEEC attracts foreign direct investment (FDI) by committing social dumping.

The work basically consists of four parts:

- *The first part* gives an overview of the relations between the CEEC and the European Community (EC), trying to underline the importance of the role of the EC in the successful transformation process of the CEEC.
- *The second part* of the paper discusses the growing importance of FDI, its role and importance in globalisation. Why do firms decide to go abroad? Why do foreign firm choose to invest in the CEEC? What effects does FDI have on the host economy with emphasis on social policies? In addition a short summary of the EC social policies and their effect on member state social legislation will be given.
- *The third part* presents the Western argument for social dumping and the reasons behind German fears of the phenomena.

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¹ EEC Treaty, Art.3./H

- *The fourth part* highlights the main differences in social and labour policy in the CEEC before and after the beginning of the transition process.

The discussion of the thesis argues that although Western claims of social dumping are understandable if we compare the present social policies and especially the lower social benefits and wages of the CEEC with those in Western Europe, social dumping is not the intention of the Eastern European region. Social policies are very much influenced by the economic situation in each country and by past policies. Forty-five years of legislation and an economic system under the communist regime cannot be altered in a matter of days. Social policies and the legislative system are changing gradually. FDI is one of the major driving forces behind the transition process. With the help of these two „factors”, and with economic growth, the main causes of the social dumping argument should diminish. As, hopefully the economies of the CEEC regain their competitiveness, so the level of social benefits and policies will become adequate in accordance with the more developed countries of Europe.

There is also a lot more behind the Western claims of social dumping than just the differences existing in social policies and regulations. Social dumping is not just an argument behind the EU requirements from the CEEC to harmonise their social policies with EU norms. The claim of social dumping can be defined as a form of protectionism from the EU countries where in most cases labour costs tend to be much higher than in the CEEC countries. The West claims that the CEEC is committing social dumping because they are afraid of competition, especially in labour intensive industries.

The CEEC can bring their social policies up to the level of EU standards so they can harmonise. Would this be in their interest, however? Labour costs are rising gradually in the region, social policies and Labour Codes are being harmonised to EU standards. However, it is precisely these new rules being introduced and rising labour costs that mean that the CEEC starts to lose its comparative advantage in the labour intensive industries.

1. AN OVERVIEW OF THE RELATIONS BETWEEN THE EU AND THE CENTRAL-EASTERN EUROPEAN COUNTRIES

One of the main goals of the CEEC countries is to become full members of the European Union (EU). After the revolutions of 1989-1990, the economic and political ties forced on these countries broke and a period of transition began. Transition in terms of the economic, legal and political structure, a transition that has influenced almost all parts of life in the region. As the Council for Mutual Economic Aid and Assistance (CMEA) and the Warsaw Pact broke up, the CEEC had to turn to the West to fill the economic and security vacuum left by these changes. The revolutions which swept over the CEEC and the Soviet Union in 1989 – 1990 have „forced” these countries to establish new economic policies and create new foreign relations which had to be set on a new basis both with the East and the West.

Membership of the EU and NATO became the primary goal for the countries of this region. The transition period from a planned to a market economy turned out to be longer and more difficult than previously anticipated. The economy that was formally characterised by a highly centralised system of economic planning administration on a national basis and isolation from the West was to be replaced with a market economy. In 1990, The Council for Mutual Economic Assistance (CMEA) collapsed, which ended a period of approximately 40 years of isolation from the Western markets. The CEEC countries entered a stage of transition to become market economies. The speed of transition and the prospects for success vary substantially from country to country, as a consequence of historical and geographical factors and as a reflection of domestic debates concerning the social policies of transition.¹ High inflation, unemployment and a trade balance deficit were the main problems each economy had to face – to a varying degree. The EU has an especially important part to play in this transition as it can serve as the largest market to which the CEEC can export to and membership could provide the necessary economic and political stability – serving as a „guarantee” for the irreversibility of the transition process.

¹Dyker, p. 113.

Many articles and books have been written on the topic of the relations between the CEEC and the EC. John Pinder, a member of the Council of the Royal Institute of International Affairs is an expert in this area. His books (the European Community and Eastern Europe, the Building of a Union, The European Community's Policy Towards Eastern Europe) allow us to realise that the CEEC reforms are not only important for this region, but they are profoundly changing the entire European continent.

In the introduction of his book, the „European Community and Eastern Europe”, Pinder acknowledges the great progress which most of the CEEC countries and the Soviet Union have made towards achieving plural democracy and a functioning market economy, which are the most significant criteria the Community set for the future membership of these countries.

When he wrote his book in 1991, he saw the possibility of these changes reversing in the region. If the region does not succeed in achieving stable economic conditions – which Pinder sees as a necessary element of political democracy – these countries might return to their previous conditions. The difficulties experienced by the transition to the market economy have indeed been the major driving force behind the socialist comeback in this region in the elections during the early 1990s.

The transition to a market economy will require these countries to take some important steps. The most important ones could be summarised as follows:

- the establishment of a legal framework as a basis for the operation of the market economy. This means that existing laws have to be altered, new ones created and the regulatory infrastructure has to be changed;
- subsidies need to be removed, prices must be regulated by the market and a sound monetary system has to be created;
- trade has to be liberalised.¹

1.1. The Association Agreements

The Association Agreements (AA) signed by the EC with Hungary, Poland and Czechoslovakia have marked a cornerstone in the history of EC-CEEC relations. The CEEC countries have attached high hopes to these agreements in terms of trade liberalisation. The most important areas for the CEEC countries were/are agriculture and, for Poland and the former Czechoslovakia, steel and iron industries. It is in these fields where these countries have a comparative advantage over the European Community. Understandably, the Community is most eager to protect these industries from CEEC competition. As Pinder has pointed out in his

¹ Hate, p. 44.

books and as other writers on the topic also seem to agree,¹ the Association Agreements have not made any real concessions in these fields. The initial euphoria after the reform seems to have died away and has been replaced by detailed sets of administrative rules. Non-tariff barriers, anti-dumping and safeguard measures, still used by the EU to protect its markets further emphasise the asymmetry in trading relations between the EU and the East, especially in agriculture. Sylvia Ostry, in her work, *The Threat of Managed Trade to Transforming Economies* (1993) also stresses that the danger of this shift from the EC's side toward detailed rules might achieve just the opposite of what has been the initial aim of these agreements: trade liberalisation. They might lead to managed trade which would not serve the aim of these transforming economies for which trade is an essential element in reforming the economy. „It is no good making fine speeches about solidarity in Eastern Europe on Sunday and the next day refusing their demands to import more of their goods.”²

Despite all the problems mentioned above, the Association Agreements were a very important step in the transformation process for these countries. They did not only deal with economic questions, but also with political and cultural co-operation allowing for regular consultations in all important and actual questions for the CEEC with the EU. The agreement gave a broad list of legislative areas that needed to be harmonised with EC law. They have set out a 10-year timetable during which the presently asymmetric trade will be liberalised by the EU, and have not only dealt with economic questions, but also with cultural, legal and political matters.

In June, 1993, heads of governments and states have declared at the Copenhagen Summit for the first time that „the associated countries in Central and Eastern Europe which so desire shall become members of the EU”³. Requirements were also set for the future membership:

- stable institutions which guarantee democracy, the rule of law, human rights and the protection of minorities;
- functioning market economy;
- capability to adhere to the political, economic and monetary aims of the union.

In June 1995, another important step was made in the relations of the CEEC and the EU.

¹ Reinicke, Nello, Ostry etc.

² Jacques Delors, as quoted by Pinder.

³ Dinan, p. 27.

1.2. The White Paper

The White Paper of the Commission was presented on the preparation of the Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union. This paper gives a very thorough list of requirements the associated countries should fulfil to become members of the EU. This is not a binding agreement either (just like the AA were not of such nature), but a unilateral declaration of the Union – the Commission. The underlying idea of the White Paper is a pre – accession strategy for the East – European states to guide them to become capable to fulfil in particular the general market requirements for accession, but now in the much more concrete and very demanding shape of the White Paper „(compared to the Association Agreements). The aim of the paper is mainly the approximation of the national law of the CEEC to EC law in relation to the internal market.”¹ The document aims to contribute to the success of the CEEC for joining the EU in three ways: Firstly, it assigns the most important laws and recommends the order in which harmonisation should take place. Secondly, it emphasises that legal harmonisation in itself is not enough to reach the desired economic goals. Institutional and operational changes are also required. Thirdly, it provides technical help in the process of harmonisation.²

Both the AA and the White Paper are very significant steps in the preparation of the CEEC to membership in the EC. Their sections on legislative harmonisation, social policy and trade are important stages in helping the recovery of the CEEC economies and thus the improvement of living conditions, the evasion of the social dumping claim of the West. Parts of both documents shall be referred to later throughout the paper.

¹ Muller – Graff, p. 11.

² Kiss, p. 3.

2. FOREIGN DIRECT INVESTMENT. MULTINATIONAL COMPANIES AND THEIR GROWING IMPORTANCE IN THE WORLD ECONOMY

The 1980s witnessed a relevant development in the world economy: the outstanding expansion of global companies. FDI has become one of the most important sources of capital in the 1980's.¹ It was in the 1960s that developments in transport-communication technology allowed for the effective functioning of economic transaction-production of subsidiaries located in a country different from its headquarters. The number of transnational companies has been growing rapidly ever since.

„... direct investment refers to investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor; the investor's purpose being to have an effective voice in the management of the enterprise.”²

The phenomenon of „globalisation”, the internationalisation of production means that an increasing number of the world's goods are being produced in an increasing number of countries and that the production process ignores national frontiers more than ever before. One of the most important features of international production is that it helps the mobility of financial assets, technology, management skills and innovatory capacity across the borders of different countries. There are positive and negative effects of multinationals on the host country. The most significant *positive effects could be* the following: multinational companies may bring capital, technology, innovation into the host country and may also create some new employment possibilities.

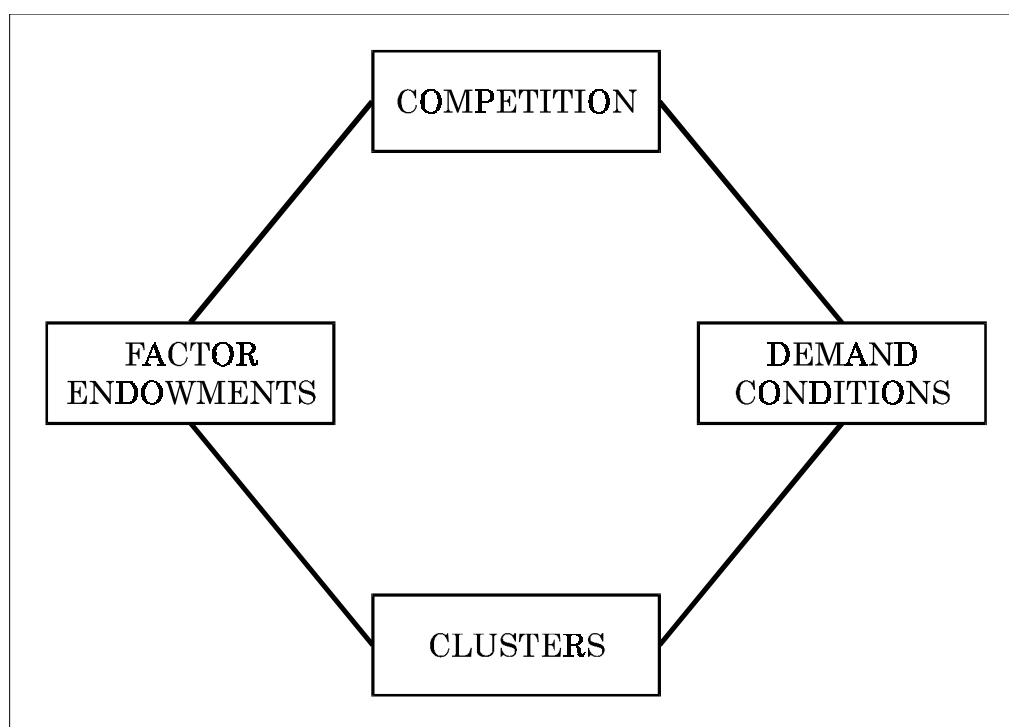
They might also put a competitive pressure on domestic firms thus serving the customers with a selection of products at more competitive prices quality. *Possible negative effects* include: the threat of the multinational becoming a monopoly in the market and the exploitation of the resources of the host country. (Both effects depend very much on the state of the economy – competition, resources, etc. – where the

¹Lorentzen, p. 151.

²IMF, 1977

multinational is located – these effects are not solely the consequence of the operations of the multinational company.)

There are many reasons behind the decision of a company to locate its subsidiary in a different country. They might follow horizontal or vertical investment strategies depending on whether they aim to be market seekers or they want to use the benefits of certain resources of the host country. Firms will decide to produce abroad when/if they perceive that the gains resulting from this production are greater than exporting abroad or entering into co-operation with a foreign firm. Countries have different comparative advantages as we can see on the basis of PORTER's „diamond”; no nation can compete in everything.



The role governments play, the factor endowments of the country (human resources, skills, capital, infrastructure), the demand conditions (the needs of the home buyers and the possibility for growth), the competition in the market, the presence of related supporting industries and the strategy the firm aims to pursue all play a very significant role in the determination of international production, the comparative advantage of a nation.

According to DUNNING¹ multinational companies can be categorised according to their aims of locating their subsidiaries abroad. There are: resource seekers, market seekers, efficiency seekers and strategic asset and capability seekers.² Competitive advantages affect the ability of domestic firms to produce abroad and their incentives for doing so as well. Multinational activities influence the structure and organisation of economic activity in home and host countries, and the capacity and willingness of home country companies to upgrade their resources and improve their long term competitiveness.³

2.1. Social policy harmonisation in the EC

2.1.1. The law of the EC

The EC is unique in international law, in that it is the first truly supranational organisation. It is more than a body of which different states are members. Apart from being an international organisation, the EC represents a new system of law in international law. Member states give up a part of their sovereignty to the EC institutions and a system of laws is created that operates to their benefit. Individuals as well as member states are part of Community law. EC law enables individuals to defend their rights and obligations in court. What makes the EC stand out from other international organisations is that it has a much wider range of authority. No other members of any international organisation hand over such a great part of their sovereignty to the common institutions as the members of the EC do.

The founding contracts of the EC aimed to create a primarily economic community: for the realisation of European integration through economic integration. These primarily economic, but also cultural, social and other interests of the founders necessitated special legal regulation, special (secondary) jurisdiction and special judicial legal development and application. EC law is „supranational”. It needs to be supranational if it wants to be the basis for Community integration.

2.1.2. EC Social policy

The Treaty of Rome is dominated by economic affairs and there was little reference to social policies. Article 117 – 128 of the Treaty establish the Social Policy of the EC.

¹ Dunning (1993), p. 59.

² Dunning (1988), p. 55.

³ Dunning (1990), p. 87.

„Member states agree upon the need to promote improved working conditions and improved standard of living for workers, so as to make their harmonisation possible, while maintaining their improvement. They believe that such a development will ensure not only from the functioning of the common market, but also from the procedures provided for in this Treaty and from the approximation of provisions laid down by law, regulation or administrative action”.¹

„The Standing Committee on Employment was established in 1970 with the aim of setting up a permanent dialogue, concentration and consultation between the Council, the Commission and the social partners to facilitate the co-ordination of the labour market policies of the member states.”²

The ECSC Treaty determines its social policy aims in Articles 2 – 3 as the following: „improved working conditions and rising standards of living for the workers in each industry ... so as to make their harmonisation possible while maintaining their improvement.”

The Euroatom Treaty also aims to protect the health and safety of workers and improve their living standards.

However: „The protection of workers as an explicit objective of the EC has been controversial from the very beginning and has been subordinate to the economic aims of the Community.”³

The importance of social policy and the need for its harmonisation among the member states is an important issue from the point of the effective operation of the Single Market too. The difference between the rights of the employers and the employees has some economic importance. Employers will tend to favour the state with the weakest protection for their workers and the weakest trade unions and employers might be more easily persuaded to locate their business to these regions. This could distort competition within the EU and thus have a negative effect on the common market and could serve as a basis for the „social dumping” argument discussed in more detail in section three.

A major step towards increasing the significance of social policies came in 1987 with Art.118 which allowed for qualified majority voting in relation to questions concerning the health and safety in the working environment. The Council in co-operation with the Parliament was empowered to issue directives establishing requirements in this field. Art.118A allows the member states to maintain or introduce more

¹ Art. 117.

² Blanpain, p. 23.

³ Blanpain, p. 43.

stringent working conditions if these are compatible with the Treaty of Rome. Arts 123 – 128 created the European Social Fund.

The task of the Commission is to promote close co-operation between member states particularly in the areas of:

- employment;
- labour law and working conditions;
- basic and advanced vocational training;
- social security;
- the prevention of occupational accidents and diseases;
- occupational hygiene;
- the right for collective bargaining between employees and workers.¹

There are specific competencies of the EEC in the field of labour law and these must be interpreted restrictively:

- free movement of workers, which is voted upon by a qualified majority (Art. 48 – 51);
- health and safety of workers (Art. 118);
- equal pay for equal work for men and women (Art. 119);
- paid holiday schemes (Art. 120);
- creation of an European Social Fund in order to improve employment opportunities for workers and to contribute to the raising of their standard of living (Art. 31, 123 – 128).²

The unanimity of the Council is needed to vote on labour law matters. The Single European Agreement of 1986 has hardly dealt with social policies, economic and monetary policies were mostly on its agenda.

At the end of the 1980s, „voices were raised again for a social dimension for the internal market”.³ This has led to the creation of the „*Community Charter of the Basic Social Rights for the Workers*”, which was approved by the Heads of States and prime ministers in 1989 – with the exception of the UK.

The most important headings of the Charter could be summarised as follows:

- freedom of movement for the workers within the EC;
- equal treatment as regards access to employment, working conditions and social protection for visiting workers;
- improvement of living and working conditions;
- freedom of collective bargaining;
- right to vocational training;
- equal treatment for men and women, equal pay for equal work;
- protection of children and adolescents;

¹ Holloway, p. 47.

² Holloway, p. 49.

³ Folsom, p. 53.

- protection of elderly and disabled persons;
- weekly restdays and annual leave;
- terms of employment have to be stipulated in laws, collective agreements or contracts of employment.¹

The responsibility to implement the basic social rights on the principle of subsidiary lies with the member states, their constituent parts, or with the EC. They can be implemented in forms of laws, collective agreements or existing practices.

Social policy harmonisation is a very slow process in the EC. „There is strong support for some action at EU level” an official recently said at an EU conference held on labour standards.² Despite the efforts to accelerate the harmonisation process, countries still have very different social policies according to their cultural-economic background. The official also expressed the concerns of some countries that different labour standards across the Union might lead to „social dumping” – as the lower standards of a country might give companies a competitive advantage. The country examples below aim to demonstrate these contrasts in different social policies and labour standards and serve as a background to explain the claim of „social dumping”.

Country specific examples to FDI – Social policy issues are provided below.

2.1.3. Portugal

Portugal joined the EC in 1986 and the disparities have widened with the joining of the Mediterranean countries to the Community. The average GDP of the country was about half of the average GDP of the whole of the Community. Income disparities were about one fifth of the incomes received in the most prosperous regions of the Community. Infrastructure was very poor, the labour force still remains low skilled.

Access to the larger market, and to the regional funds were clearly advantages of Community membership. Inward investment to the country has been, and still is, attracted by one of the lowest labour costs per capita in Europe. Since becoming a full member, unemployment has been greatly reduced in practically all areas of the economy.³ Training activities were also brought to a higher level from the funds received by the country. Even after the recent improvements in social policy areas, social protection is still much lower than in most of the other EC countries. Both the social cover and the value of the social benefits are lagging behind in this comparison.

¹ Blanpain, p. 76.

² Financial Times (1996a), p. 3.

³ Silva Lopes, p. 123.

