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# **The role of Visegrád 4 and CEFTA in the Euro-Atlantic Integration of the East-Central European Region<sup>1</sup>**

## **FACTORS OF COHESION**

Almost ten years have passed since fundamental political and socio-economic changes started in East-Central Europe (ECE). This round-figure anniversary gives an occasion to look back to 1989-1990 when the basic directions of the transition to market economy and democracy were formed in very difficult, sometimes turbulent debates between political forces.

Looking back from a ten-year distance it is now clear that the adopted by the first freely elected governments in ECE were more or less identical. They included:

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- in the internal policy: to create a multi-party, parliamentary democracy with the rule of law and an active civil society,
- in economy: re-structuring of ownership-relations and business conditions via privatisation and marketisation; stabilising the crisis-affected economies,
- in foreign relations: an overall re-orientation including the withdrawal of Soviet troops (wherever they stationed), re-structuring of external political and trade relations and integration to the euro-atlantic structures i.e. the NATO and the European Communities.

However, as it is often emphasised by prominent transition researchers from BEREND to KORNAI and MARER<sup>2</sup>, common priority aims and tasks have been implemented with different speed, efficiency and methods depending generally on a set of historical, economic, political, cultural and other factors providing initial conditions for the transition process. Such initial conditions were to a considerable extent favourable and similar in three relatively developed member-countries of the late Council of Mutual Economic Assistance (CMEA): Czechoslovakia, Poland and Hungary. During the post-1989 period, these three (after the separation of the Czech Republic and Slovakia: four) countries have formed a particular sub-region with similar objectives and interstate agreements.

The question may arise, what are the basic factors motivating regional and sub-regional cohesion. In theoretical terms, motivation should be rooted in similarities and convergences of endowments and development choices. Drawing conclusions from the regionalist experiences in the last decades, British researcher A. HURRELL identified five such components: geographical proximity, social (historical, ethnic, cultural), economic, political and organisational cohesiveness.<sup>3</sup> Examining the mentioned sub-region, elements of cohesion can easily be observed.

*First:* geographic closeness and contiguity are given. All the three countries belong to what geographers and economists usually call 'the Northern tier of ECE' when they want to distinguish it from the Balkans and the Western ex-republics of the former Soviet Union.

*Second:* the countries have common history in many aspects. All of them had been victims of various kinds of foreign occupations, were parts of great empires, lacked national independence for long centuries. All belong to the sphere of Western Christian civilisation, three of them are parts of Slavic culture as well. Due to historic factors, populous national minority groups of each other live within the state borders. There are long traditions of close co-existence between Czechs and Slovaks, Slovaks and

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<sup>2</sup> Ivan T. Berend (ed.): Transition to a Market Economy at the End of the 20th Century, Südosteuropa Gesellschaft, München, 1994.

<sup>3</sup> Andrew Hurrell: Explaining the resurgence of regionalism in world politics, Review of International Studies, Vol. 21. Nr.4. October 1995, pp. 331-358.

Hungarians, feelings of Hungaro-Polish friendship are also deeply rooted in history. Beside their national identity, peoples of the region also feel to be part of Central Europe with all its cultural and socio-psychological implications. In sum: the countries in question are connected to each other by strong and traditional bonds of social cohesiveness. At the same time, there were also serious factors and memories of desintegration in the historic past (e.g. national minority conflicts within the Austro-Hungarian Monarchy, failure of federalist ideas in the past 100 years, collapse of the artificially created multilateral structures such as CMEA, WP in the socialist period) which had to be overcome in theory and practice after 1990.

*Third:* the level of economic development of the four states and their trade relations are determined by their geopolitical location and historic factors. All countries belonged to the European semi-periphery and could join the mainstream of European industrial development only loosely and with a substantial delay (excepting the Czech Republic). Centrally planned, state-socialist economy, that they equally followed for more than forty years, in final analysis, failed to bring about socio-economic modernisation and catching up with the developed part of Europe and national economies faced a heavy crisis by the end of the 1980s. All of them belong to the category of small-size and open economies very much reliant on foreign resources and markets. However, autarchy imposed by CMEA led to relative isolation from the main currents of world economy distorting national economies. By 1990, share of all the countries in world trade decreased including fallback of exports and competitiveness. Intra CMEA-trade started to drop in the second half of the eighties. After the political changes, trade between the four countries decreased by its half and reached its historic nadir in 1991-92.<sup>4</sup>

*Fourth:* politically, all the countries became Stalinised in the late 1940s and followed the Soviet model of one-party dictatorship based on Marxist-Leninist ideology. However, in each country there were significant revolutionary upheavals against the system and Soviet dominance during the fifties, sixties and seventies and alternative political forces in more or less organised shape emerged in the eighties to form an opposition against the Communist establishment. A further similarity is that Czechoslovakia, Poland and Hungary were the model countries of 'negotiated revolution' ('velvet revolution', or in the words of T.G. ASH, 'refolution') i.e. peaceful transition to market economy and democracy with centre-rightist parties coming to power after the first free parliamentary elections.

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<sup>4</sup> In 1991, the share of the two other countries in Hungary's foreign trade came down below 5% contrasted to over 7% in 1989. Pál Majoros: Foreign Trade Relations of Hungary, BBS, 1999, p. 109.

As regards international political and regional security environment, during and after the collapse of the Eastern Bloc, the former member-states of CMEA and Warsaw Pact found themselves in security vacuum between two powers, the newly re-united, emerging Germany and the unstable, decaying Soviet Union. In this situation, the only way to satisfy security needs of new democracies proved to be the integration into NATO and the European Communities.

*And fifth:* organisational cohesiveness has also a long historic past in the region. The idea of 'subregionalism' found its precedents in such unrealised projects of the last and current centuries as e.g. the 'Federation of Danube Valley States' suggested by KOSSUTH and renewed by Tito and DIMITROV in the 1940s. New organisational framework of closer co-operation between the three states was to be found in the 'BREZINSKI-plan' of 1989, in the proposals by the NÉMETH government for a 'small integration' within CMEA in 1990 and in similar concepts of President VÁCLAV HAVEL and Polish leaders. The ideas of other forms of sub-regional or cross-border co-operation as e.g. the Carpathian Euro-region (with the participation of the four countries, the Ukraine and Romania) emerged also in the beginning of the nineties.

In sum: we can state with evidence that in the beginning of the 1990s, the three, later four countries satisfied all the criteria of sub-regional cohesiveness. Consequently, it was not by chance but a natural process that the new state leaders realised the historical necessities and, 656 years after the first Visegrad meeting of their kings, convened the new Visegrad Summit which took place on February 15, 1991.

## **THE VISEGRAD FOUR: GROUP OF THE MOST ADVANCED IN TRANSITION**

In the Visegrad Declaration, a series of common values, principles and objectives were identified along with concrete joint actions to be taken by the participating governments. The latter included e.g. measures to facilitate the free flow of goods, services, capital and workforce, to promote mutually advantageous intra-trade relations and promote foreign capital inflow in the region, to enhance co-operation in infrastructural development, environment protection, cultural exchange and direct co-operation on local self-government level. In the document, special emphasis was given to issues of common security and the assurance of the rights of national minorities. One of the main directions of the Group's

activities was aimed at the harmonisation of the countries' efforts to establish close co-operations with the European institutions. Regular meetings and consultations on different level were envisaged as main forms of implementation of the objectives.

In the ten-year history of Visegrad Group three periods can be separated. The first covered 1991 and 1992 when the system of consultations between heads of states, prime ministers, lower ranking officials and local government functionaries became cristallised and regular talks started in political, economic, military, social, cultural and other fields. In this period, it seemed to be unanimously accepted that interests of the participating countries towards European institutions can be represented more efficiently on joint level and full membership in NATO and EC can be achieved through harmonised efforts rather than competition and rivalry. This common understanding became further strengthened by the signing of the Association Agreements (Europe Agreements) of the three countries with the EC on December 16, 1991.

However, in the second stage (1993-1997), conditions changed significantly. Shortly after the separation of Czechoslovakia, the political cohesion of the Group weakened due to new trends in the development of certain participating countries. Based on very promising macro-economic indicators of the Czech Republic, highly appreciated also by Western observers, official sources of that country started to question the necessity of harmonised accession policies giving preference to individual action. Other statements characterised the Visegrad Forum as an inefficient, almost declarative project forced upon the countries concerned by the EU for bureaucratic reasons. This divergence of positions led to the degradation of the importance of all kinds of co-operation other than economic and commercial, consequently, the established fora of quadrilateral consultations hardly existed in the subsequent years. Thus the second period can be regarded as the exclusive epoch of CEFTA, markedly expressed by a slogan often used by the media „*Visegrad is dead, long live CEFTA!*”

Inspite of all this, the Group achieved, in the first years of its existence, at least three undeniable results. First of all, it accelerated the process of dissolution of the structures of the Eastern Bloc, without replacing them by similar forms of pseudo-integration but offering new and organic frames for subregional co-operation. Secondly, it served as a framework of identification and separation of a couple of ECE countries which proved to be the most advanced and prepared for close co-operation with NATO and EU. As Czech Foreign Minister JAN KAVAN stated, „V4 helped to present a positive picture of post-Communist Central Europe to the democratic world. The member-states showed their abilities to develop peacefully and their will to co-operate in a sensitive part of Europe and in a tense and

unstable period of time.”<sup>5</sup> Thirdly, Visegrad economic diplomacy succeeded to establish a multilateral commercial network in the region named Central European Free Trade Agreement (CEFTA).

## CEFTA: A SUCCESSFUL INITIATIVE

The CEFTA Agreement was signed on December 21, 1992 in Cracow. Beside factors of economic cohesion mentioned above, the participants were also motivated by the fear that, after Association Agreements with EU came into force and industrial tariffs became partly eliminated, the three countries, unless they conclude an agreement with similar terms, could face relative disadvantages in each other's market. So the CEFTA agreement has been tightly connected with the state of its signatories' relations with the European Union, since the moment of its conclusion.

The basic objective of the Agreement was mutual liberalisation of intra-trade and the development of economic co-operation. It declared the signatories' common desire to participate in the process of European economic integration. It included the enlargement of trade relations between member states, creation of conditions for correct business competition and contribution to the harmonic development of world trade. One of the basic principles of the document envisaged the gradual abolition of tariffs and non-tariff barriers from intra-trade in industrial goods by January 1, 2001, while in the field of agricultural trade the document contained only concessions. Another article emphasised the principle of symmetry ensuring global equilibrium of mutual preferences. It was clearly fixed that the preferences provided by the agreement have to be at least equal to those stipulated in the signatories' individual association agreements with the EU.

After more than 6 years of its existence, a few assessing remarks can be made about CEFTA's main achievements.

- One of the basic aims of creating CEFTA was to stop the rapid shrinking of East- Central European countries' intra trade. Rapid liberalisation of intra-trade exceeded even the initial expectations. 90% of industrial trade between the member countries has been 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 the deadline is the same both in the EU Association

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<sup>5</sup> Slovak Trade Forum, Journal of Foreign Trade Support, Slovak Chamber of Commerce and Industry, Bratislava, 1998, p. 20.

Agreements and in the EFTA industrial and free trade agreements with CEFTA countries.) The issue of agricultural trade is more complex. Since 1996, a spectacular liberalisation has taken place in this field as well, and some kind of preferential tariffs now applies to 80% of these products. The positive effect of tariff reduction is that today the share of CEFTA is approximately the same as that of Russia in the individual countries' trade but the CEFTA seems to be a larger market with better prospects.

As a result, substantial growth can be seen in the exports and imports between member countries. As it is shown by figures of Tables 1 and 2, Hungary's trade turnover with its CEFTA partners was two and a half times higher in 1998 than in 1993. The volume of mutual capital investments and joint ventures has also been growing considerably (more than 650 joint ventures have been established with Slovakia alone).

- Another positive result of the CEFTA is that, according to the initial objectives, it has facilitated the reorientation of foreign trade of its members and managed to eliminate the previously predominant one-sided dependence on the East (both from the input and the output side). Trade between CEFTA member states makes up around 10% of their general average turnover (the Slovakian – Czech figure is higher for historical reasons) and the most dominant part (70-80%) of their trade is done with OECD, including 65-70% with the EU.

In re-structuring their foreign trade pattern, 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.<sup>6</sup> During the 1990s, the commodity structure of CEFTA countries' foreign trade changed radically. The share of machine industry and manufactured products has increased in the non-CEFTA exports of the four countries. However, it has to be observed that intra trade within CEFTA is far from reflecting the same tendency: the share of raw materials and semi-manufactured goods is still significant in the trade turnover between member countries.

- CEFTA was created by the will of the founders to enhance their economic development and growth. However, only few believed in the positive results of the four years between 1993 and 1997. In the CEFTA countries, economic growth exceeded the EU average, markets grew fast, intra relations deepened. Beside intra trade, member countries became similarly important partners of EU: in 1998, Poland was the 7<sup>th</sup>,

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<sup>6</sup> Inotai András - interview in Magyar Hírlap 17. January 1997

the Czech Republic the 9<sup>th</sup> and Hungary the 10<sup>th</sup> in the list of the Union's most important external partners.

- Thus CEFTA co-operation has not led to introversion, nor has it slowed down its members' integration to the EU. The primary aim of each member country remained EU-admission and subregional co-operation could be regarded as part of this process. CEFTA membership by itself means no guarantee whatsoever for joining the EU, nor can CEFTA be seen as an alternative to the EU. It is not the „entrance hall” nor „foreroom” rather the „training room” of the EU, where the participating ECE countries prepare themselves for EU membership through subregional co-operation.
- An important result of CEFTA co-operation is the broadening of the issues of integration (e.g. competition policy, rules on origins, etc.) the establishment of entrance regulations and the improvement of operations. Measures have been taken to develop trade in services, towards the liberalisation of the conditions for the flow of capital and the common acceptance of the results of quality control examinations.
- The positive results of the CEFTA are demonstrated in the fact that 3 of its participants have become OECD members (The Czech Republic in 1995, Hungary and Poland in 1996). No doubt, OECD membership is not a declared pre-condition of joining the EU, however, not a single country outside that organisation could enter the European integration so far. It was not by chance that out of the six first round candidates to EU five were already members of OECD and three of them were admitted to NATO earlier this year.
- A further favourable development has been the enlargement of the agreement. In their Declaration of November 25, 1994, Prime Ministers of the founder countries expressed their openness to all Central European countries which „will have association agreements with the European Union, will be GATT contracting parties and will get approval by all of the CEFTA members.”<sup>7</sup> Interest in CEFTA is shown by the joining of Slovenia, the most developed ex-Yugoslavian republic in 1996, then the entry of Romania in April 1997 and Bulgaria in 1998. There are other countries in the region turning towards the Agreement such as, Croatia, Lithuania and even the Ukraine has declared such intentions.
- Finally, it is a marking achievement of CEFTA that it could adhere to its original objectives and preserve its character as a free trade agreement. Suggestion to extend the agreement to free movement of workforce, services and capital emerged from certain countries but finally member states came to the conclusion that the CEFTA should not be developed

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<sup>7</sup> Declaration of Prime Ministers of the CEFTA countries, Poznan - 25.11.1994. Press Informacja Prasowa, Buro Prasowe Rzadu, Warszawa, 1994.



into an organisation similar to the EU. All these results were achieved without CEFTA having an administrative apparatus or permanent headquarters. The institutionalisation of CEFTA, e.g. the setting up of a permanent Secretariat could be regarded as changing the loose and flexible character of the co-operation.

By the end of the 1990s, the idea of Visegrad Co-operation rose to the surface again. Three of the founders of the Group, the Czech Republic, Hungary and Poland, described by both NATO and EU as functioning democracies and market economies were qualified as first-circle-candidates for accession. Their accession talks started with NATO in 1997 and the three states were granted full membership in March 1999. Accession negotiations including *acquis* screening started with EU in March 1998 followed by substantial negotiations going on from November of the same year on EU-conformity along 31 chapters of Community rules. The probable date of joining has been so far envisaged only in terms of a mutual 'working hypothesis' which could mean a minimum three-year waiting period from now, until admission. No observer or analyst can thus predict the exact date of full membership, however, all of them are unanimous in pointing out that the years ahead are expected to be the period of difficult tasks of preparation on one hand and sensitive diplomatic encounters on the other.

These new developments made the leaders of the countries realise the importance of the re-vitalisation of subregional co-operation. Motives of this could be listed for long, let us only point out three of them. The first group of factors concern the security environment. Impacts of the Russian economic crisis and the new round of the Yugoslavian conflicts drew the attention of the V4 states to the importance of regional security. New security risks emerged or became acute in the second half of the nineties. Co-operation became of vital significance e.g. to handle regional effects of organised crime, illegal migration, trade in drugs or environmental damages. Protection of state borders and fulfilling Schengen requirements (including their financial consequences) also necessitate joint action.

The other set of new tasks comes from the common position of the candidate countries in the process of Euro-atlantic accession. Preparation for integration as well as accession talks with EU require regular sharing of experiences with each other via consultations and coordination. As it was put by Slovakian Minister of Foreign Affairs EDUARD KUKAN in an interview last December: „Currently, the aim is to renew the original idea of harmonisation of the integration steps, yet in a new and more intense dimension of co-operation. Co-ordination and common approach means stronger position at the negotiations with the European Union.”<sup>8</sup>

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<sup>8</sup> Slovak Trade Forum, Journal of Foreign Trade Support, Slovak Chamber of Commerce and Industry, Bratislava, 1998, pp. 18-21.

Finally, a very strong motive of the revival of V4 was the common desire to include Slovakia in the Group again and promote its European integration. Though the transition results and economic performance of Slovakia were acknowledged by the country opinion (AVIS) published at the Amsterdam Summit in summer 1997, Slovakia was not registered in the first round of EU and NATO candidates, basically for non-economic reservations. In the common opinion of the partners, the soonest possible catching up of Slovakia to the first round of candidates would serve the interest of the whole region while its long-term stay away could negatively affect both security and trade interests.

Since the CEFTA Summit held in September 1998 in Prague and joined by the new Slovakian government after the election, all previously existing *fora* of political consultation have been re-established and systematic exchange of ideas and experiences started again. Slovakia, a founder of the Group, occupied its full and legitimate place again among the participants. On the latest summit meeting of the Prime Ministers of the four countries held in May 1999 in Bratislava, new tasks of Visegrad co-operation were fixed. The participants agreed on the coordination of the harmonisation of their legal systems with the European Union and direct co-operation between their regions. It was decided that two meetings will be held annually on Prime Ministers' level to discuss concrete issues of co-operation which would cover, among other fields, setting up contacts at all levels of central and local administration, business promotion through direct contacts between chambers of commerce, cultural, sport and youth exchanges, common training of diplomats, etc. The summit paid special attention to Slovakia expressing its firm commitment and support to the country's European integration. By this the Visegrad 4 was reorganised and entered the third stage of its history.

The re-birth of the group gave a strong impetus to bilateral co-operation as well. For example, the Slovakian Prime Minister Mr MIKULÁS DZURINDA and his Hungarian colleague Mr VIKTOR ORBÁN met 8 times during the last 12 months, predominantly on Visegrad and CEFTA occasions. It offered good opportunities to discuss common projects of wide range, from environment protection and employment policies up to the joint restoration of the Esztergom-Sturovo bridge supported by PHARE. Regular high level monitoring of bilateral relations certainly contributed to the growth of trade between the two countries by 14% within the past 12 months. At the talks, it was repeatedly stated by the Hungarian side that Hungary considers Slovakia as its important strategic partner and will do its utmost to support that country's integration efforts which fully coincide with Hungarian national interests. The meetings gave positive stimulus also to such bi- and trilateral initiatives such as the Vienna-

Bratislava-Győr 'Golden Triangle' and the recently adopted Vah-Danube-Ipoly Euro-region.

In conclusion, a few important features of the first 7-8 years of V4 and CEFTA will be summarised:

- The two networks are natural and organic. Both are created by traditional regional cohesion and new developments in ECE on the turn of 1980s and 1990s. They proved to be long lasting and capable of surviving difficult periods and challenges.
- Both of them can be regarded, in final analysis, successful, because they positively contributed to the security and co-operation in the region on the one hand and to the transformation and stabilisation of national economies and trade relations, on the other.
- Both of them have been playing an important role in the integration process of the participating ECE countries into the Euro-Atlantic structures. However, they can not be regarded as a competitive or substitutory alternative to NATO and EU-membership, rather as additional, complementary opportunities for co-operation.
- The idea of Visegrad is more than a mere initiative for trade liberalisation and regional co-operation. In the words of Mr JÁNOS MARTONYI, Hungarian Minister of Foreign Affairs, „Visegrad carries a strong, substantial political message. It is a symbol representing the spiritual unity of the middle European nations. It reflects our common political heritage, our sharing of history, our remarkably similar dreams and identical aspirations”<sup>9</sup>. By now it has become much more than tradition, it is a natural co-operation of small ECE states, connected also by bonds of hopefully common future.

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<sup>9</sup> Ibid., p.23.

