

THE DEVELOPMENT OF THE SLOVAKIAN-HUNGARIAN LINKS IN THE CENTRAL-EUROPEAN FREE TRADE ASSOCIATION

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The importance of trade between Central European countries has become appreciated again for the economy of Hungary after a dramatic decline in the previous years. The economic events of the past years have proved it beyond doubt that a one-sided West-European orientation cannot be the exclusive cure for the purpose of sustaining a steady economic growth and of creating a balance. Trade between the small states in Central Europe has its reserves and it is possible to expand the market as compared with its extremely low level previously.

As it is well known the termination of COMECON and the changeover to account in free foreign currency have resulted in the elimination of markets guaranteed by the state. The financial and price conditions of trade have also changed. The earlier relative price advantage of the suppliers and the state-guaranteed payments have also ceased. The positions of the Hungarian suppliers in the markets of the neighbouring countries have been damaged by the fact that all countries with a transformation process started the changes in their economies by significant devaluation in real terms and with undervalued currencies. At the same time Hungary overvalued its currency to some extent. The changeover to accounting in dollar resulted in a radical transformation in the structure of trade within the region, which had several causes.

1. The volume of trade declined dramatically, but the decline affected the different commodities to different extents. The commodity of machinery and equipment artificially protected from Western competition suffered the greatest loss.
2. The new prices changed the relative significance of the individual classes of commodities.
3. The decline in production in the Eastern-European economies influenced the demand for import goods, investments also showed a decline and there was a particular decline in demand for Eastern European machines, which were not competitive with Western machines.

4. The decline in the volume of regional trade was a result not only of the changeover to accounting in dollar, but the influence of the breakdown of the Soviet economy going on since the 80s and then accelerating in speed also represented an equally major contribution.

Membership in the European Union has become the central point in the foreign trade strategy of the Central European countries. Each country wants to achieve this objective independently of the others. Therefore it is likely that the economic relations between the Eastern European countries will be determined to a large extent by the process of their integration into Europe. The trade between Hungary and the Eastern European countries is embedded in a specific relationship system of partners and competitors. In this system it is primarily the chances of the European accession that determine the significance attached by the governments to regional co-operation. The most significant achievement so far in regional economic co-operation has been the conclusion of the Central European Free Trade Agreement.¹

The basic principles of the free trade agreement can be summed up as follows: the effect of the agreement covers all industrial and agricultural products and groups of products. All the trade obstacles relating to industrial products are to be eliminated gradually, but at the latest by 1 January 2001. This setting of the end of the transitory period is identical with the deadline set in the agreement on the common market. The order of liberalisation was developed according to the symmetry ensuring a global equilibrium of advantages, when at the same time the elimination of agricultural preferences and the charges beyond customs duties were also taken into consideration. This is different from the single market agreements, which are built on the principle of asymmetry. This difference has a 'natural' cause: the economic strength and market of the EU exceed several times that of the associated countries, while the CEFTA countries do not show a difference of order. It was a general tendency that the agreement should provide at least such preferences which were given by the parties individually to the EU or which exceed those preferences where the specific characteristics of the trade volume justify it. The structure of the text of the free trade agreement has been built on a combination of the agreements entered into by the three founding countries with the EU and the EFTA.

After the shocks

Each of the CEFTA countries belongs to a group of countries which is even today undergoing an economic restructuring process following the socio-economic changes in 1989. The changes incurred serious shocks in each

¹ Réti Tamás: A CEFTA kereskedelem fejlődése: lehetőségek és korlátok. Kopint-Datorg Budapest, 1997. p5-6

country. However, there are significant differences between Hungary and Slovakia as regards their starting points, the declines, the restructuring of the economic regulations, the methods and the results achieved as well.

Trade of Hungary and Slovakia with other CEFTA countries

Structure of CEFTA exports by countries
CESTAT: Statistical Bulletin, Budapest 2000. p70.

Year	Hungary					
	BG	CZ	PL	RO	SI	SK
	in per cent of total CEFTA export					
1997.	-	23,2	36,8	-	20,9	19,1
1998.	-	18,3	26,0	27,6	11,8	16,3
1999.	3,0	18,9	26,5	23,8	13,6	14,2

Structure of CEFTA imports by countries
CESTAT: Statistical Bulletin, Budapest 2000. p68.

Year	Hungary					
	BG	CZ	PL	RO	SI	SK
	in per cent of total CEFTA import					
1997.	-	37,0	26,0	-	7,9	29,1
1998.	-	31,4	26,0	10,5	7,9	24,2
1999.	1,6	26,1	29,0	11,5	8,2	23,4

Structure of CEFTA exports by countries
CESTAT: Statistical Bulletin, Budapest 2000. p71.

Year	Slovakia					
	BG	CZ	HU	PL	RO	SI
	in per cent of total CEFTA export					
1997.	-	70,2	12,3	14,4	-	2,8
1998.	-	62,9	13,5	18,3	2,7	2,6
1999.	0,9	60,9	15,1	17,7	2,5	2,8

Structure of CEFTA imports by countries
CESTAT: Statistical Bulletin, Budapest 2000. p69.

Year	Slovakia					
	BG	CZ	HU	PL	RO	SI
	in per cent of total CEFTA import					
1997.	-	78,7	7,6	9,4	-	1,7
1998.	-	73,8	9,8	10,1	0,4	2,4
1999.	0,3	71,3	10,0	12,0	0,5	2,7

The figures of the table show, that the weight of Slovakia in the Hungarian foreign trade with the CEFTA countries declined in the period of 1997-1999. In the Slovakian CEFTA-trade is determinant the trade with the Czech Republic. Because of the increasing Slovakian export to Hungary and the developing import from Hungary to Slovakia is the trade between the two countries from higher importance.

The development of Hungarian-Slovakian foreign trade

Slovakian foreign trade volume with Hungary
CESTAT: Statistical Bulletin, Budapest 2000. p60; p68-71

	1997	1998	1999
Export	265,1	332,4	278,5
Import	401,3	427,4	473,9
Balance	-136,2	-95,0	-195,4

The figures show, that in the years from 1997 to 1999 the Slovakian export to Hungary increased evenly. The figures of export were all years higher then the figures of import therefore the balance of the trade was a deficit for Hungary. In 1998 was the deficit because of the outstanding Hungarian exports below 100 million USD but in 1999 was the deficit about 200 million USD.

The trade balance between of the two countries makes possible the increase of the Hungarian export. The end of the transitory period of the free trade agreement by 1 January 2001 makes a necessary condition to the development of the mutual trade.

Recent experiences

The CEFTA agreement has already brought a perceivable increase in the mutual commodity sales between Hungary and Slovakia and further increase can be expected. It is an important consideration that the agreement is treated as a step towards EU accession in certain respects. However, no CEFTA country has completed the economic restructuring or consolidation after the political changes yet. Significant changes can be anticipated for the years to come. This is particularly true when the ambition of the current CEFTA countries regarding EU-accession is realised. Unfortunately, the efficient operation of CEFTA, the agricultural export liberalisation and smooth accession to the EU are, however, hindered by the fact that the CEFTA agreement is not kept, by the agricultural disputes and the countermeasures following them, which are also in conflict with the letter and spirit of the agreement.