These are efforts to bring the social policies harmonised in accordance with the European Social Policy (mentioned later), but the poor state of the economy presents high obstacles in the way of this development. Freedom of labour movements and the implementation of social policy harmonisation might present a danger to the competitiveness of the Portuguese industry in the labour intensive areas. If wages rise, some loss of competitiveness might be inevitable as the costs of production increase.

The situation in Greece is very much similar to the example of Portugal. In light of the above analysis, we could say that the main attraction of the Mediterranean countries for FDI is the cheap labour force and the relatively low level of social protection in these countries.

2.1.4. Germany

German policies towards FDI are regarded to be neutral. Germany is a very difficult environment for inward investment however, as the German economy is very heavily regulated. Social policies are very complex and workers are active participants in the decision-making process at the board level (this system of „co-determination” will be mentioned further in the thesis under „social dumping”). Regional governments also tend to favour local firms. Privatisation is also a slower process here than in France or the UK for example. The strength of the DMark and strict environmental regulations can also discourage investment. Workers are skilled, however, labour cost are high compared to many Western countries.

As labour is regarded to be the least mobile factor of production, labour costs are likely to remain very much different even a few years after the completion of the Single Market of 1992. Differences in language and culture make labour a very immobile factor in the Community.

FDI flows to Germany were lower in the 1980s than in the 1970s as a result of the factors above. Inward investment mainly aims to win markets and use the high level of technology and skilled workforce available in the country.

Table 1.
Labour costs and unit labour costs in the member states
in relation to the EC average (1989 data, in per cent)¹

Member state	Labour costs	Unit labour costs
Greece	-56.1	-24.4
Portugal	-74.4	-13.9
Italy	+1.4	-11.8
Spain	-25.8	-11.4
France	+18.4	+2.9
Germany	+22.2	+3.3
Netherlands	+27.2	+3.3
Ireland	-12.8	+3.9
UK	+13.0	+7.2
Belgium	+17.5	+7.9
Denmark	+14.0	+8.5
Luxemburg	+15.7	+9.8

The above country examples aimed to demonstrate that despite the willingness of the majority of member states to harmonise social policies, a wide gap still exists between the cover of social benefits and their value in comparison with other member states. Germany and the Netherlands tend to be high-cost locations; Spain, Portugal and Greece are low-cost locations; northern Europe has a relatively liberal policy environment in comparison with France and Italy; competition policies are very strict in Germany and Britain compared to those in Greece or Italy.

As mentioned before, the decrease of FDI flows to some Western countries – especially Germany, raised fears among them about losing out on investments to low-cost locations such as Greece, Portugal and more recently, Eastern Europe. They claim, that „social dumping” effects their economies negatively; investment will be attracted to these low-cost locations. The next section of the paper aims to determine these fears more specifically and aims to discuss whether these fears can be justified or not in the context of Central and Eastern Europe.

¹ Piggott, p. 119.

3. FDI INTO CEEC AND THE ISSUE OF „SOCIAL DUMPING”

3.1. CEEC and FDI

CEEC have become a centre for FDI since the 1990s by the Western multinationals. The region is becoming a „factor in global resource flows”.¹ The importance of trade and investment to the CEEC has been stressed before. Before 1989, the lack of fundamental legal and institutional framework presented major obstacles in the way of FDI.

With the collapse of the CMEA, the CEEC countries turned towards the EC in order to find new markets for their exports. The lack of capital, high technology, know-how and high unemployment in the region are all problems which could be diminished by FDI and trade. „Open foreign markets are an essential ingredient in assisting transformation of the economies of the CEEC and the former SU from central planning to the market economy.”²

Table 2.
The opening of centrally planned economies to FDI³

Country	Year
Yugoslavia	1967
Romania	1972
Hungary	1972
Poland	1976
Bulgaria	1980
Czechoslovakia	1986
USSR	1987
Albania	1990

FDI can bring the much needed capital, technology and skills (at least some of it) to these countries. They can contribute greatly to the

¹ Artisien, p. 64.

² Ostry, p. 2.

³ World Investment Directory, p. 3.

structural transformation of the economy and increase efficiency. CEEC view FDI as an important vehicle in order to re-integrate themselves to the world economy. Economic and political conditions differ greatly in the CEEC, their chance to attract FDI will depend on the variables mentioned below:

- the path and intensity of the implementation of systemic changes;
- their location specific advantages (resource endowment);
- their infrastructure;
- their human capital;
- their political and economic stability.¹

Most of the FDI to the region comes to Hungary (for the main types of FDI to Hungary, please turn to p. 20.). With reform processes being continuously (but cautiously) implemented even before the 1990s (since the late 1960s), the country was better prepared to attract FDI. The legislative system was more advanced and the economy was relatively open for decades.

According to a public opinion survey carried out in 1993 however,² the Hungarian public did not and still doesn't have a very favourable opinion on FDI. Only 6% of the public said that FDI was beneficial to the country. Most people thought that the country was being „sold out” and the cheap labour force being exploited.

Why would firms decide to invest into the region? The main reasons are summarised below-with special attention paid to the social policy issues.

3.2. Why invest in the CEEC?

According to a survey carried out in 1992,³ there are four main reasons why foreign companies want to invest in the region:

- in order to establish market share;
- to tap into the regional market;
- because of low-cost resources;
- to tap into the EC market;
- other

¹ Artisien, p. 6-7.

² Privinfo, 1993/10

³ EIU-Creditanstalt

Table 3.
Primary Reasons for Investing in Eastern Europe¹

Investors and those considering investment; by rank of importance							
Country:	BUL	CS	HUN	POL	ROM	SU	YUG
Establish market share	1	1	1	1	1	1	1
Tap the regional market	3	2	2	2	2	2	2
Low-cost sourcing	2	3	3	3	3	3	3
Tap the EC market	4	4	4	4	4	4	4

Even though not all investors are gaining profits, most are thinking in the long-term. The Western markets – being mature – do not promise such a long-term growth as those of the countries in transition. However risky investing in the CEEC might be, most companies are prepared to take that chance for future profits.

The largest investments in the region include Volkswagen (USD 3 billion) in the Czech Republic's Skoda plant, investments by the same company in other CEEC, General Motors USD 200 million investment in Hungary, USD 150 million by General Electric in Hungary, USD 10 million, by Suzuki etc.

As the aim of the paper is to explain the „social dumping” claim of the West, the third point (low-cost sourcing) is examined further. Eastern Europe has low labour costs in comparison to most of the other European regions; the labour force is quite highly skilled. Wages vary anywhere between the range of being lower by four or ten times in comparison to the West – (although prices are approaching the level of prices in the West). This low cost, generally highly skilled labour obviously is a main benefit to the labour – intensive manufacturers.

¹ Foreign Direct Investment in the CEEC

Table 4.
The percentage division of FDI by branches in the years 1991-1992 in Hungary¹

Branch	1991	1992
Agriculture, forestry, fishing	0.5	0.7
Mining	1.0	1.8
Processing industries	55.9	54.1
Electricity, water, gas supplies, heating	0.1	0.6
Construction industries	4.3	4.1
Trade, maintenance and repair services	12.5	14.3
Hotels, restaurants	3.3	3.2
Transportation, storage, postal services, telecommunications	2.0	2.0
Financial services	11.3	9.5
Real estate transactions, leasing, renting, consulting	8.2	8.8
Other communal and personal services	0.8	0.8

Labour legislation and social issues are developing slowly in the period of transition. It is in the labour-intensive industries that the CEEC has most of their advantage and it is these industries which the EU is trying eagerly to avoid entering its borders.

The CEEC has impressive human and natural resources; human capital is becoming a very significant factor in attracting investment, competitive advantage. In 1992, Western companies invested more than USD 12.5 bn in the region and investments have been growing ever since.

3.3. „Social dumping”

I would like to begin this section by quoting two recently printed articles from the Financial Times: „Stumpfe shakes pillar of labour law” goes the title of the first article.² The article reports the concerns of the president of the largest employment federation in Germany about the high involvement of trade unions in the decision-making process of the

¹ KSH

² Financial Times (1996b), p. 2.

companies. He said that: „... union influence on the boards of large companies was driving many foreign investors away and should be restricted.” Some of the German companies have recently become concerned about their loss of competitiveness as a result of the wage and security costs and the system of co-determination. On the basis of this system, workers’ representatives in large companies might have a representative force of as high as fifty percent in the board of supervision. According to STUMPFE, „this strongly legalistic co-determination model is hostile to foreign investors.” „In the old days, employers asked themselves: ‘How bad is this wage agreement for me?’ Today, they say: ‘I don’t care about the agreement anymore, because I have four or five excellent exit routes. I may simply reallocate 10,000 jobs to the Czech Republic, or I may out-source.’ German companies are eager to find lower cost locations and, as a result, about 12,000 jobs will be lost according to forecasts.

I quote the other article in order to give a practical example to the claims made above. „Monument to a change of heart”¹ is the title of the article and it deals with the decision of Akzo Nobel, the world’s largest viscose manufacturer to move out of East-Germany as the labour-costs have risen rapidly and price competitiveness is increasing. „The problem of high labour costs is not unique to East-Germany: Azko Nobel has already come under fire from unions for planning to move jobs from the Netherlands to Poland.”

Germany – as demonstrated earlier in the thesis – has high labour costs and offers relatively high social benefits and social security to its citizens. It is not surprising that it is the Germans expressing most of the concerns about social dumping (s.d.). Politicians often talk about a „Model Germany”, referring to the high level of consensus between trade unions, employees and the state; the development of a stable framework and order to help economic development and stability.² There are three major concerns in connection with labour law harmonisation: One is the large number of immigrants coming into the country. The second is that since labour tends to be the most immobile factor of production – as mentioned earlier –, these low-wage regions will draw the investment away from high-cost locations, such as Germany. The third concern of unions in Germany is the fear that economic integration might undermine the high level of social security, benefits and co-determination rights of the workers. German industrial relations will be „Portugized”.³

¹ Financial Times (1996c), p. 10.

² Dyson, p. 157.

³ Lankowski, p. 39.

Now that such radical changes are taking place and the former communist countries have applied for membership into the EU, a second low-cost region of Europe might „threaten” German social policy standards and attract more and more investment. These are the main arguments behind the „social dumping” claim from the the wealthier nations of Europe.

The table below aims to give evidence to the German fears about social dumping and (summarises the main concerns of the German trade unions).

Table 5.
Membership Attitudes: The Main Disadvantage of 1992¹
(3 choices per respondent)

	IG Medien	IG Metall	IG Chemie	NGG
Social rights of the employees are endangered	77%	63%	51%	60%
Germany is exposed to greater competition from low-wage countries	41%	36%	63%	67%
The poorer European countries will suffer from the economic superiority of the large industrial nations	71%	67%	26%	27%
The internal market favours only the interests of the multinationals	65%	67%	42%	20%
Downward pressure on work safety standards and consumer protection are likely	6%	27%	42%	47%
Enviromental protection is likely to be less rigorous	12%	15%	23%	27%

How has labour-social legislation changed over the past years in the CEEC? The next section aims to give an answer to these questions. Are the claims of the western nations justified? Do these countries commit social dumping?

¹ Germany..., p. 58.

4. THE IMPORTANCE OF LEGISLATIVE CHANGES FOR FUTURE EC MEMBERSHIP OF THE CEEC

The significance of having the adequate legislative system which conforms with EC law was also stressed in the Agreements; as in case of Poland for example: „The contracting parties recognise that the major precondition for Poland’s economic integration into the Community is the approximation of the country’s existing and future legislation to that of the EC. Poland shall use its best endeavours to ensure that future legislation is compatible with Community legislation.”¹

The role of law in the relations between the EU and the CEEC is only one aspect of the relations between the two parties. It is a very important element however, „...it is the law again that is expected to serve as the permanent, peaceful and stable basis for the relations between the States, peoples and individuals as it does most successfully for the European Communities and the European Union as a whole”.² The legal framework is thus a very important element in building up a new relationship between the EU and the CEEC. It could serve as a „guarantee” for peace, for the creation of democratic institutions and practices and it provides a framework for negotiations between the EU and CEEC.

4.1. Social welfare before the collapse of the communist regimes in the CEEC

Many CEEC have witnessed the return of socialist governments in the second free elections after the changes of the late 1980s. The main reason of the socialist comeback could largely be accounted for by the deep welfare difficulties experienced by the population of most of the CEEC. Unemployment and inflation remained high in most of the countries in the region and some people began to think back with nostalgia of the times when prices were low and full employment existed (as a result of state subsidies). Unemployment did not officially exist under the communist regimes. There was a high level of hidden unemployment however. The main concern of the central planning institutions was to provide jobs for everyone and the importance of effective use of labour

¹ Calus, p. 102.

² Muller – Graff, p. 2.

only came afterwards. (In 1987, one quarter of all employment in Poland could be considered as disguised employment.)

4.2. Labour law in the past

There was a large difference in the legislation of employment questions between the EC countries and CEEC. The development of labour law in the EC was based largely on the independent existence of employers and employees. Government has also played a role, but usually one which has balanced the right of employers and employees in order to reach an agreement.

During the communist rule, Hungarian labour law – as with other CEEC – regulated all the legal aspects of labour without differentiating between legal questions or institutions in a united code. This neglected the system of corporate bargaining between employer and employee and wanted to solve the differences between the two parties by declaring political will and authority. The state was all powerful in questions of employment (as well). Trade unions which were supposed to represent the interests of the workers were dominated by the party was, in effect, negotiating with itself.¹ Employers were also „influenced” or much rather directed in their decisions by the state. Thus one of the greatest labour law challenges facing CEEC governments is the establishment of genuine freedom of association and freedom of bargaining.

Income distribution was officially relatively equal and maximum and minimum wages were determined by central planning. Social benefit systems were comprehensive; income levels were maintained above a certain level. Social policies aimed to ensure that incomes and healthcare are adequately provided to the old and sick. Social aspects had a priority over economic ones. A „social contract” existed between the regime and the population. The population accepted the regime and the low wages, and in return was provided with a welfare system – subsidised prices, job security, health care, housing utilities, the right to a job (incorporated in the constitution of the USSR and the CEEC).²

The communist system has created some significant welfare institutions similar to those in the West, but welfare policies were strongly based on the totalitarian system; on the existence of the social contract.

¹ Gunther, p. 283.

² Gunther, p. 51.

The system could be described by one sentence; a saying in the USSR: „As long as the bosses are pretending they are paying us a decent wage, we will pretend that we are working.”¹

This was a summary of the way the social welfare system worked before, now let us have a look at the changes that took place after 1989 and the signing of the Association Agreements and the White Paper.

4.3. Hungarian legal harmonisation in accordance with the EU legal system

„The success of the integration of Hungary into the Community to a great extent depends on its ability to harmonise its legislation to that of the Community.”²

If we apply this „rule” to our discussion we could say that the only way the CEEC could avoid being accused of social dumping is if it harmonises its legislation with those of the EC- and European countries as far as is possible. This section of the paper aims to demonstrate how far legal harmonisation has been implemented in the CEEC-with special attention to Hungary and social policies-labour law.

EU social policy harmonisation essentially covers two areas; harmonisation of:

- social security systems in order to provide protection for people moving from one country to another;
- national systems involved in the form of accepting common principles or adopting certain common standards.

The Association Agreements make it clear that Hungarian legislation, most legal rules and norms have to be brought in accordance with Community law. Articles 67 – 68 contain the main rules for legal harmonisation. According to Art. 67: Hungarian legislation must be approximated to EU legislation „as far as possible”. The contracting parties state, that one of the preconditions for Hungary’s economic integration into the EC is that the existing and the future laws must be harmonised to Community laws. As Imre Vörös, a member of the Hungarian Constitutional Court acknowledges,³ it was a clever solution that the Association Agreements contained the term „as far as possible” when dealing with legal harmonisation requirements. This gives adequate time for Hungary to realise its harmonisation obligations. However, he warns that if Hungary would take advantage of this „soft approach” too

¹ Chapman, p. 26.

² Király, p. 2.

² Király, p. 87.

³ Heti Világgazdaság, p. 72.

much, it would only cause damage to itself by ruining its hopes for a membership in the EU.

4.4. Legal harmonisation obligations of Hungary (Art. 68)

The areas which should receive special attention are:

- customs law,
- company law,
- bank law,
- corporate tax and accounting legislation,
- intellectual property law,
- legislation on the safety and protection of the workers,
- on the protection of lives and health of humans, animals and plants,
- on consumer protection,
- on technical norms and rules,
- on transportation and environment.

Hungary must make her legal system clearly structured and future legislation should not be controversial to EU law. In some cases, legal harmonisation will involve deregulation. In the development of this new legal system, the liberal philosophy of the EU, the free movement of goods, people, services and capital must be considered carefully.¹

The process of legal harmonisation is being implemented in two programmes. The Ministry of Justice has the responsibility to harmonise the general rules and laws arising from the Association Agreements. On this basis, about 470 fundamental legal rules of the EU must be introduced into the Hungarian legal system.² The Ministry of Industry and Commerce directs the preparation for the Single Market – the White Paper summarises its requirements. The Hungarian Minister of Justice is primarily responsible for the harmonisation process, that institutions should take Community law into account when creating new laws. (Based on the „Legal harmonisation with the European Community Act”, 2006/1990)

The Hungarian legal system has only established relations with the secondary legislation of the EU – the directives, recommendations, regulations and opinions –, not with the founding treaties of the EC. The latter will only happen when Hungary becomes a full member of the EC – EU. The Hungarian Minister of Justice has set up the „Hungarian White Paper” which contains the recommendations of ministries involved influenced by legal harmonisation. More concrete priorities for Hungary will be set up in co-operation with the European Commission.

So far, the following laws have been passed by Hungarian legislators which have already taken EU law into account. Law on:

¹ Kecskés, p. 308.

² Heti Világgazdaság, p. 74.

- accounting (1991, XVIII)
- business associations (1988, VI)
- financial institutions and their operation (1991, LXIX)
- VAT (1992, LXXIV)
- product liability (1993, X)
- Hungarian Red Cross (1993, XL)
- railways (1993, XCV)
- raising of livestock
- publishing rights (1994, IV)
- auditing (46/1996)
- money laundering (1994, XXIV)

Other laws which need to be harmonised in the first five-year period of the Association Agreements are laws on:

- technical norms and standards;
- company law;
- protection of workers in the office;
- competition rules;
- protection of the health and lives of humans, animals and plants;
- consumer protection;
- transportation;
- environmental protection;
- protection of intellectual property.¹

As the Association Agreement (mentioned in more detail in the first section) enters into force, it will help accelerate the process, as on the basis of the agreement, Hungary is legally obliged to carry out the harmonisation. „Legal harmonisation must be thorough and deep. We have to harmonise paragraph by paragraph.”² All lawyers should study EU law and study it as something which is not alien to Hungarian law, but through which Hungarian legal system adopts to the „European standards”. It is also important to remember that the object of legal harmonisation should not only be a „means” to gain membership to the EU, but the process should also be seen as a way to modernise the Hungarian legal system, which is also beneficial to the Hungarian consumers (environmental laws, financial laws etc.).

¹ Kecskés, p. 75.

² Kecskés, p. 312.

4.5. Social welfare after the collapse of the communist regimes

With radical changes taking place in all policy areas, the viability of the social contract itself was questioned with the aim of reaching an effective market economy. Economic aspects cannot be separated from social policy changes. Economic restructuring was hardly possible without the existence and the growth of unemployment. Full employment ceased to exist. The new social contract provides employment benefits in accordance with the amount a person is willing to work, job security has decreased, wages are differentiated, income inequalities are increasing, etc.

In Hungary, where the communist regime has been less strict, a slow transformation of the system has been taking place since the late 1960s, however by the 1980s, the burden of servicing the high accumulated debts of the country has itself increased the economic difficulties significantly.¹ Inflation has also played an important part in the decline of the real value of incomes; in Hungary in 1989², the per capita real wages have fallen below those in 1975.

Modern labour market institutions are being introduced throughout the CEEC which are adequate for a functioning market economy – unemployment benefits, retraining of the unemployed, support for job-creating projects, etc. The alteration of the whole of the legislative system and of labour legislation – regulating the relations between the employer and employee – are a very important part of the social welfare protection. Before deciding whether the social dumping claim of the West is valid, let us turn to examine the latest legislative changes in the area of labour law in the CEEC with special attention to Hungary.