*Table 1*  
*Hungary's trade relations with CEFTA countries*

Exports	Value (M USD)										In % of the previous year					98/98 %
	1993	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	1996	1997	1998		
Czech R.	169,0	197,7	207,4	289,7	321,6	372,1	117,0	104,9	139,7	111,0	115,7	111,0	111,0	115,7	220,2	
Poland	162,7	222,0	337,1	387,8	510,4	529,4	136,4	151,9	115,0	131,6	103,7	115,0	131,6	103,7	325,4	
Romania	184,9	197,2	357,5	277,6	316,7	564,3	106,7	181,2	77,7	114,1	178,2	77,7	114,1	178,2	305,2	
Slovakia	127,7	143,6	213,1	251,0	265,3	332,3	112,5	148,4	117,8	105,7	125,3	117,8	105,7	125,3	260,2	
Slovenia	138,8	196,0	255,9	220,0	290,8	241,0	141,2	130,6	86,0	132,2	82,9	86,0	132,2	82,9	173,6	
Total	783,2	956,6	1371,0	1426,0	1704,8	2039,1	122,1	143,3	104,0	119,5	119,6	104,0	119,5	119,6	260,4	
including																
founders	459,5	563,3	757,7	928,5	1097,3	1233,9	122,6	134,5	122,5	118,2	112,4	122,5	118,2	112,4	268,5	
joiners	323,7	393,2	613,3	497,5	607,6	805,2	121,5	156,0	81,1	122,1	132,5	81,1	122,1	132,5	248,7	

Table 1 (cont'd)  
Hungary's trade relations with CEFTA countries

Imports	Value (M USD)								In % of the previous year								98/93 %
	1993	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
Czech R.	264,0	347,4	364,0	487,4	509,7	553,0	131,6	104,8	133,9	104,6	108,5	209,5					
Poland	148,1	193,3	248,4	298,4	358,3	459,5	130,5	128,5	120,1	120,1	128,3	310,3					
Romania	86,4	119,0	130,2	146,5	154,9	185,7	137,6	109,4	112,6	105,7	119,9	214,9					
Slovakia	237,6	355,6	369,7	382,2	401,4	428,1	149,7	104,0	103,4	105,0	106,7	180,2					
Slovenia	62,3	80,4	92,8	88,8	109,6	140,0	129,1	115,4	95,6	123,5	127,7	224,7					
Total	798,4	1095,7	1205,1	1403,2	1534,0	1766,3	137,2	110,0	116,4	109,3	115,1	221,2					
including																	
founders	649,7	896,4	982,2	1167,9	1269,5	1440,7	138,0	109,6	118,9	108,7	113,5	221,7					
joiners	148,8	199,4	223,0	235,3	264,6	325,7	134,0	111,8	105,5	112,4	123,1	218,9					

Source: Hungary's foreign trade statistics in 1993-1998, Ministry of International Economic Relations, Ministry of Industry, Trade and Tourism, Ministry of Economy.

**JÓZSEF HUBAI\***

**Is the Greek road to  
EU membership  
suitable for Hungary too?**  
*(How can the Greek model be adapted to Hungary?)*

## **1. COMPARING GREECE AND HUNGARY**

The two countries have almost the same population (10 million) and area (132,000 and 93,000 square kilometres for Greece and Hungary respectively). Per capita GDP in Greece fell considerably behind the average in the EC (63%) before Greek admission, and the same figure currently amounts to 40% in Hungary. In both countries agriculture and foreign trade in agricultural products play an important role.

## **2. GEOGRAPHICAL POSITION**

Both countries are situated on the periphery of Europe, (EU?) in a geographic and economic sense. „Europe” has decided that both countries should be integrated into itself. For some time now (more than a decade), both countries have played the role of „outposts of Europe”. As a result of history, both countries have national minorities which have remained

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outside the national borders. For these reasons, cross-border economic cooperation, common environmental protection and management policy have been particularly necessary.

Hungary, together with Greece seems bound to remain the outer boundary of the EU, an „outpost” of welfare state, advanced Europe for a long time yet. In terms of accessibility and economic geography Greece is an „island”, having no direct line of land communication with the other member states of the EU. On admission, Hungary however will, functionally speaking, be directly integrated into the European division of labour.



*Figure 1*  
*An integration map for Greece and Hungary;*  
*5+1 model for integration into the EU*

### 3. ECONOMIC PARAMETERS

As far as the macroeconomic figures are concerned, both countries are far from fulfilling the Maastricht criteria. Greece has been excluded from the first round of admissions to EMU because of her rate of inflation, budget deficit and high government debt. Although the Hellenic government's programme for admission to EMU has already been completed, no drastic measures (such as quickening the pace of privatization and cutting back the number of state employees etc.) have yet been taken.

Although the Hungarian government too has taken drastic measures at the end of the nineties in order to fulfill the Maastricht conditions (cutting inflation, stabilizing government debt), it is now clear that even given EU membership, our nation will not be a full member of the EMU by 2002. In particular, the inflation rate cannot be cut to the desired level by that time.

*Table 1*  
*Fulfillment of the Maastricht criteria in Greece*

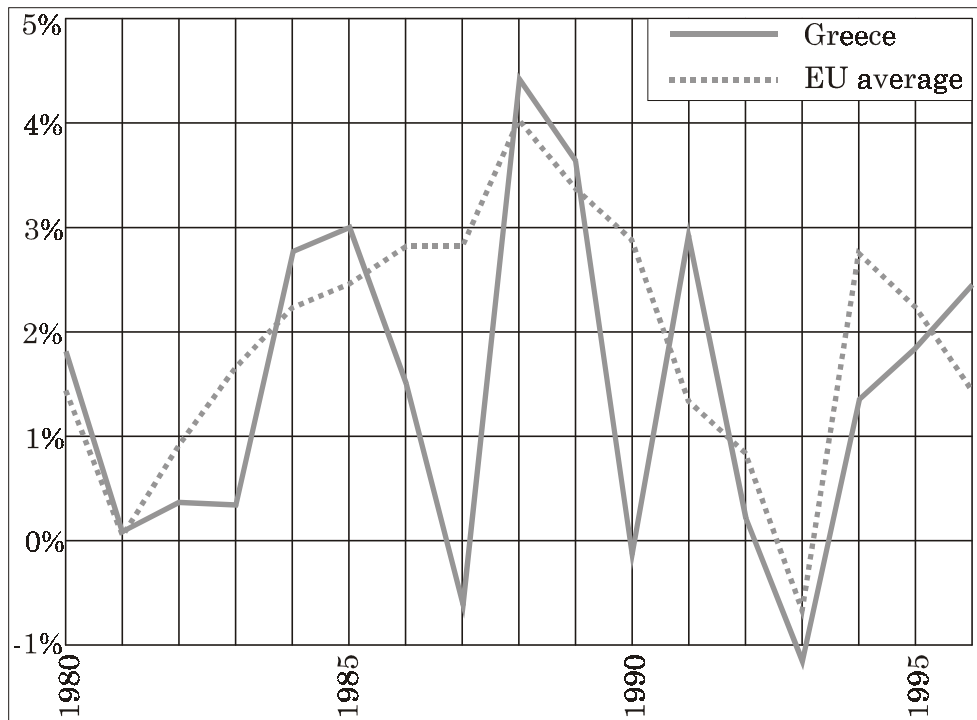
Item	EU criteria	Greece
Inflation (%)	3.3	4.5
Interest rates (% , annual average)	8.5	10.0
Budget deficit (in % of GDP)	-3.0	-3.0
Debt (in % of GDP)	60.0	102.9

It should be noted that of the 15 EU member states, Greece has been deliberately excluded from admission to EMU, while Denmark, Sweden and the United Kingdom have so far declined to join.

It is clear that at the end of the twentieth century the primary driving force behind modernization in both countries is financing by foreign working capital. In this respect, neither Hungary nor Greece can rely solely on scarce domestic capital. The European transfers are basically designed to help establish the proper economic climate; such as infrastructure, human resources etc. Unfortunately, neither the Greek nor the Hungarian economy are strong enough to rival others in the keen competition on the advanced European market.

During the nineteen-nineties, the increase in Greek GDP generally fell behind the EU average (3% in 1998). Hungary, however, could at the end of the nineties, boast of an increase in GDP in excess of that within the European Union (5.1% in 1998).





*Figure 2.*

*Increase in GDP in real terms in the EU and Greece from 1980 to 1996<sup>1</sup>*

Following the change of regime, the rate of increase in Hungarian industrial production quickened in the second half of the nineties.

This was particularly true for the engineering industry and its exports.

During the same period, the rate of increase in Greek industrial production slowed down and the process of industrial modernization unfortunately came to a sudden halt. The most important sectors of industry continue to be textiles, woodworking and metallurgy and oil refining, followed by the engineering industry.

So far as tourism (the number of visitors in millions) is concerned, both countries rank among the first ten on a global scale. Tourism is of vital importance for the maintenance of the balance of payments in both Greece and Hungary.

<sup>1</sup> OECD Economic Outlook.

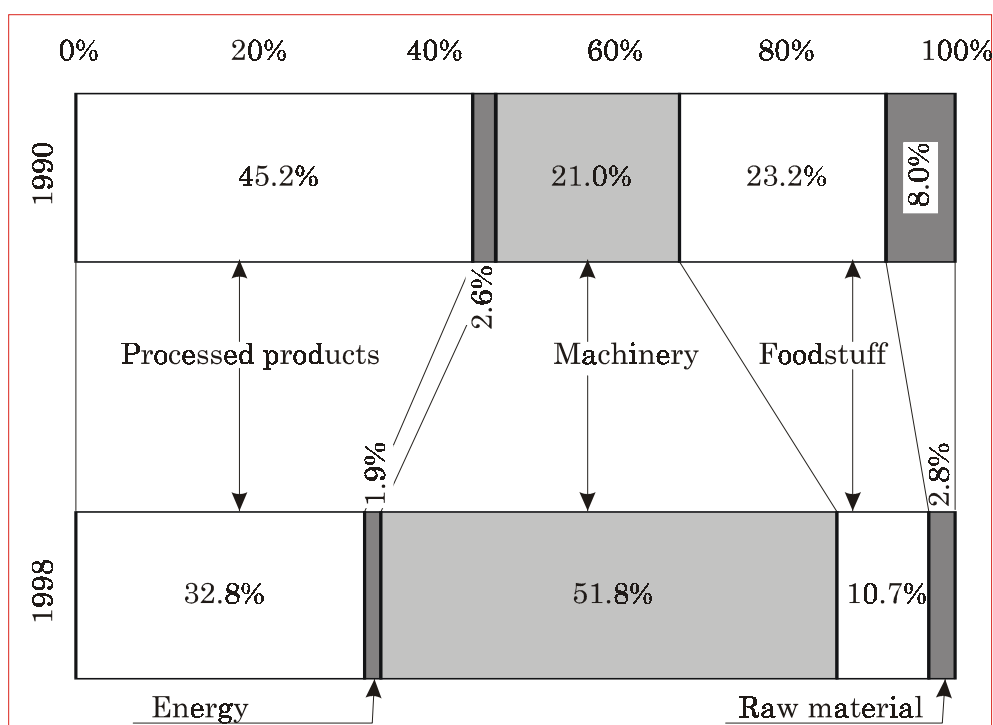


Figure 3

Structure of export by main commodity groups during the transition period<sup>2</sup>

## 4. AGRICULTURE

Since the agrarian sector is of paramount importance for both countries, a separate comparison of the sector in both countries is given below.

Table 2

Role of agriculture in the two countries<sup>3</sup>

	Greece	Hungary
Percentage of those employed in agriculture, forestry and fishing	13.7	7.9
Contribution of agriculture to GDP	14.9	6.7

<sup>2</sup> IKIM and GM.

<sup>3</sup> KSH and OECD Economic Survey – Greece

In both countries the importance of the agrarian sector has somewhat diminished. Today, the percentage contribution of agriculture to Greek exports amounts to 25%, whereas in Hungary, the same figure has fallen from 25% to 11%. In both countries the modernization of agriculture has been hindered by both natural and structural factors. However, as the list below also shows, the degree and effect of these factors are different in the two countries.

*Table 3*  
*Natural and structural factors of Hungary's and Greece's agriculture*

Factors	Relation
Ratio of small farms	Hungary < Greece
Drought	Hungary = Greece
Backward farming on highland	Hungary < Greece
Level of agrarian education	Hungary > Greece
Animal husbandry/plant cultivation	Hungary > Greece
Backwardness of agrarian marketing and trading organizations	Hungary = Greece
Mediterranean plant cultivation and keeping of sheeps and goats, fishery	Hungary < Greece
Cattle, pig and poultry husbandry, growing of grain crops	Hungary > Greece

In order to implement the agrarian reform initiated by the EU in 1992, Greece applied for and subsequently received, financial support. The Greek government intends to achieve the following:

- Percentage employed in the agrarian sector; 19% by 1999;
- Share in GDP of the sector; 13%;
- Percentage of those over age 55 employed in farming; cut to 53%;
- Ratio of plant cultivation to animal husbandry; down to 32% from 65% in favour of the latter.

Currently (1999), the equivalent Hungarian figures are all better as compared to the Greek figures. Thus, the Hungarian figures conform better to EU requirements.

It can be ascertained that the roles tourism and agriculture play in the management of natural resources are very similar in the two countries considered. On the other hand, both countries are „light green” as far as environmental protection is concerned.

## 5. CONCLUSIONS

The comparison of Hungary with Greece an EU member country geographically and historically closest to it, shows that Greece was in a less favourable position when it started on the road towards European integration than Hungary will be in the future. The modernization of Greece, the process of bringing the Hellenic state closer to the core area of the EU has fallen behind at the end of the 20<sup>th</sup> century. The macrostatistics from other similar integrating states, e.g. Spain and Portugal, are much more reassuring.

Hence, it can be ascertained that mere participation in the integration process does not automatically amount to catching up with the core states. The so far unsuccessful attempts made by Greece to modernize, show that the benefits associated with integration can only be expected on the basis of a sound domestic economic policy.

On the other hand, the example of Greece also demonstrates that protection for traditional products and their production, as well as improvement of these products, will continue, even after integration into the EU (see the agrarian sector).

Keeping track of the economic processes in the two small countries is of interest for two reasons; Greece is kept afloat by tourism and agriculture, its industry cannot be competitive within the EU. The same path should be followed by Hungary, with however, great emphasis on the environment; e.g. ecotourism, bioproducts etc.

Hungary needs a constructive economic integration policy not only following admission, but also prior to integration. Hungary can expect to face fierce economic competition once full membership has been achieved. As the Greek (and Spanish as well as Portuguese) example shows, Hungary's trade deficit with the EU is bound to sky-rocket following accession. The common, unified market favours already strong economies. Import competition within the Union is also expected to partially squeeze domestic products out of the market.

Greece also showed a decline in competitiveness, which is due to the fact that rising unit labour costs also reduce the comparative advantages.

From a comparison of the two countries it can be ascertained that Hungary would pose less of a competitive threat to Greece on the foreign market given the difference in the export structure towards Greece. Once Hungary is integrated into the EU, the subsidies from Brussels to Greece are expected to be cut, first of all in the agricultural sector. Despite this drawback however, Greece supports the admission of Hungary to the Union on condition that Cyprus too be allowed to join.

Summarizing in brief the answer to the question put in the title of this paper, it can be concluded that it would not be a good idea to adapt the Greek model in general to Hungary. However, there are areas of economic activity such as agriculture and tourism which, after slight adjustment, could be used in the process of integrating Hungary into Europe.

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**JUDIT PAPP\***

# **Single Currency – at what price?**

## **1. INTRODUCTION**

The European Economic and Monetary Union is approaching its first birthday in a few weeks: the establishment of the new currency zone was surrounded with a great deal of controversy and its short life has been filled with excitement. January 1, 1999 the euro was introduced with high expectations, ceremony, joy, and an assigned value of 1.685 USD per EUR. Then, it suddenly became slippery and the euro could hardly stop sliding at USD 1.014 before reaching parity with the dollar. Long-lasting American boom, set-back growth in Europe, economic and financial downs in Asia and Latin-America, changes in political leadership of the EMU-11, or overshoot propaganda were all to be blamed. But life goes on and with cheaper exports, strengthening business confidence, increase in consumer spending, all this backed up with a 0.5% cut in interest rates, the euro started a slow and fragile recovery. Educated guesses try to forecast the future life of the artificial currency, politicians and economists engage in hot debates about the recent, most far-reaching step in the history of European integration.

Arguments for monetary integration in Europe call for the need of a united entity that is able to face challenges of a globalized world economy,

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\* Student of the Colleges of Management and Business Studies. Shortened version of her dissertation. Supervisors: Prof. P. Majoros, and Prof. L. Kacsirek.

that can compete with the economies of North America and the Asian region, and which manages to overcome barriers to sustainable growth of European economies by eliminating the obstacles from the creation of a true Single European Market. The introduction of the single currency enables the euro-zone to save about 0.4% of Community-wide GDP through the loss of transaction costs, a further 0.5% increase in GDP is expected resulting from the removal of exchange rate uncertainty, which in turn rationalizes decision on corporate location leading thus to increased efficiency in production. Elimination of cost and price discrimination enhances competition, the single Central Bank will manage monetary policy with a considerably smaller amount of reserves than the need of its predecessors used to be and the strong voice EMU is expected to obtain in the world economy is also a tempting aim to give up national currencies and monetary policies for.

On the other hand there are serious arguments warning against the potential threats present in the establishment of a single European currency-zone. It is worth following through dangers and possible costs of the single currency and consider whether expected gains can compensate for losses inherent in the idea of an economic and monetary union in Europe.

## 2. THREATS TO THE SINGLE CURRENCY AREA

There are several opponents even to a fixed exchange rate mechanism as a tool to regulate a nation's economy. According to a study by the Western Washington University, ten years ago only eight of the world's major currencies operated under fully flexible exchange rate regimes, fourteen countries employed managed regimes, and sixty-four maintained fixed exchange rates. Today thirty-three countries use flexible rates, eighteen have managed systems, and only forty work under fixed regimes.<sup>1</sup>

Having overcome dispreference towards fixed regimes, however the EU made a step even further to deepen its internal market by introducing a monetary union. The above short overview derived the benefits of an economic and monetary union in Europe from the introduction of a single currency. The main source of costs can also be found by analyzing this same fact. Dangers of EMU lie in the loss of national monetary policy: the possibility to use the exchange rate as a short-term adjustment tool, and the ability to set interest rates or „manipulate” inflation rate according to best interests of the specific country. The euro-zone is assigned a single,

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<sup>1</sup> Dean (1997), pp. 57-74.

one-fits-all monetary policy by the European Central Bank, various currencies are merged into the new euro. Theoretically it should mean no difficulty given that countries or regions comprising the monetary union represent similar economic structures, business cycles move in line with one another, they are exposed to similar economic disturbances or in general, these economies are well synchronized. Convergence criteria set in Maastricht also served to ensure that once EMU would start, real economies of founding members „converged”. Reality, however, rises serious thoughts in regard to complete harmonization: in general we can say that the monetary field does not call for concerns in itself, it is rather sustainability of the present low-inflation era that raises questions; fiscal stance of member states, however typically represents a diluted form of the originally strict set of convergence criteria.

In order to see to what extent this fact poses a threat to member states first it needs to be considered whether giving up exchange rates affects the region at all.

Economic theory states that exchange rate is an effective adjustment tool of monetary policy in the short run if:

- the areas face asymmetric shocks, which requires adjustment of relative prices;
- domestic prices are not fully flexible and thus do not react to shocks immediately;
- domestic prices are not immediately indexed to the exchange rate and changes in relative prices are thus not immediately neutralized;
- other adjustment mechanisms, such as factor movements or fiscal federalism are absent;
- adjustment by exchange rate is less costly than by other instruments<sup>2</sup>.

If the above conditions hold, central banks may need to manipulate exchange rates to keep the economy on a normal track. The following sections are going to analyze whether monetary union in Europe is beneficial based on the above criteria and with help of the theory of optimum currency areas (OCA). The OCA theory tries to answer the question under what conditions it is beneficial (resulting in more gains than losses) to introduce a common currency among countries or regions.

ROBERT MUNDELL, a father of the theory<sup>3</sup>, stated two conditions for an optimum currency area: the first one is that the regions comprising the common-currency area should be subject to common economic changes with common effects; the second one states that labour must be mobile between regions. Is one of the conditions absent, the region is subject to *asymmetric shocks*. The term refers to economic disturbances hitting

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<sup>2</sup> Ricci (1997)

<sup>3</sup> Mundell was awarded the Nobel-prize of Economic Sciences for his work on OCA-theory in 1999.



either only part of a region/country or exerting different impacts on the various parts of the region/country. To follow it through an example, suppose a shift from the demand for goods of country „A” to the goods of country „B”. Country „A” faces falling output and employment, whereas country „B” has to cope with inflationary pressures. Change in the terms of trade through the change in the exchange rates of the two countries helps country „A” regain its position in the market. Consider this example in a situation where countries „A” and „B” are regions of a monetary union and share a single currency. Falling output and employment in country „A” calls for an increase in the money supply, which in turn exacerbates inflationary pressure in country „B”. It depends on the judgement of the single central bank to what extent it allows inflation to rise in the surplus country in order to relieve unemployment in the deficit country. Burden can at best be shared by allowing a specific degree of unemployment parallel with a certain rate of inflation in countries „A” and „B” respectively.

The above example introduced asymmetric shocks through the example of an asymmetric demand shock. While demand in country „B” increases, it results in decreased demand and thus a fallen output (supply) in country „A”, which in turn increases unemployment and in the worst case, it starts a downward spiral in the economy. This is usually the time when the government/central bank decides to devalue the national currency to „regain competitiveness” at least in the short run even at inflationary costs.

If we want to see possible *reasons* behind such a scenario, we may turn to international trade theory for a moment. The classical HECKSCHER-OHLIN two-factor (labour, capital), two-product model assuming full employment of factors, perfect competition, standard technology and free movement of (only) goods<sup>4</sup> does not explain such nationally differentiated shocks. However, instead of approaching the problem from the supply side, LINDNER<sup>5</sup> gave priority to factors determining demand, which became the basis to the intra-industry trade model. According to this view countries at a higher development level, whose production structure, internal demand, and economic development are similar (conditions for EMU member states), trade intensively with one another. Trade between these countries is thus based on *variety*, meaning that imported goods only differ in certain qualitative features. This in turn brings us closer to shifts in tastes leading to demand deficits in certain countries, resulting in *country-specific* shocks. A scenario of this kind is a typical example for the need of exchange rate adjustment in order to avoid deflationary spiral and unemployment.