4.6. Changing labour legislation

The problem of unemployment has hit the CEEC especially hard, since these countries were previously used to full employment. The legislature has taken a two – track approach to confronting the problem of unemployment.³ It attempts to provide incentives to prevent unemployment by giving special assistance to employers offering jobs to the unemployed and offers government subsidies to projects helping to ease regional unemployment. Government assistance may also be given to those employers that offer part-time work to employees to avoid having to dismiss them. The second way in which government aims to deal with the

¹ Ferge, p. 178.

² Timár, p. 98.

³ Gunther, p. 284.

question of unemployment is to help those who have become unemployed by assisting their re-education and by providing severance to those who received an ordinary notice from their employer.

One of the main characteristics of labour law and social rights among CEEC – and among EC countries as well – is divergence. Countries differ in their economies, social and cultural histories and policies. Trade union activity, for example, is more advanced in Poland than in Romania. The process of privatisation, which has a profound effect on employment also varies in each country. A fair amount of privatisation has already taken place in Hungary and Poland, while privatisation in the Czech Republic is progressing at a slower pace. In Romania and Bulgaria, the process has hardly begun.¹

4.7. The new Labour Code of Hungary

My first remark should be that Hungarian labour law was largely being adjusted to the rules of the International Labour organisation from the early 1970s and thus major changes (in the new labour legislation) weren't necessary to carry out adjustment to EC law. Changes were/are mostly formal.

Until 1 July 1992, the Hungarian labour Code had a socialist flavour, with the employer in an advantageous position and able to make decisions against which employees usually were powerless to act. Employees could be punished by various means; an employee who had been dismissed was legally obliged to inform potential subsequent employers of the termination for the following three years.

The new labour code took effect on 1 July 1992. A very important change which has occurred in the labour legislation was that 3 different labour laws apply to different professions – as in most EC countries. The first, the Labour Code applies to the largest area: for the employees working in the economic sphere, who are not employed directly by the state. Different rules apply to employees paid by the state, such as judges, doctors, teachers, etc. The third group of employees are those working in state administration, who make decisions binding to citizens (e.g. ministries).

The area of labour law where the EU has the largest influencing effect – where harmonisation is the most required – is the protection of workers at the workplace.

The first larger area which is subject to EU legislation – influence is that which is related to the securing of the free movement of employees

¹ Gunther, p. 283.

and conditions associated with this. The harmonisation of these areas already took place in 1995.

The second area is that connected to conditions of work – as indicated in EU directives and laid out in the law of 1992, XII on the Labour Code, law of 1992, XXXIII on state employees and the law of 1992, XXIII on public sector employees.

The third area, concerned with equal opportunities of work, training and career opportunities for men and women, is already in harmony with the EU directive of 76/207. This is a difficult area. Hungarian regulations in this aspect are in harmony with EC legislation, however, as an effect of the high unemployment and inadequate controlling procedures, these rules are difficult to enforce.¹

The developers of the law on safety of employees at the workplace have already taken into account EU law and so these rules are not controversial to Community legislation. This area includes the harmonisation requirements of safety, norms of machinery and individual safety equipment. The adoption of these directives should have happened by 1 January 1997. Thirteen further directives regulate the protection of employees at the workplace. Simplified safety requirements have to be adopted by those offices established before 1993. After 1998, only such offices should be allowed to be set up, which conform to tougher safety regulations indicated by the EU and from this time, these more stringent measures would also apply to the offices established earlier.

As the use of computers is increasingly necessary at the workplace, the introduction of the EC directive 90/270 on health regulations regarding work performed in front of screens has become necessary. This is a new law which was introduced in 1995. Equipment – tools used at the workplace, adequate training and information given to employees are such areas where Hungary has already completed the EU requirements set down and in some areas has stricter rules than those indicated by the EU.

Different legislation needs to be introduced based on EC directives regarding the protection of employees against effects-materials which might cause cancer and against health problems caused by working with biological materials, components.

EC directives concerning work at construction sites and protection which the employer has to provide for its employees by securing adequate, safe working conditions should not be a problem for the Hungarian legislation to adopt as this area has been extensively regulated before.

EC directive 92/85 on the protection of the health of pregnant women and under-aged at the workplace should also be adopted, but directive 6/1982 of the Health Ministry was not altered until 1st June, 1996.

¹ Kiss, p. 6.

Another large area where Hungarian labour law should be harmonised with EC law is social employment protection; the fiscal protection of employees if their employer goes bankrupt. There are two legislation areas which concern this topic: the law on bankruptcy (law I of 1991) and the law on the Wage Guarantee Fund (law CXXIV of 1995). This fund provides for the payment of three months' salary for the employees of a company in receivership. These two areas have been approximated to EC law already.

The co-operation, the right for giving opinion and access to information for employees and institutions representing their interests have been secured by the current rules in force and so Hungarian legislation is in agreement with the EC rules in this aspect.

The task of realising the EC directive 91/553 which obliges the employer to inform its employee about the actual working conditions, at the latest, until to two months after the beginning of the employment still needs to be adopted considered by Hungarian legislation. This shall probably happen as the old regulations concerning this area are to be modified in 1996/1997.

4.8. Critical comments including legal harmonisation necessary in the future

From the above information, we can conclude that Hungarian Labour Law is mostly in accordance with requirements set by the White Paper.

Today, the EC is not only community which has economic aims (although this aspect still dominates), but it also has an important social political role to play. Legal harmonisation is especially difficult for the CEEC, countries in transition. Their economies are in a deep recession and it is understandable that economic questions receive priority.

State intervention has declined as Hungary and the CEEC progress to becoming market economies. The role of state has also decreased as an „influencing factor” in corporatist bargaining and has lost its „all powerful” nature it had during the communist rule. Employers and employees – associations representing their interests – should be free to bargain and come to a solution best serving both interests without state orders, directions. Some lawyers¹ warn however, that state intervention should not be limited to assigning minimal standards in labour law. This would be the legal philosophy of „liberal capitalism” which is in contrast with a constitutional state and the Social Charter (1989) of the EC. In accordance with the Hungarian laws in force throughout history and as

¹ Kiss, Gy., Prugberger, T., Ploetz, M.

German – Austrian, Scandinavian and Spanish legislation underline, labour legislation must provide protection to the party having the weaker subsistence, to the more defenceless, that is, to the employee. This principle and the respective Articles of the Social Charter must be included in the introductory remarks of the new Labour Code. Individual and the collective labour law legislation must be possessed by this attitude if Hungary wants to become a member of the EU.¹ In most Western European states, collective labour law legislation was established as a result of intense social battles from the beginning of the century during which the state has backed the interests of the weaker party: the employees.² The European Social Charter, the Action Program designed for its implementation and the Treaty of Maastricht reflect the result of these battles.

Because the new Labour Code operates on the basis of „contract agreements” and has adopted many civil law regulations (e.g. the possibility to attack contracting legal declarations), in my opinion it would be beneficial to declare that in every question which is not regulated by the Labour Code, civil law regulations should be applied as a „background legislation”. Because this has not happened, (Civil Code has not been declared analogous with the Labour Code), it would be worth stating „expressis verbis”, the prohibition of injurious use of legal rights by employers. Despite the formal rules in place which would be sufficient to protect employee’s rights, there are still many cases where this theory, these laws, are neglected in practice. A typical example which often happens is that employees are made redundant on grounds of: „economic rationalisation”. The employer says that the sphere of activity of a certain employee on employees is not needed and cannot be financed by the company and so the employee(s) is made redundant. After some time however, the employer employs other people for the same job. This is an example to how employers can „get rid” of employees they do not want to employ.

As mentioned earlier in section 4.7., rules are in force against discrimination at work on the basis of EC laws. Practice again differs from „theory” and often laws in force are neglected in this area too. A solution to the problem would be if employers would be obliged to pay a fine large enough to deter them from applying discriminatory measures – as this practice is applied in a number of EC states. It is my personal opinion that discrimination against employee rights is to such an extent that it is against the international norms of non-discrimination.

¹ Prugberger-Ploetz, p. 35.

² Berki, p. 40–42.

Another area where changes should be made in the Labour code – in my view – is in the special rights granted to trade union leaders. According to the current rules in force, they cannot be made redundant unless the trade union management agrees to this. This is a problem as many of these leaders have become members in company management. These rights should be taken away or restricted as done so in Western Europe in order to ensure the effective and fair management of companies.

Even if these changes were introduced, the Labour Code still focuses too much on the interest of the employers. Two further examples to this could be: the role of works councils and group redundancies. In the first case, the role of works councils in corporate bargaining is still minor. Mostly they can only declare their opinion in questions concerning the management of the company, employment policies, e.g. training, investment decisions. Their agreement to a decision is only necessary in one area, the social policies regulated by the collective agreement. This leaves employees without an important „instrument” in corporate bargaining and can only be beneficial to employers.

In the second case, there is still not enough social protection of employees in connection with group redundancies. In some EC states, if for economic reasons a number of employees are made redundant, the institution doesn't have to pay severance if it helps employees find new jobs.

If an institution goes bankrupt and does not have a legal successor, regulations exist concerning the employees of the institution. If, however, there is a change in the employer of the institution or e.g. a partnership becomes a joint stock company, no labour law regulation exists as to what should happen to the employees. The practice followed by the labour section of the High Court is regulation no.15 declaring that such change doesn't affect employment, employees can keep their jobs. This is not sufficient though, such instances should be regulated by the Labour Code as this is the case with state employees and as this is the practice in Western European states.¹

These are the changes I found to be necessary to be introduced in order to make the new Labour Code truly „European” and one that protects the rights of the employees sufficiently.

4.9. A glance at the labour legislation of other CEEC

Before the revolutionary changes of 1989 – 1990, all CEEC had very similar labour legislation. The most important elements of this were:

¹ Prugberger-Ploetz, p. 267.

- the Labour Code regulated all employment matters;
- the employer was in most instances the state or an institution working in close co-operation with the state, this was the so called „socialist sector”;
- the rights of the employees were subordinate to the interests of the socialist sector; no distinction was made between intellectual and physical work;
- trade unions were only formally protecting employees, they were the organisations of the party;
- the terms of employment were nearly entirely up to the employer.

In Hungary, change in the labour legislation started in the 1980s, new laws on strike and unemployment benefits were introduced on the basis of EC legislation. In other CEEC, these changes only started a few years later. As Hungary started the alteration process first, it has also advanced the most.¹

Old labour codes were not abolished completely in the process, but were only supplemented with new rules and some rules were abolished from the old legislation.

Both the Czech Republic and Poland have established new Labour Codes; the Czech Republic in 1992, Poland in 1994. Both Codes have been prepared taking EC law into consideration and the adjustment process is still taking place. In Poland, even a National Commission for Labour Law Reform was set up. New labour legislation is prepared in the knowledge that: „the major precondition for (CEEC) economic integration into the Community is the approximation of that country’s existing and future legislation to that of the Community. CEEC shall use its best endeavours to ensure that future legislation is compatible with Community legislation”. (Art. 68 of the Association Agreement)

Some differences between CEEC labour legislation are mentioned below – this is such a large area that only examples can be given here, the list is not complete.

In Poland, different legislation is created for trade unions and different ones for the interest groups of the employer. In the Czech Republic and Hungary, the same rules apply for both groups. In this respect, Polish legislation could be more efficient as it allows for more thorough legislation.

In Poland, works councils have been established earlier than in other CEEC and so their power in decision making, corporate bargaining is bigger, they offer better protection of employee rights. Different legislation for their operation has existed since 1981. It is the works councils which are involved in collective bargaining and not the trade

¹ Prugberger-Ploetz, p. 356.

unions as in Hungary or the Czech Republic. In Hungary – as mentioned before – the role of the works councils are very limited and in the Czech Republic, they are only in the process of being established.

In the Czech and Slovak Republics, trade unions of a specific industry usually agree to unite their forces for a cause and are able to protect employee interests more efficiently. In Hungary this is certainly not the case.

The strike laws of all three countries are formed on the basis of EC law, the only difference is that while in Hungary, anyone can organise strikes, in the Czech Republic and Poland, only trade unions are allowed to do so.

Polish legislation exists concerning employee status if the company is sold. In accordance with EC law, employees have the right to stay at the company and continue work. Such legislation – as said earlier – doesn't exist in Hungary.

A very important difference is that in both the Czech Republic and Poland, only united labour legislation exists. In Hungary, labour legislation is separated into three parts (see section 4.7.). Hungarian labour legislation follows EC legislation the most in this respect.

Nevertheless, with reference to the question of social provision, the role of works councils, other CEEC legislation can be declared more advanced, more modern than Hungarian legislation. Practice again differs from theory. All CEEC are experiencing economic difficulties and employee rights and interests are often the least important in employment policy matters.

5. CONCLUSION – SUMMARY – ARE CEEC COMMITTING SOCIAL DUMPING?

As stated in the first section, one of the main concerns of an investor in making a decision to move abroad is the cost function. „Will it cost less for me to produce abroad?” On the basis of the surveys asking investors in the CEEC, the cost factor is claimed to have a very significant part in the investment decision. With the opening up of these countries to the Western markets, investors can now enjoy the benefits of low wages and relatively skilled labour which characterise most of these countries. Up to the revolutionary changes of the late 1980s, it was the Iberian countries which attracted the investors seeking cheap labour especially for their labour intensive manufacturing. With EC membership, social policies have also needed to be altered and brought in line with those of the

Community. The full effect of this process can hardly be evaluated after such a short period of time (10 years since the accession). There are some conclusions which can be made however.

The effect of the training programmes mean that the labour force is slowly becoming more skilled and workers are becoming more conscious of their employment rights. Wages have slowly started to shift upwards – although it will take a good few years until it reaches the rate of the wages in the more developed countries – if ever.

It is the obligation of the CEEC to harmonise their legislative system-social policies and labour law to those of the EC if they want to become full members. The harmonisation process has started in all the countries-although is at different levels as indicated before (however). It will take some more years until the legislative system will conform with the requirements of the EC.

What about the social dumping argument? Social legislation is going through a dramatic process of change all over the CEEC. Social policies and labour law legislation cannot be separated from the economic situation of a country. Some examples were given to the problem facing the introduction of certain labour legislation which would be in harmony with the EC law (economic rationalisation).

The Social Charter stresses as a basic requirement the worker's right to „fair, equitable and decent wages”. This is a very vague definition, which can be interpreted differently in each country. Most national institutions face grave financial difficulties – especially in the public sector, people are trying to survive on a minimum standard of living. Inflation is running high and wages keep lagging behind. This requirement of the Social Charter is virtually impossible to follow under such economic conditions; it is difficult to tell how many years have to pass by before wages will reach the EU average.

Despite the guarantee for the equal treatment of men and women at the workplace contained in all of the Labour Codes of the three countries, practice is not fully consistent with this principle. Unemployment is high and most people will take the next job offered to them. The average wages of women in Poland is 60 – 70% of the wages offered for men for the same job.¹

Another problem in the way of putting the newly harmonised laws into practice is unregistered employment which is especially high in Poland and Hungary. These people work without social insurance or taxation, their work is not based on any legally identifiable contract and so they are not protected by labour law. This is against the EC directive 553/91 which

¹ Calus, p. 46.

makes it obligatory for the employer to document the employment relationship.

Hygienic and safe working conditions are another important and basic requirement of the Social Charter and are included in the CEEC Labour Codes. Financial difficulties are again obstacles in the way of the realisation of these principles on many occasions.

Unemployment is still high and people have very low job security with the privatisation process and the restructuring of the economy. Wages – as mentioned before – are still only a proportion of the salaries paid for the similar work in Western Europe. The labour force is generally skilled and educated. Until the transformation process does not enter into higher levels of success (the rate of inflation drops, GDP gets higher, etc.), the budget providing the financial resources of social and labour policies will be unlikely to grow. The legislative background might be there for the evasion of the social dumping argument and in harmony with EU regulations in a few years' time. Until the economies of the CEEC do not enter a stage of growth and do not manage to fight the economic recession, the implementation of social and labour policies will be a very difficult – if not impossible task.

FDI has a strong effect on the level of wages-the companies with foreign participation tend to pay their employees much higher wages than the average Hungarian salary is.

*Table 6.
Sales data¹*

	Income	Net sales revenue	Value added
	per person (mn HUF)		
all companies	0.309039	2.57	0.58
all companies with domestic interests	0.295341	2.33	0.55
all companies with foreign interests	0.380179	3.92	0.72
100% foreign ownership	0.427627	6.30	0.90
majority in foreign ownership	0.417270	4.12	0.77
majority in domestic ownership	0.336073	3.30	0.65

¹ KSH, Mesko, 1993

These higher salaries offered by multinationals might have an effect on the wage levels in the country, but this influence will not significantly upgrade the general levels of salaries in the CEEC this will only happen with an economic upturn.

Europe is taking a new shape at the end of the twentieth century. The Iron Curtain collapsed as a result of the revolutions in the CEEC during 1989 – 1990. The division of East and West – at least politically seems to have come to an end. Former prime minister of Hungary, JÓZSEF ANTALL used to warn the Western countries that without their help, a Social Curtain will replace the Iron Curtain between the CEEC and the developed industrial countries. In my opinion, this Social Curtain is already a reality; it is something that will be very hard to demolish. The answer to the question of „Does social dumping take place in the CEEC?” could be the following: „Yes it does” – there was much evidence given for this all through the thesis, but it is not something that is caused intentionally by the CEEC. The regulatory framework is changing, the economies of the region are still in recession though. Employees in the former socialist countries would be more than happy to receive higher wages and have more social benefits than they do now; this however cannot be done without increasing the budget provided to serve the social welfare of the citizens.

Here we come back to the EU and the developed countries. I would like to quote the sentence of Mr. DELORS again: „It is no good making fine speeches about solidarity on Eastern Europe on Sunday and then refusing to let their imports in the other day.”

As mentioned earlier in the introduction, EU protectionist interests are still very strong against the low-cost competition of the CEEC. If the CEEC harmonise their social policies to those of the EU and as labour costs tend to rise with the improvements in the economy, so will this comparative cost advantage of the CEEC diminish. As presented in this paper, legal harmonisation is almost finished in most of the CEEC. This argument cannot stand behind the social dumping claim any longer. Labour costs, however, are still much lower than the EU average. The social dumping argument is therefore the result of protectionism, the fear of competition from the EU.

The Social Curtain still exists, but it's mainly the result of lower living standards, not a lack of social policy harmonisation. The role of the EU is very important in providing the region with the adequate help to finish their economic and political transition. This help should not only mean the gradual opening of the Union markets to the CEEC, but also technical assistance – such as the aiding of the creation of new training opportunities. It is not only in the interest of the CEEC to carry out a successful transition. The EU should set aside its fears of competition and

realise that securing political and economic stability on its Eastern borders is also to their advantage.

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The role of the CEFTA in member states' EU integration efforts¹

The CEFTA countries (Poland, The Czech Republic, Slovakia, Hungary, Slovenia) are situated in the semi-periphery of the developed Western European centre. With the exception of the Czech Republic, being in this *semi-periphery* (on the border of two different cultures and of two regions that are on a significantly different level in terms of economic development) has influenced or even determined the state of these Central Eastern European countries for more than a thousand years. This semi-peripheral situation is characterised by the fact that it may either lead to full integration with the centre or to shifting to the peripheries. For decades after World War II this region was the Western edge of Eastern Europe (we had intensive relations with the peripheries), whilst, from the changes of 1989-90 onwards we started to take steps towards becoming the Eastern edge of Western Europe.

For the Western European centre – the European Union – these semi-peripheral countries are of very little significance from an economic point of view. Their share in the EU's foreign trade is 5-6%, and these countries are not of decisive importance for one another either: their market share on one another's markets is 6-14% (the Czech – Slovak relationship is more important but there are historical reasons behind this).

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¹ Presentation at the international conference on „The Economic System of European Union and Adjustment of the Republic of Croatia”, Rijeka, April 24-25, 1997.

Because of their historical, geographical, geopolitical and strategic situation, the CEFTA countries form a *sub region* within Europe but the dimensions of their economic relationships do not reinforce this. *The gravitational centre of the region* is to be found outside the region: their main commercial and cooperation partner, the main capital exporter is the EU (of which Germany, Austria and Italy are the most important).

All the countries have passed the *integration threshold value* – 50% EU share in trade (Slovakia and The Czech Republic less but Poland, Hungary and Slovenia are now approaching 70%). There is no doubt that the region's modernisational anchor is the EU but it can only fulfill this role if both the EU and the CEFTA gives the right answers to the new challenges at the right time.

The countries of the sub region are small countries, except for Poland, where the number of inhabitants is higher than that of the other four countries altogether. The fact that the countries are neighbours – with minority and border problems – has political importance. The pace of economic development is different in the region's countries (the highest is that of Slovakia and Poland which are relatively the least developed). On the other hand, the countries have to face similar *modernisational, stabilisational and structural changes*. Modernisation has to be realised parallel with stabilisation in CEE: this is defined by the contradictory forces, rationalities and necessities of the short term and the long term. However, in every country, the basic aim of the changes is to become an EU member state.

The countries of Central Eastern Europe do not only face the challenges of macroeconomic stabilisation and establishing market conditions, but also have to create a competitive economy that is capable of diminishing or at least decreasing the gap between East and West. In the first half of the 1990s, both politics, society and the economy went through an important restructuring process, which, despite its contradictory characteristics, points towards joining up. No matter whether the changes were in the form of a shock therapy or were gradual and evolutionary, they meant the beginning of a long-term process. In these countries, income and GDP decreased with by 20-40%, the crisis proved to be a lot more severe and complex than anyone would have imagined before. The change of regime was followed by the collapse of the CMEA and the Warsaw Treaty, so the institutions determining the relationships with the East ceased to exist. However, the small countries of the region needed – and still need – a centre which can dominantly influence their development (turning towards the EU is therefore not a coincident).

According to the comparative economic analyses¹, *the countries of the centre and the periphery – semi-periphery may give different answers to the big structural changes*. Most of the rich countries of the centre of the world economy have managed to adjust to the new technical requirements, and managed to replace their out-dated, declining, previously leading branches and export sectors with competitive new ones. With this, after a short period of shock and slowing down, they have established the basis for a new period of development. On the other hand, the less developed countries of the peripheries did not possess the financial and intellectual resources that would have been necessary to make this difficult adjustment successful. In their deep crisis they could not strive for anything else but to find short-term solutions for recovery: to find protected markets for their devaluated, not competitive export products, and create jobs, even if this meant keeping out-dated sectors alive. Hungary, just like the peripheries outside Europe and most of the Central Eastern European countries, has within the past 1–1.5 centuries twice gone through the process of consolidation based on old technology and economic structures.

These analyses also reinforce the view that the characteristic of the semi-peripheral countries is that, with the answer they give, they will either get closer to the periphery or to the centre. The market establishment and privatisation after 1989 lead to a definite structural rearrangement in Central Eastern Europe: the importance of the industry and agriculture were declining again, and services were developing. The underdevelopment of services and infrastructure became the main obstacle in the region to economic development and catching up with end-of-millennium world economy.

The previously supported leading sectors of the state socialist industrialisation, such as iron and steel industry, or heavy engineering lost their markets and the government subsidies as well. The withdrawing state stopped investing into these industrial sectors. In a few cases, huge establishments were closed down, and whole sectors ceased to exist.

At the same time, Western investors made investments, created new industries and encouraged the evolution of new export sectors. Multinational companies played a pioneering role in the creation of the Hungarian car industry and in the modernisation of the Czech and Polish car industry. The same thing happened after the restructuring of the Polish chemical industry, in the Hungarian pharmaceutical industry and in the production of lighting apparatus.

¹ Berend T. Iván: Variations for the third route (A harmadik út változatai), Nép-szabadság, 10 February 1996

The restructuring process had important results on both company and product level. Shifting exports from the CMEA to the Western European (EU) markets encouraged the improvements of the export products. The liberalisation of imports had a similar impact on products meant for local markets. As for the long-term changes in the economic structure, positive signs were mixed with negative tendencies as well. Foreign trade statistics of the CEFTA countries show that the structure of exports is now characterised by less processed and energy consuming products and materials instead of the previously dominant highly processed, more complex products. (We see this tendency in the case of Hungary as well, but the proportion of engineering products is still the highest in Hungarian exports.)

THE ACHIEVEMENTS OF THE CEFTA SO FAR

One of the aims of creating the CEFTA was to stop the rapid shrinking of Central Eastern European countries' foreign trade, its objectives were clearly directed towards creating free trade. The question of extending the agreement emerged (regarding the free movement of workforce, services and capital) – from the side of the Czech Republic and Poland – but finally every member state came to the conclusion that the CEFTA should not be developed to become an organisation similar to the EU. The overruling aim for the Visegrad countries is to join the European integration and improving regional relationships may be part of the healthy development. The cooperation may help to get access to the more developed integration but *CEFTA membership means no guarantee whatsoever for joining the EU.*

However, only few believed in the positive results of the four years between 1993 and 1997. In the CEFTA countries, *economic growth exceeds the EU average*, markets are growing fast, especially relationships within the CEFTA. The Hungarian foreign trade grew faster with the CEFTA than the total turnover as well, because growing trade is necessary (and useful too) with CEFTA countries showing a development that exceeds Hungarian growth. The positive effect of cutting down custom duties is that today the importance of CEFTA is approximately the same as that of Russia in the individual country's trade but the CEFTA is a bigger market with more perspective.

The Visegrad countries (the four founding members of the CEFTA) have showed great adaptability. Between 1992-95 they made up for 27%

in the EU's external imports growth, and their share in EU imports increased from 2% to nearly 6% between 1989 and 1996.¹ The fast, dynamic growth up-points the figure which is relatively insignificant in absolute terms, since the Visegrad gained space from other countries on the EU's import markets. (The truth is that the growth rate in countries in the Far East and the Pacific region was even higher, but the fact that our region followed right after them certainly is a positive sign.) The positive results of the CEFTA are demonstrated in the fact that *3 of the member states have become OECD members* (The Czech Republic 1995, Hungary and Poland 1996). Interest in the CEFTA is shown by the joining of Slovenia, the most developed ex-Yugoslavian country in 1996, then the entry of Romania into the integration in April 1997 and there are other countries in the region turning towards cooperation such as Bulgaria, Croatia, Lithuania and even the Ukraine has declared such intentions. It also proves the positive opinion on and results of the CEFTA that Austria – who always paid special attention to the Central European region – has already drawn attention to the ever increasing CEFTA competition and to the spectacular development of economic – commercial relationships. Davidov Russian Deputy Prime Minister criticised the CEFTA saying that it is disadvantageous for Russia to have customs duties on its products and it makes trade asymmetric.

Outstanding among CEFTA's results is the fast liberalisation of trade (which exceeds even the initial expectations). 90% of industrial trade between the member countries is done duty free since the beginning of 1997, the remaining 10% – sensitive products – will gradually become exempt from duty by 2001. (The timing is important because both in the EU Association Agreements and in the EFTA industrial free trade agreements this is the indicated deadline.) The question of the trading of agricultural products is more complex. Since 1996, a spectacular liberalisation has taken place in this field as well, and some kind of a preferential tariff applies to 80% of these products (the products were divided up into three groups: there is one without duties, there is one where all countries apply a common preferential tariff, and finally there is one where preferential tariffs are based on bilateral agreements).

An important result of the CEFTA cooperation is the broadening of the integration's subjects (e.g. competition policy, rules on origins, etc.) the establishment of regulations that make the admission of new members possible, and the improvement of operations. Measures have been taken to develop the trade in services, towards the liberalisation of the conditions for the movement of capital, and in the field of the common acceptance of the results of quality control examinations. All these results were

¹Inotai András - interview in Magyar Hírlap 17. January 1997

achieved without CEFTA having an administrative apparatus, a seat. Currently, there are discussions going on regarding the establishment of a bank or customs union that could help and handle trade between member countries (only in the field of industrial products).

The most positive result of the *CEFTA* has, however, been that, according to the initial objectives, it *has facilitated the reorientation of foreign trade* and managed to eliminate the previously predominant one-sided dependence on the East (both from the input and the from output side). Trade between CEFTA member states makes up around 10% of their turnover on the average (the Slovakian – Czech figure is higher for historical reasons) and the most dominant part in the trade of every one of these countries is the 60-70% turnover from OECD (within that the EU) relationships.

Thus, the CEFTA does not lead to introversion, does not slow down the EU integration. The primary aim of each member country is EU admission. The organisation of CEFTA (e.g. the establishment of a Secretariat) would have weakened exactly this view (because this would have demonstrated the intention to turn inwards). The CEFTA is not an alternative to the EU but a facilitator of the European integration. It is not the „entrance hall” but the „training room” of the EU, where we get ready for union membership through cooperation.

The CEFTA is the motor of regional cooperation, and trade between member states is expected to grow further. So the integration has proved to be successful and the EU also agrees that it is useful for the 5 member countries' economies in their preparation for joining the EU. An important achievement of the CEFTA is the so-called *demonstration effect*, which means, on the one hand, that we show a positive picture of ourselves to the developed world, we prove that we are capable of cooperation without a dominant political power as well, and, on the other hand, the CEFTA is a good example for Eastern European countries since it gives evidence that cooperation stabilises and helps the development of the economies. The efficiency of the CEFTA also shows in the fact that the countries' collective bargaining power is increasing, and they will have a better chance to safeguard their interests as well.

ARGUMENTS FOR AND AGAINST EU MEMBERSHIP

Europe's being torn apart distorted the structure of the division of labour between the two parts of the continent. This did not only hinder

the development of Central Eastern Europe but also lead to the worsening of Western Europe's position in the world economy. Since the USA established a close relationship for the division of labour with Canada and more and more with Mexico too, and Japan has built up an ever broadening system for the division of labour and a supplier – customer background in South East Asia, it has become indispensable for Western Europe as well to strengthen its competitiveness and widen its markets. The only region for this purpose is of course Central Europe. Central Eastern Europe's integration will enhance the importance of the EU in world politics and its role in security policy.

For the Central Eastern European countries, the most important gain from the joining is the integration into the EU's economic, political and security system. There are cultural arguments for the EU integration as well: the Central and Eastern European societies consider themselves as integral parts of the European culture and historical community, we are tied here with a thousand strings of culture and civilisation.¹

Hopes regarding the EU can be grouped under two headings: political and economic.

Among the *political motives* most significant is the region's countries' fear against Russian expansionism. The region's countries count on the EU providing an objective forum for settling political conflicts within the area. Besides the internal institutions of the individual states, the legal framework of the community provides an additional guarantee against any anti-democratic deviation. Joining the NATO before admission into the EU would of course lessen the importance of the political motives behind EU integration but would not eliminate them entirely.²

For us, the greatest attraction of the EU is the *economic advantages* deriving from big regional integrations. These are the following:

- The more developed centre helps with the newly joined countries' comprehensive modernisation, technology transfer, facilitates their integration into the European international division of labour.
- The exports of the Central Eastern European countries would become internal, equal to the products produced and sold within the EU. With this, anti-dumping measures and the protection clause will cease to exist. With the elimination of border-crossing and customs procedures transaction costs related to trade would significantly decrease, which would make the exports of the region's companies more competitive.

¹ Kornai János (1995): Looking at the EU enlargement from the East, Európa Fórum, December

² Richter Sándor (1995): Advantages, Disadvantages, Dilemmas. Thoughts about Central Eastern European countries' EU integration, Külgazdaság, 12.

- EU membership would improve the attractiveness of the region's countries in the eyes of potential foreign investors. New entrants so far, in the case of the Southern European countries for example, enjoyed an increased influx of foreign direct investment.
- The outward movement of labour would decrease the level of unemployment, easing the social tensions of the economic transition. Those working abroad would be able to gain experience in a technical and organisational culture that is considerably more developed than ours. After their return, these experiences could be used in the modernisation process of the home country.
- Those in favour of EU integration consider as major benefits all the subsidies that are allocated from the EU budget to the relatively less developed countries (Structural Fund, Cohesion Fund, FEOGA).

Most of the above-mentioned advantages have their disadvantages, threats, too:

- As soon as the transition to free trade is over, the companies of Central Eastern Europe will suffer from pressure of an absolutely free, Europe-wide imports competition. When getting full EU membership, the countries of the region will lose their GSP status on developed overseas markets, so our position will worsen on these markets.
- The rapid inflow of foreign direct investment has its political and economic risks. Unlimited foreign access to local property, especially real estate, may cause problems in every country in the region. The sudden withdrawal of substantial foreign capital because of a political crisis or simply more profitable investment possibilities could destabilise the fragile economies.
- It is not obvious that those uneducated, unemployed persons will go to work abroad the leave of whom would be advantageous from an economic point of view. The outward movement is more likely to involve the young professionals for whom there would be a desperate need in the modernisation process of the region's countries.
- There is – although to a lesser extent – a reluctance towards giving up part of our national sovereignty. This is most likely to become stronger when the supranational organisations' being placed above national bodies will be demonstrated in regulatory proposals.

Defining advantages and disadvantages in numbers and precisely matching them is incredibly difficult but measuring these in the most careful way possible is indispensable for successful negotiations on the integration. The countries in the region must be aware that full EU membership would require further efforts to improve their performance, willingness to make sacrifices and cover expenses. The costs of getting

mature for Europe coincide with the tasks of catching up. Costs would occur without EU membership as well, but without gains in that case.¹

¹Kádár Béla (1996): Schedule and consequences of the EU integration, Valóság, 1.

THE IMPACT OF THE EU ON CEFTA MEMBER STATES

In the relationship between the EU and the CEFTA countries, the biggest impact of the EU has so far been the signing and the gradual realisation of the Association Agreements. When speaking about the impact of EU integration we may stress that, although in the field of trade policy the EU provides the Visegrad countries with positive asymmetry in terms of the extent of allowances and the pace of liberalisation, *the EU has so far gained considerably more from the opening up of markets than the CEFTA countries*. In the first half of the 1990s the EU could give the CEFTA countries any growth impulse for stabilisation and generating growth. Due to the long-term, high unemployment in the EU, the EU's labour market is almost closed for CEFTA countries. On the contrary, CEFTA countries' imports bought from the EU, their modernisational investments and cooperations have a net employment creating effect in the EU.¹

The European Agreements signed by the EU and the CEFTA include no part on financial subsidies, unlike previous EU association agreements. Financial transfer from the EU's side is still handled through the PHARE. The highest amounts were given for the establishment of the institutional framework of the private sector everywhere.

The participation of the West in the privatisation process is very important in each country, the share of foreign capital is, however, far below the scale of investments before World War II. In Hungary, for example, 9% of industrial shares is in foreign ownership, whilst the corresponding figure was above 20% before World War II.

A significant disadvantage is that EU capital mostly buys existing establishments and property instead of new investments in the CEFTA countries.

The major impact of the EU on CEFTA countries' foreign trade is that it diverts that towards itself. After the change of regime and the collapse of the CMEA, Central Eastern European countries turned towards the EU, they redirected their competitively exportable products towards EU markets. The total income shrinking due to the decreasing GDP and the competition of Western, mostly EU imports outplaced considerable local

¹ Kőrösi István (1996): The EU and the Visegrad countries, Challenges; MTA VKI, October

production and imports coming from other CEFTA countries in the region. Parallel production capacities also restrict trade among one another.¹

Despite the temporary asymmetry in their bilateral trade with the EU, the CEFTA countries managed to achieve a positive balance. After a temporary and short-term export upswing, as an impact of several internal and external factors, imports coming from the EU began to increase more than exports towards the EU. This was enhanced by factors like the EU's higher economic productivity, financial stability of its companies and governments, better marketing practices, to sum it all up: the higher competitiveness of EU companies.

General international experience suggests that *within the first years of economic modernisation the rapidly increasing deficit of the balance of trade cannot be avoided*. If part of the products available for exports is kept back from the market, the balance problems can get even more serious.² Thus, in the short run, the unavoidable consequence of developments in commercial relationships was the rapidly increasing deficit in every Central Eastern European country's EU trade balance. This was not nearly financed by the resource transfer coming from the EU into CEFTA countries (PHARE and EU originated foreign working capital).

In the relationship between the EU and the CEFTA region, the agricultural sector is a neuralgic point from many different aspects. The EU considered and still considers associated countries as potential markets for the heavily subsidised EU exports of agricultural produce and not as competitive exporters. Actually, this is where the „reverse asymmetry” was realised to the greatest extent, leading to the fact that the EU agricultural trade balance of each Central Eastern European country – except for Hungary – shows a deficit. Considering the assets of the CEFTA countries, this situation is unnatural. In this sector, the main impact of the EU on CEFTA countries is that its agricultural exports towards this region restrains and outplaces the agricultural product and food trade among member states. As a result of mid-term development, the CEFTA countries could buy part of their EU imports from one another. This could have export increasing effects especially for Hungary. Looking at the current agro-economic situation of the CEFTA countries realistically, the EU's fear from the „Eastern agricultural competition” could hardly be justified. For several reasons, the agricultural sectors of the associated countries have become perhaps the most ailing sector in

¹ Kőrösi István (1996): The impact of the EU on the Visegrad countries, *Külgazdaság*, 9.

² Inotai András (1996): From the Association Agreement towards full membership?, *Európai Szemle*, 4.

the past half decade of the transition. The contribution of the agricultural sector to the national produce has dramatically decreased.

FROM ASSOCIATION TO MEMBERSHIP: TOGETHER OR INDIVIDUALLY?

1989 made Central Eastern European countries face common challenges related to the change of regime and the integration. However, it would be unjustified to expect the same answers at the same time from the countries of the region. The state socialist system and the past 7 years' transitional achievements and characteristics created different levels of Europe-maturity in these countries.

It is very likely that no matter how many countries they are going to start negotiating with, only a few of those will be admitted in the near future. Therefore, although there are no clear economic criteria for integration maturity, we may assume that in the selection of the countries getting entry in the first round, certain factors will have to be taken into consideration and these cannot be separated from the question of deepening. Thus, it is not impossible that the Maastricht criteria will at least orient the EU-integration process of Central Eastern European countries. It must be emphasised that meeting the Maastricht criteria cannot be the prerequisite for admission. The prerequisite is that the constitution of economic policies and the direction of development should make it believable that, for example, a country joining in 2002 will be able to meet these criteria within the foreseeable future.

The admission criteria defined in Copenhagen are too general and mean no commitment from the community's side towards CEFTA countries' future EU membership. However, these criteria may give us a basis for investigating how mature CEFTA member states are to join the European Union.

Enlargement is an integrational bargaining process with several participants: besides the interests of integrations as organisations, the interests of the individual member states are also characteristically present in the bargaining processes. The Union's attitude towards external parties always shows the results of member states' internal bargaining processes. Therefore, the criteria for economic integration will also be defined as the resultant of internal forces. This means that in the bargaining between EU states and the members-to-be the non-EU members will be the last.¹

¹ Balázs Péter (1996): The EU as a bargaining process and negotiation party, *Kül-gazdaság*, 9.

The possible integration raises a *strategic question*: should CEFTA countries try to join the EU together or individually? The EU encourages the development of Central Eastern European countries cooperation considers this sub regional framework as an important stage in the process of getting closer to the Union. On the other hand, Central Eastern European countries have from the very beginning been against this approach. There were several reasons behind this. First of all, they had mostly competing and not complementary production and exportation structures and had similar macroeconomic problems. Secondly, they thought that disguised protectionism was hidden behind the EU's efforts. Instead of letting the products of transitional economies appear on Western European markets, the EU would rather force competitive companies and products back into a sub regional frame.