On the other hand – as already mentioned – a major benefit of EMU will lie in the elimination of exchange rate risk resulting in greater

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<sup>4</sup> Török (1995), p. 30.

<sup>5</sup> Török (1995), p. 30.

efficiency choosing corporate locations, which means potential concentration of industries in specific geographical regions that may not follow national borders. For instance, instead of a French and a German industrial region one will see the industry of the Ruhr-region. In that case, however disparities reach across national borders and the zone faces a *regionally differentiated shock*.

Countries with different levels of development are subject to country-specific shocks within the common currency area. With the deepening of the integration specialization increases, which in turn can result in region-specific shocks. If labour is not mobile between countries or regions, economic policy is needed to compensate for it and help the adjustment. If the monetary union faces a symmetric shock, the common monetary policy can be used to try and correct failures. As already mentioned, member states do not enter the union with common background in economic policy and thus the same measures may not result in the same outcome, symmetric shocks are still „easier” to cope with in comparison with asymmetric shocks. (In the case of the EMU asymmetric shocks are expected to be rather region- than country-specific.) Using the common monetary policy will not be a solution as the economic hardships are present only in certain region(s) and would thus hurt the interests of other parts of the union.

Now that possible sources of shocks as well as their nature are identified let us follow through possible solutions to the problem.

### 3. SOLUTIONS TO ASYMMETRIC SHOCKS

The first and most obvious idea would certainly be the *devaluation* of national currency(ies). This step would increase demand towards the country's products abroad and would help bring the economy(ies) to a healthy equilibrium. An economic and monetary union, however does not make devaluation within a country or region possible as countries or regions do not possess separate currencies with monetary policies and healthy or even booming regions would certainly not contribute to a common devaluation.

*Fiscal policy* is left for governments to intervene. *Expansionary fiscal policy*, however leads to an increased government debt that has to be financed in the following period, which in turn requires a tighter fiscal policy again. Is that not the case, continuous financing problems may lead to interest rates on debt exceeding the rate of growth in the economy, easily turning into a „debt-spiral”. So, national fiscal policy is rather a

short-term and one-time measure for corrective action – if available at all. Having examined fiscal stance of member states, they do not have much space left before expansionary fiscal policy brings about an excessive deficit procedure defined by the Stability and Growth Pact. Thus the only long-run solution left for governments of participating member states is very carefully designed countercyclical budgets.

The previous section differentiated between nationally and regionally differentiated shocks. If the asymmetric shock hits a certain region instead of a specific member state a *common budget* would provide cure in the absence of regional monetary policy. Centralizing not only monetary but also fiscal policy can thus be of major importance when facing such disturbances. It may not only finance long-term regional development but may also lend short-term help in order to avoid real shocks.

The United States shows an example for a well-functioning system in this regard: booming states are able to pay a higher amount of tax into the budget and need less resources (e.g. unemployment benefit) to be given back; at the same time depressed states/regions pay less and need more back. Thus the Federal Budget simply redistributes funds from booming states to depressed ones. Fatás (1997)<sup>6</sup> presents findings of various studies on the importance of automatic transfers in a monetary union. The majority of these studies use data on U.S. states and they investigate the change in a region's taxes and transfers if income in that region decreases by 1% relative to the national average.

SACHS and SALA-I-MARTIN (1992) found that „the fraction of the initial shock that is absorbed by the federal budget is between one third and one half” or „a one dollar reduction in state personal income reduces final disposable income by only 56 to 65 cents”. BAYOUMI and MASSON (1996) came to similar findings by concluding that the stabilization effect of the U.S. federal system is around 30%. Until SACHS and SALA-I-MARTIN or BAYOUMI and MASSON find that volatility of U.S. disposable income is considerably reduced by the federal budget, VON HAGEN reached results suggesting much smaller stabilization effect of U.S. federal budget than the previous investigators. His estimates state that it is only 10% of a one-dollar reduction that is absorbed by the Budget. His estimates, however still far exceed the results of SACHS and SALA-I-MARTIN on the European Union, which conclude that „if a European region or country suffers a one dollar adverse shock, its tax payments to the European Community will be reduced by half a cent. This contrasts with the 34 cents we found for the United States.”

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<sup>6</sup> Fatás (1997).

## 4. CONCLUSIONS

*Summarizing* the above statements we can conclude that there are two basic ways to counterbalance asymmetric disturbances through fiscal measures. Related to time governments can prepare countercyclical budgets and related to space redistribution through the federal budget is provided.

The *first* solution is limited by the member states' fiscal stance meaning that euro-zone governments breached the ceiling of allowed budget deficits constantly, almost every year for more than a decade and it was only the time of preparation for the 1997 weighing procedure when figures were more or less reduced. Studies in the OECD's Economic Outlook find that to cope with past downturns an increase in the budget deficit of 2% has been needed just to accommodate the automatic stabilizer function.<sup>7</sup> Would member states want to prepare for disturbances, governments should keep a permanently balanced budget or even a budget surplus to be able to cope with downturns without being exposed to excessive deficit procedures.

At this point it is time to examine the *Stability and Growth Pact* in a bit more detail. It defines special circumstances under which member states breaching the deficit ceiling are exempt from the procedure: deficits are allowed to exceed 3% of the GDP if the breach is exceptional, temporary, and the deficit remains close to the reference value. *Exceptionality* means causes outside the control of the member state and results of a severe economic downturn of at least 2% fall in GDP annually or at least 0.75% fall in annual GDP if losses in output and exceptionality are proven. *Temporariness* involves exemption only for the period of exceptionally negative economic circumstances, whereas the *closeness* criterion refers to the expectation to stay close to the 3% reference value.

In order to see what that potentially means to EMU member states in the future the Magazine „New Political Economy”<sup>8</sup> investigated how many times economic downturn in the EU fulfilled the exemption criteria. Results show that periods with negative annual real GDP growth rates of 0.75% or more did not occur frequently: thirty times between 1961-96 that is an average of two cases per country or a frequency of less than 6%. Most of these cases were concentrated around the three major recession periods: the mid 1970s, the early 1980s and the early 1990s. A fall in annual real GDP of 2% or more happened in seven cases within 36 years. This implies that two-thirds of the recessions would have resulted in excessive deficit

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<sup>7</sup> The euro's first test.

<sup>8</sup> Postwar lessons...

procedures in the past three and a half decades in the EU. Founding members of EMU thus have to closely monitor their budgets as long as deficit figures exceed 1-1.5% of GDP.

The *second* possible solution to even out fluctuations within a common currency area was identified through the federal budget, which – proven by the cited studies – seems to be well working in the United States. *The EMU has, however no supranational budget to finance such procedures.* The budget of the European Union collects 1.27% of Community GDP in contrast to national budgets that comprise on average 50% of national GDP. Approximately one third of this 1.27% is spent on Structural Funds<sup>9</sup>, which aim at reducing regional differences within the Union, but above that there is no source intended to smooth fluctuations in the region. Having witnessed hot debates around the latest „reform” of the Community-budget it is not easy to believe that member states will be willing to agree on a larger budget. It would also be difficult to imagine one member state to contribute more to the common budget just to help another member state in need – without any political problem.

We can conclude that fiscal policy of EMU in its current state is not an effective measure to fight nationally or regionally differentiated disturbances.

Fiscal policy not being the ideal solution the possibility to *make labour markets more mobile and flexible* is left for us to turn to. Migration of labour from depressed regions to booming ones (especially when accompanied by capital) is a most important way to avoid demand shocks. Labour moving to booming regions not only reduces excess labour supply and the need for unemployment benefits but also contributes to even out excess demand for labour in the booming regions.

Achieving this in Europe is however, a difficult task to do. Nations comprising the European Monetary Union have such differences in their cultures and traditions that makes labour mobility be very low between countries. Only the fact that nine different languages are spoken within the EMU-region represents a great barrier, which is then accompanied by complex and rather rigid welfare systems. (The problem of pension funds will also be a very difficult one to cope with, especially in the cases of Germany, France, Belgium, or Italy.) Free mobility of labour is also hindered by differences in education systems or the lack of real acceptance towards diplomas earned in other member states. Solving this problem is an urgent and extremely difficult one and it is clear that the EMU is far behind an already well-working common currency area, the United States, in this respect. (Labour mobility in the U.S. is about three times higher than that in the EU-15.)

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<sup>9</sup> Palánkai (1999).

At this point we may say that the EU has taken a step further into deepening the integration before truly completing a precondition to it, the Single Market Program. Without a sufficient level of labour mobility the common currency area is subject to region or country-specific shocks to a rather high degree. The member states having different economic backgrounds the possibility of such shocks can not be neglected.

Macroeconomic background required by MUNDELL has been discussed. Finally let us take a look at trading relations of the region: although 60% of trade is made up of intra-EU trade, the four largest EMU-economies (Germany, France, Spain, Italy) trade no more than 10-12% of their GDP with each other.<sup>10</sup>

Based on the above we can state that Europe is not a natural optimum currency area. It is a collection of countries linked by trade and supranational institutions, showing large differences in culture, business cycles, economic policies, structural characteristics, or growth rates of the economy. It does not satisfy MUNDELL'S conditions for an optimum currency area: the region is not subject to economic changes with common effects, labour is not mobile between regions, fiscal federalism is absent. The ideal response to any nation-specific shock would be the immediate use of monetary policy: the reality however, is going to be a „one and only” currency that can not be managed for the benefit of all member states. It is hard to imagine that an area so manifold will never be hit by differential shocks. In the absence of compensatory monetary policy actions taken may lead to a more than reasonable burden on internal wage and price adjustment.

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<sup>10</sup> Dean (1997), pp. 57-74.

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**ILDIKÓ RÉVÉSZ\***

# **The economic impacts of the approximation of the Hungarian and the EU environmental regulation on packaging**

## **1. INTRODUCTION**

After the centuries of wasting, at the doorstep of the 21<sup>st</sup> century the realisation of the limited quantity and non-renewed nature of the earth's supply of raw materials together with the ever increasing amount of waste awoke the people to the importance of the environment and its protection. Since the largest proportion of consumption goods is put into circulation in various packaging, the increased production attributed to a growing demand led to a rising amount of waste and serious polluting effects, therefore its treatment became one of the most critical points of the states' policies.

Recognising the effectiveness of international co-operation, the EU gives priority to environmental protection and waste management, which should be the case of Hungary either to become a member of the Union. Accordingly, my work would target to reveal the progress the country already made in the way of legal harmonisation process on packaging and packaging waste. It aims to find out the most problematic areas in the field of legal divergence between the two legislation and the imperfections of the enforcing mechanism, of which operation is evaluated throughout the eye of the Fűzfő Paper Plc. and the Nikecell Ltd. Besides, it is also to

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\* Student of the Colleges of Management and Business Studies. Shortened version of her dissertation. Supervisor Prof. P. Majoros.



define the possible economic impacts of the introduction of an EU-conform regulation on competitiveness and foreign trade relations with the member states.

## 2. REGULATION OF WASTE MANAGEMENT AND PACKAGING IN THE EU AND HUNGARY

The regulation of waste management in the EU reflects a complex system of consecutive directives.<sup>1</sup> The framework for waste management structures is built up on two distinct directives: on waste framework directive 75/442/EEC and on hazardous waste directive. Besides, this framework is elaborated by two types of daughter directives, one of which contains the requirements for permitting and operations of processing and disposal facilities including municipal waste incineration, hazardous waste incineration and proposal on landfill, while the other set of regulations deals with specific types of waste such as packaging waste (94/62/EC directive), batteries, sewage sludge or waste oils. As a supplementary one the shipment of waste makes the framework complete.

In Hungary, however, at present neither the Act on Waste Management nor a separate legal provision regulating packing materials and packaging waste exist, thus such other provisions controlling tangential the waste and packaging must be examined, as the Act LIII of 1995 on the General Rules of Environmental Protection and the 83/1997 (IX. 26.) Parliamentary Decision. With regard to the wastes, the former says that for its treatment involving disposal and recuperation the user of the environment shall provide for.<sup>2</sup> Further regulations have to be formulated in separate provisions, which, have not been elaborated yet till now. Concerning the packing materials, they are referred as sources of waste in the same section of chapter II of the act.

The National Environmental Programme found in the Annex of the 83/1997 Parliamentary Decision aims to prevent any further increase in the quantity of waste and to reduce the organic content of discharged waste to a minimum level, so not allowed to exceed 5%<sup>3</sup> by the introduction of selective waste collection and waste disposal to a higher extent, by rising the proportion of reuse and recycling to 25-30% of the arising waste.

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<sup>1</sup> Guide (1997).

<sup>2</sup> Act LIII (1995).

<sup>3</sup> Parliament (1997).

## 2.1. Comparison of the Hungarian legal provisions and the EU directives

For the treatment of waste coming from packing materials several means are available, of which the 94/62/EC directive on packaging considers as first the prevention of production of packaging waste and, as additional fundamental principles, the reuse of packaging, recycling and other forms of recovery of packaging waste, hence the reduction of final disposal of such waste.<sup>4</sup>

According to the directive, *prevention* is „the reduction of the quantity of materials and substances and of packaging and packaging waste at production process level and at the marketing, distribution, utilisation and elimination stages.” However, in Hungary there is not any legal provision being in force applying this principle. It is only the bill on waste management submitted to the Parliament that primarily formulates the prevention of waste production as an objective. Nevertheless, among the fabricants' liabilities the choice of the product features and its packaging is also regulated in the bill as one of the producers' responsibility, in which case the producer is considered as the manufacturer of a product during his economic activities. Therefore, the producer is obliged to select in a way that ensures the most effective energy and material consumption.<sup>5</sup>

The directive defines as *reuse* „any operation by which packaging, which has been conceived and designed to accomplish within its life cycle a minimum number of trips or rotations, is refilled or used for the same purpose for which it was conceived ...”.<sup>6</sup> In Hungary, though it is an EU regulation, the reuse and refilling systems are slowly pushed into the background, since by the development of market economy the production of packing materials became a totally new branch of the industry, of which interests recycling is opposing. To give a solution for the increase in one-way packaging the Act LVI of 1995 was introduced establishing the payment of product charges on fuels, on tyres, on cooling apparatuses, on batteries and on packing materials.

Exemption can be obtained from a part of product charges on packing materials if „the obligor collects, buys back and reuses, recycles or uses for energy recovery its packing material subject to product charges”.<sup>7</sup> Full exemption may be obtained if the obligor has treated packing materials of a quantity corresponding to the obligatory proportion of treatment

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<sup>4</sup> European Parliament (1994), article 1 (2).

<sup>5</sup> Bill (1998), section 6 (1).

<sup>6</sup> European Parliament (1994), article 3 (5).

<sup>7</sup> Act LVI (1995), section 11 (2).

specified in a separate legal rule. The more precise and detailed regulation of such conditions are established by the 113/1995 Government Decree.

The directive considers as *recycling* of packaging waste the recycling in a production process of waste materials for the original or for other purposes, which in the Hungarian bill appears as waste utilisation. The bill defines as the producer's liability the development of such a product that after its usage for the original purpose shall be reused or produces reusable waste or the waste of the product produced or used by it shall be utilisable. Exemption can be obtained from the liability if the fulfilment would entail excessive costs and a disproportionately high price.<sup>8</sup>

*Recovery* means any of the 13 applicable operations provided in Annex II.B to Directive 75/442/EEC involving energy recovery, restoration or processing. Conforming to the disposals of article 4 these recovery waste operations have to be carried out in a way that does not endanger human health and avoids the application of methods or processes posing hazard to the environment. As regards the Hungarian legal regulation it is another field where it has a lot to do, since it does not have any rules or at least references to the subject.

The above comparison of the Hungarian and the EU regulation on packaging reveals that the deficiencies of the former's provisions manifest themselves in the lack of rules concerning waste prevention and the total negligence of economical consumption of raw materials. Consequently, Hungary has to introduce the bill on waste management together with adequate EU-conform provisions controlling packaging and packaging waste as soon as possible, since without any rapid improvement in this area, the establishment of an EU-conform regulation and the construction of a modern collecting, storing and transport system would possibly be realisable only by 2010<sup>9</sup>, hindering the accession process.

### **3. OPERATION OF THE HUNGARIAN ENVIRONMENTAL REGULATION IN PRACTICE**

In Hungary the respect of the acts concerning packaging is enforced by the system of product charges and deposits, of which efficiency in practice leaves much to be desired for being the sources of different controversies. Their functioning is evaluated throughout the eye of two companies, so the

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<sup>8</sup> Bill (1998), section (3)-(4)

<sup>9</sup> Szabó (1999).

following few pages will be devoted to the contradictions of the existing Hungarian system, which while does not stimulate environmentally friendly innovations sometimes raises obstacles to the progressive innovative companies.

### **3.1. The case of the Fűzfő Paper Plc.<sup>10</sup>**

The company established in 1928 during its 70 years in the industry has been one of the determinants of the Hungarian paper production and processing. Though the main profile of the firm is the manufacturing of offset and writing papers for various stationery like note books, envelops, sheets of paper it also produces three different types of packing materials, which are as follows:

- Constructed papers, which are for the middle part of corrugated cardboard and which are transported to the Petőfi Press and to the Cofinec Hungary to be corrugated.
- Fine and middle fine packpaper, which are mainly sold to the large supermarket chains of food industry and used by them as a base for the production of combined paper boxes.
- Packing materials manufactured for the storage of the factory's own products.

#### **3.1.1. The suppliers and the acquisition of waste paper**

The waste paper used for production is supplied by 32 suppliers, among which Budafoki Recycling, Arco, Dunántúli MÉH are the largest. The problems of the Hungarian system present themselves firstly in the field of waste paper acquisition. The landfills give more for the coloured paper, about 6-8 HUF/kg and in order to obtain profit keep the prices of black and white very low at 1.50-2 HUF/kg. However, as an anomaly, the former one cannot be recycled by the paper producing factories for having a hard, clingfilm covered front page and very thin, easily rendible pages. Since the price of the black and white the companies could use is so low it is not able to serve as an incentive for the inhabitants. Therefore, it usually appears that the factories have to import waste paper, especially from Germany.

#### **3.1.2. The treatment and use of waste paper**

Before recycling the 15,000 tonnes of waste paper, 10,000 tonnes of which are built into the manufacturing of packing materials, a selection process comes as a result of which three groups are formed: the group of woodfree, of semi-woodfree and of junk mail. It is another controversy of

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<sup>10</sup> All the information is from the interview by Ms. Andrea Ménesi, the sales manager of the Fűzfő Paper Plc.

the Hungarian system, that though all the packaging manufactured here is from 100% recycled waste meaning a 100% proportion of treatment of waste against the obligatory 48% determined by the 113/1995 Government Decree, the firm has to pay product charges after its goods, from which it gets back nothing. Its official reason is that the production of packing materials does not belong to the main profile of the company.

### 3.1.3. The competitiveness of recycled paper

The high ignorance of environmental protection of the population is another problem raising obstacles for the innovative companies with environmental commitment. It is the case with the Fűzfő Paper Plc., as its innovative product, a new exercise book family made of recycled paper cannot be sold, it lays in the storage because the consumers look for the ones with white paper causing huge financial loss to the factory.

Regarding the costs of the production of recycled and of white paper with cellulose content the only difference appears in the acquisition price of the basic materials: the waste paper is about HUF 50-60/kg while the cellulose is up to HUF 100/kg, thus the consumption price of recycled paper will be lower. Though in theory it could contribute to an increase in the competitiveness of the company in such a Hungarian market where the demand is quite elastic and sensitive to price changes, the sales manager said nothing had changed in the company's market shares and sales volume by the introduction of recycled paper: despite its more favourable price, the normal white paper is bought instead.

By examining the sales volumes of table 1. showing the sold quantities of packing materials made from 100% recycled waste, it can be seen that the amount of fine and middle fine packpaper is rapidly increasing. Its reason lays in the increasing demand of supermarket chains for the paper used as basic material for combined boxes of food. Therefore, it is covered externally by a thin layer of clingfilm and internally by aluminium, which combined boxes the paper factories cannot recycle. Accordingly, 95% of them finish in the landfills raising the amount of waste.

*Table 1.*  
*The sales volumes of the Fűzfő Paper Plc. in 1998 and 1999*

Types of packpaper	1998	Till June 1999
	(in tonnes)	
Fine packpaper	15.4	67.5
Middle fine packpaper	104	300
Constructed paper	890	286

### 3.2. The case of the Nikecell Ltd.<sup>11</sup>

The Nikecell Ltd., from certain points of view, could be considered as the opposite of the environmentally committed Fűzfő Paper Plc. The *company's profile* is divided among three groups of products:

- 60-65% of production consists of making large polystyrene boards used for sound and heat insulation in the construction industry;
- 35% is the manufacturing of different paint and lacquer for the treatment of surface;
- 5% is making expanded polystyrene for packaging.

The *production* of expanded polystyrene used for the protection of mainly electronic devices functions in the framework of the system of paid work, since the buyer, often large electronic companies, makes the forms for the polystyrene, by which the Nikecell Ltd. produces the expanded packing material. The basic material for the polystyrene being small balls is imported from Germany due to the lack of Hungarian production and among the customers there are mainly national firms like Videoton.

#### 3.2.1. The nature of the expanded polystyrene

This sort of packing material loads the environment for being neutral, thus not dissolvable in the soil. Its only enemy is the solar radiation, to the effect of which its upper layer becomes brown and dust-like. Therefore, for its environmental loading nature the company has to pay product charges after its manufacturing, the amount of which is calculated into the costs of paid work the customer is charged for and which sum the electronic company with great possibility shifts to its buyers.

This expanded polystyrene is the product of our modern society, it is indifferent to nature. Its recycling seems nearly impossible since it requires special technology for selecting and cleaning the material from pollution, chemicals, paint and glue in order to make it usable for production. The recycling of the polystyrene is financially not economical for the company due to the lack of proper collecting network and because of the special nature of the material since only certain types can be made from a maximum of 10% of reused polystyrene, otherwise its physical features change.

Similarly to the problems with recycling, the different methods of treatment are ineffective too. One solution for its reuse is to mix it into concrete, thus creating light concrete used in construction industry. However, it is not remunerative due to the small demand. As another way incineration appears, which is again unacceptable for polluting the environment. As an experiment, it was utilised as a possible method to

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<sup>11</sup> All the information is from the interview by Mr. Béla Borzák, the marketing director of the Nikecell Ltd.

improve bad soil by mixing into it in order to make more porous. Nevertheless, it remained only an experiment. In the interest of environmental protection the solution in long-term would be the reduction of its application, which is already the tendency in Germany, and the attempts to replace it with other materials like popcorn in the USA.

Consequently, the Hungarian system does not really stimulate the company to innovate a better, more environmentally friendly technology allowing to produce less environmentally loading product. The product charge for expanded polystyrene is 11.50 HUF/kg, quite low relatively to the sales figures of the company, thus it is unable to encourage new technology.

Since the defined proportion of treatment is not obligatory, only an offered possibility of obtaining exemption, the factory rather pays the amount, saying that by the payment it contributes to the disposal of its polystyrene. Otherwise, since the expanded plastic is produced by paid work, as the director said it is not the liability of the factory to deal with its future, it is of the electronic company. Accordingly, it has a great possibility that the firm will continue its manufacturing of this environmentally loading expanded polystyrene packing material till the introduction of obligatory treatment of produced waste.

## 4. THE POSSIBLE IMPACTS OF AN EU-CONFORM REGULATION

The most important positive effect of the establishment of a Hungarian EU-conform regulation on packaging would be the fact of making obligatory instead of being voluntary the selective recollection of waste and its treatment, keeping with the article 3 (1) of the Council Directive 75/442/EEC. Therefore, prevention of waste would be given priority by encouraging the development of such clean technologies that ensure a more efficient and economic usage of natural raw materials, and technical product improvements not increasing the amount of waste. It would also stimulate the recovery of waste and its use as a source of energy.

### 4.1. The impacts on nature and on human

One of the impacts of the EU-conform provisions focusing on prevention would manifest itself in the *better state of the environmental elements*, mainly of water, air, soil. In harmony with the law the usage of clean technologies, the recollection and recovery of waste would lead to the

reduction of refuse in the environment, so contribute to the improvement of its state making the natural capital more valuable than before.

The application of clean technologies producing much smaller amount of packaging waste and polluting materials would lead to the better quality of life and hygienic conditions. It could contribute to improve the inhabitants' health, so to an *increase in the value of human capital*, which would also mean less funds spent on medicines to cure hurt in health from environmental origin. Furthermore, a *rise in the aesthetic value of nature and of the environment* in the eye of the people could either be attributed to the structural change the new regulation would require.

## 4.2. The impacts on the economy

Another benefit of the environmental protection measures is the transformation of the structure of the economy in a way that it will be effective and efficient from not only economic but environmental aspects. They create such an economic form of using natural resources, energy and environmental quality economically that corresponds to the requirements of sustainable development.

The introduction of new provisions would have significant influence on the rentability and future operation of certain economic activities leading to a *structural change* of the economy. Due to the introduction of ecological taxes promoting a rise in environmental efficiency, which aims the maximisation of environmental benefits and the minimisation of economic expenditure, the costs of production would be higher, to which the companies react differently in function of the flexibility of their capital.

In case of certain firms the innovations enforced by these environmental measures could result in better profitability. These are mainly the enterprises operating in rapidly changing, flexible industrial branches producing to exports. On the other hand, the firms of traditional industry and of not so considerable means producing to national markets invested their capital into old technologies. For not being so flexible the environmental requirements would encourage only the application of end of pipe technologies instead of innovations, meaning financial costs. For not carrying on the necessary technical changes in the right time and manner, the products of such industrial branches heavily polluting the environment could be more expensive and would lose their markets.

The human economy depends on the natural capital as it provides raw materials and decomposes waste produced by the factories and the population, so the state of the latter is an essential determinant of the economic performance. Consequently, if the state of the natural capital improves due to the new regulation on packaging leading to a decrease in the quantity of waste, the *economic results* achieved would be better either.



The rise in the prices of natural resources due to their increased protection would lead to the narrowing amount of production factors, which could be a stimulating factor for innovation and economic rationalisation. The usage of new technologies in order to prevent and reduce packaging waste respectively keeping with the requirements of an EU-conform regulation would mean an *improvement in the efficiency* of energy and raw material consumption. It could result in the fact of a considerable fall in the quantity of used energy and exploited materials, thus in saving costs and in sparing nature and the limited amount of non-renewed resources, while in a national level a decrease in the imported materials would *improve the balance of trade and the balance of payments*.

The unemployment, inflation, technical development and exports do not necessarily mean impeding factors for environmental protection. The legal requirement of prevention and reduction of waste demands new modern technologies and the establishment of an environmental protection background industry, where the production and operation of environmental protection devices would need for workers, so could *create workplaces*.

Another important impact could be the increasing environmental awareness of the population, so a rising demand for products in environmentally friendly packaging encouraging the companies to innovate and to use protective technology, which would cause a *better international confidence towards the Hungarian products*.

### **4.3. The impacts on competitiveness in international markets**

The *traditional economic policy* considers environmental protection as an expensive, cost increasing, thus unfavourable activity. However, it is true for the subsequent interventions, for the investments into end of pipe technologies since most of the companies allowing to the pressure of a more strict environmental regulation often decide the introduction of end of pipe environmental solutions, thus the application of technologies that only remove pollutants from waste streams such as filters and effluent treatment facilities. Accordingly, these are likely that an additional cost element but without saving potential, which arises as a consequence of the firms' negligent behaviour and way of thinking: their management hardly takes into account the possibility of preventing the production of packaging waste, it concentrates mainly on the post-treatment.

The view that an increased environmental protection is linked to worsening international competitiveness originates mostly from the fact that environmental costs are firstly private while environmental benefits are social. Consequently, social benefits of environmental protection are

scattered over the whole economy, though private financial costs tend to be focused in the companies, in a few sectors. Moreover, such benefits from environmental expenditure can usually be realised only in long term.

The cost increasing nature of environmental protection rises under the conditions of extensive environmental policy.<sup>12</sup> It means the introduction of an environmental system in order to eliminate or reduce the harmful effects of the polluting technology applied by the enterprise. As in this case the environmental protection expenditure is not part of the recovery process, it appears as extra costs. Therefore, in such systems the inevitable and necessary choice between economic increase and environmental protection comes up as a dilemma for the management creating that false hypothesis that the environmental protection prevents and means an obstacle for the firm's economic development.

Nevertheless, the relationship between the environment and the economy cannot be simply considered as a zero-sum game, in which one component must necessarily lose in favour of the other. This concept could mostly derive from two misconceptions.<sup>13</sup> One says that any environmental improvement requires financial funds, so the larger the expected improvement the higher amount of money is demanded. It could be true in the case of end of pipe environmental protection while the application of clean production methods usually needs in the first place changes instead of funds and provides not only environmental but favourable economic impacts as well.

Consequently, an improvement in the state of the environment could be achieved by orienting the structure of production and consumption into an environmentally protective direction leading to cost savings. However, in many cases the largest difficulty to cope with is not the money but the difficulty found in that any change in the existing production and consumption structure could be realised by a significant transformation of the environmental awareness and by the development of values.

According to another common misconception the environmental expenditure deteriorates the economic increase and potentials of competitiveness, since it means extra costs for the factory and draws away the financial resources from investments and modernisation necessary to keep positions in international markets. However, in a middle-developed or underdeveloped economy such environmental measures enforcing extra costs have positive impacts since by narrowing and causing an increase in the price of production factors they encourage the polluting companies to innovate, which leads to a rise in their international competitiveness.

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<sup>12</sup> Horváth (1995).

<sup>13</sup> Glatz (1998) .

The foregoing just summarises the essence of PORTER's theory<sup>14</sup> on environmental protection and competitiveness having totally opposite views than the representatives of the neo-classical economics. He says that the high levels of environmental protection may raise the competitiveness but in this case the environmental regulation must be perceived by the companies, instead of something necessarily bad demanding expensive investments, as challenges coming from the external environment, which similarly to any other external changes requires an innovative reaction.

Thus it appears as an objective condition of the companies' external environment, which needs for flexible adoption. So in his system pollution is considered as a form of waste and inefficiency and if the enterprises recognise this and instead of unproductive end of pipe environmental investments they apply integrated methods, clean technologies, recovery or recycling considerable cost savings could be achieved.

This theory of PORTER works perfectly under the conditions of intensive environmental policy,<sup>15</sup> which by contrast to the extensive one means the application of clean technologies not reducing but preventing the production of waste. It integrates the environmental protection vertically instead of horizontally into the production process in order to prevent waste production.

Accordingly, the long-term environmental policy is an integrated system of environmental protection, which includes the perfection of extensive methods, the development of a background industry for environmental protection and the attempts to shift technological development towards an environmentally conform direction.

In Hungary the introduction of a new EU-conform regulation on packaging aiming prevention as first priority would lead to the improvement of long-term competitiveness and a shift from extensive to intensive environmental policy as it would encourage the better and more efficient usage of resources by increasing the prices of raw materials, thus stimulating innovations, the application of more economical technologies.

#### **4.4. The impacts on foreign trade**

In the EU the companies consider extremely important the respect of international trade agreements, one essential field of which has become recently the regulation on environmental protection. It is because in the international markets the very different environmental requirements and legal conditions could lead to malfunctions of the market, since the

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<sup>14</sup> Boda – Pataki (1997).

<sup>15</sup> Horváth (1995).

divergence laying in the severity of regulations could engender unfavourable flows of capital, and so it erects various barriers. The new EU-conform regulation of Hungary would possess this economic aspect and could contribute to the improvement of trade relations with the member states in different ways.

Though the application of looser national environmental regulation has its „advantage” of attracting foreign capital and investors, it also means a kind of trade barrier for the companies exporting to west. Since in the EU much more strict rules are in force on packaging and packaging waste than in Hungary, they could function as *trade barriers*.

Market access in the Union can be denied in cases where the imported goods violate a member state's domestic product standards like prohibition of certain ingredients or requirements for a minimum amount of recycled material or in cases where foreign goods are manufactured through production processes environmentally unacceptable by the importing state. Germany, as an example, imposes a license fee of even 15 times higher in value on imported products less environmentally protective and uses an obligatory deposit ratio for drinks.<sup>16</sup> By the introduction of more rigorous Hungarian provisions conforming to the EU's most of these trade barriers would be eliminated and avoided improving trade relations with the states of the Union.

The new regulation on packaging could eliminate to a certain extent the *Union's reservation* towards products coming from Central and Eastern Europe facilitating Hungary's accession as well. The Union feels to be threatened by the joining of countries with looser environmental regulations, since it could easily lead to a shift of certain industrial branches from west to east by increasing the unemployment rate of the west but by decreasing its local production. This reservation of the Community could be weakened or may be eliminated by the introduction of EU-conform provisions.

As another positive impact the elimination of the accusation of *ecological dumping* can be considered. Most of the countries of Central and Eastern Europe are often accused of ecological dumping<sup>17</sup> during their foreign trade with the EU states, saying that the lower prices of their goods are due to the looser environment policy applied. Their governments are usually charged with lowering strategically the environmental standards of the country in order to expand exports and to attract foreign industrial investments. Nevertheless, such accusation of ecological dumping could be eliminated by introducing higher and more strict standards to achieve, which would also serve the boom of trade relations.

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<sup>16</sup> Érsek (1997).

<sup>17</sup> Glatz (1998).

However, the EU states are willing to acquire goods produced by considerable environmental pollution from third countries while they likely to transport the environmentally polluting technologies to abroad,<sup>18</sup> to the countries of Central and Eastern Europe, so to Hungary as well. In order to put an end to this harmful tendency the establishment of a new regulation could be the solution by aiming prevention and by introducing higher environmental standards conforming to the EU's. Therefore, the looser requirements would not be a motivating and *attractive factor for polluting foreign companies*, industries in the future.

Furthermore, the new environmental policy could increase the *awareness and responsibility of the population for the environment*, thus the consumers sensitive to environmental problems could put pressure on both national and foreign enterprises posing hazard to the environment. By a rise in demand for products in environmentally friendly packaging the demand for the disposable ones will decline resulting in a financial loss for the firms. The increasing national environmental awareness could also mean increasing foreign trade with companies of the EU producing merchandises in environmentally productive packaging.

## 5. CONCLUSION

The new legal provisions, though demand huge amounts of funds and a compromise among the various interest groups, would have favourable impacts on not only the environment but on the economy as well. They could influence positively the environmental elements by improving their state and the human living conditions meaning an increase in the value of human capital just like the economy by encouraging structural change, innovations leading to a shift from extensive to intensive environmental policy.

By causing a rise in the prices of natural resources the new regulation could mean an improvement in the efficiency of energy and raw material consumption, thus in a national level could result in a better balance of trade and balance of payments. It would either contribute to an increase in competitiveness in international markets and to the improvement of trade relations with the EU states and the possible elimination of trade barriers originating from looser national environmental requirements. Therefore, its earliest possible introduction is everyone's interests, from the government through the companies to the population.

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<sup>18</sup> Szász (1998).

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**KRISZTINA BÁRÁNY\***

## **The evolution of education policy in the European Union**

Education is like war.

Some students (and perhaps teachers too) might agree when thinking of their relationships at school. However, the basis of the comparison here is a quotation by MONTECUCCOLI, who said: „Three things are needed for war: money, money and money.”

Well, this statement may apply to education as well, and Hungarian politicians not rarely refer to the scarcity of financial resources when talking about the feasibility of the reform of the education sector.

Our preparation for the integration into the European Union adds a new dimension to the challenges in this respect as well. It is therefore very important to get to know European education policy. In the following the evolution of the issue is introduced, with an emphasis on joint education programmes as an important part.

„If I had to do it all over again, I would begin with education.” (JEAN MONNET)<sup>1</sup>

It has always been a subject for debate whether to approach the question of European integration purely from an economic aspect, or rather by focusing on the socio-political relations between individuals and organisations. At the time of the signing of the Treaty of Rome in 1957, the member states of the newly founded European Economic Communities

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\* Student of the Colleges of Management and Business Studies. Shortened version of her student scientific paper. Supervisor Prof. P. Majoros.

<sup>1</sup> Rókusfalvy (1997), p. 36.

opted for the more materialistic viewpoint (this fact being reflected in the name of the grouping). Not surprisingly education was stipulated in the Treaty only in areas directly related to economic production and to the free movement of workers. Accordingly, at the time the community competence in education was restricted to training, general education remaining a function of the national governments.

As the integration of the European Union proceeded, the role of education and training has undergone changes – as have all the other areas of community policy-making. The framework of policy regulations, the *acquis communautaire* (~community achievements) is an ever expanding system of priorities and action plans, which – by getting more and more complex – imposes a greater adaptation burden on the newly joining member states. Although the community regulations are neither too extensive, nor too strict in the field of education, meaning a weaker force of adaptation to them, it is not negligible for the candidate countries to consider and follow them.

Let us first consider how the importance of and attitude to a common education policy in the EU has changed through its history.

The 1957 *Treaty of Rome* establishing the European Economic Community (EEC), did not include any regulations of general education, and did only touch upon the question of training. Where the Treaty had any competence regarding training was in connection with other policy areas (e.g.: common agricultural or social policy) or aimed at the general improvement of individual mobility and employment opportunities.

The general attitude of the member states to a common educational policy at the time (and for long in the future) was that they intended to keep their national authority, and therefore did not support a joint education policy for the Community.

In 1963 the Council of Ministers issued a decree describing the responsibility and authority of the member nations as follows:<sup>2</sup>

Accordingly the individual states had to

- ensure appropriate training opportunities for all working citizens;
- ensure opportunity for restarting and continuing education and for retraining during the entire period of working activity;
- create a situation where individual development can be reconciled with economic and technical conditions;
- ensure a smooth transition from basic to advanced training;
- provide information and professional guidance for workers and the youth;
- organise proper training of teachers and instructors; and

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<sup>2</sup> Field, p. 2.



- provide the Committee with forecast about the future labour force requirements of their individual economic sectors.

Briefly speaking, the stipulation of education remained the function of the individual member states.

However, in contrast with the relative unconcern of the first 15 years, from the 1970's the Community began to turn its attention towards education and training. Among the manifold reasons were that education was considered as a means of forming the desired European citizen of the future. The dramatic development of the Far Eastern economies made the continent realise that there were forces capable of influencing market processes outside the Euro-Atlantic region as well. Another important factor was that the 1973 oil price shock and the ever worrying environmental problems of the decade reflected the vulnerability of the current, expansion-orientated economic system, the solution to which problem was seen in a shift to a human resource and information based model. This spurred arguments about how education and training could contribute to socio-economic development. New issues such as long-term investment in education, free-time training and the concept of life-long learning („education permanent”)<sup>3</sup> came into the limelight.

The following paragraphs will explain that in spite of the relatively increased attention towards the question of handling education on a European level, the period of the 1970's was still full of contradictions and collision of interests.

Already in 1971 an official meeting was held for the education ministers of the member states. As a practical result of the event a working committee was set up, which issued a report in 1973 titled „Towards the European education policy”.

It was at this time that the Commission called upon HENRI JANNE, ex education minister for Belgium, to work out the principles of a community education policy. The JANNE report claimed that member states should harmonise their national systems on a gradual basis, ultimately resulting in a joint policy, but altogether no great importance was attached to the paper. With the joining of three new countries, the United Kingdom, Ireland and Denmark in 1973, the chance of elaborating a common policy to address educational matters diminished even further. The institutionalisation of the community education policy started as early as in 1975 with the establishment of the European Centre for the Development of Vocational Training (CEDEFOP). Its task was defined as to compare and contrast the training systems of the member states in order to lay the foundations of a joint policy and to foster the transferability of professional qualifications. In 1976 an action plan was

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<sup>3</sup> Field, p. 4.

worked out for the coming years, as part of which the following year a Commission directive was issued stipulating the education of the children of migrant workers. This regulation was the first to deal with general education, and it interfered in the member states' national affairs in a sphere that was undoubtedly justified, and also served as an example of matters requiring a community approach.

The next decade began with the European countries realising that a thorough and mutual understanding of each other's educational systems is indispensable for shaping a common policy. To enable a continuous exchange of reliable and up-to-date information, in 1980 a network called EURYDICE was set up, with a representative office in all member states' ministry of education. These offices supply the headquarters in Brussels with first hand information about the country's education system and policies, which data are further used in comparative studies, reference materials and analyses, to support the birth of a common European policy.

The 1980's witnessed the start of inter-governmental dialogues as well as the shaping of definite priorities on a European level. New action plans were set up, the financing of which was now realised from the common budgetary resources. At their annual meeting in 1985 the European ministers of education adopted a list of the most important areas of concern<sup>4</sup>. In this high priority was given to the comparative analysis of national training and education systems, to the closing of the gap between the national schemes, to co-operation in higher education, and to the mutual recognition of diplomas and periods of study. Community aims included fostering exchange programmes between youth organisations, and co-operation between schools and companies. Further emphasis was laid upon the impact of modern information technologies on education, the teaching of foreign languages, and helping the transition from education to adult life. The role of European co-operation was also seen in tackling illiteracy, supporting the education of the children of migrant workers, and ensuring equal opportunities for males and females and special education for the handicapped.

The mid-1980s laid down the directions of community policy for a longer time. The basic principle was to initiate projects that, acting as catalysts in the national education systems, would generate innovations serving community objectives. During the second half of the 1980's a number of significant education and training programmes were launched.

The role of legal jurisdiction must not be underestimated either in the development of European programmes in education. Widely-known lawsuits, where foreigners won a case against an educational institution or the local authorities for negative discrimination, paved the way to the

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<sup>4</sup> Halász (1996), p. 565.

launching of higher education programmes. Such cases were the Italian Casagrande's (1974), whose son did not get the same school grant as the German guest workers' children did, or the GRAVIER case (1983), in which the French university student was charged a higher fee at a Belgian school than his native fellows.<sup>5</sup>

We can say that the achievements of the 1980's were compromising in nature in a sense that they rejected inactivity as well as a direct stipulation of education within the Community.

Although the Single European Act in 1986 did not bring any change, the Maastricht Treaty (1991) establishing the European Union contained two articles stipulating education and training (Articles 126 and 127 respectively). However, these regulations were still cautious about interfering with the national systems of the member states. It was clearly stated that community policy was intended to supplement and add value to the stipulations of its members, and therefore did not mean to harmonise the individual policies.

The main objectives of Article 126 were to increase teacher and student mobility, to enhance European dimension in education, to foster co-operation between institutions and companies, to gather and circulate information about the education systems of the member states, and to promote distance education. Article 127 aimed at facilitating adaptation to industrial changes through vocational training, and improving initial and continuing training in order to facilitate vocational integration and reintegration into the labour market. Besides, mobility, co-operation with firms and the exchange of information were common goals with general education.

As emphasised earlier, the stipulations of the education sector in the community take the form of soft regulations, such as statements and decisions, which are not binding. However, there have been several papers produced to set directions for the community approach to education. One of the most important of these reports, a White Paper titled „Teaching and learning: towards a learning society” was published by the Commission in November 1995. This document forms the basis of the common European priorities and action plans up till the present day.

Why is it considered important to control education on a community level?

First, the nature of work and the way of managing production had changed, and in the new, autonomous activities a greater role was assigned to the human factor. Second, as a consequence of the globalisation process, no borders existed any more to stop the flow of workforce. Finally, with the speeding up of technological development, it

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<sup>5</sup> Halász, pp. 10-11.

became essential to follow the pace of scientific innovations, and to put the new findings to practice.