At present *the EU uses double standards*. On the one hand, it still insists upon „block mentality” in certain aspects, on the other hand, it strives towards very careful differentiation. That is, it cannot officially declare the region (Central Eastern Europe) divided. At the same time, any unifying effort would give rise to criticism from the more developed Central Eastern European countries' side. The EU's view on the Eastern enlargement has so far been characterised by hesitation. On the one hand, political commitment to admit the ex-socialist countries of the Central Eastern European region is without a doubt. On the other hand, the only thing that is not known about this compulsory promise is which countries, when and with what concrete criteria are going to be admitted. The reason for this ambivalence is that the future of the Union is unclear (the process of transformation) and the Eastern enlargement is not urgent, it can be postponed, moreover, the EU has already got with the association the liberalised market for its products and capital. One thing is very likely: after the Intergovernmental Conference, in 1998 integration negotiations will begin with the 10 Central Eastern European associated countries involved.

Since only a few of the 10 candidates have a chance to get admission in the first round, negotiations can easily turn into competition between the applicants. This impression was reinforced by EU officials' fuss about the questionnaires: they sent out exactly the same questionnaires to all of the applicant countries, stressing that they have created equal starting grounds, the rest depends on the competing candidates.¹ And their intention to differentiate among the candidates is proved by the fact that they have indicated to – or whispered into the ears of – the officials of almost every country that their answers were the best.

¹ KOPINT-DATORG (1996): *Joining the EU: the current situation and tasks*, Kül-gazdaság, 9.

To this twofold strategy of the EU, CEFTA countries also react with a special duality. The relationship between CEFTA member states is characterised with a unique mixture of cooperation and rivalry. The cooperation, the improving tendencies of political and economic relationships are requirements set by the EU, since every CEFTA country would like to become a member of the EU and good, improving relationships also demonstrate our maturity for integration. Rivalry also emerges in the context of EU integration: there is competition appearing to become the first (or to get into the first group at least).

We have already discussed the success of cooperation. In certain cases, rivalry, opposing candidate to candidate seems to be a conscious strategy on the EU's side. The Czech Republic used to be very skeptical concerning the opportunities in the CEFTA but after 1995 – due to problems with the Czech balance of payments – it turned to the CEFTA with redoubled efforts. However, the tone of rivalry and competition is often more dominant in Czech politicians' speeches than that of cooperation. Slovakia is preoccupied with its internal political problems and democracy, but the Czech and Slovakian relationship is not without problems either. Reacting to the EU's differentiating efforts (Slovakia is not going to be in the first round) they declared disposition to sign an agreement on free trade with Russia. However, the EU or rather its member states' answer to this was that no matter how beneficial the agreement would be, it would be a negative political sign of Slovakia's foreign affairs orientation. Between Slovakia and Hungary the Bős-Nagymaros hydroelectric power station and minority problems cause serious tension.

We must see the difference between the economic competition among the CEFTA countries (which is healthy and helps countries catch up) and the competition generated by the EU. Making countries compete is harmful. The fact that there is almost always a „star country” (in the beginning of 1997 it is Poland) that is in every field better than the others (according to the international media) encourages rivalry and opposition between the countries of the region.

It would be important for the CEFTA countries to coordinate their political and economic measures, placing the emphasis on the significance of cooperation. Beyond the above-mentioned demonstration effect, good political and economic relations would enhance the bargaining power of our countries at the integration negotiations.

Most of the trade of CEFTA member states is already done with the EU and the countries depend on the EU as a centre. The small CEFTA countries situated on the peripheries have only marginal importance from the EU's point of view. *This asymmetry strengthens the opportunities of the centre and weakens the opportunities of the periphery. Therefore, it is advisable to strengthen the cooperation among the countries of the semi-*

periphery (CEFTA). This will decrease to asymmetric dependence of the periphery on the centre and will thus serve the interest of the small countries.

For the successful elimination of the gap between the centre and the semi-periphery, a conscious economic policy is needed, a basis of which is the EU integration. It makes the situation of the CEFTA countries even more complex that they are in a transition towards a liberalised market economy. In other words, the states are destroying their own power, however, liberalism always helps the stronger and the market automatically leads to the further strengthening of the strong and the weakening of the weak. The CEFTA cooperation may help prevent this further weakening since competition is already tough within the CEFTA as well, people expect the good quality products and as a market we are similarly good as the EU.

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ZSOLT KÓHALMI*

On the innovation potential of the Hungarian industry: findings of a survey¹

INTRODUCTION

In 1998 the Institute of International Technology instigated a survey to identify the most significant features of domestic innovation and research and development (R&D) activity.

The survey comprised non-agricultural organisations with legal personality that employ more than 10 people. Firms with R&D as their prime profile, however, were not included in the sample (such as the legally independent R&D units at universities).

Some of the 1200 organisations selected for the survey were unavailable or refused to get involved. As a result of the reduction in the sample size and its modified internal structure, prior to processing the accumulated data a method of statistical weighting was applied. This restored the appropriate representation of the combined sector groups and staffing categories, as predefined in line with the registers and minimised

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¹ The survey, on which this article has been based, was conducted with the support of the National Committee for Technological Development (Országos Műszaki Fejlesztési Bizottság), the Integration Strategy Working Group (Integrációs Stratégiai Munkacsoport) and the Economics Research Group of the Hungarian Academy of Sciences (MTA Közgazdaságtudományi Kutatóközpont).

statistical error margins. The resulting comprehensive sample represents

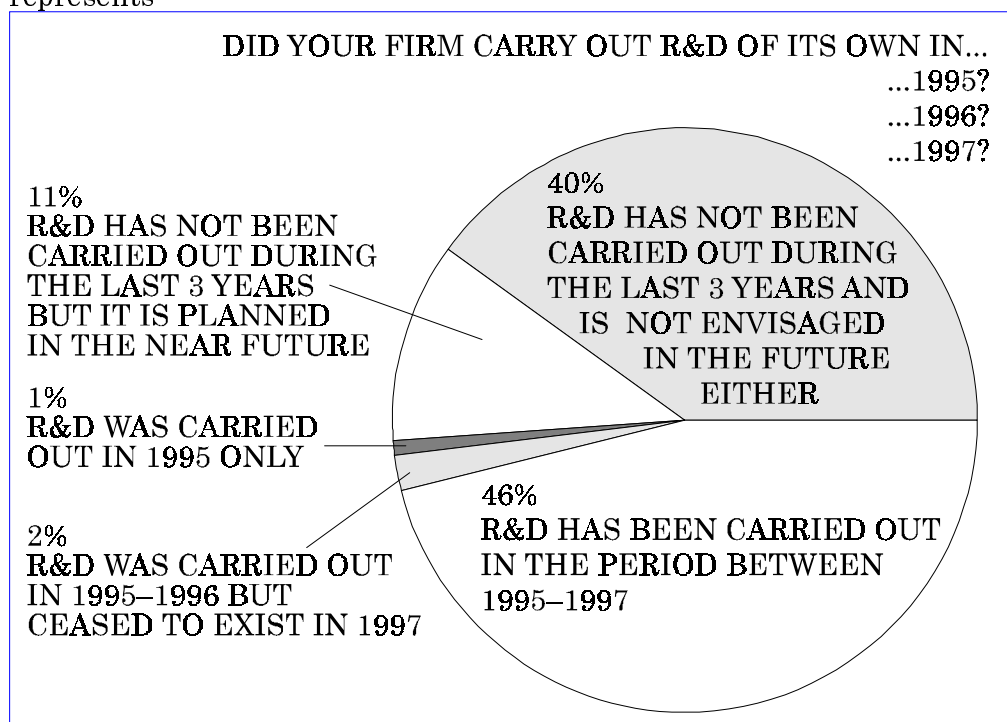


Figure 1.
R&D at the firms

all non-agricultural businesses employing more than 10 people with a respective statistical base of 25,286 elements.

The unavoidable statistical error is $\pm 3\%$, depending on the number of businesses in the comprehensive sample. This signifies the range of potential difference between the results gained in the survey and the results we could have arrived at, had we surveyed each and every non-agricultural firm.

INNOVATION

The first question that I would like to single out from the survey was set as follows: „Has there been any innovation implemented at your firm since 1995?”

The breakdown of the replies dramatically contrasts with the expected and typical range of yes/no responses: 33% of those surveyed answered yes, 21% of them answered no, whereas 46% could give no appreciable

reply or apparently declined to do so. We endeavoured to put ourselves into the position of the respondents to the questionnaire, thus trying to find out the reason for the large scale of evasive answers. It is conceivable, no matter how sombre the presumption is, that those questioned are not sure what the term innovation implies or they have no overview of the developments over such a long period of time. In some cases it might also be that, given the current pressure of market competition, they did not wish to provide any reliable information for their rivals. Finally, it is also possible that, quite simply, they were too embarrassed to admit the lack of innovation and chose to give an evasive answer instead. Perhaps a more profound analysis of the replies will get us closer to the actual motives.

OWN R&D ACTIVITY

In the survey we asked the following question: „Did your firm carry out R&D of its own in 1995, 1996, 1997?”

The chart (Figure 1.) demonstrates the breakdown of the replies: 40% did not carry out any R&D, and do not intend to do so.

11% replied that they had not done R&D thus far but wish to do so in the near future. Whether this figure is high or low is something I prefer not to start analysing at this point, but one thing is certain: it is an interesting and encouraging figure.

1% of those questioned were engaged in R&D for one year only, 2% of them for 2 years, (in 1995 and in 1995-96 and then gave up this kind of activity.) It is worthy of attention that these figures represent a significantly smaller proportion than those who claimed to be involved in R&D. If we take into account almost half of the respondents (46%) conducted continuous R&D in the last three years, and if we add to it the 11% mentioned earlier – anticipating the fulfilment of their declared intentions – the picture gaining shape is not that distressing at all.

WHERE DO THE INNOVATIVE IDEAS DERIVE FROM?

We were also curious to learn where those firms who are engaged in R&D, get their ideas from. The relevant question was as follows: „Which and to what extent do the possibilities listed below provide innovative ideas?” We asked the respondents to qualify the possibilities listed

applying the 1 to 5 grading scale used in schools (5 being the best). The replies given by the firms that envisage R&D activity, ranked in order, can be read from the chart.

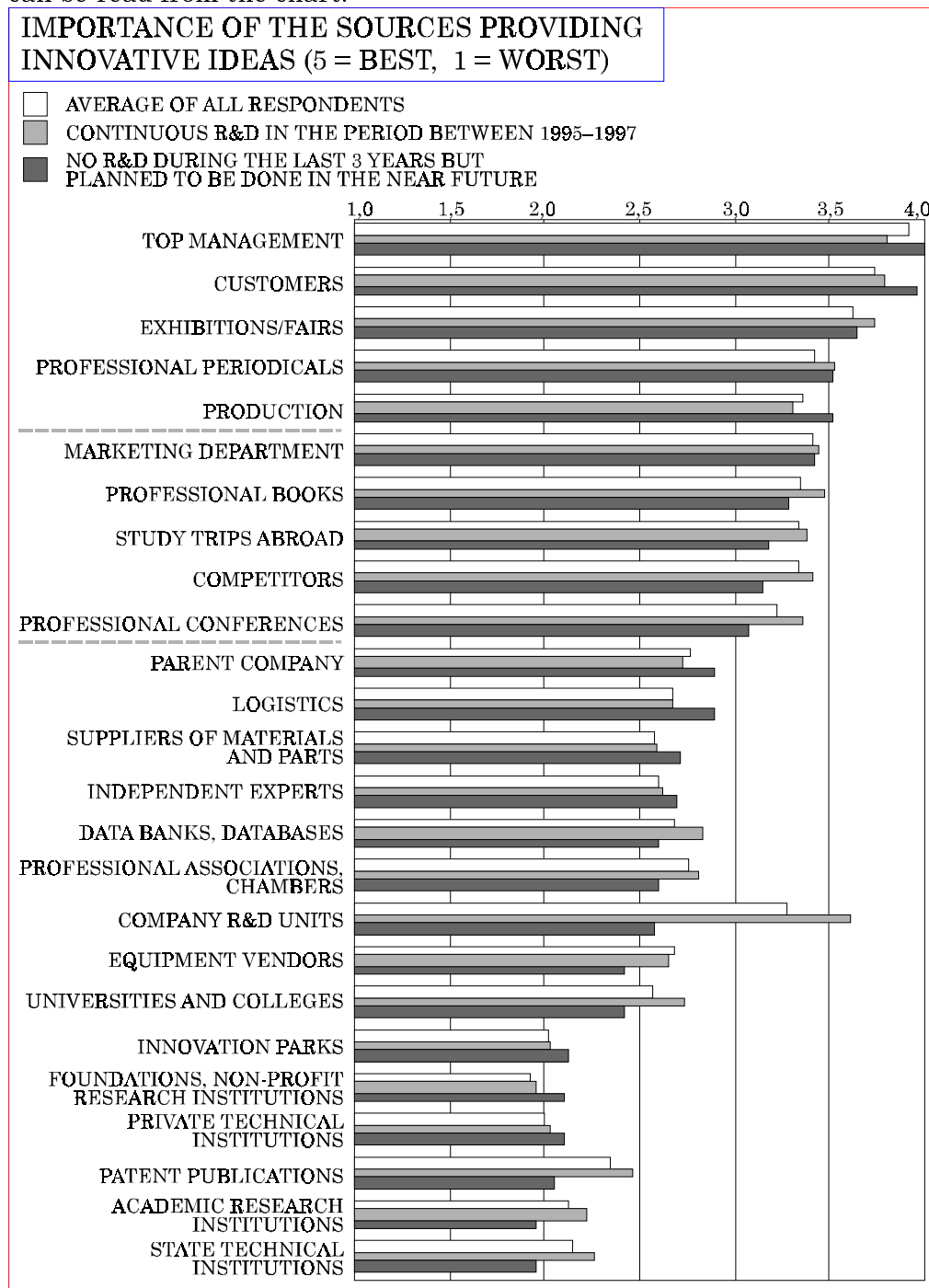


Figure 2.

Sources providing innovative ideas

On the chart (Figure 2.) we indicated the „top scorers”, i.e. those sources and possibilities that achieved a grade of above 3.5. The first on the list is the top management – it suggests that the boss is very good. Whether this indicates a positive or a negative phenomenon I do not wish to comment. The customer comes in second on the list, which we do appreciate highly, as it shows that R&D is predominantly driven by the needs of the markets. It might appear to be a most evident and elementary factor, but still it is reassuring to note that the market angle is really there. In third place come exhibitions and fairs, i.e. the forum for establishing direct and intense links among the players of the market. This is, again, an encouraging sign.

The second segment of the chart shows sources that received grades between 3.0 and 3.5. This shows professional periodicals coming first, closely followed by professional books. Production followed by marketing also show up as important innovative sources.

I would like to highlight two aspects with regard to the items below the 3.0 mark. One is that the perception of the feasibility of a company R&D unit significantly differs among those who already have experience in the field of innovation, and among those who are just toying with the idea of doing research. Quite possibly this is an indication that the firms concerned should be helped to realise that executing their own R&D is much more advantageous than they would otherwise have thought.

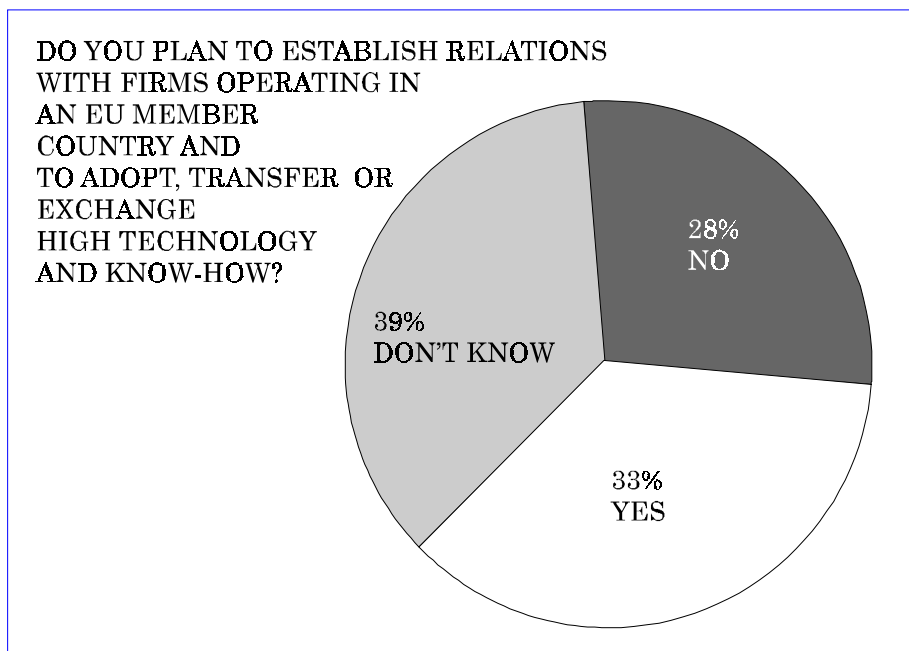


Figure 3a.

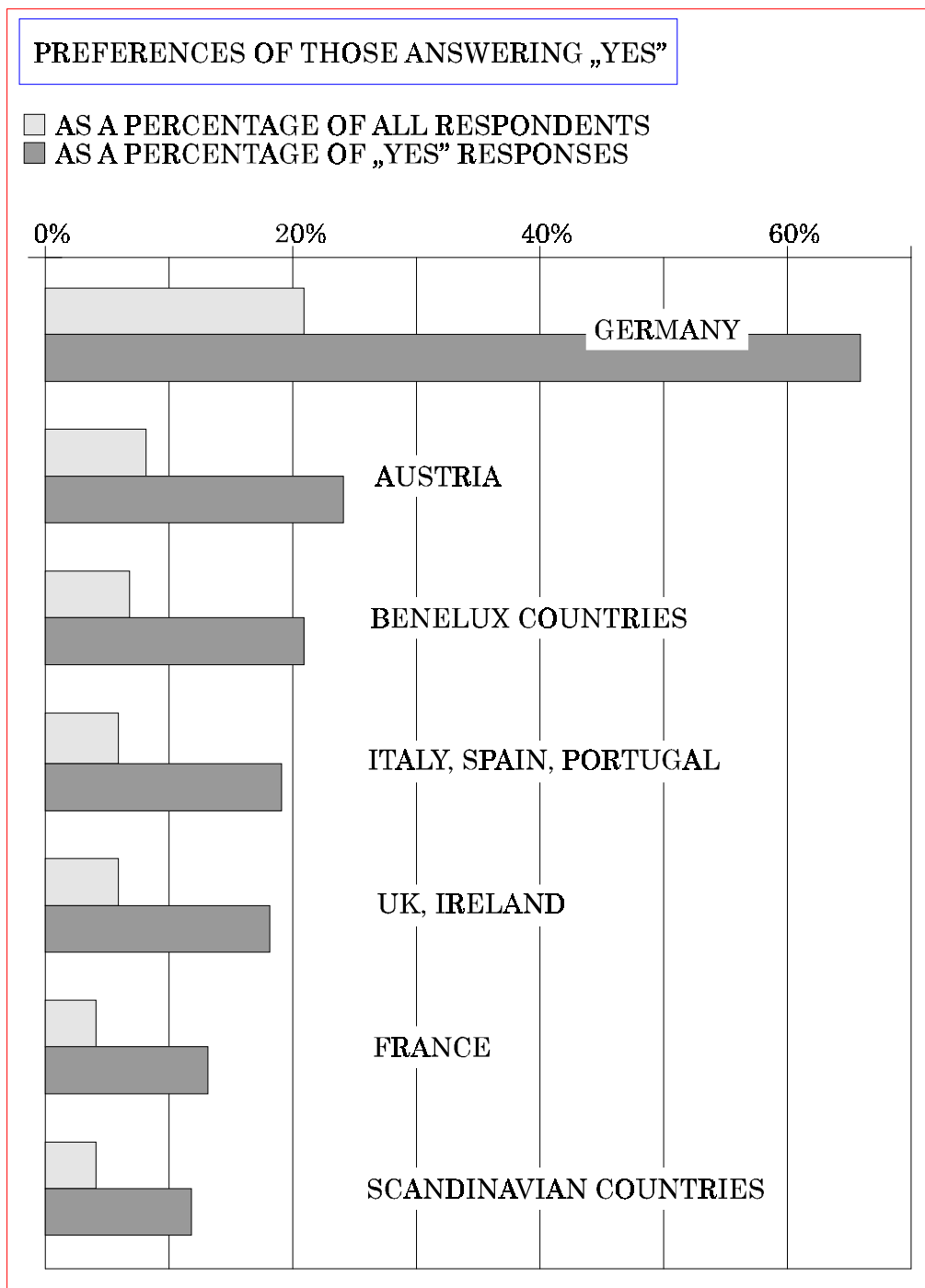


Figure 3b.
Country-preferences

The other aspect well worth mentioning is that the professional associations, chambers of commerce, innovation pools and research institutions, whose primary mission is to generate innovative ideas and to transfer them to the manufacturers, achieved rather low ratings. This is, again, a lesson that needs to be learnt.