As a response to the changed conditions, new priorities in education and training began to take shape. The main lines were creativity, mobility, adaptability, understanding, judgement and decision. The right to education during the entire period of one's life was emphasised, as well as the importance of building employee skills.

Accordingly, a set of five objectives was worked out.<sup>6</sup>

*First*, the acquirement of new knowledge and experience is to be supported. It is indispensable to provide a system in which all one's skills are recognised in an accurate and transferable way, that is diplomas and other certificates show the exact qualifications of the individual, and are equally accredited in all the member countries. For this purpose a personal card containing information about the individual's professional skills and work experience is under development (so that not only years of study are accredited). The mutual recognition of diplomas and periods of study is important both in the school context, that is during one's studies (academic recognition), and in the labour market sense, meaning how qualifications acquired in one country can be used when taking up a job in another state (professional recognition). Mobility is another cordial point, which is supported – among others – by a newly proposed, pioneer project named European Credit Transfer System (ECTS). Under the auspices of the ECTS inter-institutional agreements can be concluded between the universities and colleges of the member states about the accreditation of studies carried out in each other's courses. It is also accepted that education appliances should always reflect the state of technological development, and should make use of fresh innovations. This is to be manifested in, for instance, the use of multimedia softwares.

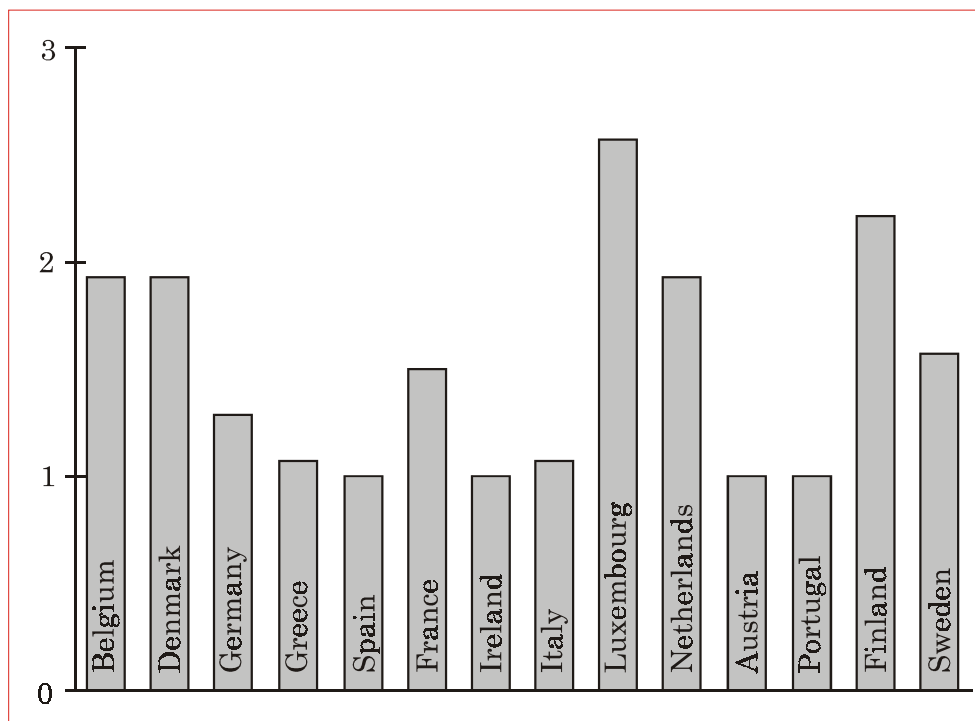
*Second*, a closer and practical co-operation should be fostered between schools and enterprises. Educational institutions should for this purpose open up to the world of work and employment, letting the students experience real life before they actually have to take up a job. On the other hand, companies and enterprises ought to get involved in the training of new workforce. With their participation the curriculum could be made more lifelike and useful, „producing” workers with skills tailored to the actual requirements of the respective economic sectors. This principle should apply not only to technical schools but to higher education as well (as it is a practice at a number of universities abroad, e.g. London Business School, Università Bocconi, Mannheim University<sup>7</sup>). A means of

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<sup>6</sup> On the basis of „Tanítani és tanulni: a kognitív társadalom felé”, Munkaügyi Minisztérium 1996, and „Teaching and learning: towards a learning society”, European Commission, Luxembourg, 1995.

<sup>7</sup> Benedek (1997), p. 18.

implementing this policy is work placement in industry, which is to be promoted.



*Figure 1*  
Average number of foreign languages per general secondary pupil, 1992/93  
(EU average: 1.2)

*Third*, social exclusion should be prevented, and marginalisation process halted. Special attention is to be directed towards the long-term unemployed, the wage-earner elderly, those without a diploma, and towards women returning to work. In this context the concept of second chance schooling is to be introduced to enable the threatened societies to gain a firm financial and professional position.

*Fourth*, a good command of at least two foreign languages is a desirable standard for the European citizens, the learning of which languages ought to be started as early as in crèches. Experts envisage better results in other, general fields of studies for those with foreign language skills. It is beyond doubt that those able to make themselves understood in a second, third etc. language have a better chance to adapt to the new international circumstances, and can make a better use of the opportunities arisen from the common market.<sup>8</sup>

<sup>8</sup> Chart data from „Teaching and learning: towards a learning society”, European Commission, Luxembourg, 1995, p. 95.

*Fifth*, an equal treatment of investments affecting human resources and training should be enforced. It means that these actions are to be taken as investments and not as current expenses, and also that a fiscal and monetary harmonisation of the national systems for settling education-related investments ought to be realised. Additionally, tax allowance should apply for these investments.<sup>9</sup> It is also desirable that individual trainees be willing to invest in their own training (co-financing).

The Council of Education Ministers in 1998 May passed a resolution about the need to strengthen *European dimension* through education. There is not one single definition of European dimension, but the following matters are implicit. A sense of European identity should be firmed in the young, with a special emphasis on values such as democracy, social justice and human rights. The young generation is also to be prepared to take an active part in the social and economic development of the community. Quite understandably, it is also vitally needed to have satisfactory knowledge about the cultural, historical, social and economic background of the community as well as the individual members, and about the community's relations to third parties (countries, organisations).

Relatedly, the creation of the European citizen is another aim of the common education policy. A strong impetus was given to it when opponents of the EU appeared to threaten the integration. The evoking of a sense of common citizenship is realised through building social solidarity and solicitude, and ensuring a chance for free self-realisation.

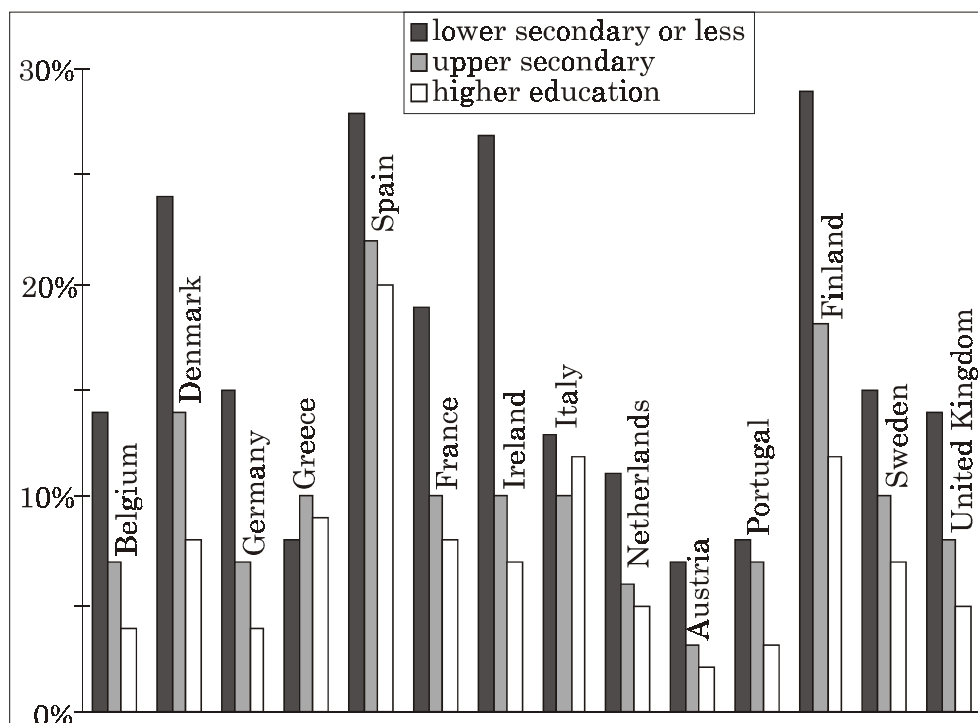
As mentioned in the section about the historical background, an important factor in shaping a common educational policy has been the question of ensuring *innovation and competitiveness* through the strengthening of human resources. It has been recognised that the economic competitiveness of the community depends to a great extent on the training, flexibility and creativity of its workforce, which factors can be positively influenced by education and training. This is why the relations between training and the economy, and educational and employment policy are so greatly appreciated. The Union has used the 1998-99 screening of the candidate countries (see later) also to assess to what extent their education systems can contribute to the reinforcing of the competitiveness and innovation potential of the community (and of the applicant countries themselves).

Already in the 1993 White Paper „Growth, competitiveness and employment” it was recognised that unemployment cannot be tackled solely by economic growth, certain mechanisms helping with the adaptation to social and labour market trends are also required. These mechanisms can be called forth through education, especially that of the

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<sup>9</sup> Halász (1997), p. 32.

adult generation. This is why an increasing emphasis is put on adult education, lifelong learning, and the open and distance forms of education.



*Figure 2*  
Unemployment rates (%) for people aged 25 to 35 by level of education, 1993

The extension of education is an important factor in tackling unemployment<sup>10</sup>

The last priority to be mentioned here is the need to follow technological development, and furthermore to support through education the transition to an information society. Accordingly, modern informatics and telecommunications ought to play a crucial role in education.

The influence of the Union in the national education systems can take four forms:

- through the European competence in training policy, which can further influence general and higher education;
- community actions and programmes;
- via the direct support of national reforms, from structural funds sources, and

<sup>10</sup> „Teaching and learning: towards a learning society”, European Commission, Luxembourg, 1995, p. 97.

- through formal and informal communication when co-operating with other European bodies.

*Table 1*  
*The main education programmes launched in the 1980's – early 1990's,*  
*with their respective budgets<sup>11</sup>*

Acronym	Program objective	Duration	Financing until 1992 (M ECU)
COMETT	co-operation between universities and economic establishments	1986-94	206.6
ERASMUS	exchange of university students	1987-	307.5
PETRA	training of youth and preparation for adult life	1988-94	79.7
YOUTH FOR EUROPE	European mobility of youth	1988-94	32.2
IRIS	training of women and girls	1988-93	0.8
EURO-TECNET	technological innovations in training	1990-94	7.0
LINGUA	foreign languages teaching	1990-94	68.8
TEMPUS	university exchanges outside the EC	1990-94	194
FORCE	adult training	1991-94	31.3

Of these four, *community programmes* have been given extra attention and impetus since the second half of the 1980's. These programmes are EU-coordinated co-operations between countries of the Union (and applicant countries) in which the voluntarily joining institutions engage in Union-related activities. The project activities are tailored to community priorities, and are jointly financed by the institution itself and the Union (the share of the school must usually reach 50%)<sup>12</sup>.

<sup>11</sup> Halász (1996) p. 566.

<sup>12</sup> Sources: Szemlér (1999), pp. 6-7, and <http://europa.eu.int>.



An item in the EU budget is structural policies (taking up about one third of all the EU expenditure – see table 2), which is made up of Structural Funds and Cohesion Fund. There are three areas financed under Structural Funds:

- subsidies for underdeveloped regions,
- support for the socio-economic reform of regions facing structural problems, and
- *education, training and employment policy.*

According to Agenda 2000 the latter will have a share of 24.05 Bo EUR, that is 12.3% of the Structural Funds budget during the period 2000-2006.

*Table 2*  
*Share of structural policies in total expenditure, between 2000–2006*

	2000	2001	2002	2003	2004	2005	2006
Structural policies [M EUR]	32,045	31,455	30,865	30,285	29,595	29,595	29,170
Structural Funds [M EUR]	29,430	28,840	28,250	27,670	27,080	27,080	26,660
Cohesion Fund [M EUR]	2,615	2,615	2,615	2,615	2,515	2,515	2,510
Total expenditure [M EUR]	91,995	93,385	93,805	93,005	91,465	90,795	90,260
Share of structural policies in total expenditure <sup>13</sup>	34.8%	33.7%	32.9%	32.6%	32.4%	32.6%	32.3%

The joint European education programmes involve different groups of participants and serve one or more of the community objectives (for example under COMENIUS priority is given to projects that enhance citizenship by dealing with subjects like European cultural heritage or human rights issues).

In line with the programme objectives, educational establishments can initiate projects with partners from other European countries, and they can compete for financial support to cover their activity expenses. As mentioned earlier, the support of these projects is supplementary in nature, meaning that the tendering institution must always contribute to

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<sup>13</sup> Own calculations, rounded to decimals.

the financing. (However, the school share does not need to be actual money, it can be, for instance staff time etc.)<sup>14</sup>

The EU share can be of two types of source.<sup>15</sup> If the country of the participating school is a member of the Union, the community contribution comes from the annual general deposit paid by the country to the EU. In case of non-member countries, the governments in question must pay in a certain amount to the Union for education financing purposes (a so-called „entry ticket”), and the educational institutions of the country can tender to get a share of this sum back to cover their project costs. (This entry ticket for Hungary in 1998 amounted to ECU 4,902,000; 50% of which was paid in by the government, the rest being covered by PHARE aid.)<sup>16</sup>

The question of who decides on how much money to assign to which project depends on whether it is a centralised or decentralised action. In case of centralised actions the tenders have to be handed it directly to the Directorate General (DG) XXII of the Union, which is in charge of education. The selection and monitoring of the awarded projects are pursued by DG XXII itself. Here the role of the national agencies is restricted to the provision of information. On the other hand, project bids for decentralised actions are handed in to and awarded by the national agencies. The schools conclude the project contract with the national agency instead of the Directorate General.

Community activity in the sphere of education and youth led to a major revision of existing programmes in 1994-95.<sup>17</sup>

With a budget of ECU 850 million for the period 1995-99 a new super-programme named SOCRATES was set up. It assimilates the following fields of education: the already existing ERASMUS, LINGUA, EURYDICE, NARIC (network of national academic recognition information centres) and ARION (study visits for educational decision makers), adding to them a new schools partnership programme, COMENIUS, and actions in support of distance learning and adult education.

In the field of vocational training, the LEONARDO programme with a 620 M EUR budget until 1999, brought together the previously mentioned COMETT, FORCE, PETRA, EUROTECNET and IRIS action programmes.

To these two was added an exchange programme (outside the educational sector) called *Youth for Europe*, with a budget of 126 M EUR.

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<sup>14</sup> The Hungarian Ministry of Education has held out the prospect of financial support for schools participating in European education programmes. (Its Norwegian counterpart grants a 50% support to schools to cover project expenses.)

<sup>15</sup> Szép, p. 11.

<sup>16</sup> Socrates Hírlevél, Socrates Nemzeti Iroda, 1999, p. 2.

<sup>17</sup> Halász, p. 32.

*Table 3*  
*Two most popular programmes in the primary and secondary sector<sup>18</sup>*

COMENIUS		LINGUA	
Action 1	School partnerships	Action A	European co-operation programmes for language teacher training
Action 2	Education of the children of migrant workers, occupational travellers and Gypsies	Action B	In-service training in the field of foreign language teaching
Action 3.1	European In-service Training projects	Action C	Assistantships for future language teachers
Action 3.2	Grants for individual participants in European in-service training courses and activities	Action D	Development of instruments for language learning and teaching, and the assessment of language competence
		Action E	Joint educational projects for language learning

One common characteristic of all these community programmes that must be mentioned is that they let their target groups interpret and apply the macro-level policies of the EU so that it suits their conditions and requirements. This way two important goals are attained; participants schools remain interested in what they do, and they work efficiently.

After 2000 these programmes will not end but will go on with a new budget and innovations arising from past experience. Experts have, for example, worked on the new SOCRATES II. programme, to make it even more efficient and successful. They have decided that the new phase, to which 1.4 Bo EUR have been allocated for 7 years until 2006, will be less centralised, with the national agencies playing a greater role, and in order to lessen administration, several-year contracts will be introduced in some actions instead of the applicants having to renew their contract every year. A greater emphasis will be laid upon adult education (GRUNDTVIG) and open and distance learning (MINERVA).<sup>19</sup>

<sup>18</sup> Socrates - Guidelines for applicants 1998, European Commission, pp.51, 69.

<sup>19</sup> Átalakulás és folytonosság: a Socrates program II. szakasza, National Socrates Agency, Budapest, 1999.

Central and Eastern European countries, including Hungary, have had the right to take an active part in European education programmes since 1997 (there had been opportunities earlier as well, though with far not the same conditions). Hungary's participation in such projects and the process of integration are in an interaction; both help the other.

Although a more thorough picture of the Hungarian experience would exceed the limits of the present publication, it can be concluded that Hungarian schools have taken a successful part in joint European programmes, and steps have also been taken aiming at the mutual recognition of diplomas, increasing student mobility and other EU objectives. However, as the EU also pointed out in the 1998 screening of the Hungarian education sector, there are still weak points where improvements must be made, most importantly in the sphere of foreign language teaching, teachers' salary and technological facilities of schools.

The education sector must be appreciated as capable of playing a major role in Hungary's accession to the EU, by preparing our fellow citizens for the conditions of life in the Union in both private and professional terms, by widening our horizons and knowledge about other cultures, and by supplying our economy with highly skilled experts who will be able to help Hungary gain a competitive position in her new environment.

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**ILDIKÓ JAKUBOVICH\***

# **Prospects of the Hungarian Exhibition Industry in the light of potential EU Membership<sup>1</sup>**

## **1. INTRODUCTION**

The exhibition industry and trade fair market is a very particular one in its kind from several points of view. Partly because it has several aspects concerning its primary and secondary functions, and partly because the issue itself deserves a further thorough look with special regard to the role they can play in the development of small and medium sized enterprises in Hungary. Priorities shall be given to co-operations among enterprises across the borders, and the promotion of Hungarian SMEs to join the supplier chain of big trans- and multinational businesses. These two priorities can be connected with the development of the Hungarian exhibition industry. The establishment of a new multifunctional centre or the development of the existing one, their easy access and their successful and profitable operation is in the primary interest of the state and business promoters since this complex and the events themselves are a tool for economic development. These facts should be recognised in Hungary.

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<sup>1</sup> Hereby I would like to express my thanks to my consultant, Mr. Károly Nagy.

## **2. THE OWNERSHIP STRUCTURE OF MULTIFUNCTIONAL CENTRES IN THE EU**

The special ownership structure of modern foreign multifunctional exhibition centres is worth mentioning. They are mainly owned by towns, local councils, chambers and the state itself in the European Union member states. The similar forms of ownership structure show that these complexes are the main meeting points of the local and the state interests. It is the place where the two sorts of interest can be and must be harmonised.

## **3. ROLES AND FUNCTIONS OF FAIRS AND EXHIBITIONS**

In general, the primary functions of the exhibition industry make business meet and flourish, play the market function and are important for the exhibiting and visiting companies - manufacturing, commercial and services - and the various regional business development bodies.

Special attention should be paid to trade fairs since they are becoming more and more widespread and acceptable all over the world. Not only the exhibitors but also visitors have recognised their significance. More information, more precise data about one field at one place at the same time. It is highly time-, money and energy consuming for visitors. Trade fairs are impersonating the „market” and play neutral role in market gains and access on both sides – sellers and buyers alike. In general, trade fairs are the marketplace and concentration of business promotion for cities, regions and countries. In this lies their importance. Besides, people like personal encounters, meeting each other – this is the secret of the continuous survival of trade fairs. As revealed by a study conducted by the Emnid Institut among German companies on behalf of AUMA, the Association of the German Trade Fair Industry, trade fairs are regarded in practically all phases of the sales process as the instrument that is best or second-best for achieving the respective objectives. In general, of all instruments that are used in the communications mix, trade fairs are the second most important, only superseded by personal sales.

Fairs and exhibition organisation creates job not only for the organisers but also for full-time, part-time employees and subcontractors. In this way

they partly create new employment, partly contribute to the more profitable operation of small and medium-sized enterprises particularly in the involved region. Fairs and exhibitions themselves generate primary benefits. Hotels, restaurants, stores, transportation companies (in one word the indirectly involved parties) can get additional subcontracts, incomes, generating secondary benefits and so they can pay much higher taxes. At the end of the chain, state budget receives additional incomes.

The secondary impact is benefit, i.e. business revenues for the city and for the business service community, however, it is a cost to the primary interested parties – which require and actually is a very different point of view. The latter is particularly important and should be illuminated and understood in Hungary – without high investments the exhibition industry is unable to improve – and the circle closes i.e. it turns full circle.

All in all, every benefit is there for the cities and regions – it is the business and touristic image of the city and region including the image of ability to flourish and the importance and role of the exhibition industry in the development of the regional policies since it initiates and keeps the regional economies operating. Preferably local companies starting from scratch take part in regional exhibitions to survey the market, to look for potential partners and buyers rather than multinational ones.

This is the point where the establishment and operation of a new multifunctional exhibition centre (or centres) next to some eastern border of Hungary should be connected with the priorities of the promotion of supplier chains and business co-operation across borders. Without a multifunctional exhibition centre (or centres) the Hungarian fair industry can not improve and will only fall away, without them the Hungarian state budget will not receive significant additional incomes and such a centre(s) will not exist, it will certainly be set up in some neighbouring country. In the words of KARL SCHEFFER from Messe Berlin: „It is Berlin's fate always to become and never to be.” We should learn and adopt it as an adage „It is Hungary's fate always to become and never to be.” The motto of our urgent job sounds like „If not Szeged, then Timisoara”. It is our turn – but not for any length of time. In other words, there are no grounds for complacency in today's competitive economic environment. The establishment of exhibition – cum – conference centres is of high regional importance – to provide base for competitive industry and service sectors. It brings the world to the local competing (or simple to the starting) companies, or makes them to take the first dip in the deep water of competition – the least costly way. (This is one aspect why most German cities – from Friedrichshafen to Dresden – are strongly developing their own fair facilities. A very plain example for the expansion of euroregionalism is the city of Maastricht – right at the far south-east end of the Netherlands, right on the border with Germany and Belgium.)



The importance of exhibition centres has long been recognised all over the world. These complexes help the events to be organised and held at a high level and therefore they contribute to the well-being of not only the organisation staff but also to the population of the town and region where it is located. The direct (or primary) effects which are basically connected with the establishment and operation of the complex (I mean the employment of the local population, one-time or several-time orders given to the local private entrepreneurs and small enterprises) are of much lower significance than the indirect or secondary benefits e.g. incomes from tourism, catering, retail trade, sales etc. These effects contribute to growth of demand, increase in use of capacity, extension of production and revival of tourism. They can lead to technological and sector-specific developments of production. They can promote the growth of export. By influencing and promoting foreign trade contacts, the local enterprises' export potential and the level of international integration can be enhanced, too. Sales scopes of local companies can be expanded and the quality of the settlement and in wider sense that of the region can be improved.

Multifunctional fair centres together with successful events can enhance the image of the town (I deliberately speak about towns and not villages because such huge investments are made in settlements of high number of population due to reasonable causes like shorter return on investment etc.). In this way these events promote image-building and increase the efficiency of PR and marketing. They enhance the self-confidence of the local inhabitants, strengthen identity which are of high importance from the standpoint of a crisis-stricken region. I use the word „crisis” and not „poverty” on purpose because in this way I would like to emphasise that *there are ways* out of crisis. I am of the opinion that the word „crisis” suggests a kind of temporary situation and period which can be cured with the help of „chance-management”. It also means that the whole region, the involved state and local institutions should set up a „chance-management” project of which part should be the establishment or the complete modernisation of a multifunctional centre. It even more concerns Hungary where at the moment only one exhibition centre (without any multifunctional characteristics) is operated.

The industry's rule-of-thumb for deriving broader economic impact is a multiple of four or seven times trade fair revenues. Surveys in Hungary, Brno, Düsseldorf and Ghent show similar results: the „magic” multiplier factor is between 4 and 7.

International exhibition centres, with their world-wide focus, have a wide-reaching impact not only in strict terms of revenues and jobs; they also enhance the image and promote the standing of a city far beyond state and national borders.

In the latter function in particular, trade fairs afford their cities a tremendous service of forging and strengthening business ties and furthering the world-wide rapprochement and understanding between nations and cultures.

## 4. GERMANY

### 4.1. A concrete German example – Düsseldorf

The economic impact of Düsseldorf trade fairs is at DEM 2.9 Bo for all of Germany in 1997. Two-thirds of this figure (DEM 1.9 Bo) flew into the provincial capital of Düsseldorf.

One interesting non-site-specific aspect is the mix of exhibitors' and visitors' direct expenditures in Düsseldorf.

Exhibitors' direct expenditures comprised some 35 percent for stand construction, 23 percent for stand rent and 21 percent for accommodation.

The lion's share of exhibitors' expenditures goes towards hotels and stand construction firms in each city or region. The main benefactors of visitors' expenditures are hotels and restaurants, which are tied for first place at 30 percent, followed by private expenditures at 20 percent.

Trade fair admission tickets, by contrast, only make up some 7 percent. Just under 5 percent is spent on public transportation.

Taxes on Düsseldorf trade fair revenues regularly amount to about DEM 400 Mo. Some DEM 34 Mo (8 percent) flow into the budget of Düsseldorf – the state capital – and DEM 141 Mo (32%) accrued to the state of North Rhine-Westphalia.

There is an additional synergy among trade fairs, transportation and restaurant sectors. Airports, railways, taxi companies, freight forwarders and car rental agencies profit overwhelmingly in cities and regions where there are trade fairs, as do hotels and restaurants.

The fact that trade fairs are staged regularly and scheduled well in advance is of great long-term planning value to service providers.

The ability to achieve long-term bookings to capacity levels, for instance, is an added benefit of trade fair locations. With the majority of international trade fairs, guests make room reservations for the next event before the current event has even come to a close.

Prices for hotel rooms in the towns with large international exhibition centres are considerably higher than usual during trade fairs. This is due to the increased demand. In financial terms, these higher prices are necessary for survival during times of low capacity utilisation and also as an important mainstay for upholding a broad range of services in the medium and luxury class which would otherwise be difficult to maintain.

In other words, fairs and exhibitions help the wheels of the hotel industry to run smoothly.

The broader benefits of tourism shouldn't be neglected, either. Press conferences, information receptions and presentations abroad, promoting a particular trade fair site, all contribute to showcasing a city or region.

What's more, regional revenues generated by Messe Düsseldorf alone secure 17,400 jobs in North-Rhine-Westphalia.

It is not enough for companies alone to invest in their markets. Trade fair centres offer their international clients an appropriate platform with all the services that go along with it because trade fair centres are, in a classical sense, service providers who create the proper setting for bringing market players together.

## **4.2. Macro-economic significance of the German exhibition industry**

Macro-economic significance of the German trade fair industry was investigated by the FfH Institut für Markt und Wirtschaft and the ifo Institut für Wirtschaftsforschung on behalf of the Federal Ministry for Economics and Technology, which was completed in spring 1999. Total production effects of DEM 41 Bo were produced in 1997 in Germany as a result of the organisation of trade fairs and exhibitions.

The employment effects associated with this involve around 230,000 full-time jobs including the projected figure for part-time jobs, almost 100,000 of them in the service sector, just under 70,000 in manufacturing industry and close to 50,000 in trade and transport.

According to the survey, the number of exhibitors at international and national events between 1994 and 1998 shows a steady growth and rose from 132,853 up to 154,391.

The starting point for an analysis was a registration of the expenditure of the exhibiting and visiting sectors of business on the basis of existing surveys for individual regions as well as from additional surveys and estimates. According to these, in 1997, the total expenditure of exhibitors and visitors plus investments by German trade fair companies, amounted to a total of around DM 19 billion. Of the total, expenditure by exhibitors at German trade fairs and exhibitions reached around DM 10.6 billion in 1997. Over DM 8.5 billion (80%) of this was accounted for by the 128 trade fairs classified by AUMA as international events, the other 20% at events with regional and local appeal. In total, over 700 trade fairs and exhibitions, for which exhibitor and visitor statistics were available for 1997, were covered by the survey. (This survey also details the expenditures of exhibiting companies – stand rental and stand construction –, travelling, accommodation, personnel, visitors at trade

fairs with special regard to whether the event was of national or international interest.)

## **5. THE NETHERLANDS**

### **5.1. A vain amalgamation attempt in the Netherlands – and the background**

In the Netherlands, Jaarbeurs Utrecht set its sights on a merger with Amsterdam RAI. Jaarbeurs Utrecht profited from the economic growth in 1997. For the first time in its history, turnover comfortably passed the NLG 200 Mo. But with a projected turnover in three years' time of more than one billion guilders, the new business could have been a leader in the European market.

The merger was designed chiefly to facilitate expansion in international markets. By themselves, Jaarbeurs Utrecht and Amsterdam RAI could have been unable to make substantial investments in international activities. The amalgamation was seen to be a response to international developments. Event organisers and publishers world-wide are merging. Their market know-how, databases and combined operation of marketing communication tools enable them to produce global trade fair concepts. It means that the amalgamation of the two biggest organisers and venues in the Netherlands (total turnover almost NLG 600 Mo) was expected to create a stronger international position, able to face up to international giants. Merging was to enable the realisation of a network of trade fairs world-wide, based on the Dutch strengths of agriculture, transport and logistics, environment and energy. In the end the Dutch Authority of Competition (D.A.C.) decided not to allow the amalgamation of the two Dutch exhibition organisers by reasoning that the new giant company would exclusively dominate the national market. The D.A.C. seems not to understand and realise that competition reached the „European stage” along with globalisation tendencies. It is questionable how the two separate Dutch companies can face the challenge set by the German market players.

Trade fairs in the Netherlands are facing stiffer competition from Germany. Europeanization is encouraging a growing number of exhibitors to take part in German trade fairs and German trade fair organisers are purposefully directing their marketing activities at the Netherlands. What's more, as a result of the rapid growth of new media and the greater competition from foreign operators, the importance of trade fairs and exhibitions will come under pressure in the years ahead. The exhibition

market is one of the business fields which can be best characterised with „intensive competition”.

And they all compete against each other. Dutch consumers are also being targeted by German and Belgian operators. Consumer fairs organised across the border are explicitly courting the Dutch consumers' favour.

## **5.2. Access problems might lead to a decrease in competitiveness**

Economic regions are emerging along the Dutch border. Although the Jaarbeurs Utrecht complex is located in the centre of the Netherlands, at the junction of rail and motorway connections, the problem of access is more acute. Traffic jams, road pricing, delays in the construction of park-and-ride facilities and higher public transport fares are detracting from the quality of events. Organisers that do not have their own locations are therefore turning to complexes on the periphery that do not suffer from problems of access.

## **5.3. Internal development plans might ease but can not cease difficulties**

Jaarbeurs Utrecht and Amsterdam RAI intend to enlarge their position in the marketing communication market. Since exhibitors are primarily interested in the right mix of marketing communication tools, they and the visitors need increasingly more information about the market. Therefore the companies do not concentrate exclusively on the organisation of events. They offer exhibitors a full-service package that includes trade journals, digital media and radio and television. Jaarbeurs Utrecht also became active as a publisher and developer of Internet sites, and a media operator during the year. The latter means that it seeks forms of co-operation with third parties or setting up their own businesses.

The Municipal Council in Utrecht approved the final development plan for the Utrecht Centre Project. Its approval firmly supports the plans for the redevelopment of Jaarbeurs Utrecht's site, including the construction of a casino, a hotel, a multiplex cinema, office space, retail space, a mega theatre and a food court. More than NLG 1 Bo will be invested in and around the Jaarbeurs Utrecht complex.

## **6. TRENDS**

### **6.1. Trends in the number of trade fairs in the European Union**

If you have a look at the Western European market, you can see a clear and unambiguously upward tendency until 1997.

Between 1993 and 1997 the number of trade fairs in Western Europe increased by 60 percent from 4,600 to 7,300 events, which indicates a sharp rise within four years. But from 2000 on the number of events are expected to decrease due to the more specialisation of trade fairs. Demand for trade fairs remain high, but becomes even more specific.

As an economic factor, international exhibition centres have a much greater economic impact on their individual cities and outlying regions than any other companies would normally have. This is mainly due to the large number of international clients they draw to the trade fair site. For companies that are located in and have direct dealings with an exhibition centre – e.g. stand construction companies, ad agencies, suppliers to the trade fairs – and for those with indirect dealings – such as hotels, restaurants, transportation and cultural institutions – there are clear economic benefits to be derived from swimming in the wave of a large international trade fair.

### **6.2. Globalisation tendencies**

Trade fair markets are closely tied to those of business and industry and to overall trends in the economy.

The overall globalisation tendencies are leading to the ever highest capital concentration in human history: multis become more multinational, which also means that the economic regions are being absorbed. The trend has an impact on the trade fair industry, as well. Businesses – which are potential exhibitors – are more forced to cut their costs and expenses to stay competitive. If the exhibition organiser can not prove effectiveness and efficiency, they can easily lag behind. Therefore it is a must for the trade fair organisers to co-operate with each other. (From publishing publications and brochures to running exhibitions jointly – comprising a broad range of co-operation.)

## **7. TRADE FAIR ASSOCIATIONS AND THEIR FUNCTIONS**

All the above-mentioned can be much better fulfilled with the help of trade fair associations.

### **7.1. Trade fair associations in some of the European Union members**

The German state has already right after the 2<sup>nd</sup> World War clearly understood the economic significance of the exhibitions for the development of the economy, of competitiveness and of international success. Thus the state itself established and provided financial background for the German trade fair association to safeguard interests of all those involved in the exhibition industry. Different trade associations and unions of different industrial sectors take part in AUMA representing the interests of exhibitors and visitors alike.

In the Netherlands the situation is similar – Fbfn (Association of Dutch Fair and Exhibition Organisers) represents the association comprising the different sectoral unions involved in the trade fair market. They also realised that they can better represent their interests jointly.

In the Scandinavian countries (Norway, Sweden, Denmark, Finland) only one supranational trade fair association exists realising the common interests in the different states.

In Italy the Italian trade fair association supports particularly the business interests of the Italian exhibition organisers - by enhancing the co-operation between SMEs with the help of EU support.

It is expected that the national characteristics of the trade fair associations will fade away and the European characteristics will be strengthened as a kind of counterbalance among the U.S., Japan and Europe . Though the above-mentioned basically have different economic and operational structures, the multinational companies have already established strong interest safeguarding practice to protect their transnational interests. Although the German Association of Machine Producers and its Dutch counterpart kind of compete with each other, they will be merged in the long term to promote capital concentration. At the moment the EU lags behind due to the diversity of its national economies.

## **7.2. Trade fair representation in Hungary and East-Central Europe**

The seeds of supranationalism in the post communist countries have already been planted in the exhibition industry. There is a new association called Centrex International Exhibition Statistics Union. It was set up at the end of 1997 and now includes Hungexpo Co. Ltd., Szeged International Fair, Incheba a.s. Bratislava, Incheba Praha a.s., BVV a.s.Brno and MTP Miedzynarodowe Targi Poznanskie sp.zo.o. Poznan. The purpose of the association is to co-ordinate their activities in the field of exhibition statistics, introducing a high-level and comprehensive regulation, promoting its international acceptance, authentication and upgrading, and related information tasks. Hereby I am citing the praising words of the publication of AUMA, „European Trade Fair Transparency”.

Important progress in Central/Eastern Europe

The trade fair companies in Bratislava, Brno, Budapest and Poznan, which have founded a joint audit organisation known as „Centrex”, published statistics for 122 trade fairs and exhibitions for the first time 1998. Thus, a major step has been taken towards improving trade fair transparency in the countries of Central and Eastern Europe, providing exhibitors and visitors with an important aid to orientation.

The Association of Hungarian Fair and Exhibition Organisers was founded ten years ago exclusively with the participation of Hungarian exhibition organisers. Now, in harmony with the overall tendencies the association should look for co-operation with the other parties involved in trade fairs: the different trade associations which represent exhibitors to meet the new challenges.

## **8. CONCLUSION – RISING TO A CHALLENGE**

The Hungarian exhibition market has a huge disadvantage because due to planned economy before 1989 fairs and exhibitions were out of focus. One huge capital concentration will certainly be needed in the Hungarian exhibition industry and it can not be realised without foreign help.

The Hungarian economy will heavily benefit from the establishment and promotion of the trade fair concepts and those of the construction and the development of high standard exhibition facilities (e.g. multifunctional fair and conference centres).



The reasons and benefits have already been clearly presented by referring to only a few foreign examples. One of the major and foremost task for AHEFO is to make it widely understood that the chance for business promotion will suffer serious injuries if the easy and competition-conform opportunity to support companies and economy (mostly the SMEs) is not regarded right.

AHEFO will have to call upon the state, the regional governments and the city hall occupants to get down to business and start a public-private initiative. It will certainly bring the fruits to harvest.

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CSABA TÖRŐ\*

# Hungarian domestic debates over NATO membership<sup>1</sup>

## INTRODUCTION

Ten years ago, in early 1990, Hungary was a member of the political and military structure of the Warsaw Pact and of the COMECON, the Soviet block economic integration. Soviet troops were stationed on the territory of Hungary. The Hungarian People's Army numbered approximately 160,000 in peacetime. The magnitude of Hungarian military expenditure exceeded 3.5% GDP, a figure that was not made public. The country bordered five neighbours; three of whom were members of the same alliance, the Warsaw Pact. Today, as the millennium begins and a bit more than years after the fall of the Berlin Wall and the demolition of the Iron Curtain on the Hungarian-Austrian border, Hungary is a full-fledged member of NATO and preparations for accession to the European Union are advancing at full speed.

For several years now the NATO-led peacekeeping operations in Bosnia-Herzegovina have included Hungarian soldiers performing their duties under a multinational command while U.S., Swedish, Danish, Norwegian, Finish and Polish soldiers carry out their tasks on Hungarian

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<sup>1</sup> Preprint of a chapter in a forthcoming book on the domestic debates over NATO enlargement.

soil. During the NATO air strikes against Yugoslavia to enforce human rights and stop genocide in Kosovo, Hungary as a new member of the Alliance made its airspace and airports fully available to NATO forces.

The Hungarian Defense Forces now number 53,000 in peacetime and defense expenditure is 1.61% GDP. This figure is made public since the Hungarian armed forces are under strict democratic and civilian control. For the time being Hungary borders seven countries of which five have gained or regained their independent statehood in the course of the past ten years.

## **THE DEFINITION OF HUNGARIAN FOREIGN AND SECURITY POLICY AFTER 1990**

The foreign policy priorities identified by the first freely elected government, the Antall administration cut across political parties and included:

- Euro-Atlantic integration,
- good neighbourliness ensuring regional stability and
- an active national policy to support the Hungarian minorities living abroad primarily in the neighbouring countries (altogether a community of 3 million ethnic Hungarians).

All Hungarian governments in office since that time have considered and continue to consider these goals as of primary importance.

The first concrete steps taken by Hungarian independent foreign and defense policymakers aimed at regaining the country's sovereignty and freedom of international action. In summer 1990 – in co-operation with other countries such as Czechoslovakia and Poland – Hungary suggested a review of the Warsaw Pact Treaty and subsequently, its dissolution, which finally took place in Summer 1991. Simultaneously, Hungary succeeded in bringing about the complete withdrawal of Soviet troops. In the same summer of 1991, COMECON, the economic organization of the collapsing Soviet Empire was disbanded as well.

Parallel with the shift of emphasis in its foreign policy, Hungary started to reassess the possible sources of risk and danger in the more complex new post – Cold War international environment in a region awash with the vicissitudes of an historic social and political change of system.

Transitional differences between countries and groups stemming from diverging social developments as well as economic, financial and social crises, ethnic and religious tensions, terrorism and organized crime, illegal

drug and arms trafficking as well as mass migration and large scale environmental damages all constituted an ever increasing risk. The proliferation of weapons of mass destruction (WMD) and of their means of delivery as well as the possibility of attacks on information systems portend ever increasing challenges and threats. Meanwhile interstate and intrastate armed conflicts continue to occur in Europe. Finally, instability and unpredictability triggered by the political transformation of formerly communist societies and the frailty of the processes of democratization posed a particular risk typical of the region. The unique feature of the Central and Eastern European security environment, and Hungary as well, is that new and traditional kinds of risks often appear simultaneously, reinforcing each other. As a general feature it can be said that instability constitutes the biggest risk in the changing security and political environment.

“The pursuit of foreign and defense policy is a national prerogative and major attribute of sovereignty, without which a state may not be considered independent. Non-Soviet members of the Warsaw Pact had only limited sovereignty and throughout Eastern Europe during the Cold War substantive thinking on defense and security was oppressed. Security was a military issue and non-military factors were seldom considered. Demilitarization of security was, therefore, one of the priority tasks in Hungary to deal more effectively with pressing security problems. New thinking had to be developed to define military as well as non-military measures to protect national security interests.”<sup>2</sup> The political, territorial and the ethnic conflicts and the turbulent changes of Eastern Europe were reflected in the rearrangement of threat perceptions and the „renationalization” of security and defense policies in Hungary after 1991.

In terms of Hungary’s security, the Balkan conflict which broke out in 1991 and has continued with varying intensity ever since, is of much greater relevance than any form of risk or danger. The armed clashes taking place in Slovenia and Croatia (not far from the Hungarian border), border incidents of lesser or greater scale (the most serious of which was the bomb that fell on a small southern border town Barcs, but luckily did not explode) highlighted the issue of Hungary’s vulnerability in an alarming manner. Ethnic conflicts taking place in the immediate neighbourhood of Hungary have not always taken the shape of armed conflicts. Nevertheless, the fact that in the course of not more than two years the number of Hungary’s neighbours increased from five to seven, out of which only two (Romania and Austria) did not undergo a radical change of state territory, underscores the uncertainty of the region. „There was an agreement among the Hungarian political elite that the only

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<sup>2</sup> Dunay, P. [1994], pp. 10–11.

possibility to break away from the disintegrating Central and Eastern European region was through accession and integration with the West.”<sup>3</sup>

The Hungarian governments since 1990 have paid particularly close attention to aligning foreign policy priorities (mentioned earlier) with the security and defense policy priorities of the country and to assuring that none is subordinated or detrimental to another. The successful fulfillment of both sets of objectives makes them interdependent and closely linked.

The premise of Hungarian foreign and security policy is that a successful Euro-Atlantic policy and Hungary's own security as well require regional stability. The process of Euro-Atlantic integration not only enhances regional security and co-operation but also provides an opportunity to advance the settlement of Hungarian national communities living abroad in the neighbouring countries. As for foreign policy goals related to integration, all significant European and Atlantic institutions are defined by Hungarian national security interests as different elements of one and the same structure and as instruments of Hungary's security policy, which can mutually complement and reinforce the country's bilateral relations and unilateral measures.