RELATIONS WITH THE EUROPEAN UNION – PLANS

Allow me to demonstrate the breakdown of the replies given to the following question: „Do you plan to establish relations with firms operating in an EU member country and to adopt or exchange high technology and know-how?”

28% of those questioned were not considering any such schemes, 33% envisaged to achieve such goals and 39% replied „I don't know”. (See Figure 3a.) Just as in the case of the previous question the proportion of uncertainty is very high. A rather disturbing fact, taking into account that we are just about to accede to the fifth R&D framework programme, is that one third of those questioned displayed no firm resolution to cooperate.

We thought it might be of interest to set up a list of preferences based on the replies (only EU member states were considered). The findings are, in effect, identical to previous trends: Germany ranks first, Austria (another country of the German language zone) comes second. It is interesting to see the Benelux countries in the third place, which obviously reflects the dominance of the Netherlands. The explanation for the placement of the other countries or regions is probably found in linguistic barriers. (See Figure 3b.)

FOREIGN RELATIONS – MOTIVES

On the subject of analysing foreign relations I would like to draw your attention to our findings with respect to the questions we used as feelers to learn more about the plans and expectations of the firms surveyed when establishing foreign ties. (See Figure 4.)

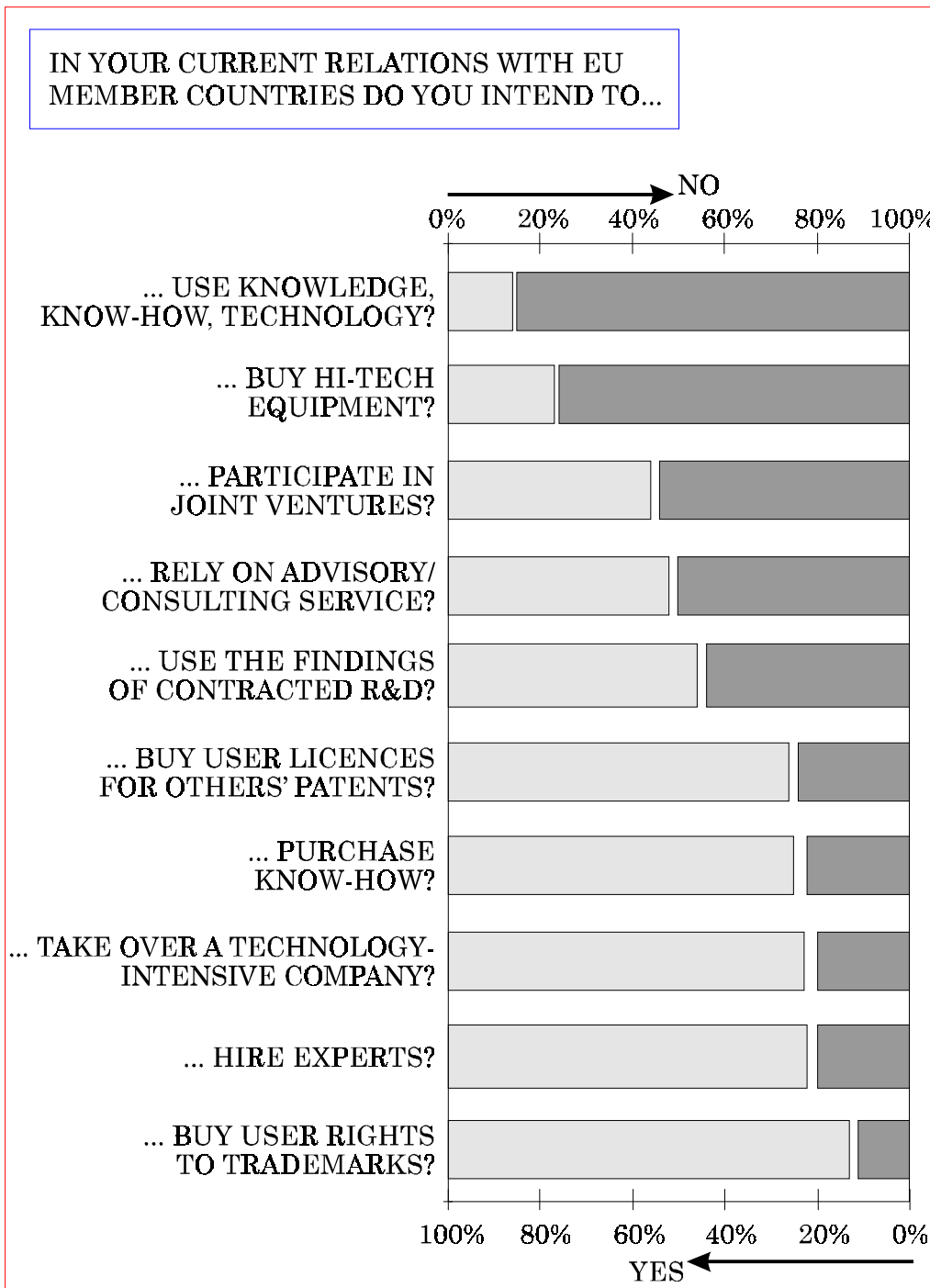


Figure 4.
Foreign relations – motives

Some dominant features of the replies are noteworthy, such as the intention – in general terms – to apply know-how and technology, which is represented by 80% of the respondents. If we are curious enough to identify the specifics of this manifest intention, however, the findings are not so favourable: the inclination to purchase user rights, trademarks or know-how is astonishingly low. It might indicate that knowledge is not so highly appreciated as in the advanced world. It is a strange contradiction that employing an advisory (consulting) service in future schemes is considered preferable to hiring experts. (In a way it is understandable though: if an „external” expert proves to be expedient then the future need for „internal” experts might soon be questioned. Small wonder that this kind of service is not spreading with lightning speed.)

The proportion of affirmative replies to the question on the willingness to purchase high technology equipment is very large. It is a classical method to enhance business expansion; therefore the preference displayed in this respect is understandable.

Similarly, the degree of willingness to participate in joint ventures indicates that it is a well-established method. (Albeit it might reflect attraction towards R&D as well as „simple” efforts to attract capital.)

FAMILIARITY WITH PROGRAMMES

We asked a question which was meant to identify which initiatives, programmes and requirements are known to the respondents, in order to assess their knowledge of the general information available in the wider world. In line with other surveys, the level of familiarity with EU R&D framework programmes is rather low: less than 30% of those questioned provided an affirmative answer. (See Figure 5.)

There are two items where the yes answers outnumber the no answers: PHARE programmes and EU standards. As to the former, domestic PHARE projects seem to have greatly helped with the dissemination of the relevant general information. Concerning the near 70% familiarity with the standard requirements of the EU – I do have some doubts and suspect that politeness might have contributed to the number of affirmative responses. Again, we hope to have a more complex picture after the deeper analysis has been concluded.

It deserves attention that the requirements deriving from the status of associated membership are not at all widely known. This is despite the firms having had the opportunity for some time now to gain experience of this environment „for real”. If the same procedure is to be adopted with

the accession requirements, firms will not find it easy to make the most of the potential advantages that they might derive from EU membership.

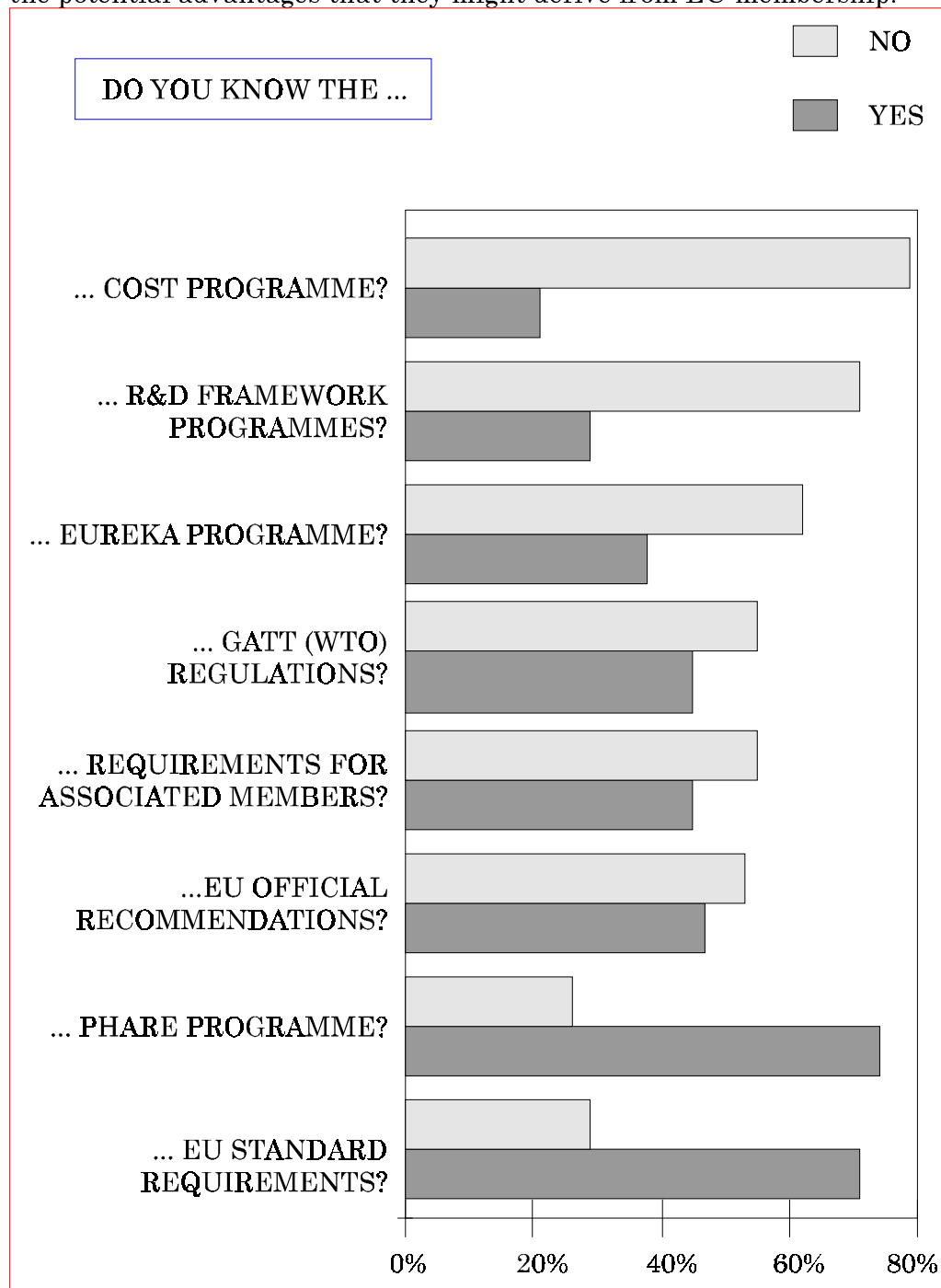


Figure 5.
Familiarity with programmes

A surprisingly low number of respondents seem to be familiar with the EUREKA programme, whose specific objective is the enhancement of market-oriented research. At this point it would be difficult to say for sure whether the explanation for this is due to the lack of capital or to something else.

WHAT HELPS THE FIRMS IN ESTABLISHING RELATIONS?

The actual question we posed was as follows: „To what extent did the factors listed below prove to be helpful for the firm in establishing contacts or in gaining knowledge of successful options of technology transfer?”

Quality, continuous partnership and expertise received the highest grades on the list – these are the factors that help the firms most effectively to cope with the competition. (See Figure 6.)

It is worthy of attention that neither product/project originality (novelty) nor price were highly placed. It is also apparent from the replies that information (and information services) scored most unfavourably: even the combined informative value of the embassies, trade offices, chambers of commerce, the media and private representations together still appear to be somewhat less effective than the regular market and partner research. The displayed level of interest in and appreciation of the information services is not exactly heart-warming.

WHAT DO THE FIRMS CONSIDER TO BE THE OBSTACLES IN ESTABLISHING CONTACTS?

Naturally, we also applied a direct question to learn about obstructions to the success of technology transfer in Hungary. The specific question was as follows: „To what extent do the factors listed below hinder Hungarian technology transfer to the EU?”

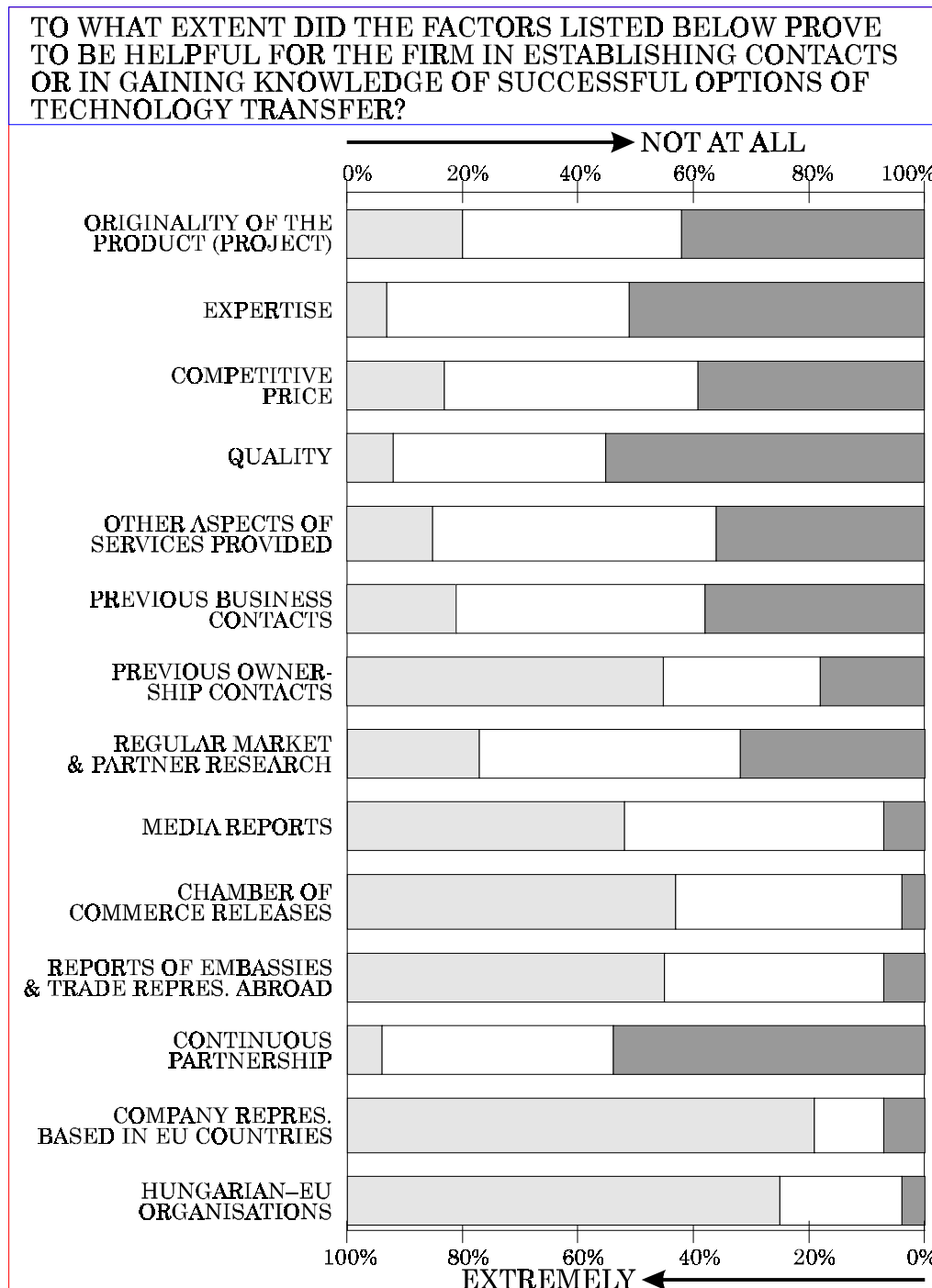


Figure 6.
Helping factors

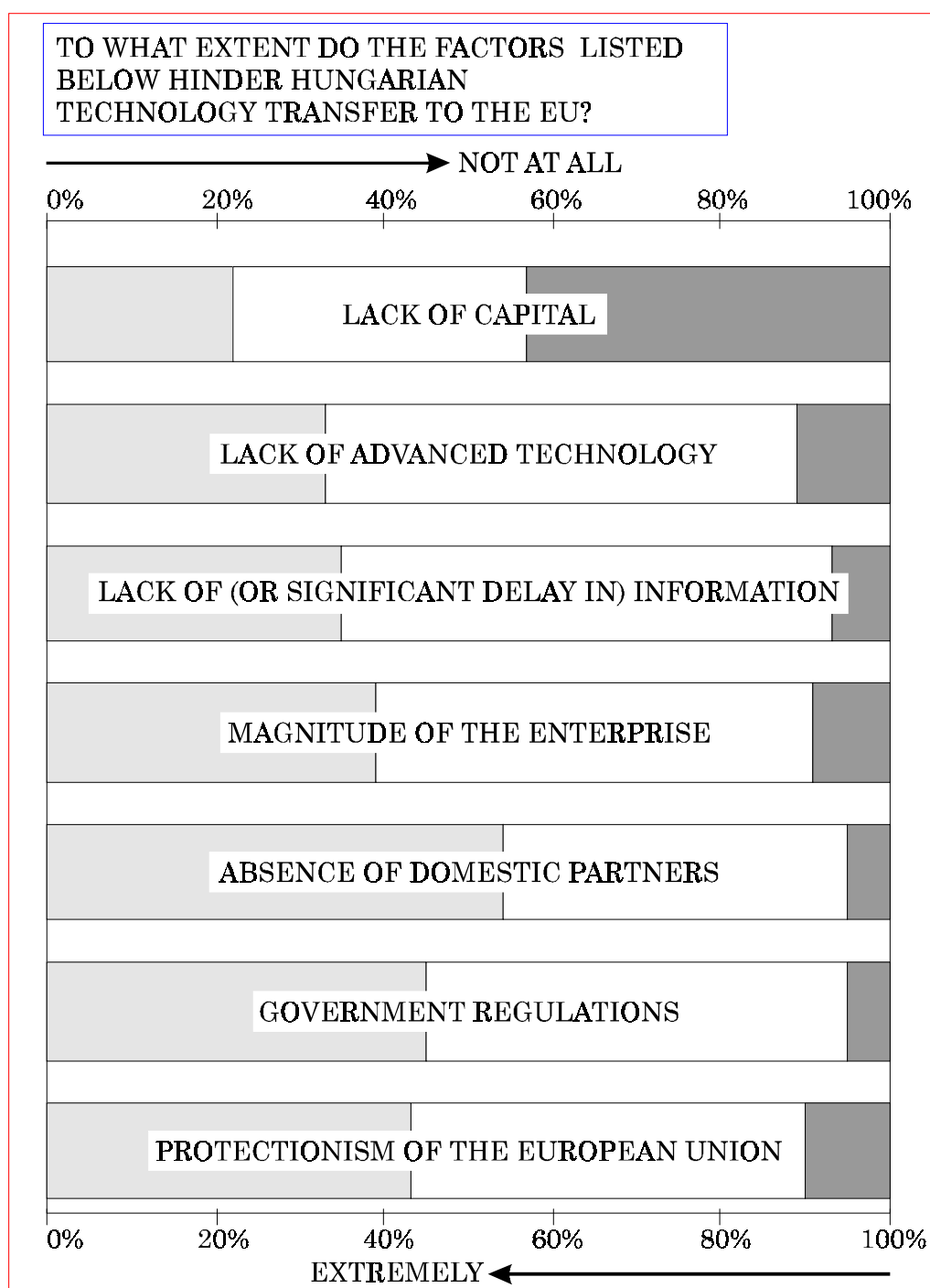


Figure 7.
Hindering factors

There are two popular items in the factor list (Figure 7.) that appear to be regular topics at conferences. One is the lack of capital (there were four times as many references to this in the „Extremely” category than to the second most frequently quoted impediment), the other is EU protectionism. It is worthy of further examination – through a comparative analysis of other responses – as to whether these explanations are really authentic and acceptable or are just some of those well-established self-justifying excuses. I have already referred once to the value of information, let me draw your attention now to the fact that almost two fifths of the respondents are of the opinion that the lack (or delay) of information does not obstruct technology transfer in any way. This involuntarily raises the question: What proportion of the responding firms is in fact engaged in technology transfer? It is a question we hope to be able to answer with the more profound analysis. At this point we can but hope that a great many of them actually are involved, and that their response is based on factual experience.