The Hungarian intention to join NATO has been firmly grounded in the conviction that NATO membership is an essential part of Euro-Atlantic integration through which Hungary's national interests can be better represented and defended. The country's military and non-military security alike would be guaranteed at a qualitatively higher level and at a lower cost. The indispensable reform of the armed forces, the establishment of genuinely effective democratic political and civilian control would be more efficient, less painful and less costly as a part of the North Atlantic Alliance. Membership in NATO is necessary for Hungary as official governmental sources reiterated on many occasions, not primarily to react to a military threat, though it could not be neglected either, particularly in the light of possible threats posed by Yugoslavia during the NATO air campaign, but rather as a positive action to achieve the broader objective of peace, security and stability in central and Eastern Europe. In addition, Hungary wishes to become a member of the Alliance because NATO is the proof and the guarantee of the irreversibility and definitiveness of integration and the accession to the community of values which ties the two sides of the North Atlantic region together. If others consider Hungary as a stable part of Europe, it will be much more attractive to foreign capital and investment. Hungary's NATO membership, therefore, is a means to securing not only physical security, but the broadest possible economic and political security as well.

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<sup>3</sup> Kovács, L. [1995].

## THE FORMULATION OF SECURITY AND DEFENSE POLICY BY NATIONAL CONSENSUS

The principle of „national consensus” in Hungarian foreign policy decision-making was finally accepted in 1992. “In its essence it rested on a gentlemen’s agreement by which the opposition would not openly criticize the activities of the government in foreign and security policy and, in exchange, the government would consult with the opposition before taking important steps in foreign policy. The system of so-called „six-party co-ordination” was established in the Parliament, as a consultative forum, which in contrast to the composition of the Foreign Affairs Committee of the National Assembly operates on the basis of parity.”<sup>4</sup> The „basic principles of security policy” adopted unanimously by the Parliament in 1993 and the „basic principles of national defense” which resulted from that document reflected the efforts to develop a consensus process. The work on the elaboration of these two significant parliamentary resolutions started in 1990 but had been delayed with the constant changes in the international environment and the initial mutual distrust among the political parties. The government submitted and withdrew several draft versions until, at the beginning of 1993, the Ministry of Foreign Affairs invited one representative from each of the six parties represented in the Parliament to finalize the text of the draft resolution in co-operation with the Foreign Ministry. The „basic principles of security policy” adopted on 2 March 1993 defined the security of the country in harmony with the requirements of the changing international political environment and was the first official document setting the target of the full-fledged Hungarian membership in NATO.

The „basic principles of security policy” demonstrated that one of the main endeavours of Hungarian security policy is the rapprochement and subsequent membership in the institutions of Western European integration. The subsequent „basic principles of national defense” adopted on 14 April 1993 on the other hand, confirmed that the guarantees of country’s security can, in the long run, only be ensured through the institutional framework of multilateral and multidimensional co-operation. Through these parliamentary resolutions Hungary expressed its goals to co-operate effectively with the existing international security organizations and to become a member of those institutions.

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<sup>4</sup> Rockenbauer, Z. [1999], p. 62.

The fourth paragraph of the resolution of the Hungarian National Assembly on security policy in 1993 laid out the different factors and dimensions of security as well as the means to security. „The acquisition of full-fledged membership in the European Communities will provide a fundamental guarantee of the security of the Republic of Hungary. The security policy of Hungary starts from the assumption that the EC, NATO, OSCE, the Western European Union (WEU), the North Atlantic Co-operation Council (now the Euro-Atlantic Partnership Council) and the Council of Europe will continue to play an active role in enhancing economic and political stability in the region, in supporting reforms to establish democracy and a market economy, in initiating defense reform, in developing effective mechanism of crisis- and conflict-prevention, in restoring the system of international relations of the region and in integrating Hungary into the new European security structure.” The resolution then proposed for the future that: „These bodies will ensure the security of the country in the long run. Relying on the achieved level and institutional frameworks of co-operation in the fields of foreign and security policy and on military matters which will gradually lead to the achievement of the conditions of full-fledged membership in NATO and WEU”.<sup>5</sup>

The „principles of national defense” adopted a month later also by consensus as well used even more unambiguous terms in the 16. Paragraph of the resolution: „The goal of the Republic of Hungary is to accede to the existing international security organizations such as NATO and WEU as full-fledged member. Existing co-operation with NATO member states in the fields of security policy consultations, defense management, training of officers, defense industry and human conversion as well as science and environmental protection provide valuable support to the restructuring of the Hungarian defense forces according to our needs and capabilities as well as to the establishment of the practical requirements for NATO-accession”.<sup>6</sup>

Further necessary steps followed the adoption of the above mentioned basic principles resulting in a constitutional amendment regulating national defense and the passing of the Act on National Defense later in the same year. The guidelines for the transformation of the Hungarian armed forces and for clear definition of national security interests derived from these principles.

In the case of security policy, the national security interests of Hungary require a consistent line of policy which enables the country to guarantee the success of the following purposes:

- the independence, sovereign statehood and territorial integrity of the country;

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<sup>5</sup> Resolution No. 11/1993. (III. 12.), Paragraph 4.

<sup>6</sup> Resolution No. 27/1993. (IV. 23.), Paragraph 16.



- the internal stability of Hungary including the undisturbed functioning of democratic institutions and the market economy;
- the conditions for the development of international economic, political and cultural relations and co-operation;
- the maintenance of international peace and stability in Central and Eastern Europe and on the whole continent.

As far as the national defense policy is concerned, the practical implementation of Hungarian defense policy is based on the principles of international co-operation, containment and defense.

According to the parliamentary resolution in its efforts to maintain an appropriate defense capability, Hungary basically relies on its own strength, the capabilities and determination of its own defense forces and on the support of its citizens. In the long run, however, the country can only expect a solid guarantee for its own security from an institutional framework of multilateral co-operation and from a strong political, economic and military community with countries pursuing similar goals.

Even if it did not apply to the entire sphere of foreign policy, the principle of the consensus among parliamentary parties survived with respect to security policy. This included the system of six-party co-ordination. Such consultations preceded, inter alia, the elaboration of a Hungarian position aimed at settling the crisis in the former Yugoslavia including: the draft resolution on the temporary deployment and transit of IFOR troops, the formal confirmation of the Status of Forces Agreement (SOFA) on the legal status of foreign troops (both of which were adopted on 1 December 1995) and the draft resolution related to the engineering contingent to participate in the framework of IFOR (adopted on 5 December 1995) and, a year later, the reconfirmation of Hungarian participation in SFOR (adopted on 9 December 1996). Hungary's active participation in the Partnership for Peace program beginning in 1995, the establishment of a NATO base at Taszár in January 1996 and the mutual experience gained during the operation of the latter as well as the activities of the Hungarian engineering units transferred under NATO command in February 1996 all put the co-operation between the Hungarian armed forces and NATO which had formerly existed mostly at a theoretical level only, to a practical test. All parties in Parliament accepted Hungary's accession to NATO as a fact sanctioned with a referendum in November 1997, so that, as with the basic principles of security policy and defense adopted in 1993, the elaboration of the „new principles of security and defense policy” took place in 29 December 1998 as a joint work of all parties represented in Parliament.

## CHANGE IN DOCTRINE

In accordance with the new security situation, this 1998 resolution on „the basic principles of security and defense policy” extended the purposes and redefined the content of the fundamental principles. The document clearly indicated the additional dimensions of the main purpose of security policy as compared to the previous doctrinal definition. Some of the points are concerned with the more thorough protection of the internal aspects of security:

- „to create appropriate conditions for the implementation of the principles enshrined in the Constitution, to promote the practice of the rule of law and the undisturbed functioning of democratic institutions and the market economy and to contribute to the internal stability of the country;
- to promote the full implementation of citizens, human as well as national and ethnic minority rights in the Republic of Hungary;
- to create the necessary conditions for the safety as well as material social security of all persons living on the territory of the Republic of Hungary and for the safeguarding of national wealth”.<sup>7</sup>

Another new element in the resolution is the unmistakable reference to the most profound change in the conditions of national security and defense policy, namely the membership in NATO. As the resolution determines, the goals of the Hungarian security policy (among others) are

- „to contribute to the implementation of the contents of the North Atlantic Treaty and to the security of its Allies,
- to contribute to the maintenance of international peace and to enhancement of security and stability in the Euro-Atlantic region, in Europe and its immediate neighbourhood”.<sup>8</sup>

Under the document, policy makers made clear their intention that the Republic of Hungary bases its security on two fundamental pillars: Euro-Atlantic integration and international co-operation and, second, national self-strength. Hungary considers the process of Euro-Atlantic integration in its entirety with NATO- and EU- accession as its components separable only in terms of timing. Hungary’s accession to those organizations will, on the one hand, complete the process of economic and social modernization taking place in the country, while, on the other hand, provide the means for Hungary to become a constructive player in the creation of security and stability in Europe.

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<sup>7</sup> Resolution No. 94/1998. (XII. 29.), Paragraph 3.

<sup>8</sup> Ibid.

The security of the Republic of Hungary, as reflected in the resolution, is based on the principle of collective security and defense. Hungary asserts its determination to assume all the duties that will fall upon the country as an equal and integral part of the political and military structure of the Alliance. It considers constructive participation in NATO's consultative and decision-making system as the means to contribute to international security and to effective representation as well as protection of its national interests.

The decisions that prepared the basis for the legal, institutional and political background of national defense following the change of its governmental system were mostly taken in the years that immediately followed the exit from the Warsaw Pact. Their basic philosophy was therefore aimed primarily at departing from an undesirable alliance system to prevent the return of anything similar and to establish the renationalization of security and defense policies. From a domestic standpoint, this philosophy was designed to clarify the legal status of the armed forces, to ensure the maximum respect of the rights of citizens in uniform and to confirm the civilian control of elected political bodies over the armed forces, while at the same time limiting day-to-day political interference. Limitations and regulations that were certainly legitimate and appropriate in the period of political and social change of system had to be replaced by new ones.

The most significant result of Hungary's accession to NATO is that, like other NATO-members, Hungary will – as the resolution reflects its intention and commitment – ground its security not solely in a national but also in a collective framework. The NATO Study on Enlargement itself in 1995 identified the expectations to promote the „denationalization” of defense and security policies as one of its most important goals. In the course of accession talks, Hungary accepted the consequences deriving from NATO's collective security and military strategy. The adoption and implementation of NATO's common philosophy required a review and reassessment of Hungarian doctrine and constituted a task of fundamental significance for the country. Hungary identified itself with the principles of NATO's collective security and defense and made the transition from a national approach to the collective way of thinking.

The resolution clarifies the tasks of the Hungarian armed forces as a member of the Alliance in the following twofold way:

- Assurance of the defense of Hungary' sovereignty and territorial integrity. The Hungarian armed forces must ensure that the capabilities required for defense relying on the country's national assets and resources prevent any possible attack and guarantee the conditions for the involvement of Allied forces.

- Contribution to the collective defense of allied nations on the basis of Article 5 of the Washington Treaty, participation in allied missions conducted on the basis of Article 4 of the Washington Treaty, international peace support and humanitarian operations carried out under the auspices of other international organizations.
- In the final analysis, the Strategic Concept of the Alliance becomes the guideline, in the elaboration and further development of Hungarian security objectives.<sup>9</sup>

## THE IMPACT OF NATO ACCESSION ON THE HUNGARIAN DEFENSE FORCES

NATO accession meant an increased burden for the Hungarian armed forces. The establishment of armed forces capable of co-operation with NATO coincided with the intent of setting up a modern and effective army as well as air forces in the years following the change of political system. In September 1995, the Alliance published its Study on Enlargement which stressed that countries wishing to join would have to meet the requirements of interoperability (the ability to co-operate) which meant joint action, common thinking and a co-ordinated application of principles and rules between the Hungarian armed forces and the NATO partners.

Therefore, the first and foremost task and necessary precondition of accession was the establishment of interoperability in every sense of the word – technical and intellectual alike. The first requires significant investment but can be fulfilled in a short period of time if the financial conditions are provided. The second one, the „intellectual compatibility” is the area which demanded the least funds and the longest time. Establishing the skills of communication was clearly the most urgent task. It also implies a similarity of doctrines, procedures and principles, co-ordinated planning and decision making, as well as the adaptation of organizational, training and operational methods.

The reform of the Hungarian Defense Forces accelerated with the possibility of NATO accession and the transformation gained momentum in the summer of 1996, with the first so-called „quantitative phase” ending in December 1997. Hungary concluded this first phase by restructuring and reducing the number of soldiers. In the on-going second, „qualitative intellectual and technical phase”, co-operation is of primary importance

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<sup>9</sup> Paragraph 14 of the same Resolution referred to above.

with a strong emphasis on the former: „it is better to have people with modern way of thinking and older equipment, than the other way round”.<sup>10</sup>

The essence of this second phase is not the procurement of the latest military technology in great quantities. The Alliance does not expect this from Hungary and the country could not afford it. Other important tasks are the reform of the command and control system, the training of the officers, the development of air defense, the modernization of air-space control, the improvement of communication (particularly in English), and the procurement of modern communication, air-surveillance, airspace sovereignty control and radar equipment. These do not require excessive investment and are being implemented gradually step by step.

Hungary still has a long way to go to achieve full interoperability. Further tasks need to be solved and programs as well as plans elaborated in the course of operations must be adhered to consistently. Hungary made its medium-term political and military commitment for the forthcoming period from 1999 to 2003 to fully or partially accomplish 48 different Target Force Goals and to assign certain military units to the preparation of immediate as well as rapid reaction ground and air forces for the purpose of collective defense.

The long-term force development concept can be divided into two five-year cycles. „Further advancement, qualitative aspects and full-fledged military integration into NATO will characterize the first cycle which will last from 2004 to 2008. In the second cycle, which will last from 2008 to 2013 we wish to put the emphasis on the qualitative aspects of the armed forces.”<sup>11</sup> The qualitative aspects of modernization are going to be further advanced by the creation of an overwhelmingly career and volunteer, highly motivated, and efficiently equipped Hungarian Defense Forces with computerized command and control system operating at all level according to the common NATO principles. In addition, the Hungarian Defense Forces are expected to be able to send 73 officers to different positions at different NATO military commands. Military representatives have been already sent to Brussels, Mons, Naples and other important posts.

In the course of preparing the country for NATO membership, Hungary paid special attention to stabilizing and improving relations between the Hungarian Defense Forces and the defense forces of neighbouring countries. As a result of deliberate efforts, a regular dialogue was established with the military leaders of the countries adjacent to Hungary and several bilateral treaties were signed on military co-operation. One significant achievement is the ongoing establishment of a joint Hungarian–Romanian peacekeeping battalion. A remarkable role from the point of view of regional security and stability has also been played by the joint

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<sup>10</sup> Pietsch, L. [1998], pp.42.

<sup>11</sup> Végh, F. [1999], pp. 49.

Italian–Slovenian–Hungarian brigade within the framework of the so-called Triangular Co-operation.

## BUDGETARY ISSUES

During the debate on NATO enlargement, the costs of accession was a very important issue. Opponents argued short accession would impose an unbearable burden on the country. The supporters countered that participation in the alliance and sharing the costs of defense would be a much cheaper solution than ensuring national security alone. The debate in Hungary was heated and complicated by the conflicting estimates of the costs. The debate was further complicated by the significantly different (sometimes by order of magnitude) cost estimates published in the US and in Western Europe by research institutes and governmental bodies.

Since the second round of accession negotiations in September 1997, it has become clear that the costs of accession to be borne by Hungary, as indicated by the Alliance, are acceptable. According to the agreement, Hungary's participation in the total budget of the Alliance will be 0.65% paid as the „membership fee” by the country. Today this 0.65% would be slightly more than 2 billion HUF (Hungarian forint), which is 2% of Hungary's total defense budget.<sup>12</sup>

As a significant aspect of its commitment to the Alliance, Hungary undertook to expand incrementally the defense chapter of the annual governmental budget in accordance with the responsibilities stemming from the country's NATO membership. Consequently, Hungary has attempted to contribute substantially but within the limits of its own possibilities and strengths to the efforts aimed at achieving NATO's common goals. The magnitude of Hungarian Defense Forces expenditure illustrates the seriousness of these endeavors. As a result of the accession negotiations Hungary promised to devote appropriate budgetary resources to defense: in September 1997 a decision was taken to increase the proportion of Hungary's defense expenditure from 1.44% of GDP in 1997 to 1.51% in 1998 and then to 1.81% in 2001 by an annual 0.1% increase.<sup>13</sup> With an expected 4 or 5% annual growth of GDP this budgetary expansion could mount up to an 8 – 10% increase in real value. But one crucial question remains to be answered – will the budgetary resources made available to the modernization and upgrading of the Defense Forces be sufficient to fulfill the requirements and complete the goals determined by Hungary's membership in NATO?

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<sup>12</sup> Gömbös, J. [1997].

<sup>13</sup> Hungary and NATO [1997].

## ENLARGEMENT DEBATES AND OPINIONS IN THE PARLIAMENT

As discussed above, the „national consensus” in the definition of national interests and in the formation of national security as well as defense principles is critically important. One of the fundamental pillars on which the consensus was firmly built was the high priority accorded of close co-operation with and eventual membership in NATO. Hungarian Parliamentary parties have agreed on the necessity of Euro-Atlantic integration since democratic reforms have been introduced. This agreement and the consequent lack of internal debates concerning accession in the National Assembly strengthened the position of the country and probably played a decisive role in the decision leading to the invitation to the first round of NATO enlargement.

The consensus was formed despite the fact that at the time of its political and social systemic change, the various political parties held different views on the way that Hungary’s security should be guaranteed in the future. The Hungarian political elite handled the issue of NATO accession very cautiously as long as the Warsaw Pact existed and Soviet troops were stationed in Hungary. “This cautious approach characterized the debate in the National Assembly on the relationship between Hungary and the Warsaw Pact in June 1990. All government voices tried hard to avoid giving the impression that secession from the Warsaw Pact would automatically entail more intensive relations with NATO.”<sup>14</sup>

In 1991, after the withdrawal of the Soviet troops from Hungary, the dissolution of the Warsaw Pact, the escalating conflict in Yugoslavia and the *coup d’etat* in Moscow, the international security environment changed dramatically and offered the possibility of unlimited sovereignty for Hungary at the same time. All these factors played a critical part in Hungary’s discussion of possible NATO membership. The increasing Euro-Atlantic commitment of the government was not questioned by the opposition either then or later on. The subsequent period brought several important results in the process of integration – the North Atlantic Co-operation Council (NACC – now EAPC) was established, the Partnership for Peace program was launched, the Treaty of Association with the European Union was signed and the official application for membership in the Union was submitted. With the support of all political parties represented in the National Assembly, the country took a determined turn toward the West.

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<sup>14</sup> Pietsch, L. [1998], pp. 42.

Despite the basic consensus, however, the parliamentary parties had contending opinions on the requirements to be fulfilled in order to accede to NATO. Significant forces in the opposition felt that the basic treaties with the neighbouring countries should not be preconditions for the integration into the Western European and Atlantic institutions. The possible effect of Hungary's disagreement with neighbouring countries was also viewed differently. Hungarian political parties in the National Assembly fully agreed on the underlying policy of approaching the West and joining the institutions of the Atlantic community. However, consensus was undermined when this approach affected the sensitive and complex issue of the rights of Hungarian national minorities living in those countries surrounding Hungary. The debate was particularly acute when Hungary signed the Slovakian-Hungarian (1995) and the Romanian-Hungarian Basic Treaties (1996). In both cases, the government argued that settling disputes and improving relations with its neighbours would definitely increase the chances of joining the Euro-Atlantic organizations of integration. Any tense and fragile relations, they contended, would raise considerable obstacles and cause serious and undesirable delay in the process of accession.

While both the socialist-liberal coalition government and the opposition agreed that the stability of harmonious bilateral relations with the country's neighbours was a prerequisite for Western integration, several center-right opposition leaders questioned the necessity of such treaties.

Parliamentary consensus was absolute in issues related to the practical implementation of approaching NATO. In November and December 1995, following the conclusion of the Dayton Agreement, when Hungary turned out to be an ideal location to back up the peacekeeping forces stationed in Bosnia-Herzegovina, the government and the opposition unanimously supported co-operation. All parties agreed that although Hungarian participation in IFOR did not mean automatic membership in NATO, it was a perfect occasion to demonstrate that Hungary was willing and able to establish the closest links with the Alliance. This explains why the whole National Assembly voted unanimously to authorize the transit of IFOR troops and not much later, and with an overwhelming majority, the participation of a Hungarian engineering contingent in the IFOR mission. This contingent established Hungary in one of the most important new roles of NATO – conflict management.

The political forces represented in the Hungarian Parliament basically agreed on the necessity of NATO accession, based on the following set of arguments:

- NATO membership is indispensable element of Hungary's integration into the institutions of the Western community and therefore, that of the country's modernization;



- NATO membership provides a better framework for the representation and protection of national interests. Hungary would take part in the decision-making rather than simply be the subjects of that process as before membership;
- Hungary does not wish to accede to NATO because it feels threatened. The country looks for guarantees against security risks to avoid conflicts;
- Hungary's NATO membership would extend the area of stability;
- Neutrality is not a viable alternative since it has lost its traditional meaning and a small country could not afford the luxury of neutrality;
- Hungary would become the member of a military organization which implements the most modern military thinking, principles and practices at the present;
- Hungary would be accepted and admitted as mature member of a security community which represents the values of multiparty parliamentary democracy, rule of law and market economy.<sup>15</sup>

The National Assembly implemented the legislative program related to membership in NATO in phases. It has been done in such a way that there would be no legal obstacles to Hungary's functioning as a NATO member. After the ratification of the protocol of accession of Hungary with a view to ensuring full compliance with the obligations stemming from Article 3 and 5 of the Washington Treaty in a most efficient way, the Hungarian National Assembly had to pass a number of other acts of legislation. Such a package included an amendment of the laws on national defense and the service status of enlisted and military personnel. The amendments address primarily the issues of sending troops abroad and hosting foreign troops on Hungarian soil. The objective of the amendment is to transfer the decision-making authority from the Parliament to the government under certain specific circumstances.