It is also noteworthy that a significant proportion of the respondents placed the size and magnitude of the enterprises and state regulations as among the factors that do „not at all” obstruct technology transfer. The leading factor on the „not at all” side of the chart is the „absence of domestic partners”, which leads us to conclude that most enterprises set out into the world market on their own, without any partners at all.

FINANCING – FROM WHAT SOURCES?

Finally, I would like to summarise the replies to the question on financing resources. The question was: „From what sources do you finance your relationship with companies in the EU?”

The overwhelming majority of the respondents claimed to rely on their own resources. Support from banks and partners represented roughly equal magnitudes and, interestingly enough, Hungarian government support followed only next in line. It is remarkable that assistance from EU project funds and EU government assistance also received noteworthy placings. Within the framework of a deeper analysis we would like to find out more about the significance and order of importance of the various financial sources, and to follow up whether government assistance, intended to function as an effective co-financing source, is in fact manifest or not. (See Figure 8.)

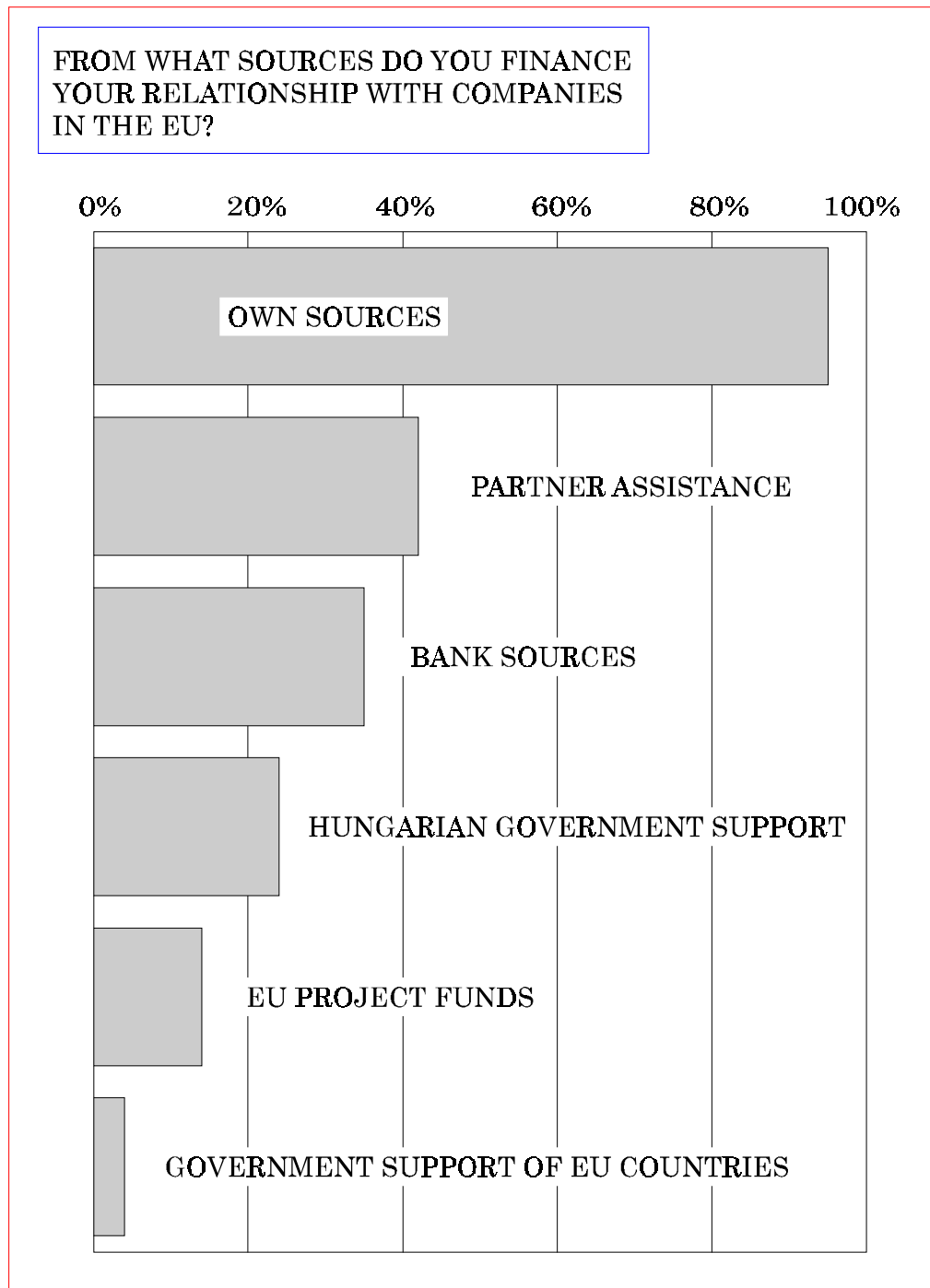


Figure 8.
Financing sources

TAMÁS GÁSPÁR*

The behaviour model of the European Union – the role of the East-Central European countries¹

INTRODUCTION

The economic and political changes in the East-Central European countries at the end of the 1980's introduced a new historic era. The strategies of the transition are manifold but they include at least one element which is basically common: the integration into the EU. The previous markets of these countries have collapsed, the new, West-European orientation is facing many difficulties. On the other hand the economic leaders realised soon that there was no alternative modernization source.

The European Union faces a new era in the 1990's. The transition economies present completely new economic, political and geopolitical circumstances. The changes in the structure of the world economy has also challenged the integration model. The Maastricht strategy has many weak points and seems to be capable of destroying the previous welfare state models of the member countries, rather than showing a way out of the crisis. The second White Book (1993) laid down the strategy of the

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¹ Presentation at the international conference on „The Economic System of the European Union and the Adjustment of the Republic of Croatia”, Rijeka, April 24-25, 1997.

next century: sustainable growth, but it does not give details of how to achieve the aim. The extension of the integration created new economic sources and increased the effectiveness of the integration but it also highlighted that the EU has reached its borders in the sense that the administrative structure of the integration is not suitable for operating with more than 15 members.

The integration theory has not yet covered the new situation. Many research studies, analyzing the costs and benefits of the accession of new members were prepared, but it seems that the behaviour model of the integration needs a wider approach.

This paper starts by defining some functions of societies so as to distinguish between different integration strategies and to decide which would be the most suitable for the East-Central European countries.

SOME DEFINITIONS

The terms „national”, „regional”, „global” are generally used in a geographic, economic, political, institutional, social, cultural etc. sense. Here I would like to give the above terms a functional meaning from the viewpoint of the world economic interpretation of the different subsystems.

The adjective „national” in the functional sense means the operation with the logic of the market mechanism which suits the economic subsystem. This manner of thinking and effort concentrates on profit maximization and forms an opinion of any economic political step by comparing its costs and benefits.

The „regional” function means the adoption of the logic of parliamentary democracies in relations with different countries. With this behaviour a society tries to control the increase of any power in the face of other social units and/or transmits and executes the global efforts.

An activity is „global” which represents the security policy and operates with the aim of keeping the given unit stable. From this comes that one cannot restrict the meaning of rationality to the economic subsystem because its content differs in the above cases. Rationality in the strict economic sense refers to the optimal allocation of scarce resources. In the wider sense rationality serves the security of existence in the long-run.

Using the terms „national”, „regional”, „global” in the above functional meaning is not done with the aim of making a pun. The general economic approach towards the analysis of a *country's* economic and political steps in the world economy focuses on the economic interests of the nation. *Regional* institutions are those of mutual control and decision making in

most cases. The *global* phenomena refer to the whole world and since the realization of global problems in the 1970's everyone has understood that there is no alternative to the unity and stability of the world.

It is of vital importance to emphasize that functions and institutions are not the same. The above terms do not mean that the nation states operate only according to the logic of the economic subsystem, the regional integrations are innocent of increasing the national income or of being responsible for the security policy. The different institutional frameworks include all of these functions, which means that the nation states and integrations may perform national, regional as well as global functions.

It seems to be also important to note that the above functions are not separate. The system is open and interrelated. Even if the subsystems operate according to a different logic, they affect each other. The global function is not simply a moral, enlightened logic because it works through the economic subsystem. Parliamentary democracy has to control the economic efforts and represent the different economic branches. On the other hand it should transmit the global, security function towards the economic system.

THE BEHAVIOUR MODEL OF THE INTEGRATIONS

The general approach

The general approach discusses the integrations from the national point of view. In this sense the background and aim of the creation of an integration is the maximization of the national income of the member countries. A country may consider integrating its markets with those of some other countries if:

- the institutionalization of the country's foreign economic relations improves the national income more than the current foreign economic system;
- the potential partners also realize a national income increase;
- the majority of the increased income is induced and not transferred, i.e. the economic benefit comes from the more effective performance of the countries, from the more effective allocation of resources and not from the transfer of the national income form one country to the other throughout e.g. terms of trade changes.

These considerations support and lead to the common view that integration can be beneficial among powerful countries close to each other, and of similar size.

The main source of the national income increase comes from the integrated markets as:

- it can improve the allocation of resources; i.e. it makes more advantageous to run a structural economic reform including the withdrawal of resources from those branches of the economy which perform worse than the national average or those whose performance is appreciated in the world economy;
- it improves the performance of the whole economy by helping the different branches of economy connect smoothly and by helping the comparative advantages coming across;
- it increases the potential market area by the destruction of trade barriers, by bringing the customs' regulations closer to each other (in extremity standardization);
- it is possible to make use of the economies of scale from two points of view. First, the increase of the scale of production at the same technical level reduces average fixed costs. Second the bigger scale makes it possible to put into operation new production techniques.

One can be more precise by saying that the purpose of creating an integration is not simply the increase of national income but an increase relative to the other competitive centres of the world economy, thus the integration can play a more important role in international trade talks, in influencing the world prices, etc.

The extension and the deepening of an integration can thus be translated into a threefold economic question, which are the three components of international competitiveness:

- The integrated countries may decide on the accession of new members, which increases the relative size of the region; i.e. the potential GDP, the amount of exports, industrial production, etc. From this point of view those countries have the best chances to join which are economically big and/or powerful enough. This was the case with the accession of Great Britain, Denmark or the latest Nordic extension of the EU.
- The deepening of the integration does not increase the amount of resources in the region but makes an improved use of the existing ones with a structural reform; i.e. the GDP, export or industrial production per head etc. are aimed to increase. This strategy characterizes the SEA, the Maastricht Treaty or the 2nd White Book.
- The third factor is the homogeneity of integration. The potential member countries generally do not represent the same economic power and the same development level. The more heterogeneous the integration

becomes, the more inner friction may appear as far as the allocation of resources are concerned. Thus the integration has an optimal size and „country-structure” in the given world economic circumstances.

The three components of the competitiveness are not optional. To keep up with the competing centres both the extension and the deepening are needed. Which to choose at the given moment or how to combine the two strategies are the function of the number and the development level of the potential member countries as well as the world and regional economic and political circumstances.

The regional content

The regional content and function of an integration is the control of the economic and political efforts and ambitions of the member countries. It is well known that the European Economic Community has been founded on the French-German axis. Both countries' strategy included a more tight connection with the other. France was afraid of the German hegemonic ambition thus she aimed at controlling the neighboring nation's economy and policy. Germany wanted to get rid of its political isolation and taking part in the European integrating process made it possible to control the French continental hegemonic effort. The resulting institutional framework, the decision making process, the voting system are all the elements of the parliamentary democratic function. The importance is not simply the possibility of controlling each other as well as their foreign relations but the fact that the members let other nations control them, too. The effective operation of the regional function also has an optimal size with the number of countries and their structure given, which can be experienced in the current reform debates of the EU.

The global function

The global function of an integration includes the elimination of the inner friction and the effort to maintain the stability of the region and its relation with other parts of the world. The consensus decision making on the political side, the social, regional policy, the common research projects, an effort to create a unified consumption culture, etc. on the economic side are all parts of the security policy.

It is of more importance that the economic, social frictions and crises outside the integration create a similar danger in the region. This is why the integrated countries should take into account the foreign events and react actively. The Southern extension of the EU can be better explained with this function than with strict economic reasons. The Greek,

Portuguese or Spanish political crises and their geopolitical position pushed global logic into the fore.

THE EAST-CENTRAL EUROPEAN ASPECT

As there is almost a consensus in the East-Central European Countries regarding the accession to the EU, we should concentrate on the elements of the behaviour model of the EU.

If one emphasizes the national function of the integration, the following remarks are worth mentioning.

The relative benefit of the EU members from the extension of the market is not significant. The integration cannot increase the amount of the potential resources in the East-Central European countries (except Poland) in comparison with the North American and South East Asian regions. Only a joint extension may be relevant but it is not likely and the different regulations as well as the level and quality of demand present serious problems.

As far as the economies of scale are concerned, the extension has only a limited advantage as regards the introduction of the latest, capital and R and D intensive technologies. The integration cannot rely on modernization sources from the East, either.

Generally, the relatively cheap labour costs are mentioned as the comparative advantage of the East-Central European countries. This may be partly true but only in those branches of the economy which have high labour costs in their cost structure. On the other hand the cost of labour should be considered in comparison with performance, effectiveness of labour and other wage burdens such as social security.

Since the Edinburgh Summit unemployment has become a number one problem in the EU, which makes it difficult to enter the European labour market freely, though the unified, free mobility of the factors of production forms in part the basis of the single market. This phenomenon is strengthened by the Schengen Agreement.

The Maastrich Treaty imposed convergence criteria on entering the monetary union. The European Monetary System itself also faces problems and the accession of new countries would not improve the convergence. We should emphasize this even if we take into account that the monetary union includes the possibility of a multispeed Europe: the accession would affect the performance of the core countries as well.

All in all the strict economic approach should make the East-Central European countries realistic and it seems that it is not all the same what economic model these countries would like to joint.

The regional function of the integration seems to be problematic for the potential new members as well. The institutional, decision making problems are widely analyzed. It is also stated that the accession of the new members would make the decision making and execution process ineffective, in extremity impossible. On the other hand Poland, the biggest country in the region, possesses weight enough to have an effect on the stable status quo within the existing system. All in all, we should say that the possibility to take part in the decision making process of the integration would be beneficial for the East-Central European countries.

A global function, dominant security policy would benefit the East-Central European countries. The potential members would be given a hand as regards economic and political stability and future relations with the current members and with the institution of the integration would be considered from a different point of view in comparison with the strict economic logic. The economic strategy and the behaviour model of the EU would be different because the stability and security of the region and that of the relations with third countries would dominate the strict, profit maximizing logic. The dominance of the global function does not mean any restricted economic or political relations, it contains only a different behaviour model within the economic and political sphere as well as underlining the importance of handling the accession to EU, NATO or WEU.

CONCLUSION

The East-Central European countries have no relevant alternatives compared to the strategy of joining the EU as the economic and political circumstances do not offer any other source of modernization and security. The paper wants to emphasize that the ways how these countries join are not the same.

If the national function becomes dominant in the European integration, the accession will contain many disadvantages. The dominance of the profit maximization of the current member countries with an integration aiming to improve this function can mean, in extremity, a kind of „neo-colonial” relationship, where the integrated countries improve their national income benefits on account of the new members.

If the global function becomes dominant in the behaviour model, this would mean a completely different economic strategy. Instead of highly

asymmetric advantage, the integration may raise the economic and social performance of the Eastern countries in line with their self-development.

The consequence is that the accession process should not be restricted to the adoption but these countries have to try to influence the integration strategy.

The European integration works on a new behaviour model during the Intergovernmental Conference. The potential member countries cannot take part in the decision making but it is high time to influence the model these countries would like to join.

LÁSZLÓ RÉTVÁRI*, ISTVÁN TÓZSA*

Bauxite or medicinal water: pros and cons¹

INTRODUCTION

The Transdanubian Mountains in Western Hungary have rich resources of subsurface water, minerals, forests, cultural heritage as well as numerous touristic attractions and sites of recreation. These resources, however, had been managed carelessly by society and lavishly by the economic policy of previous decades. Not only the exploited resources are paying the expenses for the lack of foresight in management, but other valuable natural factors, like relief, are also involved.

Researchers called attention in time to increasing environmental damage springing from the extensive economic development in previous decades. They warned both governmental offices and the municipalities to harmful consequences, but they had not been observed until an environmental crisis ensued and until the landscape changes reached a threshold of irreversibility, endangering the economic bases of local communities.

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¹ Presented at Veszprém University, 1996

ISSUES OF THE CONFLICT

The tension between governmental policy and municipalities led to an open conflict and in 1984 the government turned to the Geographical Research Institute of the Hungarian Academy of Sciences for an independent opinion in the following issues:

- What are the environmental impacts of the 80-years old bauxite and coal mining activities in the Transdanubian Mountains?
- What is the financially evaluated national significance of the most important Transdanubian bauxite reserve at Nyirád compared to that of the world famous medicinal spa at Hévíz?
- Is there an opportunity to preserve and use the Hévíz Lake simultaneously with the exploitation of bauxite at Nyirád?

Researchers attempted to answer the above questions on the basis of surveys and available data. In addition to a comparative evaluation of benefits Nyirád versus Hévíz, an expertise report was formulated on the simultaneous exploitation and priority of resources. After the surveys¹, however, the situation deteriorated, as the Aluminium Works of that time, the powerful „alulobby”, responded to the revealed environmental problems with insufficient or one-sidedly engineering solutions.

Five years later, immediately before the economic turn in 1989, the Academy was asked again to deliver its opinion². The Academy proposed the preservation of Lake Hévíz at the expense of the aluminium industry and the central government decided to close down the bauxite mine at Nyirád.

Political interests got deeply involved in the above environmental conflict, so its management depended on whether or not an environmental approach can be given priority in the changing political structure. After closing down the Jeep mines at Nyirád, the equipment was removed from the mines and reclamation began. In spite of insufficient precipitation in those years, the karst water system started to revive.

¹ Bernát et al., 1984

² Rétvári et al., 1989

DROPPING KARST WATER TABLE AND LAKE DETERIORATION

The major elements of the environmental crisis dating back to three decades can be summarised in the following. In the subsiding Hungarian basin, the joints of the 3000 m thick Mesozoic and Tertiary karst series hold the largest and best quality water reserves of the country (ca 50 billion m³). Because of geological and geothermal conditions, mineral and medicinal waters are also very common¹. Under natural circumstances subsurface water is in a dynamic balance. Water extraction accompanying bauxite mining caused a depression in karstwater table, depending on the intensity of mining. It can also be observed in the decreasing yields of karst springs. After the coal and bauxite reserves above the karstwater level were depleted in the early 1960s, „active dewatering” was introduced to protect life and instruments in the mines (see Table 1).