## **PUBLIC DEBATES: OPINIONS FOR AND AGAINST**

The approach to NATO has been opposed since the beginning by a few non-parliamentary parties and civil organizations of limited influence. The opponents included the Workers' Party (the communist party) and the Party of Hungarian Justice and Life (MIÉP – the extreme right). The loudest civil organization opposing NATO accession was the Alba Circle (Alba Kör).

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<sup>15</sup> Dunay, P. [1997].

The Workers' Party has argued from the beginning that Hungary did not need NATO and proposed neutrality instead. Among its counter-arguments it emphasized that acceding to the North Atlantic Treaty Organization would entail the stationing of nuclear weapons and foreign troops on Hungarian territory and thus, Hungary would lose most of its sovereignty. Another counter-argument was that accession would place an unbearable economic and financial pressure on the country and would cause the bankruptcy of Hungary.

The Workers' Party did not confine itself to the usual form of public opposition. In the summer of 1995, they started a petition for a referendum to be held on NATO accession. The petition was successful with more than 180,000 signatures collected. In spite of this, the National Assembly decided on 19 December 1995 that no referendum would be held as a result of the initiative of the Workers' Party. The resolution of the National Assembly was based on the simple fact that the Hungarian population was not in the position to decide upon this issue since the Hungarian government had only expressed its wish and intention to join NATO and the leading organs of NATO had not yet responded in any official way to it. Furthermore, the accession negotiations would have been greatly hindered if the population had given a negative vote on this issue, even if the referendum had been only a „consultative” (opinion forming) procedure.

While the Workers' Party was opposed to NATO due to its communist heritage, the opposition of MIÉP stemmed from the extremist nationalist policies. MIÉP declared that it saw a national tragedy „in Hungary's fate being forced under a new military block”. NATO membership entails only disadvantages, as the party argued, and it would again force Hungary into a subordinate position. As the MIÉP stated „Hungary should maintain its commitment to neutrality by its history of 1100 years and its Treaty of Trianon”.<sup>16</sup>

Among the civil organizations opposing NATO, the most active and resourceful was the Alba Kör, a pacifist movement. Alba Kör warned that if Hungary joined NATO, it would become member in a military organization in possession of nuclear weapons and thereby a training field for nuclear and conventional forces. The organization applied a variety of arguments ranging from ecological risks and immense economic burden to the loss of sovereignty and „political innocence” rejecting non-violence and peaceful coexistence. The anti NATO sentiments of this and some other non-governmental organizations spring from their romantic pacifist, anti-militarist and moderately leftist schools of thought.

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<sup>16</sup> Pietsch, L. [1998], pp. 58.

The Hungarian Atlantic Council (Magyar Atlanti Tanács) was clearly the most active civil organization supporting NATO accession. This non-profit, non-governmental thinktank pursued an intensive campaign for Hungarian membership in NATO. The Council engaged in a broad variety of activities to co-ordinate the efforts of Hungarian organizations committed to the ideas of Atlantic co-operation. It represented Hungary's Atlantic movement in international bodies and informed the international public on Hungary and its objectives. The Hungarian Atlantic Council organized meetings and conferences, published materials and supported research projects relevant to the Atlantic integration.

The proportion of supporters slowly increased over the course of 1996, rising from 45% in May to 50% in December. Parallel to that, the weight of disapproval dropped from 32% to 28%. The overall success of the Bosnia IFOR operation and the participation of the Hungarian contingent, the start of the bilateral Hungarian-NATO talks in April together with an actual timetable for NATO enlargement then had a very positive influence on building public opinion in favour of accession in the second half of 1996.

In March 1997 a national dialogue about NATO began in earnest and by the time of a June survey, support had reached a high of 61% while opposition had dropped to 27%. As one observer commented, „the overwhelming majority of the public realized that accession to NATO was a fundamental national interest”. The tide had seemingly turned in favour of NATO membership.<sup>17</sup>

According to the poll taken in October 1997, more than two-thirds of the population saw a relationship between EU and NATO accessions. At the same time and in light of the developments of the preceding year, those convinced that membership in NATO would help achieve EU membership rose from 20% in August 1996 to 37% in Fall 1997.

As the senior coalition partner, the Socialist Party promised in its parliamentary election campaign in 1994, to hold a referendum on NATO membership and the government called the referendum for late 1997. While there was heated debate in Parliament over whether the results of the referendum should be decisive, and therefore binding or merely consultative, there was agreement on the objective of the referendum and all the parties represented in the National Assembly at that time called for their supporters to vote in favour of NATO accession. The referendum was in the end consultative; but important in informing the public and forging consensus.<sup>18</sup>

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<sup>17</sup> Somogyi, F. [1999], pp. 77.

<sup>18</sup> There was also an attempt to link the referendum to a vote on land reform which was not popular (with possibly detrimental effects on the NATO vote). After a dramatic late night parliamentary session in November, this attempt was blocked.

The referendum took place on 16 November 1997, with the participation of 49.24% of all eligible Hungarian voters. Hungarian NATO accession polled 85.33% of the votes cast 14.67% in opposition. None of the polling institutes had forecast more than an 80% favourable vote and the proponents found themselves pleasantly surprised. The result of the referendum unambiguously bolstered the legitimacy of the efforts of successive Hungarian governments and demonstrated the widespread support for the government's effort to attain membership in the North Atlantic community. Following the referendum, the acceptance of NATO membership by the public climbed to a peak of 63% by August 1998 while the opposition dropped to 16%.

## CONCLUSION

Only twelve days after the ceremonies admitting Hungary and the other two Central European states to NATO as new members in Independence , Missouri on 12 March 1999, NATO launched its first air strikes against the former Yugoslavia in Kosovo and Serbia. As public opinion surveys conducted by the Median Institute a week after the first strikes attest, these military actions triggered a perception of increased threat and uncertainty by Hungarians. Their fears were however, mitigated by membership in what polling indicates is perceived as a reliable and credible alliance. Support by the Hungarian public registered 49% for the NATO air campaign on Serbian military targets.

In spite of the general sense of tension and anxiety among the population, particularly in the southern regions of the country adjacent with Yugoslavia, the attitude towards NATO remained high – 57% welcomed the Hungarian membership, 33% were dissatisfied by the country's new commitments to the alliance and 10% were hesitant about the consequences of NATO membership. The same pattern held true in the polling results for the question about whether NATO membership reduced the vulnerability of Hungary for a direct military attack.<sup>19</sup>

But while a public opinion survey taken by the Median Institute one month later did not indicate any recognizable change between the percentage of the public supporting the NATO bombing and those opposed, the Hungarian public was both closer to the conflict than the other two new members and had a direct interest in the course of the conflict. There were clearly serious concerns and discussion about the possible severe repercussions for the Hungarian minority living in Vojvodina (the northern province of Serbia) and fears over the potential

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<sup>19</sup> Hahn, E. [1999], pp. 9.

for revenge on the minority by the Serb authorities or extremists. Over 60% of those polled strongly rejected the deployment of Hungarian troops if there was a ground offensive and/or any other form of direct Hungarian military involvement in NATO intervention. The sense of relative insecurity by the population remained at 55% in light of the enhanced probability of military attack against the country.

But, notwithstanding, 90% of the Hungarian public remained convinced throughout the air strikes that NATO would come to Hungary's assistance if any country committed aggression against the Hungarian state.<sup>20</sup> In sum, the conflict in Kosovo put an immediate and unanticipated challenge to Hungary on its doorstep within twelve days of admittance to NATO. No other member country has had to confront such a challenge and confront it so unexpectedly and soon after membership. The fact that Hungary maintained its resolve to stand behind the alliance is a testament to its obvious determination to be a reliable partner willing to assume the risks for the benefits as perceived it gains in security and stability by membership in the Euro-Atlantic community in its new post-communist era.

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<sup>20</sup> Editorial [1999], pp. 9.

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JAROSLAV MAZUREK\*

## The Basic Traits of Economic Development in Slovakia during the first Czechoslovak Republic

Slovakia, with its wealth of natural resources and cheap workforce, belonged to the territories of Hungary with the best conditions for a developing industry. Thanks to this fact, there was a great increase in the number of industrial companies, which employed a high number of workers. The growth of industry in the 20<sup>th</sup> century, and especially before the First World War, was much more dynamic than in any other parts of Hungary.<sup>1</sup>

The methods of industrialization and the support of industrial growth from the highest Hungarian circles had an effect on the structure and the ownership of the Slovakian industry, with special regard to the light industry as well as to the food one. The advantages created by the Hungarian government in order to develop the industry were rarely used by the businessmen of Slovakian origin (their share in the total capital invested in corporations was about 2%). Despite the fast economic growth before the First World War, Slovakia was still an undeveloped agricultural country in the post-war period, in which the industry employed only 18%, and the agriculture 60% of the productive population. The Slovakian industry was very weak against Austrian competition and was dependent upon the help of the government.<sup>2</sup>

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<sup>1</sup> Strhan, p. 203.

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On the other hand, the Czech territories, being a part of the more advanced Austrian part of the HABSBERG Monarchy, became the industrial arsenals of the empire. Before the First World War, over 50 percent of the industrial potential of the monarchy were concentrated on the Czech territories. From an economic point of view, the Czech industry was strong, however, most of this strength came from the light industry as well as from the metallurgical and machine sectors. The industry's consumer was mainly the internal market of the monarchy, but steps were also made to bring products with a competitive edge to the world market.<sup>3</sup> This goes to show that the Czechoslovak Republic was formed from two unequal parts: the agricultural Slovakia and the industrially advanced Czech territories. The different levels of economic development of Slovakia and the Czech territories led to economic differences between them for centuries, which was mainly obvious during the era of industrial development.

After 1918, the industry in Slovakia became an inseparable part of the industry of the Czechoslovak Republic. The first two years of the independent Czechoslovakian state was a time of the effects of the world war on the world industrial production. Companies were reoriented on civil industry, manufacturing machines became worn out and were almost destroyed, the administrative and transportation system was in a disorderly state, the interconnected industrial system used during the war was continued, and a fight was started for the political character of the republic: all the above factors exerted an impact on industrial production in these years. In addition, it is important to emphasize that these factors had a much greater negative effect on the Slovakian industry than on the industry in the Czech territories. Since the declaration of the Czechoslovak Republic in 1919, Slovakia represented an arena of fights over the question of Slovakia's part in the republic. Between May and August, the Hungarian Red Army invaded a large part of Slovakia, therefore Slovakia was greatly damaged by military operations. If we add to this fact that there was a considerable lack of energy and fuel and the railway was in disorder, we can see that the conditions for manufacturing were very hard. Due to this, most of the industrial companies did not start production until the end of 1919. This largely influenced the amount of manufactured goods, which dropped below the standard level of the previous war year.<sup>4</sup>

The effects of some negative factors, especially the malfunctioning of the transportation system, became a reality also in the following year. However, on the whole, we can say that manufacturing began to rise from 1919. The destruction of great collateral values during the world war

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<sup>3</sup> Faltus, Prucha (a), p. 27.

<sup>4</sup> Faltus, Prucha (b), p. 16.



created a lack of industrial products. The great demand, the lack of finances and high inflation led to the construction of new factories, in Slovakia particularly wood processing and construction works were set up.

The economic growth was interrupted by the economic crisis in the summer of 1921. The crisis due to overproduction hit the world economy already in 1920. Since 1921, the first signs of this crisis hit the Czechoslovakian industry. This crisis was made worse by two factors: the great dependence of the Czechoslovakian economy on exports as well as on deflation. The republic inherited a 75% economic potential and 25% of the inhabitants after the old monarchy.<sup>5</sup> Even though the purchasing power of the population in total was slightly larger than in the old monarchy, and the Czechoslovakian industry could only place a minor amount of its products on the inner market. The rest went out for export directed to the traditional countries: to the countries of the old monarchy, as well as to the states of Eastern Europe and the Balkans. The great inflation in these states, their attempt to surround themselves with customs borders and, under their protection, to build a strong industry, and the fierce competition with other western European industries (mainly from Germany) all had an effect on the drop of exports into other states. Even reorienting the exports to western markets did not compensate the drop in exports, so finally the exports totally decreased owing to the above facts. The deflation system, which also influenced the exchange rate of the Czechoslovakian Crown, had a large impact on this decrease. The increase of the financial course had a final effect on the prices of industrial products, which meant that the prices went up heavily, and this resulted in a further cut in the exports to the world markets. These facts had a negative influence on the entire industry of the Czechoslovak Republic. This crisis reached its peak at the beginning of 1923, when the unemployment rate reached 440 000.<sup>6</sup> Once again, the crisis in the years 1921 – 1923 turned out to be more difficult for Slovakia than on the Czech territories. The decrease of the internal market meant that the Slovakian industry had to compete with the Czech industry even more than ever before, and was pushed out in the final effect. Besides, further negative factors influenced the decrease of the Slovakian competition on the internal market, for example, the ineffective and expensive railway and transportation, the lack of loans, the high interest rates on existing loans as well as the high taxes. These factors resulted in a massive decrease of the Slovakian competition on the internal and foreign markets, the problems with demand were rising and soon the Slovakian industry had to face the problem of overproduction.<sup>7</sup> The metallurgical industry, the

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<sup>5</sup> Strhan, p. 206.

<sup>6</sup> Strhan, p. 207.

<sup>7</sup> Faltus, Prucha (a), p. 209.

machine industry and mining were worst hit by this crisis in Slovakia. In 1922 the exploitation of iron ore decreased to 20% of the amount reached in the year 1913, and the production of metal kyz was completely stopped in 1923.

The crisis in the Slovakian industry lasted longer, therefore the first visible sign of improvement began only in late 1924. Production in all branches of the Slovakian industry increased from this year until 1929, with the exception of a decline in the crisis year, 1926. The increase in manufacturing is only one side of the development of the industry in the years of provisional stabilization. The other question is whether the Slovakian industry went through a boom.<sup>8</sup>

The total increasing trend of the Czechoslovakian economy came to a halt in 1929. The decrease in production hit all the branches without exception, although not to the same extent. The crisis affected annual production, which dropped to 40% of the standard level and brought the state of the Czechoslovakian economy to the period of the beginning of the 20<sup>th</sup> century. Compared to other countries, the Czechoslovakian economy was affected exceptionally hard by the crisis. Since a large part of the Czechoslovakian production went for export, the stock market crash cut manufacturing down to 37%, and the world export to 66%. The Czechoslovakian goods represented a considerable competition thanks to good quality and cheap workforce. Low pay was the factor that created a relatively low level of consumer demand even before the economic crisis. A catastrophic unemployment rate and the large pay cuts during the crisis lowered the conditions for the home market demand. In addition, at the same time several other factors influenced the economy. The crisis mainly hit upon the agriculture, which was one of the head branches of the economy, therefore this fact made the industrial crisis even worse.<sup>9</sup>

The crisis influenced the Slovakian industry especially hard. During this severe period, the production of raw iron was completely stopped, accompanied with a huge decrease in the mining activities. Chemical manufacturing also declined rapidly.

The main impulse towards revitalizing the Czechoslovakian industry came in 1934 and its increase in the following years was due to armament production. This had an impact especially on the growth of the machine industry, metallurgical industry and construction. On the other hand, the decrease of the living standards and numerous customs barriers entered into force in order to protect home producers and exerted a negative effect on the light industry. The preparations for war were the main goal of the Slovakian industry. At that time there was a rapid increase in mining,

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<sup>8</sup> Strhan, p. 209.

<sup>9</sup> Faltus, Prucha (a), 210.

metallurgy, machinery, construction and chemical industry, while this development was not so visible in the branches of light industry.<sup>10</sup>

The threat represented by the Nazi Germany led many representatives of the state to suggest moving some of the armament factories to the newly built Slovakian factories. During these hard times, the establishment of new factories was necessary purely for economic reasons, i.e. to create better manufacturing conditions in Slovakia. The transportation differences between Slovakia and the Czech territories were ended by building new railways, by unifying pay rates as well as by building new roads, highways and communication systems. The increase of electricity production reached about 20% and it was larger than the increase in the other parts of the republic. The electrification of transportation led to lower-priced transportation and this meant cheaper industrial production, which resulted in a better competition capability of the Slovakian industry. Investors were attracted to Slovakia mainly because of its inexpensive workforce. During this era, mining in Slovakia became more efficient<sup>11</sup> and more organised.

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<sup>10</sup> Strhan, p. 210.

<sup>11</sup> Strhan, p. 210.

# SUMMARY

## **Pál, MAJOROS, László, NYUSZTAY** **The role of Visegrád 4 and CEFTA in the Euro-Atlantic Integration of the East-Central European Region**

*Regional and subregional cooperation has been playing a traditionally important role in the development of East Central Europe. Motives of subregional cohesion (geographic, social, economic and cultural) are perhaps the strongest between the Czech Republic, Hungary, Poland and Slovakia, countries that have very much in common both in their history, present development and visions for the future. Among the recent actions of regional thought and practice, the authors focus on the Visegrad Cooperation (VG, V4) and the Central European Free Trade Agreement (CEFTA) as the most significant networks in the region, established after the fundamental change of paradigm in the participating countries including basic restructuring of foreign, security and trade relations. In the article an analytical survey is given about the almost ten-year history of the foundation, temporary decline and recent re-vitalisation of Visegrad 4 as well as the objectives, results and challenges of CEFTA on the turn of the millennium.*

## **József, HUBAI** **Is the Greek road to EU membership suitable for Hungary too? (How can the Greek model be adapted to Hungary?)**

*The comparison of Hungary with Greece an EU member country geographically and historically closest to it, shows that Greece was in a less favourable position when it started on the road towards European integration than Hungary will be in the future. The modernization of Greece, the process of bringing the Hellenic state closer to the core area of the EU has fallen behind at the end of the 20th century. The macrostatistics from other similar integrating states, e.g. Spain and Portugal, are much more reassuring.*

*Hence, it can be ascertained that mere participation in the integration process does not automatically amount to catching up with the core states. The so far unsuccessful attempts made by Greece to modernize, show that the benefits associated with integration can only be expected on the basis of a sound domestic economic policy.*

*On the other hand, the example of Greece also demonstrates that protection for traditional products and their production, as well as improvement of these products, will continue, even after integration into the EU (see the agrarian sector).*

## **Judit, PAPP**

### **Single Currency – at what price?**

*The paper examines the potential threats to the newly established single currency area in Europe. The aim of the investigation is to look behind the often cited gains of EMU and consider whether the Euro-zone is in a position for benefits to outweigh likely losses. The analysis is based on the theory of optimum currency areas: after a short introduction into the theory the possible sources of the shocks are discussed and their two basic types are differentiated between. Having identified their nature, various solutions to the shocks are discussed with special regard to fiscal measures. During the analysis EMU is contrasted to the single currency area of the United States of America. Based on the findings the paper concludes that the Euro-zone is not a natural common currency area and the single monetary policy may put a more than reasonable burden on member states in the long-run.*

## **Ildikó, RÉVÉSZ**

### **The economic impacts of the approximation of the Hungarian and the EU environmental regulation on packaging**

*The author in her article deals with the regulation of waste management and packaging in the EU and Hungary. She introduces case-studies about the Hungarian environmental regulation in practice. She concludes that the new legal provisions, though demand huge amounts of funds and a compromise among the various interest groups, would have favourable impacts on not only the environment but on the economy as well. They could influence positively the environmental elements by improving their state and the human living conditions meaning an increase in the value of human capital just like the economy by encouraging structural change, innovations leading to a shift from extensive to intensive environmental policy.*

*By causing a rise in the prices of natural resources the new regulation could mean an improvement in the efficiency of energy and raw material consumption, thus in a national level could result in a better balance of trade and balance of payments. It would either contribute to an increase in competitiveness in international markets and to the improvement of trade relations with the EU states and the possible elimination of trade barriers originating from looser national environmental requirements. Therefore, its earliest possible introduction is everyone's interests, from the government through the companies to the population.*

**Krisztina, BÁRÁNY**

## **The evolution of education policy in the European Union**

*The education sector must be appreciated as capable of playing a major role in Hungary's accession to the EU, by preparing our fellow citizens for the conditions of life in the Union in both private and professional terms, by widening our horizons and knowledge about other cultures, and by supplying our economy with highly skilled experts who will be able to help Hungary gain a competitive position in her new environment.*

*The author in her article introduces the evolution of education policy in the EU, with special regards to the 90's and the main educational programmes.*

**Ildikó, JAKUBOVICH**

## **Prospects of the Hungarian Exhibition Industry in the light of potential EU Membership**

*Fairs and exhibitions of the highest level bring in multiple additional incomes for the city and its surroundings where the events are held. In order to achieve high revenues and to meet the challenges, the host city, its officials and state executives must speak the same language, a harmony must exist among the different involved parties. As we could see in foreign examples, only complete concentration of wills, efforts, capital, proper timing and creativity result in success in the exhibition industry.*

*These consequences should be drawn by the interested Hungarian officials and private businesses.*

**Csaba, TÖRŐ**

## **Hungarian domestic debates over NATO membership**

*This article intends to present a brief overview of the building of the national consensus with regard to Hungary's endeavours to join the North Atlantic Treaty Organisation. In the course of this assessment it begins with the definition of Hungarian foreign security and defense policy after 1991. Then further along this line several aspects of the direct consequences of Hungary's NATO accession such as changes in the security and defense doctrines, military reform and budgetary issues are examined. At last the focus shifts to the contending opinions on the enlargement and the surrounding debates in the Parliament and in the broader public as well.*

**Jaroslav, MAZUREK**

**The Basic Traits of Economic Development in Slovakia during the first Czechoslovak Republic**

*The author deals with the questions of economic development of Slovakia between the two world wars. He points out, that in 1918 the Czechoslovak Republic was formed from two unequal parts: the agricultural Slovakia and the industrially advanced Czech territories. The different levels of economic development of Slovakia and the Czech territories led to economic differences between them for centuries, which was mainly obvious during the era of industrial development.*