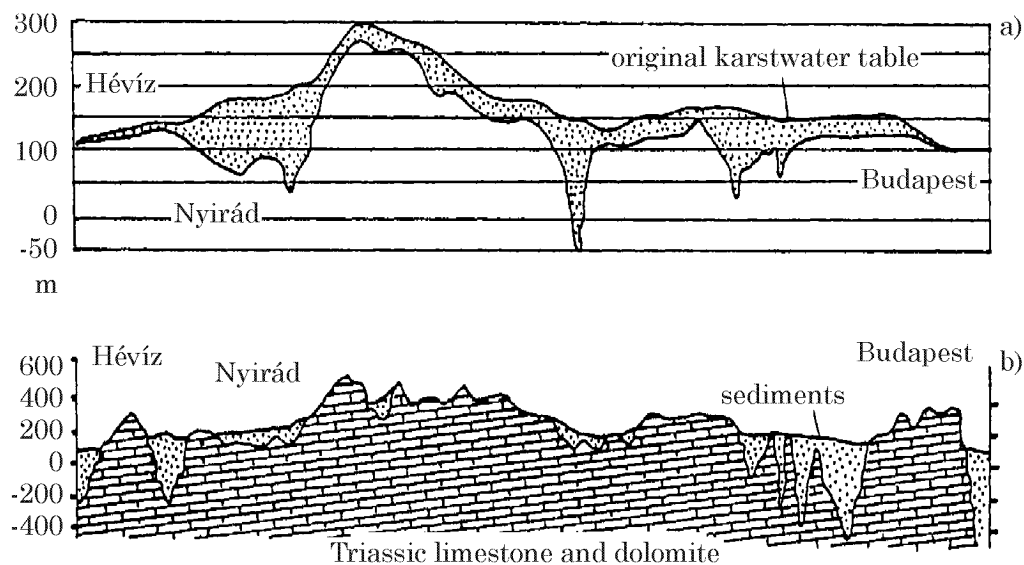


Figure 1.
Longitudinal profile of the karstwater system in the Transdanubian Mountains,
Hungary, with karstwater depression (a)
and reservoir rocks (b)

¹ Rétvári, 1994.

Table 1.
Karstwater extraction before (1957) and after (1980) the introduction of the active dewatering mining technology in the Transdanubian Mountains, Hungary

Water extraction	Location	1957 [m ³ /min]	1980 [m ³ /min]
Artificial	Csordakút	0.0	5.0
	Dorog	63.2	6.0
	Tatabánya	44.2	136.0
	Kincsesbánya	13.2	74.0
	Várpalota	2.7	15.0
	Balinka	3.2	15.0
	Dudar	1.6	2.0
	Ajka	18.2	16.0
	Nyirád	4.0	307.0
	Total	150.4	576.0
Natural (springs)	Hévíz	34.8	26.1
	Tapolcafő	55.7	0.0
	Tata	27.0	0.0
	Budapest baths	59.1	32.3
	Balaton Uplands	111.6	20.4
	Total	288.2	78.8

The karst water level of the Transdanubian Mountains was continuously dropping to an average 30 m by the early 1980s, though in the vicinity of bauxite and coal mines the depression reached 50 to 100 m (see Figure 1). From the mid-60s the karstwater depression at Nyirád had extended over 3000 km² and it reached the vicinity of Hévíz, 6 km west of Lake Balaton. The yields of its springs, the mixture of which used to produce an average 500-520 l/sec and 39°C hot water, had dropped to its lowest recorded amount with 270 l/sec by 1984. Table 2 shows the water discharge slowly increasing, although in recent years, due to little precipitation, it is stagnant. With the continuous drop of its water temperature the biological state and balneological value of the 4.64 ha large and 1.5 to 40 m deep spring lake (see Figure 2) deteriorated. Thus, the world famous and very valuable spa became endangered. The surface water temperature of the lake dropped below 28°C, without medical effects, for 100-140 days instead of the former 25-30 days a year. Thus the local holidaying

facilities of ca 33 million USD estimated value in the mid-80s became also seriously endangered.

Table 2.
Water output of the Hévíz Lake (yearly averages in litres/sec)

Year	Water output	Year	Water output
1950	606	1980	336
1955	527	1984	270
1960	560	1990	322
1965	503	1994	356
1970	440	1996	404
1975	379		

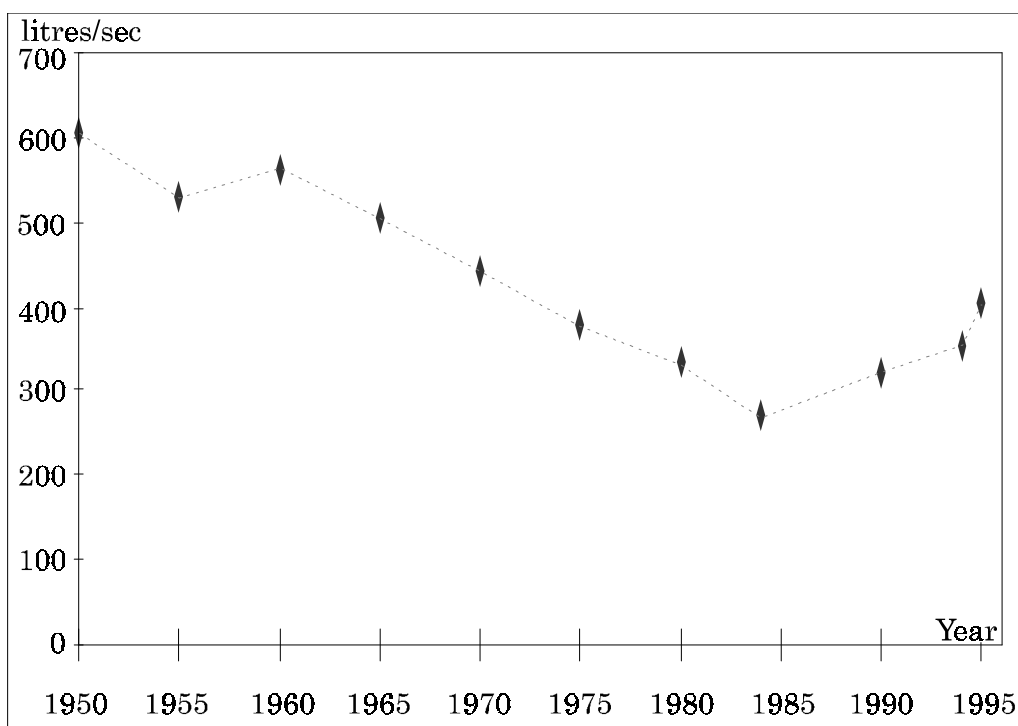


Figure 2.
Water output of the Hévíz Lake (yearly averages in litres/sec)

The technical developments to „improve” the situation (like the pipeline from the main spring to the bath) was opposed by the medical, touristic

experts and the local council staff, because it was promising a symptomatic treatment with great environmental risks. Not only the water discharge did drop below 350 l/sec, but the level of the lake sank 32 cm in 1984 and this unconsidered technical operation was followed by a harmful effect to natural biology, causing the water-lillies disappear. The original water level was then restored and the water yield stabilised around 300 l/sec by the end of 1988.

A COMPARATIVE ECONOMIC EVALUATION

The known and estimated total bauxite reserve in the Upper Cretaceous formations of the Transdanubian Mountains reached ca 150 million tons by the end of the 1980s. According to the demand of that time, the reserve was estimated to last for 50 years. The good quality bauxite at Nyirád amounted to 12 million tons. Economic calculations and estimations in 1984 and in 1988 showed that the value of the mineable bauxite reserve is approximately equal to that of resort facilities around Lake Hévíz on the national level. Lake Hévíz, however, is an exceptional rarity (there is only one spring lake with similar water yield in the world, at Rotorua, New Zealand). Social interests on behalf of maintaining Lake Hévíz was stronger than that in exploiting the Nyirád bauxite reserve that could last for 5-8 years only.

The Hungarian Academy of Sciences therefore proposed to continue bauxite extraction strictly depending on the ecological conditions of Lake Hévíz. No proposals of the Ministry of Industry was accepted for the regulation of spring yield, as they all involved heavy risks. After the threatening drop of the water level in 1988 and the repeated surveys, the Academy proposed to withdraw the right of the Mining Company to extract water from the mine at Nyirád. (The Company paid only equivalents of 0.4–0.5 cents for one cubic metre of water.) The proposal included the closing down of the Nyirád mine from 1989 and its subsequent reclamation. The government accepted this proposal in the first year of the political-economic change in 1989. The resolution resulted in a slow improvement.

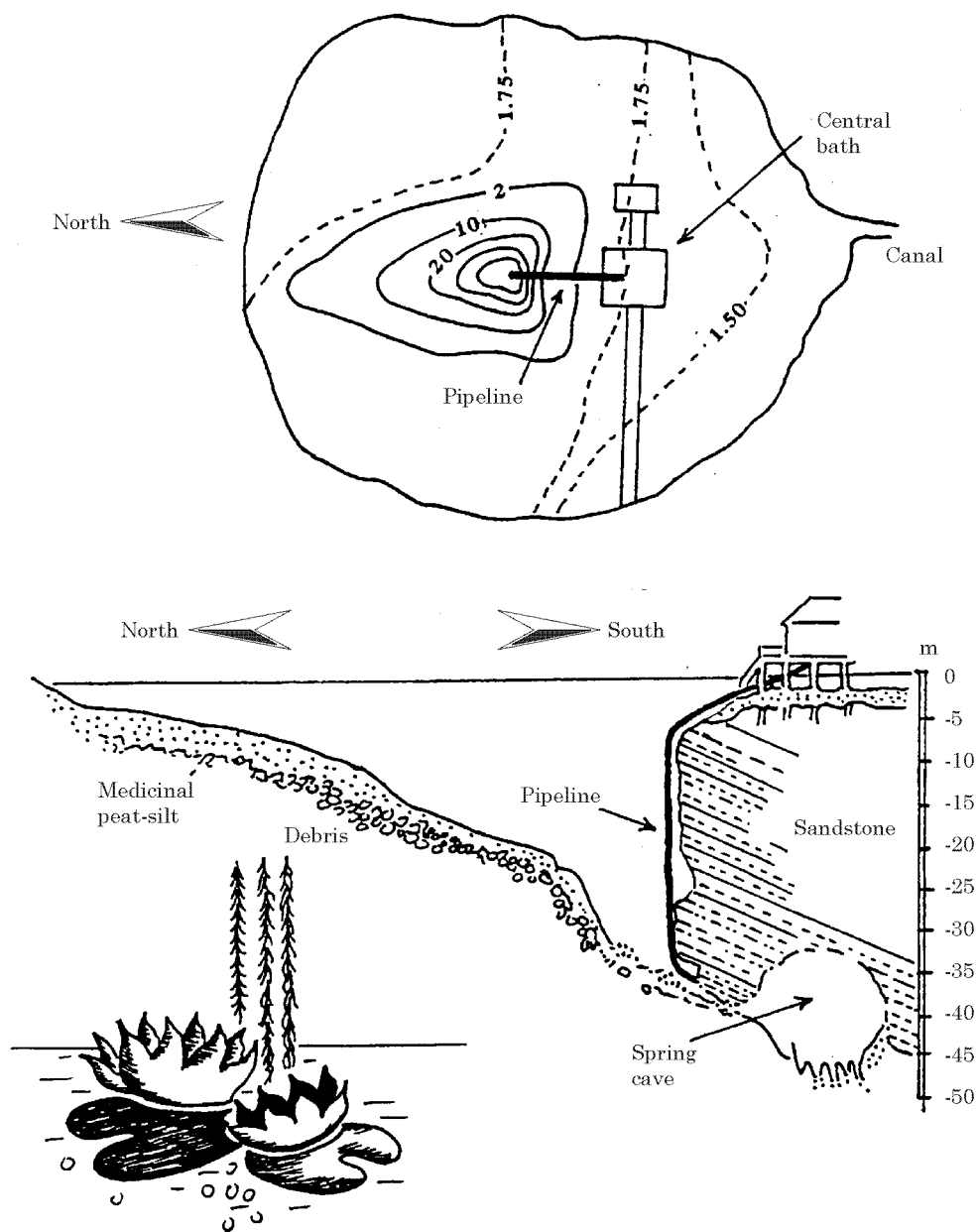


Figure 3.
Depth of water in Lake Hévíz and the location of the pipeline installed

ENVIRONMENTAL DAMAGE

During the above surveys it was found that the desiccation of stream channels, the drying up of the karst marshes and other karst springs (like the well-known one at Tapolcafő supplying the town of Pápa) and the damage to agricultural land around the mines (some 120 thousand hectares) alt had been caused by the pressure loss of the karstwater system in the Transdanubian Mountains since the end of the 60s.

The fifteen years of open and deep mining of the bauxite caused damage to both organic and inorganic formations on the surface and mining wastelands expanded. The surface caved in above abandoned mine shafts, leaving extensive damaged and abandoned land behind. The caverns of deep coal and bauxite mining could have easily allowed contaminants from the non-reclaimed surface seeping through the possibly loosened and jointed overlying strata into the karstwater system with precipitation. This potential pollution may seriously endanger the most important natural resource of the Transdanubian Mountains, ie. the 50 billion m³ of clear karstwater today. This important national water reserve does not only contribute to supplying the densely populated industrial region in Central Transdanubia with drinking water, but also provides water for the resorts along the shores of Lake Balaton.

THE PRESENT SITUATION

The most serious conflict of interests in the Transdanubian Mountains in the 1980s seems to be over. The Hungarian aluminium industry has lost its best quality domestic bauxite supplier at Nyirád. Regarding the present economic situation, this loss can be tolerated. The ever improving environmental state of the Hévíz Lake, on the other hand, offers an excellent opportunity to exploit the available well-developed touristic facilities at the spa. (Almost one fourth of the total investments in 130 settlements with thermal baths was implemented at Hévíz in recent years.) After the period of crisis is past, the National Balneological Hospital, Hotel Thermal and Hotel Aqua (built from Austrian capital) and a lot of company and private resort houses keep on operating. This advantage cannot only be evaluated in Hungarian and foreign currencies, but through the recreation of human capacity. In this viewpoint, the resolution of the conflict is beneficial for the whole society.

Problems of the physical environment, however, survive. The several decades long mining has left its traces on the environment. Water extrac-

tion associated with mining has been one-third exceeding the volume of precipitation. Stream channels dried up, karst marshes disappeared, the yields of water supply Wells have dropped and this depression affects the water budget of soils in the vicinity of the mines, unfavourably affecting cultivation. Tracts of the undermined landscape are turned into disturbed mining wastelands. There are more than 100 abandoned open mines with pits and spoil heaps and hollows caved in above the deep mines. The continuous reclamation of this terrain is not yet planned. The caverns of deep mining also involve the risk of the infiltration of pollutants and thus endangering the drinking water base. The bauxite mined at Nyirád was transported on road to the Ajka Alumina Factory. Now the bauxite mined at Csabpuszta near Nyirád, above the karst water level, is even today carried there. The environmental pollution caused by the many thousand tons of bauxite dust, noise and exhaust gases along the 20 km long road via the settlements (Szóc, Halimba, Padragkút) is still considerable.

CONCLUSION

The Transdanubian Mountains are the richest region in natural resources in Hungary. Local coal-fields contain more than half of the country's total reserves; all of Hungary's bauxite and manganese reserves; two huge quarries and more than 200 abandoned stone and sand-pits; and other minerals used by construction industry. In the cracks of calcareous deposits huge karst water reserves accompanied with medicinal water springs are clear enough for direct use. Elongated depressions and basins dissect the mountains, about half of which is cultivated land, 22 per cent is forested and the same amount is covered by settlements and other artificial surfaces (industrial and mining plants, wastelands). The sustainable exploitation of environmental resources, the maintenance or improvement of the quality of life for the population and nature protection consideration call for the resolution of environmental conflicts in the area, which is exemplified here by the debate bauxite mining versus medicinal water utilisation.

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SUMMARY

István, MOLNÁR

Legal Harmonisation in the Countries of Central and Eastern Europe – (with a focus on Hungary and the EU) as a necessary precondition for EU membership – with special attention to social policies and Labour Law

The paper discuss the changing social-labour policies of the Central and Eastern European countries (CEEC) and refute the claim of many Western countries that CEEC attracts foreign direct investment (FDI) by committing social dumping. The work basically consists of four parts:

The first part gives an overview of the relations between the CEEC and the European Community (EC), trying to underline the importance of the role of the EC in the successful transformation process of the CEEC.

The second part of the paper discusses the growing importance of FDI, its role and importance in globalisation. In addition a short summary of the EC social policies and their effect on member state social legislation will be given.

The third part presents the Western argument for social dumping and the reasons behind German fears of the phenomena.

The fourth part highlights the main differences in social and labour policy in the CEEC before and after the beginning of the transition process.

Pál, MAJOROS

The role of the CEFTA in member states' EU integration efforts

The short history of CEFTA is a success story. The semi-peripheral Central-East-European transition countries have successfully changed their economic models and foreign trade orientation. Their ultimate objective is to become EU member states. In this respect the CEFTA countries have achieved considerable advantage; three of them have become OECD members. The author discusses the development of CEFTA, and the pros and cons of EU membership as seen by the East-Central European countries. The co-operation of the CEFTA countries is highlighted as instrumental in strengthening the bargaining position of the semi-peripheral countries because it reduces the asymmetric relationship. An acknowledgement of CEFTA's activities so far is the fact that accession talks have been started with 4 CEFTA member states.

Zsolt, KŐHALMI

On the innovation potential of the Hungarian industry: findings of a survey

The conclusions shown give but a brief and preliminary overview of the findings of the survey. A profound analysis of the data is going to be disclosed for a wider public by the Institute of International Technology in cooperation with the National Committee for Technological Development.

Tamás, GÁSPÁR

**The behaviour model of the European Union
– the role of the Central-East European countries**

The paper seeks to discuss some elements of the strategy of the Central-East European countries in the accession to the EU. The starting point is that the strategies has been built upon economic political and practical cost-benefit analyses so far, while the integration theory lacks the appropriate answers to the integration process in the globalisation period of the world economy. The paper starts with defining some functions of societies so as to distinguish between different integration strategies and to decide which would be the most suitable for the Central-East European countries. In this approach the terms 'national', 'regional' and 'global' are given a functional meaning from the viewpoint of the world economic interpretation of different subsystems: the economic, political and cultural ones. The behaviour model of the integrations is derived from the three subsystems. The well known and commonly used cost-benefit approach of the integration strategy is only the logic of the economic subsystem. The regional content and function of an integration is the control of the economic and political efforts and ambition of the (potential) member countries. The global function of an integration includes the elimination of the inner friction and the effort to maintain the stability of the region and its relation with other parts of the world. The final part of the paper discusses the theory from the Central-East European aspect. The conclusion puts much emphasis on making difference between the strategies built on the different options of the future of the integration model.

László, RÉTVÁRI, István, TÓZSA Bauxite or medicinal water: pros and cons

The economic expansion under the socialist regime led to environmental crises in some regions of Hungary. The technology of bauxite mining in the Transdanubian Mountains is a typical example for a prominent activity causing far-reaching environmental impacts and attracting great attention. The lasting deleterious effects of mining are manifested in water and related physical processes and in regional management.

Environmental degradation began with the introduction of active dewatering technology in the exploitation of bauxite and coal in the early 1960s. The applied technology caused an average 30 m dropping of karstwater level over an area of 3,000 km². It reached its lowest level (110 m) in the major mining region in the western portion, at Nyirád. Many wells and springs of the region dried out, including the most abundant Hungarian spring at Tapolcafő. The world famous and unique spa, Hévíz, with incomparable balneological medical, recreational and infrastructural value, situated only 6 km from the southwestern basin of Lake Balaton, was also affected.

Due to academic argumentation and pressure from local authorities, the government decided to close down the deep bauxite mine at Nyirád. This measure was followed by a slow rising of the karstwater table, also in the Hévíz spa region. As there has been no recultivation, however, the pits and caverns resulting from mining can still be seen. In the paper the landforms related to mining are presented and micro-scale changes in land use are detected in the environs of Nyirád.